

## **EXPLANATION OF VARIANCES IN THE 2024 2025 BUDGET**

Communique was received from Provincial Treasury requesting that Municipalities must provide explanations of variances in the budget.

This e-mail is part of the National Treasury and Provincial spheres of Government oversight responsibilities to ensure that Municipalities are managed as effective and efficient organizations that are financially stable and provide sustainable services to the communities.

The aim of this Budget is to ensure the Municipalities ability to meet its obligations, provide basic services to the community and honour all financial commitment within Legislative time frames.

The differences between the 2023/2024 and 2024/2025 Budgets are motivated as follows:

### **Revenue**

#### **Property Rates: R 190 271 815**

Property rates are calculated on the anticipated increases based on the new Council's General Valuation Roll which will be implemented on 1 July 2024. Although the Property Rates tariff will have a 0% increase, an increment in property values will enhance revenue generated from Property Rates.

#### **Fines, penalties and forfeits. R 27 206 392**

The allocation of R27.2 million was based on the 2023/2024 financial year performance and the audited figures of 2022/2023 financial year.

#### **Interest earned - external investments. R 22 764 459**

The allocation of R22.7 million was based on the 2023/2024 actual receipt for interest revenue on investment. The significant increase in Interest on Investments was due to an increase in Investments made during the year which yielded higher interest earned.

#### **Electricity service charges: R 920 783 599**

Electricity service charges is based on the increase of 12.70% as per Budget Circular 128 and the 2023/2024 financial year's performance. High collections in electricity are also impacted by a vast number of consumers converting to Prepaid Electricity Meters.

#### **Water service charges: R 57 891 699**

The reduction in Water Service charges is based on performance of Water over the past 3 financial years and 2023/2024 financial year performance.

#### **Solid Waste service charges: R 43 979 397**

The Tariff increases are in line with the guideline of 4.9% received from National Treasury and previous year's performance. Audited actuals of 2022/2023 financial year were also considered.

#### **Sewer Service: R 9 100 000**

The Tariff increases are in line with the guideline of 4.9% received from National Treasury and previous year's performance. Audited actuals of 2022/2023 financial year were also considered.

## **Rent of Facilities and Equipment R 1 737 990**

The anticipated Operational Revenue is calculated by comparing the annual budgeted amount against the actual mid-year Revenue, and the historic information is also taken into account.

The Municipality was advised by Provincial Treasury to adopt a conservative approach when estimating revenue, and the estimate of R 1 737 990 is regarded as realistic based on Audited actuals of 2022/2023 financial year and current year's performance.

## **Interest earned- Outstanding Debtors: R 55 283 020**

The anticipated Operational Revenue is calculated by comparing the annual budgeted amount against the actual mid-year Revenue, and the historic information is also taken into account.

2023/2024 Budget amount	R47 734 777
2023/2024 Mid-Year Amount	R24 197 409

An estimate of R55 283 020 is regarded as realistic as when measured against Audited Actuals and current year Mid-Year Revenue amount.

## **Licence and Permits: R 1 229 000**

This item was thoroughly discussed and due to the fact that licenses and permits are not a fixed monthly charge but vary from month to month with some once-off payments, it was resolved that the budget on this item be increased in line with circular 128 and past performance.

## **Income from agency services: R 16 664 291**

The anticipated Operational Revenue is calculated by comparing the annual budgeted amount against historic information (previous audited actuals).

The allocation was based on the audited performance of 2022/2023 financial year. The total revenue received from agency services is recorded at financial year end, which means an inflation increase is utilized as per circular 126 and 128.

## **Operating Grants and Subsidies: R 709 956 000.**

The operating grants and subsidies are in line with DORA allocations and Seta Grant.

## **Expenditure**

### **Employee Related Cost Salaries: R 488 725 271**

Salaries have been increased by 6% for all employees in the employment of GTM 2024/2025 financial year as recommended by the Budget Steering Committee. Provision has also been made for critical positions that have not been budgeted previously as well as positions that have become vacant during the past 12 months.

### **Remuneration of Councilors R 30 557 656**

The Budget Steering Committee resolved a 4% increase on Remuneration of councilors which is based on past performance and takes into account the increases as per the COGSTA Gazette on upper limits.

Composition of and increases of Councillor's allowances are determined annually by the Minister of the Department of Co-operation and Traditional Affairs (COGSTA) through a Gazette setting out the upper limits of the allowances to Councillor's. The Gazette is normally issued towards the end of December to apply retrospectively from 1 July of that year. The Gazette had not been issued yet.

### **Depreciation: R 120 367 596**

The provision for Depreciation is based on the assets contained in the asset register and is in line with the previous year's performance.

### **Inventory consumed: R 132 895 361**

Inventory consumed increased from the previous financial to 2023/2024. Additional funds required to maintain the roads and electrical infrastructure.

### **Interest Expenses: Finance Charges: R 16 084 886**

Provision for interest expenses on external borrowing decreased as a result of redemption amount paid in the previous year and the Interest on loan amount is also based on the amortisation schedule received from the banks for all loans interest payable in one year. However, there is an increase in the overall Finance Charges due to a provision made for Interest on Finance Lease for new Municipal Fleet to be procured through a finance lease during 2024/2025.

### **Bulk Purchases R 560 012 325**

The calculation of Bulk purchases is based on previous year's performance as well as the guidelines from National Treasury circulars 126 and 128.

### **Contracted Services: R 108 172 349**

The increase on contracted services is due to the CPIX increases on fixed term contracts. Certain variations do apply where additional contracted services are taken up.

### **Grants and Subsidies paid: R 49 028 048**

The provisions for grants and subsidies have been made according to the DORA allocations, SETA grant, GTEDA Grant paid and internal grants.

### **General Expenditure: R 185 516 941**

The increase in the provision on the 2024/2025 Budget is mainly due to increases in Municipal Services which include Auditor General costs, legal and professional services. Past performance as per the audited actuals of 2022/2023 and current year performance were also considered in the analysis.

**Provision for impairment R 116 677 000**

The increase on debt impairment is based on the methodology recommended by Auditor General where the municipality is required to individual assess consumer debtors and in the previous year, the impairment on debt was based on the probability of consumers owing more than 90 days. This item can lead to unauthorized expenditure if insufficient budget is allocated.