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INFORMATION ITEM MEMORANDUM

Date : 06 April 2023

MFMA SECTION 87(11): NTINGA'S BUDGET IMPLEMENTATION REPORT FOR THE PERIOD ENDING 31 MARCH 2023

1. PURPOSE:

- [1.1] The purpose of this memorandum is to submit Ntinga's 2022/2023 financial year budget implementation report for the Third Quarter ending 31 March 2023 in compliance with sections 87(11, 12, 13 & 14) of the Municipal Finance Management Act (Act No. 56 of 2003).
- [1.2] Sections 87(11), 87(12), 87(13) & 87(14) of the Municipal Finance Management Act (Act No. 56 of 2003) states that:-

The Accounting Officer of a municipal entity must by not later than seven working days after the end of each month submit to the Accounting Officer of the parent municipality a statement in the prescribed format on the state of the entity's budget, reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) Actual revenue, per revenue source;
- (b) Actual borrowings;
- (c) Actual expenditure;
- (d) Actual capital expenditure;
- (e) The amount of any allocations received;
- (f) Actual expenditure on those allocations, excluding expenditure on allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and

Ntinga O. R. Tambo Development Agency SOC Ltd: A Municipal entity of the O.R. Tambo District Municipality (Reg. 2016/272582/30)
Directors: Dr L. L. Ndabeni (Chairperson), Dr N.T Ndudane, Mr T Yako, Mr. L Mbiko (CEO), Adv. S Mancotywa, Z.W Xalisa
M.J Sikhosana, Mr. M.P Madikiza, Ms. S Ndlondlwana (Company Secretary).

(g) When necessary, an explanation of:-

- (i) Any material variances from the entity's projected revenue by source, and from the entity's expenditure projections;
- (ii) Any material variances from the service delivery agreement and the business plan; and
- (iii) Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the entity's approved budget.

The statement must include a projection of revenue and expenditure for the rest of the financial year, and any revisions from initial projections.

The amounts reflected in the statements must in each case be compared with the corresponding amounts budgeted for in the entity's approved budget.

The statement to the accounting officer of the municipality must be in the format of a signed document and in electronic format.

2. SUMMARY:

The Board of Directors of a Municipal Entity must play an oversight role over its municipal entity by monitoring and ensuring that the Municipal Entity reports to parent municipality on all revenue, borrowings, expenditure incurred and any allocations received by that Municipal Entity. This report relates to the Third Quarter ending 31 March 2023.

2.1. DISCUSSIONS

2.1.1. The table below presents **revenue by source and expenditure by type:**

	2021/2022	2021/2022								
Description	Audited Outcomes	Original Budget	Adjusted Budget	Q3 Actual March 23	Q3 Budget March 23	Q3 March 23 Variance Amount	Q3 March 23 Variance %	Year to Date Actual	Year to Date Budget	Full Year Forecast
	R	R		R	R	R	R	R		R
Revenue By Source										
Abattoir Revenue	R 12,963,761	23,713,445	18,137,155.40	2,157,592	2,119,290	-38,302	-2%	8,363,144	15,161,687	10,520,736
Adam Kok Farms	R 243,380	4,632,568	3,848,284.00	465,408	1,163,000	697,592	60%	1,586,165	1,513,000	3,286,165
Water Services Revenue	R 670,824	0	6,192,799.79	0	6,192,800	6,192,800	100%	0	6,192,800	6,192,800
Kei Fresh Produce Market (KFPM)	R 545,683	2,805,338	486,414.10	70,599	80,243	9,644	12%	258,207	1,369,661	328,806
ORTDM Grant - Operations and s	R 46,718,154	49,553,214	49,553,214.00	10,869,565	10,869,565	0	0%	36,521,739	36,521,739	49,553,214
Consultancy fees	R 0	2,400,000	2,000,000.00	0	0	0	0%	0	1,600,000	600,000
Other Grants and Subsidies	R 0	0	-	14,941	0	-14,941	0%	60,958	0	60,958
Interest earned - external investme	R 112,397	250,000	250,000.00	55,013	75,000	19,987	27%	145,988	175,000	201,001
Other revenue	R 451,956	75,000	40,000.00	1,467,245	0	-1,467,245	100%	1,462,776	40,000	1,467,245
Adjustments to Biological Assets	R 5,716,732	2,150,000	2,150,000.00	0	0	0	0%	57,000	0	1,500,000
Gains on disposal of PPE	R 1,203,559	40,000	40,000.00	0	0	0	0%	0	0	40,000
Total Revenue	68,626,446	85,619,565	82,697,867.29	15,100,363	20,499,897	5,399,534	26%	48,455,977	62,573,886	73,750,925
Expenditure By Type										
Employee related costs	44,339,701	42,771,483	43,209,237	9,837,605	10,485,900	648,295	6%	32,440,694	32,723,337	42,278,299
Board of Directors related costs	840,769	1,188,305	1,319,890	183,762	250,000	66,238	26%	519,663	818,153	950,000
Depreciation & asset impairment	5,265,370	3,756,922	3,756,922	1,186,987	939,229	-247,758	-26%	3,582,276	2,817,685	4,769,263
Finance charges	110,166	50,312	50,312	76,616	12,578	-64,038	-509%	82,055	37,734	158,671
Repairs and Maintenance	56,533	151,250	162,315	12,505	43,347	30,842	71%	69,659	118,968	82,164
Operational costs	32,511,017	34,445,153	31,327,426	6,101,782	6,427,240	325,458	5%	17,839,713	24,100,185	23,941,495
Losses - biological assets	460,180	100,000	80,000	43,200	45,000	1,800	4%	201,200	80,000	244,400
Total Expenditure	83,583,736	82,463,426	79,906,102	17,442,457	18,203,294	760,837	4%	54,735,260	60,696,062	72,424,292
Profit before tax/surplus for the year	-14,957,290	3,156,139	2,791,766	(2,342,094)	2,296,604	4,638,698	0	-6,279,283	1,877,824.21	1,326,633

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes	Original Budget	Adjustment Budget	Q3 Actual March 23	Q3 Budget March 23	Q3 March 23 Variance Amount	Q3 March 23 Variance %	Year to Date Actual	Year to Date Budget
	R	R		R	R	R	R		
Total Revenue	68,626,446	85,619,565	82,697,867	15,100,363	20,499,897	5,399,534	26%	48,455,977	62,573,885.99
Total Operational Expenditure	83,583,736	82,463,426	79,906,102	17,442,457	18,203,294	760,837	4%	54,735,260	60,696,062
Total Capital expenditure	126,114	2,671,200.00	2,305,506	-	-	-	-	935,805.00	1,492,700.00

2.1.2. Revenue Analysis

- a) For the quarter ending March 2023 the entity projected to generate revenue amounting to R20,4 Million but actual revenue amounted to R15,1 Million resulting in a negative variance of R5,3 Million.
- b) Abattoir has met it's target for the quarter. This is after the target was revised to allow the construction of the meat market to be finalised. The emergence of the new competitor called for the intensive marketing of the Abattoir and product differentiation.
- c) Adam Kok did not meet it's target for the quarter. The previous quarter target was overachieved hence the overall target is over achieved.

d) Kei Fresh Produce Market :

A Market struggles with it's operations. The current Market Agent is unable to pull the required volumes of fresh produce especially those that attract customers e.g. potatoes, onions, banana, and tomatoes.

With the establishment of the Meat Market and the introduction of the additional market agent, the Market is optimistic to turnaround the current situation. Three funding applications have been submitted by Eyoluntu Project to various funders with the aim of establishing the Local Market Agent.

- e) ORTDM Operational Grant: The grant is collected as planned.
- f) Consultancy fees: The implementation of ORTDM's projects is underway and these fees have not been realised yet.
- g) Other Grants Received: This is a SETA grant.
- h) Interest Received: 6m owed by ORTDM was expected to be collected, but not. This has resulted in underachievement of this target.
- i) Other Income: 6,1m is recoverable from ORTDM. The 1,4m received is in relation to the current year salaries paid to the discontinued Water Services Function.

The table below shows a comparison of main own revenue generated by source with the same period in the previous financial year:-

	Description	Q3 revenue in 2022/23	Q3 revenue in 2021/22
a)	Meat sales	2,157,592	2,543,683
b)	Livestock sales by Adam Kok Farms	225,000	118,153
c)	Livestock supplied to Umzikantu	1,478,172	756,191
d)	Crop sales	240,408	33,048
e)	KFPM Commission	14,907	45,455

2.1.3. Operational Expenditure Analysis

For the third quarter the entity projected to spend R 18,2 Million on operations. Actual spending amounted to R 17,4 Million resulting in a positive variance of R 0,7 Million.

- a) Employee related costs: The positive variance is caused by vacant positions not yet filled.
- b) Board of Directors and related costs: The favourable variance is caused by few vacancies in the Board and by holding of virtual meetings.
- c) Depreciation: depreciation is less funded due to financial constraints. Priority is made to essential assets.
- d) Finance charges and repairs and maintenance: The variance in finance charges is caused by discontinued Water Services Function vehicles being by other departments and escalations in interest rates. Repairs were not rapid as anticipated.
- e) Operational Costs: we have spent less than anticipated with a positive variance of 26%. This is due to expenditure like livestock purchases that were not sourced as anticipated. For this quarter livestock were sourced from the Farms.
- f) Livestock losses (deaths): These are mainly caused by dams that are silted, cow get stuck and die. Red Water is also another cause of these deaths.

2.1.4. Capital Expenditure

For the third quarter the entity projected to spend R 1,4m on capital expenditure. The actual expenditure amounted to R0,9m. The construction of the Meat Market is little bit behind schedule but the progress is significant and close to finality.

3. Financial performance per profit centre

3.1.1. Umzikantu Abattoir

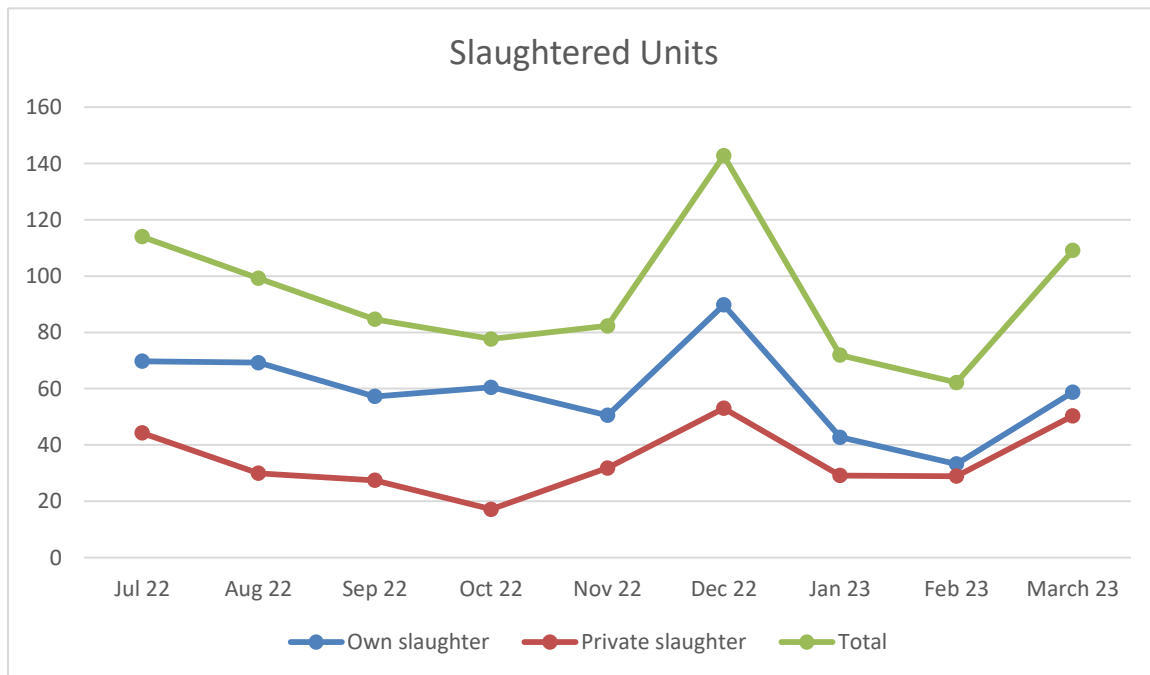
Abattoir is showing year to year improvement in revenue generation.

	First Quarter Ending 30 September 2022	Second Quarter Ending 31 December 2022	Third Quarter Ending 31 March 2023
Sales	3,071,072	3,134,479	2,157,592
Cost of sales	2,666,811	2,684,730	1,886,546
Opening stock	151,208	219,380	150,053
Purchases	2,734,983	2,615,403	1,901,893
Closing stock	(219,380)	(150,053)	(165,400)
Gross profit	404,261	449,749	271,046
GP%	13%	14%	13%
Other Direct Production costs	241,945	304,095.78	327,155
Meat Inspection	32,248	48,372.00	50,791
Repairs	26,237	53,692.30	44,565
Fuel	91,782	146,351.74	125,308
Packaging	26,552	-	53,104
Hygiene	10,372	9,499.49	10,804
Depreciation	48,114	41,864.25	37,570
Wages	6,640	4,316.00	5,014

Gross profit after other direct costs	162,316	447,594	(56,109)
Indirect costs	(748,716)	(1,157,999)	(1,233,452)
Salaries	548,787	827,112.54	870,531
Co-ordination fees	10,871	19,044.68	15,825
Security	73,913	73,913.04	123,252
Stationery	26,001	12,159.99	795
Municipal services	56,781	193,406.26	190,685
Depreciation	32,363	32,363	32,363
Profit/(Loss)	(586,400)	(710,405)	(1,289,561)

The total number of units slaughtered during the period from 01 July to March 2023 is 843 made up of 532 units for abattoir sales (own slaughter) and 312 units for private slaughter. The diagram below depicts a fluctuation in the number of slaughtered units from month to month.

The table below illustrates the number of slaughter units from month to month.

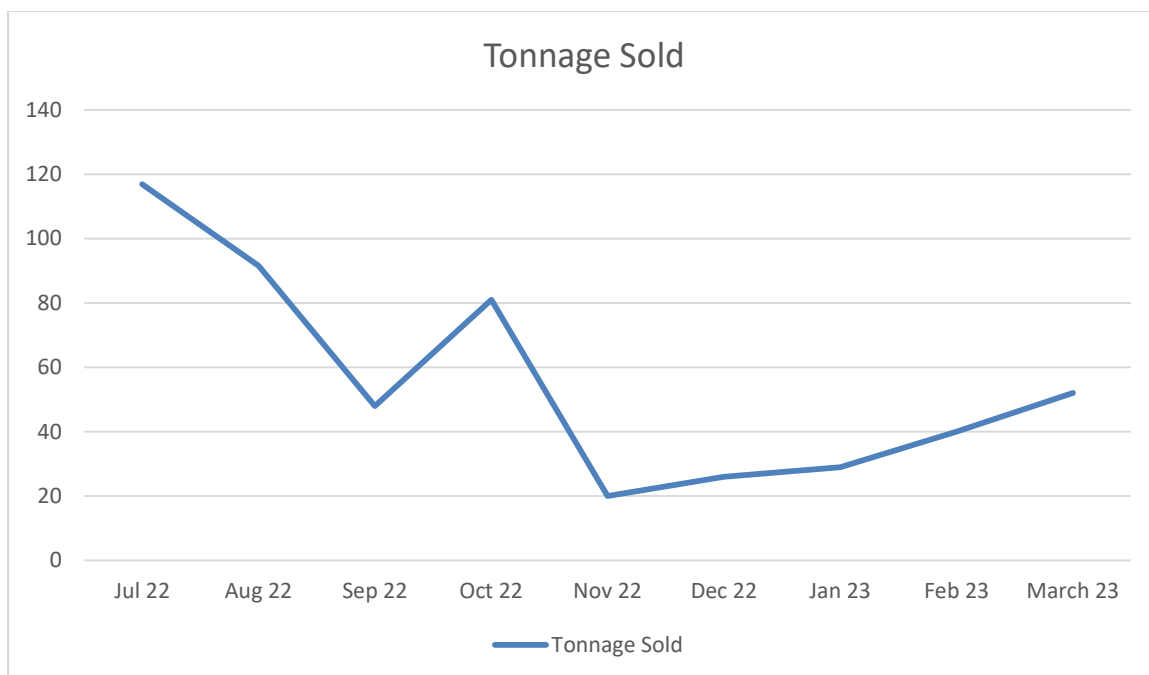


3.1.2. Adam Kok Farms

	First Quarter Ending 30 September 2022	Second Quarter Ending 31 December 2022	Third Quarter Ending 31 March 2023
Sales	1,111,111	491,990	1,943,580
Sales of Farm Products – Animals	1,105,943	9,468	225,000
Sales of Farm Products – Crops	5,168	3,040	240,408
Livestock supplied to Umzikantu	0	479,482	1,478,172
Expenditure	2,104,800	2,203,292	2,191,530
Employee related costs	1,259,371	1,255,216	1,371,694
Personnel and labour	0	0	29,867
Operational costs	845,428	741,175	789,969
Profit/(Loss)	(993,689)	(1,711,302)	(247,950)

3.1.3. Kei Fresh Produce Market

During the first quarter the market sold a total of 256 tons, 127 tons in the second in the second quarter and 121 tons in the third quarter. These are the drivers of commission revenue.



	First Quarter Ending 30 September 22	Second Quarter Ending 31 December 2022	Third Quarter Ending 31 March 2023
Revenue			
Commission	45,223	12,487	14,907
Rentals and hire of equipment	62,624	63,643	55,692
Total revenue	107,847	76,130	70,599
Expenditure	1,248,632	1,376,938	1,218,361
Employee related costs	944,063	945,250	821,685
Personnel and Labour	0	0	-
Operational costs	147,867	264,395	218,010.11
Depreciation	168,238	167,293	178,666.41
Total expenditure	1,248,632	1,376,938	992,797
(Deficit)	(1,151,023)	(1,300,808)	(1,147,762)

3.1.4. Water Services

	First Quarter Ending 30 September 2022	Second Quarter Ending 31 December 2022	Third Quarter Ending 31 March 2023
Revenue			
Refurbishment of water schemes	0	0	0
Total Revenue	0	0	0
Expenditure	1,563,428	887,139	0
Employee related costs	1,453,428	887,139	0
Operational costs	110,003	0	0
Repairs and maintenance	0	0	0
Deficit	(1,563,428)	(887,139)	0

4. INVESTMENTS

Q3 Interest received	Bank balance Investments at 31/03/23	Bank balance Current Accounts at 31/03/23	Total Bank Balances at 31/03/23
55,013	1,921,512.90	1,364,317.94	3,285,830.84

5. STATEMENT OF FINANCIAL POSITION

NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD			
(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)			
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023			
	Notes	31 MARCH 2023 R (Actual)	2022 R (Actual)
ASSETS			
Current Assets		6,139,518	9,510,531
Cash and Cash Equivalents	2	3,416,814	4,926,922
Receivables from exchange transactions	3	361,932	108,886
Inventory	4	2,101,364	4,215,314
Receivables from non-exchange transactions	5	259,408	259,409
Non-Current Assets		62,839,083	66,034,418
Property, Plant and Equipment	7	48,393,958	50,963,836
Intangible Assets	8	143,766	220,360
Biological Assets	9	14,301,359	14,567,854
Non-current assets held for sale	10	-	282,369
Total Assets		68,978,600	75,544,950
NET ASSETS AND LIABILITIES			
Current Liabilities		28,497,162	28,782,331
Payables from exchange transactions	11	6,913,204	6,915,035
Payables from non-exchange transactions	12	446,974	446,974
Unspent Conditional Government Grants and Receipts	13	2,240,336	2,189,401
Current Employee benefits	14	5,661,468	5,661,468
Current portion of long - term liabilities	16	(0)	67,281
Taxes	6	13,235,180	13,502,173
Non - Current Liabilities		-	(1)
Long - term liabilities	16	-	(1)
TOTAL LIABILITIES		28,497,162	28,782,330
NET ASSETS		40,481,439	46,762,620
Accumulated Surplus		40,481,447	46,762,618
TOTAL NET ASSETS		68,978,600	75,544,950

5.1. Current ratio

Our current ratio does not look good as current liabilities far exceeds current assets.

When we normalize our current liabilities and exclude issues like VAT that has not been paid over to the Entity by ORTDM equal to 6,6m plus non-cash items like provision for staff leave, 5m plus VAT relief applied for with SARS estimated at 3,2. Trade Receivables grossed up by R6,8m owed by ORTDM, the current ratio would be reasonable.

6. CONSULTATION

Management made inputs in preparing this report.

7. ORGANISATIONAL AND PERSONNEL IMPLICATIONS

There are no organisational or personnel implications.

8. REPRESENTATIVITY

This does not apply in this regard.

9. CONSTITUTIONAL AND LEGAL IMPLICATIONS

This report is in compliance with section 87(11) of the Municipal Finance Management Act (Act No. 56 of 2003) and any other relevant Regulations and policies.

10. FINANCIAL IMPLICATIONS

This report has no financial implications.

11. RECOMMENDATIONS

It is therefore recommended that the:

Committee notes in terms of MFMA section 87, Ntinga's 2022/23 Third Quarter report for the period ending 31 March 2023.

