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**INFORMATION ITEM MEMORANDUM**

Date : 10 October 2022

**MFMA SECTION 87(11): NTINGA'S BUDGET IMPLEMENTATION REPORT FOR THE FIRST QUATER  
ENDING 30 SEPTEMBER 2022**

**1. PURPOSE:**

[1.1] The purpose of this memorandum is to submit Ntinga's 2022/2023 financial year budget implementation report for the quarter ending 30<sup>th</sup> September 2022 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

(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 quarter ending 30<sup>th</sup> June 2022.

### **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	Monthly Actual	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Year to Date Variance %
	R	R	R	R	R	R	
<b>Revenue By Source</b>							
Abattoir Revenue	R 12,963,761	23,713,445	1,108,940	3,071,072	4,742,690	-1,671,618	-35%
Adam Kok Farms	R 243,380	4,632,568	1,104,146	1,111,111	0	1,111,111	11111109999900%
Water Services Revenue	R 670,824	0	0	0	0	0	0%
Kei Fresh Produce Market (KFPM) Revenue	R 545,683	2,805,338	26,025	111,479	512,334	-400,855	-78%
ORTDM Grant - Projects (Conditional)	R 48,519,005	49,553,214	3,913,043	11,391,304	12,500,000	-1,108,696	-9%
Consultancy fees	R 0	2,400,000	0	0	600,000	-600,000	-100%
Other Grants and Subsidies	R 0		0	13,501	0	13,501	135009999900%
Interest earned - external investments	R 112,397	250,000	11,076	37,169	62,500	-25,331	-41%
Other revenue	R 451,797	75,000	939	169,437	65,000	104,437	161%
Adjustments to Biological Assets	R 5,716,732	2,150,000	0	0	0	0	100%
Gains on disposal of PPE	R 1,203,559	40,000	0	0	0	0	-100%
<b>Total Revenue</b>	<b>70,427,138</b>	<b>85,619,565</b>	<b>6,164,169</b>	<b>15,905,073</b>	<b>18,482,524</b>	<b>-2,577,451</b>	
<b>Expenditure By Type</b>							
Employee related costs	43,553,148	42,771,483	3,324,042	10,445,051	10,650,210	205,159	2%
Board of Directors related costs	840,769	1,188,305	0	0	284,076	284,076	100%
Depreciation & asset impairment	5,265,370	3,756,922	400,583	1,202,510	939,231	-263,279	-28%
Finance charges	110,166	50,312	1,859	2,940	12,578	9,638	77%
Repairs and Maintenance	56,533	151,250	8,408	33,406	37,811	4,405	12%
Operational costs	25,533,634	33,637,769	1,917,425	5,439,105	8,282,934	2,843,829	34%
Contracted services	2,138,156	0	0	0	0	0	0%
Other project costs	0	800,000	0	0	200,000	200,000	0%
Losses - biological assets	460,180	100,000	0	44,000	0	-44,000	0%
Loss on disposal of Property, Plant and Equip	0	0	0	0	0	0	
<b>Total Expenditure</b>	<b>77,957,956</b>	<b>82,456,041</b>	<b>5,652,317</b>	<b>17,167,012</b>	<b>20,406,839</b>	<b>3,239,827</b>	<b>1.97</b>
<b>Profit before tax/surplus for the year</b>	<b>-7,530,818</b>	<b>3,163,524</b>	<b>511,852</b>	<b>-1,261,939</b>	<b>-1,924,315</b>	<b>662,376</b>	

**OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS**

DESCRIPTION	Audited	Original	Year to	Year to	Year to Date	Year to Date	
	Outcomes	Budget	Date Actual	Date	Variance	Variance	
	R	R	R	Budget	Amount	%	
Total Revenue	70,427,138	85,619,565	15,905,073	18,482,524	-2,577,451	-14%	
Total Operational Expenditure	77,957,956	82,456,041	17,167,012	20,406,839	3,239,827	16%	
Total Capital expenditure	126,114	2,671,200.00	163,474.00	861,900.00	698,426.00	81%	
<b>PROJECTS</b>							
	<b>2021/2021</b>	<b>2021/2022</b>					
	Unaudited	Original	Monthly	Year to Date	Year to Date	Year to Date	Year to Date
	Outcomes	Budget	Actual	Actual	Budget	Variance	Variance %
	R	R	R	R	R	R	
<b>Projects Revenue</b>							
Abattoir Revenue	12,963,761	23,713,445	1,108,940	3,071,072	4,742,690	-1,671,618	-35%
Adam Kok Farms	243,380	4,632,568	1,104,146	1,111,111	0	1,111,111	11111109999900%
Water Services Revenue	670,824	-	-	0	-	0	0%
Kei Fresh Produce Market (KFPM) Revenue	545,683	2,805,338	26,025	111,479	512,334	-400,855	-78%
<b>Total Projects Revenue</b>	<b>14,423,648</b>	<b>31,151,351</b>	<b>2,239,111</b>	<b>4,293,662</b>	<b>5,255,024</b>	<b>(961,362)</b>	<b>111,111,099,997.87</b>
<b>Projects Expenditure</b>							
Abattoir	14,566,279	21,026,371	1,017,516	3,760,374	4,955,390	-1,195,016	-24%
Adam Kok Farms	9,467,378	17,722,640	640,318	2,104,800	1,767,183	337,617	19%
Water Services	1,646,608	13,776,704	537,511	1,563,428	0	1,563,428	15634280199900%
Kei Fresh Produce Market (KFPM)	5,354,111	20,605,239	482,330	1,258,869	2,083,085	-824,216	-40%
<b>Total Projects Expenditure</b>	<b>31,034,376.73</b>	<b>73,130,954</b>	<b>2,677,675</b>	<b>8,687,471</b>	<b>8,805,658</b>	<b>(118,187)</b>	<b>156,342,801,999</b>



### 2.1.2. Revenue Analysis

- a) For the period ending September 2022 the entity projected to generate revenue of R18,4 Million but actual revenue amounted to R 15,9 Million resulting in a negative variance of R 2,5 Million.
- b) Abattoir has experienced an unfavourable variance. Foot and mouth diseases has contributed to this as most farmers were reluctant to send animals to our facility.
- c) Adam Kok: There was no target for this quarter, the revenue generated was from emergency slaughter crop sales and unplanned sales of livestock. The condition of our livestock improved and we decided to make the sales.
- d) Kei Fresh Produce Market:  
A negative variance was experienced during this period. This is as a result of inability of the Market Agent to pull the required volumes of fresh produce especially those that attract customers .e.g. potatoes, onions, banana, and oranges.

There are various efforts by the management to establish local market agent. Eyoluntu Prokjects Pty Ltd has submitted a funding application with DEDEAT. Other stakeholders are also keen to partner with Eyoluntu Projects (Local Market Agent). The ORTDM Stakeholder Forum is also trying to address challenges of primary production, agro-processing and increase of market access opportunities.

ORTDM Operational Grant: The Entity has collected the grant funding from the Parent Municipality as per the budget.

- e) Interest received: In order to maximise investment income, we advocate that the Parent Municipality should make quarterly transfers to the Entity so that there are enough funds available for investment.
- f) ORTDM Operational Grant: The variance in this line is as a direct resultant of immediate change by the Parent Municipality to treat the grant as inclusive of VAT, this is inconsistent with the previous year where the grant amount that reflected in the budget was exclusive of VAT. If this phenomenon does not change it will through Ntinga budget into a deficit.
- g) Other income: The positive variance is caused by redundant assets sold on auction.

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

	<b>Description</b>	<b>Q1 revenue in 2022/23</b>	<b>Q1 revenue in 2021/22</b>
a)	Meat sales	3,071,072	3,127,564
b)	Livestock sales by Adam Kok Farms	1,103,082	812,750
c)	Livestock supplied to Umzikantu	0	211,399
d)	Crop sales	5,168	46,003
e)	KFPM Commission	45,223	45,899
f)	Water Schemes repairs and refurbishment	0	0

### 2.1.3. Operational Expenditure Analysis

For the first quarter the entity projected to spend R 20,4 Million on operations. Actual spending amounted to R 17,1 Million resulting in a positive variance of R 3,2 Million.

- a) Employee related costs: no material variance.
- b) Board of Directors and related costs: there is no actual expenditure processed for the quarter.
- c) Depreciation: due to budget constraints we have not fully funded our assets depreciation.
- d) Finance charges and repairs and maintenance: Additional projects from ORTDM are not yet fully operational hence the saving.
- e) Operational Costs: we have spent less than anticipated. This is due to expenditure like livestock purchases that were not sourced as anticipated. This is due to the outbreak of foot and mouth diseases and a grant transfer that was not received timeously.
- 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 first quarter the entity projected to spend R 861,900 on capital expenditure. The actual expenditure amounted to R 163,474. The capital expenditure on the establishment of the Meat Market has not been incurred as planned due to budget constraints.

### 3. Financial performance per profit centre

#### 3.1.1. Umzikantu Abattoir

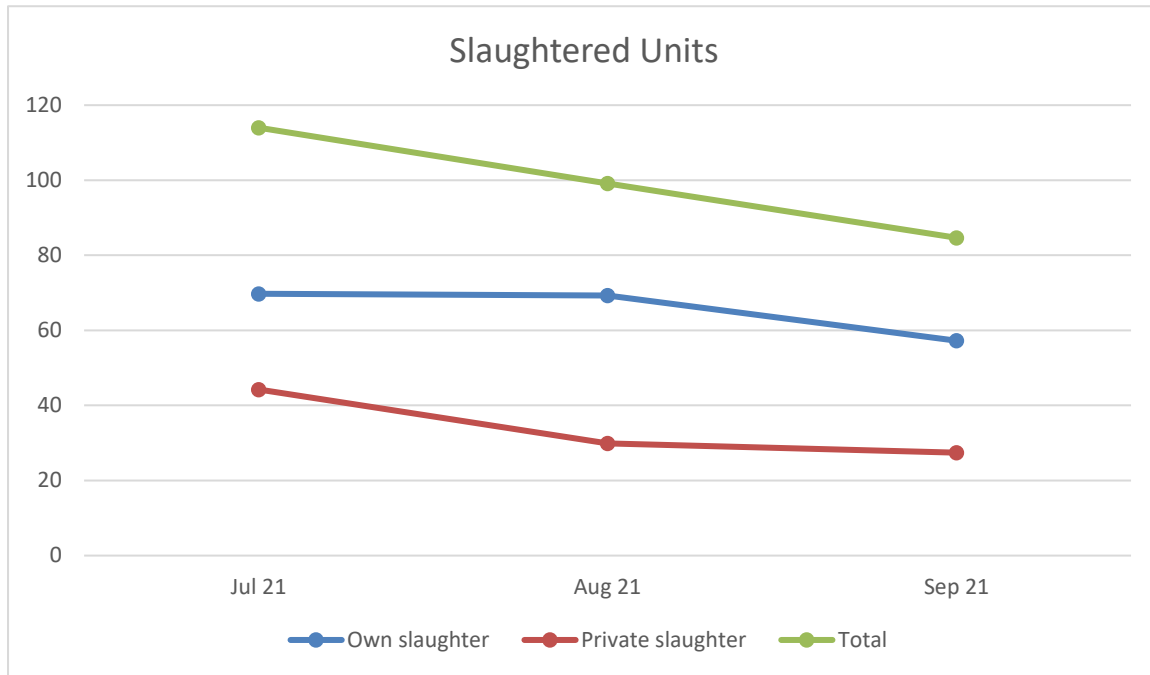
Abattoir is showing year to year improvement in revenue generation.

	<b>First Quarter Ending 30 September 2021</b>
<b>Sales</b>	<b>3,071,072</b>
<b>Cost of sales</b>	<b>2,666,811</b>
Opening stock	151,208
Purchases	2,734,983
Closing stock	(219,380)
<b>Gross profit</b>	<b>404,261</b>
<b>GP%</b>	<b>13%</b>
<b>Other Direct Production costs</b>	<b>241,945</b>
Meat Inspection	32,248
Repairs	26,237
Fuel	91,782
Packaging	26,552
Hygiene	10,372
Depreciation	48,114
Wages	6,640
<b>Gross profit after other direct costs</b>	<b>(162,316)</b>
<b>Indirect costs</b>	<b>(748,716)</b>
Salaries	548,787
Co-ordination fees	10,871
Security	73,913
Stationery	26,001
Municipal services	56,781
Depreciation	32,363
<b>Profit/(Loss)</b>	<b>(911,032)</b>



The total number of units slaughtered during the period from 01 July to September 2022 is 297,83 made up of 196.25 units for abattoir sales (own slaughter) and 101.58 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.

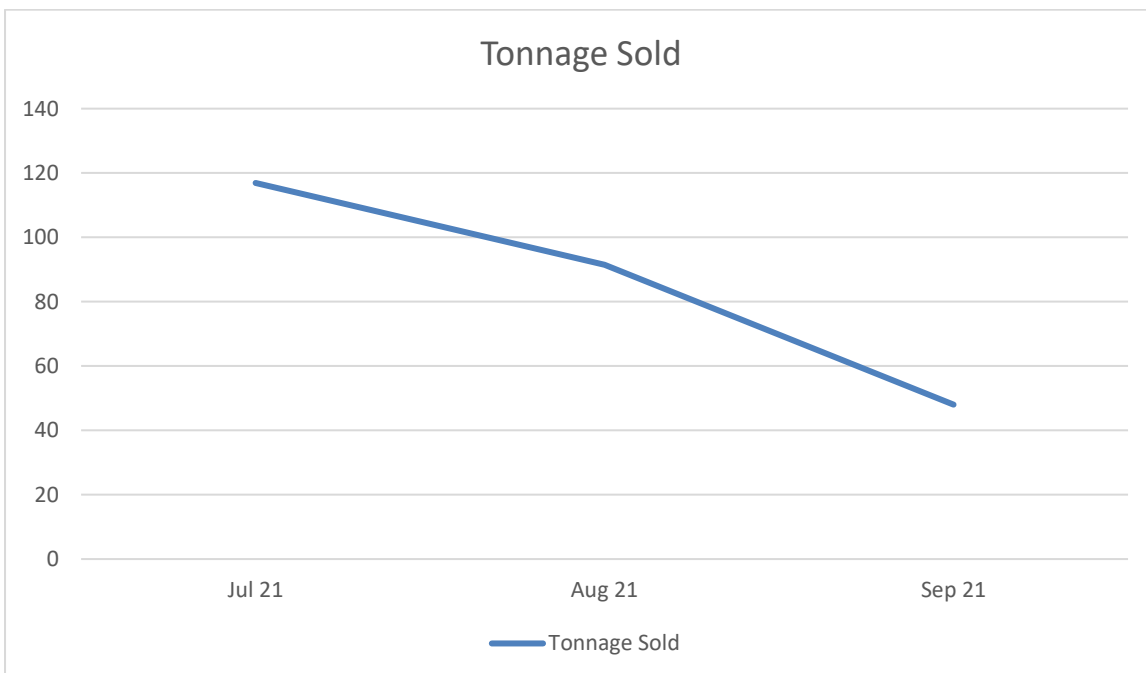


### 3.1.2.Adam Kok Farms

	<b>First Quarter Ending 30 September 2022</b>
<b>Sales</b>	<b>1,111,111</b>
Sales of Farm Products - Animals	1,105,943
Sales of Farm Products - Crops	5,168
Livestock supplied to Umzikantu	0
<b>Expenditure</b>	<b>2,104,800</b>
Employee related costs	1,259,371
Personnel and labour	0
Operational costs	845,428
<b>Profit/(Loss)</b>	<b>993,689</b>

### 3.1.3.Kei Fresh Produce Market

During the first quarter the market sold a total of 255,61 tons, These are the drivers of commission revenue.



	<b>First Quarter Ending 30 September 22</b>
<b>Revenue</b>	
Commission	45,223
Rentals and hire of equipment	62,624
<b>Total revenue</b>	<b>107,847</b>
<b>Expenditure</b>	<b>1,248,632</b>
Employee related costs	944,063
Personnel and Labour	0
Operational costs	147,867
Depreciation	168,238
<b>Total expenditure</b>	<b>1,248,632</b>
<b>(Deficit)</b>	<b>(1,151,023)</b>

#### 3.1.4. Water Services

	<b>First Quarter Ending 30 September 2022</b>
<b>Revenue</b>	
Refurbishment of water schemes	0
Commission received – Water Operators	
<b>Total Revenue</b>	<b>0</b>
<b>Expenditure</b>	<b>1,563,428</b>
Employee related costs	1,453,428
Operational costs	110,003
Repairs and maintenance	0
<b>Deficit</b>	<b>(1,563,428)</b>

#### **4. CONSULTATION**

Management made inputs in preparing this report.

#### **5. ORGANISATIONAL AND PERSONNEL IMPLICATIONS**

There are no organisational or personnel implications.

#### **6. REPRESENTATIVITY**

This does not apply in this regard.

#### **7. CONSTITUTIONAL AND LEGAL IMPLICATIONS**

8. 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.

#### **8. FINANCIAL IMPLICATIONS**

This report has no financial implications.

#### **9. RECOMMENDATIONS**

It is therefore recommended that the:

- (a) Committee notes in terms of MFMA section 87, Ntinga's 2022/32 First Quarter report for the period ending 30<sup>th</sup> September 2022.

