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INFORMATION ITEM MEMORANDUM

Date : January 2023

MFMA SECTION 88: NTINGA'S MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR THE PERIOD ENDING 31 DECEMBER 2022

1. PURPOSE OF THE REPORT

The purpose of this memorandum is to present Ntinga's 2022/23 financial year mid-year budget and performance assessment report in terms of MFMA Section 88. This report also incorporates the MFMA Section 87 (11) report.

2. SUMMARY

Ntinga's Accounting Officer has assessed the entity's performance during the first half of the 2022/23 financial year and the results of the assessment are presented below.

2.1 Mid-year budget assessment

2.1.1 Budget Overview:

The Entity's 2022/23 total budgeted revenue increased from 15,8m (2021/22) to 85,6m and total operational expenditure increased from 75,4m (2021/22) to R 82,4m resulting to a budgeted operational surplus of R 3,2m. Budgeted capital expenditure amounts to R 2,6m.

Main sources of **revenue** were projected as follows:-

- Abattoir meat sales and slaughter fees	R 23,7m
- Fresh Produce commission and rentals	R 2,8m
- Adam Kok livestock and crop sales	R 4,6m
- Special projects	R 2,4m
- Other revenue	R 2,4m
- Parent Municipality grant funding	R 49,5m
- Interest on investments	R 0.2m
Total	R 85,6m

Main items of budgeted expenditure are summarised as follows:-

- Employee related costs	R 42,7m
- Board of Directors related costs	R 1,2m
- Abattoir operational costs	R 3,8m
- Fresh Produce operational costs	R 3,7m
- Livestock purchases and Adam Kok operational costs	R 16,9m
- Other operational costs	R 14,0m
Total	R 82,4m

3. DISCUSSIONS

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

	2021/2022	2021/2022							
Description	Audited Outcomes	Original Budget	Quarter 2 Actual	Quarter 2 Budget	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Date Variance %	Full Year Forecast
	R	R		R	R	R	R		R
Revenue By Source									
Abattoir Revenue	R 12,963,761	23,713,445	3,134,479	8,299,707	6,205,551	13,042,397	-6,836,846	-52%	18,137,155
Adam Kok Farms	R 243,380	4,632,568	12,507	350,000	1,120,757	350,000	770,757	220%	3,848,284
Water Services Revenue	R 670,824	0	0	0	0	0	0	0%	0
Kei Fresh Produce Market (KFPM) Revenue	R 545,683	2,805,338	76,130	777,084	187,608	1,289,418	-1,101,810	-85%	486,414
ORTDM Grant - Operations and staff salaries	R 46,718,154	49,553,214	10,782,609	15,000,000	26,173,913	27,500,000	-1,326,087	0%	49,553,214
Consultancy fees	R 0	2,400,000	0	600,000	0	1,200,000	-1,200,000	-100%	2,400,000
Other Grants and Subsidies	R 0	0	32,517	0	46,017	0	46,017	0%	0
Interest earned - external investments	R 112,397	250,000	53,806	62,500	90,975	125,000	-34,025	-27%	250,000
Other revenue	R 451,956	75,000	2,873	10,000	172,311	75,000	97,311	130%	40,000
Adjustments to Biological Assets	R 5,716,732	2,150,000	21,800	0	21,800	0	21,800	100%	1,500,000
Gains on disposal of PPE	R 1,203,559	40,000	0	0	0	0	0	0%	40,000
Total Revenue	68,626,446	85,619,565	14,116,721	25,099,291	34,018,932	43,581,815	-9,562,883		76,255,068
Expenditure By Type									
Employee related costs	44,339,701	42,771,483	12,019,696	11,997,545	22,700,188	22,237,437	-462,751	-2%	45,400,376
Board of Directors related costs	840,769	1,188,305	329,523	284,076	335,901	568,153	232,252	41%	800,000
Debt Impairment	0	0	0	0	0	0	0	0%	0
Depreciation & asset impairment	5,265,370	3,756,922	1,192,780	0	2,395,290	2,395,290	0	0%	3,756,922
Finance charges	110,166	50,312	2,499	12,578	5,439	25,156	19,717	78%	15,000
Impairments - Property, Plant and Equipment	0	0	0	0	0	0	0	0%	0
Repairs and Maintenance	56,533	151,250	23,748	37,811	57,154	75,622	18,468	24%	140,000
Operational costs	32,511,017	34,445,153	5,487,189	9,590,011	13,247,592	18,072,945	4,825,353	27%	25,000,000
Contracted services	0	0	0	0	0	0	0	0%	0
Other project costs	0	0	0	0	0	0	0	0%	0
Losses - biological assets	460,180	100,000	25,000	0	90,300	91,000	700	0%	150,000
Loss on disposal of Property, Plant and Equipment	0	0	0	0	11,139	12,000	861		0
Total Expenditure	83,583,736	82,463,426	19,080,435	21,922,022	38,843,003	43,477,602	4,634,599	1.68	75,262,298
Profit before tax/surplus for the year	-14,957,290	3,156,139	(4,963,714)	3,177,269	-4,824,071	104,213	-4,928,284		992,769

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes	Original Budget	Quarter 2 Actual	Quarter 2 Budget	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Date Variance %
	R	R	R	R	R	R		
Total Revenue	68,626,446	85,619,565	14,116,721	25,099,291	34,018,932	43,581,815	9,562,883	22%
Total Operational Expenditure	83,583,736	82,463,426	19,080,435	21,922,022	38,843,003	43,477,602	4,634,599	11%
Total Capital expenditure	126,114	2,671,200.00	-	-	350,886.00	1,487,000.00	1,136,114	76%

3.2 Revenue Analysis

- a) For the second quarter the entity projected to generate cumulative revenue of R 43,5,Million but actual revenue amounted to R 34 Million resulting to a negative variance of R 9,5 which is equivalent to 22%.
- b) Abattoir has experienced a negative variance of 6,8m. The planned Meat Market is not yet operational. The construction of the Meat Market in a prime land at Kei Fresh Produce Market is in it's final stages. There was also a water breakdown and Abattoir operations were at halt during this period. A new competitor has emerged and is threatening the market share of the Abattoir. Strategies are formulated to deal with this matter e.g. putting more effort on marketing.
- c) Adam Kok met it's target in total for the two quarters combined. Unplanned sale in the first quarter was made where steers were produced and sold to other markets generating a revenue of R 2,002,943 vat inclusive. Calves were taken directly from their mothers before weaning because prices were favourable as compared to the same period last year.

Up to the second quarter cows to the value of R479,482 were produced at the farms and supplied to the abattoir.

- d) Kei Fresh Produce Market's performance declined due to poor performance by the market agent currently on the floor. This can also be attributed to the fact that the market agent could not pull stock such as potatoes, onions, tomatoes and bananas as compared to the same period in 2021-22. Cabbages, butternut, and spinach were sourced on an inconsistent basis. Potato seeds has been the main source of the market revenue during the period under review. KFPM has also been operating without electricity for the period under review.
- e) ORTDM Operational Grant: The grant was under collected by 1,3m. This was caused by VAT on grant discussion we had with the Parent Municipality. This under collection will be added in subsequent invoices. Engagement with ORTDM's CFO is on going.

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

	Description	Q2 revenue in 2021/23	Q2 revenue in 2021/22
a)	Meat sales	3,134,479	4,423,881
b)	Livestock sales by Adam Kok Farms	9,467	1,190,193
c)	Livestock supplied to Umzikantu	641,318	641,318
d)	Crop sales	3,040	42,572
e)	KFPM Commission	12,487	52,806

3.3 Operational Expenditure Analysis

For the second quarter the entity projected to spend R 43,4 Million on operations. Actual spending amounted to R 38,8 Million resulting in a positive variance of R 4,6 Million.

- a) Employee related costs: the variance is mainly caused by Water Services employees that were not transferred to ORTDM at the beginning of the year as planned. This money will be recovered from the Parent Municipality.
- b) Board of Directors and related costs: there have been savings in this line due to online meetings.
- c) Finance charges and repairs and maintenance: Our vehicles are not travelling as anticipated due to non-functioning of the Water Services not functioning.
- d) Operational Costs: we have spent less than anticipated with a positive variance of 27%. This is due to expenditure like livestock purchases that were not sourced as anticipated. Livestock will be mainly sourced from Adam Kok Farms.
- e) 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.

3.4 Capital Expenditure

For the second quarter the entity projected to spend R 1,487,000 on capital expenditure. The actual capital expenditure was R 350,886 with a variance of R 1,136,114. The capital expenditure for the planned Meat Market was not incurred as planned.

3.5 Financial performance per profit centre

3.5.1 Umzikantu Abattoir

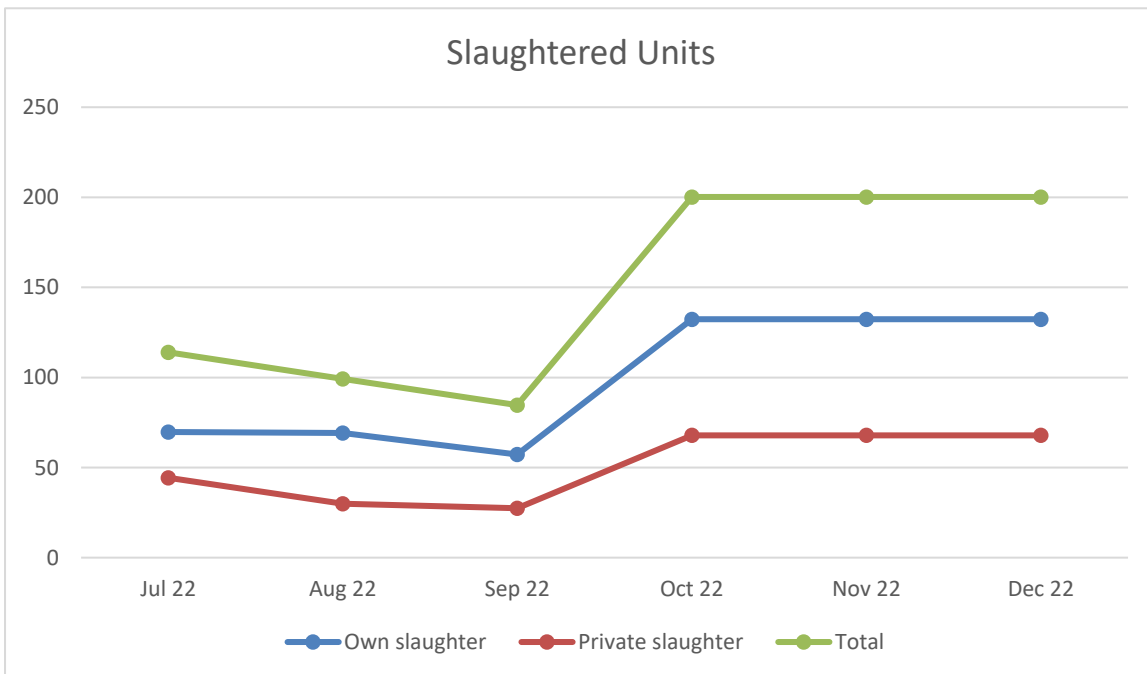
Abattoir is showing year to year improvement in revenue generation.

	First Quarter Ending 30 September 2022	Second Quarter Ending 31 December 2022
Sales	3,071,072	3,134,479
Cost of sales	2,666,811	2,684,730
Opening stock	151,208	219,380
Purchases	2,734,983	2,615,403
Closing stock	(219,380)	(150,053)
Gross profit	404,261	449,749
GP%	13%	14%
Other Direct Production costs	241,945	304,095.78
Meat Inspection	32,248	48,372.00
Repairs	26,237	53,692.30
Fuel	91,782	146,351.74
Packaging	26,552	-
Hygiene	10,372	9,499.49
Depreciation	48,114	41,864.25

Wages	6,640	4,316.00
Gross profit after other direct costs	162,316	447,594
Indirect costs	(748,716)	(1,157,999)
Salaries	548,787	827,112.54
Co-ordination fees	10,871	19,044.68
Security	73,913	73,913.04
Stationery	26,001	12,159.99
Municipal services	56,781	193,406.26
Depreciation	32,363	32,363
Profit/(Loss)	(586,400)	(710,405)

The total number of units slaughtered during the period from 01 July to December 2022 is 762,7 made up of 593,25 units for abattoir sales (own slaughter) and 169.45 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.

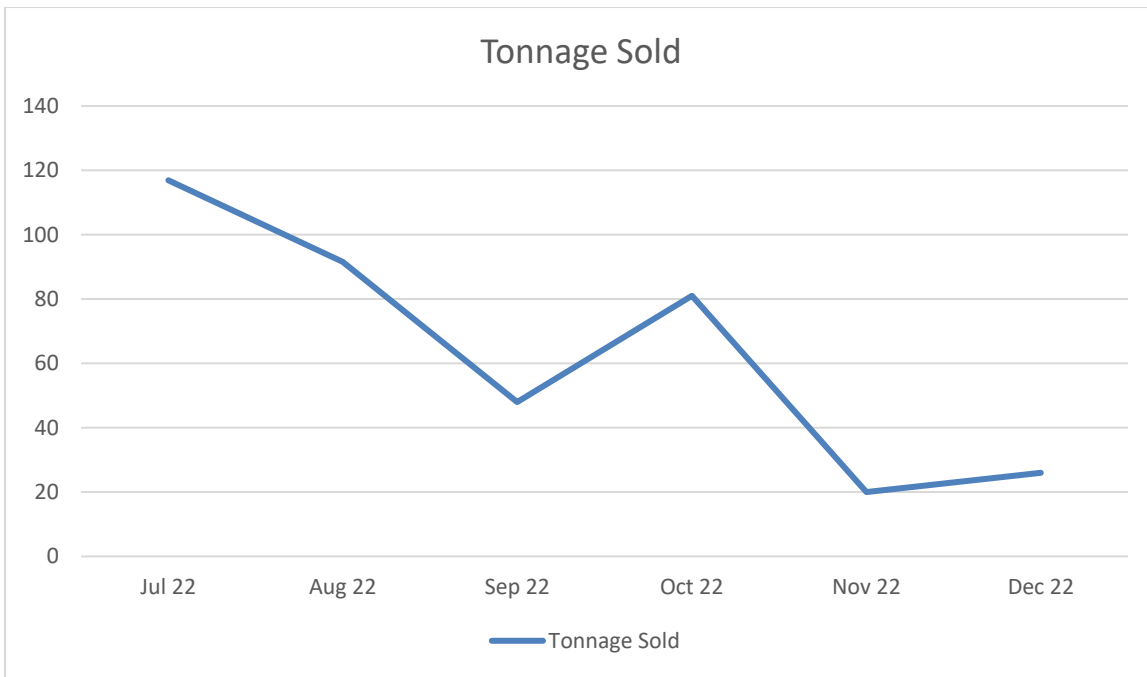


3.5.2 Adam Kok Farms

	First Quarter Ending 30 September 2022	Second Quarter Ending 31 December 2022
Sales	1,111,111	491,990
Sales of Farm Products – Animals	1,105,943	9,468
Sales of Farm Products – Crops	5,168	3,040
Livestock supplied to Umzikantu	0	479,482
Expenditure	2,104,800	2,203,292
Employee related costs	1,259,371	1,255,216
Personnel and labour	0	0
Operational costs	845,428	741,175
Profit/(Loss)	(993,689)	(1,711,302)

3.5.3 Kei Fresh Produce Market

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



	First Quarter Ending 30 September 22	Second Quarter Ending 31 December 2022
Revenue		
Commission	45,223	12,487
Rentals and hire of equipment	62,624	63,643
Total revenue	107,847	76,130
Expenditure	1,248,632	1,376,938
Employee related costs	944,063	945,250
Personnel and Labour	0	0
Operational costs	147,867	264,395
Depreciation	168,238	167,293
Total expenditure	1,248,632	1,376,938
(Deficit)	(1,151,023)	(1,300,808)

3.5.4 Water Services

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

**(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION
NUMBER: 2016/272582/30)**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	31 DECEMBER 2022	2022
		R	R
		(Actual)	(Actual)
ASSETS			
Current Assets		7,365,666	9,510,531
Cash and Cash Equivalents	2	3,212,870	4,926,922
Receivables from exchange transactions	3	684,924	108,886
Inventory	4	3,208,464	4,215,314
Receivables from non-exchange transactions	5	259,408	259,409
Non-Current Assets		63,808,120	66,034,418
Property, Plant and Equipment	7	48,970,495	50,963,836
Intangible Assets	8	169,297	220,360
Biological Assets	9	14,385,959	14,567,854
Non-current assets held for sale	10	282,369	282,369
Total Assets		71,173,785	75,544,950
NET ASSETS AND LIABILITIES			
Current Liabilities		29,235,244	28,782,331
Payables from exchange transactions	11	8,396,360	6,915,035
Payables from non-exchange transactions	12	446,974	446,974
Unspent Conditional Government Grants and Receipts	13	1,886,922	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	12,843,521	13,502,173
Non - Current Liabilities		-	(1)
Long - term liabilities	16	-	(1)
TOTAL LIABILITIES		29,235,244	28,782,330
NET ASSETS		41,938,541	46,762,620
Accumulated Surplus		41,938,546	46,762,617
TOTAL NET ASSETS		71,173,785	75,544,950

Notes to the Statement of Financial Position

1. Inventory

The balance includes livestock that will be sold as meat at the Abattoir.

2. Payables from exchange transactions

The balance includes an amount of 3,1m for audit fees owed to Auditor General.

Bonus provision 1,2m, Salary accruals etc

3. Unspent Conditional Government Grants and Receipts

This balance represents external projects referred to Ntinga for implementation.

4. Current Employee benefits

The balance represents provision for leave pay.

5. Taxes

The balance represents VAT owed to SARS

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

In terms of Section 88(1) of the Local Government: Municipal Finance Management Act No. 56 of 2003 (MFMA), the Accounting Officer of a municipal entity must by 20 January of each year-

- a) assess the performance of the entity during the first half of the financial year taking into account:-
 - i. monthly statements referred to in Section 87 of the MFMA for the first half of the financial year and the targets set in the Service Delivery, Business Plan or other agreement with the entity's parent municipality, and
 - ii. the entity's Annual Report for the past year, and progress on resolving problems identified in the Annual Report.
- b) Submit a report on such assessment to –
 - i) the Board of Directors of the entity; and
 - ii) the parent municipality of the entity.

9. FINANCIAL IMPLICATIONS

This report has no financial implications.

10. RECOMMENDATIONS

It is therefore recommended that the:

- (a) Committee notes in terms of MFMA section 88, Ntinga's 2022/23 Mid-year budget and performance assessment report for the period ending 31 December 2022.

