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INFORMATION ITEM MEMORANDUM

Date : April 2024

MFMA SECTION 87(11): NTINGA'S BUDGET IMPLEMENTATION REPORT FOR THE FOR THE PERIOD ENDING 31 MARCH 2024

1. PURPOSE:

- [1.1] The purpose of this memorandum is to submit Ntinga's 2023/2024 financial year budget implementation report for the Third Quarter ending 31 March 2024 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 Third Quarter ending 31 March 2024.

2.1. DISCUSSIONS

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

1. DISCUSSIONS

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

	2022/2023	2023/2024	2023/2024								
Description	Audited Outcomes	Original Budget	Adjustment Budget	Q3 Actual	Q3 Budget	Q3 variance	Q3 Variance %	Year to Date Actual	Year to Date Budget	Year to date variance	Full year forecast
	R	R						R	R	R	R
Revenue By Source											
Abattoir Revenue	11.008.388	21.354.020	19.985.298	4.584.492	3.296.235	1.288.257	39%	15.335.513	15.040.946	294.567	19.985.298
Adam Kok Farms	381.813	6.161.512	5.714.512	218.567	-	218.567	0%	1.207.392	1.630.000	-422.608	5.714.512
Kei Fresh Produce Market (KFPM) F	318.298	3.769.771	2.120.000	88.754	162.557	(73.803)	-45%	207.931	1.090.000	-882.069	2.120.000
ORTDM Grant - Operations and sta	53.997.661	52.526.407	49.553.214	10.700.000	10.700.000	(0)	0%	39.300.000	39.300.000	0	49.553.214
Consultancy fees	0	5.000.000	3.846.395	3.217.391	3.290.671	(73.280)	-2%	3.217.391	3.290.671	-73.280	3.846.395
Interest earned - external investment	192.094	300.000	500.000	110.540	46.287	64.254	139%	519.877	150.000	369.877	600.000
Other revenue	62.669	85.000	195.000	19.701	20.166	(465)	-2%	164.237	21.249	142.988	195.000
Adjustments to Biological Assets	374.374	2.150.000	2.150.000	82.400	-	82.400	0%	102.200	0	102.200	2.150.000
Gains on disposal of PPE & Biological Assets	1.577.337	40.000	1.500.000	-	-	-	0%	0	0	0	1.500.000
Total Revenue	67.912.634	91.386.710	86.461.443	19.021.845	17.515.916	1.505.929	-	60.054.541	60.522.866	-468.325	86.561.443
Expenditure By Type											
Employee related costs	40.089.374	44.910.057	41.991.110	9.543.999	9.773.764	(229.765)	-2%	31.986.601	32.217.346	-230.745	41.991.110
Board of Directors related costs	1.112.249	1.353.100	1.044.078	302.465	261.699	40.766	16%	881.189	840.423	40.766	1.044.078
Depreciation & asset impairment	4.773.762	3.756.922	4.767.450	843.915	1.230.464	(386.549)	-31%	3.014.799	3.536.985	-522.186	4.767.450
Finance charges	1.387.695	55.343	55.343	92.349	27.671	64.678	234%	372.008	27.671	344.337	55.343
Operational costs	26.884.003	38.030.592	36.034.249	7.951.540	8.094.443	(142.903)	-2%	25.004.714	24.319.242	685.472	32.405.574
Other project costs: Maize project	0	0		3.035.274	3.035.274	-	0%	3.035.274	3.035.274	0	3.035.274
Losses - biological assets	381.000	100.000		21.900	-	21.900	0%	229.300	0	229.300	250.000
Total Expenditure	74.669.833	88.206.015	83.892.229	21.791.442	22.423.316	-631.874		64.523.885	63.976.942	546.943	83.548.829
Profit before tax/surplus for the year	-6.757.199	3.180.695	2.569.214	-2.769.597	-4.907.400	2.137.803		-4.469.344	-3.454.076	-1.015.268	3.012.614

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes	Original Budget	Adjustment Budget	Q3 Actual	Q3 Budget	Q3 variance	Q3 Variance %	Year to Date Actual	Year to Date Budget	Year to date variance	Full year forecast
	R	R						R	R	R	R
Total Revenue	67.912.634	91.386.710	86.461.443	19.021.845	17.515.916	1.505.929	9%	60.054.541	60.522.866	-468.325	86.561.443
Total Operational Expenditure	74.669.833	88.206.015	83.892.229	21.791.442	22.423.316	(631.874)	-3%	64.523.885	63.976.942	546.943	83.548.829
Total Capital expenditure	1.573.863	3.140.277	2.475.000	28.109	100.000	(71.891)	-72%	325.345	2.351.629	71.891	2.475.000

	Q3 Actual	Q3 Budget	Q3 variance	Q3 Variance %
	R	R		
Projects Revenue				
Abattoir Revenue	4 584 492	3 296 235	1 288 257	39%
Adam Kok Farms	218 567	-	218 567	0%
Kei Fresh Produce Market (KFPM)	88 754	162 557	(73 803)	45%
Total Projects Revenue	4 891 813	3 458 792	1 433 021	1
Projects Expenditure				
Abattoir	5 238 468	5 247 606	9 138	17%
Adam Kok Farms	3 105 037	2 922 245	- 182 792	-6%
Kei Fresh Produce Market (KFPM)	621 670	1 812 749	1 191 079	66%
Total Projects Expenditure	8 965 175.00	9 982 600	1 017 425	1

1.2 Revenue Analysis

- a) For the third quarter the entity projected to generate cumulative revenue of R 17,5 Million the actual revenue amounted to R 19,0 Million resulting to a favourable variance of R 1,5 Million equivalent to 9%.
- b) Abattoir has a positive variance of R 1,2 m with a 39% variance percentage. The marketing of the abattoir has yielded the desired results.
- c) Adam Kok had no planned target for this quarter for both animal sales and crop sales. The Farm sent a number of 20 livestock to abattoir with the value of R 279,394 The Farm generated unplanned crop sales amounting to R 68,550.00 and sold livestock which yielded R 150,017.
- d) Kei Fresh Produce Market as a negative variance of R73,803. This is due to farmers not bringing enough stock to the Market. Ntinga is currently assisting the Market Agent with the bakkie to collect stock from Local Farmers and deliveries to the retail shops.

Ntinga is also assisting the Eyoluntu Market Agent to get properly capitalised to manage collection of stock as well as making deliveries to buyers.

- e) Interest received: The budget for interest received was based on monthly payments of the grants by the municipality as the practice was in the previous years. The Entity agreed with the municipality for a quarterly grant funding payment in advance during this financial year. The higher interest achieved when compared to the budget is due to the two months grant advance received and invested.
- f) Other income: The positive variance is due to insurance re-imburement for the assets that were damaged by water at KFPM.
- g) Biological assets: These represents births of these animals. They are initially recorded at R 200.00 at birth. The valuation is done at year end.
- h) Special Projects: represents a maize project that was implemented for ORTDM.

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 2023/24	Q3 revenue in 2022/23
a)	Meat sales	4,584,492	2,157,592
b)	Livestock sales by Adam Kok Farms	150,017	225,000
c)	Livestock supplied to Umzikantu	279,395	1,478,172
d)	Crop sales	68,550	240,408
e)	KFPM Commission	22,345	14,907

1.3 Operational Expenditure Analysis

For the third quarter the entity projected to spend R 22,4 Million on operations. Actual spending amounted to R 21,8 Million resulting in savings of R 0,6 Million.

- a) Employee related costs: the variance was insignificant. Management has taken the decision not to appoint for vacant positions due to cash flow challenges. The saving between the original budget of R44,9m and forecasted figure of R 41,9m is expected to be realised.
- b) Board of Directors and related costs: The variance is due to more than initially planned activities such as provincial budget speech and opening of parliament.
- c) Depreciation: The budget figure did not consider the assets that were going to be fully depreciated after Q2. This has resulted into lower depreciation amount than budgeted.
- d) Finance charges: The variance is caused by SARS interest VAT outstanding balance. Although an arrangement has been made with SARS to pay the F/Y 2022 outstanding VAT the interest is however charged on the reduced balance.
- e) Operational Costs: This is inline with budget. Included in operational costs are livestock purchases (R3,4m), feed for animals (R880k), fuel and oil (R356k), repairs and maintenance (R326k), contracted services (1,4m)
- 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.

3.4 Capital Expenditure

For the third quarter the entity projected to spend R 100,000 on capital expenditure. The actual capital expenditure was R 28,109 with a variance of R 71,891. The capital expenditure for the planned Meat Market was not incurred as planned.

3.5 Financial performance per profit centre

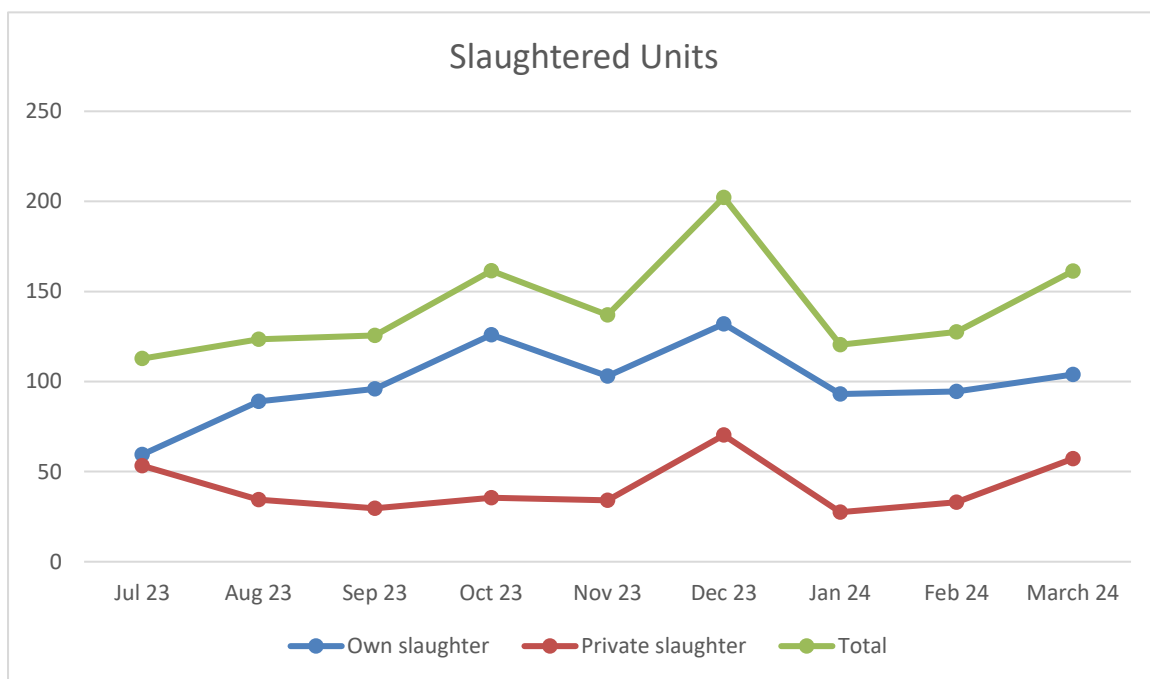
3.5.1 Umzikantu Abattoir

Abattoir is showing year to year improvement in revenue generation.

	First Quarter Ending 30 September 2023	Second Quarter Ending 31 December 2023	Third Quarter Ending 31 March 2024	Total
Sales	4,310,841	6,436,863	4,587,809	15,335,513
Sales – abattoir	4,310,841	6,436,863	4,587,809	15,335,513
Cost of sales	3,387,357	4,889,826	3,467,763	11,788,808
Opening stock	171,283	81,419	76,299	171283
Purchases	3,297,493	4,884,706	3,435,326	11,617,525
Closing stock	(81,419)	(76,299)	(43,862)	(43,862)
Gross profit	923,484	1,547,037	1,120,046	3,546,705
GP%	21%	24%	24%	23%
Other Direct Production costs	208,192	540,557	309,397	1,058,146
Meat Inspection	50,783	50783	50,783	152,349
Repairs	38,540	134,627	115,868	289,035
Fuel	100,386	240,433	104,368	445,187
Packaging	2,125	96,006	33,904	132,035
Hygiene	15,176	18,708	0	33,884
Wages	1,182	-	4,474	5,656
Gross profit after other direct costs	715,292	1,006,480	810,649	2,488,559
Indirect costs	1,138,959	1,736,215	1,461,308	4,320,303
Salaries	912,105	1,539,159	1,128,113	3,579,377
Co-ordination fees	16,293	21,168	23,653	61,114
Security	110,869	110,870	110,870	332,609
Other operational costs	28,716	14,708	164,647	208,071
Depreciation	70,976	34,131	34,025	139,132
Profit/(Loss)	(423,667)	(713,556)	(650,659)	(1,831,774)

NB: The casting error was on cost of sales, and a sales figure in the December submitted accounts were corrected in this current Q3 submission. Other expenditure items were also corrected. Q1 and Q2 was affected.

The total number of units slaughtered during the period from 01 July to 31 March 2024 is 1293 made up of 918 units for abattoir sales (own slaughter) and 376 units for private slaughter. The diagram below depicts a fluctuation in the number of slaughtered units from month to month.



3.5.2 Adam Kok Farms

	First Quarter Ending 30 September 2023	Second Quarter Ending 31 December 2023	Third Quarter Ending 31 March 2024	Total	
Sales	205,887	1,874,225	497,962	2,578,07	
Sales of Farm Products – Animals	0	987,648	150,017	1,137,665	
Sales of Farm Products – Crops	91,174	14,960	68,550	174,684	
Livestock supplied to Umzikantu	114,713	871,617	279,395	1,265,725	
Expenditure	2,937,397	3,346,318	3,105,037	9,388,752	
Employee related costs	1,635,758	1,600,165	1,561,482	4,797,405	
Personnel and labour	0		0	0	
Crop production costs	311,555	588,606	0	900,161	
Operational costs	990,084	1,157,547	1,543,555	3,691,186	
Profit/(Loss)	(2,731,510)	(1,472,093)	(2,607,075)	(6,810,675)	

3.5.3 Kei Fresh Produce Market

	First Quarter Ending 30 September 23	Second Quarter Ending 31 December 2023	Third Quarter Ending 31 March 2024	Total
Revenue				
Commission	0	0	22,345	22,345
Rentals and hire of equipment	49 903	82,243	66,409	198,555
Total revenue	49 903	82,243	88,754	220,900
Expenditure				
Employee related costs	746,981	588,967	621,670	1,957,618
Personnel and Labour	0	0	0	0
Operational costs	201,120	651,127	697,155	1,549,402
Depreciation	138,493	204,064	197,518	540,075
Total expenditure	1,086,593	1,444,158	1,516,343	4,047,095
(Deficit)	(1,036,691)	(1,361,915)	(1,427,589)	(3,826,195)

3.5.4 Water Services

	First Quarter Ending 30 September 2023	Second Quarter Ending 31 December 2023	Third Quarter Ending 31 March 2024	Total
Revenue				
Refurbishment of water schemes				
Total Revenue				
Expenditure	266 990	252,729	209,150	728,869
Employee related costs	266 990	252,729	209,150	728,869
Operational costs				
Repairs and maintenance				
Deficit	(266 990)	(252,729)	(209,150)	(728,869)

4. 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 2024			
	Notes	31 MARCH 2024	2023
		R	R
		(Actual)	(Actual)
ASSETS			
Current Assets		9.603.546	8.063.204
Cash and Cash Equivalents	2	6.997.332	3.694.242
Receivables from exchange transactions	3	1.842.087	1.729.471
Inventory	4	458.319	2.333.683
Receivables from non-exchange transactions	5	305.808	305.808
Non-Current Assets		58.502.948	61.789.550
Property, Plant and Equipment	7	45.319.324	47.939.151
Intangible Assets	8	48.611	118.235
Biological Assets	9	13.135.014	13.732.164
Non-current assets held for sale	10	-	-
Total Assets		68.106.494	69.852.754
NET ASSETS AND LIABILITIES			
Current Liabilities		31.504.342	28.776.981
Payables from exchange transactions	11	8.162.793	6.721.358
Payables from non-exchange transactions	12	446.974	446.974
Unspent Conditional Government Grants and Receipts	13	5.824.380	1.689.801
Current Employee benefits	14	5.062.256	4.996.323
Current portion of long - term liabilities	16	8.572	90.072
Taxes	6	11.999.368	14.832.453
Non - Current Liabilities		205.047	205.047
Long - term liabilities	16	205.047	205.047
TOTAL LIABILITIES		31.709.389	28.982.028
NET ASSETS		36.397.105	40.870.725
Accumulated Surplus		36.401.325	40.870.669
TOTAL NET ASSETS		68.106.494	69.852.754

4.1. Statement of Financial Position Movement Analysis

Assets

- **Cash and Cash Equivalent:** The movement is cash and cash equivalent when compared to the June 2023 balance is mainly due to the conditional grant of R5m received from ECDC on the 29th of September 2023 for the construction of the Packhouse at the Kei Fresh Market. The funds have been committed and the money will be spent soon.
- **Receivable from Exchange:** The decrease in the receivable from exchange is due to the payment of R1,6m received from the customer in Q1 for the biological assets sold before the financial year end.
- **Inventory:** Included in the inventories figure is the livestock on feedlot for sales.
- **Receivable from non-exchange –** Receivable from non-exchange are mainly deposits paid for municipal services.
- **PPE & Intangible Assets –** Movement is due to the depreciation (2.4m), and assets acquisitions of 0.3m.
- **Biological Assets:** represents the animal stock at the Adam Kok Farms

Liabilities

- **Payables from exchange:** Include the provision for the bonus for staff (R1m) and Sundry creditors (R3m) – of which R1,5m due to ORTDM for water
- **Payable from non-exchange:** Amount due to EU Commission for expenditure incurred outside the conditions of the grant.
- **Unspent conditional grant:** Included ECDC funding for the Packhouse and ORTDM grants (conditions not yet met)
- **Current employee benefits –** includes staff leave not yet taken.
- **Taxes:** Included in taxes are Vat. The R6m in the vat is the accrual that was raised in FY 2021, a corresponding R6m was raised in the receivables as the Agency was supposed to receive the funds

from ORTDM, pay it to SARS and the ORTDM then claim it back. Auditors were of the view that such entry will not have impact in the group. ORTDM did not advance the payment to the Agency. Ntinga had to make the provision from impairment for the receivable raised in FY 2021 during the FY 22 audit. This has worsened the current ratio.

The Agency has entered a payment arrangement with SARS for the FY 2022 VAT not paid in full. The VAT was not paid in full due to non-payment of the invoice due from ORTDM.

- **Long term liabilities** – represents lease instalments next due in the next 12 months.

The liquidity ratios at the end of this reporting period are not looking good. The management is currently engaging the shareholder on the liquidity challenges.

4.2. CASH FLOW ANALYSIS

The cashflow details will be included in the financial sustainability report.

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

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 additional financial implications.

9. RECOMMENDATIONS

It is therefore recommended that the:

- (a) Committee notes in terms of MFMA section 87, Ntinga's 2023/24 Third Quarter report for the period ending 31st March 2024

