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INFORMATION ITEM MEMORANDUM

Date : JULY 2024

MFMA SECTION 87(11): NTINGA'S BUDGET IMPLEMENTATION REPORT FOR THE FOR THE FOURTH QUARTER ENDING 30 JUNE 2024

1. PURPOSE:

[1.1] The purpose of this memorandum is to submit Ntinga's 2023/2024 financial year budget implementation report for the Fourth Quarter ending 30 June 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 Fourth Quarter ending 30 June 2024.

2.1. DISCUSSIONS

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

	2022/2023	2023/2024	2023/2024							
Description	Audited Outcomes	Original Budget	Adjustment Budget	Q4 Actual	Q4 Budget	Q4 variance	Q4 Variance %	Year to Date Actual	Year to Date Budget	Year to date variance
	R	R						R	R	R
Revenue By Source										
Abattoir Revenue	11 008 388	21 354 020	19 985 298	4 489 365	4 944 352	(454 987)	-9%	19 658 901	19 985 298	-326 397
Adam Kok Farms	381 813	6 161 512	5 714 512	2 618 421	2 454 512	163 909	7%	3 825 814	5 714 512	-1 888 698
Kei Fresh Produce Market (KFPM) Revenue	318 298	3 769 771	2 120 000	123 471	195 833	(72 362)	-37%	331 402	2 120 000	-1 788 598
ORTDM Grant - Operations and staff salaries	53 997 661	52 526 407	49 553 214	10 253 215	10 253 215	-	0%	49 553 214	49 553 214	0
Consultancy fees	0	5 000 000	3 846 395	0	409 163	(409 163)	-100%	3 965 042	3 846 395	118 647
Interest earned - external investments	192 094	300 000	500 000	61 012	46 287	14 726	32%	592 587	500 000	92 587
Other revenue	62 669	85 000	195 000	267 677	20 166	247 511	1227%	431 914	195 000	236 914
Adjustments to Biological Assets	374 374	2 150 000	2 150 000	3 600	2 150 000	(2 146 400)	0%	105 800	2 150 000	-2 044 200
Gains on disposal of PPE & Biological Assets	1 577 337	40 000	1 500 000	0	-	-	0%	0	1 500 000	-1 500 000
Total Revenue	67 912 634	91 386 710	86 461 443	17 816 761	20 473 527	(2 656 766)	-	78 464 674	85 564 419	-7 099 745
Expenditure By Type										
Employee related costs	40 089 374	44 910 057	41 991 110	9 952 018	9 773 764	178 254	2%	44 380 294	41 991 110	2 389 184
Board of Directors related costs	1 112 249	1 353 100	1 044 078	443 635	203 655	239 980	118%	1 324 824	1 044 078	280 746
Depreciation & asset impairment	4 773 762	3 756 922	4 767 450	914 597	1 230 464	(315 867)	-26%	3 929 396	4 767 450	-838 054
Finance charges	1 387 695	55 343	55 343	72 070	27 671	44 399	160%	505 776	55 343	450 433
Operational costs	26 884 003	38 030 592	36 034 249	5 916 754	8 086 332	(2 169 578)	-27%	35 023 246	36 034 249	-1 011 003
Losses - biological assets	381 000	100 000		80 500	-	80 500	0%	309 800	0	309 800
Total Expenditure	74 669 833	88 206 015	83 892 229	17 379 574	19 321 886	-1 942 312		85 473 336	83 892 229	1 581 107
Profit before tax/surplus for the year	-6 757 199	3 180 695	2 569 214	437 187	1 151 641	-714 454		-7 008 662	1 672 190	-8 680 852

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes R	Original Budget R	Adjustment Budget	Q4 Actual	Q4 Budget	Q4 variance	Q4 Variance %	Year to Date Actual R	Year to Date Budget R	Year to date variance R
Total Revenue	67 912 634	91 386 710	86 461 443	17 816 761	20 473 527	(2 656 766)	-13%	78 464 674	85 564 419	-7 099 745
Total Operational Expenditure	74 669 833	88 206 015	83 892 229	17 379 574	19 321 886	(1 942 312)	-10%	85 473 336	83 892 229	1 581 107
Total Capital expenditure	1 573 863	3 140 277	2 475 000	-	2 069 159	(2 069 159)	-100%	459 587	2 351 629	2 069 159

1.1 Revenue Analysis

- a) For the fourth quarter ending 30 June 2024, the entity projected to generate revenue of R 20,4 Million the actual revenue amounted to R 17,8 Million resulting to a variance of R 2,6m.
- b) Abattoir: Grew it's sales significantly compared to the previous year. The opening of the Meat Market contributed to this growth. The Abattoir needs to market its self in order to grow its market share.
- c) Adam Kok overachieved its target due to crop sales done well in this quarter. It has also achieved it's annual target with livestock sent to Abattoir, instead of being sold to external market as planned.
- d) Kei Fresh Produce Market : a negative variance was experienced during this period. There is one Market Agent trading at KFPM. Agent still struggles to get a consistent supply of produce, especially potatoes and onions.

The Market is in the process of advertising for two additional market agents that will start in the second quarter of 2024/25 FY. This will assist in improving KFPM revenue.

- 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-imbusement for the assets that were damaged by water at KFPM. It also includes conditions met and a commission received from implementation of projects.
- 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. A fair value adjustment will be process once the fair value, valuation report is completed.
- 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	Q4 revenue in 2023/24	Q4 revenue in 2022/23
a)	Meat sales	4,489,365	2,645,318
b)	Livestock sales by Adam Kok Farms	2 199 294.16	1,458,175
c)	Livestock supplied to Umzikantu	1,561,482	2,000,602
d)	Crop sales	421,127	133,197
e)	KFPM Commission	55,836	2,682

1.2 Operational Expenditure Analysis

For the fourth quarter the entity projected to spend R 19,3 Million on operations. Actual spending amounted to R 17,3 Million resulting in savings of R1,9 Million.

- a) Employee related costs: The variance is caused by ap provision for bonus.
- b) Board of Directors and related costs: The variance is caused by physical meetings in May 2024 and an understatement of May 2024 meetings costs. The variance will be financed with savings in other votes.
- c) Depreciation: The budget figure did not consider the assets that were going to be fully depreciated. 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: the variance is caused by savings in votes areas like municipal services, workmen's compensation fund.
- 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 2,069,159 on capital expenditure. The actual capital expenditure was R nil. The capital expenditure for the planned Meat Market was not incurred as planned.

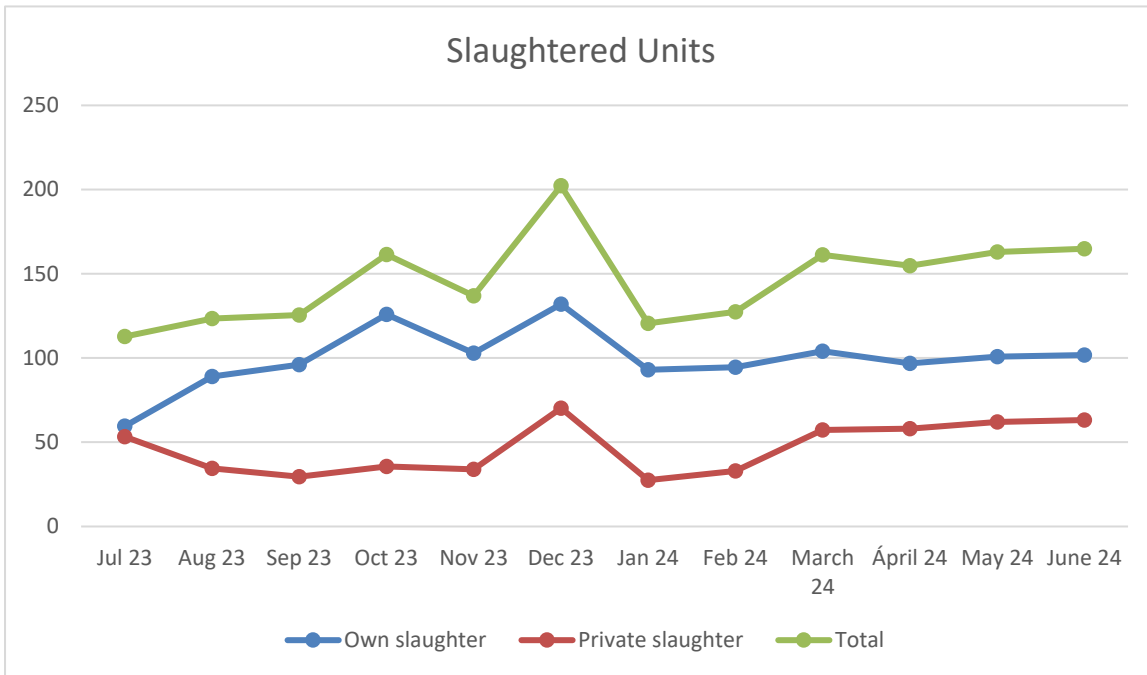
3.5 Financial performance per profit centre

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	Fourth Quarter Ending 30 June 2024	Total
Sales	4 310 841	6 436 863	4 587 809	4 323 388	19 658 901
Sales – abattoir	4 310 841	6 436 863	4 587 809	4 323 388	19 658 901
Cost of sales	3 387 357	4 889 826	3 467 763	2 788 497	14 406 022
Opening stock	171 283	81 419	76 299	43 862	43 862
Purchases	3 297 493	4 884 706	3 435 326	2 760 972	14 378 497
Closing stock	(81 419)	(76 299)	(43 862)	(16 337)	(16 337)
Gross profit	923 484	1 547 037	1 120 046	1 534 892	5 252 880
GP%	21%	24%	24%	0.36	0.27
Other Direct Production costs	208 192	540,557	309,397	318 756.00	1 376 902
Meat Inspection	50 783	50 783	50 783	50 783	203 132
Repairs	38 540	134 627	115 868	137 884	426 919
Fuel	100 386	240 433	104 368	106 907	552 094
Packaging	2 125	96 006	33 904	5 442	137 477
Hygiene	15 176	18 708	-	-	33 884
Wages	1 182	-	4 474	17 740	23 396
Gross profit after other direct costs	715 292	1,006,480	810,649	1 216 135.56	3 875 978
Indirect costs	1 138 959	1 720 036	1 461 308	1 358 852	5 679 155.00
Salaries	912 105	1 539 159	1 128 113	1 146 060	4 725 437
Co-ordination fees	16 293	21 168	23 653	3 666	64 780
Security	110 869	110 870	110 870	79 457	412 066
Other operational costs	28 716	14 708	164 647	91 535	299 606
Depreciation	70 976	34 131	34 025	38 134	177 266
Profit/(Loss)	(423 667)	(713,556)	(650,659)	(142 716)	(1 803 177)

The total number of units slaughtered during the period from 01 July to 30 June 2024 is 1,776 made up of 1,217 units for abattoir sales (own slaughter) and 559 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	Fourth Quarter Ending 30 June 2024	Total
Sales	205 887	1 759 512	497 962	4 203 477	6 666 838
Sales of Farm Products – Animals	-	987 648	150 017	2 199 294	3 336 959
Sales of Farm Products – Crops	91 174	14 960	68 550	421 127	595 811
Livestock supplied to Umzikantu	114 713	756 904	279 395	1 583 056	2 734 068
Expenditure	2 937 397	3 346 318	3 105 037	2 177 867	11 566 619
Employee related costs	1 635 758	1 600 165	1 561 482	1 611 651	6 409 056
Personnel and labour	-		-	-	-
Crop production costs	311 555	588 606	-	-	900 161
Operational costs	990 084	1 157 547	1 543 555	566 216	4 257 402
Profit/(Loss)	(2 731 510)	(1,472,093)	(2,607,075)	2 025 610	(4 899 781)

Correction of error: In Q2 “livestock supplied to Umzikantu” was erroneously recorded at 871,617, which includes the figure for Q1 (R114,713). This figure has been corrected to be R 756,904.

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	Fourth Quarter Ending 30 June 2024	Total
Revenue					
Commission	0	0	22 345	55 838	78 183
Rentals and hire of equipment	49 903	82243	66409	67 633	266 188
Total revenue	49 903	82,243	88,754	123 471	344 371
Expenditure					
Employee related cos	746 981	588 967	621 670	558 446	2 516 064
Personnel and Labour	-	-	-	-	-
Operational costs	201 120	651 127	697 155	591 393	2 140 795
Depreciation	138 493	204 064	197 518	201 128	741 203
Total expenditure	1 086 594	1 444 158	1 516 343	1 350 967	5 398 062
(Deficit)	(1 036 691)	(1,361,915)	(1,427,589)	(1 227 496)	(5 053 691)

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 30 JUNE 2024

	Notes	30 JUNE 2024 R (Actual)	2023 R (Actual)
ASSETS			
Current Assets		10 480 962	8 063 204
Cash and Cash Equivalents	2	7 373 774	3 694 242
Receivables from exchange transactions	3	1 280 880	1 729 471
Inventory	4	1 520 500	2 333 683
Receivables from non-exchange transactions	5	305 808	305 808
Non-Current Assets		55 367 112	61 789 550
Property, Plant and Equipment	7	44 554 030	47 939 151
Intangible Assets	8	33 549	118 235
Biological Assets	9	10 779 533	13 732 164
Non-current assets held for sale	10	-	-
Total Assets		65 848 074	69 852 754
NET ASSETS AND LIABILITIES			
Current Liabilities		31 913 466	28 776 981
Payables from exchange transactions	11	7 802 757	6 721 358
Payables from non-exchange transactions	12	446 974	446 974
Unspent Conditional Government Grants and Receipts	13	5 766 058	1 689 801
Current Employee benefits	14	5 609 650	4 996 323
Current portion of long - term liabilities	16	136 207	90 072
Taxes	6	12 151 820	14 832 453
Non - Current Liabilities		72 602	205 047
Long - term liabilities	16	72 602	205 047
TOTAL LIABILITIES		31 986 068	28 982 028
NET ASSETS		33 862 006	40 870 725
Accumulated Surplus		33 862 008	40 870 669
TOTAL NET ASSETS		65 848 074	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 is being spent.
- **Receivable from Exchange:** Receivables include money due by ORTDM for Water Services employees that we paid on their behalf.
- **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 (3,7m), and assets acquisitions of 0.4m.
- **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 (R4m) – 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 Fourth Quarter report for the period ending 30 June 2024

