

Address of Registered office:

Old Government Printers
No. 5 Textile Road
Vulindlela Heights
Mthatha
5099

Postal Address

P.O. Box 1134
Mthatha, 5099



Tel : +27(0) 47531 0346

Fax : +27(0) 47531 4121

Email : infor@ntinga.org.za

Website : www.ntinga.org.za

INFORMATION ITEM MEMORANDUM

Date : 09 October 2023

**MFMA SECTION 87(11): NTINGA'S BUDGET IMPLEMENTATION REPORT FOR THE FIRST QUATER
ENDING 30 SEPTEMBER 2023**

1. PURPOSE:

[1.1] The purpose of this memorandum is to submit Ntinga's 2023/2024 financial year budget implementation report for the quarter ending 30th September 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

(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 30th September 2023.

2.1. DISCUSSIONS

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

	2022/2023	2023/2024					
Description	Unaudited Outcomes	Original Budget	Q1 Sept Actual	Q1 Sept Budget	Q1 Sept Variance Amount	Q1 Sept 23 Variance %	Forecast to year end
	R	R	R	R	R	R	R
Revenue By Source							
Abattoir Revenue	11 008 388	21 354 020	4 310 842	4 270 804	40 038	1%	21 660 018
Adam Kok Farms	381 813	6 161 512	91 174	0	91 174	-100%	6 653 624
Kei Fresh Produce Market (KFPM) Revenue	318 298	3 769 771	49 903	719 940	-670 037	-93%	2 094 691
ORTDM Grant - Operations and staff salaries	54 279 263	52 526 407	14 350 000	14 350 000	0	0%	49 553 215
Consultancy fees	281 108	5 000 000	0	0	0	0%	1 920 000
Other Grants and Subsidies	81 786	0	12 326	21 249	-8 923	-42%	49 304
Interest earned - external investments	192 094	300 000	206 984	75 000	131 984	176%	613 200
Other revenue	1 443 710	85 000	2 900	0	2 900	100%	85 000
Adjustments to Biological Assets	374 374	2 150 000	4 600	0	4 600	100%	2 150 000
Gains on disposal of Assets	1 577 337	40 000	0	10 000	-10 000	-100%	40 000
Total Revenue	69 938 171	91 386 710	19 028 729	19 446 993	-418 264	-2%	84 819 053
Expenditure By Type							
Employee related costs	41 152 099	44 910 057	10 462 727	11 227 515	764 788	7%	44 910 057
Board of Directors related costs	1 027 330	1 353 100	286 514	338 274	51 760	15%	1 353 100
Depreciation & asset impairment	4 773 762	3 756 922	1 210 829	939 231	-271 598	-29%	4 843 316
Finance charges	1 380 945	55 343	103 390	13 836	-89 554	-647%	413 560
Repairs and Maintenance	152 527	160 000	17 952	43 332	25 380	59%	160 000
Operational costs	26 896 248	37 870 592	6 704 141	7 521 229	817 088	11%	37 064 857
Losses - biological assets	381 000	100 000	51 400	0	-51 400	0%	100 000
Total Expenditure	75 763 911	88 206 015	18 836 953	20 083 417	1 246 464	6%	88 844 890
Profit before tax/surplus for the year	-5 825 740	3 180 695	191 776	-636 424	-1 664 728	0	(4 025 838)

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes	Original Budget	Q1 'Sept Actual	Q1 Sept Budget	Q1 Sept 23 Variance	Q1 Sept 23 Variance %	Forecast to year end
	R	R	R	R	R	R	
Total Revenue	69 938 171	91 386 710	19 028 729	19 446 993	-418 264	-2%	84 819 053
Total Operational Expenditure	75 763 911	88 206 015	18 836 953	20 083 417	1 246 464	6%	88 844 890
Total Capital expenditure	1 688 703	3 140 277	50 468	953 144	902 676	95%	3 140 277
PROJECTS							
	2022/2023	2023/2024					
	Unaudited Outcomes	Original Budget	Quarter 1 Actual	Quarter 1 Budget	Q1 Sept Variance Amount	Q1 Sept 23 Variance %	Forecast to year end
	R	R		R	R	R	R
Projects Revenue							
Abattoir Revenue	11 008 388	21 354 020	4 310 842	4 270 804	40 038	1%	21 660 018.26
Adam Kok Farms	381 813	6 161 512	91 174.00	0	91 174	100%	6 653 624.00
Kei Fresh Produce Market (KFPM) Revenue	318 298	3 769 771	49 903	719 940	(670 037)	-93%	2 094 691.34
Total Projects Revenue	11 708 499	31 285 303	4 451 919	4 990 744	(538 825)	8%	30 408 333.60
Projects Expenditure							
Abattoir	13 207 188	5 341 625	4 868 312	5 725 421	857 109	15%	
Adam Kok Farms	9 762 814	17 519 601	2 937 397	3 510 958	573 561	16%	
Kei Fresh Produce Market (KFPM)	5 170 468	4 422 895	1 076 629	678 488	-398 141	-59%	
Total Projects Expenditure	28 140 470.45	27 284 121	8 882 338	9 914 867	1 032 529	-27%	-

2.1.2. Revenue Analysis

- a) For the period ending September 2023 the entity projected to generate revenue of R 19,4 Million but actual revenue amounted to R19,0 Million resulting in a negative variance of R 0,4 Million.
- b) There is a favourable variance of R 40,038. The Meat Market started operating in August instead of July 23. The Meat Market still needs to be marketed properly and it started operating in August instead of July 2023.
- c) Adam Kok: There was no target for this quarter, The sales generated are the sales made from the previous year's produce.
- d) Kei Fresh Produce Market:
An unfavourable variance was occurred in this period. There were no market agents on the floor in quarter 1 of 2023/24 FY hence the non-performance. One of the targeted market agents is still sourcing funds to start their operations. (Eyoluntu Market Agent).
- e) Interest received: a favourable variance was realised in this period. The grant invoice was issued and received for the quarter, and we were able to invest the excess funds.
- f) ORTDM Operational Grant: The grant was billed as per the cash flows.
- g) Other income: The other income recorded in the prior relates to salary recoveries for Water Services employees that were transferred to ORTDM.
- h) Gains on disposal of assets: The R1,5m recorded in the prior year relates to gains on biological assets that were sold.

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

	Description	Q1 revenue in 2023/24	Q1 revenue in 2022/23
a)	Meat sales	4,310,842	3,071,072
b)	Livestock sales by Adam Kok Farms	0	1,103,082
c)	Livestock supplied to Umzikantu	114,713	0
d)	Crop sales	91,174	5,168
e)	KFPM Commission	0	45,223

2.1.3. Operational Expenditure Analysis

For the first quarter the entity projected to spend R 20 Million on operations. Actual spending amounted to R 18,8 Million resulting in a positive variance of R 1,2 Million.

- a) Employee related costs: The favourable variance is caused by position that are not yet filled.
- b) Board of Directors and related costs: Included in the board costs is an accrual for retainer fees for the 2022/23 financial year. The Entity started with few directors at the beginning of the year, hence the savings.
- c) Depreciation: The variance will be funded during the adjustment budget.
- d) Finance charges: This is interest on VAT due to SARS. The finance charges are expected to be written off the VAT balance is settled.
- e) Repairs and maintenance: Additional projects from ORTDM are not yet fully operational hence the saving.
- f) Operational Costs: we have spent less than anticipated. This is due to expenditure like crop production related expenses that we not incurred as planned.
- g) Livestock losses (deaths): These are mainly caused by dams that are silted, cow get stuck and die.

2.1.4. Capital Expenditure

For the first quarter the entity projected to spend R 953,144 on capital expenditure. The actual expenditure amounted to R 50,468. The variance of R 902,676 relates to the Meat Market capital expenditure that has not yet incurred.

3. Financial performance per profit centre

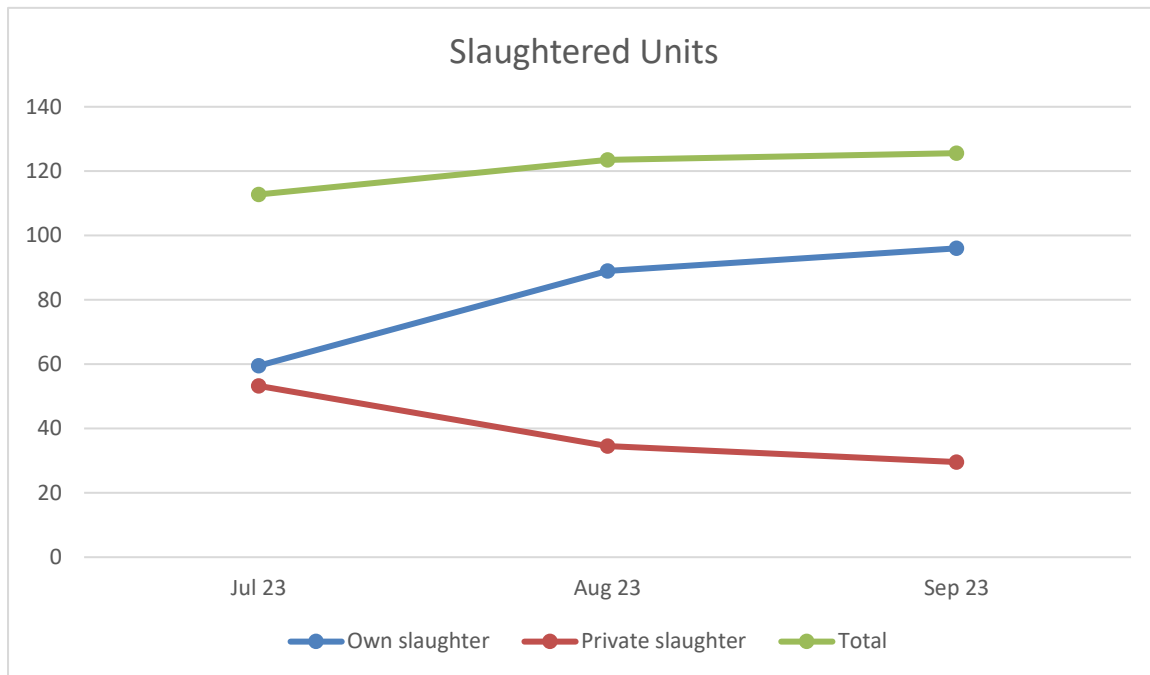
3.1.1. Umzikantu Abattoir

Abattoir is showing year to year improvement in revenue generation.

	First Quarter Ending 30 September 2023
Sales	4,310,841
Sales – main abattoir	3,357,239
Sales – meat market	953,602
Cost of sales	3,387,357
Opening stock	171,283
Purchases	3,297,493
Closing stock	(81,419)
Gross profit	923,484
GP%	21%
Other Direct Production costs	245,037
Meat Inspection	50,783
Repairs	38,540
Fuel	100,386
Packaging	2,125
Hygiene	15,176
Depreciation	36,845
Wages	1,182
Gross profit after other direct costs	678,447
Indirect costs	(1,235,918)
Salaries	1,045,909
Co-ordination fees	16,293
Security	110,869
Stationery	28,716
Municipal services	0
Depreciation	34,131
Profit/(Loss)	(557,471)

The total number of units slaughtered during the period from 01 July to September 2023 is 361.83 made up of 244.5 units for abattoir sales (own slaughter) and 117.3 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 2023
Sales	205,887
Sales of Farm Products – Animals	0
Sales of Farm Products – Crops	91,174
Livestock supplied to Umzikantu	114,713
Expenditure	2,937,397
Employee related costs	1,635,758
Personnel and labour	0
Crop production costs	311,555
Operational costs	990,084
Profit/(Loss)	(2,731,510)

3.1.3. Kei Fresh Produce Market

During the first quarter the market nil tonnage was sold, There are currently no agents operating at the Market.

	First Quarter Ending 30 September 23
Revenue	
Commission	0
Rentals and hire of equipment	49 903
Total revenue	49 903
Expenditure	1,086,593
Employee related costs	746,981
Personnel and Labour	0
Operational costs	201,120
Depreciation	138,493
Total expenditure	1,086,593
(Deficit)	(975,725)

3.1.4. Water Services

	First Quarter Ending 30 September 2023
Revenue	
Refurbishment of water schemes	0
Commission received – Water Operators	
Total Revenue	0
Expenditure	266,990
Employee related costs	266 990
Operational costs	0
Repairs and maintenance	0
Deficit	(266,990)

3.1.5. 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 SEPTEMBER 2023			
	Notes	31 SEPTEMBER 2023	2023
		R	R
		(Actual)	(Actual)
ASSETS			
Current Assets		11 252 401	8 016 804
Cash and Cash Equivalents	2	8 630 657	3 694 242
Receivables from exchange transactions	3	157 153	1 729 471
Inventory	4	2 205 183	2 333 683
Receivables from non-exchange transactions	5	259 408	259 408
Non-Current Assets		60 676 139	61 831 301
Property, Plant and Equipment	7	46 846 073	47 980 903
Intangible Assets	8	92 704	118 235
Biological Assets	9	13 737 363	13 732 164
Non-current assets held for sale	10	-	-
Total Assets		71 928 540	69 848 105
NET ASSETS AND LIABILITIES			
Current Liabilities		30 594 839	28 706 171
Payables from exchange transactions	11	5 219 242	6 634 320
Payables from non-exchange transactions	12	446 974	446 974
Unspent Conditional Government Grants and Receipts	13	6 025 188	1 689 801
Current Employee benefits	14	4 996 324	4 996 323
Current portion of long - term liabilities	16	90 072	90 072
Taxes	6	13 817 040	14 848 681
Non - Current Liabilities		205 047	205 047
Long - term liabilities	16	205 047	205 047
TOTAL LIABILITIES		30 799 886	28 911 218
NET ASSETS		41 128 654	40 936 887
Accumulated Surplus		41 128 651	40 936 875
TOTAL NET ASSETS		71 928 540	69 848 105

3.1.6. 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.
- **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 are the meat stock from abattoir, feedstock, and consumables
- **Receivable from non-exchange –** Receivable from non-exchange are mainly deposits paid for municipal services.
- **PPE & Intangible Assets –** Movement is due to the depreciation (1.2m), offset come from the additional (50k) made for the period under review.
- **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. 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 2023/24 First Quarter report for the period ending 30th September 2023

