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INFORMATION ITEM MEMORANDUM

Date : January 2024

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 2023/24 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 2023/24 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 2023/24 total budgeted revenue increased from 82.6m (2022/23) to 91.3m and total operational expenditure increased from 79.9m (2022/23) to R 88.2m resulting to a budgeted operational surplus of R 3,1m. Budgeted capital expenditure amounts to R 3.1m.

Revenue by Source	
Fresh Farm Products - Meat and slaughter services	21,354,020
Kei Fresh Produce Market revenue	3,769,771
Interest earned - external investments	300,000
Special Projects and other conditional grants	5,000,000
Transfers and Subsidies (ORTDM)	52,526,407
Other revenue	85,000
Sales of Fresh Farm Products - Animals and crops	6,161,512
Adjustments to biological assets	2,150,000
Gains on disposal of PPE	40,000
Total Revenue (excluding capital transfers and contributions)	91,386,710
Expenditure By Type	
Employee related costs	44,910,057
Board of Directors Allowances	1,002,500
Board of Directors Travelling, Accommodation & other	350,600
Depreciation	3,756,922
Finance charges	55,343
Repairs and Maintenance	160,000
Fresh Produce Market Operations	4,422,895
Abattoir Operations	5,341,625
Farms Operations	17,519,601
Other Operating Expenditure	10,586,472
Adjustments to Biological Assets	100,000
Total Expenditure	88,206,015
Surplus/ (Deficit) for the year	3,180,695
Capital Expenditure	3,140,273
Surplus/(deficit)	40,422

3. DISCUSSIONS

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

	2022/2023	2023/2024							
Description	Audited Outcomes	Original Budget	Q2 Actual	Q2 Budget	Year to Date Actual	Year to Date Budget	Year to date variance	Year to date Variance %	Full year forecast
	R	R			R	R	R	R	
Revenue By Source									
Abattoir Revenue	11,008,388	21,354,020	6,115,132	7,473,907	10,428,078	11,744,711	1,316,633	11%	19,985,298
Adam Kok Farms	381,813	6,161,512	1,002,608	1,630,000	1,093,782	1,630,000	536,218	33%	5,714,512
Water Services Revenue	0	0	0	-	0	0	0	100%	897,023
Kei Fresh Produce Market (KFPM) F	318,298	3,769,771	82,243	1,049,940	132,147	1,769,880	1,637,733	93%	2,120,000
ORTDM Grant - Operations and sta	53,997,661	52,526,407	14,250,000	14,250,000	28,600,000	28,600,000	0	0%	49,553,214
Consultancy fees	0	5,000,000	0	2,500,002	0	2,500,002	2,500,002	100%	3,846,395
Interest earned - external investment	192,094	300,000	200,443	75,000	407,427	150,000	-257,427	-172%	600,000
Other revenue	62,669	85,000	139,443	21,249	154,668	42,498	-112,170	100%	195,000
Adjustments to Biological Assets	374,374	2,150,000	19,800	-	19,800	20,000	200	1%	2,150,000
Gains on disposal of PPE	1,577,337	40,000	0	10,000.00	0	20,000	20,000	100%	1,500,000
Total Revenue	67,912,634	91,386,710	21,809,669	27,010,098	40,835,902	46,477,091	5,641,189	12%	86,561,443
Expenditure By Type									
Employee related costs	40,089,374	44,910,057	11,980,855	11,227,515	22,443,582	22,455,030	11,448	0%	41,991,110
Board of Directors related costs	1,112,249	1,353,100	379,248	363,931	578,724	702,205	123,481	18%	1,044,078
Depreciation & asset impairment	4,773,762	3,756,922	1,095,692	939,231	2,306,521	1,878,462	-428,059	-23%	4,767,450
Finance charges	1,387,695	55,343	11,357	13,836	114,747	27,672	-87,075	-315%	-
Operational costs	26,884,003	38,030,592	9,341,741	9,713,240	16,017,399	19,668,068	3,650,669	19%	32,405,574
Other project costs: Maize project	0	0	0		0	0	0	0%	3,628,674
Losses - biological assets	381,000	100,000	75,400	25,000	207,400	50,000	-157,400	100%	-
Total Expenditure	74,669,833	88,206,015	22,884,293	22,282,753	41,668,373	44,781,437	3,113,064	7%	83,836,886
Profit before tax/surplus for the year	-6,757,199	3,180,695	-1,074,624	4,727,345	(832,471)	1,695,654	2,528,125	0	2,724,557

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes	Original Budget	Q2 Actual	Q2 Budget	Year to Date Actual	Year to Date Budget	Year to date variance	Year to date Variance %	Full year forecast
	R	R			R	R	R	R	
Total Revenue	67,912,634	91,386,710	21,809,669	27,010,098	40,835,902	46,477,091	5,641,189	12%	86,561,443
Total Operational Expenditure	74,669,833	88,206,015	22,884,293	22,282,753	41,668,373	44,781,437	3,113,064	7%	83,836,886
Total Capital expenditure	1,573,863	3,140,277	-	1,398,485	285,840.85	2,351,629.00	2,065,788	88%	2,475,000

3.2 Revenue Analysis

- a) For the second quarter the entity projected to generate cumulative revenue of R 46,4 Million the actual revenue amounted to R 40,8 Million resulting to a variance of R 5,6 Million equivalent to 12%.
- b) Abattoir had a negative variance of R 1,3 m. The reason for this is that the Meat Market did not start operating at a planned date but rather started in August 2023.
- c) Adam Kok did not meet its target as planned, with a negative variance of R0,5m. The Farm experienced a prolonged dry season and ran out hay bales. Animals were fed with more maize and this reduced maize planned for sale. Cabbage plants were destroyed by the hailstorm and this had a negative impact on revenue generation.
- d) Kei Fresh Produce Market suffer losses. There is no market agent operating. Eyoluntu Market Agent is fully registered with APAC and the certificate was issued in the 2nd week of December 2023. The Agent is partially funded by the O.R. Tambo District Municipality through Ntinga. The Market Agent planned to start operating on the market floor during January 2024
- e) Interest received: The ORTDM grant funding is billed and collected in advance for the quarter and the surplus is invested and therefore the interest received collection has improved.
- f) Other income: The positive variance is due to insurance re-imbusement 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: The projected amount was 6% implementation fee from Department of Rural Development and Agric. Reform. The program has been terminated, recently ORDTM has appointed Ntinga as an implementing agent for the Maize Programme. The amount included in the forecast is expected to be received by the end of January 2024. The costs relating to this programme are included in the operational costs in this report. The net income is expected to be 6% for the implementation fees.

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 2023/24	Q2 revenue in 2022/23
a)	Meat sales	6,115,132	3,134,479
b)	Livestock sales by Adam Kok Farms	987,648	9,467
c)	Livestock supplied to Umzikantu	871,617	641,318
d)	Crop sales	14,960	3,040
e)	KFPM Commission	0	12,487

3.3 Operational Expenditure Analysis

For the second quarter the entity projected to spend R 44,7 Million on operations. Actual spending amounted to R 41,6 Million resulting in a positive variance of R 3 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: there have been savings in this line due to online meetings.
- c) Depreciation: The depreciation was erroneously underfunded in the original budget, this has since been corrected in the adjustment budget.
- d) Finance charges and repairs and maintenance: The variance is caused by SARS interest VAT outstanding balance.
- e) Operational Costs: we have spent less than anticipated with a positive variance of 18%. This is due to expenditure like municipal services for KFPM as the Market is not fully operational etc.
- 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 second quarter the entity projected to spend R 2,351,629 on capital expenditure. The actual capital expenditure was R 285,840 with a variance of R 2,065,789 . The capital expenditure for the planned Meat Market was not incurred as planned.

3.5 Financial performance per profit centre

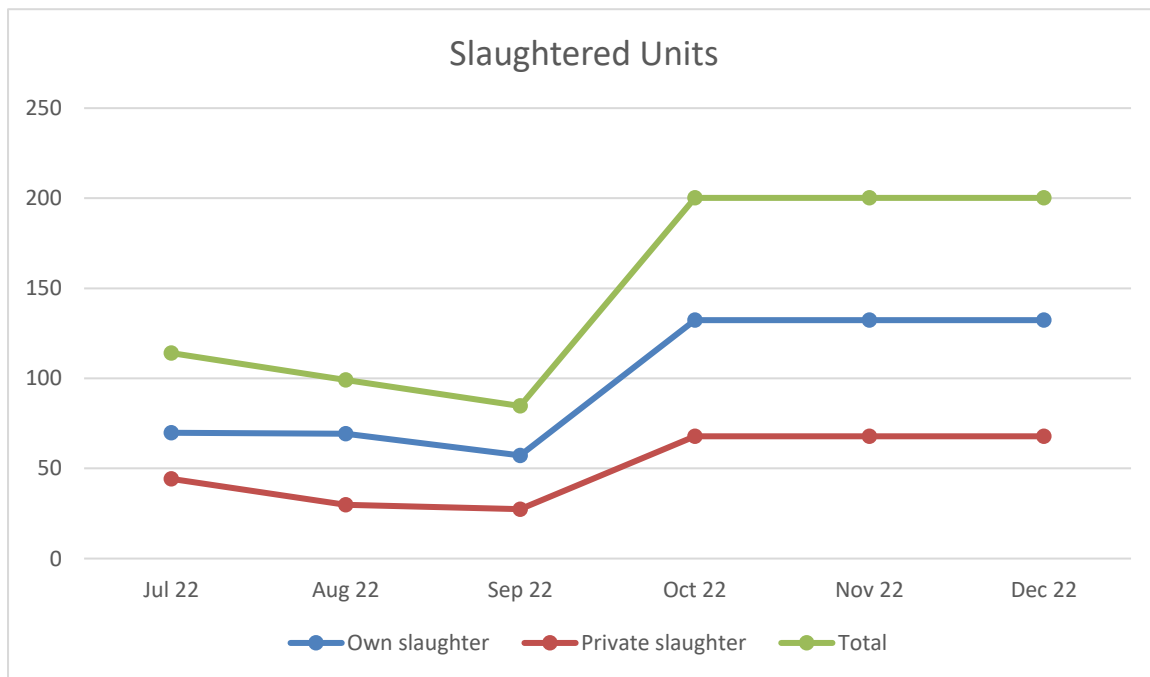
3.5.1 Umzikantu Abattoir

Abattoir is showing year to year improvement in revenue generation.

	First Quarter Ending 30 September 2023	Second Quarter Ending 31 December 2023	Total
Sales	4,310,841	6,115,132	10,428,078
Sales – main abattoir	3,359,344	2,612,173	5,969,412
Sales – meat market	953,602	3,502,958	4,456,560
Cost of sales	3,387,357	3,080,758	6,378,251
Opening stock	171,283	81,419	81,419
Purchases	3,297,493	3,870,956	7,168,449
Closing stock	(81,419)	(76,299)	(76,299)
Gross profit	923,484	2,239,056	3,254,509
GP%	21%	37%	31%
Other Direct Production costs	245,037	556,737	801,773
Meat Inspection	50,783	67,711	118,494
Repairs	38,540	117,699	156,239
Fuel	100,386	240,433	340,819
Packaging	2,125	96,006	98,131
Hygiene	15,176	18,708	33,884
Depreciation	36,845	16,179	53,024
Wages	1,182	-	1,182
Gross profit after other direct costs	678,447	2,477,636	3,327,367

Indirect costs	(1,235,918)	2,477,636	2,487,038
Salaries	1,362,690	1,362,690	2,725,380
Co-ordination fees	16,293	21,168	37,461
Security	110,869	110,870	221,739
Stationery	28,716	14,498	43,214
Municipal services	0	210	210
Depreciation	34,131	34,131	68,262
Profit/(Loss)	(874,252)	934,069	149,683

The total number of units slaughtered during the period from 01 July to December 2023 is 883.08 made up of 626 units for abattoir sales (own slaughter) and 257 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	Total
Sales	205,887	1,874,225	2,080,112
Sales of Farm Products – Animals	0	987,648	987,648
Sales of Farm Products – Crops	91,174	14,960	106,134
Livestock supplied to Umzikantu	114,713	871,617	986,330
Expenditure	2,937,397	3,346,318	6,283,715
Employee related costs	1,635,758	1,600,165	3,235,923
Personnel and labour	0		0
Crop production costs	311,555	588,606	900,161
Operational costs	990,084	1,157,547	2,147,631
Profit/(Loss)	(2,731,510)	(1,472,093)	(4,203,603)

3.5.3 Kei Fresh Produce Market

	First Quarter Ending 30 September 23	Second Quarter Ending 31 December 2023	Total
Revenue			
Commission	0	0	0
Rentals and hire of equipment	49 903	82,243	132,146
Total revenue	49 903	82,243	132,146
Expenditure			
Employee related costs	746,981	588,967	1,335,948
Personnel and Labour	0		
Operational costs	201,120	651,127	852,247
Depreciation	138,493	204,064	342,557
Total expenditure	1,086,593	1,444,158	2,530,752
(Deficit)	(1,036,691)	(1,361,915)	(2,398,606)

3.5.4 Water Services

	First Quarter Ending 30 September 2023	Second Quarter Ending 31 December 2023	Total
Revenue			
Refurbishment of water schemes			
Total Revenue			
Expenditure	266 990	252,729	519,719
Employee related costs	266 990	252,729	519,719
Operational costs			
Repairs and maintenance			
Deficit	(266 990)	(252,729)	(519,719)

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 2023/24 Mid-year budget and performance assessment report for the period ending 31 December 2023.

