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MFMA SECTION 88: NTINGA'S MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR THE PERIOD ENDING 31 DECEMBER 2019

1. SUBJECT: MFMA SECTION 88: NTINGA'S MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR THE PERIOD ENDING 31 DECEMBER 2019

2. PURPOSE:

The purpose of this memorandum is to submit Ntinga's 2019/2020 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.

3. SUMMARY:

Ntinga's Accounting Officer has assessed the entity's performance during the first half of the 2019/2020 financial year.

3.1 MID-YEAR BUDGET ASSESSMENT

3.1.1 Budget Overview:

The Entity's 2018/2019 total budgeted revenue amounts to R90.7m and total operational expenditure amounts to R90.5m resulting to a budgeted operational surplus of R0.2m. Budgeted capital expenditure amounts to R2.5m.

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

- Refurbishment of water schemes	R16.2m
- Peri urban water billing	R1.5m
- Abattoir meat sales and slaughter fees	R11.8m
- Fresh Produce commission and rentals	R5.3m
- Adam Kok livestock and crop sales	R1.4m
- Parent Municipality special projects	R11.4m
- UIF project implementation fee	R2.5m
- Parent Municipality grant funding	R38.9m
- Interest on investments	R1.3m
Total	R90.3m

Main items of budgeted expenditure are summarised as follows:-

- Employee related costs	R45.4m
- Board of Directors related costs	R1.4m
- Depreciation and asset impairment	R3.7m
- Water Services operational costs	R3.8m
- Abattoir operational costs	R3.7m
- Fresh Produce operational costs	R3.2m
- Livestock purchases and Adam Kok operational costs	R10m
- Parent municipality special projects	R9.9m
- Other operational costs	R8.7m
Total	R89.8m

Description	2018/19 Audited Outcomes	2019/20 Original Budget	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Year to Date Variance %	Quarter 2 Budget	Quarter 2 Actual	Quarter 2 Variance	Full Year Forecast
	R	R	R	R	R		R	R	R	R
Employee related costs	41,536,267	45,486,915	22,685,688	23,763,642	1,077,954	5%	12,977,007	11,955,748	1,021,259	45,937,915
Board of Directors related costs	1,411,292	1,405,128	494,549	589,300	94,751	16%	330,200	251,244	78,956	1,300,000
Depreciation	4,237,152	3,723,570	2,524,935	1,861,785	-663,150	-36%	930,893	1,420,511	489,618	4,732,100
Asset impairment	7,287,711	-	-	-	-	0%	-	-	-	0
Finance charges	40,571	37,800	3,591	0	3,591	-100%	-	2,535	2,535	37,800
Repairs and Maintenance	486,596	220,000	82,488	95,000	12,512	13%	55,000	67,342	12,342	220,000
Fresh Produce Market Operations	2,454,787	3,261,039	1,241,613	1,713,926	472,313	28%	1,075,520	720,409	355,111	3,261,039
Abattoir Operations	11,028,217	3,722,163	1,379,367	1,760,163	380,796	22%	1,145,734	941,210	204,524	3,722,163
Farms Operations	3,145,429	10,013,949	5,579,663	6,455,774	876,111	14%	3,111,437	2,473,924	637,513	10,013,949
Water Services Operations	2,279,525	3,860,800	3,466,190	2,065,400	-1,400,790	-68%	1,032,700	1,996,314	963,614	3,860,800
Special Projects	5,832,979	9,913,043	1,073,276	8,347,826	7,274,550	87%	2,608,696	247,432	2,361,264	9,913,043
Other Operational costs	7,652,844	8,762,871	4,696,717	8,057,787	3,361,070	42%	5,185,342	3,857,010	1,328,332	8,762,871
Losses - biological assets	454,650	150,000	0	0	0	0%	-	-	-	150,000
Total Expenditure	87,848,020	90,557,278	43,228,078	54,710,603	11,482,525	0.22	28,452,529	23,933,677	4,518,852	91,911,680
Profit before tax/surplus for the year	11,971,197	159,536	-850,498	-970,527	-22,845,022		-6,791,546	-3,163,680	-5,409,838	-7,540,664
Income tax	5,756,025									
Accumulated Surplus at beginning of the year	92,009,519		85,794,346							
Accumulated Surplus at end of the year	85,794,346	159,536	84,943,848	-970,527	-22,845,022		-6,791,546	-3,163,680	-5,409,838	-7,540,664

4.2 OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS

DESCRIPTION	Audited Outcomes	Original Budget	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Year to Date Variance %	Quarter 2 Budget	Quarter 2 Actual	Quarter 2 Variance
	R	R	R	R	R				
Total Revenue	75,876,823	90,716,814	42,377,579	53,740,076	-11,362,497	-21%	21,660,983	20,769,997	890,986
Total Operational Expenditure	87,848,020	90,557,278	43,228,078	54,710,603	11,482,525	21%	28,452,529	23,933,677	4,518,852
Total Capital expenditure	9,068,884	2,522,000.00	632,534.76	2,427,000.00	1,794,465.24	74%	1,185,000	270,118	914,882

4.3 PROJECTS

	2018/19 Audited Outcomes	2019/20 Original Budget	Adjustment Budget	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Year to Date Variance %
	R	R		R	R	R	
Projects Revenue							
Abattoir Revenue	7,848,902	11,878,450		6,091,766	5,393,927	697,839	13%
Adam Kok Farms	4,759,027	1,400,000		268,762.51	300,000	-31,237	-10%

	2018/19 Audited Outcomes	2019/20 Original Budget	Adjustment Budget	Year to Date Actual	Year to Date Budget	Year to Date Variance Amount	Year to Date Variance %
Water Services Revenue	10,479,300	17,764,950		8,132,475	8,882,475	-750,000	-8%
Kei Fresh Produce Market (KFPM) Revenue	963,069	5,367,348		740,191	2,683,674	-1,943,483	-72%
Total Projects Revenue	24,050,298	36,410,748		15,233,195	17,260,076	(2,026,881)	
Projects Expenditure							
Abattoir	11,028,217	3,722,163		1,379,367	1,760,163	-380,796	-22%
Adam Kok Farms	3,145,429	10,013,949		5,579,663	6,455,774	-876,111	-14%
Water Services	2,279,525	3,860,800		3,466,190	2,065,400	1,400,790	68%
Kei Fresh Produce Market (KFPM)	2,454,787	3,261,039		1,241,613	1,713,926	-472,313	-28%
Total Projects Expenditure	18,907,958.42	20,857,951		11,666,833	11,995,263	(328,430)	

3.1.3 Revenue Analysis

Below is an assessment of each source of revenue for the **first six months** of the 2019/2020 financial year.

- a) Water Services. Revenue projected to be generated to date amounted to R8.8m. Actual revenue amounted to R8.1m. This means that there is a negative variance of R0.700m. The R8.1m relates to refurbishment of water schemes. However, it must be noted that only R4.1m of the projected revenue was received. Issues relating to invoicing and payment by the municipality are being attended to by the two institutions.

The variance is due to non-collection of revenue projected to be generated from billing in peri-urban areas. Initiation of billing has delayed because of social issues encountered when collecting information on water consumers. This is going to lead to downward adjustment of budgeted revenue.

- b) Abattoir. Revenue projected to be generated to date amounted to R5.4m. Actual revenue amounted to R6.1m. In the same period in the previous financial year the abattoir generated revenue amounting to R4m. From year to year, the abattoir revenue continues to improve.

- c) Fresh Produce Market. Revenue projected to be generated by the market amounted to R2.6m, of which R2m related to commission on sales of fresh produce. Actual revenue amounted to R0.700m of which commission amounted to R0.400m.

Revenue generated by the market is improving compared with the same period in the previous financial year when it generated R0.100m in commission. The engagement of the second market agent is contributing to improvement in performance. Management is continuing to recruit more market agents to fill up the floor space.

- d) Adam Kok Farms. Revenue projected to be generated to date amounted to R0.300m. Actual revenue amounted to R0.268m. This means there is shortfall of R0.32m.

In the same period last year revenue amounted to R1.4m. In line with the entity's strategy, sales of livestock have reduced significantly and the farms are operated as the feeder to the abattoir.

- e) Parent Municipality special projects. Amount projected to be received to date amounted to R10.4m. Our expectations are that before any work can be done, advance payments are to be made by the municipality. Only R0.971m has been received from the parent municipality and it relates to an agricultural project but no expenditure has been incurred to date. The 1.3m reported as actual revenue relates to RAFI and ORT Cooperative Development Centre funded by the parent municipality.
- f) UIF Project implementation fee. Revenue projected to date amounted to R1.2m but none has been generated. The project has not yet started due to challenges in recruiting learners to enroll in the programme.
- g) Parent Municipality Grant Funding. Revenue projected to be generated to date amounted to R25.5m. Monthly invoices for grant funding have all been issued and paid by the parent municipality hence there is no variance between projections and actual revenue. It must be noted that although the entity budgeted for R38.9m to be received, on the other hand the parent municipality budgeted for R28.5m (after VAT) to pay the entity. Engagements are underway in order for the municipality to increase the entity's grant funding allocation.
- h) Interest on investments. Revenue projected to be generated to date amounted to R0.550m. Actual revenue amounted to R0.230m. This means there is negative variance of R0.320m. There is a direct relationship between interest on investments and revenue generated from all sources. Due to under collection of revenue there was under-collection of interest on investments.

3.1.4 Expenditure Analysis

Below is an assessment of expenditure by type for the first six months of the 2019/2020 financial year.

- a) Employee related costs. Projected expenditure amounted to R23.7m. Actual expenditure amounted to R22.6m. Variance is only 5%.

- b) Board related costs. Projected expenditure amounted to R0.589m. Actual expenditure amounted to R0.494m. This means there is under-spending of R0.095m. All meetings scheduled to take place during this period took place. The variance is attributed to lower than projected costs.
- c) Depreciation and asset impairment. Projections amounted to R1.8m. Actual depreciation amounted to R2.5m. Actual amount exceeded projections. There was under-provision of depreciation on the original budget. This will be addressed on the budget adjustment by increasing the deprecation provision.
- d) Water Services Operational Costs. Projected expenditure amounted to R2m. Actual expenditure amounted to R3.4m. This means there is overspending of R1.4m. Refurbishment costs for certain water schemes are way more than the estimate. Some of the schemes almost had to be reconstructed and this went beyond refurbishment. This points to inadequate funding of the water services that the entity is expected to perform. The annual budget is almost exhausted.
- e) Abattoir operational costs. Projected expenditure amounted to R1.7m. Actual expenditure amounted to R1.3m. There were savings in certain budget items such as fuel, meat inspection and marketing.
- f) Fresh Produce operational costs. Projected expenditure amounted to R1.7m. Actual expenditure amounted to R1.2m. The main cause of the variance is municipal. The entity is currently engaging the KSD Municipality on this matter.
- g) Adam Kok Farms operational costs. Projected expenditure amounted to R6.4m. Actual expenditure amounted to R5.5m. The farms are now part of the farm watch hence there are huge savings in security costs.
- h) Parent municipality special projects costs. Projected expenditure amounted to R8.3m. Actual expenditure amounted to R1m. Expenditure incurred relates to RAFI and OR Tambo

Cooperative Development Centre and funded using cash balances that remained from the previous financial year.

Funding for one project, an agricultural project was received towards the end of December 2019.

3.1.5 Capital Expenditure

Below is an assessment of capital expenditure by type for the first six months of the 2019/2020 financial year.

Projected capital expenditure amounted to R2.4m. Actual capital expenditure amounted to R0.632m. There is a variance of R1.7m. The variance is mainly attributed to the construction of the additional chiller at the abattoir as well as the establishment of a meat market at Kei Fresh Produce Market. A supplier of the chiller has been appointed and we anticipate the work to be completed by mid-February 2020. As far as the meat market is concerned, building plans approval processes took longer than we anticipated.

3.1.6 Overall financial performance per profit centre

4.3.1 Umzikantu Abattoir

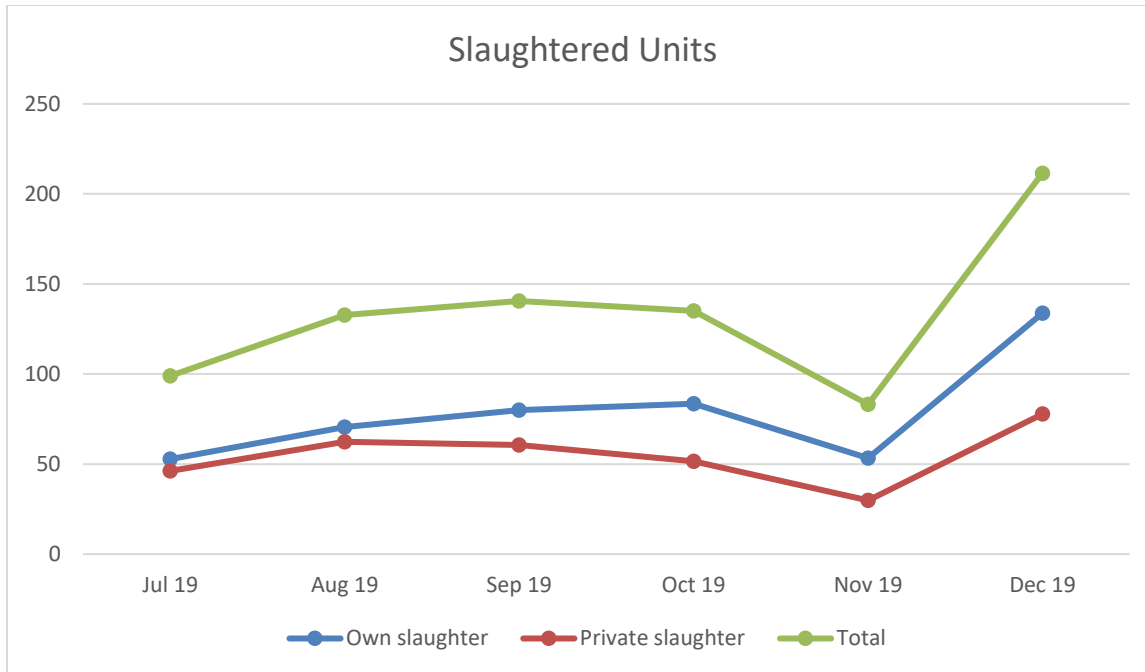
Abattoir is showing improvement in revenue generation particularly on beef sales.

	First Quarter Ending 31 September 2019	Second Quarter Ending 31 December 2019
Revenue		
Beef sales	2,126,495.41	3,214,023.25
Pork sales	190,259.87	240,532.86
Mutton sales	38,039.31	96,691.28
Slaughter fees	87,123.60	98,600.75
Total revenue	2,441,918.19	3,649,848.14
Expenditure		

	First Quarter Ending 31 September 2019	Second Quarter Ending 31 December 2019
Employee related costs	802,144.86	793,465.92
Personnel and labour	900.00	10,200.00
Operational costs	189,767.52	511,594.89
Depreciation	65,364.00	51,561.78
Cost of Sales – cattle	1,823,268.21	1,857,303.12
Opening inventory – cattle	117,632.12	244,713.91
Livestock purchases – cattle	1,950,350.00	1,764,538.36
Less: Closing inventory – cattle	- 244,713.91	-151,949.15
Cost of sales - Pigs	161,996.00	207,519.08
Opening inventory - Pigs	17,723.20	159.60
Livestock purchases - Pigs	144,432.40	207,359.48
Less: Closing inventory - Pigs	- 159.60	-
Cost of Sales - Sheep	20,533.20	108,251.90
Opening inventory - sheep	-	4,716.80
Livestock purchases - Sheep	25,250.00	103,535.10
Closing inventory - sheep	- 4,716.80	-
Total expenditure	3,063,973.79	3,539,896.70
Surplus / (deficit)	- 622,055.60	109,951.44
Gross profit Percentages:		
- Cattle	14%	42%
- Pigs	15%	14%
- Mutton	46%	(12%)

The total number of units slaughtered during the period from 01 July to December 2019 is 802.25 made up of 473.75 units for abattoir sales (own slaughter) and 328.50 units for private slaughter.

The table below illustrates the number of slaughter units from month to month.



4.3.2 Adam Kok Farms

Fattening for the abattoir is being implemented and the farms have started to supply abattoir from its own stock. Crops have been planted and revenue will be generated in the future.

	First Quarter Ending 31 September 2019	Second Quarter Ending 31 December 2019
Revenue		
Livestock sales and/or supplied to Umzikantu	37,133	417,085.87
Crop sales	183,029	32,556.52
Total Revenue	220,162	449,642.39
Expenditure		
Employee related costs	1,006,133	1,405,345.91
Personnel and labour	123,565	-

	First Quarter Ending 31 September 2019	Second Quarter Ending 31 December 2019
Operational costs	485,071	448,731.22
Crop production	247,152	122,737.48
Hire of equipment	27,600	-
Livestock feed	291,179	219,000.00
Total expenditure	2,180,700	2,195,814.61
Surplus / (deficit)	- 220,162	(1,746,172.22)

4.3.3 Fresh Produce Market

Performance of the market remains a concern. The presence of the second market agent is beginning to contribute to the improvement in revenue generation in the form of commission. On the other hand, there is an increase in operational expenditure particularly electricity costs.

	First Quarter Ending 31 September 2019	Second Quarter Ending 31 December 2019
Revenue		
Commission	149,088	251,241.35
Rentals and hire of equipment	170,426	169,435.55
Total revenue	319,514	420,676.90
Expenditure		
Employee related costs	986,203	1,197,852.55
Operational costs	442,742	776,053.53
Total expenditure	1,428,944	1,973,906.08
Surplus / (deficit)	- 1,109,430	1,553,229.18

4.3.4 Water Services

Invoicing for water services work is done on a quarterly basis. This relates to refurbishment of water schemes in KSD Municipality. Only one of the two invoices issued has been paid by the parent municipality.

	First Quarter Ending 31 September 2019	Second Quarter Ending 31 December 2019
Revenue		
Refurbishment of water schemes	4,066,237	4,066,237
Expenditure		
Employee related costs	2,251,434	2,683,856.60
Operational costs	260,047	148,257.93
Repairs and maintenance	1,172,432	1,885,453.99
Total expenditure	3,683,912	4,717,568.52
Surplus / (deficit)	382,325	651,331.52

3.2 PROGRESS ON RESOLUTION OF ISSUES IDENTIFIED IN PAST YEAR (2018/2019) ANNUAL REPORT

Issues raised in the 2018/2019 annual report were:-

- a) There were instances where there was no clear and logical link between the key performance indicators and targets; and
- b) There was insufficient information to validate some of the reported performance achievements.

The 2019/20 SDBIP has since been reviewed to ensure that there is clear link between key performance indicators and targets. Secondly, documentation prepared to support reported achievements is reviewed and signed by relevant people.

4. CONSULTATION

This report has been discussed by the Audit and Risk Committee and adopted by the Board of Directors of Ntinga.

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.

8. FINANCIAL IMPLICATIONS

This report has no other financial implications except discussed under paragraph 4 above.

9. RECOMMENDATIONS

It is therefore recommended that:

The Board of Directors adopts Ntinga's 2019/2020 mid-year budget and performance assessment report.