



NTINGA O.R. TAMBO DEVELOPMENT AGENCY SOC LTD

**2017/2018
ADJUSTED ANNUAL BUDGET**

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1. 2017/2018 BUDGET OVERVIEW

- a) Ntinga O.R. Tambo Development Agency SOC LTD is operating as a wholly owned implementing agent of the parent municipality, O.R. Tambo District Municipality (ORTDM). During 2015/2016 financial year the mandate of the Entity was amended. The amended mandate is mainly derived from the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) and Section 84(1)(a)(b)(d)(k)(m)(n)&(p) of Municipal Structures Act, 1998 (Act 117 of 1998).

It is to facilitate, manage and implement Socio-economic Development initiatives with a special focus on:

- Water and Sanitation;
- Service Centres (e.g. Markets, Abattoirs, Agri-parks, Farms, etc.);
- Rural Development (e.g. Tourism, Forestry, Agriculture, etc.);
- Cooperatives and SMMEs; and
- Any other related function in partnership with either public or private sector.

- b) In implementing the above mandate the Entity has developed a strategy anchored on the following four goals:-
- Goal 1: Sustainable Water Services (water supply and sanitation) Systems
 - Goal 2: Enhanced and Enabled Full Value Chains (upstream and downstream) for Agricultural Produce, Markets, Abattoirs and Aquaculture.
 - Goal 3: Diversified Partnerships that Promote Inclusive Socio-economic Development and Growth.
 - Goal 4: Dynamic, Capable and Sustainable State Owned Company.

This budget is aligned to the four goals.

- c) The entity has shifted away from traditional poverty alleviation programmes. Coupled with that, the entity has been restructured to assist the parent municipality in the implementation of water and sanitation function. With effect from 01 July 2017 the Entity will be fully operational as a State Owned Company. Main programmes

planned for implementation during the 2017/2018 financial year are summarized as follows:-

- Water services including maintenance of water schemes, billing in peri-urban areas, revenue collection as well as social facilitation;
 - Trade and investment promotions;
 - Enhancement of value chains through Trading Enterprises;
- d) Ntinga is planning to maximize return on the operations of farms and other enterprises such as the abattoir and the Kei Fresh Produce Market. To this end the Entity has a strategic goal of enhancing and enabling full value chains using the available enterprises. Some of the functions will be carried out through strategic partnerships. The overarching strategy is to turn the enterprises from loss making into profitable and viable business centres.
- e) The Entity is positioning itself to be one of the key roleplayers in strategic programmes including the following:
- Agri-parks initiative;
 - District Special Economic Zone;
 - N2 toll road roll-out;
 - Industrialisation in the district;
- f) This budget is prepared on the assumption that the Entity will assume full operations of the Adam Kok Farms including recognition of revenue generated.
- g) Compared with the 2016/2017 budget, there is a decline in grant funding from the parent municipality. The Entity expects to generate more revenue from water services. Projected water services revenue includes management and maintenance of water schemes as well as social facilitation.
- h) The Entity is planning to utilise accumulated cash reserves for capitalisation purposes. The abattoir and the fresh produce market have been prioritised. A total of R12m has been set aside for this purpose. This capitalisation is expected to yield

positive returns in the medium to long term. For the two prioritized enterprises the return expected on capitalisation is as follows:-

Abattoir

Over the next three years to 2019/2020 abattoir revenue is to increase from R2.5m to R20.8m per annum. This is a total increase of R18.3m. The number of units slaughtered at the abattoir is to increase significantly. The number of abattoir customers is set to increase by having amongst others retailers, supermarkets, small businesses and the general public.

Operational losses are to decrease gradually. Grant funding required to subsidize operations is estimated to decrease. Projections are that the abattoir will turn profitable with effect from the 2019/2020 financial year and will therefore no longer require grant funding from that financial year onwards.

Kei Fresh Produce Market

Over the next three years to 2019/2020 fresh produce market revenue is to increase from R1.7m to R5.4m per annum. This is a total increase of R3.7m. All equipment is expected to be fully operational by the end of the 2017/2018 financial year. The market will then be in a position to compete with other markets and be in position to attract producers to sell their produce through it. Grant funding required to subsidize operations is estimated to decrease. Projections are that the market will turn profitable with effect from the 2019/2020 financial year and will therefore no longer require grant funding from that financial year onwards.

2. RESOLUTIONS

In compliance with Local Government: Municipal Finance Management Act Section 87(4), the Board of Directors approves the 2017/2018 budget of the Entity.

3. EXECUTIVE SUMMARY

The 2017/2018 operational annual budget amounts to R66.6m and capital budget for acquisition of assets amounts to R17.2m. This gives a total 2017/2018 budget of R83.6m compared to the 2016/2017 financial year budget of R51.5m. For the 2017/2018 financial year, R12m of accumulated cash reserves will be used to fund capital expenditure.

Grant funding from the parent municipality is R30.4m excluding Vat. For the 2016/2017 financial year grant funding was R44.6m.

Year to year budget increase is estimated to be approximately 10%. Invested funds will reduce through spending mainly on capital expenditure.

There is a 7% estimated increase in salaries and wages budget in the 2017/2018 budget. Budget provision has been made for filling of new vacant positions with special focus on water services.

Funds that are not readily required for operational requirements are invested in call deposits in line with the investment policy.

The entity does not have long term borrowings.

Net assets position is expected to be sound into the foreseeable future with assets exceeding liabilities.

4. SUPPORTING DOCUMENTATION

4.1 Overview of annual budget process

There is an agreement in place between the entity and the parent municipality. This agreement is based on the mandate given to the Entity. As part of the integrated development plan of the parent municipality activities to be carried out by the entity are outlined. In addition to this, the Board of Directors develops and adopts a strategy of implementing the mandate. All of these are then used to inform budget proposals. Heads

of departments prepare departmental budgets for submission to Chief Financial Officer for checking alignment with the strategy as well as consolidation.

The consolidated draft budget is then considered by the sub-committee of the board before it is discussed by the board of directors. Upon approval by the Board of Directors the budget is submitted to the parent municipality.

Where there are changes that are proposed by the parent municipality they are taken into account before the consolidated budget is tabled in Council before the end of March of each year. The consolidated budget is then taken for public consultation by the parent municipality. Views of the community and key stakeholders are then considered by the Board of Directors before the final budget is adopted by the Board of Directors.

4.2 Overview of alignment of annual budget with service delivery agreement

Ntinga is a wholly owned municipal entity of O.R. Tambo District Municipality. The parent municipality appoints the Board of Directors. As a means of oversight the parent municipality is represented in meetings of Board of Directors. Financial reports of the entity are submitted to the parent municipality monthly. Furthermore, quarterly performance reports and financial reports are subject of discussions by Council of the parent municipality. The entity is also subjected to Municipal Public Accounts Committee processes.

4.3 Overview of budget related policies

Listed below are Ntinga's budgeted related policies. They are accessible from our records management office. They are also posted on our website www.ntinga.org.za under Acts and policies.

- Asset management policy
- Credit control policy
- Fleet management policy
- Investment policy
- Leave policy

- Performance management policy
- Property, plant and equipment policy
- Budget policy

These policies are subject of reviewal annually.

4.4 Overview of budget assumptions

The budget proposals are based on the following assumptions:-

- a) Medium Term Expenditure Framework (MTEF) Guide was used to inform some of the budget proposals. Primarily the budgeted grant amounts for 2017/2018 and 2018/2019 are based on its MTEF budget.
- b) Operations under a state owned company form would commence in full on 01 July 2017;
- c) The Entity will take full responsibility for operations at Kei Fresh Produce Market with effect from 01 July 2017;
- d) Improved returns on investments made on projects such as the abattoir and the fresh produce market are expected in the 2017/2018 financial year. However, these projects are not expected to be self sustainable at-least for another year;
- e) Revenue from Adam Kok farms will be recognised by the Entity.
- f) Year to year price increase is estimated to be approximately 10%. This is informed by the continuing weakening of the rand when compared with foreign currencies. Drought is expected to have adverse effect on future prices.
- g) The Entity is attending to operational challenges in service centers such as the farms, fresh produce market and the abattoir. There is a strategy that links operations of various service centers thereby maximizing return on investment.
- h) The Entity has budgeted for depreciation in value of assets.
- i) There will be new appointments of staff particularly in water services

4.5 Overview of budget funding

Bulk of the budget is funded from grant funding from the Parent Municipality.

Own revenue in the form of sales at the dairy, the fresh produce market and the abattoir is expected to improve.

5. LEGISLATION COMPLIANCE STATUS

Ntinga is fully implementing all legislation that is applicable to it. There are no delays in implementation and there is no application for such.

6. OTHER SUPPORTING DOCUMENTS

Additional information on expenditure

- a) Estimates of year to year budgets are based on the costing of projects and programmes. In an event that budgets require annual increases, we used an average percentage of 10%.
- b) Accommodation and travel budget will be utilized for all employees within the institution. This is mainly based on travelling to be done by staff when performing their duties as well as training requirements and workshops that will be attended to skill and capacitate employees. With operations under the state owned company form of the entity expected to commence on 01 July 2017, expenditure on training of staff is expected to increase.
- c) Board and committees fees budget is set aside for board and committee meetings. It is expected that the Board and its Committees will hold the minimum of four meetings each during the year. The number of board members is expected to increase. The budget includes all board related expenses.
- d) R2.3m has been budgeted for audit fees for Auditor General to perform their statutory work.

7. QUALITY CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Mxolisi Nkosi, Chief Executive Officer of Ntinga O.R. Tambo Development Agency SOC LTD hereby certify that the 2017/2018 proposed annual budget has been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget is consistent with the integrated development plan of the parent municipality, the Entity's strategy and the service delivery agreement with the parent municipality of the entity.

Mr. M.A. Nkosi

Chief Executive Officer

8. BUDGET ANNEXURES

8.1 Statement of Financial Performance

Description	2014/2015	2015/2016	2016/2017	Current Year 2017/2018			Medium Term Revenue and Expenditure Framework	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2018/2019	Budget year 2019/2020
R thousands								
Revenue by Source								
Abattoir Revenue	847 612	1 894 935	2 607 022	4 560 000	7 199 310	7 199 310	18 976 900	20 874 590
Dairy Farm Revenue	180 543	324 138	255 149	400 000	400 000	400 000	500 000	700 000
Kei Fresh Produce Market revenue	0	0	-	4 430 000	1 539 000	1 539 000	4 968 958	5 465 854
Interest earned - external investments	1 705 759	2 165 234	3 053 611	2 000 000	2 000 000	2 000 000	2 000 000	3 000 000
Consultancy fees	913 564	685 511	-	0	0	0	0	0
Grant Transfers Recognised (ORTDM GRANT)	39 803 125	38 324 034	46 665 607	33 404 203	39 182 364	39 182 364	37 225 051	37 667 504
Donations and Farmers Contributions (Maize)	772 255	0		508 434	666 834	666 834	169 477	0
Other revenue	263 783	343 311	816 054	0	162 807	162 807	0	0
Adam Kok Farms revenue			272 005	3 240 000	5 435 770	5 435 770	9 237 803	10 126 583
Water Services revenue			3 310 639	10 000 000	10 000 000	10 000 000	12 000 000	12 500 000
Adjustments to biological assets	8 400	5 295	3 800	15 000	15 000	15 000	50 000	55 000
Gains on disposal of PPE	316 327	163 336	237 146	0	0	0	0	0
Total Revenue (excluding capital transfers and contributions)	44 811 368	43 905 794	57 221 033	58 557 637	66 601 085	66 601 085	85 128 189	90 389 531
Expenditure By Type								
Employee related costs	20 495 049	21 872 770	21 645 270	35 794 151	35 129 137	35 129 137	37 558 963	40 274 336
Board of Directors Allowances & re-imbursive costs	293 476	514 159	318 002	800 000	1 356 300	1 356 300	750 000	810 000

Description	2014/2015	2015/2016	2016/2017	Current Year 2017/2018			Medium Term Revenue and Expenditure Framework	
	R thousands Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2018/2019	Budget year 2019/2020
Board of Directors Travelling, Accommodation & other	260 171	205 240	684 888	600 000	326 133	326 133	850 000	950 000
Debt impairment	0	61 391	27 875	0	0	0	0	0
Depreciation & asset impairment	827 816	1 222 893	740 273	700 000	700 000	700 000	820 000	902 000
Finance charges	56 023	53 130	16 569	35 000	35 000	35 000	85 000	93 500
Repairs and Maintenance	210 018	142 886	113 324	300 000	245 000	245 000	330 000	363 000
Kei Fresh Produce Market Operations	3 325 656	5 400 000	5 939 781	2 875 260	2 891 860	2 891 860	3 079 849	3 387 834
Abattoir Operations	1 138 511	2 184 830	3 008 047	4 133 662	6 266 296	6 266 296	13 336 003	14 669 603
Dairy Farm Operations	572 747	672 423	720 638	800 000	798 522	798 522	900 000	900 000
Adam Kok Farms Operations	5 713 943	5 313 181	7 936 689	1 271 201	2 455 328	2 455 328	5 091 180	5 600 298
Water Services	699 926	233 922	2 582 553	3 500 000	1 571 000	1 571 000	5 071 006	5 755 447
Special Projects (Transfers and Grants)	2 865 458	1 708 886	1 248 391	979 655	1 636 054	1 636 054	1 009 884	900 000
Operating Expenditure	4 484 218	5 332 720	5 066 117	6 710 600	7 631 402	7 631 402	9 545 860	9 346 446
Adjustments to Biological Assets	189 200	78 900	139 550	45 000	45 000	45 000	50 000	55 000
Total Expenditure	41 132 212	44 997 331	50 187 968	58 544 529	61 087 032	61 087 032	78 477 745	84 007 464
Surplus/(Deficit)	3 679 156	-1 091 537	7 033 065	13 109	5 514 053	5 514 053	6 650 445	6 382 068
Surplus/(Deficit) after capital transfers & contributions	3 679 156	-1 091 537	7 033 065	13 109	5 514 053	5 514 053	6 650 445	6 382 068
Taxation								
Surplus for the year	3 679 156	-1 091 537	7 033 065	13 109	5 514 053	5 514 053	6 650 445	6 382 068
Accumulated surplus at the beginning of the year	27 970 923	29 376 217	28 541 440	29 797 169	35 574 505	35 574 505	41 088 558	47 739 003
Accumulated surplus at the end of the year	31 650 079	28 284 680	35 574 505	29 810 278	41 088 558	41 088 558	47 739 003	54 121 070

8.2 Statement of Financial Position

Description	2014/2015	2015/2016	2016/2017	Current Year 2017/2018			Medium Term Revenue and Expenditure Framework	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2018/2019	Budget year 2019/2020
Rands								
ASSETS								
Current assets								
Cash and Cash Equivalents	29 934 387	30 240 288	36 254 354	15 761 548	20 473 123	20 473 123	29 288 568	36 757 636
Receivables from Exchange Transactions	12 298	1 600	20 899	1 050 000	1 050 000	1 050 000	1 100 000	900 000
Receivables from Non-Exchange Transactions	503 020	875 729	6 208 828	300 000	300 000	300 000	200 000	200 000
Unpaid Conditional Government Grants and Receipts	5 446 394	0	-	-	0	0	0	0
Taxes (VAT)	0	0	169 940	-	0	0	0	0
Inventory	435 454	96 547	199 262	100 000	100 000	100 000	120 000	125 000
Total current assets	36 331 553	31 214 164	42 853 282	17 211 548	21 923 123	21 923 123	30 708 568	37 982 636
Non current assets								
Property, plant and equipment	4 531 567	3 526 999	4 265 631	16 547 458	18 564 111	18 564 111	18 594 111	17 842 111
Biological assets	608 775	627 701	760 051	630 000	2 980 051	2 980 051	2 980 051	2 980 051
Intangible assets	65 597	37 294	814 289	21 272	21 272	21 272	6 272	6 272
Total non current assets	5 205 939	4 191 994	5 839 972	17 198 730	21 565 435	21 565 435	21 580 435	20 828 435
TOTAL ASSETS	41 537 492	35 406 158	48 693 255	34 410 278	43 488 558	43 488 558	52 289 003	58 811 070
LIABILITIES								
Current liabilities								
Current portion of long-term liabilities	39 973	0	-	-	-	-	-	-
Taxes (VAT)	280 193	191 996	-	300 000	300 000	300 000	350 000	390 000
Unspent Conditional Government Grants and Receipts	6 466 961	452 729	6 442 340	400 000	400 000	400 000	500 000	500 000
Payables from exchange transactions	2 074 865	2 470 785	2 681 580	900 000	900 000	900 000	800 000	850 000
Payables from non-exchange transactions	446 973	446 973	446 973	-	0	0	0	0
Current employee benefits	2 994 952	3 325 072	3 547 854	3 000 000	800 000	800 000	2 900 000	2 950 000

Description	2014/2015	2015/2016	2016/2017	Current Year 2017/2018			Medium Term Revenue and Expenditure Framework	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2018/2019	Budget year 2019/2020
Total current liabilities	12 303 917	6 887 555	13 118 747	4 600 000	2 400 000	2 400 000	4 550 000	4 690 000
Noncurrent liabilities								
Borrowing	0	0	0	0	0	0	0	0
Total noncurrent liabilities	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	12 303 917	6 887 555	13 118 747	4 600 000	2 400 000	2 400 000	4 550 000	4 690 000
NET ASSETS	29 233 575	28 518 603	35 574 508	29 810 278	41 088 558	41 088 558	47 739 003	54 121 070
COMMUNITY WEALTH/EQUITY								
Accumulated Surplus/(Deficit)	29 233 575	28 518 603	35 574 508	29 810 278	41 088 558	41 088 558	47 739 003	54 121 070
TOTAL COMMUNITY WEALTH/EQUITY	29 233 575	28 518 603	35 574 508	29 810 278	41 088 558	41 088 558	47 739 003	54 121 070

8.3 Cash Flow Statement

Description	2014/2015	2015/2016	2016/2017	Current Year 2017/2018			Medium Term Revenue and Expenditure Framework	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2018/2019	Budget year 2019/2020
R thousands								
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts								
Sales of goods and services	4 241 672	2 811 091	1 127 787	22 630 000	24 736 887	24 736 887	45 683 661	49 667 027
Grants and public contributions	33 956 818	43 770 428	47 248 480	33 912 637	33 406 858	33 406 858	37 394 528	37 667 504
Interest	1 705 759	2 165 234	3 053 611	2 000 000	2 000 000	2 000 000	2 000 000	3 000 000
Payments								
Suppliers and employees	-37 907 431	-42 828 533	-37 195 442	-59 851 501	-58 726 495	-58 726 495	-75 447 744	-82 686 964
Finance charges	-56 023	-53 130	-16 569	-35 000	-35 000	-35 000	-85 000	-93 500
Transfers and Grants	-3 325 656	-5 400 000	-5 939 781	0	0	0	0	0
NET CASH FROM/(USED) OPERATING ACTIVITIES	-1 384 861	465 090	8 278 086	-1 343 864	1 382 249	1 382 249	9 545 445	7 554 068
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds on disposal of Property, Plant and Equipment	820 685	303 967	539 088	85 000	85 000	85 000	120 000	65 000
Proceeds on disposal of Biological Assets	282 000	60 186	49 900	0	0	0	0	0
Purchase of Intangible Assets	-	-	-805 184	0	0	0	0	0
Purchase of Biological Assets	-	-152 981	-318 000	0	-2 250 000	-2 250 000	0	0
Purchase of Property, Plant and Equipment	-824 489	-330 387	-1 729 822	-12 335 000	-14 998 480	-14 998 480	-850 000	-150 000
NET CASH FROM/(USED) INVESTING ACTIVITIES	278 196	-119 216	-2 264 020	-12 250 000	-17 163 480	-17 163 480	-730 000	-85 000
CASH FLOWS FROM FINANCING ACTIVITIES								
Receipts								
Payments								
Repayment of borrowing	-83 413	-39 973	0	0	0	0	0	0

Description	2014/2015	2015/2016	2016/2017	Current Year 2017/2018			Medium Term Revenue and Expenditure Framework	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2018/2019	Budget year 2019/2020
R thousands								
NET CASH FROM/(USED) FINANCING ACTIVITIES	-83 413	-39 973	0	0	0	0	0	0
NET INCREASE/ (DECREASE) IN CASH HELD	-1 190 079	305 901	6 014 066	-13 593 864	-15 781 230	-15 781 230	8 815 445	7 469 068
Cash/cash equivalents at the year begin:	31 124 465	29 934 387	30 240 288	29 355 412	36 254 353	36 254 353	20 473 123	29 288 569
Cash/cash equivalents at the year end:	29 934 387	30 240 288	36 254 353	15 761 548	20 473 123	20 473 123	29 288 569	36 757 636