



NTINGA O.R. TAMBO DEVELOPMENT AGENCY SOC LTD

**2017/2018
ORIGINAL 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;
 - Enterprises development;
- d) Ntinga is planning to maximize return on the operations of farms and other enterprises such as the abattoir, Kei Fresh Produce Market and the Dairy farm. 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;
 - Umzimvubu Dam construction;
 - N2 toll road roll-out;
 - Industrialisation in the district;
 - Alternative energy programme.
- 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, social facilitation as well as billing of water consumers in rural areas and debt collection.
- 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 R9.8m per annum. This is a total increase of R7.3m. 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

Operational losses are to decrease gradually. Grant funding required to subsidize operations is estimated to decrease from R1.5m in 2016/2017 financial year to R0.4m in 2018/2019 financial year. 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 R8.7m per annum. This is a total increase of R8m. 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 from R6.4m in 2016/2017 financial year to R0.1m in 2018/2019 financial year. 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 R55.5m and capital budget amounts to R12.3m. This gives a total 2017/2018 budget of R67.8m 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, Mncedisi Zungula, chief executive officer of Ntinga O.R. Tambo Development Agency SOC LTD hereby certify that the 2017/2018 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.

M.H.Y. ZUNGULA
Chief Executive Officer

8. BUDGET ANNEXURES

8.1 Statement of Financial performance

Description	2013/2014	2014/2015	2015/2016	Current Year 2016/2017			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2017/2018	Budget year 2018/2019	Budget year 2019/2020
Revenue by Source									
Abattoir Revenue	450 465	847 612	1 894 935	1 980 000	2 500 000	2 500 000	4 560 000	7 730 000	9 850 000
Dairy Farm Revenue	206 509	180 543	324 138	250 000	250 000	250 000	400 000	500 000	700 000
Kei Fresh Produce Market revenue	0	0	0	2 030 000	0	0	4 430 000	7 655 800	8 762 680
Interest earned - external investments	1 409 248	1 705 759	2 165 234	1 800 000	2 500 000	2 500 000	2 000 000	900 000	700 000
Consultancy fees	4 415 231	913 564	685 511	1 000 000	3 454 794	3 454 794	0	0	0
Grant Transfers Recognised (ORTDM GRANT)	43 109 460	39 803 125	38 324 034	44 615 040	53 567 465	53 567 465	33 404 203	35 375 051	37 426 804
Donations and Farmers Contributions (Maize)	928 202	772 255	0	0	1 102 634	1 102 634	508 434	169 477	0
Other revenue	19 313	263 783	343 311	0	40 000	40 000	0	0	0
Adam Kok Farms revenue	0			0	0	0	3 240 000	3 574 000	3 896 400
Water Services revenue				0	0	0	10 000 000	12 000 000	12 500 000
Adjustments to biological assets	30 272	8 400	5 295		10 000	10 000	15 000	20 000	25 000
Gains on disposal of PPE		316 327	163 336	0	111 341	111 341	0	0	0
Total Revenue (excluding capital transfers and contributions)	50 568 700	44 811 368	43 905 794	51 675 040	63 536 235	63 536 235	58 557 637	67 924 328	73 860 884
Expenditure By Type									
Employee related costs	20 985 676	20 495 049	21 872 770	26 089 207	24 089 207	24 089 207	27 251 950	29 322 683	31 312 471
Board of Directors Allowances & re-imbursive costs	330 122	293 476	514 159	700 000	700 000	700 000	800 000	1 000 000	1 100 000
Board of Directors Travelling, Accommodation & other	188 783	260 171	205 240	500 000	500 000	500 000	600 000	600 000	660 000

Description	2013/2014	2014/2015	2015/2016	Current Year 2016/2017			Medium Term Revenue and Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast
Debt impairment	767	0	61 391	0	0	0	0	0	0
Depreciation & asset impairment	974 434	827 816	1 222 893	700 000	700 000	700 000	700 000	820 000	902 000
Finance charges	70 144	56 023	53 130	30 000	30 000	30 000	35 000	45 000	49 500
Repairs and Maintenance	485 238	210 018	142 886	210 000	210 000	210 000	300 000	330 000	363 000
Kei Fresh Produce Market Operations	4 858 000	3 325 656	5 400 000	3 000 000	6 400 000	6 400 000	7 758 161	7 827 384	8 421 048
Transfers and grants	20 138 536	10 990 585	9 879 320	13 481 579	21 731 581	21 731 581	14 343 817	18 871 484	21 201 364
Operating Expenditure	4 823 778	4 484 218	5 332 720	6 677 880	7 856 880	7 856 880	6 710 600	6 909 860	7 529 846
Adjustments to Biological Assets	69 022	189 200	78 900	0	40 000	40 000	45 000	50 000	55 000
Loss on disposal of PPE	60 703	0	0	0		0	0	0	0
Total Expenditure	52 985 203	41 132 212	44 763 409	51 388 666	62 257 668	62 257 668	58 544 528	65 776 411	71 594 229
Surplus/(Deficit)	-2 416 503	3 679 156	-857 615	286 374	1 278 567	1 278 567	13 109	2 147 917	2 266 655
Surplus/(Deficit) after capital transfers & contributions	-2 416 503	3 679 156	-857 615	286 374	1 278 567	1 278 567	13 109	2 147 917	2 266 655
Taxation									
Surplus/ (Deficit) for the year	-2 416 503	3 679 156	-857 615	286 374	1 278 567	1 278 567	13 109	2 147 917	2 266 655
Accumulated surplus at the beginning of the year	27 970 923	25 554 420	29 376 217	26 379 734	28 518 602	28 518 602	29 797 169	29 810 278	31 958 195
Accumulated surplus at the end of the year	25 554 420	29 233 576	28 518 602	26 666 108	29 797 169	29 797 169	29 810 278	31 958 195	34 224 850

8.2 Statement of Financial Position

Description	2013/2014	2014/2015	2015/2016	Current Year 2016/2017			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2017/2018	Budget year 2018/2019	Budget year 2019/2020
Rands									
ASSETS									
Current assets									
Cash and Cash Equivalents	31 124 466	29 934 387	30 240 288	26 602 397	29 355 412	29 355 412	15 761 548	17 874 465	21 234 392
Receivables from Exchange Transactions	4 258	12 298	1 600	10 000	10 000	10 000	1 050 000	1 100 000	900 000
Receivables from Non-Exchange Transactions	451 165	503 020	875 729	410 000	410 000	410 000	300 000	200 000	200 000
Unpaid Conditional Government Grants and Receipts	0	5 446 394	0		0	0	0	0	0
Taxes (VAT)	1 043 617	0	0		0	0	0	0	0
Inventory	897 349	435 454	96 547	90 000	90 000	90 000	100 000	120 000	125 000
Total current assets	33 520 855	36 331 553	31 214 164	27 112 397	29 865 412	29 865 412	17 211 548	19 294 465	22 459 392
Non current assets									
Property, plant and equipment	4 740 916	4 531 567	3 526 999	4 108 664	4 912 458	4 912 458	16 547 458	16 577 458	15 825 458
Biological assets	1 071 575	608 775	627 701	608 775	630 000	630 000	630 000	630 000	630 000
Non-current assets held for sale	268 947	0	0		0	0	0	0	0
Intangible assets	95 057	65 597	37 294	36 272	36 272	36 272	21 272	6 272	0
Total non current assets	6 176 495	5 205 939	4 191 994	4 753 711	5 578 730	5 578 730	17 198 730	17 213 730	16 455 458
TOTAL ASSETS	39 697 350	41 537 492	35 406 158	31 866 108	35 444 142	35 444 142	34 410 278	36 508 195	38 914 850
LIABILITIES									
Current liabilities									
Current portion of long-term liabilities	83 413	39 973	0		0	0	0	0	0
Taxes (VAT)	0	280 193	191 996	300 000	300 000	300 000	300 000	350 000	390 000
Unspent Conditional Government Grants and Receipts	6 866 874	6 466 961	452 729	800 000	800 000	800 000	400 000	500 000	500 000
Payables from exchange transactions	3 673 715	2 074 865	2 470 785	1 200 000	1 200 000	1 200 000	900 000	800 000	850 000
Payables from non-exchange transactions	446 973	446 973	446 973	0	446 973	446 973	0	0	0
Current employee benefits	3 031 982	2 994 952	3 325 072	2 900 000	2 900 000	2 900 000	3 000 000	2 900 000	2 950 000

Description	2013/2014	2014/2015	2015/2016	Current Year 2016/2017			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2017/2018	Budget year 2018/2019	Budget year 2019/2020
Total current liabilities	14 102 957	12 303 917	6 887 555	5 200 000	5 646 973	5 646 973	4 600 000	4 550 000	4 690 000
Non-current liabilities									
Borrowing	39 973	0	0	0	0	0	0	0	0
Total non-current liabilities	39 973	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	14 142 930	12 303 917	6 887 555	5 200 000	5 646 973	5 646 973	4 600 000	4 550 000	4 690 000
NET ASSETS	25 554 420	29 233 575	28 518 603	26 666 108	29 797 169	29 797 169	29 810 278	31 958 195	34 224 850
COMMUNITY WEALTH/EQUITY									
Accumulated Surplus/(Deficit)	25 554 420	29 233 575	28 518 603	26 666 108	29 797 169	29 797 169	29 810 278	31 958 195	34 224 850
TOTAL COMMUNITY WEALTH/EQUITY	25 554 420	29 233 575	28 518 603	26 666 108	29 797 169	29 797 169	29 810 278	31 958 195	34 224 850

8.3 Cash Flow Statement

Description	2013/2014	2014/2015	2015/2016	Current Year 2016/2017			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2017/2018	Budget year 2018/2019	Budget year 2019/2020
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Sales of goods and services	9 455 921	4 241 672	2 811 091	5 260 000	6 204 794	6 204 794	22 630 000	31 629 277	35 709 080
Grants and public contributions	37 169 994	33 956 818	43 770 428	44 615 040	54 670 099	54 670 099	33 912 637	35 544 528	37 426 804
Interest	1 409 248	1 705 759	2 165 234	1 800 000	2 500 000	2 500 000	2 000 000	900 000	700 000
Payments									
Suppliers and employees	-46 123 146	-37 907 431	-42 828 533	-48 526 666	-52 465 975	-52 465 975	-59 851 501	-65 185 888	-70 341 457
Finance charges	-70 144	-56 023	-53 130	-30 000	-30 000	-30 000	-35 000	-45 000	-49 500
Transfers and Grants	-4 858 000	-3 325 656	-5 400 000	0	-6 400 000	-6 400 000	0	0	0
NET CASH FROM/(USED) OPERATING ACTIVITIES	-3 016 127	-1 384 861	465 090	3 118 374	4 478 919	4 478 919	-1 343 864	2 842 917	3 444 927
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE	492 681	1 102 685	364 153	0	225 000	225 000	85 000	120 000	65 000
Payments									
Capital assets	-788 702	-824 489	-483 368	-195 000	-5 588 794	-5 588 794	-12 335 000	-850 000	-150 000
NET CASH FROM/(USED) INVESTING ACTIVITIES	-296 021	278 196	-119 215	-195 000	-5 363 794	-5 363 794	-12 250 000	-730 000	-85 000
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Payments									
Repayment of borrowing	-46 444	-83 413	-39 973	0	0	0	0	0	0
NET CASH FROM/(USED) FINANCING ACTIVITIES	-46 444	-83 413	-39 973	0	0	0	0	0	0
NET INCREASE/(DECREASE) IN CASH HELD	-3 358 592	-1 190 078	305 902	2 923 374	-884 876	-884 876	-13 593 864	2 112 917	3 359 927

Description	2013/2014	2014/2015	2015/2016	Current Year 2016/2017			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget year 2017/2018	Budget year 2018/2019	Budget year 2019/2020
Cash/cash equivalents at the year begin:	34 483 058	31 124 465	29 934 386	23 679 023	30 240 288	30 240 288	29 355 412	15 761 548	17 874 465
Cash/cash equivalents at the year end:	31 124 466	29 934 387	30 240 288	26 602 397	29 355 412	29 355 412	15 761 548	17 874 465	21 234 392