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**INFORMATION ITEM MEMORANDUM**

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**Date :** January 2022

**MFMA SECTION 88: NTINGA'S MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT  
FOR THE PERIOD ENDING 31 DECEMBER 2021**

**1. PURPOSE OF THE REPORT**

The purpose of this memorandum is to present Ntinga's 2021/22 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 2021/22 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 2021/22 total budgeted revenue amounts to R 102,5m and total operational expenditure amounts to R 87,4m resulting to a budgeted operational surplus of R 15,1m. The surplus is mainly attributed to non-cash items in the form of changes to biological asset values as well as funds set aside for capital

*Ntinga O.R. Tambo Development Agency SOC Ltd: A Municipal Entity of the O.R. Tambo District Municipality (Reg. 2016/272582/30)*

**Directors:** Ms. U.N. Mkize; Dr. L.L. Ndabeni; Ms. N.S.N. Bam; Dr. N.T. Ndudane;  
Ms. N.D.A. Ngewu; Mr. M.M. Pupuma; Mr L. Mbiko (CEO)

budget. Without these, the entity budgeted for a surplus of R754,593 hence it was unable to budget for depreciation of assets. Budgeted capital expenditure amounts to R 12,4m.

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

- Refurbishment of water schemes	R 15,2m
- Peri urban water billing	R 1.m
- Establishment grant – water services	R 7,9m
- Abattoir meat sales and slaughter fees	R 20,5m
- Fresh Produce commission and rentals	R 3,7m
- Adam Kok livestock and crop sales	R 4,3m
- Parent Municipality special projects	R 0,9m
- Other revenue	R 2,3m
- Parent Municipality grant funding	R 45,9m
- Interest on investments	R 0.3m

<b>Total</b>	<b>R 102,5m</b>
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Main items of budgeted expenditure are summarised as follows:-

- Employee related costs	R 49,5m
- Board of Directors related costs	R 0,9m
- Water Services operational costs	R 4.1m
- Abattoir operational costs	R 7,9m
- Fresh Produce operational costs	R 3,8m
- Livestock purchases and Adam Kok operational costs	R 12.9m
- Other operational costs	R 7,8m

<b>Total</b>	<b>R 87,4m</b>
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### 3. DISCUSSIONS

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

	2020/2021	2021/2022					
Description	Audited Outcomes R	Original Budget R	Year to Date Actual R	Year to Date Budget R	Year to Date Variance Amount R	Date Variance %	Full Year Forecast R
Revenue By Source							
Abattoir Revenue	10,775,676	20,558,034	7,544,197	9,096,310	-1,552,113	-17%	15,872,319
Adam Kok Farms	3,602,978	4,348,724	2,091,519	2,117,500	-25,981	-1%	2,933,440
Water Services Revenue	5,343,027	24,278,600	0	16,134,300	-16,134,300	-100%	8,038,666
Kei Fresh Produce Market (KFPM) Revenue	729,411	3,779,474	299,185	1,777,744	-1,478,559	-83%	956,633
ORTDM Grant - Projects (Conditional)	46,443,139	45,993,598	23,507,132	29,675,000	-6,167,868	-21%	45,993,598
Consultancy fees	0	957,735	77,962	491,320	-413,358	-84%	837,735
Interest earned - external investments	194,956	300,000	40,378	150,000	-109,622	-73%	70,000
Other revenue	238,304	179,246	153,146	89,623	63,523	71%	179,246
Donation received	0		42,000	0	42,000	100%	42,000
Adjustments to Biological Assets	2,956,707	2,150,000	0	1,075,000	-1,075,000	-100%	2,150,000
Gains on disposal of PPE	299,169	40,000	0	20,000	-20,000	-100%	40,000
Total Revenue	70,583,367	102,585,411	33,755,519	60,626,797	-26,871,279		77,113,637
Expenditure By Type							
Employee related costs	44,944,690	49,567,551	22,210,144	25,816,202	3,606,058	14%	47,287,507
Board of Directors related costs	827,482	906,890	394,402	379,589	-14,813	-4%	876,890
Depreciation & asset impairment	5,415,041	0	2,218,577	0	-2,218,577	0%	0
Finance charges	263,153	45,738	5,152	22,869	17,717	77%	10,000
Repairs and Maintenance	108,028	137,500	37,988	82,500	44,512	54%	137,500
Operational costs	26,909,138	36,598,139	10,718,676	22,324,298	11,605,622	52%	26,994,135
Losses - biological assets	477,300	150,000	54,900	75,000	20,100	27%	100,000
Loss on disposal of Property, & Equipment	54,863		51,330	0	-51,330		0
Total Expenditure	78,999,695	87,405,818	35,691,169	48,700,458	13,009,289	2.20	75,406,032
Profit before tax/surplus for the year	-8,416,328	15,179,593	-1,935,651	11,926,339	-13,861,990		1,707,605
Accumulated Surplus at beginning of the	72,057,135		63,640,807				
Accumulated Surplus at end of the year	63,640,807	15,179,593	61,705,157	11,926,339	-13,861,990	0	1,707,605

OVERALL SUMMARY OF THE FINANCIAL REPORT IS PRESENTED AS FOLLOWS						
DESCRIPTION	Audited Outcomes R	Original Budget R	Year to Date Actual R	Year to Date Budget R	Year to Date Variance Amount	Year to Date Variance %
Total Revenue	70,583,367	102,585,411	33,755,519	60,626,797	26,871,278	44%
Total Operational Expenditure	78,999,695	87,405,818	35,691,169	48,700,458	13,009,289	27%
Total Capital expenditure	764,470	12,425,000.00	-	7,495,000.00	7,495,000	100%
PROJECTS						
	2020/2021	2021/2022				
	Audited Outcomes R	Original Budget R	Year to Date Actual R	Year to Date Budget R	Year to Date Variance Amount R	Year to Date Variance %
Projects Revenue						
Abattoir Revenue	10,775,676	20,558,034	7,544,197	9,096,310	-1,552,113	-17%
Adam Kok Farms	3,602,978	4,348,724	2,091,519	2,117,500	-25,981	-1%
Water Services Revenue	5,343,027	24,278,600	0	16,134,300	-16,134,300	-100%
Kei Fresh Produce Market Revenue	729,411	3,779,474	299,185	1,777,744	-1,478,559	-83%
<b>Total Projects Revenue</b>	<b>20,451,092</b>	<b>52,964,832</b>	<b>9,934,901</b>	<b>29,125,854</b>	<b>(19,190,953)</b>	<b>(2.01)</b>
Projects Expenditure						
Abattoir	6,323,714	21,026,371	7,167,448	5,619,361	1,548,087	28%
Adam Kok Farms	13,173,514	17,722,640	3,979,263	8,943,903	-4,964,640	-56%
Water Services	4,990,456	16,530,000	3,455,175	2,065,000	1,390,175	67%
Kei Fresh Produce Market (KFPM)	6,055,307	20,605,239	2,527,241	1,872,879	654,362	35%
<b>Total Projects Expenditure</b>	<b>30,542,992</b>	<b>75,884,250</b>	<b>17,129,126</b>	<b>18,501,143</b>	<b>(1,372,017)</b>	<b>1</b>

### 3.2 Revenue Analysis

- a) For the second quarter the entity projected to generate revenue amounting to R 60,6,Million but actual revenue amounted to R 33,7 Million resulting in a negative variance of R 26,8 which is equivalent to 44%.
- b) Abattoir has experienced an unfavourable variance. The cause of this variance is the planned Meat Market that is not yet functional at KFPM. The KFPM is exploring sources of finance to fund the establishment of the Meat Market.
- c) Water Services Mandate is unfunded in the current year with nil revenue generated. Ntinga continues to incur expenditure in relation to the Water Services Function. By the end of this current financial year Ntinga would incur R 8,038,666 in form of salaries of the employees working in this function. This amount is receivable from the Parent municipality and an invoiced will be issued.
- d) Adam Kok almost met it's target with insignificant negative variance of 1%. Up to the second quarter a total of 52 cows were produced at the farms and supplied to the abattoir. These were valued at R 641,318. Steers were produced and sold to other markets generating a revenue of R 2,002,943 vat inclusive.
- e) Kei Fresh Produce Market continue to be a major contributor to under collection of revenue. KFPM did not generate sufficient revenue in to meet it's operational costs. Only one market agent is in operation at the Market and that has led to a low fresh produce supply.
- f) ORTDM Operational Grant: The grant was under collected by 21%. This is due to the fact that Treasury did not release the Parent Municipality's grant for them to pay us the full expected grant amount. The remaining balance will be invoiced once Treasury makes funds available to the Parent Municipality.

ORTDM Operational Grant is budgeted at R 45,993,598.00 excluding VAT of R 6,899,040,00. The grant is budgeted at total amount of R 52,892,637 inclusive of VAT.

- g) Donation Received: This is the Stunning Gun that was donated by University of Cape Town as a way of appreciation after we allowed them to conduct their research at the Abattoir.

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 2021/22	Q2 revenue in 2020/21
a)	Meat sales	4,423,881	3,383,458
b)	Livestock sales by Adam Kok Farms	1,190,193	2,280,400
c)	Livestock supplied to Umzikantu	641,318	1,316,557
d)	Crop sales	42,572	36,130
e)	KFPM Commission	52,806	82,719
f)	Water Schemes repairs and refurbishment	0	774,487

### 3.3 Operational Expenditure Analysis

For the second quarter the entity projected to spend R 48,7 Million on operations. Actual spending amounted to R 35,6 Million resulting in a positive variance of R 13 Million.

- a) Employee related costs: the variance is caused by vacant positions that were not filled.
- b) Board of Directors and related costs: there is an insignificant negative variance of 4%. This is due to the Board sittings for the recruitment of CEO.
- c) Depreciation: due to budget constraints we have not funded our assets depreciation by an amount of R 3,756,922.00. This is the direct result of not receiving the Water Services expected revenue. If this amount was budgeted for in our adjustment budget, we would have made a deficit of R 3,75,7018 after capital expenditure of R 1,701,400.00.
- d) Finance charges and repairs and maintenance: Our vehicles are not travelling as anticipated due to non-functioning of the Water Services not functioning.
- e) Operational Costs: we have spent less than anticipated with a positive variance of 52%. This is due to expenditure like livestock purchases that were not sourced as anticipated. This is due to budget constraints.
- 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 7,495,000 on capital expenditure. No capital expenditure was incurred up to the second quarter. Non-funding of the Water Services Function and municipality funds withheld by Treasury made it impossible to spend on capital budget.

### 3.5 Financial performance per profit centre

#### 3.5.1 Umzikantu Abattoir

Abattoir is showing year to year improvement in revenue generation.

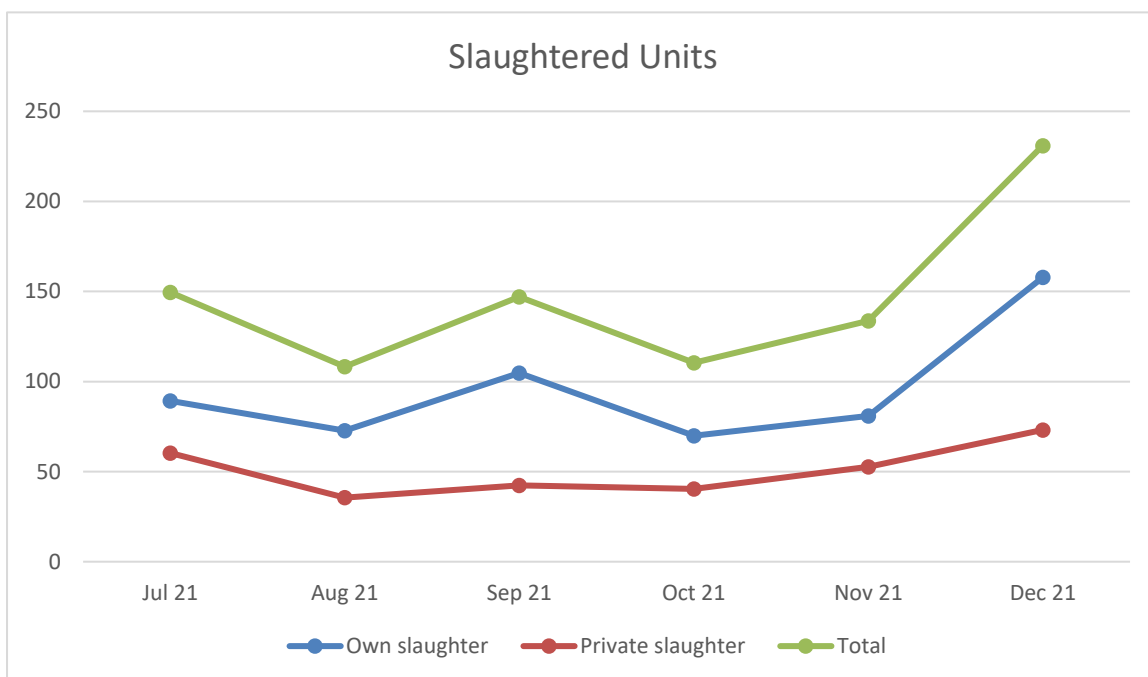
	<b>First Quarter Ending 30 September 2021</b>	<b>Second Quarter Ending 31 December 2021</b>
<b>Sales</b>	<b>3,127,564</b>	<b>4,424,281</b>
<b>Cost of sales</b>	<b>2,031,762</b>	<b>2,528,421</b>
Opening stock	3,807	247,948
Purchases	2,275,903	2,304,590
Closing stock	(247,948)	(24,117)
<b>Gross profit</b>	<b>1,095,802</b>	<b>1,895,860</b>
<b>GP%</b>	<b>35%</b>	<b>43%</b>
<b>Other Direct Production costs</b>	<b>192,861</b>	<b>303,563</b>
Meat Inspection	15,356	54,224
Repairs	21,040	44,095
Fuel	73,393	124,477
Packaging	21,946	26,988
Hygiene	6,345	6,357
Depreciation	48,970	32,647
Wages	5,810	14,774
<b>Gross profit after other direct costs</b>	<b>902,941</b>	<b>1,592,297</b>



<b>Indirect costs</b>	<b>(806,286)</b>	<b>(1,505,723)</b>
Salaries	605,564	1,226,571
Co-ordination fees	0	20,086
Security	51,800	88,757
Stationery	23,746	
Municipal services	92,977	138,110
Depreciation	32,199	32,199
<b>Profit/(Loss)</b>	<b>96,655</b>	<b>86,574</b>

The total number of units slaughtered during the period from 01 July to December 2021 is 879.78 made up of 575.28 units for abattoir sales (own slaughter) and 304.5 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.

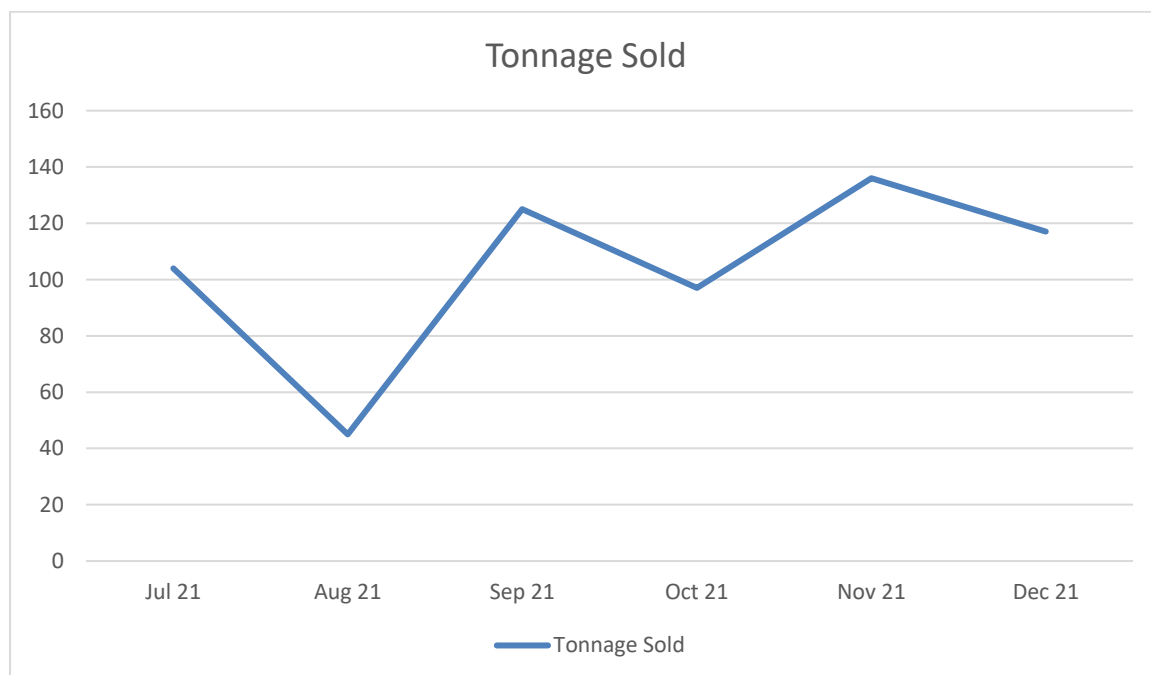


### 3.5.2 Adam Kok Farms

	First Quarter Ending 30 September 2021	Second Quarter Ending 31 December 2021
<b>Sales</b>	<b>1,070,152</b>	<b>1,662,686</b>
Sales of Farm Products - Animals	812,750	1,190,194
Sales of Farm Products - Crops	46,003	42,572
Livestock supplied to Umzikantu	211,399	429,920
<b>Expenditure</b>	<b>2,045,097</b>	<b>1,918,766</b>
Employee related costs	1,001,529	1,427,655
Personnel and labour	24,000	2,082
Operational costs	1,019,557	488,441
<b>Profit/(Loss)</b>	<b>(974,945)</b>	<b>(256,080)</b>

### 3.5.3 Kei Fresh Produce Market

During the first quarter the market sold a total of 274 tons and 350 tons in the second in the second quarter these are the drivers of commission revenue.



	<b>First Quarter Ending 30 September 21</b>	<b>Second Quarter Ending 31 December 2021</b>
<b>Revenue</b>		
Commission	45,899	52,806
Rentals and hire of equipment	68,782	131,697
<b>Total revenue</b>	<b>114,861</b>	<b>184,501</b>
<b>Expenditure</b>	<b>1,248,632</b>	<b>1,324,210</b>
Employee related costs	930,247	962,450
Personnel and Labour	0	0
Operational costs	150,147	193,522
Depreciation	168,238	168,238
<b>Total expenditure</b>	<b>1,248,632</b>	<b>1,324,210</b>
<b>(Deficit)</b>	<b>(1,133,950)</b>	<b>(1,139,709)</b>

### 3.5.4 Water Services

	<b>First Quarter Ending 30 September 2021</b>	<b>Second Quarter Ending 31 December 2021</b>
<b>Revenue</b>		
Refurbishment of water schemes	0	
<b>Total Revenue</b>	<b>0</b>	
<b>Expenditure</b>	<b>1,493,809</b>	<b>1,961,366</b>
Employee related costs	1,428,512	1,925,875
Operational costs	65,296	35,491
Repairs and maintenance	0	
<b>Deficit</b>	<b>(1,493,809)</b>	<b>(1,961,366)</b>

#### **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 2020/21 Mid-year budget and performance assessment report for the period ending 31 December 2021.

