



INGONYAMA TRUST BOARD

Financial Information and Analysis

2008/2009

To

2011/2012

Ingonyama Trust Board – Financial information

Contents

1. Background
2. Staff complement – finance section
3. Accounting system/software used
4. Audit Committee and internal audit
5. Overview of income and Trust funding
6. Income
7. Expenditure
8. Challenges and constraints
9. Future outlook

1. Background

Public finance management Act (PFMA) listing of the Ingonyama Trust Board

The Ingonyama Trust Board is a schedule 3A public entity and is subject to the PFMA and its regulations. The financial statements are prepared in terms of Generally recognized accounting practice (GRAP) .

The Trust is audited by the Auditor General.

The Trust prepares a budget which is approved by the Minister of Rural Development and Land Reform.

Most finance decisions are recommended by the Executive Committee and approved by the Board.

The Financial year end of the Trust is 31 March 2011.

The budgets have been timeously prepared and approved by the Minister.

The Budgets are aligned to the Strategic plans.

2. Staff complement in the Finance Section

The finance section currently has five employees including the chief financial officer. There are four full time employees and one contract employee currently in the finance section.

There are no vacancies in terms of the current approved organogram.

3. Accounting system/software used

The Trust uses the Pastel accounting software for accounting purposes.

4. Audit Committee and Internal audit

The Trust has an audit Committee that meets at least four times per annum. The Committee operates in terms of an approved Charter.

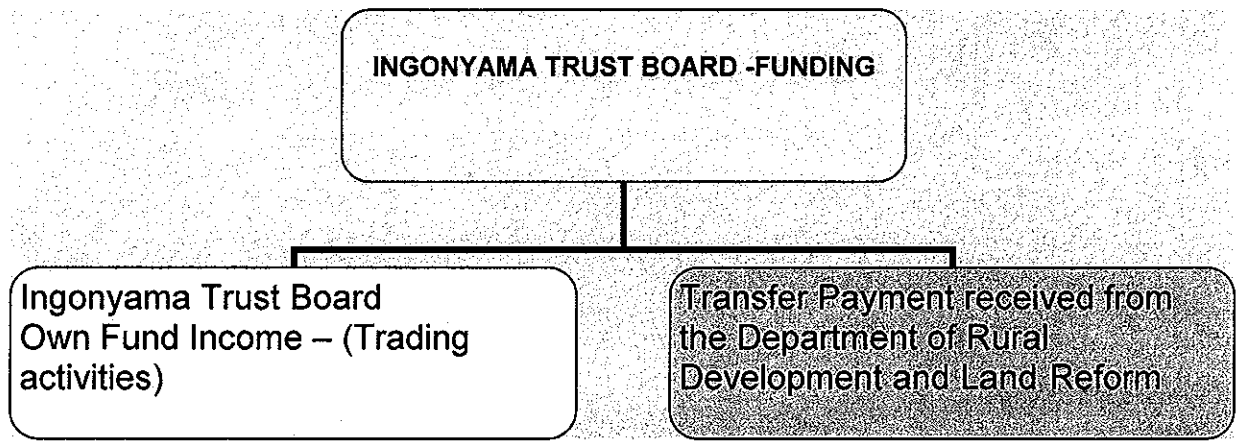
The Trust outsources its Internal audit function.

The internal auditors conduct a three year plan and operate in terms of approved terms of reference.

5. Overview of Income and Trust funding

The income/funding is obtained from the following two sources:

- Trading income (ITB own funds)
- Transfer payment from the Department of Rural Development and Land Reform



5.1 Trading income:

The Ingonyama Trust Board's own fund income mainly comprises of Income earned from leases, royalties and investment and compensation from other income eg, (servitudes).

5.2 Transfer payment (received from the Department of Rural development and Land Reform)

The internal administration costs of the Board are met from transfer payments received from the National Department of Rural Development and Land Reform. The transfer payment is paid on a quarterly basis directly into a designated bank account for Transfer payments. The amount is determined is in terms of a cash-flow projection for each quarter

6. Income

6.1.1 Comparison of ITB "Own fund income" and Transfer payment to Total income

(Own fund income in this document means income earned other than transfer payment funding) also note that:

(Straight lining lease income is not included as it is not the actual amount that is invoiced, only used in the Audited financial statements to comply with GRAP disclosure, it is a book entry).

	2008/2009	2008/ 2009 %	2009/2010	2010/2011	2010/ 2011 %	Approved budget 2011/2012	Estimated projection 2011/2012
ITB own fund income excluding straight lining income	34 348 414	93.23	34 231 920	27 324 211	74.90	36 459 205	24 880 000
Transfer payment	2 492 000	6.77	3 056 000	9 157 000	25.90	11 900 604	12 780 000
Total income	36 840 144	100.00	37 287 920	36 481 211	100.00	48 359 809	37 660 000

The % indicates the ratio of transfer payment and ITB own funding to total income. E.g for 2010/2011 Transfer payment income made up 25.90 percent of total income.)

Remarks on the above table:

- ITB own funding comprised of 74.90 % of total income of the Trust in 2010/2011, (93.23% - 2008/ 2009).
- Transfer payment funding comprised 25.9 % of total income for 2010/2011. (6.77 % - 2008/ 2009)
- The increase use of transfer payment from the department was to pay for the staff cost, ie organogram approved by the Department.

6.2 Categories of ITB own fund income

	2008/2009	2008/ 2009 %	2009/2010	2010/2011	2010/ 2011 %	Estimated Projection 2011/2012	Approved Budget 2011/2012
Royalty income	14 378 571	41.86	16 675 189	7 709 947	28.21	4 000 000	17 508 948
Actual Lease Income (excluding straight lining income)	3 740 601	10.89	4 075 212	8 474 544	31.01	9 300 000	6 283 444
Investment Income	16 197 924	47.16	12 497 098	11 138 418	40.76	11 300 000	12 637 491
Other Income	31 318	.09	984 421	1 302	.02	30 000	29 322
Total Income excluding straight lining lease income	34 348 414	100.0	34 231 920	27 324 211	100.00	24 630 000	36 459 205

Straight lining lease income and reserve funding	3 793 059		12 557 837	14 162 912		21 026 000	32 914 642
						Includes reserve funding	Includes reserve funding
Total income as per AFS	38 141 473		46 789 757	41 487 123		43 856 000	69 373 847

The % indicates the category of income to total income, in this case only ITB own fund is compared eg , royalty income for 2010/2011 was 28.21 % of total income earned – (straight lining lease income is ignored for this calculation)

Remarks on the above table:

Decrease in royalty income

- We note that royalty income made up 41.86 % of total income in 2008/2009 and 28.21% of total income for 2010/2011.
- This decrease in royalty income is because mining operators are now paying royalties to the State in terms of the Royalty Act.

We are in the process of engaging with the Department of Mineral Resources to retain future royalty income.

Increase in Lease income

Increase in lease income from R 3.7m to R 8.4m is due to the Trust entering into commercial leases with high value rentals and also because of the annual rental increment.

7. Expenditure

7.1 Analysis of operational expenditure (in R millions)

	2008/2009	2009/2010	2010/2011	2010/2011 %	Estimated Projection 2011/2012	2011/2012 %	Approved Budget 2011/2012
Goods and services including depreciation	35 641	36 370	38 001	86.69	49 156	83.82	72 574 Includes capital and reserve funding expenditure
Salaries	2 115	2 991	5 832	13.31	9 487	16.17	8 700
Total Expenditure	37 756	39 361	43 833	100.00	58 643	100.00	81 274

The % indicates the goods and services and salary expenditure total expenditure, eg in 2010/2011 salaries made up 13.31 % of total expenditure incurred.

Remarks on the above table:

- We note that the projections for 2011/2012 indicate that goods and services makes up 83.82 % and salary costs makes up 16.17 % of the total expenditure.
- There has been an increase in the allocation of salary expenditure from 13.31 % (2010/2011) to 16.17 % projected for 2011/2012. This is because more staff are to be employed in 2011/2012.

- Total expenditure has increased from R 37, 756m (2008/2009) to R 58, 643m projected for 2011/2012.
- This is an increase of 55.32%. This increase is due to: -
- Increase in salary expenditure- new organogram approved and more staff now employed in 2010/2011.
- Appointment of project co-coordinator on contract
- Increase in travelling expenditure due to increase in activities
- Land audits undertaken in 2010/2011.
- **Provision of rates payable to municipalities as valuation rolls became available in later years from 2008/2009.**

7.2 Analysis of Capital expenditure incurred/acquisition at cost (not book values)

	2008/2009	2008/ 2009 %	2009/2 010	2009/ 2010 %	2010/ 2011	2010/ 2011 %	Estimated Projection 2011/2012	2011/ 2012 %	Approve d Budget 2011/201 2
Other Capital expenditure	128	3.78	488	88.4	2 514	18.26	1 566	6.6	1 566
ITB office accommoda tion/ construction costs	3 250	96.22	33	11.6	11 255	81.74	22 000	93.4	22 434
Total Expenditure	3 378	100.00	552	100.0 0	13 769	100.00	23 566	100	24 000

The % indicates the ratio of other capital acquisitions and ITB office accommodation to total capital expenditure incurred. eg for 2010/2011 81.74 % of total capital expenditure incurred was for 65 Trelawney Road, ITB office accommodation construction costs.

Remarks on the above table:

We note that the Board is currently completing the restoration of the existing building and has commenced the construction of a new office block, therefore 93.4 % of the capital expenditure is allocated to construction of the new office block for 2011/2012.

Capital expenditure has increased from R 3.378 m from 2008/2009 to R 24 m budgeted for in 2011/2012. This increase is due to above construction and restoration of office accommodation mentioned above.

This expenditure is paid for from ITB own funds. (not transfer payment funding)

Capital commitments – Construction and renovation of office buildings at 65 Trelawney road, pietermaritzburg.

Phase 2 – (new office block)

- The Board has committed R 26 586 835 for the completion of phase 2 (new office block)
- It is envisaged that R 22 000 000 will be disbursed to 31 March 2011.

8. Challenges and constraints

8.1 Rates claimed by municipalities

Although the Trust has recorded an amount of R 26 m as a contingent liability , the Board rejects the amounts claimed by the eThekweni

Municipality as this claim includes properties such as Townships and State domestic that are not within the ownership of the Ingonyama Trust. In other cases properties have been incorrectly valued.

Notwithstanding this, the Board has obtained Senior Counsel's opinion that it is exempt from the payment of rates in terms of Rating of State Property Act 1984 (Act no 79 of 1984).

A dispute has consequently been declared with EtheKwini Municipality, and the high court ruled that the Trust is liable for the payment of rates.

The Board has appealed against this decision of the high court for the payment of rates.

Should the outcome of that process indeed result in some rates liability accruing to the Trust, then the Board is confident it will not exceed this contingency provision.

8.2 Non- valuation of Land

The Auditor General has qualified the accounts because we have not valued approximately 2.8 million hectares of land as this is imposed in terms of GRAP Accounting standards.

We advise that there is no material benefit in valuing the land at a huge cost whereby funds can be put to better use.

8.3 Request to the Minister of Mineral Resources to retain Royalty Income

As we have alluded to before that royalty income makes up a significant portion of Trust income. We have engaged with the Department of Mineral Resources to retain future royalty income, however the progress is slow in finalising this matter.