

2.1.1_ITEM_Q2/2023 Consolidated Mid-term Budget and Performance Assessment Report

Date: 31 December 2022

Purpose:

To present the status of the financial and non-financial progress of the agency as at end December 2022, for noting of progress and challenges encountered in first half of the year

Authority:

Chris Hani Development Agency SOC Ltd Committees and Board

Chris Hani District Municipality

Legislative Framework:

MFMA 53 of 2006

Municipal Systems Act

A) FINANCIAL PERFORMANCE – END Q2/2023

The agency posted an accounting surplus at the end of the second quarter of 2022/2023. This is a continuation of the accounting surplus confirmed by the AGSA at end June 2022, where the agency posted a positive bottom line for the first time in almost 5 accounting periods.

This has been enabled by improvements in cost-containment measures, cashflow planning, and collection of revenue, despite less grants approved for the current year to fund LED projects.

The agency has also improved on its working capital and financial position, as it managed to close on a positive cash balance at end of the period, having worked very hard to settle debt in the first half of the year carried forward from the previous year's budget cuts. This helped to avoid further litigation and public disrepute due to disgruntled suppliers and business partners.

PERFORMANCE AGAINST BUDGETTED INCOME _ 31 DECEMBER 2022						
Source	Original Budget 2022/2023	Year To Date Movement 31Dec2022	Variance	% Received	% Total Income	Comments and Inputs
CHDM Operational Subsidy	R 27 500 000.00	R 11 956 521.74	R 15 543 478.26	43%	17%	On track with receipt of ops grant - quarterly drawdowns , Vat difference
CHDM KIP Subsidy	R 2 000 000.00	R 1 739 130.43	R 260 869.57	87%	2%	On track with receipt of ops grant - quarterly drawdowns , Vat difference
CHDM Irrigation Schemes Grant	R -	R 652 173.91	-R 652 173.91	>100%	1%	Not budgetted, R750k received - include in budget adjustment
CHDM Livestock Improvement Grant	R -	R 521 739.13	-R 521 739.13	>100%	1%	Not budgetted, R600k received - include in budget adjustment
CHDM Infrastructure Grant	R 50 000 000.00	R 42 045 936.50	R 7 954 063.50	84%	58%	On track with receipt of infra grant per drawdowns submitted on project claims
Interest	R 100 000.00	R 98 497.70	R 1 502.30	98%	0%	On track with interest due to cash collection and positive balances
Other Income, Vat refunds and Offtakes	R 1 000 000.00	R 1 000 620.40	-R 620.40	>100%	1%	On track with KIP rental billing, sponsorships, insurance payouts, etc
Project Agency fees	R 5 727 742.33	R 4 217 403.45	R 1 510 338.88	74%	6%	On track with improvement in accrual for agency fees billing system
Tender Fees	R 10 000.00	R -	R 10 000.00	0%	0%	Challenges as no tenders issued in first half of year
UIF Implementation fees	R 737 500.00	R -	R 737 500.00	0%	0%	Challenges as delays in signing of SLA
Mechanisation Centre Income	R 2 500 000.00	R 448 736.63	R 2 051 263.37	18%	1%	Challenges on hectorage available, fleet, reliance on subsidised rates
Project Funds	R 18 152 306.00	R 9 342 221.08	R 8 810 084.92	51%	13%	On track with matching of all income in line with conditional grant spend
TOTAL BUDGETTED INCOME	R 107 727 548.33	R 72 022 980.98	R 35 704 567.35	66.86%	100%	At midyear agency was at 66.86% on the budgetted income targets, compared to 30.97% at end of first quarter
PERFORMANCE AGAINST BUDGETTED EXPENDITURE _ 31 DECEMBER 2022						
Source	Original Budget 2022/2023	Year To Date Movement 31Dec2022	Variance	% Spent	% Total Exp	Comments and Inputs
Operational Expenditure	- 39 055 661.80	- 16 579 469.19	- 22 476 192.61	42%	23%	Combined expenditure from ops grant and own revenue sources - impact on surplus
Employee Costs	- 17 469 919.47	- 7 615 992.92	- 9 853 926.55	44%	11%	Vacant positions from 05/2022 not yet filled result in savings
General Expenses	- 8 241 000.00	- 5 612 168.00	- 2 628 832.00	68%	8%	On track, drivers audit fees
Programmes - Internally Funded	- 10 075 242.33	- 2 765 310.90	- 7 309 931.43	27%	4%	Delayed, dependent on agency fee income, and some re-diverted to newly sourced grants
Repairs and Maintenance	- 269 500.00	- 58 157.95	- 211 342.05	22%	0%	Excludes QMC repairs and maintenance costs - part of project expenditure
Depreciation or Amortisation	- 1 500 000.00	- 445 145.42	- 1 054 854.58	30%	1%	Capex funded by extent of deprn - add back non-cash item to fund ARR, and new laptops
Asset Finance Reserve	- 1 500 000.00	- 82 694.00	- 1 417 306.00	6%	0%	and fittings installed in Q2/2023
Project Expenditure	- 70 152 306.00	- 54 301 201.06	- 15 851 104.94	77%	77%	Combined project expenditure from conditional grant rollovers and in-year receipts
TOTAL BUDGETTED EXPENDITURE	- 109 207 967.80	- 70 880 670.25	- 38 327 297.55	64.90%	100%	At midyear agency was at % on the budgetted expenditure targets, compared to 30.86% at end of first quarter
TOTAL BUDGETTED SURPLUS / DEFICIT:	-1 480 419.47	1 142 310.73				IMPROVEMENT IN REVENUE/SPENDING MANAGEMENT - At midyear agency closed with an accounting surplus - this is carried forward from the end 06/2022 accounting surplus, after >5 years of accounting losses
	<i>(Budget Deficit - caused by deprn/capex)</i>	<i>(Surplus - caused by improved budget control)</i>				

A key challenge remains the tax compliance status of the agency, which is a focus area of improvement in the second half of the year. At initial AFS drafting for June 2022, the agency had a VAT receivable of +-R2.9million owing to CHDA by SARS, which was affected by audit findings on grant drawdowns during the MFMA audit for 2022. These journal entries resulted in nett changes to VAT output liability, and corresponding impact on prior year unspent grant balances, as well as accounting surplus.

Thus far, the opportunity cost of not having a compliance status with SARS due to the debt problems is:







- 1. affected QMC revenue on mechanisation (+-R1 – R1.2m billing missed with DRDAR, where agency would have incurred almost R850-R950k in fixed and variable cost to generate due to a highly subsidised fee / tariff structure),**
- 2. affected cashflow on refunds from DRDAR (+-R2m, where agency continues to implement its end of the SLA on payroll management for irrigation schemes), and**
- 3. affected release of retention funds by DEA (+-R400k, where agency overspent on project implementation costs in prior periods due to project delays, and closeout report allowed for release of R700k retention funds, where interest on conditional grant balances was deducted even after agency utilised own funds to supplement project cost overspend on construction of waste buy-back facilities)**

Other than the items above, the reputational risk on the R60million+ debt owed collectively to suppliers at end June 2022 has been settled, and agency has regained its 30-day payment processing ability due to improvements in cashflow management and working capital management.

The nett improvements in payables balances have also been enabled by improvements in debtors balances over the first half of the year. Payables from exchange transactions improved (dropped) from R56million at 1 July to R 11 million at 31 December 2022, and debtors from exchange also improved (dropped) from R55million at the start of the year to R16million. This includes a collection rate of almost 100% on all grant funds due to CHDA in the first half of 2022/2023 financial year, coupled with a payment rate of almost 100% of all creditors balances carried forward, and those that have been generated in-year from operational spending.

RECEIVABLES FROM EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Amounts disclosed in millions

Description - R'000	Over 30 Days Owing for Year Ending			Over 30 days Owing for year Ending					FT _ Additional Comments / Notes	
	Audited 30 June 2022	Unaudited 31 Sept 2022	Unaudited 31 Dec 2022	Top 10 Institutions (Creditors)	Audited 30 June 2022	Top 10 Institutions (Creditors)	2022/23 Q1 Sept	Top 10 Institutions (Creditors)		2022/23 Q2 Dec
Government Dept (State)										
1. South African Revenue Services	1 007	5 974	9 037	1. Buchule Engineers	45 240	1. Buchule Engineers	11 722	1. Buchule Engineers	7 705	<p>SARS:</p> <p>_The amount of unpaid VAT owing to SARS and presently affecting compliance status - most VAT on grants received - audit in progress as number of input claims disallowed and challenged by entity</p> <p>_The amount of unpaid employees taxes owing to SARS affecting compliance status - cashflow and debt crisis in 2022 but compliant in current year</p> <p>_The computed 2022 income tax per audited AFS accruing to SARS not yet declared - indicative not based on confirmed assessed amount</p> <p>Other suppliers:</p> <p>_Total debt by agency end 06/2022 amounted to R58,740million in total unpaid creditors, excluding SARS per audited AFS and age analysis - listing is top 10 owed suppliers totalling R56.587million</p> <p>_Debt recovery plan implemented by office of the CFO to reduce supplier debt, regain financial stability and minimise litigations from debt collection processes - total due to creditors at end Q1/2023 amounted to R28,200million , and at end Q2/2023 only R10,983million was total unpaid balance</p>
2. South African Revenue Services	2 841	3 624	1 941	2. Batabile Construction Service	2 412	2. Siyalima Civils	6 923	2. Siyalima Civils	1 702	
3. South African Revenue Services (SARS-INC)	78	78	78	3. Bontifor	2 307	3. Maluti GSM	2 281	3. Masilakhe Consulting	628	
				4. Maluti GSM	1 444	4. Uhambiso Consult	1 623	4. BB Waters	332	
				5. Auditor General SA	1 403	5. Lihlenathi Contractors	1 183	5. Nothulu Vukaphi	198	
				6. Dicla Training and Projects	1 140	6. Masilakhe Consulting	832	6. Vokon Afrika	194	
				7. Ngqutura Transport Services	831	7. Masiyabu Trading	752	7. SNG Grant Thornton	130	
				8. Masilakhe Consulting	628	8. Auditor General SA	574	8. World Focus 181cc	90	
				9. SNG Grant Thornton	601	9. SNG Grant Thornton	458	9. Rilapax pty Ltd	51	
				10. LL Security	581	10. Nothulu Vukaphi	398	10. Amila Security	50	
Total	3 926	9 676	11 056		56 587		26 747		11 079	
										
<p>There is a deterioration in SARS balances after MFMA 2022 audit period. AFS adjustments on findings moved the VAT receivable o/b to a payable, and additional VAT increase in period until midyear.</p> <p>This is consistent with improvement in income accruals on budget/actual / financial performance, but also linked to accruals not supported with cash inflows on revenue recognised.</p> <p>Agency also has challenges with VAT being raised on grants, as well as transfers out to non-VAT vendors so output cannot be equally offset in input VAT.</p> <p>The last issue relates to SARS ongoing VAT review, where minor issues on tax invoices on large amounts are being disallowed due to making direct confirmations with suppliers and effecting of input disallowances without CHDA having received a c/note from supplier in that period</p>				<p>There is improvement in other supplier balances, and interest and litigation has been prevented in bulk of non-payment cases. The own revenue generated and any surplus funds have been ploughed into servicing supplier debt from prior period, which was enabled by poor budgetary control and overspending on grant allocations.</p> <p>A tighter budget control is being implemented, as well as approval of SCM activities to prevent the debt crisis from recurring.</p> <p>Any unpaid supplier balances are consistent with unreceived funds from grant income line items, and any unpaid operational suppliers are due to contracts management / service delivery issues affecting payment of billable invoices. The bulk of suppliers at end 12/2022 relate to infrastructure projects, and are affected by MIG budget challenges, litigation issues</p>						

B) APP IMPLEMENTATION – PREDETERMINED OBJECTIVES – END Q2/2023

The agency’s strategic objectives are aligned to the parent municipality’s IDP objectives, and the approved operational mandate issued by the shareholder. These have been secured in a Service Level Agreement (SLA) between the agency and the Chris Hani District Municipality (CHDM) for the year 2022-2023 and have served the basis of structuring the agency’s Annual Performance Plan (APP) for the year.

These overarching strategic objectives, or programmes are:

- 1) *To develop a proficient, viable and self-sustainable entity by 2025*
- 2) *To mobilise funding and facilitate investment promotion into the district by 2025*
- 3) *To develop economically viable and sustainable rural corridors by 2025*
- 4) *To support implementation of enabling infrastructure projects in the district by 2025*

The midterm performance report will provide an assessment of the agency’s performance in the period starting 1 July 2023 to 31 December 2022, against these identified strategic programmes, and reflect in depth on areas of non-performance.

The targets set for the year are focused on regaining a clean audit status, which includes improvements in governance, compliance, and systems within the organization. This includes elements of financial viability and sustainability as well.

There are also targets that are aligned to the agency mandate, and these are areas which focus on investment promotion and facilitation, corridor development and LED projects, skills development, agribusiness, as well as the infrastructure support function which is an enabler to the CHDM’s water/sanitation services provision component of the IDP.

Annual Target Spread _ 2022-2023		
Admin and Support Activities	34	61%
PMU / Core Business / Infra Services	22	39%
	56	100%

The performance is detailed in the annexure provided, but can be summarised as follows:

QUARTERLY PERFORMANCE REPORT

31-Dec-22

Report on Predetermined Objectives

PROGRESS ON IMPLEMENTATION OF PRE-DETERMINED OBJECTIVES

For the Period 01/07/2022 to 31/12/2022

SUMMARY OF APP PROGRESS PER STRATEGIC PROGRAMME_Q1-2022-2023					Prior period comparative		
ANNUAL_2022-2023	No	Achieved	Calculated Achievement	Variance between management report and audited report	SUMMARY OF AUDITED QUARTERLY PERFORMANCE 2022-2023		
Prog1 - Viable Org	23.00	17.00	73.91%	Up by 2.8% from 75% The audited achievement for Q1 to be adjusted to 77.8%, and adjustment to be effected in line with IA findings	Total targets for the period		
Prog2 - Funding and InvPromo	1.00	1.00	100.00%		Exceeded for the period (>100%)	3	8%
Prog3 - Viable Rural Econ - Dev Corridors	10.00	9.00	90.00%		Achieved for the period (100% or >)	25	69%
Prog4 - Infrastructure CHDM	2.00	1.00	50.00%		Part achieved for the period (75-99.99%)	3	8%
	36.00	28.00	77.78%		Not achieved for the period (0-74.99%)	6	17%
SUMMARY OF APP PROGRESS PER STRATEGIC PROGRAMME_Q2-2022-2023							
ANNUAL_2022-2023	No	Achieved	Calculated Achievement	Variance between management report and audited report	SUMMARY OF AUDITED QUARTERLY PERFORMANCE 2022-2023		
Prog1 - Viable Org	26.00	10.00	38.46%	Nil change The audited achievement for Q2 remains 48.89%, and no adjustment to be effected in line with IA findings	Total targets for the period		
Prog2 - Funding and InvPromo	4.00	2.00	50.00%		Exceeded for the period (>100%)	5	11%
Prog3 - Viable Rural Econ - Dev Corridors	13.00	8.00	61.54%		Achieved for the period (100% or >)	17	38%
Prog4 - Infrastructure CHDM	2.00	2.00	100.00%		Part achieved for the period (75-99.99%)	6	13%
	45.00	22.00	48.89%		Not achieved for the period (0-74.99%)	17	38%

Regression in organisation performance from prior periods:
 2022 (54%)
 2021 (42%)
 2020 (71%)
 2019 (70%)
 2018 (76%)
 2017 (60%)

KEY CHALLENGES DURING FIRST HALF OF THE YEAR:

_MFMA audit period affected resource allocation on some activities

_Budgetary challenges caused by inclusion of some unplanned items in first half of the year, resulting in re-divert of resources, for consolidated in adjustment APP and budget

_Unrealistic timeframes for some commitments, resulting in scheduling challenges and due dates for first half of the year not aligned to operational plans

The table above summarises performance across all 4 programmes, over the Q1 and Q2/2023 periods. A summary has been done as well on all targets applicable or due by the end of the second quarter / midterm against the APP, resulting in 48% performance. This was audited and achievement stated verified against provided POE file.

C) INFRASTRUCTURE IMPLEMENTATION – WATER/SANITATION PROJECTS – END Q2/2023

- 1) The CHDM Council in its meeting of the 29th September 2020 resolved to extend the Mandate of the CHDA to incorporate Implementation of some key Infrastructure Projects for the Chris Hani District Municipality.
- 2) The CHDA then signed a Service Level Agreement to implement water and sanitation infrastructure projects with estimated budget of R131 million. These projects were at different stages when they were transferred to the Agency
- 3) In response, the CHDA established a panel of consulting engineers, panel of contractors on formal bid system, and has established a Project Management Unit (PMU) internally to manage these projects and assist with reporting to the CHDM
- 4) The CHDA is charging a 10% implementation fee for implementing these projects per Rand-value of expenditure incurred. CHDM pays the funds on receipt of invoices for the work done, and these funds are funded by DoRA (MIG, RBIG and WSIG). There is no direct transfer of funding from CHDM to the Agency, as 100% of all drawdowns are immediately transferred to engineers, contractors and SMME sub-contractors.
- 5) The agency implementation fees are funded from the municipality's own funds, and these have an impact on the agency's accounting surplus, and are utilised to fund non-operational grant funded line items

The CHDM appointed the Chris Hani Development Agency (CHDA) as an Implementing Agent in line with Section 17 of the Division of Revenue Act and Section 7.4 of the Municipal Budget Circular for the 2021/22 MTREF (MFMA Circular No. 108, 08 March 2021).

The CHDA obligations are as follows:-

- 1) Manage infrastructure projects on behalf of the District Municipality, where is some instance\, CHDA would be expected to start from planning, executing, monitoring the implementation and handover the projects to the District Municipality.
- 2) Required to report on progress on timelines as agreed upon by the parties.
- 3) Inspect, together with the CHDM's delegated official, the works to ensure that the contractors are going according to the project schedule and timelines, and that the milestones are achieved.
- 4) Provide the CHDM with signed expenditure reports accompanied by supporting vouchers evidencing the expenditure incurred by CHDA in its pursuance o its objectives and obligations in terms of this agreement, which reports shall be submitted to the CHDM on a monthly basis.
- 5) Currently, the CHDA has been allocated a total of 17 projects by CHDM to implement, and these are at various stages of completion

Total projects on projects register	17
Projects completed 1. Bhodini Phase 2A , 100%	1 (5.88%) <i>Completed before end 06/2022</i>
Projects in progress 2. Ngxogi, 73% 3. Clarkbury, 90% (for completion by end Q3/2023) 4. Xolobe, 75% 5. Cluster 2 Tsakane, 69% 6. Komani WTW, 93% 7. Komani Waste Water, 86% 8. Bhodini Phase 2B, 90% (for completion by end Q3/2023) 9. Xonxa, Phase1 Bulk Pipeline, 29% 10. Xonxa, Phase 2 water Treatment Plant, 24%	9 (52.94%) <i>All projects listed are in construction phase, with progress on site at end 12/2022 indicated in %</i>
Projects in pre-construction 11. Cofimvaba Bulk Sewer, 0% 12. Cofimvaba Bulk water, 0% 13. Tarkastad Bulk Water, 0% 14. Tarkastad Bulk Sewer, 0% 15. Hofmeyer rehab Sewer Ponds, 0% 16. Cradock Upgrade Water Bulk Infra, 0% 17. Cradock Upgrade Waste Water Infra, 0%	7 (41.17%) <i>All projects listed are in pre-construction / planning and design phase, with recent MIG budget confirmations – the engineers work on risk to apply for funding</i>
Total approved budget on all active and pending projects	R 475 315 600.27 incl VAT
Total expenditure on all active and pending projects to date	R 224 674 298.01 incl VAT
	47%

The details on the above table can be found on the detailed infrastructure project summary report, which itemises all projects in greater detail, and indicates any challenges with implementation and progress.

[Refer attached 8.1-Annexure C: Infrastructure Progress Control Sheet, 2022/2023, Period Ending 31 December 2022]

The CHDA is currently at R 224 674 298.01 including VAT on project expenditure on listed projects, which equates to 47% of their combined approved budget

This indicates that there is a district-wide challenge with movement on conditional grant spending targets, and a task team has been established to manage the expenditure and supplier performance on all projects, to mitigate risk of funding being returned – The financial / budget implications refer to all professional engineering fees and contractor costs incurred until end of report date, but this figure excludes the 1 completed project which was reported in prior year

Agency fee / own revenue implications:

The CHDA relies on the agency fee income as a buffer against its own limited operational grant. Processes have been put in place by the office of the CFO to improve performance against agency fee drawdown billing and collections, to improve agency accounting surplus as well as cashflow challenges arising from the budget cuts and financial crisis over the past 2 financial periods:

- The movement over the 3-year SLA period thus far is as follows:

Reporting Period	Final Adjusted Agency Fee Target	Actual Agency Fee Revenue Generated	% of Budgetted Agency Fee	Closing Unpaid Agency Fees Receivable at end June
2020/2021	R 6 550 000.00	R 2 996 369.40	46%	R 681 239.72
2021/2022	R 7 500 000.00	R15 683 277.38	209%	R8 652 809.84
2022/2023	R 5 000 000.00	R 4 162 203.45	83%	R5 035 409.30
		R22 841 850.23		R5 035 409.30
			[22% agency fee billable revenue not received over 3-year SLA period]	

Challenges:

- There are delays in billing and expenditure on some items, relating to supplier non-performance and high budgets approved where some elements of the BOQ may not be needed in execution stages resulting in savings.
- There have been some contractor performance challenges noted on key projects affecting movement in the year under review – affected contractors issued legal correspondence, penalties imposed, and they have been put under mandatory performance review, where one of the contractors subsequently had the contract cancelled due to continued non-performance
- One of the projects is a current ongoing litigation matter against the CHDA, where a bidder is challenging the award of the contract, and an interdict being granted by the High Court has affected movement on site. The contract was also classified as irregular in the 2022 MFMA period, and contractor contract terminated in line with outcomes from an investigative probity report conducted by CHDA’s internal auditors. There has been no subsequent contractor appointment for completion of project due to ongoing legal matter.
- Of the 7 projects not yet commenced, a key challenge was delays in MIG application and budget approvals, which were subsequently received at end of the quarter, but funds re-diverted to fund other MIG projects which are close to completion to meet service delivery timelines.

Recommendations:

It is recommended that the Board notes and accepts the report on the midterm budget and performance assessment conducted by management for the 2022/2023 financial period in line with Section 88 of the MFMA