

## 5.1\_Item\_ Consolidated Mid-term Budget and Performance Assessment Report

**Date:** 15 January 2024

**Purpose:**

To present the status of the financial and non-financial progress of the agency as at end 31 December 2023, 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:**

No.56 of 2003: Municipal Finance Management Act, 2003

**Section 88 - midyear budget and performance assessment:-**

- (1) 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) the monthly statements referred to in section 87 for the first half of the financial year and the targets set in the service delivery, business plan or other agreements with the entity's parent municipality; and (ii) the entity's annual report for the past year and progress on resolving issues identified in the annual report, and*
  - (b) Submit a report on such assessment to (i) the board of directors of the entity; and (ii) the parent municipality of the entity*
- (2) The accounting officer must ensure the report referred to in subsection (1) above is made public

**A) FINANCIAL PERFORMANCE – MIDYEAR 2023-2024**

The agency posted an accounting DEFICIT at the end of the second quarter of 2023/2024. This is indicative of poor budget performance, where agency expenditure exceeded agency revenue in the first two quarters by a significant R 1.7 million. This is thus a regression as compared to the accounting surplus at midyear of 2022/2023.

Despite notable improvements in cost-containment measures, cashflow planning, and collection of revenue, the agency has been unable to fully contain the quantum of spending within a challenging revenue collection / income generation strategy. The agency thus closed with minimal cash balances at the end of the quarter, as all funds received were fully committed and paid out, thus minimising the ability to build surplus funds in a reserve account.

	Original 2022/2023	Adjusted 2022/2023	APPROVED ORIGINAL 2023-2024	ACTUAL MIDTERM 2023-2024
<b>CONSOLIDATED ESTIMATES - REVENUE</b>				
Income - Own Revenue	R 10 075 242.33	R 8 237 942.33	R 9 757 496.94	R 4 516 084.02
Income - Operational Grant / Subsidy	R 27 500 000.00	R 27 500 000.00	R 28 975 500.00	R 13 460 741.96
Income - Conditional Grants	R 7 000 000.00	R 8 983 891.81	R 4 750 000.00	R 190 000.00
Income - Principal Agents	R 63 152 306.00	R 63 897 132.96	R 65 137 267.28	R 45 314 738.18
<b>TOTAL BUDGETTED INCOME</b>	<b>R 107 727 548.33</b>	<b>R 108 618 967.10</b>	<b>R 108 620 264.22</b>	<b>R 63 481 564.16</b>
<b>CONSOLIDATED ESTIMATES - EXPENDITURE</b>				
Expenditure - Own Revenue	-R 9 891 109.66	-R 9 216 983.11	-R 8 570 000.00	-R 3 458 234.17
Expenditure - Operational Grant / Subsidy	-R 28 980 419.47	-R 26 691 955.97	-R 30 496 420.95	-R 16 628 622.20
Expenditure - Conditional Grants	-R 7 000 000.00	-R 9 625 798.81	-R 4 750 000.00	-R 190 000.00
Expenditure - Principal Agents	-R 63 652 306.00	-R 63 333 959.76	-R 64 491 526.96	-R 44 988 163.45
<b>TOTAL BUDGETTED EXPENDITURE</b>	<b>-R 109 523 835.13</b>	<b>-R 108 868 697.65</b>	<b>-R 108 307 947.91</b>	<b>-R 65 265 019.82</b>
<b>Estimated Budget Surplus / (Deficit)</b>	<b>-R 1 796 286.80</b>	<b>-R 249 730.55</b>	<b>R 312 316.31</b>	<b>-R 1 783 455.66</b>

The movement against approved budget at midyear is summarised below. The performance is detailed in the **ANNEXURE A – MIDTERM BUDGET PERFORMANCE AND ADJUSTMENT** 2023-2024 provided, but can be summarised as follows:

## 1. Revenue Performance Analysis – Midterm 2023-2024

In the first half of the year, the agency did well in accrual for revenue against the overall budget, with most line items at a high level performing well above the 50% projected movement. A notable performance was on own revenue, with the infrastructure / water sanitation agency fees being the key driver of revenue in the first half of the year.

- Performance of revenue was a total of R 63.481 million, as compared to the estimated R 54.310 million, but there were notable challenges by line item on agency ability to secure and meet conditions of conditional grants, own income generation and differences in operational subsidy on drawdowns.
- On an individual revenue generation class, the tables below indicate a breakdown of accrued revenue against budget at midyear, noting that of the total revenue generated, R 45.314 million (139%) accrued from principal-agent transactions, R190 000 from conditional grant (4%) movement, own income generation and fees totalled R 4.516 million (93%) and operational subsidy accounted for inflows of R 13.460 million (93%).

SAGE EVO GL ACCOUNT	ACCOUNT DESCRIPTION	ORIGINAL	ADJUSTED	APPROVED	PROJECTED	ACTUAL	%	%	VARIANCE	
		BUDGET 2022/2023	BUDGET 2022/2023	BUDGET 2023/2024	BUDGET MIDYEAR 2023/2024	MOVEMENT MIDYEAR 2023/2024	ACT MID	ACT ANN	MIDYEAR 2023/2024	% VAR
<b>PRINCIPAL AGENT INCOME</b>										
1000/012	CHDM_Cooperative Centre Grant	8 000 000.00	8 000 000.00	8 000 000.00	4 000 000.00	3 675 222.03	92%	46%	(4 324 777.97)	-54%
1100/009	DRDAR_Irrigation Schemes Grant	1 485 306.00	1 485 306.00	1 485 306.00	742 653.00	807 788.64	109%	54%	(677 517.36)	-46%
1100/012	CETA - Apprenticeship Grant	2 475 000.00	2 475 000.00	1 155 000.00	577 500.00	452 376.68	78%	39%	(702 623.32)	-61%
1100/017	HWSETA- Skills implementation programme	282 000.00	63 653.76	84 000.00	42 000.00	35 000.00	83%	42%	(49 000.00)	-58%
1100/019	CHDM_Infrastructure Implementation Grant	50 000 000.00	50 000 000.00	50 000 000.00	25 000 000.00	38 765 148.38	155%	78%	(11 234 851.62)	-22%
1100/020	LGSETA	910 000.00	910 000.00	1 830 000.00	915 000.00	775 992.22	85%	42%	(1 054 007.78)	-58%
1100/022	CHDM_Mechanical Workshop	-	-	-	-	-	0%	0%	-	0%
1100/025	CETA Internship Grant	-	400 000.00	-	-	21 000.00	>100%	>100%	21 000.00	>100%
1100/026	Komani Industrial Park Rental Revenue	-	563 173.20	2 582 961.28	1 291 480.64	326 907.73	25%	13%	(2 256 053.55)	-87%
1100/027	EMLM_Hunting Safari Revenue	-	-	-	-	455 302.50	>100%	>100%	455 302.50	>100%
<b>TOTAL PRINCIPAL AGENT ESTIMATED REVENUE</b>		<b>63 152 306.00</b>	<b>63 897 132.96</b>	<b>65 137 267.28</b>	<b>32 568 633.64</b>	<b>45 314 738.18</b>	<b>139%</b>	<b>70%</b>	<b>(19 822 529.10)</b>	<b>-30%</b>

SAGE EVO GL ACCOUNT	ACCOUNT DESCRIPTION	ORIGINAL BUDGET 2022/2023	ADJUSTED BUDGET 2022/2023	APPROVED BUDGET 2023/2024	PROJECTED BUDGET MIDYEAR 2023/2024	ACTUAL MOVEMENT MIDYEAR 2023/2024	% ACT MID	% ACT ANN	VARIANCE MIDYEAR 2023/2024	% VAR
<b>GRANT INCOME - CONDITIONAL</b>										
1000/002	CHDM Investment summit grant	3 000 000.00	320 000.00	-	-	-	0%	0%	-	0%
1000/006	CHDM Komani Industrial Park Grant	2 000 000.00	2 000 000.00	2 000 000.00	1 000 000.00	-	0%	0%	(2 000 000.00)	-100%
1000/007	CHDM Irrigation Schemes Grant	-	750 000.00	750 000.00	375 000.00	-	0%	0%	(750 000.00)	-100%
1000/010	CHDM Livestock Improvement Grant	-	828 293.00	-	-	190 000.00	>100%	>100%	190 000.00	>100%
1100/015	CHDM Fertiliser blending	-	129 738.81	-	-	-	0%	0%	-	0%
1100/016	CHDM Coal Exploration mining grant	-	698 400.00	-	-	-	0%	0%	-	0%
1100/018	CHDM Eyethu Biltong Factory Grant	-	257 460.00	-	-	-	>100%	>100%	-	>100%
1100/024	CHDM Komani industrial park critical infras	2 000 000.00	4 000 000.00	2 000 000.00	1 000 000.00	-	0%	0%	(2 000 000.00)	-100%
<b>TOTAL EXTERNALLY FUNDED GRANT INCOME</b>		<b>7 000 000.00</b>	<b>8 983 891.81</b>	<b>4 750 000.00</b>	<b>2 375 000.00</b>	<b>190 000.00</b>	<b>8%</b>	<b>4%</b>	<b>- 4 560 000.00</b>	<b>-96%</b>

SAGE EVO GL ACCOUNT	ACCOUNT DESCRIPTION	ORIGINAL BUDGET 2022/2023	ADJUSTED BUDGET 2022/2023	APPROVED BUDGET 2023/2024	PROJECTED BUDGET MIDYEAR 2023/2024	ACTUAL MOVEMENT MIDYEAR 2023/2024	% ACT MID	% ACT ANN	VARIANCE MIDYEAR 2023/2024	% VAR
<b>OTHER INCOME AND OWN REVENUE</b>										
1200>001	Other Income - Insurance Claims, Commission, etc	1 000 000.00	500 000.00	2 000 000.00	1 000 000.00	28 391.54	3%	1%	(1 971 608.46)	-99%
1200>004	DRDAR Irrigation Scheme Agency Fee (PA)	165 867.33	165 867.33	165 867.33	82 933.67	-	0%	0%	(165 867.33)	-100%
1200>005	Mechanization Center Own Income	2 500 000.00	1 000 000.00	1 750 000.00	875 000.00	403 946.84	46%	23%	(1 346 053.16)	-77%
1200>006	CETA Skills Implementation Agency Fee (PA)	61 875.00	61 875.00	47 850.00	23 925.00	-	0%	0%	(47 850.00)	-100%
1200>007	CHDM Infrastr Implementation Agency Fee (PA)	5 000 000.00	5 500 000.00	5 000 000.00	2 500 000.00	3 868 774.60	155%	77%	(1 131 225.40)	-23%
1200>008	CHDA-Invest Summit Agency Fees	-	55 200.00	-	-	-	0%	0%	-	0%
1200>009	CHDA Sponsorship and Donations	-	300 000.00	-	-	-	0%	0%	-	0%
1200>010	Other Income - ROI from Waste Equity	-	-	250 000.00	125 000.00	-	0%	0%	(250 000.00)	-100%
1200>011	Game Farming - Agency Fee (PA)	-	-	-	-	80 347.50	>100%	>100%	80 347.50	>100%
2705>000	UIF Implementation Fees	737 500.00	500 000.00	350 000.00	175 000.00	-	0%	0%	(350 000.00)	-100%
2715>000	Komani Industrial Park Rental Agency Fee (PA)	500 000.00	-	25 829.61	12 914.81	-	0%	0%	(25 829.61)	-100%
2720>000	Tender Fees	10 000.00	5 000.00	10 000.00	5 000.00	3 600.00	72%	36%	(6 400.00)	-64%
2750>000	CHDA INCOME - Interest Received	100 000.00	150 000.00	157 950.00	78 975.00	131 023.54	166%	83%	(26 926.46)	-17%
<b>TOTAL OTHER INCOME AND OWN REVENUE</b>		<b>10 075 242.33</b>	<b>8 237 942.33</b>	<b>9 757 496.94</b>	<b>4 878 748.47</b>	<b>4 516 084.02</b>	<b>93%</b>	<b>46%</b>	<b>(5 241 412.92)</b>	<b>-54%</b>

SAGE EVO GL ACCOUNT T	ACCOUNT DESCRIPTION	ORIGINAL BUDGET 2022/2023	ADJUSTED BUDGET 2022/2023	APPROVED BUDGET 2023/2024	PROJECTED BUDGET MIDYEAR 2023/2024	ACTUAL MOVEMENT MIDYEAR 2023/2024	% ACT MID	% ACT ANN	VARIANCE MIDYEAR 2023/2024	% VAR
<b>GRANT INCOME</b>										
1000/001	CHDA - Operational Grant	27 500 000.00	27 500 000.00	28 975 500.00	14 487 750.00	13 460 741.96	93%	46%	(15 514 758.04)	-54%
<b>TOTAL GRANT INCOME</b>		<b>27 500 000.00</b>	<b>27 500 000.00</b>	<b>28 975 500.00</b>	<b>14 487 750.00</b>	<b>13 460 741.96</b>	<b>93%</b>	<b>46%</b>	<b>(15 514 758.04)</b>	<b>-54%</b>

- A key take home from the assessment is that the agency, being an LED-implementor, is severely under-funded to be able to fully meet its LED development mandate. This is depicted by the over-reliance of LED projects on agency fee income and own revenue to fund key programmes. This has a negative impact on organisational performance, as any delays in receipt of own funds has a critical delay effect on LED implementation and meeting of targets.
- The agency also does not have a convincing project fund mobilisation or strategy, to raise funding for key projects being implemented. This makes it difficult to develop a comprehensive pipeline of projects for the future.
- As the agency is also still at a high operational subsidy dependency, the agency fees and own revenue generated cannot be utilised to build an emergency fund or reserves, as all additional income is fully committed on receipt in the bank account. As a result, the cashflow is still at a very sensitive stage, as any delays in receipt of funds from any source can have negative implications on ability to pay salaries, suppliers, or meet conditional grant commitments, as well as affect agency performance overall.
- Similarly, the agency fees generated cannot be deployed to finance the repayment of the SARS debt, due to agency fee / own income being fully committed to servicing LED costs in the absence of conditional grants.

## 2. Expenditure Performance Analysis – Midterm 2023-2024

In the first half of the year, the agency did not do well in accrual for expenditure against the overall budget, with most line items at a high level performing well above the 50% projected movement. The movement on principal-agent and conditional grants had no impact on the accounting deficit, but the high costs incurred against the operational grant and own revenue resulted in the negative financial position.

**Performance of revenue was a total of R 65.265 million, as compared to the revenue generated of R 63.481 million.**

- On an individual revenue generation class, the tables below indicate a breakdown of accrued expenditure against budget at midyear, noting that of the total expenditure incurred, R 44.988 million (140%) accrued from principal-agent transactions (all of which was offset by corresponding accrual for revenues), R190 000 from conditional grant (8%) movement (all of which was covered by rollover funds / unspent grants from prior period), own income generation and fees totalled R 3.458 million (81%) (covered from own revenue line items) and operational subsidy accounted for expenditure of R 16.628 million (107%).

SAGE EVO GL ACCOUNT	ACCOUNT DESCRIPTION	ORIGINAL BUDGET 2022/2023	ADJUSTED BUDGET 2022/2023	APPROVED BUDGET 2023/2024	PROJECTED	ACTUAL	%	%	VARIANCE	
					BUDGET MIDYEAR 2023/2024	MOVEMENT MIDYEAR 2023/2024				
<b>PRINCIPAL AGENT EXPENDITURE</b>										
2106>000	EMLM_Hunting Safari Exp	-	-	-	-	(455 302.50)	>100%	>100%	(455 302.50)	>100%
2125>000	CHDM_Cooperative Centre Expenditure	(8 000 000.00)	(8 000 000.00)	(8 000 000.00)	(4 000 000.00)	(3 675 555.03)	92%	46%	4 324 444.97	-54%
2160>000	HWSETA Internship programme	(282 000.00)	(63 653.76)	(84 000.00)	(42 000.00)	(35 000.00)	83%	42%	49 000.00	-58%
2201>000	DRDAR_Management of Irrigation Schemes Expen	(1 485 306.00)	(1 485 306.00)	(1 485 306.00)	(742 653.00)	(807 788.64)	109%	54%	677 517.36	-46%
2236/000	CETA_Apprenticeship Expenditure	(2 475 000.00)	(2 475 000.00)	(1 155 000.00)	(577 500.00)	(452 376.68)	78%	39%	702 623.32	-61%
2243>000	CHDM_Infrastructure Implementation Expenditure	(50 000 000.00)	(50 000 000.00)	(50 000 000.00)	(25 000 000.00)	(38 765 148.38)	155%	78%	11 234 851.62	-22%
2244/000	LG SETA expenditure	(910 000.00)	(910 000.00)	(1 830 000.00)	(915 000.00)	(775 992.22)	85%	42%	1 054 007.78	-58%
2245>000	CHDA_Industrial Park Own Revenue Expenditure	(500 000.00)	-	(1 937 220.96)	(968 610.48)	-	0%	0%	1 937 220.96	0%
2246>000	CHDM_Mechanical Workshop Expenditure	-	-	-	-	-	0%	0%	-	0%
2249/000	CETA Internship	-	(400 000.00)	-	-	(21 000.00)	>100%	>100%	(21 000.00)	>100%
<b>TOTAL PRINCIPAL AGENT ESTIMATED EXPENDITURE</b>		<b>(63 652 306.00)</b>	<b>(63 333 959.76)</b>	<b>(64 491 526.96)</b>	<b>(32 245 763.48)</b>	<b>(44 988 163.45)</b>	<b>140%</b>	<b>70%</b>	<b>19 503 363.51</b>	<b>-30%</b>

SAGE EVO GL ACCOUNT	ACCOUNT DESCRIPTION	ORIGINAL BUDGET 2022/2023	ADJUSTED BUDGET 2022/2023	APPROVED BUDGET 2023/2024	PROJECTED BUDGET MIDYEAR 2023/2024	ACTUAL MOVEMENT MIDYEAR 2023/2024	% ACT MID	% ACT ANN	VARIANCE MIDYEAR 2023/2024	% VAR
<b>PROGRAMME EXPENDITURE - EXTERNALLY FUNDED - CONDITIONAL GRANT</b>										
2110>000	CHDM Irrigation schemes	-	(750 000.00)	(750 000.00)	(375 000.00)	-	0%	0%	750 000.00	-100%
2120/000	CHDM Eyethu Biltong Factory	-	(257 460.00)	-	-	-	0%	0%	-	0%
2122>000	CHDM investment summit	(3 000 000.00)	(320 000.00)	-	-	-	0%	0%	-	0%
2127>000	CHDM Komani industrial park critical infrastr	(2 000 000.00)	(4 000 000.00)	(2 000 000.00)	(1 000 000.00)	-	0%	0%	2 000 000.00	-100%
2130/000	CHDM Fertiliser Expenditure	-	(129 738.81)	-	-	-	0%	0%	-	0%
2140/000	CHDM Coal mining exploration	-	(698 400.00)	-	-	-	0%	0%	-	0%
2205>000	CHDM_Livestock Improvement Expenditure	-	(1 470 200.00)	-	-	(190 000.00)	>100%	>100%	(190 000.00)	>100%
2242>000	CHDM_Komani Industrial Park Grant	(2 000 000.00)	(2 000 000.00)	(2 000 000.00)	(1 000 000.00)	-	0%	0%	2 000 000.00	-100%
<b>TOTAL EXTERNALLY FUNDED GRANT EXPENDITURE</b>		<b>(7 000 000.00)</b>	<b>(9 625 798.81)</b>	<b>(4 750 000.00)</b>	<b>(2 375 000.00)</b>	<b>(190 000.00)</b>	<b>8%</b>	<b>4%</b>	<b>4 560 000.00</b>	<b>-96%</b>

SAGE EVO GL ACCOUNT	ACCOUNT DESCRIPTION	ORIGINAL	ADJUSTED	APPROVED	PROJECTED	ACTUAL	%	%	VARIANCE	
		BUDGET	BUDGET	BUDGET	BUDGET	MOVEMENT	ACT	ACT	MIDYEAR	%
		2022/2023	2022/2023	2023/2024	2023/2024	MIDYEAR	MID	ANN	2023/2024	VAR
<b>PROGRAMME EXPENDITURE - INTERNALLY FUNDED</b>										
2000>001	DRDAR Own Income Exp	(165 867.33)	(165 867.33)	-	-	-	0%	0%	-	0%
New	<b>Game Farming - Agency Fee Expenditure</b>	-	-	-	-	-	>100%	>100	-	>100
2000>002	Crop value chains expansion	(400 000.00)	(400 000.00)	(1 000 000.00)	(500 000.00)	-	0%	0%	1 000 000.00	-100%
2000>003	Livestock development programme	(1 500 000.00)	(800 000.00)	(550 000.00)	(275 000.00)	(43 457.32)	16%	8%	506 542.68	-92%
2000>004	Grain value chain expansion	-	-	(1 500 000.00)	(750 000.00)	-	0%	0%	1 500 000.00	-100%
2000>005	Mining Value Chains	(250 000.00)	(500 000.00)	(500 000.00)	(250 000.00)	-	0%	0%	500 000.00	-100%
2105>000	Mechanisation center expenditure (R & M- Fleet)	(1 000 000.00)	(745 724.00)	-	-	-	0%	0%	-	0%
2100>005	Mechanisation Center- Own Revenue Exp	(2 500 000.00)	(700 000.00)	(1 250 000.00)	(625 000.00)	(769 881.61)	123%	62%	480 118.39	-38%
2115>000	Social facilitation	(586 742.33)	(586 742.33)	-	-	(488 647.22)	0%	>100%	(488 647.22)	>100%
2220>002	Skills Development and Career Exhibitions	(100 000.00)	(100 000.00)	(100 000.00)	(50 000.00)	(61 300.16)	123%	61%	38 699.84	-39%
2220/003	Skills Development, Work placement and internships	(200 000.00)	(760 000.00)	(360 000.00)	(180 000.00)	(183 600.00)	102%	51%	176 400.00	-49%
2230>000	CHDA SMME Development initiatives	-	(200 000.00)	(200 000.00)	(100 000.00)	(282 750.00)	283%	141%	(82 750.00)	41%
2250/007	Consulting	(150 000.00)	(250 000.00)	-	-	(300 000.00)	0%	>100%	(300 000.00)	>100%
2231>000	CHDM_Agency Fee Revenue Exp	(631 000.00)	(1 433 773.20)	(960 000.00)	(480 000.00)	(998 626.52)	208%	104%	(38 626.52)	4%
2232>000	CHDA Investment Promotion	-	(300 000.00)	(700 000.00)	(350 000.00)	(291 571.34)	83%	42%	408 428.66	-58%
2233>000	RAFI Production input support	(737 500.00)	-	-	-	-	0%	0%	-	0%
2234>000	Fruit cluster development	(470 000.00)	(913 600.00)	(1 000 000.00)	(500 000.00)	(38 400.00)	8%	4%	961 600.00	-96%
2247>000	Technical studies, research and planning	(800 000.00)	(400 000.00)	(250 000.00)	(125 000.00)	-	0%	0%	250 000.00	-100%
2248>000	Establishment of waste economy	(400 000.00)	(707 000.00)	(200 000.00)	(100 000.00)	-	0%	0%	200 000.00	-100%
3600>000	Sponsorships & Donations Expenditure	-	(254 276.25)	-	-	-	0%	0%	-	0%
<b>TOTAL INTERNALLY FUNDED PROGRAMME EXPENDITURE</b>		<b>(9 891 109.66)</b>	<b>(9 216 983.11)</b>	<b>(8 570 000.00)</b>	<b>(4 285 000.00)</b>	<b>(3 458 234.17)</b>	<b>81%</b>	<b>40%</b>	<b>5 111 765.83</b>	<b>-60%</b>



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<b>OPERATIONAL EXPENDITURE - GRANT FUNDED</b>										
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>										
	<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENDITURE</b>	(8 241 000.00)	(8 459 717.00)	(10 011 768.91)	(5 546 464.57)	(5 568 349.33)	100%	56%	4 443 419.58	-44%
<b>REPAIRS AND MAINTENANCE COSTS</b>										
	<b>TOTAL REPAIRS AND MAINTENANCE</b>	(269 500.00)	(146 819.50)	(1 750 000.00)	(875 000.00)	(614 348.95)	70%	35%	1 135 651.05	-65%
<b>DEPRECIATION AND AMORTISATION</b>										
	<b>TOTAL DEPRECIATION AND AMORTISATION EXPENSE</b>	(1 500 000.00)	(1 911 000.00)	(993 810.60)	(496 905.30)	(1 972 350.95)	397%	198%	(978 540.35)	98%
<b>EMPLOYEE COSTS</b>										
	<b>TOTAL EMPLOYEE COSTS</b>	(17 469 919.47)	(16 007 919.47)	(17 740 841.44)	(8 610 420.72)	(8 473 572.97)	98%	48%	9 267 268.47	-52%
	<b>TOTAL SUBSISY FUNDED OPERATIONAL AND GENERAL EXPENDITURE</b>	(28 980 419.47)	(26 691 955.97)	(30 496 420.95)	(15 528 790.59)	(16 628 622.20)	107%	55%	13 867 798.75	-45%

- It is clear from the tables above that the agency is really doing its best to maintain and service its costs of operating but this is very challenging given that the expenditure almost always exceeds the revenue streams at any one time.
- The BTO section has done a lot of work in keeping up with supplier payments, which is managed from the demand/SCM approval side to minimise the expenditure burden on the organisation. This is however only one aspect of the challenge, as the bulk of the agency costs are fixed costs, which cannot be delayed on a month-to-month basis but have to be serviced on ongoing basis. These commitments can be seen from the OPEX movement in the last table above, with general/admin expenditure being at 56% of projected annual budget, repairs/maintenance being at 35%, depreciation at 198% and employee costs at 48% of annual budget before implementation of the proposed salary increase and filling of vacant positions. However, due to the budget over-runs on depreciation, OPEX spending is above midterm threshold closing in at 55% overall
- In December 2022 total supplier balances unpaid totalled R 11.122 million, which has now since improved to R 7.990 million at end December 2023. This shows an improvement in the management of suppliers from prior period, due to improved income collection and cashflow management. However, the bulk (98%) of these suppliers remain under principal-agent invoices unpaid due to non-receipt of implementation funds on drawdowns submitted. The agency operational suppliers are at a minimum (2%) due to measures taken at midyear to clear supplier balances as far as possible from the quarter 2 operational grant subsidy funds received. This is shown through the agency analysis of cashflows at midyear, **ANNEXURE B\_CASHFLOWS MIDYEAR 2023-2024**

### **3. Concluding Remarks on Budget Performance**

**Going forward, agency has to really look into the following areas to improve its budget performance and financial viability:**

1. Develop a grant dependency reduction plan to find alternative means of financing its OPEX
2. Find an innovative and fool proof own income generation source to replace the infrastructure agency fee income of the last 3 years. There is imminent risk that once the SLA is not renewed or extended, the agency will lose almost R10 million per annum in own revenue that was used to 100% fund LED programmes
3. Develop and implement an LED funding mobilisation strategy to raise funding for LED implementation

4. Identify further cost minimisation avenues to free up small amounts that can be used to cover the tax debt, as the inability to pay the amounts owed and maintain the payments as they become due is affecting compliance status. Any OPEX savings can be diverted towards servicing of the debt. This includes a midyear identification of budget overspends, and further investigation on root cause of these overspends, prior to accommodation of these corrections in the budget adjustment processes. Going forward, there has to be stricter control on non-approval of un-budgetted for items
5. Investigate a leaner organisational structure and limit the direct cost of employment as this has a large burden on the operational subsidy from the parent municipality This includes delaying any new appointments, use of external consultants and instead investigate the feasibility of shared service agreements with the parent municipality to minimise its cost of operations
6. Look at focusing on revenue-generating assets, and look at disposal of high-repair items, and high-depreciating items, and instead look at leasing what is needed to drive operations rather than having a fixed-costs of repairs, maintenance, depreciation, and insurance
7. Revisit the business models of the KIP and QMC, as both line items require a significant monthly outlay of expenditure and cash commitment, with minimal ability to generate what is spend by the agency. This needs an overhaul to at least move these two critical areas to break-even, and ultimately, to start operating with a positive return that can be utilised to re-finance, re-invest and fund future plans of improving the infrastructure. This will assist in meeting the mandates of assisting emerging farmers in rural areas, as well as building a fit-for-purpose industrial park well equipped to drive and promote investment in the district
8. Review and revise agency financial turnaround plan as the report indicates that the financial situation may be stable for now, but agency is not fully operating as a viable and going concern for an indefinite period into the future
9. Develop a comprehensive SARS debt reduction plan, which can be funded from the in-year budget commitments, and coupled with innovative measures of regaining tax compliance to meet funding compliance demands with minimal negative impact on the limited funds available
10. A clear financial report on addressing the apparent solvency and liquidity challenge of the agency, as the cash-flow challenges are apparent in the midyear performance. There is still a high risk that agency operations and commitments cannot be fully covered by the current cash collection of the agency, so a plan needs to be in place on how working capital can be further managed to ensure operations are cash-backed

**B) APP IMPLEMENTATION – PREDETERMINED OBJECTIVES – END Q2/2024**

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 2023-2024 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 2028**
- 2) To mobilise funding and facilitate investment promotion into the district by 2028**
- 3) To develop economically viable and sustainable rural corridors by 2028**
- 4) To support implementation of enabling infrastructure projects in the district by 2028**

The midterm performance report will provide an assessment of the agency’s performance in the period starting 1 July 2023 to 31 December 2023, 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.

The performance is detailed in the **ANNEXURE C – MIDTERM PERFORMANCE ASSESSMENT 2023-2024** provided, but can be summarised as follows:

HIGHLEVEL PERFORMANCE SUMMARY MIDYEAR 31 DECEMBER 2023				
Items Due 31 December 2023	Programme 1 Viab Org	Programme 2 IDP Promo	Programme 3 Corridor Dev	Programme 4 Infra
	28	4	31	4
Exceeded _ >100%	2 _ 7%	1 _ 25%	2 _ 6%	4 _ 100%
Achieved _ =100%	16 _ 57%	n/a	20 _ 65%	n/a
Part-Achieved_ 75-99.99%	2 _ 7%	n/a	n/a	n/a
Not Achieved_ >75%	8 _ 29%	3 _ 75%	9 _ 29%	n/a

The table above summarises performance across all 4 programmes, over the Q1 and Q2/2024 periods.

*Of the 67 deliverables at midyear, a total of 45/67 were achieved (67%). A total of just under 3% was part achieved, but a large number of items not yet commenced or significantly lagging behind make up 30% of the planned deliverables.*

**This is below the ideal expected performance of 100% of the due deliverables as at reporting date, indicating serious challenges in implementing a significant portion of the deliverables at midyear. This has to be monitored to minimise risk of poor overall performance at end June 2024 through a comprehensive performance improvement plan for remaining 6 months of the year , taking into consideration what is truly feasible given the limitations in agency implementation budget**

## 1. Concluding Remarks on Organisational Performance

**Going forward, agency has to really look into the following areas to improve its organisational performance and execution of the mandate:**

- There has to be better alignment of the APP with the budget, to avoid the challenge of over-committing agency financial resources. This will ensure that only funded items are on the APP
- Third-party driven line items should not find expression in the APP, as these often result in inability to fully report on and monitor progress made against performance targets. This applies to instances of joint-implementation and joint-funding applications, there has to be a clear delianation of roles and responsibilities, including financial contributions by either party
- Non-receipt of budgeted for revenue and conditional grant funds have affected ability to execute on some line items funded by these grants
- The delays on the salary increment have also posed an HRM problem for the agency, with increasing decrease in morale. This is shown by the increase in sick leave processed until end of the second quarter, which has impacted on productivity, so a resolution on this item has to be made going forward, coupled with a comprehensive salary benchmarking exercise to determine remuneration limits of agency personnel in line with the market

- A large part of the first-second quarter was without electricity, and this challenge was endured during the MFMA audit in quarter 4. This had significant delay on some admin-driven targets as there was no electricity to finalise some deliverables within due dates. The EMLM electricity challenge has been flagged as an emerging risk, and recommendations made going forward
- Agency still does not have a direct resource responsible for performance, and innovative solutions have to be made around how this is managed efficiently under the current budget and organogram limitations faced by the agency. This includes having an honest review of the current agency skills needs, and how under-utilised resources can be re-diverted to areas that need additional capacity for performance improvement but without additional budget

**Recommendations:**

It is recommended that the Board notes and accepts the report on the midterm budget and performance assessment conducted by management for the 2023-2024 financial period in line with Section 88 of the MFMA