

ASPIRE

20 January 2017

The Municipal Manager
Amathole District Municipality
Frame Park
East London
5201

Dear Sir

RE : ASPIRE MID YEAR PERFORMANCE REPORTING

In accordance with the requirements of the MFMA, please receive herewith the Agency's Mid-Year Performance Report. The report consists of the following :

- Summary report
- Income and Expenditure Analysis
- Detailed performance table of targets

If we may be of any further assistance, please do not hesitate to contact us.

Yours faithfully



Mr B Tyhulu
Acting Chief Executive Officer

ASPIRE

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Amathole Economic Development Agency (SOC) Ltd T/A ASPIRE

ASPIRE PERFORMANCE REPORT FOR THE 6-MONTHS ENDED DECEMBER 2016

[Amathole Economic Development Agency (SOC) Ltd, T/A ASPIRE]

[January 2017]

PURPOSE

In terms of the section 88 (1) of the MFMA the accounting officer of the municipal entity must by 20 January of each year assess the performance of the entity during the first half of the financial year, taking into account:

- management accounts for the first half of the financial year
- targets set in the service delivery, business plan
- other agreements with the entity's parent municipality
- the entity's annual report

And submit a report on such assessment to:

- the board of directors of the entity; and
- the parent municipality of the entity.

The purpose of this report is to present ASPIRE's mid-year performance report for the period July 2016 to December 2016.

LEGAL/STATUTORY REQUIREMENTS

- The Constitution of the Republic of the South Africa Act 108 of 1996
- The Local Government Municipal Structures Act 117 of 1998
- The Municipal Finance Management Act 56 of 2003

STRATEGIC DOCUMENTS

- Amathole Regional Economic Development Strategy 2007-2027
- ASPIRE Strategy 2013-2018
- ASPIRE Performance Management System
- ADM IDP 2012-2017

BACKGROUND

ASPIRE continued with the implementation of its strategy for the period under review. The new strategic plan is aimed at stimulating the rural economy through, namely agriculture, heritage & tourism and small towns regeneration. These three pillars form the core business of ASPIRE, and it is initiatives in these three areas that are implemented in the various corridors within the Amathole region. The focus of the strategy is on empowerment of women, youth and people with disabilities to ensure that they play a role in the economy of the region.

Whilst work continued at Aspire in keeping the organisation operating, limited work was achieved on the core business of Aspire due to a lack of funding. The challenges facing the agency have resulted in the agency achieving only 55% of its quarterly targets. These challenges include the constrained budget, capacity at Executive Management level due to the absence of a CEO, and a lack of approved funding from external funders for the implementation of projects in the core business.

The challenges experienced can be attributed to the lack of a permanent CEO since December 2014. Between the two period ASPIRE did not have a permanent CEO, approximately four people have acted in CEO's position. This direly affected the implementation of a strategy and coherent running of an organization. This was also a period in which ASPIRE had four people acting in a CFO position. The absence of the two legislated positions made funding impossible as the situation rendered the organization not worthy to invest in. A permanent CFO has since been appointed as from October 2016 for a period of a year.

Adding to these challenges, the Company Secretary (CS) has resigned as from the 31 December 2016, making way for the appointment of a firm to provide services of a company secretary. The services are to be provided as and when needed.

Similarly three supply chain management committees have been established to assist the organization to implement its supply chain management policy and MFMA and other legal prescripts. The committees are:

- ✓ Bid specifications
- ✓ Bid Evaluation

✓ Bid Adjudication

Training was scheduled for all committee members, however, time constraints have only allowed Exco members and committee chairpersons to receive training conducted by Amathole District Municipality. The Provincial Treasury was requested to provide this training given financial challenges. However, the three committees are functioning, though with challenges. A supply chain specialist has been availed by the Amathole District Municipality as and when needed.

There was stability at the Board level, following appointment of 9 permanent board members to serve a period of three years. However, 2 board members (Ms. P. Loyilane) has since resigned on 26 June 2016, and (Mr. Metuse) from 28 July 2016. Of the 9 board members, 3 members also served on the Interim Board of 5 members.

Progress over the past 6 months are provided in line with ASPIRE's strategic goals, namely:

1. Enhance Governance, Board Support, Compliance and Legal Services
2. Create an Efficient Corporate Services Environment
3. Ensure Compliance with Finance and Supply Chain Policies
4. Effective Project Management and Implementation

1. Enhance Governance, Board Support, Compliance and Legal Services

Objective

Being a good and effective service organisation

ASPIRE has 6 projects that fall under this strategic objective, namely:

- Governance Documents and Effectiveness of the Board
- Review Board charters, board committee charters or TOR and Board policies
- Incorporate Aspire in terms of the Companies Act 2008
- Coordinate functioning of Board oversight structures
- Ensure compliance with key legislation and board committee charters

A total of 3 targets from 6 relating to the above projects were achieved by mid-year (50%). Those that were not achieved were due to issues beyond the control of the organisation and capacity constraints at executive management level due to the absence of a permanent CEO.

2. Create an efficient corporate services environment

Objective

To provide seamless support to ASPIRE business processes, based on best practices and technology to serve customers

ASPIRE has 5 projects that speak to this strategic objective, namely:

- Implementation of the Employment Equity Plan
- Implementation of the Health and Safety Policy
- Implementation of the Workplace Skills Plan
- Conduct and annual review and development of HR policies
- Coordinate performance reporting, monitoring and evaluation

A total of 7 targets of 15 relating to the above projects were achieved (46%). The targets not achieved were due to capacity constraints and the limited budget which limited the implementation of the projects, such as training and design of the annual report.

3. Ensure compliance with Finance and supply chain policies

Objective

To ensure sound and sustainable management of Aspire finances

ASPIRE has 10 projects under this strategic objective:

- Submission of S87 reports to ADM
- Improvement of Aspire's working capital
- Implement reviewed SCM systems and procedures to address issues causing deviations
- Annual Financial Statements
- Conduct an Annual Review and Development of new Finance Policies
- Monitoring and reporting on contractual commitments and performance of service providers
- Implementation of the Internal Audit Management action plans
- Implementation of the Risk Master Plan
- Implementation of Standard Chart of Accounts
- Asset Management and Tracking

A total of 15 targets of 19 relating to the above projects were achieved (78%). The targets not achieved were due to capacity constraints and circumstances outside the scope of Aspire which limited the implementation of the projects.

4. Effective Project Management and Implementation

Objective

Economically empowered farmers and communities unlock agricultural assets in their localities to ensure a thriving commercial agricultural sector within Amathole

ASPIRE has 2 projects that speak to this objective, namely:

- Business plans for honey and aloe processing projects
- Fundraising for Agriculture projects

A total of 1 target of 3 relating to the above projects were achieved (33%). The targets not achieved were due to a lack of funding which limited the implementation of the projects.

Objective

Increase the Tourism Sector contribution to the GDP of Amathole using the rich culture and heritage of ADM

ASPIRE has 2 projects that speak to this objective, namely:

- Operationalisation of Emthonjeni Artists Retreat
- Fundraising for Culture, Heritage and Tourism projects

A total of 1 target of 2 relating to the above projects were achieved (50%). The target not achieved was due to a lack of funding which limited the implementation of the projects and property not transferred to a local municipality.

Objective

Enhance identified small towns within Amathole to enable them to support sustainable economic development initiatives.

ASPIRE has 2 projects that speak to this objective, namely:

- Alice Transport Hub
- Fundraising for upgrading of small towns

A total of 0 targets of 2 relating to the above projects were achieved (0%). The targets not achieved were due to a lack of funding which limited the implementation of the projects. Alice Transport Hub was not achieved because of not finding a suitable contractor following the procurement process started during 2015/2016 financial year.

CONCLUSION

ASPIRE has 49 approved quarter 2 targets for the current financial year, of which 27 were achieved (55%).

OTHER PARTIES CONSULTED

ASPIRE Management

RECOMMENDATION

It is recommended that the Board notes the report and approves it for submission to the ADM.

OPERATIONS REPORT - Progress on projects

1. INTRODUCTION.

Performance Report of the Operations Unit of ASPIRE is herein presented. The report covers the period from 01 July to 31 December 2016. The report is structured according to the Annual Performance Plan of ASPIRE, with details given on the deliverables envisaged for the Financial Year 2016/17.

Informing 2016/2017 financial year was the approved ASPIRE Strategy.

The report is structured in the following manner:

- Progress against the Annual Performance Plan (APP);
- Key Highlights for Quarters 1 and 2;
- Current Status of Projects;
- Challenges currently experienced by the Operations Unit;
- Status of Legacy Projects
- Projects Submitted for Funding for FY 2016/17

Each deliverable is reported on under the strategic targets, namely:

- Agriculture and Rural Development;
- Heritage and Tourism;
- Economic Infrastructure
- Small Town Regeneration;
- Rehabilitation of Natural Resources.

The identified areas and projects to be pursued are as follows:-

Projects	Requested Budget
Alice Park	R4 million
Mama Annie Silinga Memorial Garden	R3 Million
Emthonjeni Artist Retreat	R4 million

Total Budget requested	R11 Million
Projects	Allocated Budget
Keiskammahoek Blueberries	R14 000 000.00
Ngangegqili Livestock Improvement	R 0.00
Hamburg Fish Farm	R 500 000.00
Development of Aloe Processing Business Plan	R 500 000.00
Fundraising for agricultural projects	R 0.00
Total Budget	R15 000 000.00

2. KEY HIGHLIGHTS FOR QUARTERS 1 and 2.

The following are the most notable highlights for ASPIRE Operations for Quarter 2:

- ASPIRE has successfully formulated the 2016/2017 Annual Performance Plan
- Submission of proposals for funding to De Beers, Anglo American and African Rainbow Minerals
- Revision of Emthonjeni Artist Retreat Operational Plan
- Development of a list of culture, heritage and tourism projects for 2016/2017 financial year
- Extension of Alice Park to incorporate Second Phase which deals with heritage at the request of local stakeholders.

3. CURRENT STATUS OF PROJECTS.

PROGRAM	SUB PROGRAM	PROJECT NAME	MUNICIPALITY	BUDGET	EXPENDITURE TO DATE	PROJECT STATUS	CHALLENGES	REMEDIAL ACTION	PORTFOLIO OF EVIDENCE
Alice Regeneration		Alice Pedestrian Bridge	Nkonkobe	R 4 305 000.00	R 3 732 956.00	Erection of Steel Bridge has been complete.	Time delays due to collapse.	Completion of other outstanding works to be done.	Photographs, Minutes of Site Meetings
						Contractor commenced with formwork and concrete.			
		Alice CBD Upgrade	Nkonkobe	R 17 237 000.00	R 9 214 906.56	Contract Period: 19 Months			Photographs, Minutes of Site Meetings, Payment Certificates

Insurance

Replacement Insurance/ Public Liability Insurance has been provided by contractor. Proof of Workman's Compensation Insurance has been provided by Contractor. Letter of Good Standing from Dept of Labour has been provided by the contractor.

Sub-Contractors

No more than 25% of the

value of the contract was to be subcontracted. The following work was subcontracted:-

- Concrete work and (premix overlay)
- Electrical
- Landscaping

Payment Certificates

55% of the construction project value has been paid out to the contractor.

Engineers

Prices for Hawker Stalls to be submitted to Quantity Surveyor

Environmental

Terecco Environmental has been appointed as the Environmental Consultants for the project.

Social Facilitation

RJN are the social facilitators for the project.

A prayer ceremony took place on 31 October 2015, which was a prerequisite for the demolition of the memorial for fallen heroes. There were no negative responses. A new memorial to be registered by Aspire with the Heritage Council.

Health and Safety

Safe Working Practice have been appointed as the Health and Safety Consultants for the project. Site incidences - Nil.

Variation Orders

A Variation Order was submitted and approved, however it had no financial implications.

Work is progressing steadily on site as per project plan.

Next Step

Renovation of Municipal Offices which will consist of painting and replacement of Gutters and Facia Boards.

PROGRAM	SUB PROGRAM	PROJECT NAME	MUNICIPALITY	BUDGET	EXPENDITURE TO DATE	PROJECT STATUS	CHALLENGES	REMEDIAL ACTION	PORTFOLIO OF EVIDENCE
Alice Transport Hub			Nkonkobe	R 17 939 189.46	3 098 753.00	1. Procurement process was completed. 2. No suitable	Procurement of Contractor	Speed Up procurement process.	Bid Spec Minutes
						still with Treasury. A discussion has already started to receive funds and continue with the project.			

TOURISM AND HERITAGE
Tourism and Heritage Strategy

Fundraising for Culture, Heritage and Tourism Promotion Projects

Amathole District

R 0.00

R 0.00

Proposals for projects to be developed. A list of potential funders developed.

Alignment with funders in terms of identified projects.

Submit as many funding applications to different funding agencies and government departments.

1. Funding proposals.
2. Acknowledge ment letter from the funder.

Submitted letters for meetings with the following mining companies: De Beers, African Minerals, Rainbow Anglo American.

Engage with partnerships with other entities to rake in maximum funding for projects.

Operationalization of Emthonjeni Artist Retreat

Ngqushwa

0.00

0.00

Developed expression of interest for the new operator.

Transfer of property has delayed.

To do open advertisement in order to get a suitable and experienced operator with own capital.

1. Signed Deeds of sale agreement
2. Updated Operational Plan and Budget

Implementation Plan already developed. No budget to start own operations.

Meetings with Ngqushwa Municipality regarding all other properties ASPIRE built took place in 2016.

PROGRAM	NAME	TY	TO DATE	ACTION	OF EVIDENCE		
RURAL DEVELOPMENT & AGRICULTURE	Development of Amathole Honey and Aloe Processing Business Plan	Ngqushwa and Nkonkobe	0.00	R 0.00	<p>1. Site has been identified at Tyefu.</p> <p>2. A proposal has been presented by CSIR to ASPIRE.</p> <p>3. NAMC to give an up-date.</p>	ASPIRE's lack of budget is a hindrance to stakeholder management or mobilization thereof.	Minutes and e-mails.
	Fundraising for agriculture projects	Amathole	0.00	R 0.00	<p>1. Discussions between ASPIRE and DRDLR are ongoing for the release of R14 million.</p> <p>2. A request for previous invoices has been submitted to ATS and some have been submitted.</p> <p>3. A meeting between ASPIRE, DRDLR and DTI will sit at the earliest convenience of DTI.</p> <p>4. Farmer training proposal</p>	Department's availability.	Proposal

has been submitted to NSF.

PROGRAM	SUB PROGRAM	PROJECT NAME	MUNICIPALITY	BUDGET	EXPENDITURE TO DATE	PROJECT STATUS	CHALLENGES	REMEDIAL ACTION	PORTFOLIO OF EVIDENCE
Special Projects	Clearing of Invasive Alien Plants	Natural Resource Management	Mnquma and Mbhashe	R8 428.982.00	R0	<ol style="list-style-type: none"> Vegetable beds prepared in Duncan Village and Ziphunzana sites. 5300 m3 of dirt excavated in Ziphunzana and Zweltitsha ward 41. Soil cultivation done in Zweltitsha ward 25. 15 000 pamphlets have been developed for the education and awareness campaign. No Dumping signs were erected in all 5 sites. 5 steel containers delivered in 5 sites to serve as shelter, office, and storage. R942 957.93 was spent 	<ol style="list-style-type: none"> Procurement process undertaken to appoint contractors. 	<ol style="list-style-type: none"> List of beneficiaries employed in the NRM projects. Contractor agreements Beneficiary employment agreements. Time sheets. Quotation packs. Quarterly reports. Inspection reports. Expenditure report. 	

received from the
DEA.

Waste Management
EC - Adopt a Spot
BCMM

Due to project funding exhausted not project implementation was realized. 2016/2017 funding request was submitted to the DEA.

Supply Management Chain
Policy of the company has been followed to procure services of the qualified Architects but the services have not been secured and as such correspondence would be written to appoint directly a qualified service provider.

Review individual tenders submitted per advertisement and recommend appointment.

1. Time sheets.
2. Pay roll.
3. Employment contracts.
4. Progress report.
5. Expenditure report.
6. Photos.

4. CHALLENGES CURRENTLY EXPERIENCED BY OPERATIONS.

The Operations unit continues to face challenges due to insufficient funding from the operations budget.

Projects that are ongoing are those that have been externally funded, while there is no budget to start new projects. During 2015/2016 financial year more than 15 proposals were submitted for funding to the following organizations and departments:

- ✓ Department of Arts and Culture
- ✓ Department of Sport, Recreation, Arts and Culture
- ✓ Department of Economic Development, Environmental Affairs and Tourism
- ✓ National Lotteries Commission

None of the submitted projects received any funding, despite satisfying all the funding requirements. The situation led to lack of projects for 2016/2017 financial year, dictating that the financial year is to be spent on more fundraising and stakeholder mobilization.

At the end of 2015/2016 Financial Year, Programme Manager: Small Towns resigned. This impacted on the implementation of projects for 2016/2017 financial year. Largely due to ASPIRE's inability to retain competent personnel because of the following:

- ✓ Instability and job security
- ✓ Prevailing financial position of the economic agency

Resignations continued unabated during the first two quarters of 2016/2017 financial year. Towards the end of Quarter 2 another programme manager,

responsible for Agriculture and Rural Development resigned because of better offers elsewhere. The resignation of any employee renders the organization in a precarious situation, considering training and empowerment of such an employee.

5. STATUS OF LEGACY PROJECTS.

ASPIRE has been implementing a range of other legacy projects, most of them in the handover stage and some of them without budget.

5.1 Hamburg CBD Regeneration

ASPIRE developed a number of buildings as part of Hamburg Regeneration Strategy, though not utilized by ASPIRE, the organization continued to physically protect them. This continued while the buildings were partly used by another organization. For example, the Music Academy, Arts Centre that were used by Keiskamma Trust. Two security personnel since 2012 were hired and paid for by ASPIRE. When funds dried the two officers were informed and told that their services were no longer needed. The buildings still remain not transferred.

A discussion between ASPIRE and Ngqushwa Municipality in 2016 resolved that ASPIRE should develop a comprehensive report, indicating the background to the buildings, intention, budget etc. in order to assist the municipality to take an informed decision.

6. PROJECTS SUBMITTED FOR FUNDING for FY 2016/17.

The Blueberries project has funds approved by the dti and the Department of Rural Development respectively and ASPIRE is continuing to follow up on the status of such funds:

- Blueberries Project (R14 million) - Approved and withheld due an outstanding process between Rural Development and the DTI.
- National Skills Fund (R7 075 406.80) - Application for training of existing agricultural entities submitted, feedback pending.
- Alice Park
- Emthonjeni Artist Retreat
- Mama Annie Silinga Memorial Garden

7. CONCLUSION

The massive resignations the organization is experiencing are other negativity the organization continues to receive.

Non-availability of funds continues to impact on the implementation of identified projects, especially in projects where municipalities and communities were already informed about the start of such. The existing stability of ASPIRE is likely to cause a negative effect especially the consistent newspaper articles about administration and status of funds. No funder would align itself with an ailing and bankrupt organization.

While a process to appoint a permanent CEO on a five contract bases is started, it is believed that some form of stability would start to influence how the organization consolidates its space in the economic development and environmental sustainability. Coupled by the appointment of CFO, ASPIRE should be able to move forward without further hindrances.

2023年12月

QUARTER 2: FINANCE REPORT

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REVENUE & EXPENDITURE

1. Revenue by Source

The table below depicts management accounts as at 31 December 2016 in line with the budget as approved by the Board. This report further attempts to provide detailed explanations on variances between the approved budget and actual collections as at mid-year.

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variances
INCOME					
- ADM Funding	17,500,629	8,750,315	7,821,636	928,679	10.61
Roll over from ADM funding	-	-	-	-	-
- IDC Grant	-	-	-	-	-
- Third Party Grant - Special Projects	25,743,909	12,871,955	3,335,194	9,536,761	74.09
- Third Party Grant - Rural Development	5,000,000	2,500,000	-	2,500,000	100.00
- Third Party Grant - Heritage, Culture and Tourism	5,000,000	2,500,000	-	2,500,000	100.00
- Third Party Grant - Small Towns Regeneration	67,000,000	33,500,000	-	33,500,000	100.00
Roll over from DEA projects	750,000	375,000	-	375,000	100.00
NDPG Capital Grant	11,000,000	5,500,000	239,484	5,260,516	95.65
NDPG Rollover Amount	5,600,000	2,800,000	-	2,800,000	100.00
- To Fundraise	-	-	-	-	-
- NDPG Technical Assistance	-	-	-	-	-
EA Operations	-	-	-	-	-
Roll over from EA operation Budget	30,000	15,000	-	15,000	100.00
- Sundry Income	-	-	68,335	-68,335	No Result
- Implementing fees	2,500,000	1,250,000	-	1,250,000	100.00
TOTAL INCOME	140,124,538	70,062,269	11,464,649	58,597,620	83.64

Budgeted revenue for the entity comprises the following categories: -

- ADM Funding
- Third Party Grants
- Sundry Income including Project Implementation Fees

ADM Funding

Whilst the total approved budget by the board equals R17.5 million, ADM only approved a budget totalling R12.5 million.

Collections on this revenue category depict an under collection of 10.6% (R928 thousand). As indicated in the paragraph above, transfers that are effected by ADM are in line with the R12.5 million budget which is contrary to the budget as approved by the Board totalling R17,5 million. The continued financial sustainability of ASPIRE is at risk if ADM does not adjust this budget upwards during their mid-year adjustment as the current appropriated funds will not even be sufficient to cater for ASPIRE's budgeted payroll costs (R13,1 million).

Third Party Grants

The total budget approved for third party grants totals R120,1 million. Most of the budgeted grants to be received were brought into the budget on the proviso that business plans submitted to the various departments for funding would be approved resulting in funds flowing over to ASPIRE. However these did not materialize. Such funding submissions were made to the following potential funders:-

- Wholesale and Retail SETA
- National Skills Fund - Rural Development
- National Lottery (Funding Proposal submitted was subsequently declined)
- Sports, Recreation, Arts and Culture (Still awaiting a response)
- Department of Economic Development, Environment and Tourism (Funding Proposal was subsequently declined)

Current projects that ASPIRE is busy implementing are those that were received in the previous financial year and were thus brought forward to the current financial year as Unspent Conditional Grants; viz:

1. Adopt a Spot
2. Natural Resources Management
3. BCMM Waste Management

Collections on this category of revenue depict an under-collection of 74% (R9, 5 million) with actual expenditure incurred (transfers from the respective grant accounts) on these grants totaling R3, 3 million as at 31 December. It must also be mentioned that during the budgeting period ASPIRE anticipated that additional funding

would have been transferred from the departments for which these projects are implemented. However, this also did not materialize.

Also, included in the R120, 1 million for third party grants is R16, 6 million in lieu of NDPG funds. However, ASPIRE financial records as at 01 July 2016 depict only available funds for NDPG totaling R10, 4 million.

Collections on this category of revenue (NDPG) depict an under collection of 96% (R5, 2 million) as at mid-year. This was in lieu of revenue recognition on expenditure incurred during August. In line with national treasury requirements, an application for the roll-over of these funds was submitted to national treasury but unfortunately rejected. These funds were thus returned back to the national treasury during November.

Sundry income and Project Implementation Fees

With the exception of sundry revenue totaling R68 thousand, no further revenue has been received for project implementation fees.

2. Expenditure

The table below provides a detailed analysis of budgeted expenditure per category as well as per cost centre/vote. The following votes are included in the entity's budget: -

- Governance/Legal/Compliance
- CEO and Strategic Services
- Operations
- Corporate Services
- Finance & SCM

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variances
EXPENDITURE					
GOVERNANCE/LEGAL/COMPLIANCE	2,052,500	1,026,250	307,642	718,608	70.02
CEO & STRATEGIC SERVICES	157,000	78,500	-	78,500	100.00
OPERATIONS DEPARTMENT	120,513,909	60,256,955	2,947,840	57,309,115	95.11
CORPORATE SERVICES	16,011,129	8,005,564	6,756,296	1,249,268	15.51
FINANCE AND SCM	1,390,000	695,000	820,807	-125,807	-18.10
TOTAL EXPENDITURE	140,124,538	70,062,269	10,832,585	59,229,684	84.54

As at mid-year, the entity has under-spent the approved budget by 84% (R59,2 million of the pro-rata budget). Significant under-expenditure has been incurred in the following cost centre's/votes.

- o Governance/Legal/Compliance - 70% (R718 thousand)
- o CEO & Strategic Services - 100% (R78 thousand)
- o Operations Department - 95% (R57,3 million)

2.1 Governance/Legal/Compliance

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variances
EXPENDITURE					
GOVERNANCE/LEGAL/COMPLIANCE	2,052,500	1,026,250	307,642	718,608	70.02
- Board Expenses	652,500	326,250	268,331	57,919	17.75
- Legal Fees & Secretarial Support	1,230,000	615,000	39,311	575,689	93.61
- Travelling and Accommodation	120,000	60,000	-	60,000	100.00
- Refreshments / Catering - Board activities	30,000	15,000	-	15,000	100.00
- Board Evaluation	-	-	-	-	-
- Board Events/Training	-	-	-	-	-
- Printing and Stationery	20,000	10,000	-	10,000	100.00

Included as major items in the budget for this vote are board expenses as well as legal fees and secretariat support. As at mid-year, board expenditure has been under-spent by 18% (R57 thousand). It should however be emphasized that this does not include board fees claimed in December for the ad-hoc meetings held. Continuing to hold such ad-hoc meetings will likely result in over-expenditure in budgeted board fees.

Legal and secretariat support was also under-spent by 93% (R575 thousand) as at mid-year. The approved budget in this category was compiled with the anticipation that the company secretary contract was not going to be extended to 31 December. Necessary adjustments will thus be factored in the mid-year adjustments budget.

2.2 CEO & Strategic Services

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variances
EXPENDITURE					
CEO & STRATEGIC SERVICES	157,000	78,500	-	78,500	100.00
- Travelling and Accommodation	150,000	75,000	-	75,000	100.00
- Refreshments / Catering	5,000	2,500	-	2,500	100.00
- Printing and Stationery	2,000	1,000	-	1,000	100.00

There was no expenditure incurred under this vote as at mid-year. Costs associated with the Acting CEO were debited under the operations budget.

2.3 Operations Department

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variances
EXPENDITURE					
OPERATIONS DEPARTMENT	120,513,909	60,256,955	2,947,840	57,309,115	95.11
- Direct Programs (Projects)	120,123,909	60,061,955	2,891,537	57,170,418	95.19
- Project Management Training	120,000	60,000	-	60,000	100.00
- Travelling and Accommodation	250,000	125,000	56,303	68,697	54.96
- Printing and Stationery	20,000	10,000		10,000	100.00

Included as major items in the budget for this vote is projects expenditure. As explained under the revenue component, most of the expenditure budgeted on this component was in anticipation of receiving grants from the various departments. This however did not materialize. As at mid-year, projects expenditure has been under-spent by 95% (R57,1 million pro-rata expenditure). Current expenditure realized was in lieu of Adopt a spot; Natural Resources Management; NDPG grant as well as BCMM grant (Funds transferred to finance operations).

The proposed adjustments budget as at mid-year has thus adjusted downwards both revenue and expenditure on this category in line with what will realistically be realized by ASPIRE.

2.4 Corporate Services

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variances
EXPENDITURE					
CORPORATE SERVICES	16,011,129	8,005,564	6,756,296	1,249,268	15.61
- Staffing (Cost to Company)	13,167,949	6,583,975	5,804,454	779,521	11.84
- Levies (Seta)	131,679	65,840	-	65,840	100.00
- Recruitment	50,000	25,000	143,000	(118,000)	-472.00
- Staff Development and Training	100,000	50,000	-	50,000	100.00
- Staff Wellness & Gifts	50,000	25,000	16,578	8,422	33.49
- Rental/Rates - Offices	1,122,000	561,000	445,962	115,038	20.51
- Rental - other	-	-	6,665	(6,665)	No Result
- Rental - Plants, Water, Hygiene Tools	6,000	3,000	3,382	-382	-12.73
- Photocopier Rental	65,000	32,500	16,988	15,512	47.73
- Rental of Equipment (alarm)	22,000	11,000	-	11,000	100.00
- Computer Equipment (new)	200,000	100,000	-	100,000	100.00
- Computer Software (new)	100,000	50,000	7,581	42,419	84.84
- Electricity & Water	35,000	17,500	-	17,500	100.00
- Security	-	-	2,267	(2,267)	No Result
- Stores and Materials	40,000	20,000	3,184	16,816	84.08
- Printing, Stationery and Consumables	175,000	87,500	37,061	50,439	57.64
- Annual Report	150,000	75,000	1,950	73,050	87.40
- Website Maintenance & Usage	50,000	25,000	-	25,000	100.00
- Internet	30,000	15,000	-	15,000	100.00
- IT Governance and Support	40,000	20,000	31,871	(11,871)	-59.36
- Maintenance- Computers	15,000	7,500	877	6,623	88.31
- Telephone	250,000	125,000	157,521	-32,521	-25.02
- Postage/Courier	6,500	3,250	258	2,992	92.06
- Repairs and Maintenance - Office & Furniture	5,000	2,500	1,245	1,255	50.20
- Subscriptions	-	-	13,374	(13,374)	No Result
- Insurance	200,000	100,000	62,078	37,922	37.92

Personnel costs

As at mid-year, personnel costs have been underspent by 16% (R1,2 million pro-rata budget). This is as a result of resignations as well as budgeted vacant positions that were not filled as at mid-year.

Necessary adjustments will also be processed as part of the mid-year

adjustments budget.

Office Rental/Rental of other Equipment

This category was underspent by 21% (R115 thousand pro-rata expenditure) as at mid-year. Considering that the rental agreement with the current landlord has been revised and extended by a further twelve months period at a reduced rental, adjustments to the approved budget will also be factored on the mid-year adjustments budget.

Rental of other equipment will also be properly aligned during the mid-year adjustments budget process.

Telephone

Telephone costs continue to be the major cost driver on administrative expenditure. As at mid-year, this category was over-spent by 26% (R32 thousand rands, pro-rata expenditure). All existing cell-phone contracts were terminated as at 31 December with new contracts entered into under the name of each staff member. This method is expected to yield savings on telephone costs moving forward.

Also, a new contract for a PABX has been entered into with the anticipation that it will provide a budget monitoring and maintenance module so as to curtail escalating costs for telephone.

2.5 Finance and SCM

DESCRIPTION	APPROVED BUDGET 2016/17	Q2 Pro - Rata Budget December 2016	Q2 Actual Revenue/Exp. - 31 DEC 2016	VARIANCE	%Variance
EXPENDITURE					
FINANCE AND SCM	1,390,000	695,000	820,807	-125,807	-18.10
- Audit Fees	800,000	400,000	590,109	-190,109	-47.53
- Accounting Fees	150,000	75,000	114,589	(39,589)	-52.79
- Bank Charges	35,000	17,500	18,434	-934	-5.34
- Depreciation & Impairment	385,000	192,500	84,755	107,745	55.97
- Travelling and Accommodation	20,000	10,000	-	10,000	100.00
- Advertising	-	-	3,774	-	No Result
- General Expenses	-	-	9,146	-9,146	No Result

Audit Fees

Audit fees in lieu of the audit by auditor general have been over-spent by 48% (R190 thousand pro-rata expenditure) as at mid-year. Whilst the audit for the 2015/16 financial year was completed by November, however the final billing has not as yet been finalized by the auditor general.

Depreciation

As at mid-year, depreciation expense is under-spent by 55% (R107 thousand pro-rata expenditure). Most of the entity's assets have fully been depreciated and due to cash-flow constraints there are no funds to replace them.

3. Statement of Financial Performance - December 2016

Amathole Economic Development Agency (SOC) Limited

(Registration number 2005/030812/07)

Trading as ASPIRE

Annual Financial Statements for the period ended 31 December 2016

Statement of Financial Performance as at 31 DECEMBER 2016

	DEC 2016	2016
	R	AUDITED R
Revenue		
Revenue from exchange transactions		
Interest Received	67,335	57,651
Other Income	1,000	347,129
Total Revenue from Exchange Transactions	68,335	404,780
Revenue from non-exchange transactions		
Government grants and subsidies	7,821,636	18,558,192
NDPG Capital grant	239,484	10,256,759
Other grant income	3,335,195	7,354,381
Services in kind	-	959,939
Total Revenue from Non-Exchange Transactions	11,396,315	37,129,271
Total Revenue	11,464,651	37,534,051
Expenditure		
Contracted expenses	(239,484)	(10,667,968)
Depreciation	(84,755)	(183,898)
Employee related costs	(5,804,454)	(14,989,161)
Finance costs	(8)	(3,446)
General expenses	(1,577,595)	(3,715,668)
Impairment costs	-	(403,229)
Lease rentals	(472,998)	(866,950)
Project expenditure	(2,652,052)	(6,124,741)
Repairs and maintenance	(1,245)	(13,635)
Total expenditure	(10,832,590)	(36,968,696)
Operating surplus	632,061	565,355
Gain on disposal of property, plant and equipment	-	2,681
Surplus before taxation	632,061	568,036
Taxation	-	191,920
Surplus for the period	632,061	376,116

4. Statement of Financial Position - December 2016

Amathole Economic Development Agency (SOC) Limited

(Registration number 2005/030812/07)

Trading as ASPIRE

Annual Financial Statements for the period ended 31 December 2016

Statement of Financial Position as at 31 DECEMBER 2016

	DEC 2016	2016
Note(s)	R	AUDITED R
Assets		
Current Assets		
Cash and cash equivalents	5,277,619	16,310,576
Receivables from non-exchange transactions	116,472	149,267
VAT receivable	402,094	184,162
Current Tax receivable	99,700	99,700
	<u>5,895,885</u>	<u>16,743,705</u>
Non-Current Assets		
Property, plant and equipment	284,984	357,981
Intangible assets	4,823	10,133
	<u>289,807</u>	<u>368,114</u>
Total Assets	<u>6,185,692</u>	<u>17,111,819</u>
Liabilities		
Current Liabilities		
Payables from exchange transactions	1,197,407	1,394,351
Unspent conditional grants	3,118,871	14,479,760
Operating lease liability	21,238	21,238
	<u>4,337,516</u>	<u>15,895,349</u>
Non-Current Liabilities		
Operating lease liability	-	-
Total Liabilities	<u>-</u>	<u>-</u>
Net Assets	<u>1,848,177</u>	<u>1,216,470</u>
Contributed capital	1,000	1,000
Accumulated surplus	1,847,177	1,215,470
Total Net Assets	<u>1,848,177</u>	<u>1,216,470</u>

5. Cash-flow Statement - December 2016

Amathole Economic Development Agency (SOC) Limited

(Registration number 2005/030812/30)

Trading as ASPIRE

Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

	Note(s)	DEC 2016 R	2016 R
Cash flows from operating activities			
Receipts			
Grant revenue recognition		3,607,474	18,453,939
Grants		(3,538,252)	19,445,223
Interest & Other Income		68,335	57,651
		<u>137,557</u>	<u>37,956,813</u>
Payments			
Employee Costs		(5,804,454)	(14,211,046)
Suppliers		(5,366,052)	(23,290,643)
NDPG refund to ADM		-	-
Finance costs		(8)	(3,446)
Taxes and surpluses		-	553,751
		<u>(11,170,513)</u>	<u>(36,951,384)</u>
Net cash flows/outflows from operating activities		<u>(11,032,956)</u>	<u>1,005,429</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(16,702)
Proceeds from sale of property, plant and equipment			7,325
Purchase of other intangible assets		-	-
Non cash acquisition of Hamburg assets		-	(124,695)
		<u>-</u>	<u>(134,072)</u>
Net cash flows from investing activities		<u>-</u>	<u>(134,072)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(11,032,957)</u>	<u>871,357</u>
Cash and cash equivalents at the beginning of the year		<u>16,310,599</u>	<u>15,439,242</u>
Cash and cash equivalents at the end of the year		<u>5,277,642</u>	<u>16,310,599</u>

6. Cash and Cash Equivalents - December 2016

Amathole Economic Development Agency (SOC) Limited

(Registration number 2005/030812/07)

Trading as ASPIRE

Cash and Cash Equivalents as at 31 DECEMBER 2016

	DEC 2016	2016 AUDITED
	R	R
ABSA Cheque Account	234,533	169,205
Petty Cash	58	95
AEDA - STD Bank Cheque Acc 271076550	2,633,920	555,200
Aspire - EC - Adopt a Spot Project	2,126,836	1,554,092
EC-BCM Waste Mangement	53,989	754,854
Aspire - Natural Resources Management	79,704	822,711
AEDA - STD Bank Call Acc 388810769001	121,200	1,952,926
HAR - STD Bank Cheque Acc 302012818	10,303	11,685
NDPG - STD Bank Call Acc 388810769003	3,698	10,475,678
Bwattle STD Bank Call 388810769 004	6,226	6,226
EA - Operations (Bank)	7,151	7,904
Total Cash and Cash Equivalents	5,277,619	16,310,576

Included in cash and cash equivalents are conditional grants call accounts totalling to R3.1 million as at mid-year. The rest of the cash (R2.2 million) being available to finance the on-going operations of ASPIRE. With the next draw-down from ADM only anticipated in March, this places ASPIRE's continued financial sustainability at a risk as it will result in the inability to finance the short-term financial obligations.

7. Report on SCM Implementation

In line with the requirements of the municipal supply chain management regulations, the outgoing Acting C.E.O. had appointed committees in line with regulations 27, 28 and 29 (Bid Specification Committee; Bid Evaluation Committee and Bid Adjudication Committees).

The ADM SCM unit continues to provide support to ASPIRE as we do not have personnel within this unit. A formal secondment of a staff member effective from January 2017 was approved by the ADM municipal manager

for a period of 3 months to support ASPIRE with SCM related matters.

8. MSCOA & SAP Roll-out

ADM council took a resolution on 29 January 2016 to include ASPIRE in the roll-out of SAP(Financial Accounting System) as well as Municipal Standard Chart of Accounts (mSCOA) on the proviso that price negotiations ensue with the service provider.

Whilst ADM has progressed with Phase 1A, B and C (Accounts payable; Funds management; General ledger; Document management; SCM; Human Resources; Billing and Asset management) implementation, ASPIRE has been left out of this process. Subsequent communication and meetings with ADM management indicate that there was never a budget provision for ASPIRE to be supported in these reforms.

It is hoped that ADM will make the necessary provisions on their adjusted budget so as to ensure that this council resolution if implemented as ASPIRE does not have to required financial resources for these reforms.

9. CONCLUSION

Considering the entity's financial performance as at 31 December, the continued financial sustainability, given its cash-flow constraints is worrying. Without an adequate financial injection from the parent municipality, over the medium to long-term, future continued operations are bleak.

The current budget requires to be adjusted downwards as most of the funding anticipated to be received from various funders has not been realized. This process will also serve as an attempt to severely curtail expenditure and focus only on key line items necessary to keep the entity afloat.

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