

AGRICULTURAL RESEARCH COUNCIL

PORTFOLIO COMMITTEE ON AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

Feedback on ARC Q1, Q2 & Q3 FY2021/2022 Performance

15 February 2022



ARC • LNR

Excellence in Research and Development



CONTENT

- Overview of the Agricultural Research Council (ARC)
- Quarterly breakdown (Performance Information & Finance) Quarter 1, Quarter 2 and Quarter 3 FY 2021/22
- Progress on the ARC' Control and Efficiencies Improvement Plan [ACE.IP] as at 31 December 2021



ARC MANDATE, VISION & MISSION

MANDATE

*In terms of the Agricultural Research Act, to promote the agricultural and related sectors through **Research, Development and Technology Transfer***

VISION

Excellence in research and innovation for sustainable agricultural systems and economic development

MISSION

To conduct research, develop partnerships and human capital, to foster innovation for a sustainable agriculture sector

I CAIRE

I - INTEGRITY

We conduct our business in a transparent, honest, truthful, consistent and ethical manner to ensure we foster trust among our employees and stakeholders.

C - COMMITMENT

We commit ourselves to live the values of the ARC

A - ACCOUNTABILITY

We honour our commitments towards our employees and stakeholders in a responsible and reliable manner, taking ownership of our work and decisions.

I - INNOVATION

We conduct our business in a way that fosters innovation to improve the growth of the organisation and the agricultural sector.

R - RESPECT

We treat our colleagues and stakeholders with respect and dignity in an equitable manner whilst embracing diversity.

E - EXCELLENCE

We conduct our work in an efficient, effective, professional manner to ensure we create highest quality and value.



SCIENCE IN ARC FOR THE AGRICULTURE ECONOMY

SCIENCE COUNCIL

- Innovation in science
- Basic/fundamental research
- Applied research (technologies)
- Intellectual assets
- Skilled scientists & engineers
- Volume & quality publications
- Scientist ratings
- Number of PhDs
- Number of doctoral fellows
- Number of postdoc fellows
- Scientific awards

AGRICULTURE DEVELOPMENT

- Economic link to Innovation
- Applied research
- Technology Transfer/dissemination
- Intellectual Asset Use
- Agricultural Production & productivity
- Food Security – hunger
- Environmental Sustainability
- Import Substitution
- Export Promotion
- Agrarian Transformation
- New products (vaccines, cultivars etc.)



MEDIUM TERM STRATEGIC FOCUS PRIORITIES FOR 2019 – 2024

MTSF PRIORITIES FOR ARC:

- a) Priority 1: A Capable, Ethical and Developmental State
- b) Priority 2: Economic Transformation and Job Creation
- c) Priority 3: Education, Skills and Health
- d) Priority 5: Spatial Integration, Human Settlements and Local Government
- e) Priority 7: A better Africa and World

Cross Cutting Focus Areas:

- Women
- Youth
- People with Disabilities
- Climate Change



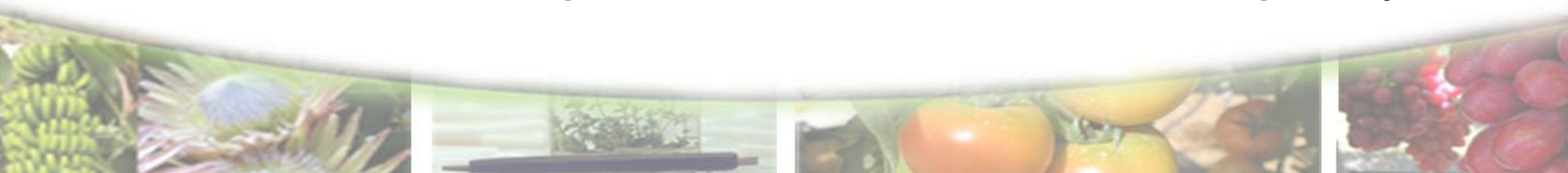
ARC MTSF ALIGNED OUTCOMES FOR 2019 – 2024

1. Increase agricultural production and productivity
2. Sustainable ecosystems and natural resources
3. Improved nutritional value, quality and safety of agricultural products
4. A skilled, capable agriculture sector with innovation, knowledge and technologies
5. Enhanced resilience of agriculture
6. A high performing and sustainable organization



ARC ROLE/PURPOSE: ALIGNMENT TO MTSF PRIORITIES

1. Promote sustainability and equitable economic participation in the agricultural sector
2. Promote agricultural development and growth related industries
3. Facilitate sector skills development and knowledge management
4. Facilitate and ensure natural resource conservation
5. Promote national food and nutrition security; and,
6. Contribute to improved health and better quality of life



PERFORMANCE INFORMATION QUARTER 1: 2021/22 FY

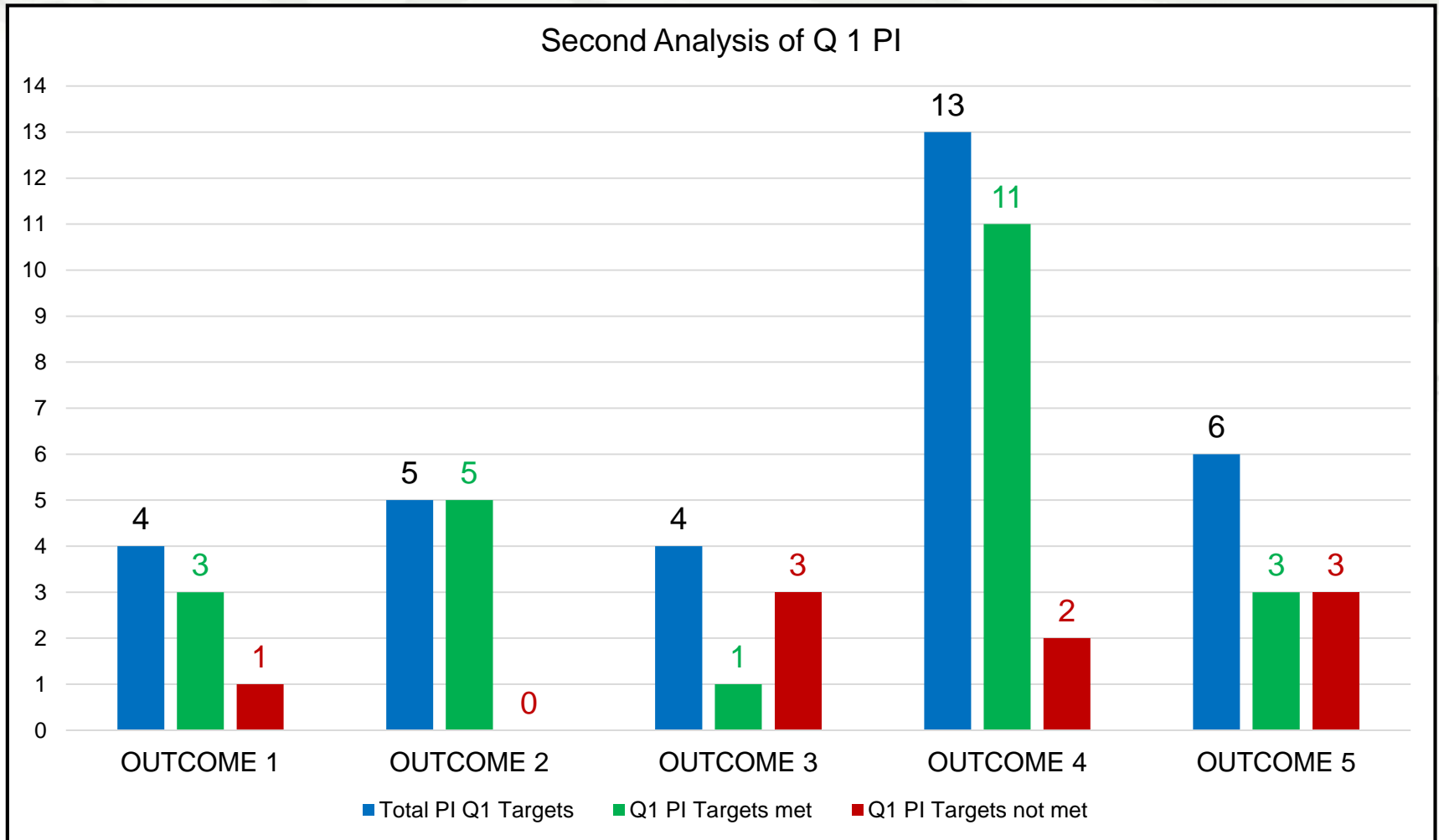
- Overall for 2021/22 FY 53 Quarterly Performance Targets
- For Quarter 1: 32 Performance Targets were reported on.
- 21 Indicators with no target for Quarter 1

1st Analysis of Quarter 1: 2021/22 Performance Information:

ANALYSIS CRITERIA	SUBMITTED ACTUALS	OVERALL REASONS FOR UNDER PERFORMANCE
Q1 PI Targets met	23 (72%)	<ul style="list-style-type: none"> • Project initiation delays (Field trials) • COVID restrictions impacted on farmer field days (gatherings) • Delays with finalization of SLA's (farmer assessments)
Q1 PI Targets not met	9 (28%)	
vs Q1 ACTUALS 2020/21		
Q1 PI Targets met	14 (40%)	
Q1 PI Targets not met	21 (60%)	
vs Q1 ACTUALS 2019/20		
Q1 PI Targets met	14 (56%)	
Q1 PI Targets not met	11 (44%)	

ANALYSIS CRITERIA	OUTCOME 1	OUTCOME 2	OUTCOME 3	OUTCOME 4	OUTCOME 5	OUTCOME 6
Total PI Q1 Targets	4	5	4	13	6	Annual target (30)
Q1 PI Targets met	3	5	1	11	3	
Q1 PI Targets not met	1	0	3	2	3	

PERFORMANCE INFORMATION QUARTER 1: 2021/22 FY



PERFORMANCE INFORMATION QUARTER 2: 2021/22 FY

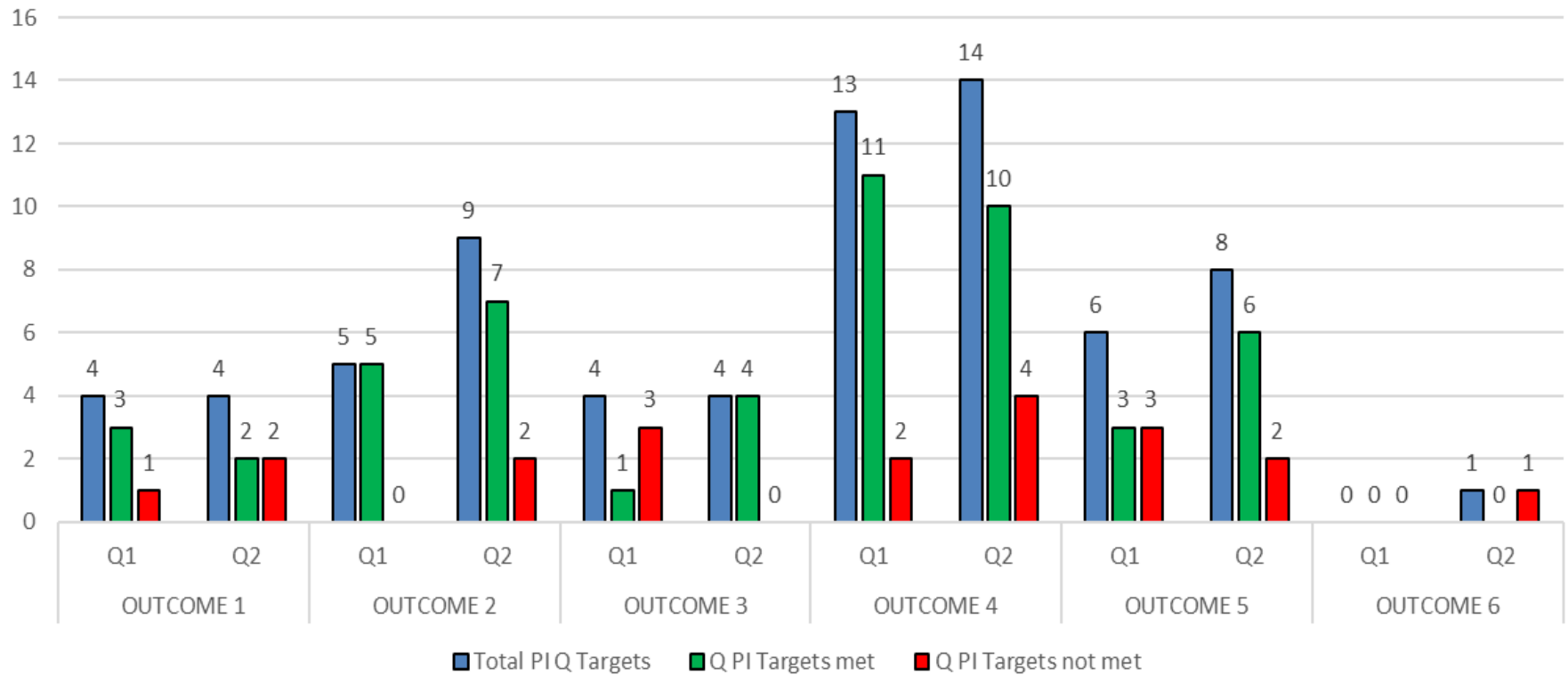
- Overall for 2021/22 FY 53 Quarterly Performance Targets
- For Quarter 2: 40 Performance Targets were reported on.
- 14 Indicators with no target for Quarter 2

ANALYSIS CRITERIA	SUBMITTED ACTUALS	REVIEWED ACTUALS
Q2 PI Targets met	29 (73%)	29 (73%)
Q2 PI Targets not met	11 (27%)	11 (27%)
Total no. of variances (submitted vs reviewed)	0 instances	
ANALYSIS CRITERIA	SUBMITTED ACTUALS	AUDITED ACTUALS
vs Q2 ACTUALS 2020/21		
Q2 PI Targets met	14 (40%)	20 (56%)
Q2 PI Targets not met	21 (60%)	16 (44%)
vs Q2 ACTUALS 2019/20		
Q2 PI Targets met	18 (72%)	18 (72%)
Q2 PI Targets not met	7 (28%)	7 (28%)

ANALYSIS CRITERIA	OUTCOME 1		OUTCOME 2		OUTCOME 3		OUTCOME 4		OUTCOME 5		OUTCOME 6	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Total PI Q Targets	4	4	5	9	4	4	14	14	6	8	0	1
Q PI Targets met	3	2	5	7	1	4	11	10	3	6	0	0
Q PI Targets not met	1	2	0	2	3	0	2	4	3	2	0	1

PERFORMANCE INFORMATION QUARTER 2: 2021/22 FY

Second Analysis of Q PI



PERFORMANCE INFORMATION QUARTER 3: 2021/22 FY

- Overall for 2021/22 FY 53 Quarterly Performance Targets
- For Quarter 3: 43 Performance Targets were reported on.
- 11 Indicators with no target for Quarter 3

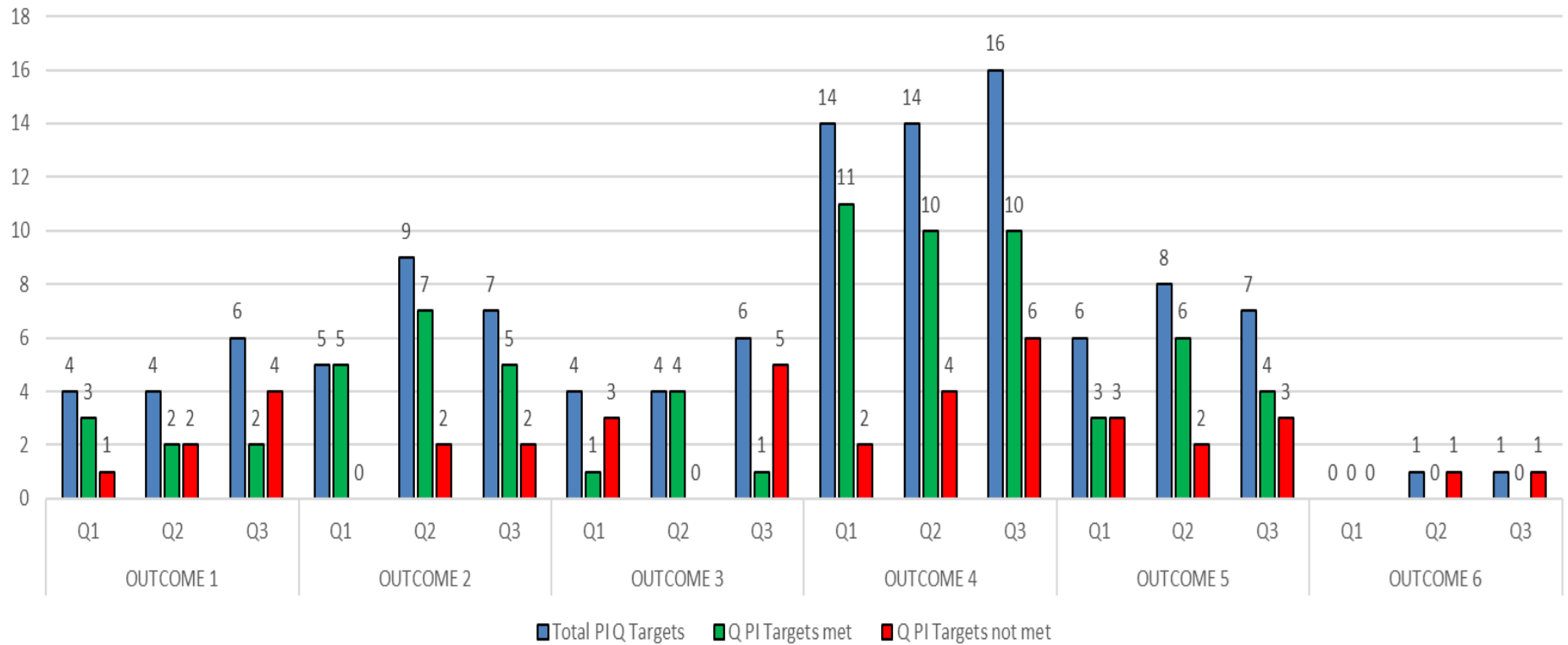
1st Analysis of Quarter 3: 2021/22 Performance Information:

ANALYSIS CRITERIA	SUBMITTED ACTUALS
Q3 PI Targets met	22 (51%)
Q3 PI Targets not met	21 (49%)
ANALYSIS CRITERIA	SUBMITTED ACTUALS
vs Q3 ACTUALS 2020/21	
Q3 PI Targets met	23 (50%)
Q3 PI Targets not met	23 (50%)
vs Q3 ACTUALS 2019/20	
Q3 PI Targets met	19 (66%)
Q3 PI Targets not met	10 (34%)

ANALYSIS CRITERIA	OUTCOME 1			OUTCOME 2			OUTCOME 3			OUTCOME 4			OUTCOME 5			OUTCOME 6		
	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
Total PI Q Targets	4	4	6	5	9	7	4	4	6	14	14	16	6	8	7	0	1	1
Q PI Targets met	3	2	2	5	7	5	1	4	1	11	10	10	3	6	4	0	0	0
Q PI Targets not met	1	2	4	0	2	2	3	0	5	2	4	6	3	2	3	0	1	1

PERFORMANCE INFORMATION QUARTER 3: 2021/22 FY

Second Analysis of Q PI



AGRICULTURAL RESEARCH COUNCIL

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**FINANCIAL RESULTS FOR THE NINE (9) MONTHS ENDED 31
DECEMBER 2021**



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FINANCIAL RESULTS OVERVIEW – FY2022 QUARTER 1

POSITIVE / FAVOURABLE:

- Savings / Delayed spending on Personnel Costs (R20.4m) and Operating Costs (R62m)
- Cash reserves / position R690 million
- FMD ring-fenced funds R395.9 million
- Positive Net Cash Flows from Operating Activities R197.6 million
- Current Assets exceeds Current Liabilities [R439 million]
- Solvency and Liquidity assessment satisfactory

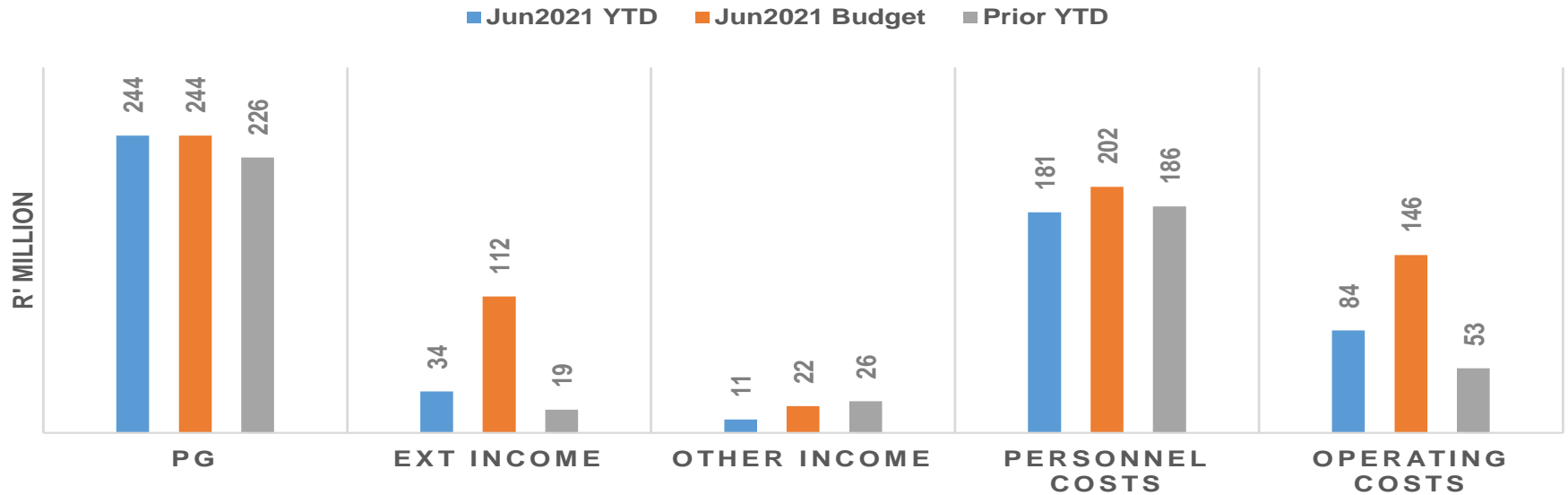
NEGATIVE / UNFAVOURABLE:

- Operating Deficit of R10.4m
- External Income 69.9% below YTD budget (R111.9m)
- Other Income 47.8% below YTD budget (R21.9m)
- Old DAFF debt – continue to be pursued through the attorneys (legal process)



FINANCIAL PERFORMANCE OVERVIEW – Q1 FY2022

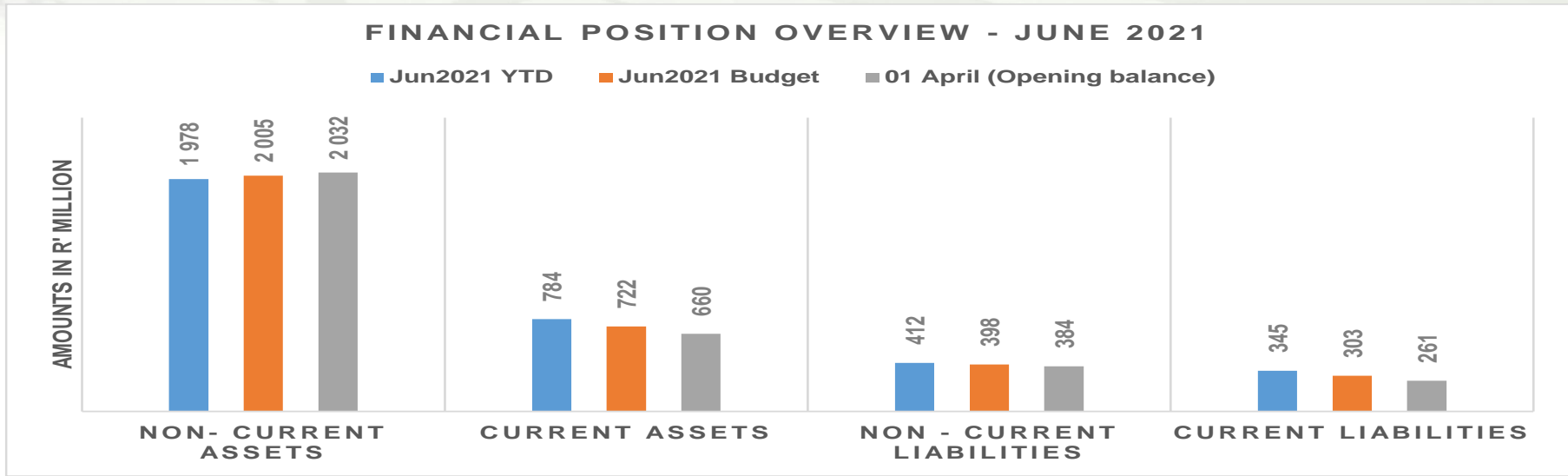
FINANCIAL PERFORMANCE OVERVIEW - JUNE 2021



- **Operational PG** in line with the Allocation Letter and DSI PG was not budgeted for.
- **External Income:** 70% below YTD budget. Shortfall of R78.1m. A slow start of the financial year and anticipate performance to improve from Q2 onwards
- **Other Income** achieved to date of R11.4m , represents 48% and 55% decline as compared to YTD budget and Prior year respectively

- **Personnel costs:** R181m YTD, lower than YTD budget and Prior Year
- Personnel costs is at 81% of Operational Parliamentary Grant
- **Operating costs savings:** R265m YTD, lower than YTD budget however exceeded Prior Year

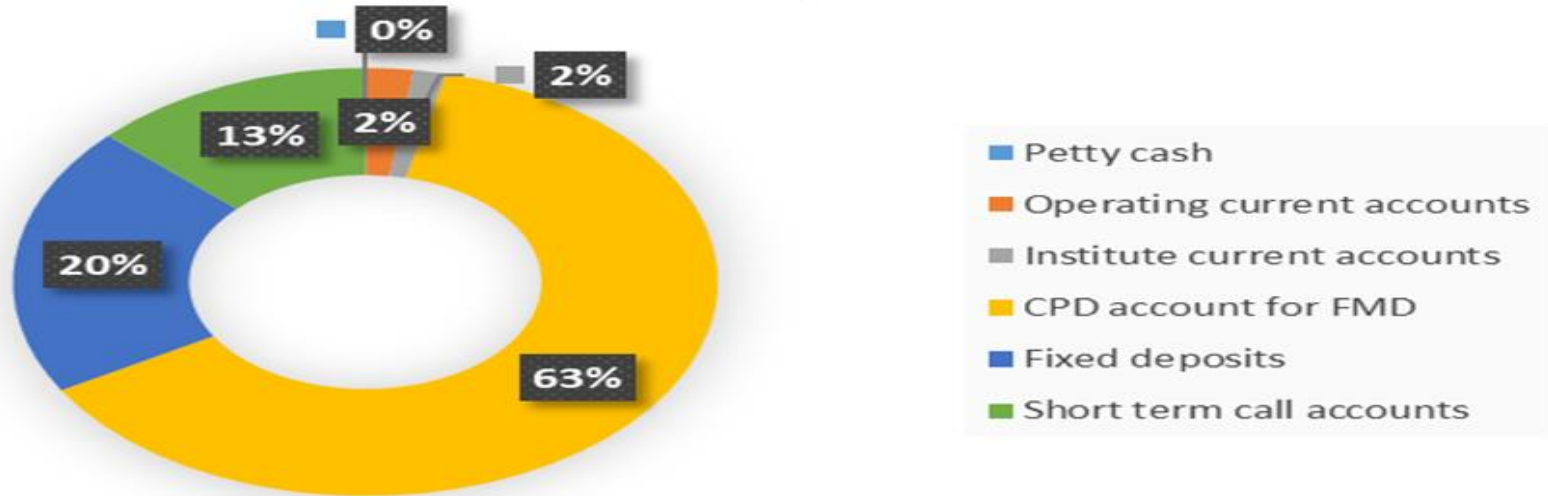
FINANCIAL POSITION OVERVIEW – Q1 FY2022



- **CAPEX commitments of R20.4 million**
- **CAPEX Spent to date: R9.7 million**
- **Accounts Receivables** reduced since the beginning of the FY2021
- **Accounts Payables** reduced since the beginning of the year
- **Income received in advance** has balance of R120.8 million
- **FMD funding** – continues to be received quarterly / Allocation Letter
- **Deferred Capital grant (FMD)** is at R395.9 million; with funds invested at CPD
- R2 billion, **Net Asset Value**

CASH OVERVIEW – Q1 FY2022

Cash and Cash Equivalents



Cash and Cash Equivalents as at 30 June 2021 was R690 million and 63% of which is invested at the CPD (ring-fenced for the FMD project)



FINANCIAL RESULTS OVERVIEW – FY2022 QUARTER 2

POSITIVE / FAVOURABLE:

- Operating surplus of R26.9 million
- Savings / Delayed spending on Personnel Costs (R36.3m) and Operating Costs (R92.4m)
- Cash reserves / position R857.6 million
- FMD ring-fenced funds R424.1 million
- Positive Net Cash Flows from Operating Activities R375.1 million
- Current Assets exceeds Current Liabilities [R536.9 million]
- Solvency and Liquidity assessment satisfactory

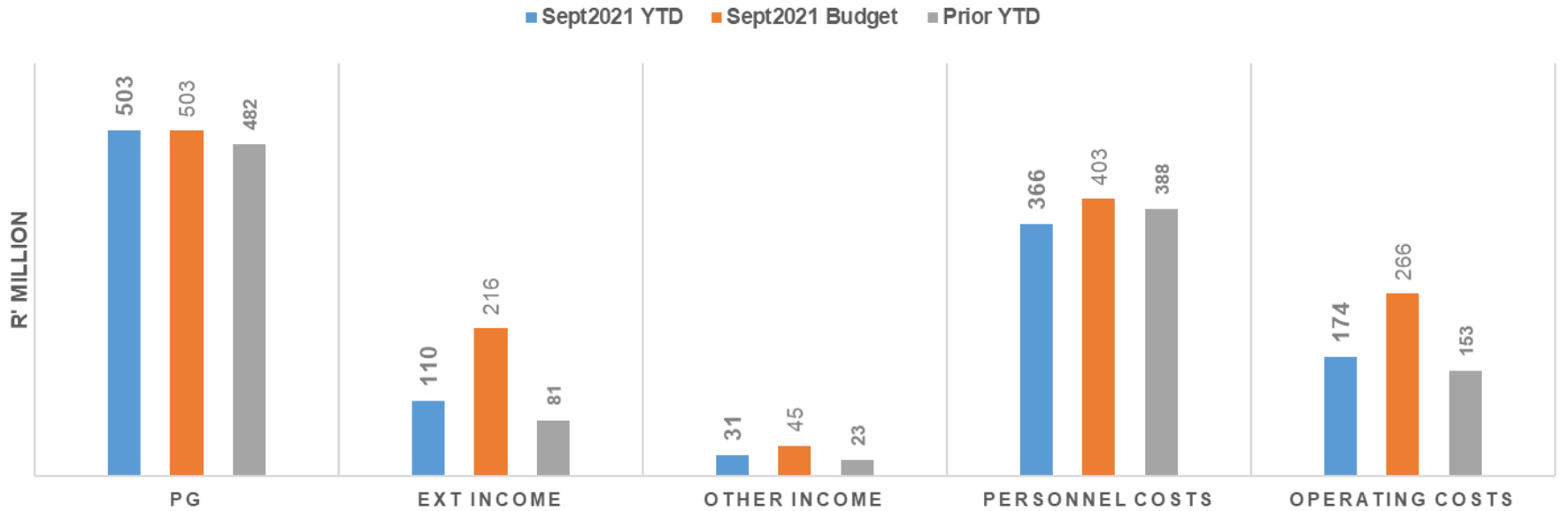
NEGATIVE / UNFAVOURABLE:

- External Income 49% below YTD budget (R105.1m)
- Other Income 31% below YTD budget (R14m)
- Old DAFF debt – continue to be pursued through the attorneys (legal process)



FINANCIAL PERFORMANCE OVERVIEW – Q2 FY2022

FINANCIAL PERFORMANCE OVERVIEW - SEPTEMBER 2021



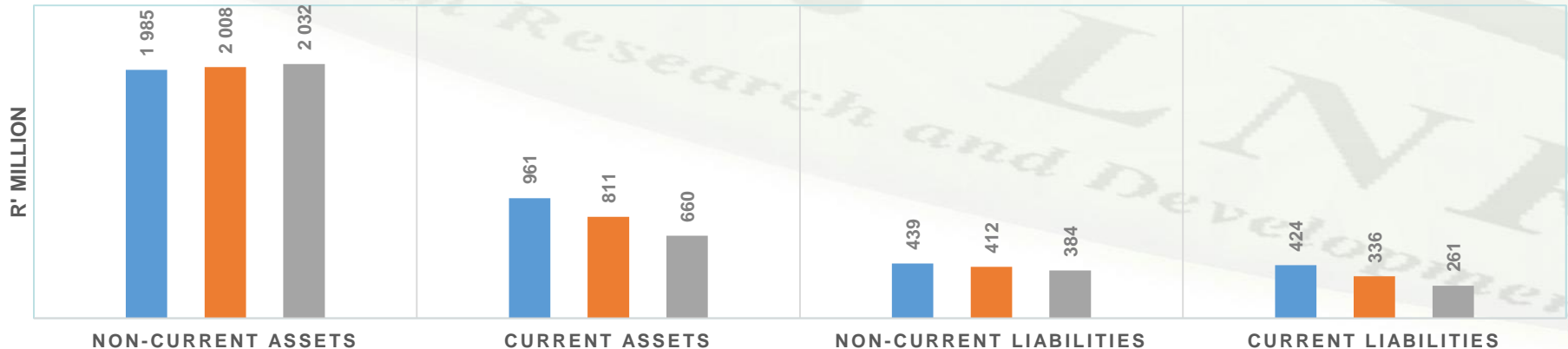
- **Operational PG** in line with the Allocation Letter; DSI PG was not budgeted for.
- **External Income:** 49% below YTD budget. Shortfall of R105.1m. A slow start of the financial year and performance showing a slight improvement from Q1, further growth anticipated.
- **Other Income** achieved to date of R31.2m (31% of budget), and 34% increase as compared to Prior year

- **Personnel costs:** R366m YTD, lower than YTD budget and Prior Year
- Personnel costs is 81% of Operational Parliamentary Grant
- **Operating costs savings:** R174m YTD, lower than YTD budget however exceeded Prior Year

FINANCIAL POSITION OVERVIEW – Q2 FY2022

FINANCIAL POSITION OVERVIEW - SEPTEMBER 2021

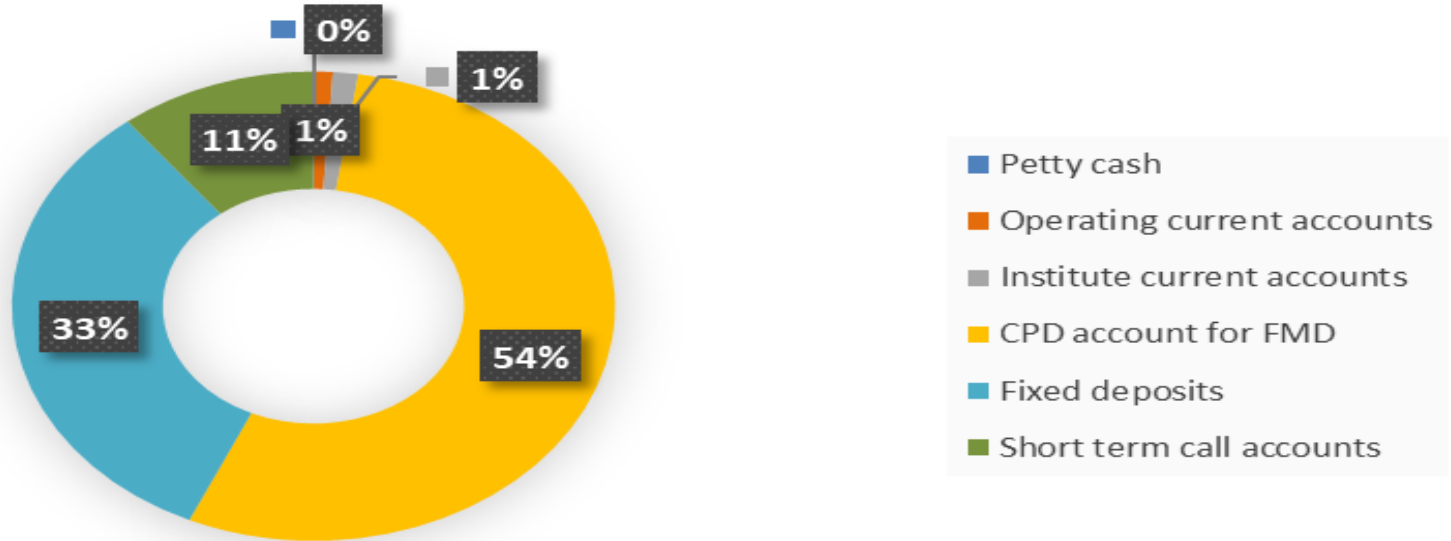
■ Sept2021 YTD ■ Sept2021 Budget ■ 1 April (Opening balance)



- **CAPEX commitments of R20.4 million**
- **CAPEX Spent to date: R19.6 million**
- **Accounts Receivables** reduced since the beginning of the FY2021
- **Accounts Payables** reduced since the beginning of the year
- **Income received in advance** has balance of R111.9 million
- **FMD funding** – continues to be received quarterly / Allocation Letter
- **Deferred Capital grant (FMD)** is at R424.1 million; with funds invested at CPD
- **R2 billion Net Assets Value**

CASH OVERVIEW – Q2 FY2022

Cash and Cash Equivalents



Cash and Cash Equivalents as at 30 September 2021 was R857.6 million and 54% of which is invested at the CPD (ring-fenced for the FMD project)

FINANCIAL RESULTS OVERVIEW – FY2022 QUARTER 3

POSITIVE / FAVOURABLE:

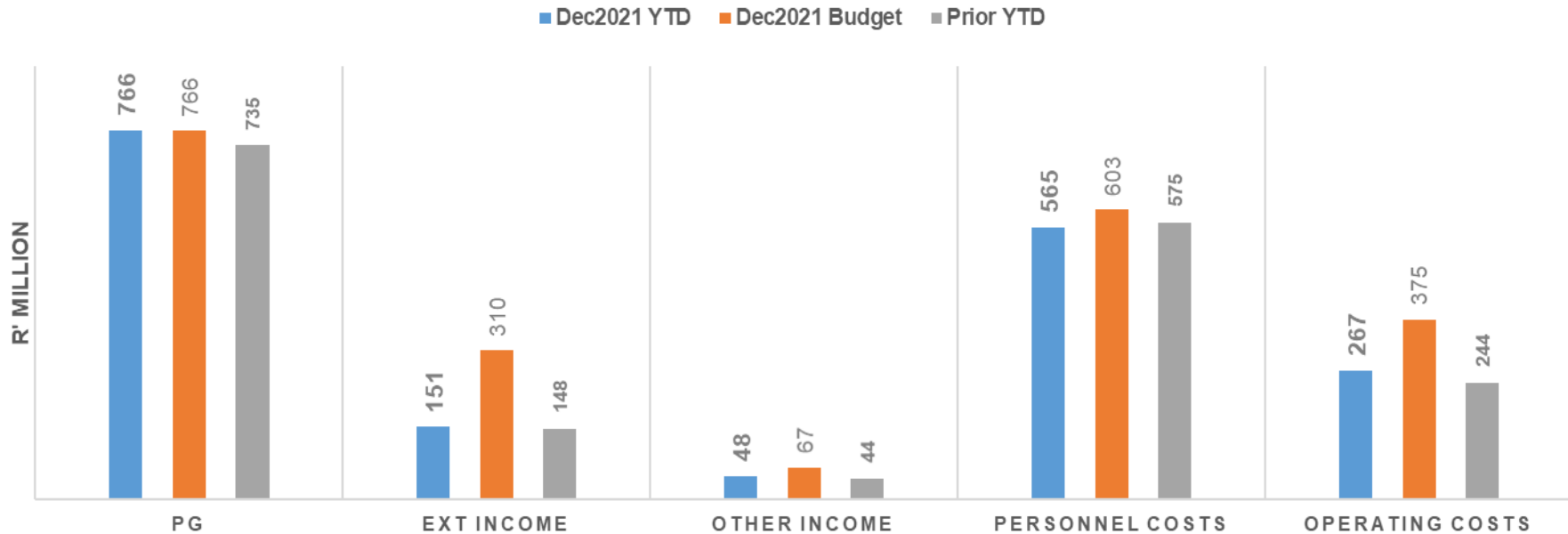
- Operating surplus of R11.1 million
- Savings / Delayed spending on Personnel Costs (R38.1m) and Operating Costs (R107.1m)
- Cash reserves / position R919.2 million
- FMD ring-fenced funds R452.4 million
- Positive Net Cash Flows from Operating Activities R443.8 million
- Current Assets exceeds Current Liabilities [R577.4 million]
- Solvency and Liquidity assessment satisfactory

NEGATIVE / UNFAVOURABLE:

- External Income 51% below YTD budget (R158.7m)
- Other Income 29% below YTD budget (R19.9m)
- Old DAFF debt – continues to be pursued through the attorneys (legal process)

FINANCIAL PERFORMANCE OVERVIEW – Q3 FY2022

FINANCIAL PERFORMANCE OVERVIEW - DECEMBER 2021

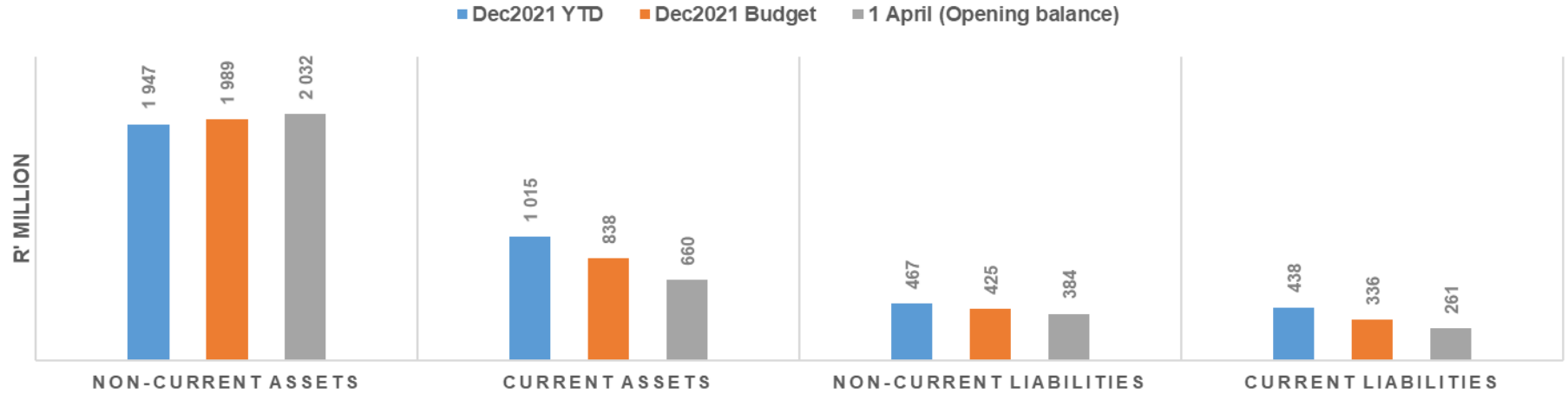


- **Operational PG** in line with the Allocation Letter; DSI PG was not budgeted for.
- **External Income:** 51% below YTD budget. Shortfall of R158.7m. A slow start of the financial year and performance consistently between 49% and 51% negative variance, however further growth anticipated.
- **Other Income** achieved to date of R48.7m (29% shortfall), and 10% increase as compared to Prior year

- **Personnel costs:** R565m YTD, lower than YTD budget and Prior Year
- Personnel costs are 82% of Operational Parliamentary Grant
- **Operating costs savings:** R267.5m YTD, lower than YTD budget however exceeded Prior Year

FINANCIAL POSITION OVERVIEW – Q3 FY2022

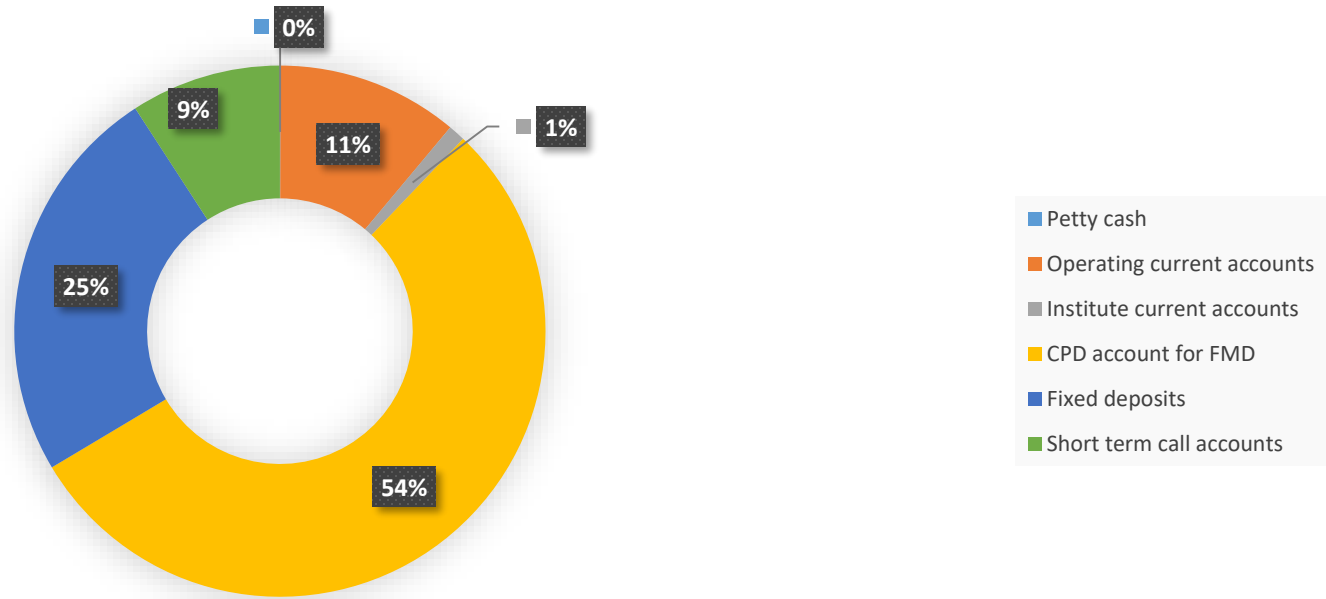
FINANCIAL POSITION OVERVIEW - DECEMBER 2021



- **CAPEX commitments of R20.4 million**
- **CAPEX Spent to date: R26.8 million**
- **Accounts Receivables** reduced since the beginning of the FY2021
- **Accounts Payables** reduced since the beginning of the year
- **Income received in advance** has balance of R112.3 million
- **FMD funding** – continues to be received quarterly / Allocation Letter
- **Deferred Capital grant (FMD)** is at R452.4 million; with funds invested at CPD
- **R2.1 billion Net assets value**

CASH OVERVIEW – Q3 FY2022

Cash and Cash Equivalents



Cash and Cash Equivalents as at 31 December 2021 was R919.2 million; 54% of which is invested at the CPD (ring-fenced for the FMD project)



FINANCIAL KPIs – Q3 FY2022

DESCRIPTION	ACTUAL	TARGET INDICATOR	FORECAST
Zero deficit (R'000)	11 106	Zero deficit	145 340
External Income as % of Total Revenue	16%	30%	21%
Rand Value of Royalty Income (R'million)	16	20	21
Reduction in fixed costs	5%	5%	5%
Personnel Costs as % of Operational PG	83%	80%	82%

The implementation of the ARC Sustainability and Financial Turnaround plan will have a positive impact on the following targets:

- Consolidation of PTA campuses – result in reduction in fixed costs*
- Personnel costs optimization - improve the personnel costs as % of operational PG

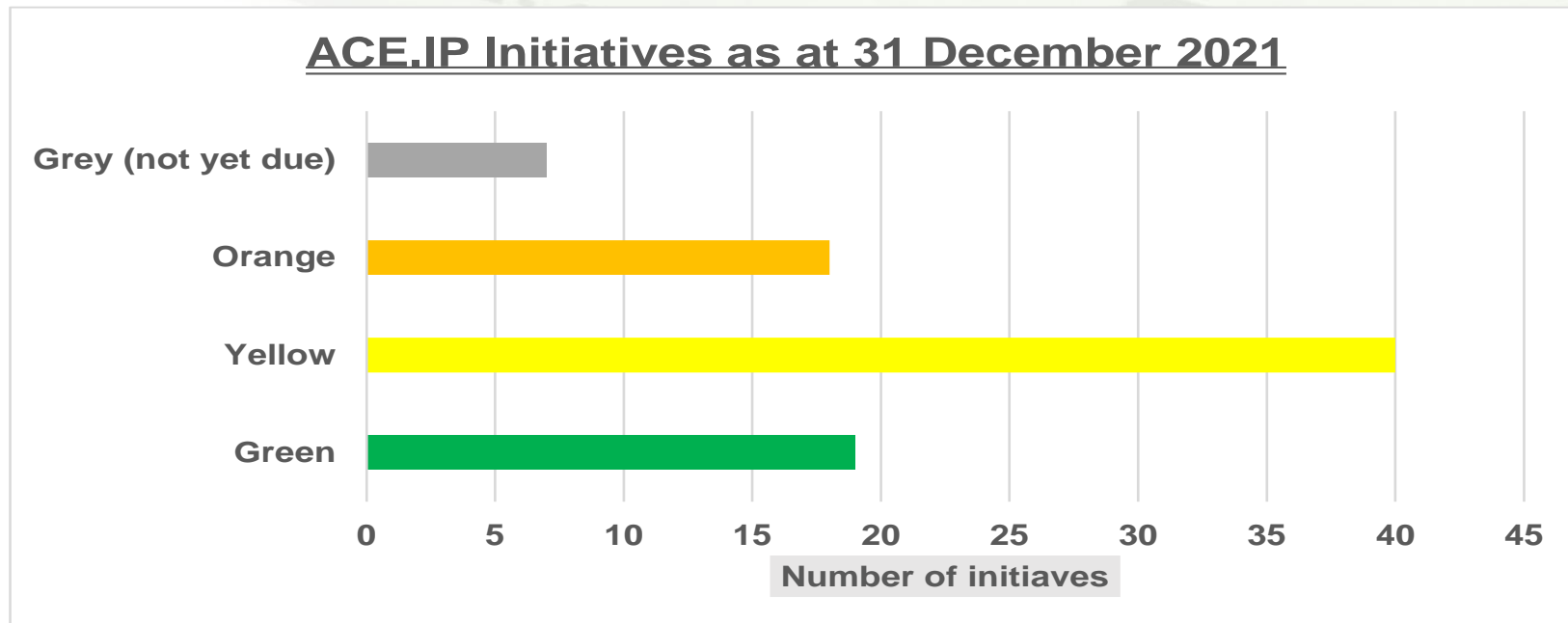
*Fixed costs include: water and electricity, rent: equipment, maintenance contracts, cleaning and security services

**PROGRESS
ON
ARC' CONTROLS AND EFFICIENCIES IMPROVEMENT PLAN
AS AT 31 DECEMBER 2021**



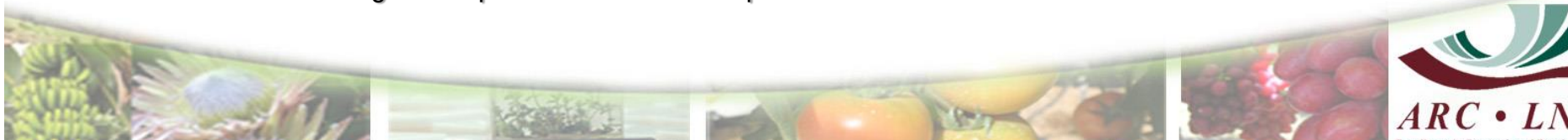
PROGRESS ON ACE.IP AS AT 31 DECEMBER 2021

A total of **84 initiatives** on the ACE.IP which are at varying statuses of implementation as outlined on a graph below:



Legend	Meaning
Green	Complete
Orange	Ongoing, initial deadline missed
Yellow	Ongoing, within deadline
Red	Not done

Refer to the attached Progress Report on ACE.IP for the period ended 31 December 2021



PROGRESS ON ACE.IP AS AT 31 DECEMBER 2021

Initiative No.	Key Initiative	No. of initiatives per area
1.	Improve the overall Corporate Governance within the Agricultural Research Council, to ensure that the ARC performs positively and achieves the following governance outcomes: (a) Ethical culture; (b) Good performance; © Effective control; (d) Legitimacy with stakeholders (trust and good reputation)	3
2.	Finance and SCM reorganisation for operational efficiencies	5
3.	Training, capacity building and skills enhancements Interventions	8
4.	Improve the quality of the financial statements	3
5.	Finance Compliance and Stakeholder Management plan	5
6.	Property, Plant and Equipment	8
7.	Payments and Commitments	4
8.	Bank Accounts	1
9.	Business Processes review (Detailed system descriptions) and monthly reconciliations	3
10.	Digitisation of records and electronic records management (online filing)	8
11.	Supply Chain Management	5
12.	ARC Sustainability and Financial Turnaround Plan	5
13.	Facilities / Infrastructure	4
14.	ICT related initiatives	3
15.	Legal Non – Compliance	4
16.	The ARC Executive Management Committee (EMC) to submit detailed (unaudited) monthly ACE.IP implementation reports by not later the 5 th of the following month to: (a) Audit and Risk Committee; (b) Council; © AGSA	1

PROGRESS ON ACE.IP AS AT 31 DECEMBER 2021

Initiative No.	Key Initiative	No. of initiatives per area
17.	The Internal Audit to submit independent monthly ACE.IP reports by not later than 15 th of the following month to: Audit and Risk Committee; Council; AGSA	1
18.	Compliance Universe	1
19.	Continuous training on Compliance Universe	2
20.	Delegations register and linked policies & processes	2
21.	Status of records review and monthly reports, by External Auditors (AGSA)	1
22.	AGSA – External audit governance model	2
23.	Prepare and present the Accounting Policies to be applied to the Annual Financial Statements for the year ending 31 March 2022. [Ensure that all GRAP standards applicable to the ARC are included].	1
24.	Preparing the Draft Annual Financial Statements for the year ending 31 March 2022	3
25.	Lifestyles audits to be conducted on staff which includes a level 2 probity review which identifies participation of the employee and immediate family members in business.	1
26.	Develop a Council and Council Committees Remuneration Policy which is approved by the Executive Authority [Minister of Agriculture, Land Reform and Rural Development]	1
27.	Monitoring of the progress on the Foot and Mouth Disease (FMD) Project	1

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Thank You

