driving Recovery through Job Retention & Creation

Productivity SA
Business Turnaround & Recovery
Annual Report 2020/21

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Inspiring a Competitive South Africa

Objectives of **Business Turnaround & Recovery** Programme

The Declaration of the Presidential Jobs Summit (October 1998) outlined a Turnaround Solutions Programme (now called Business Turnaround and Recovery) that aims to prevent job losses or a decline in employment. The Business Turnaround Programmes is supported by recent 2018 Job Summit and is aligned to the Economic Reconstructing and Recovery Plan.

Through the BT&R Programme, Productivity SA implement turnaround strategies and plans to restructure and improve the productivity and operational efficiency of companies facing distress to be sustainable, competitive and create conditions conducive for job retention and creation.

The specific focus of the Business Turnaround and Recovery Programme is to:

- Promote and stimulate workplace dialogue with the aim of achieving job retention
- Support initiatives aimed at preventing job losses
- Improve the employment and re-employment prospects of employees facing retrenchments.

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Message from the **Chief Executive Officer**

> promoting employment growth and supporting initiatives aimed at preventing job losses.

I am pleased to present to you the 2020/21 Business Turnaround and Recovery (BT&R) programme Annual Report. BT&R is a Productivity SA programme funded by the Unemployment Insurance Fund (UIF). Productivity SA is a government entity whose legislative mandate, is to promote employment growth and productivity thereby contributing to South Africa's socio-economic development and competitiveness, as provided for in section 32 of the Employment Services Act, No. 4 of 2014, read together with sections 2 and 7 of the Act.

Productivity SA 's mandate has been expanded as per the Employment Services Act of 2014 to include promoting employment growth and supporting initiatives aimed at preventing job losses. To give effect to the expanded mandate and subsequent policy and programme interventions, including the Presidential Jobs Summit Framework Agreement of 2018, the Department of Employment and Labour has resolved to fund the Business Turnaround and Recovery Programme (formerly known as TAS) through the UIF in terms of section 12 of the Act. To this end, the fund was recapitalised with R104 571 000 during the 2020/21 financial year and processes and systems were put in place to relaunch the BT&R programme.

The year 2020/21 was challenging from all fronts. While the programme itself was recapitalised and new processes were put in place to refocus its strategic direction and approach, only 25 companies were supported through nurturing. This translated into saving 3030 jobs. This was a direct result of the extended lockdown levels and impact of the Covid-19 global pandemic on the economy and jobs. Distressed companies were, and still are, in dire need of financial assistance and many businesses closed. The programme had limited access to potential clients which was further exacerbated by the festive shutdown period amidst the growing challenges on economic decline and unemployment.

As a result, the key focus of the relaunch period was to drive the message of productivity and the Business Turnaround and Recovery programme. All efforts were redirected to strengthening the message of what the service offering included.

According to the International Labour Organisation (ILO), ***the most important single driver of productivity is enterprises becoming better at what they do***. The ILO has recently launched its Sustaining Competitive and Responsible Enterprises (SCORE) Programme, which focusses on increasing productivity in smaller enterprises, recognising the impact that small businesses can have on the economy and job creation. According to the SCORE porgramme, productivity gains lower production costs and help enterprises shore-up their competitiveness. In the period under review, we strengthened our regional footprint and

capacitated the BT&R Head office team to drive this holistic message of ***total factor productivity and long-term sustainability and growth***. We are continuously working hard to promote sound working relations so that employees and workers can identify challenges early and co-create the solutions harmoniously. The key tenet of this message was that an increase in productivity would lead to increased profits which could then be reinvested and distributed to workers in the form of higher wages and further job creation.

In executing our mandate, we have espoused the following five principles for successful turnaround solutions, which was derived from the well published Global Business Turnaround, Mr John M. Collard. These include:

- A turnaround and recovery process that involves setting strategy, building a quality management team, acquiring new business/sales, establishing sound capital structures, implementing new processes, and nurturing resources.
- That distressed company leadership is about value preservation, recovery, communicating with multiple stakeholders, rebuilding, saving jobs, and leading in adversity.
- That managing turnarounds requires clear thinking, quick action, and a plan with buy-in from both employees and employers.
- That the process for turning around declining companies is easy to understand but challenging to implement.

Message from the **Chief Executive Officer**

- That Business fail because of mismanagement, sometimes it is denial, sometimes negligence, but it always results in loss.

With this renewed focus and objectives, the team sought to focus its energies on a renewed programme with clear roles and responsibilities across the organisation. The future strategic focus of the Business Turnaround and Recovery Programme which was directly mandated by the executive authority is to:

- Develop, formalise/document and monitor the implementation of policies, sustainable growth path models/frameworks and strategies for Business Turnaround and Recovery;
- Develop, formalise/document and monitor implementation of frameworks to establish workplace collaboration structures to facilitate worker-management cooperation in improving performance and sustainability;
- Collaborate with strategic partners such as the CCMA (section 189A of the Labour Relations Act referrals), labour federations and employer bodies to identify and assess industry sectors and/ or companies facing economic distress (financial or operational difficulties);
- Develop and continuously update/improve frameworks, products and services reflecting best operating practices pertaining to business turnaround and recovery;
- Develop (in conjunction with strategic partners and stakeholders), formalise/document and facilitate the implementation of programmes / initiatives aimed at assisting and supporting business entities facing economic distress; and
- Promote a stronger culture of productivity and accountability for productivity at national, sector and enterprise levels.

The past year has been the most testing in our country and globally. However, it has also demonstrated why, more than ever, South Africa needs credible and effective turnaround strategies to support and grow businesses to reach their maximum potential. Already many lessons have been learned, changes have been made, and new initiatives have been launched to strengthen our preparedness and response capacities.

I have confidence in this programme and firmly believe that now more than ever, it is required to fulfil a critical gap in economic reconstruction and recovery. I would like to take this opportunity to thank all the role players for going the extra mile during the year under review with getting the BT&R programme back on track. To the Director-General of the Department of Employment and Labour, I thank you for your unwavering support and to the management team and staff of the BT&R unit at both head office and regionally, I thank you for your perseverance and dedication – you have all contributed to putting in place a solid foundation for the BT&R programme from which we will ,continue to build in strength, capacity and reach.

Mr Mothunye Mothiba

Chief Executive Officer (CEO)
Productivity SA

> **We work hard to promote** sound working relations between employees and workers

Business Turnaround & Recovery **Team**

Executive Manager:
Business Turnaround & Recovery
Mr. Justice Tshifularo

Snr Programme Administrator
Ms. Leressa Samuel

Secretary
Ms. Caroline Muzenda

Monitoring &
Evaluation Specialist
Vacant

Business Turnaround & Recovery Specialist
Ms. Chantell Beyers

Organisational
Development Specialist
Vacant

Snr Productivity Practitioner
Mr. Neo Lekaowa

Business Turnaround & Recovery **Staff**

Region 1 (Gauteng, Limpopo & North-West)

Executive Manager: Regional Operations
Ms Lalane Janse Van Rensburg

Senior Manager: BT&R
Mr Neil Moodley

Region 2 (Western Cape, Northern Cape & Free State)

Executive Manager: Regional Operations
Mr Albert Brink

Acting Senior Manager: BT&R
Ms Christel Potgieter

Region 3 (KwaZulu-Natal, Eastern Cape & Mpumalanga)

Executive Manager: Regional Operations
Ms Amelia Naidoo

Senior Manager: BT&R
Vacant

Overview of Business Turnaround & Recovery Programme

Background

Economic overview

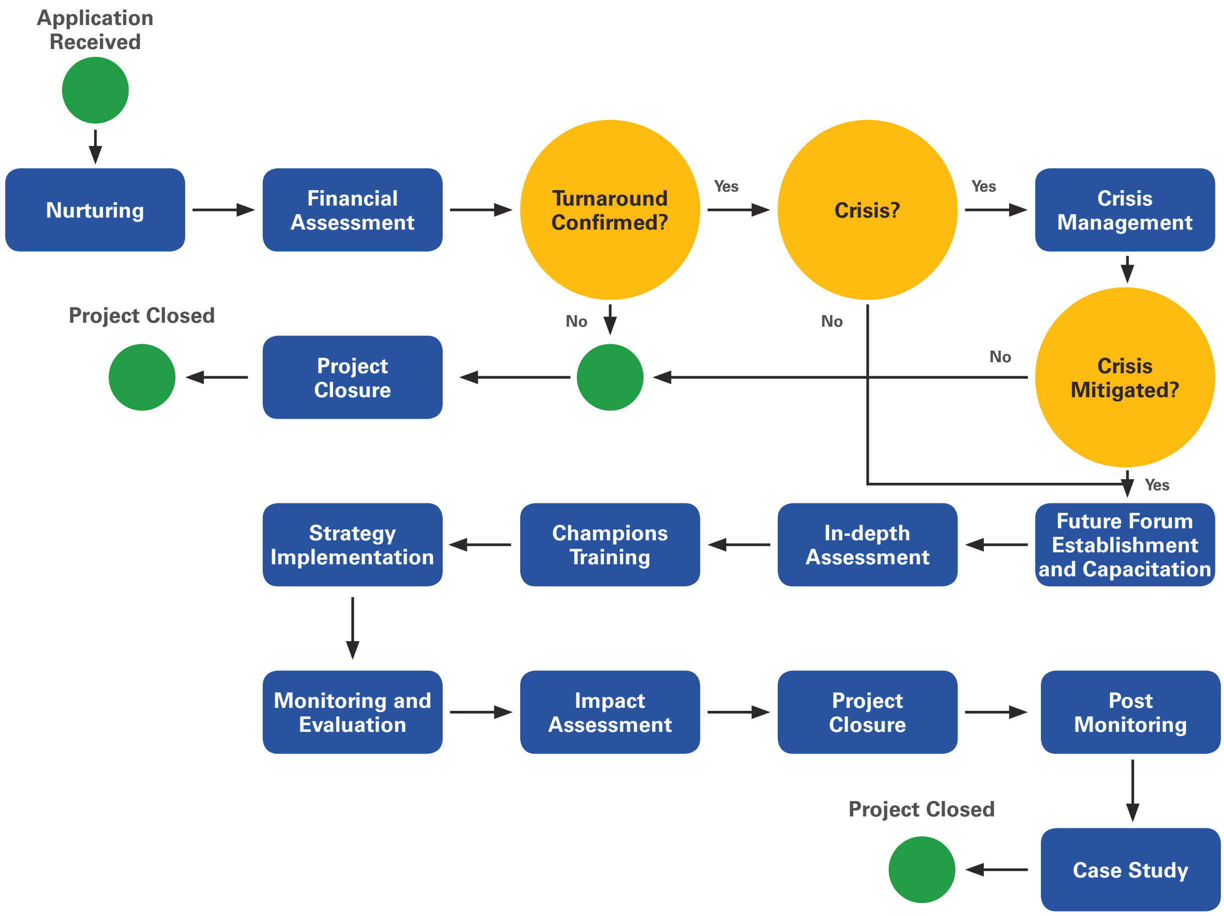
- Over the last financial year, the Covid-19 pandemic and the emergency health response have brought about a severe global recession. South Africa, and the rest of the world could not have been prepared for the response levels required to play a dual role of saving economies and protecting public health.
- Real GDP growth in South Africa declined by 7% in 2020, primarily due to restrictions on economic activity to contain the spread of the virus.
- Strengthening South Africa's competitiveness in a post-pandemic world will require a new social compact, decisive action to stabilise debt and narrow the budget deficit and determined implementation of reforms that improve the structure of the economy. In combination, these measures will enable millions of South Africans to participate in building a more productive and prosperous society.
- The last quarter saw a growth in South Africa's GDP to 6.3% despite the second wave of Covid-19 and lockdown restrictions. The signalled that Government was rapidly increasing its levels of preparedness and response.
- According to Statistics South Africa's GDP numbers, eight industries recorded positive growth between the third and fourth quarters of 2020. The largest positive contributors to GDP growth in the fourth quarter were the manufacturing, trade and transport industries.
- The manufacturing industry increased at a rate of 21.1% in the fourth quarter, contributing 2.4 % points to the overall GDP growth. Nine of the 10 manufacturing divisions reported positive growth rates in this quarter.
- The trade, catering and accommodation industry increased at a rate of 9.8% and the transport, storage and communication industry increased at a rate of 6.7%.
- Mining and finance both declined in the final quarter. The 1.4% decline in mining came after the industry grew by an impressive 271.2% in the third quarter of 2020.
- While Government fiscal reforms cushioned the impact for millions of businesses and employees, jobs remain at high risk and business' prospects continue to look dim.

Employment

- By the second quarter of 2020, South Africa had already shed 2,2 million jobs. This translated into a record high unemployment rate of 32.5% by June 2020, as the total number of jobless in South Africa grew to 7.2 million in the fourth quarter of 2020.
- Using the expanded definition of unemployment, which includes discouraged workers, this percentage increased to 42.
- Despite two decades of structural reform and policy reprioritisation, youth remain vulnerable and continue to find it hard to secure jobs.
- The BT&R programme has a critical role to play in ensuring meaningful turnaround solutions are deployed and that Productivity SA becomes the enterprise of choice for businesses that seek support or solutions.
- The fourth quarter of the year under review saw an upturn in employment numbers as the country managed to get a firm grip on its Covid-19 economic and public heath response. There was an increase of 333 000 in the number of employed persons and a decrease of 890 000 in the number of people who are out of the labour force.

Overview of Business Turnaround & Recovery Programme

BT&R Process



Nurturing

The nurturing process consist of an explorative conversation with a potential client to identify whether the client meet the requirements of the BT&R programme. The objective is to identify the nature of organisational distress and to evaluate the likeliness of a possible turnaround.

Financial Assessment

The turnaround viability of the company is assessed prior to time and money being expended on processes that are likely to fail. A financial assessment compares the applicant's shortcomings to similar businesses in the same sector. This assessment also identifies immediate crises that require resolving through a crisis management procedure. Apart from financial challenges, operational hindrances and wavering sustainability issues is also indicative of the distress a company is in, and as such are also considerations in this preliminary phase.

Crisis Management

Should the applicant's company already be in significant distress due to immediate threats such as liquidation by creditors, labour action by workers, termination of vital contracts or threatened closure by regulatory bodies, then immediate action must be taken to prevent the closure of the business or possible retrenchments until the turnaround processes can take effect.

Overview of Business Turnaround & Recovery Programme

Establishing the Future Forum

A key element of the Turnaround Solutions Programme, the Future Forum, is a committee established to bring together management, employees and union representatives in a manner that enables structured and open discussion between all parties regarding the issue of job retention. In this forum stakeholders collectively identify problem areas and formulate and debate strategies for saving jobs and even the company itself. During this process Productivity SA's practitioners provide technical assistance in areas such as financial, marketing and operational management. Once the organisation has been stabilised and the threatened jobs secured, the Future Forum institutes Early Warning Systems and meets regularly to identify emerging problems, formulate appropriate responses and if necessary, develop turnaround or redeployment strategies. This level of interaction between all stakeholders also ensures that the organisation is in a position to motivate for support in the form of government funds to subsidise further consultations or interventions.

Capacity Building

Capacity building is an integral and very important aspect of the programme process. This is done to ensure that the members of the Future Forum are empowered to contribute meaningfully and have an understanding of business operations and what will make an organisation profitable and sustainable. Future Forums undergo a full day's training and the main objectives of the training are to enable the future forum to:

- Determine successful business performance
- Become Profitable
- Become Productive
- Collaborate relationally
- For transparency and trust building on the decision making.

Productivity Champions Training

The elected Champions will undergo a three-day intensive training covering productivity concepts and organisational performance to equip the Champion to take ownership, facilitate and ensure sustainability of the interventions recommended and implemented. The main objective of the training is to ensure that the Productivity Champion leads the Future Forum and will assist with the turnaround and productivity improvement projects in his or her organisation.

In-depth Assessment

At this stage, the organisation and its appointed practitioners assess the root causes of the organisation's difficulties and develop appropriate turnaround or redeployment strategies. The workplan will highlight the key challenges within the organisation causing the distress, and outline the recommended interventions to reverse the challenges.

Strategy Implementation

Roles are allocated and the agreed strategies are implemented within the ailing organisation to reverse the challenges experienced. The main objectives of this phase are to:

- To implement the planned or amended strategy and achieve a successful turnaround
- To reverse the challenges experienced in the company
- To ensure the company's ability to continuously improve productivity and competitiveness and to collaborate on issues of job security
- To ensure that the company has clear strategies for exploiting opportunities and future investments.

Monitoring & Evaluation

Monitoring and evaluation of deliverables within the client system is a continuous process to ensure that the intended benefits are realised. Through the monitoring and evaluation process the practitioners in collaboration with the future forum members will identify areas of improvement and will adjust the implementation accordingly to yield the intended outcome.

Overview of Business Turnaround & Recovery Programme

Impact Assessments

Impact Assessment is a means of measuring the effectiveness of organisational activities and judging the significance of changes brought about by the Turnaround Solutions interventions.

Assessing the adoption, implementation, project management and quality assurance of the turnaround strategies. The main objectives of this phase are to:

- To ensure the quality of services rendered
- To ensure effective management of projects
- To ensure the mandate of the programme has been followed through
- To ensure job saving and creation.

Project Closure

Once the impact assessment is finalised a close out report is composed encompassing of an detailed account of the accomplishments and gaps identified. The report is presented to the future forum for their input and sign off, which brings the project to a closure.

Overview of Business Turnaround & Recovery Programme

Impact of Business Turnaround & Recovery Programme

Activities*	Planned Target 2020/21	Actual Achievement	Variance
Nurturing of new turnaround clients	174	25	149
Financial assessments	261	32	229
Establishment of Future Forums	174	18	156
1 day Future Forums Capacity Building	174	13	161
3 days Productivity Champions training	87	7	80
Development of turnaround strategies (workplans)	174	1	173
Implementation of turnaround strategies	174	0	174
Impact assessments for quality monitoring	87	0	87
Post implementation monitoring and evaluation	87	0	87
Compilation of Close out reports	174	0	174

The variance in performance can be accounted to the following emerging challenges:

1. Adverse effect that the global pandemic and lockdown restrictions that impacted our usual operations;
2. The suspension period of the Programme;
3. No access to clients and challenge to find alternate ways to reach out to clients, due to lack of technology in these distressed companies;
4. Companies closing mid-December for the festive period;
5. Distressed business seeking financial assistance and become uninterested when they learn that we offer non-financial support;
6. There is a variety of financial assistance from Government that distressed entities are prioritizing;
7. The qualifying criteria of having 20 or more employees is limiting us against assisting micro and small entities with less than 20 employees;
8. A good percentage of non-qualifying clients as our criteria is specific that entities need to be in good standing with SARS and UIF and
9. Build into the strategic partnership agreements the pre-qualifying of clients.

* The Productivity SA Business Turnaround & Recovery (BT & R) Programme formerly known as Turnaround Solutions (TAS) Programme was suspended in 2018. The suspension was necessitated by the unavailability of funds to implement Turnaround Solutions interventions to companies facing economic distress. Productivity SA, which is established in terms of the Employment Services Act, No. 4 of 2014 as an Entity of the Department of Employment and Labour (DEL) reinstated the Business Turnaround and Recovery Programme (formerly known as the Turnaround Solutions Programme) with effect from 15 June 2020. The Department of Employment and Labour through the Unemployment Insurance Fund (UIF) provided for in section 5 (d) of the UI Amendment Act, pledged over R104 million for the programme, and the first tranche of R23 million has already been transferred to Productivity SA as per the approved Funding Agreement of R104 571 000.

Overview of Business Turnaround & Recovery Programme

Interventions in industry sectors

Sector	No. of Projects	No. of Jobs Involved
Construction, Mining and Engineering	3	199
Forestry	2	266
Services	5	1 025
Manufacturing	15	1 540
	25	**3 030**

Geographical spread of BT&R Interventions

Region	No. of Projects	No. of Jobs Involved
EC	2	81
GP	2	193
KZN	11	1 713
MP	2	475
WC	8	568
	25	**3 030**

Overview of Business Turnaround & Recovery Programme

Capacity Building

Future Forum

Future Forum Training

The established committee brings together management, employees and union representatives in a manner that enables structured and open discussion amongst all parties on the issues of job retention. Stakeholders collectively identify the problem areas and formulate and debate strategies for saving jobs and even the company itself.

Future Forum Objectives

Building capacity ensures all members of the Future Forum are empowered to contribute meaningfully with a clear understanding of business operations and what will make the company sustainable and profitable. The Future Forum is a team of employees set up to promote a collaborative relationship between management and the workers in the workplace. Thus, the objectives of the Future Forum focus on:

- Open discussion and joint problem-solving process.
- Information sharing.
- Platform for evaluation and clear measures of goals and outcomes.
- Improve employee participation in the organizational decision-making.

Future Forum Training focus on the following Modules:

- Who is Productivity SA?
- The Business Turnaround and Recovery Programme
- How businesses operate
- Determinants of successful business performance
- Profitability, Profit Margins and Economic Factors
- Productivity
- Factors affecting Productivity
- The Seven types of Waste
- Quality
- The Future Forum
- Workplace Collaboration
- Transparency and Trust Building
- Parties to Proactive Future Forums (PFF) and their roles
- List of issues to be dealt with by PFF
- Dissemination of Information
- Desired Outcome

Objectives of Productivity Champions

Each organisation that has undertaken a Business Turnaround and Recovery programme appoints one or several Productivity Champions who become responsible for the ongoing sustainability of turnaround solutions in companies and organisations. These champions are specifically responsible for:

- Preventing declines in stable businesses;
- Capacity building of Future Forums;
- Measuring productivity, quality and organisational performance;
- Maintaining Future Forums; and
- Establishing and using Early Warning Systems.

Productivity Champions will complete the following types of training modules:

Module 1 – Introduction
Module 2 – Productivity
Module 3 – Organisation Performance
Module 4 – Quality and Customer Satisfaction
Module 5 – Early Warning Systems
Module 6 – Improvement
Module 7 – Change Management
Module 8 – Project Management
Module 9 – Support Programmes
Module 10 – Future Forum
Module 11 – Evaluation (Future Forum presentation)
Module 12 – Evaluation (Early Warning System)

“We identify challenges early and co-create the solutions harmoniously.”

Case Studies

Name of Project: Epitome Consulting
Region: Gauteng
Project Manager: Neo Lekaowa

1. Project Background

Epitome Consulting is a multi-disciplinary consulting company which is black owned, the company was registered in 2009 and started operating in 2010. The company employs 18 permanent & 10 temporary employees. Epitome Consulting is headquartered in Kempton Park, Johannesburg. It offers the following services in civil engineering:

- Water and sanitation
- Water Conservation and Water Demand Management (WC & WDM)
- Roads and Storm water
- Civil and Structural Engineering
- Project and Programme Management
- SMME Development and Supervision

A customer profile of Epitome Consulting demonstrates that it derives most of its projects from the public sector (government) and in particular municipalities both urban and rural (metropolitan, district and local).

2. Challenges

Epitome consulting was having a challenge with acquisition of new business as they did not have Quality Management systems and ISO Standards. As a result the business had to always rely on subcontracting to other business and that had a very detrimental impact on their pricing. Furthermore the business was faced with delay in delivery of projects since there were defined roles and responsibilities. Epitome Consulting had lots of inefficiencies and their expenses were very high. The profit margin percentage decreased from 5% to -15.1 % for the financial year 2015/16. Due to unavailability or limited amount of work Epitome sales declined with 50.5% in the financial year 2015/16. That led to return on assets reducing from 18.9% to -24.1% within the same period.

3. Productivity SA approach

An in-depth analysis conducted recommended interventions that were geared to address aforementioned challenges. The interventions recommended were:

- Analysing the AS-Is (status quo) in order to identify the gaps that prohibited the organisation to meet the ISO 900:2008 Standards
- Develop and Implement Quality Management Systems
- Develop Training Manuals for the Technical Department
- Develop Key Performance Indicators for the organisation

4. Results and Impact

The implementation of Quality Managements System and ISO 9001:2008 Certification gave Epitome Consulting a competitive edge and afforded the organisation opportunity to bid and compete for the jobs they could not previously compete for. The business acquired for more projects which contributed immensely to their client base.

The organisation improved on lead times as the key performance indicators were developed and clear roles and responsibilities were defined as a result there was an improvement on lead times and efficiencies.

The organisation managed to secure new business and had a significant sales increase of 147% for the financial year 2017/18. The gross profit increase 10.8% in the same period. Epitome Consulting managed to preserve 18 permanent jobs with a potential of creating more as the business is more project driven.

Case Studies

Case Studies

Name of Project: SBS Tanks
Region: Region 3
Project Manager: Leigh Chetty

1. Project Background

SBS tanks was established in 1998. They design, manufacture and install Zincalume steel panel water storage tanks and reservoirs for the South African market, the African Continent and overseas markets. Over time SBS Tanks developed into a manufacturing business so that it could reduce its reliance on suppliers and ensure on-time delivery. SBS Tanks has established themselves as a market leader in the manufacturing of a range of liquid storage tanks and intend maintaining this position. The high-quality materials used to make the tanks is of Zincalume material. This material is a blend of aluminium with zinc in an alloy coating. Research has shown that this is a way to greatly enhance corrosion resistance. SBS Tank's product range from a 12 Kl capacity tank to a 3,3 Ml storage tank. Their Markets include Government at Local Municipality level, the commercial sector where fire is considered a major risk by Insurance Companies, Mining Industry, Food and Beverage Sector and Water Conservation. Export markets in the UAE have been secured and other countries are being explored.

The primary aim of the Business Turnaround & Recovery Project in 2016 was to grow the existing business revenue streams that would make the business sustainable in the long term, thus the focus was on:

- Accessing new markets;
- Meeting Health and Safety Standards;
- Improving performance of key staff;
- Developing new products; and
- Reducing the volume of work outsourced.

The Biometric security system implemented to improve efficiency of wage computations for employees is still being used and maintained. SBS Tanks has also implemented the Performance Management System and using it to review staff and the corporate activities. The corporate integrity of SBS Tanks and credibility among stakeholders, customers, prospective clients and the public is well maintained by adopting an international safety standard OHSAS 18001. Over and above the BT&R interventions, SBS Tanks has currently moved from just being a water industry working with water and tanks to now adding another pillar of Food Storage and Security. With all these successes, SBS Tanks was a finalist in the Regional Productivity Award and a winner in the National Productivity Award in October 2018.

Covid-19

SBS Tanks currently has 218 staff complement. Through the work done in collaboration with the Business and Turnaround & Recovery, SBS Tank continues to maintain the staff morale, and this has proven to take the corporate through the hash days of Covid-19 pandemic from April 2020. SBS Tanks main focus was to also keep employees at work during the various lock downs levels. The company's aim was to not retrench or loose staff. The strategy was to maintain productivity and leveraging on the added food security pillar to bring more income. SBS Tanks also managed to provide their employees salary increases even during the Covid-19 pandemic lock downs.

2. Challenges

As an emerging company they faced many challenges in acquiring new business to ensure continuous growth. The key areas of concern, challenges that were identified during the review of SBS Tanks are highlighted below:

- The availability of skilled and trained labour.
- Budget constraints associated with the recruitment of highly skilled labour.
- Black Steel tanks fabrication cost as a result of outsourcing.
- Raw material costs as percentage of sales are high.
- An area of concern is the fact that Liquidity ratios showed movement to a less liquid position and if not managed could result in cash flow constraints could exist in the near future.
- Limited use of technology-based systems for inventory management, outsourcing and stock control.
- Assessment of existing processes revealed levels of inefficiency and ineffective controls within the manufacturing and assembly process.

3. Productivity SA Approach

The primary aim of this turnaround project was to grow the existing business revenue streams that would make the business sustainable in the long term.

As mentioned before, the proposed turnaround strategy was to ultimately result in an improved operational process, efficient and timeous delivery service to customer's world-wide, consistent quality of service, compliance with Health and Safety Standards, improved communication at all levels in the organization, improved staff morale and motivation, improved sales and bottom-line profit for the business.

The Future Forum, a collaborative structure representing management and employees with the purpose of actively involving management and labour in the programme during all its phases, was established. The above formed basis for the development of a work plan outlining the turnaround strategies and required interventions.

The proposed actions were approved by the Future Forum and Productivity SA and consisted of several deliverables. The following interventions were conducted to date:

- Establishment of the Future Forum committee
- Development of an Export Market Growth and Diversification Strategy
- Implementation of OHSAS 18000: Safety Management System
- Implementation of 'Biometric Access' control system
- Develop a Performance Management and Development System (PMDS)
- Business process assessment
- Future Forum and Productivity Champions Training

4. Results and Impact

Lessons Learned

The collaborative work done by the Business Turnaround and Recovery and SBS Tanks from inception to close-out has led to not only implementing interventions identified to support effective turnaround solutions, but has also left the BT&R programme with tremendous lessons learnt and to be carried over as best practices. These include:

1. Instrumental and Revolutionary Interventions

Corporates are faced by increasing pressure to become more sustainable, develop innovative products and ideas and keep up with the changing technological landscape. In this context, corporates are looking for solutions that not only make them respond better to the current economic challenges, but also be adaptable and flexible in their strive to become more sustainable. The assessment with SBS Tanks showed the need for the BT&R Programme to think further than just addressing the identified problems, but also to prioritize interventions that are instrumental and revolutionary in bringing something new to the company. Not all the corporates are at the same level, thus interventions will need to be carefully selected to suit the corporate and keep the company motivated and enthusiastic toward a productive change.

2. Leadership and change management

Every company needs a leader to set the vision for the organisation and ensure that outputs are achieved, that cost drivers are kept low and that expenditure targets are realised.. However, every leader is often faced by challenging tasks and increasing demands . The assessment with SBS Tanks showed that SBS Tanks has embraced the facets that come with efficient leadership, which steered the company through the uncertain terrains of the economic downturn and Covid-19, while maintaining staff morale. In this context, the follow up discussion highlighted the need for the BT&R programme to expand its scope to include a focus on leadership training and change management. Too often are our interventions focussed on the company's operations, while neglecting the importance of ensuring that leadership is equipped and capacitated to successfully steer the ship.

Utilisation of Free and Available Resources

The assessment with SBS Tanks has provided another lesson learnt that the Business Turnaround and Recovery Programme will maintain going forward. Previously there was a large focu on outsourcing all requirements and interventions. This proves to detach the core objectives of the BT&R programme from the client. In this regard, internal capacity must be enhanced and upskilled to ensure that our practitioners are better resourced in delivering the solutions. This would ensure that solutions are focussed and tailored and would further instil a sense of ownership for the PSA team, which makes for effective follow-ups. It also motivates good relations between the internal teams and the corporates. This way, it becomes easy to follow-up on lessons learned and monitoring the impact and future sustainability of the programme.

Case Studies

Name of Project: Steelman
Region: Region 1
Project Manager: Neo Lekaowa

1. Project Background

Steelman is wholly owned by Staalbeer, a steel merchant with three branches in Potchefstroom, Vereeniging and Bothaville. Staalbeer is the sole supplier of raw material to Steelman and its sole customer absorbing all its produce. Steelman's core business is to perform value adding activities to steel and bring it to the specifications that the customer requires.

These value adding activities are performed on steel products that are used in the construction and built environment industry. There are three main value adding departments all housed at the Potchefstroom branch, which are the roof sheeting, palisades and cut and bend for reinforcing. From Potchefstroom, value added products are supplied to the two other branches of Vereeniging and Bothaville.

The one contributing most to the bottom line is the roof sheeting line, where different types of steel roof sections are rolled from galvanized coil. The next is the palisade line where palisade sections for perimeter walls are welded. Lastly, it's the cut and bend section, where steel reinforcing is cut and bent to customer requirements for load bearing concrete columns and foundations.

At the later stage the business shut down the cut and bend department as it was accumulating losses and introduced light steel manufacturing business.

Productivity South Africa initially implemented its Business Turnaround and Recovery (BT&R) solution in 2016. Five years later, we revisited the company to understand the impact of our interventions and identify areas that may require further support and intervention.

Macro-Economic Environment

The global shortage of steel due to a sharper than expected recovery in nearly all markets has pushed international steel prices back to their highest since 2008. The impact on domestic markets and the downstream industry have been devastating, especially for small businesses such as Steelman, who have no choice but to bear the brunt of increasing prices. Steel prices remain highly regulated.

These industry players face a number of serious challenges, such as rising operational expenses while global competition is putting downward pressure on selling prices. Therefore, manufacturers must increasingly find ways of being innovative in the way they manage their businesses. Increases in labour costs, electricity and transportation all have detrimental impacts on margins, investment in new capacity and job retention. For end users such as Steelman, challenges include price, product quality, volume and payment terms. Most of these variables are fixed, with little or no room for negotiation.

Covid-19

At the onset of the Covid-19 pandemic, and the initial shutdown in April 2020, Steelman applied for relief through Government's Covid-19 Temporary Employee/Employer Relief Scheme. This application was successful, and employees enjoyed the subsides wage benefit for a period of 3 months. All protocols were adhered to, including social distancing, sanitising and compulsory mask wearing. Steelman has thankfully not had a single case of Covid-19 amongst its employees.

Load Shedding and its effects to Businesses

Eskom's mandate is to ensure security of supply to service the South African economy and society. At all times there must be sufficient supply to meet demand, however electricity demand is not constant because of peak periods when demand is higher and continuous growth in the number of customers requiring electricity services. This means that the power system requires constant and prudent management of supply to meet demand but, today, Eskom faces the challenge of a constrained power system that will affect us until substantial new power capacity is available. Load shedding is a controlled process that responds to unplanned events in order to protect the electricity power system from a total blackout. Therefore, load shedding is used to manage our power system and protect it from such an event.

As South Africa strives to manage the country's electricity, load shedding has a serious impact on industries that rely on continuous electricity production and Steelman is no different. While electricity is not the high-cost drivers, production becomes low, and some employees cease work. Steelman resort to the utilisation of generators however it is not enough. Prioritization of which machines need to stay on becomes critical. The available electricity is therefore used in the most critical productivity.

2. Challenges

At the time of the first assessment, the business was not providing quality service to its customers. Products were not delivered well on time, the production throughput was not streamlined and there was too much waste in the production process.

Each business unit of cut and bend, palisade line and roof sheeting have their own matrixes of floor space utilisation, conversion cost, labour costs, and overheads. The cut and bend area had the largest and most expensive machinery in the whole company, however sales of products from this area yielded the least profitability as prices throughout the industry were fixed on weight. Based on this and collaborated with the MD Johan Roos the cut and bent area was the largest loss-making department and it was earmarked as the initial improvement area.

There were a lot on production inefficiencies and the general workforce needed to be equipped to understand their role in improving efficiency and waste reduction.

Some of the challenges included:

- The flow of materials from the cropper to the manual benders was not optimal as a lot of time was spent waiting for the crane to transport the materials at the same time reducing productivity as machine idle time was as high as 15%.
- Transportation waste of long lengths was identified where goods were delivered to one place as incoming material, however these are moved again with no processing to an area where they would be displaced from, a total distance of 45m. This created idle time for many of the products being produced as crane waiting time was sometimes longer that 10mins.
- Production coming from the RSM machine was being placed on the floor requiring the operator to then spend additional time to package the product from the floor. The operator motion took up an additional 13mins.

3. Productivity SA Approach

In 2016, nurturing and financial analysis were conducted. Furthermore, the Future Forum was established and capacitated, an in-depth analysis outlining problematic areas was conducted and relevant interventions were identified. Champions were identified and capacitated to implement the turnaround strategies and were very instrumental to the implementation of the turnaround strategy.

It was then decided that the production planning system be modified to allow for confirmed orders from branches to be placed directly on the production schedule.

Case Studies

Secondly, orders from the branches of Bothaville and Vereeniging would be prioritised to consider delays of receiving products.

All nine members of the cut and bend area including the supervisor and management embarked on waste training to assist them in being able to identify the different types of wastes. This then allowed them to understand the effect of these wastes on productivity. Ideas of how productivity could be improved were initiated and refined. This was of great importance as we do believe that ideas to improve the work area should come from the people most affected by the current state. Based on our many years of experience it is more likely for an idea to be rejected by the shop floor employees if they feel that it was imposed on them, then them being an active part of the process.

Subsequently, Productivity SA engaged the entity to determine the impact of the interventions, which included:

1. Manufactirng lead time improved from 5 days to 1 day of production
2. Productivity output improved 20% on palisade production line and 25% on gate welding production line
3. Machine setup time improved by 60%

4. Results and Impact

Workplace collaboration and Impact

The Future Forum and Champions Training enabled constructive dialogue between management and labour and assisted in deliberating issues affecting business performance.

The BT&R solutions implemented in 2016 was hailed successful, with material improvements in waste management, business operations and worker morale. Key to the success of the intervention was the cocreation of solutions between the workers of Steelman and its Management Team.

Productivity South Africa engaged with Steelman as a follow up to unpack the impact of the BT&R and identify whether there was room for further intervention. The initial impact of BT&R included significant reduction in absenteeism, increase in worker morale and collective accountability. Mr Johan, in the follow up discussion, described his workers as a "thinking workforce" post the TAS programme, where workers were now giving input and adding value to problem solving and cocreating solutions. These interventions are worth celebrating as this investigation shows that even five years post the deployment of BT&R, workers remained equipped and capacitated to continuously improve aspects related to machine reliability, management of redundant material and continuous improvements in factory layout.

The general expression conveyed was that the BT&R had equipped the company and its employees to be flexible and adaptable to change, increasing staff morale and the ability to engage in and cocreate solutions. Mr Johan unequivocally attested the success of the staff's ability to work together during the uncertain times of the pandemic was a direct consequence of the capacity building and training knowledge imparted during the turnaround solutions programme.

Going forward, Productivity South Africa has identified opportunity for further intervention, especially with a focus on collaborative problem solving and re-igniting the Future Forum as a platform for staff to increase and promote a collaborative relationship between management and the workers in the workplace. These forums serve as a basis for the identification of challenges and outlining the turnaround strategies and required interventions.

Annual Financial Statements

Index

Approval of **Annual Financial Statements**

The annual financial statements, which appear on pages 28 to 42, were approved by the Board of Directors on 12 August 2021 and signed on their behalf by:

Mr Mothunye Mothiba

Chief Executive Officer (CEO)
Productivity SA

Auditor's Report

to Parliament on Business Turnaround and Recovery

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. We have audited the financial statements of Business Turnaround and Recovery a division of Productivity SA set out on pages 28 to 42, which comprise the statement of financial position as at 31 March 2021, the statement of financial performance, statement of changes in net liabilities/assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, the financial statements present fairly, in all material respects, the financial position of Business Turnaround and Recovery a division of Productivity SA as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

Basis for opinion

3. We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of this auditor's report.
4. We are independent of the entity in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of accounting authority for the financial statements

6. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

8. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. A further description of our responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

10. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, we have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programme presented in the annual performance report. We performed procedures to identify material findings but not to gather evidence to express assurance.

11. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. We have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. Our procedures do not examine whether the actions taken by the entity enabled service delivery. Our procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

12. We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected Programme presented in the annual performance report of the entity for the year ended 31 March 2021:

Programme	Page in the annual performance report
Programme 3: Business Turnaround and Recovery	11

13. We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. We did not identify any material findings on the usefulness and reliability of the reported performance information for this programme.

Other matter

15. We draw attention to the matter below:

Achievement of planned targets

16. Refer to the annual performance report on page 11 for information on the achievement of planned targets for the year and management's explanations provided for the under/ over achievement of targets.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the entity's compliance with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

18. The material findings on compliance with specific matters in key legislation are as follows:

Annual Financial Statements

19. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1) (b) of the PFMA.

20. Material misstatements of other income, payables from exchange transactions, commitments and contingent liabilities identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and Contract Management

21. We were unable to obtain sufficient appropriate audit evidence that invitations for competitive bidding were advertised for a required minimum period, as required by Treasury Regulation 16A6.3(c).

22. All invitations for competitive bidding were not advertised in at least the government tender bulletin, as required by Treasury Regulation 16A6.3(c).

OTHER INFORMATION

23. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected programme presented in the annual performance report that have been specifically reported in this auditor's report.

24. My opinion on the financial statements and my findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Auditor's Report

to Parliament on Business Turnaround and Recovery

25. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

26. We did not receive the other information prior to the date of this auditor's report. When we do receive and read this information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, we may have to retract this auditor's report and reissue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

27. We considered internal control relevant to our audit of the financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

28. Management did not implement effective controls to ensure accurate financial reporting which resulted in material adjustments made to the financial statements.

29. Management did not monitor compliance with applicable legislation adequately resulting in the lack of adequate procurement and contract management processes

AUDITOR TENURE

30. In terms of the IRBA rule published in Government gazette number 39475 dated 4 December 2015, we report that Nexia SAB&T has been the auditors of Business Turnaround and Recovery for 8 years.

NexiaSAB&T

Nexia SAB&T

C. Chigora
Director
Registered Auditor

12 August 2021

119 Witch Hazel Avenue
Highveld Technopark
Centurion, 0146

Annexure – **Auditor's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the financial statements, and the procedures performed on the reported performance information for selected programme and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to our responsibility for the audit of the financial statements as described in this auditor's report, we also:

- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of Business Turnaround and Recovery to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify our opinion on the financial statements. Our conclusions are based on the information available to us at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
4. We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Statement of **Financial Position**

as at 31 March 2021

	Notes	**2021**	2020
ASSETS			
Current assets			
Receivables from exchange transactions		36 225	12
Cash and cash equivalents	3	18 607 962	5 163
Total assets		**18 644 187**	**5 175**
LIABILITIES			
Current liabilities			
Payables from exchange transactions	4	2 468 649	2 376 557
Unspent conditional grants and receipts	5	16 078 420	22 108 342
Provisions	6	97 118	8 028
Total liabilities		**18 644 187**	**24 492 927**
Net liabilities		**–**	**(24 487 752)**
Accumulated deficit		–	(24 487 752)

Statement of **Financial Performance**

for the year ended 31 March 2021

	Notes	**2021**	2020
REVENUE			
Revenue from exchange transactions			
Other income	7	24 487 752	-
Revenue from non-exchange transactions			
Transfer revenue			
Transfers received		7 746 085	8 712
Total revenue		**32 233 837**	**8 712**
Expenditure			
Employee related costs	8	(5 189 964)	-
Lease rentals on operating lease		(455 190)	-
Debt impairment		-	(36 374 169)
Operating expenses	9	(2 100 931)	(8 712)
Total expenditure		**(7 746 085)**	**(36 382 881)**
Surplus (deficit) for the year		**24 487 752**	**(36 374 169)**

Statement of **Changes in Net Assets**

for the year ended 31 March 2021

	NET ASSETS/ (LIABILTIES)	**TOTAL NET ASSETS/ (LIABILITIES)**
Balance at 01 April 2019	**11 886 417**	**11 886 417**
Deficit for the year	(36 374 169)	(36 374 169)
Balance at 01 April 2020	**(24 487 752)**	**(24 487 752)**
Surplus for the year	24 487 752	24 487 752
Balance at 31 March 2021	–	–

Cash Flow Statement

for the year ended 31 March 2021

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Receipts from customers		24 451 539	36 374 180
Transfers received		7 746 085	8 712
		32 197 624	36 382 892
Payments			
Employee related costs		(5 189 964)	–
Payments from suppliers and others		(8 404 861)	(36 383 347)
		(13 594 825)	(36 383 347)
Net cash flows from operating activities	10	**18 602 799**	**(455)**
Net increase/(decrease) in cash and cash equivalents		**18 602 799**	**(455)**
Cash and cash equivalents at the beginning of the year		5 163	5 618
Cash and cash equivalents at the end of the year	3	**18 607 962**	**5 163**

Statement of Comparison of **Budget and Actual Amounts**

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
The approved budget is prepared on accrual basis.						
Revenue						
Revenue from exchange transactions						
Other income	–	–	–	24 487 752	24 487 752	13.1
Revenue from non-exchange transactions						
Transfer revenue						
Transfers received	75 091 000	–	75 091 000	7 746 085	(67 344 915)	13.2
Total revenue	**75 091 000**	**–**	**75 091 000**	**32 233 837**	**(42 857 163)**	
Expenditure						
Employee related costs	(8 716 000)	–	(8 716 000)	(5 189 964)	3 526 036	13.3
Lease rentals on operating lease	(557 000)	–	(557 000)	(455 190)	101 810	13.4
Operating expenses	(65 818 000)	–	(65 818 000)	(2 100 932)	63 717 068	13.5
Total expenditure	**(75 091 000)**	**–**	**(75 091 000)**	**(7 746 086)**	**67 344 914**	
Deficit for the year	**–**	**–**	**–**	**24 487 751**	**24 487 751**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**–**	**–**	**–**	**24 487 751**	**24 487 751**	

Accounting Policies

for the year ended 31 March 2021

	2021	2020

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these Annual Financial Statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These Annual Financial Statements are presented in South African Rand, which is the functional currency of the entity.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 6.

1.3 Going concern assumption

These Annual Financial Statements have been prepared based on the expectation that the entity will continue to operate as a going concernin the next foreseeable future.

1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

	2021	2020

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the Statement of Financial Position or in the notes thereto:

Class	Category
Cash and cash eqivalent	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the Statement of Financial Position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its armotised cost plus transaction costs that are directly attributable to the acquisition.

Subsequent measurement of financial assets and financial liabilities

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

If an entity determines that no objective evidence of impairment exists for an individually assessed receivable, whether significant or not, it includes the receivable in a group of receivables with similar credit risk characteristics and collectively assesses them for impairment.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

	2021	2020

- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its Statement of Financial Position when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the Statement of Financial Position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.6 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

	2021	2020

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.7 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus or deficit.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 16.

1.8 Revenue from exchange transactions

Revenue from exchange transactions relates to revenue earned through consulting services rendered to companies in line with the entity's mandate.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

1.9 Revenue from non-exchange transactions

Revenue from non-exchange transactions takes the form of grants from Unemployment Insurance Fund.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

	2021	2020

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.10 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.11 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government..

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the Annual Financial Statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the Annual Financial Statements.

Irregular expenditure that was incurred and identified during the current reporting date and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the Annual Financial Statements.t

Where irregular expenditure was incurred in the previous reporting date and is only condoned in the following reporting date, the register and the disclosure note to the Annual Financial Statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current reporting date and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the Accounting

Officer or Accounting Authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in theirregular expenditure register.

1.12 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity.

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its Annual Financial Statements.

	2021	2020

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 April 2021 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• GRAP 104 (amended): Financial Instruments	01 April 2021	Unlikely there will be a material impact

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2021	2020
Bank balances	1 742	2 252
Short-term deposits	18 606 220	2 911
	18 607 962	**5 163**

4. PAYABLES FROM EXCHANGE TRANSACTIONS

	2021	2020
Accrued expenses	–	230 133
Trade payables	2 468 649	2 146 424
	2 468 649	**2 376 557**

5. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

These are government grants received that will be recognised in future accounting periods. This conditional revenue will be recognised in future period upon completion of Business Turnaround and Recovery 2021/22 year end.

Unspent conditional grants and receipts comprises of:

	2021	2020
Opening balance	22 108 342	18 971 139
Amount received	23 429 980	3 145 750
Interest received	394 525	165
Amount written off*	(22 108 342)	–
Income recognised	(7 746 085)	(8 712)
	16 078 420	**22 108 342**

* Amount written off represents impairment of the BT&R deferred income which was not supported by cash.

	2021	2020

6. PROVISIONS

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Audit fee	8 028	97 118	(8 028)	97 118

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Audit fee	86 895	8 028	(86 895)	8 028

The provision for external audit fees relates to the audit strategy based on the assumption of future audit fees according to the audit engagement.

7. OTHER INCOME

	2021	2020
Bad debts recovered	2 233 319	–
Other income	22 254 433	–
	24 487 752	**–**

Other income relates to the write off of payable that was owed to the funder and the funder approved that Productivity SA does not have to pay back the monies due.

8. EMPLOYEE RELATED COSTS

	2021	2020
Basic	4 897 348	–
UIF	14 575	–
SDL	43 213	–
Leave pay provision charge	234 828	–
	5 189 964	**–**

9. OPERATING EXPENSES

	2021	2020
Auditors remuneration	97 118	8 028
Bank charges	720	684
Communications	21 880	–
Printing and stationery	16 311	–
Project implementation cost - BT&R	1 879 643	–
Staff welfare	2 762	–
Utilities	82 497	–
	2 100 931	**8 712**

10. CASH GENERATED FROM (USED IN) OPERATIONS

	2021	2020
Surplus/(deficit)	24 487 752	(36 374 169)
Adjustments for:		
Debt impairment	-	36 374 169
Movements in provisions	89 090	(78 867)
Changes in working capital:		
Receivables from exchange transactions	(36 213)	(12)
Payables from exchange transactions	92 092	(3 058 779)
Unspent conditional grants and receipts	(6 029 922)	3 137 203
	18 602 799	**(455)**

11. TAXATION AND VAT EXEMPTION

The entity is exempted from income tax in term of section 10(1) (cN) of the Income Tax Act, No. 58 of 1962.

The entity was granted exemption for VAT from July 2005 as its activities no longer comply with the definition of "enterprise" in section 1 of VAT Act and the requirement of VAT registration in terms of section 23 of the same Act. The entity is now included in the amended definition of "public authority" in terms of section 1 of the VAT Act.

12. RELATED PARTIES

Relationships

Ultimate controlling entity: Productivity SA
Controlling entity: Unemployment Insurance Fund

	2021	2020
Related party balances		
Unemployment Insurance Fund	16 078 420	22 108 342

The nature and extent of government grants recognised in the Annual Financial Statements is an indication of other forms of government assistance from which the entity has directly benefited.

	2021	2020
Related party transactions		
Unemployment Insurance Fund	7 746 085	8 712

Business Turnaround and Recovery programme received a transfer payment of R23 429 980 (2020: 0) for funding its administrative activities from The National Revenue Fund through Unemployement Insurance Fund.

13. BUDGET DIFFERENCES

Material differences between budget and actual amounts
Budget narrations are included for variations above R100 000.

13.1. Other income

The positive movement (R24 million) was an accounting adjustment that was processed giving effect to the waiver of liability request that was approved by the Director General: Department of Employment and Labour, of the Waiver of Liability request.request that was approved by the Director General: Department of Employment and Labour, of the Waiver of Liability request.

	2021	2020

13.2. Transfers received

Transfers received were below budget mainly due to the BT&R programme whose MoA was only signed during the current financial year after it had been suspended for more than a year. Only R24 million of the R104 million funding was received during the current financial year.

13.3. Employee related costs

The recruitment of BT&R senior employees was finalised later in the year resulting in actual costs being below budget for the year.

13.4. Lease rentals

Lease rental difference mainly as a result of a new lease agreement that has been entered into.

13.5. Operating expenses

Operating costs were below budget due to delays in starting the programme after its suspension. The recruitment of senior personnel was only finalised later in the year resulting in delays in the resumption of the programme.

14. RISK MANAGEMENT

Financial risk management

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments.

Below is the analysis of the entity's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amount disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 March 2021	**Less than 1 year**
• Payables from exchange transactions	2 468 649

At 31 March 2020	**Less than 1 year**
• Payables from exchange transactions	2 376 557

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The entity is committed to deposits funds in terms of PFMA.

	2021	2020
Financial assets exposed to credit risk at year end were as follows:		
Financial instrument 2021 2020		
Cash and cash equivalents	18 607 962	5 163
Receivables from exchange transactions	36 225	12

15. Fruitless and wasteful expenditure

	2021	2020
Opening balance	–	11 102
Less: Amount condoned	–	(11 102)
Closing balance	–	–

Fruitless and wasteful expenditure includes interest on late payment of accounts.

16. Contingencies

There were no contigencies as at 31 March 2021.

17. Going concern

The Annual Financial Statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

As at 31 March 2021, the entity's total liabilities and total assets are equal. The ability of the entity to continue as a going concern is dependent on a number of factors, these include the following significant factors:

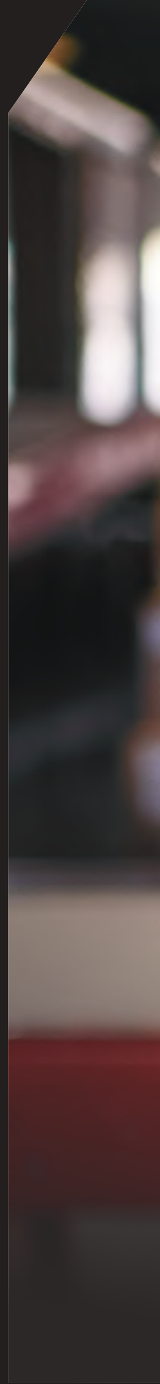
The agreed funding will be received as per the signed memoranda of agreement with UIF. UIF already transferred R24 million out of the R104 million approved funding in line with the MoA.

Management have made an assessment of the entity's ability to continue as a going concern in line with GRAP 1 paragraph 27.

In determining the going concern assumption, management considered the signed MoA with UIF for the 2021/22 reporting date and there has been no indication that the UIF will not continue to fund the entity. Management has also considered the impact of Covid-19 on the companies that are being assisted and the possibility of them not honouring their obligations towards the Entity. In considering all these factors, management have a reasonable expectation that the entity has adequate resources to continue operations for the foreseeable future.

18. Events after the reporting date

Management has assessed the financial impact to the entity of the Covid-19, the assessment included the testing of assets for impairment, recoverability of receivables as well as the impact on revenue. Management is convinced that the impact of Covid-19 will not result in an adjusting subsequent event for the period ending 31 March 2021.



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