

**SA Post Office**  
**Annual results for year ended 31 March 2019**  
Parliamentary Portfolio Committee  
15 October 2019

# Agenda

- Highlights for the year
- Financial results
- Performance overview
- Way Forward

# Highlights for the year



## ❖ Operational highlights

- Mail carryovers reduced to less than one day's volumes by the end of the financial year
- The Office of Exchange successfully piloted the customs declaration system (CDS) for countries such as Uganda, Eswatini and Russia
- The Regional management structures have been strengthened to implement the SAPO strategy
- 1 012 518 qualifying households registered for the DTT subsidised set-top boxes
- 3 million textbooks delivered to 3 659 schools in Northern Cape and Limpopo
- 4,9 million addresses geo-referenced in rural areas enabling them to be FICA compliant and contributed to successful National and Provincial elections
- SASSA grants paid to beneficiaries in the National Payments System from 01 June 2018
- Significant progress made with the corporatisation of Postbank
  - The Financial Matters Amendment Bill was approved allowing SOE's to register a bank
  - The transfer of the operations of the Postbank division to the Postbank SOC Ltd was gazetted during March 2019

## ❖ Human Resources

- Permanent employees headcount reduced by 4%
- Job creation through the recruitment of 3 000 temporary contract workers and 1 000 permanent employees for the SASSA project
- HR Strategic workforce plan finalised to enable staff optimisation process

- ❖ Improvement of governance reporting structures (Rationalisation of Board committees and replicating at EXCO level)

# Financial results – salient points



## ❖ **Loss for the year increased by R95 million to R1,1 billion**

- Revenue increased by 20% to R5,4 billion from R4,5 billion in prior year
- Expenses including finance costs increased by 18% to R7,7 billion from R6,5 billion in prior year
  - Expenses excluding SASSA project costs increased by 6% to R6,9 billion

## ❖ **Total assets of R16 billion**

- NAV improved by R1,8 billion to R5,2 billion (*R2,9bn recapitalisation less accumulated loss of R1,2bn*)
- R2,947 billion recapitalisation funds received in January 2019
  - Utilised to settle term loans of R1,035 billion and pay critical suppliers
  - Funding of R900m ring-fenced for investment in capital projects

## ❖ **Qualified audit opinion** due to the following two matters:

- Other receivables – unable to obtain cash acknowledgement forms (delays in submissions resulted in limitation of scope)
- Other deposits (SASSA liabilities) – Insufficient detail on reconciliations of unclaimed amounts relating to SASSA grants from the Integrated Grant Payment System (IGPS) to SAP

*[Reconciliations being done with branches and internal controls on reconciliations being addressed]*

# Income statement for the year ended 31 March 2019



## Income statement

- ❖ Revenue increased by 20% to R5,4 billion from R4,5 billion in prior year
  - SASSA project – revenue contribution of R714 million
  - Decline in mail volumes resulted in mail revenue declining by 8% to R2,8 billion
  - Mail revenue contribution has declined from 67% to 52%
  - Motor vehicle licencing revenue increased by 5% to R308 million
- ❖ Expenses including finance costs increased by 18% to R7,7 billion from R6,5 billion in prior year
  - Expenses excluding SASSA project costs increased by 6% to R6,9 billion
  - SASSA Project expenses of R798 million which includes:
    - Additional staff recruited costs of R79 million
    - Postbank card costs of R234 million
    - Security costs of R277 million
    - Transport costs of R37 million and banking costs of R78 million
    - Other operating costs of R93 million
- ❖ Loss for the year increased by R95 million to R1,1 billion

# Statement of Financial Position for the year ended 31 March 2019



## Statement of Financial Position

- ❖ Total assets of R16 billion
  - Property, plant, equipment and investment property of R2,5 billion
  - Short term investments of R4,5 billion
  - Cash and cash equivalents of R6,2 billion
- ❖ NAV improved by R1,8 billion to R5,2 billion (R3,4 billion in prior year)
  - R2,947 billion recapitalisation funds received in January 2019
  - R1,2 billion increase in the accumulated loss
- ❖ Recapitalisation funds of R2,9 billion received in January 2019 and utilised to settle term loans of R1,035 billion, with balance of R1,2 billion at year end
- ❖ Accounts receivables
  - R493 million due from SASSA at year end – payment received in April 2019
- ❖ Postbank depositors funds of R5,2 billion

# Statement of Cash Flows for the year ended 31 March 2019



## Statement of Cash flow

- ❖ Cash utilised by operations – R1,5 billion
  - Operations not generating positive cash flows
- ❖ Capital expenditure of R186 million
- ❖ Postbank cash equivalents and short term investments of R8,4 billion
  - Deposits from public of R5,2 billion
  - Surplus of R3,2 billion
- ❖ Financing activities
  - R2,9 billion capital injection
  - R400 million term loans acquired in December 2017 and R635 million acquired on December 2018 repaid in January 2019, with balance of R1,2 billion at yearend
- ❖ Liquidity concerns still remain due to expenditure exceeding revenue – Projection to be profitable in year 2
- ❖ Post office excluding Postbank
  - Cash equivalents of R1,9 billion (R1,2 billion – recapitalisation funds, R368 million – SASSA prepayment funds and R300 million – unutilised subsidy)

# Key Performance Objectives Overview

Strategic Themes	Planned target	Number achieved 100%	100% Achievement
1. Revenue Retention Through Operational Effectiveness	4	1	25%
2. Reduce Operating Costs (Operations Company)	2	1	50%
3. Grow and Diversify Revenues	3	3	100%
4. Performance Management	1	1	100%
5. Structural Reorganisation	1	1	100%
6. Governance	1	-	0%
<b>Total</b>	<b>12</b>	<b>7</b>	<b>58%</b>

- Overall performance against targets improved to 58%, up 10% from the prior year (48%)
- An additional 3 KPI's achieved above 80% despite missing the 100% performance



# Key Performance Objectives Detail

**Revenue Retention Through Operational Effectiveness** - The revenue retention strategic area achieved 25% of its planned target of 4. Of the 3 non-achieved targets, 2 achieved above 80% against its respective target. The delivery standard for mail has improved to 76.4% but performed 15.6% below the target of 92%. The main contributor for the underperformance was the impact of the 2 months work stoppage, volumes and decline in mail revenues.

**Reduce Operating Costs (Operations Company)** – The target was not achieved due to the consolidation and optimisation of the regional operations infrastructure network policy that was only approved on 05 March 2019, in the implementation phase. Expenditure exceeded the budget by R600 million mainly on card costs and security costs for the SASSA project.

**Grow and Diversify Revenues** - The SASSA revenue contributed substantially to the 100% performance for this area. The increase in the number of SASSA grant beneficiaries to 7.7 million; the growth in number of Postbank depositor accounts exceeding the target by 5% together with property revenue received from Telkom ensured attainment of the target.

**Performance Management** – The adherence to performance management processes by management level staff was achieved with the submission of performance evaluations.

**Governance** - AG Audit Report has been concluded and SAPO achieved a qualified audit opinion for the 2018/19 financial year, relating to the SASSA project. The SASSA project was implemented during the year within short timelines with further extension in scope to include cash payments. Corrective actions to improve the control environment are being implemented.

# Way forward

## ■ Revenue and expenses

- Focus on revenue growth and cost containment
- Roll out of the revenue growth initiatives (E-commerce, Digital mail, etc.)

Staff costs	Security costs	Properties costs	IT costs	Logistics costs
<ul style="list-style-type: none"><li>■ Rationalisation of staff</li><li>■ Dealing with unnecessary wastages in areas like overtime</li><li>■ Rationalisation of post retirements benefits</li></ul>	<ul style="list-style-type: none"><li>■ Replacing Guarding services with physical security infrastructure</li><li>■ Roll out of a cashless solution for SASSA</li></ul>	<ul style="list-style-type: none"><li>■ Rationalisation of branch network (merging and focus on loss making urban branches)</li></ul>	<ul style="list-style-type: none"><li>■ Rationalisation of IT software portfolio through decommissioning software</li></ul>	<ul style="list-style-type: none"><li>■ Optimal utilisation of fleet and route optimisation</li></ul>

# Way forward

- Roll out of the network infrastructure by December 2019
- Property infrastructure refurbishment projects
- Review the SLA and MSA for the SASSA project
- Rationalisation of our properties portfolio
- Provision of tools of trade to our employees
- Mitigation of Audit findings
  - Special Audit Committee taken place to interrogate audit findings
  - AG working with management on the identified root causes
  - Management Letter Action Plan being implemented
  - Focus on consequence management