Portfolio Committee on Communications Report of the South African Post Office (SAPO) 2020/2021 Annual results dated 30 August 2022.

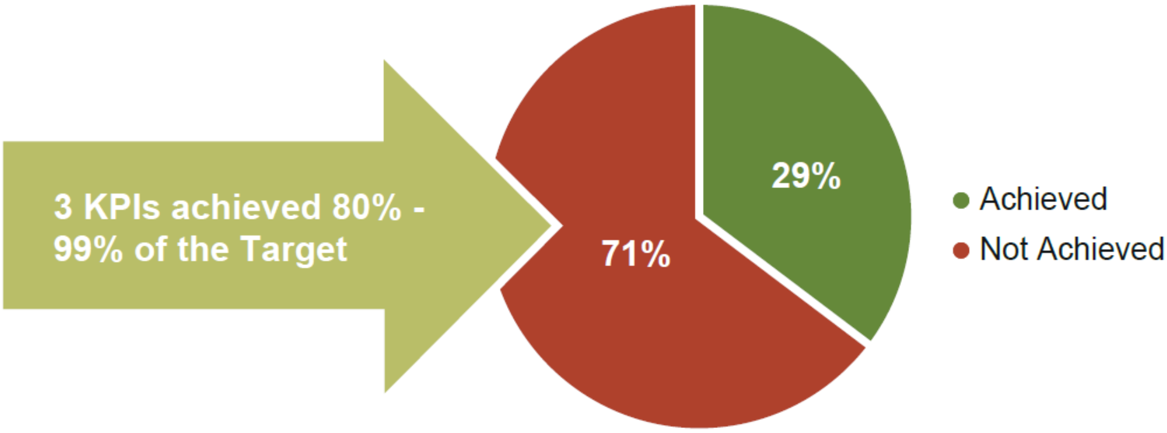
Having considered the Department of Communications and Digital Technologies and most of its Entities financial and non-financial performance for the year 2020/21 on 17 November 2021. The Committee had to specifically schedule for the late-tabled SAPO financial and non-financial performance for the year 2020/21. Therefore, this report is in account of the tabling of the Annual Report on South African Post Office's operating and financial performance for the year 1 April 2020 to 31 MARCH 2021 to Parliament.
The Committee met with SAPO on 31 May 2022 to conduct oversight over the 2020/21 performance information.

1. Mandate

The South African Post Office SOC Limited was established on 1 October 1991 as a company in terms of the Companies Act, No. 61 of 1973. The State (Republic of South Africa), represented by the Minister of Communications and Digital Technologies, is the sole Shareholder.
Following the repealing amendment of the Companies Act No. 61 of 1973 and the enactment of the Companies Act No. 71 of 2008 (as amended), the SA Post Office was designated as a state-owned company (SOC) as per the South African Post Office Limited Act No. 22 of 2011, as amended.
The SA Post Office is also a major state entity in terms of Schedule 2 of the PFMA No. 1 of 1999 (as amended).

2. Operational Highlights

The global economic effects of the Covid-19 pandemic have been far-reaching and will likely be long-lasting.
The Covid-19 pandemic had a severe effect on the South African economy during the financial year under review. A wide-ranging lockdown was announced in the country to combat the spread of the Covid-19 virus and only essential services were allowed for some time.
The COVID-19 pandemic and the subsequent lockdown resulted in a complete shutdown in SA Post Office's business activities with extremely low revenue levels from quarter one of the 2020/2021 financial year continuing through the financial year, severely impacting service delivery standards and organisational capacity. The SA Post Office had numerous leadership vacancies during the financial year. The appointment of the new CEO on 1 April 2021 has brought much needed stability and vision to the organisation.
The SA Post Office Group headcount reduced to 15 826 as at 31 March 2021, a reduction of 912 employees due to attrition and demise. Due to the freeze on recruitment, critical vacancies have remained unfilled contributing to the poor organisational performance.
During the 2020/21 financial year the SA Post Office has operated between a Covid-19 Lockdown level 5 to a Lockdown level 1, severely impacting service delivery standards and organisational capacity as only essential services were allowed for some time. Consequently, revenue performance has been impacted gravely together with a decline in organisational performance.
There has been a continued mismatch between monthly revenues generated and corresponding operating expenditure, resulting in a deficit to meet monthly financial obligations. The SA Post Office has been severely impacted with a loss of customers and planned revenues due to the effects of the Covid-19 lockdown and the associated business slowdown. The revenue shortfalls have added further pressure to the already constrained cash flow position of SA Post Office and the achievement of the planned strategies in the corporate plan.
The low revenues have further contributed to the nonpayment of critical creditors, including contributions to medical aid, pension fund, UIF and SARS.
A total of 17 Key Performance Indicators (KPIs) were set and measured for the 2020/21 financial year, aligned towards attaining the seven strategic objectives. Performance for 2020/21 financial year was poor when considering only five KPIs achieved 100 percent of the planned revised target or 29 percent overall achievement, see diagram on next page.



Strategic Themes	Planned Target	Number Achieved 100%	100% Achievement	Number Achieved 80%-99%
Financial Sustainability	6	3	50%	1
Optimised Assets and Infrastructure	2	0	0%	0
Customer and Communities First	3	1	33%	0
Efficient Systems & Processes	2	1	50%	1
Digital Transformation	2	0	0%	1
Culture of Excellence	1	0	0%	0
Corporate Governance	1	0	0%	0
Total	17	5	29%	3

There has been a decline in aluthe service delivery environment of the SA Post Office due to the effects of Covid-19 combined with the constrained financial position. As at 30 June 2020, the average monthly carryover was at 9.94 million items, which has been reduced to 5.07 million items as at 31 March 2021. Clear floor targets have been set to improve delivery standards going forward.
The mail delivery performance as at 31 March 2021 was recorded at 52.95 per cent, below the reduced annual target of 60 per cent by 7.05 per cent and substantially below the ICASA regulated standard of 92 per cent.
The network availability uptime target of 98 per cent for 2020/21 financial year has been achieved at 99.37 per cent, with a critical component of the network availability being the completion of the network upgrade. As at 31 March 2021, a total of 1 263 of 1 329 sites have been fully commissioned with new equipment and upgraded connectivity, a 96 per cent achievement of the network upgrade project.
As the payment of social grants has been declared an essential service, the payment of social grants continued notwithstanding the various Covid-19 lockdown levels.
The total number of social grant beneficiaries paid through SA Post Office/Postbank are at 7.9 million beneficiaries as at the end of March 2021. The number of routes for Cash Pay-Points (CPPs) were at 729 delivery routes and a total of 1 621 pay points were serviced as at the end of March 2021. The number of beneficiaries receiving social grant at CPPs as at 31 March 2021 is at 180 139 beneficiaries. The SLA for the payment of SASSA grants has showed improvement from 71 per cent during 2020 to 86 per cent during 2021.
During June 2020, the SA Post Office commenced with the payment of the Covid-19 Special Relief of Distress (SRD) grant payments of R350. The payment continued during March 2021 with a total of 2 070 132 beneficiaries paid during March 2021 with a disbursement value of R1.04 billion for March 2021. The payment of SRD grants by the SA Post Office has been extended to February 2022.
Performance on the Broadcasting Digital Migration (BDM) has been slow with a total of 1 161 591 qualifying needy households registered as at 31 March 2021 and a total of 598 409 Set Top Boxes (STBs) distributed.
SA Post Office branches in eight provinces enable motorists to renew their vehicle licences. Currently the service is not available in the Western Cape, however we are working toward the service being made available in the province, together with an online offering.
In comparison to 2019/2020FY, crime reported incidents had increased by 318 (10%) - from 2769 to 3087 incidents, whilst the reported loss had increased by R68m (58%) – from R49.8 million to R117.8 million.

3. Financial Performance

The revised financial targets for the 2020/21 financial year projected that baseline revenues of R3.2 billion will be generated with further revenue recovery of R170 million, revenue growth of R351 million and cost reduction initiatives of R129 million and, the net loss position projected at R1.85 billion to March 2021.
Revenue growth initiatives at R351 million did not achieve the planned annual target due to the delays in concluding the partnerships. For all partnerships, the procurement process is to be regularised.
Revenue recovery of R170 million was not achieved with only MVL contributing to the achievement to date.
There has been a decline in the service delivery environment of the SA Post Office due to the effects of Covid-19 combined with the constrained financial position. As at 30 June 2020, the average monthly carryover was at 9.94 million items which has been reduced to 5.07 million items as at 31 March 2021. Clear floor targets have been set to improve delivery standards going forward.
During the 2019/20 and 2020/21 financial years budgets of R326 million and R529 million respectively, was made available for capital investment, with an amount of R25 million expended and a further amount of R63 million committed.
An amount of R440 million of the capital investment budget remains unspent due to cash flow constraints, delays due to the Covid-19 pandemic and the impact on procurement processes.

Income Statement

- Revenue of R2.9 billion for the year ending 31 March 2021 (2020: R4.1 billion)
  - Revenue has declined by R1.2 billion (29%)
  - Postal services revenue of R1.6 billion (2020: R2.8 billion) declined by R1.2 billion (45%)
  - Financial services revenue of R1.4 billion (2020: R1.2 billion) increased by R135 million (11%)
- Operating costs of R6.2 billion (2020: R6.5 billion) reduced by R370 million (6%)
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- Staff costs reduced by R180 milllion (5%) to R3.7 billion
  - Staff costs contribute 61 per cent of operating costs
- Loss for the year (continued operations) increased by R469 million to R2.3 billion

Key Revenue Achievements

The annual MVL revenue picture is favourable with revenue of R369.7 million exceeding the previous year’s revenue with R35.2 million.
The DTT revenue of R81.9 million, made up of distribution and bulk warehousing, as at 31 March 2021 compared favorably to the previous year which was recorded at R72.5 million.

4. Audit opinion

The strategic objective considered one KPI by way of obtaining an Unqualified Audit Opinion by the Auditor General for the 2020/21 FY. The target to have an unqualified audit opinion for 2020/21 financial year was not achieved. Work is continuing with the aim of addressing outstanding audit matters towards improving the audit outcome for the 2021/22 financial year.
As indicated in the consolidated and separate financial statements, the group and company incurred losses of R2 333 209 000 and R2 331 619 000, respectively, for the year ended 31 March 2021. Furthermore, at that date, total liabilities exceeded total assets by R2 530 855 000 and R2 535 096 000 while current liabilities exceeded their current assets by R4 868 502 000 and R4 842 646 000 for the group and company, respectively.
They were further unable to pay their debts as and when they were due. The group and the company were commercially and technically insolvent because they were not able to pay their debts as and when they were due.
The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA.
Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R379 309 000 and R395 252 000 as disclosed in note 51 to the annual consolidated and separate financial statements, respectively, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by the public entity not procuring goods and/or services by means of competitive bidding and deviations not approved at the appropriate delegated level.
Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R142 834 000 and R142 744 000 disclosed in note 52 to the annual consolidated and separate financial statements, respectively, as required by section 51(1)(b)(ii) of the PFMA. The majority of he fruitless

and wasteful expenditure was caused by the group incurring interest charges, penalties and legal fees due to late payment of suppliers.
The audit opinion was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.
The opinion was further unable to obtain sufficient appropriate audit evidence
that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into fruitless and wasteful expenditure.
Lastly, allegations of theft and fraud which exceeded R100 000 were not reported to the SAPS, as required by section 34(1) of the Prevention and Combatting of Corrupt Activities Act 12 of 2004 (PRECCA).

5. Observations

Having considered the report, the Committee noted:

(i) and welcomed the clear presentation that provides a clear vision for the Post Office of Tomorrow strategy;
(ii) the commitment by the Entity to address non-delivery of targets; and
(iii) that the success of the turnaround strategy is dependent on NT funding

6. Recommendations

Having considered the report, the Committee resolved that the Minister should:

(i) ensure adequate funding and resourcing of Post Office of Tomorrow strategy;
(ii) ensure that the Entity fills all critical positions;
(iii) ensure that in cases where Post Offices are closed, there should be adequate information provided to the affected communities;
(iv) submit a detailed report on all investigation and current litigations; and
(v) ensure stringent monitoring and evaluation of the outcomes of investigations and litigations;
(vi) ensure that proactive steps are taken in respect of consequence management to lay criminal charges where necessary;
(vii) report back to the Committee on proactive steps taken on a quarterly basis;
(viii) report back to the Committee an Audit of all SAPO branches including operational and those that have been closed; and
(ix) continue to implement the strategy while navigating through all the financial challenges.

Report to be considered.