Report of the Portfolio Committee on Communications and Digital Technologies on the South African Broadcasting Corporation Corporate Plan 2023/24: An Entity of the Department of Communications and Digital Technologies (DCDT) Budget Vote 30, dated 21 November 2023.

The Portfolio Committee on Communications and Digital Technologies (the Committee), having considered the Corporate Plan of the South African Broadcasting Corporation 2023/24 on 07 November 2023, hereafter referred to as "the SABC," reports as follows:

1. Introduction

Section 55(2) of the Constitution of the Republic of South Africa, Act 108 of 1996, states that the National Assembly must provide for mechanisms (a) to ensure that all executive organs of state in the national sphere of government are accountable to it; and (b) to maintain oversight of (i) the exercise of national executive authority including the implementation of legislation, and (ii) any organ of State.

In terms of the Public Finance Management Act (PFMA), the Accounting Officers must provide Parliament or the relevant legislature with their respective institution's Medium-Term Strategic Framework (MTSF) and, where applicable, with its Annual Performance Plan (APP).

The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) was promulgated in 2009 and provided Parliament with powers to reject or recommend the approval of Departments' budgets. The Act also makes provision for the implementation of recommendations emanating from the Committee's oversight reports.

The Committee met with the Department, Independent Communications Authority of South Africa (ICASA), Film and Publication Board (FPB), Broadband Infraco (BBI), National Electronic Media Institute of South Africa (NEMISA), Universal Service and Access Agency of South Africa/ Universal Service and Access Fund (USAASA/USAF), .za-Domain Name Authority (.ZADNA), State Information and Technology Agency (SITA), South African Post Office (SAPO) and Sentech on 02 May 2023. However, the SABC had not tabled its Corporate Plan when the Committee reviewed the Annual Performance Plans. The Committee took into consideration that the SABC Board was newly appointed and therefore the submission of its Corporate Plan was delayed.

The debate of the National Assembly for Budget Vote 30 was held in May 2023 without consideration of the SABC Corporate Plan. For this reason, in accordance with relevant legislation, the Committee is mandated to ensure that the Corporate Plan of the SABC, like other Entities, is considered, even though the Entity has already spent some of the budget tabled in the Corporate Plan. Moreover, as is standard practice, the Department of Communications and Digital Technologies and all its Entities, including the SABC, will appear before the Committee to present 1st and 2nd Quarter Performance reports before the end of the 6th Parliament. This will provide ample time for the Committee to reconcile expenditure against the plans annotated in the Corporate Plan.

2. Entity Overview

The South African Broadcasting Corporation derives its mandate from the Broadcasting Act (1999) and is listed as a Schedule 2 Public Entity in the Public Finance Management Act (1999). The corporation is mandated to provide broadcasting and information services through a wide range of programming that displays South African talent in educational and entertainment programmes; offer diverse views through a variety of news, information and analysis; and advance national and public interests through popular sports, for example.

- The SABC is the national broadcaster and exists to bring South Africans a broader understanding and appreciation of themselves;
- The SABC reflects South African ideas, values, opinions, creativity and talent with its programming;
- The SABC strives to offer balanced and differing views in its news and analysis, in all South Africa's official languages, reflecting the plurality of the country's population;
- The SABC endeavours to expand its services through all the advancements in technology to fulfil its extensive mandate; and
- In the effort to fulfil its mission and realise its vision, the SABC's objective is to transform its programming, operations, and management fundamentally.

The SABC's bouquet of offerings includes 18 radio stations, five television channels and a digital media offering. The SABC manages the nineteenth radio station (Channel Africa) on behalf of the Department of Communications and Digital Technologies.

Sometimes, after servicing all its internal obligations, the SABC has a surplus of its Outside Broadcasting (OB) facilities, in-house studio facilities, in-house creative RAP studios and event venues, which it rents to the public for additional revenue generation.

Over the MTEF period, the Corporation will continue to transform its programming, operations and management. It will also explore other revenue opportunities through the introduction of its own streaming and satellite services and seek to increase revenue generated from advertising. The Corporation will work with the Department on legislative and regulatory interventions to assist with its long-term sustainability. It will continue to focus on implementing its turnaround plan to ensure financial sustainability.

3. Strategic Pillars

The SABC has six strategic pillars as illustrated below:

3.1 Financial Stability

The ultimate goal of the SABC is to fulfil its mandate while remaining financially sustainable, which remains the focus for the MTEF period. On the established foundation of prudent financial management, the Corporation will continue in its efforts to increase revenue while managing costs to ensure their continuous optimisation.

The SABC will also continue to actively participate in all ongoing policy, legislative and regulatory reviews that seek to place the Corporation in a position where it does not face any of the current restrictions that prevent it from competing effectively for revenue, as well as optimised its cost structure in response to business requirements and make acquisitions in a manner that is predicated on achieving maximum competitiveness.

The inability to achieve annual targeted revenue as a form of revenue generation, as well as the inadequate cash resources, remain key risks for the Corporation and will require (i) continuous monitoring of revenue generation and TV License collection activities through weekly and monthly operational and divisional strategic meetings; and (ii) pursue alternate and non-traditional revenue. Furthermore, in order to circumvent the liquidity risk associated with inadequate cash resources, the SABC will (i) develop, monitor and review cash flow forecasting; (ii) regularly review account receivable credit facilities; (iii) conduct periodic scrutiny of net working capital; (iv) implement expenditure moratoriums and deferment; and (v) renegotiate payment terms with suppliers.

3.2 Content and Platforms

The way to measure the relevance of the SABC is through the appeal of its content to viewers and listeners. The number of viewers and listeners is also the currency through which the Corporation is able to generate commercial revenue to fund its mandate, including a significant portion that is unfunded. Therefore, continuous and prudent investment in content is a key ongoing strategic focus for the SABC, as it competes for audiences for its radio, television and digital platforms.

Over the MTEF, the Corporation will focus on retaining its vast radio audiences, increasing its television audiences, and building a solid digital presence. Particular focus will continue to be placed on cementing the SABC News service as the most credible news offering in South Africa.

A risk exists if the content does not resonate with the target audience and radio stations do not sound ‘edgy’ compared to competitor stations. The Corporation will mitigate this by (i) conducting a qualitative audience research and provide audience-preferred content; (ii) conducting Quarterly Programming Bootcamps to improve content production; and (iii) appointing sonic imagining specialist agencies and procuring on-air production tools to address imaging needs.

Because there is inadequate Video Entertainment Content, the Corporation will request a further extension for exemption from PFMA compliance on Supply Chain Management processes in order to enable speedy video entertainment content acquisition.

3.3 Digital

The launch of the SABC’s own OTT platform (SABC+) was a significant step in this journey. In the future, the viability of the platform, and the realisation of maximum benefit will require upgrading the Corporation’s other digital platforms (websites and mobile applications), the acquisition of compelling content, and appropriate systems to effectively manage the offering. Upgrading the SABC’s infrastructure and systems will also ensure increased efficiency across the organisation.

During the MTEF, projects will continue to be implemented to upgrade all the SABC’s digital platforms. Digitisation of legacy material will continue to build the SABC’s library of content that can be accessed on the now-expanded digital platforms. The scheduling system will be upgraded to allow more efficient management of the SABC’s vast content library, and the Master Control Room (MCR) router will be replaced during the MTEF.

The SABC will actively and purposefully participate in the Competition Commission facilitated mediation process with Sentech. To achieve a lasting financial sustainability for the SABC requires a significant reduction in transmission costs. Although technological advances have made this possible, the existing legislative regime prevents the use of these other technologies to the SABC’s and the public’s benefit.

While awaiting the necessary legislative and regulatory changes, relief will be sought through this mediation process. Subject only to budget and funding constraints, the digital transformation of the SABC is expected to advance considerably during the next MTEF period.

The Corporation will prioritise the group Media Technology and Infrastructure Projects with Supply Chain Management in order to mitigate delays in implementing digital infrastructure projects.

3.4 Human Capital

The realisation of an SABC that is a modern, digital, multi-channel public broadcaster that can consistently fulfil its mandate in a financially sustainable way is predicated upon an SABC that is staffed by a competent, dynamic workforce that is fit for purpose.

In addition to embedding and strengthening the performance management culture, during the next MTEF, the Corporation will be implementing the revised recruitment strategy and positioning of the SABC to improve recruitment and retention of high-performance employees.

Leadership development will remain a key focus, as well as embedding organisational values and related behaviour to elevate the culture to a level of acceptance and alignment by all employees. The focus will also remain on improving the skills level of employees through implementing the Workplace Skills Plan.

The revision of the SABC Recruitment Strategy (additional recruitment platforms and agencies), positioning of SABC, and introducing flexibility in TGRP will help mitigate the risk of the SABC’s inability to recruit and retain a competent and image and proposition dynamic workforce.

3.5 Governance

Over the MTEF, the Corporation will work to reinforce and safeguard the gains made in establishing the current levels of ethics and governance. The improvement in external audit outcomes is expected to continue, with an unqualified audit as the goal. In support of this effort, the focus will continue reviewing the Corporation’s policies and standard operating procedures.

The work on embedding risk management practices that cover strategic, operational and compliance risks will continue for the duration of the MTEF.

By strengthening the control environment through the implementation of Project Qinisa and vetting all new and existing personnel, the Corporation will be mitigating fraud and corruption in the Entity.

Furthermore, the SABC will review and update all policies and frameworks in line with the SABC Policy Management Framework, intensify stakeholder engagements, and seek recourse/redress policies to mitigate governance risks associated with rigid, unfavourable, and outdated regulations.

3.6 Partnerships

With the launch of SABC's own OTT platform, the demand for content has increased and will continue to increase. In addition to innovative content acquisition methodologies, content generation partnerships will have to continue to be pursued in order to stretch the available budgets for content. As part of efforts to generate increased revenues, maximum exploitation of SABC content will continue to be pursued.
Developing a crisis communication management plan, consistent engagement with GCEO (ongoing), approval of the Media Relations Policy and Social Media Management Policy, and frequent socialisation and updating policies are risk-mitigating strategies to prevent events that negatively affect the SABC brand.

4. Expenditure Analysis

Expenditure is expected to increase at an average annual rate of 12 per cent, from R5.8 billion in the financial year 2023 to R6.4 billion in the financial year 2024.
Total revenue is expected to increase at an average annual rate of 38 per cent, from R4.7 billion in the financial year 2023 to R6.5 billion in the financial year 2024. The Revenue for the financial year 2023 was 27 per cent less than the Budget and 7.9 per cent less than the previous year. This resulted in the Corporation reporting a net loss of R1.1 billion in the financial year 2023.
The expenditure growth rate in financial year 2023, was due to the Sports rights for the FIFA World Cup that were not budgeted for in the previous financial year. Financial year 2024 growth rate is due to Repairs and Maintenance, Marketing costs and Trade exchange costs, see the charts below:

As the corporation is mostly self-funding, transfers from the Department account for an estimated 3.7 per cent (R752 million) of revenue over the medium term, while proceeds from television license fees account for an estimated 12.3 per cent (R2.5 billion).
The remaining 84 per cent (R20 billion) is expected to be generated by advertising and other commercial activities. The revenue growth rate for the financial year 2024 is driven by a R1.1 billion increase in the budget for Advertising, R232 million increase for Sponsorship R98 million for OTT, R108m budgeted for Trade exchanges and a total R128 million (69% increase) for Content exploitation.
Advertising Revenue has decreased from R4.4 billion in 2017 to R2.6 billion in financial year 2023. That is a 40 per cent decline over the 5 years. However, Advertising Revenue is expected to grow by 43 per cent in the financial year 2024, the increase is based on the PWC Entertainment and Media Outlook Report 2022-2026 projections of revenue, Video Entertainment Audience growth to 25 per cent of ratings, new client acquisition initiatives that deliver R1 billion and Revenue generation that is expected to deliver break even for S3, SAFM and Radio 2000. The plan is to defend Classic and grow Sponsorship revenue, and the sell-out target for Video Entertainment prime time is targeted at 75 per cent and Radio at 25 per cent up from 15 per cent.
Sponsorship revenue has performed well and grew by 48 per cent since 2020 and 5 per cent against the prior year. For the financial year 2024, it is budgeted to grow by 32 per cent, pursuing the billion mark in the next two years. Client buying patterns have shifted towards bespoke sponsorship elements, bespoke features, and long-term sponsorship offerings. Local content drives this category as international content has limitations on sponsorship elements.
The SABC launched the SABC Plus Platform in November 2022. The Platform is expected to generate revenue through advertising on the platform.
A 6 per cent growth has been budgeted for License Fees using the conservative approach based on past performance.
The News 24-hour channel contract is ending at the end of Aug 2023. There are uncertainties regarding the renewal of the contract. For budget purposes, only the five months to the end of Aug 2023 have been budgeted for.
Other revenues include government grants, Content exploitation and Adventures revenue. Government grant revenue is budgeted based on the allocation letter, and Content exploitation is

based on current performance. Finance income is expected to reduce, as the Bailout funds are expected to be fully utilised in the financial year 2024.
Programme Film and Sports Rights is based on affordability and committed content, equaling R1.26 billion.
Signal distribution costs and linking costs amounting to R 699 million are contractual costs and thus budgeted for based on signed SLAs with Sentech.
The marketing budget, totaling R142 million is based on marketing initiatives and events by the Corporation in its efforts to grow Revenue and following the successful establishment of a Panel of Agencies in mid-2022.
Compensation of the corporation’s estimated 2 802 employees, with an assumed vacancy rate of 18 per cent, accounts for 38 per cent (R7.4 billion) of its projected spending over the medium term. Total employee costs amount to R2.54 billion for the financial year 2024. Permanent employees’ costs include a budget for a 4.42 per cent annual increase, plus a proposed 5 per cent increase for freelancers. Employee costs amount to an average of between 35 – 39 per cent over the budget period against a target of 35 per cent. There have been no increases since 2020.
The increase in Broadcast costs to R590 million is due to increases in production costs, OTT expenses that have been budgeted for and costs relating to Trade exchanges.
A total of R76 million is to be spent on professional fees, including audit fees, legal fees (including SIU fees), Enterprise Supplier Development investment, the rollout of Robotics and professional fees associated with Technology and Logistics projects.
Other operational costs include repairs, maintenance, personnel, and administrative costs totalling R872 million. The biggest contributor to the increase in Operational Costs is Repairs and Maintenance, which is expected to amount to R182 million and is expected to increase by 131 per cent from the financial year 2023 due to affordability and the cash flow position of the SABC. The Budget is based only on critical projects, other projects will be deferred to subsequent financial years.
The budget shows a profitable turnaround for the SABC, but it faces significant internal and external environmental risks to its realisation.

5. Going Concern and Solvency

Revenue Growth and Generation

The SABC is financed by its commercial sales, and a lack of improving commercial sales, means the SABC has less cash on hand to finance its day-to-day activities. Poor revenue growth means a poor financial position for the SABC.
Revenue has struggled to improve to pre-COVID levels, which continues to strain the position of the SABC. Revenue is budgeted to grow by 37 per cent. This is an aggressive target informed by high-level assumptions. Achievement will depend on the development and near-fanatical implementation of a detailed execution plan.
The SABC is still working on getting the users on its SABC-Plus Platform to critical mass to allow for the effective monetization of the platform.

Profitability

The budget assumes that the SABC will be in a net profit position over the three-year budget period. This is at the back of revenue generation growth prospects.

Solvency and Liquidity

From the latter part of the financial year 2023, the Corporation has been struggling to maintain liquidity.
Austerity cash management continues, which assumes significant support from strategic partners, to be in place.
Notable ratios which support that the SABC is a commercially insolvent include: -

- Current ratio: financial year 2023: 0.93 vs financial year 2022: 1.35. Norm is 2;
- Cash ratio: financial year 2023: 0.41 vs financial year 2022: 0.69. Norm is 1;
- Net current asset position declined by 124 per cent from financial year 2022;
- Debt/Equity ratio: financial year 2023: 2.53 vs financial year 2022: 1.24. The norm is 2-2.5; and
- Debt to Total Assets: financial year 2023: 0.72 vs financial year 2022: 0.55. The norm is 0.2.

State of Property Plant and Equipment

Because of its financial position in the past, the SABC had to pause and defer certain repairs and maintenance of buildings and broadcasting infrastructure.

Running the risk that the buildings of the SABC may eventually not meet the occupational health and safety requirements. It also increases the risk of litigation in case of avoidable accidents happening in the buildings.

Executive Stability

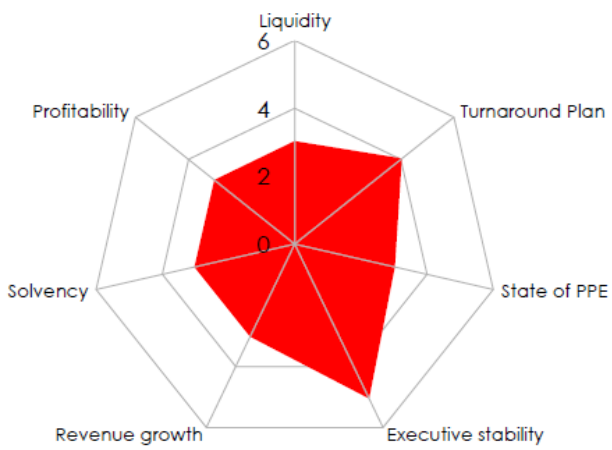
Two of the current executive management team contracts are coming to an end in June 2023.

Turnaround Plan

The turnaround plan has been concluded with 98 per cent of the activities in the control of the SABC completed.

However, from a benefit realisation perspective, the turnaround plan proves to have not been successful in turning SABC around into a profitable Corporation.

Pillars on Going Concern FY23/24



- Profitability, Liquidity and Solvency have all been given a rating of 3.
- Revenue growth at 3
- Executive Stability 5
- State of PPE rating of 3
- Turnaround Plan rating of 4 ito benefit realisation.

The risk still exists on the Going Concern assumption of the SABC.

6. Unfunded Mandate

- The SABC as a public broadcaster exists to carry out a mandate in terms of the Broadcasting Act of South Africa to the general public of the country;
- The Corporation's mission is to be a high-performing, financially viable, digitized, national public broadcaster that provides compelling informative, educational, and entertaining content via all platforms;
- The SABC estimates to spend over R7.39 billion over the MTEF (FY24 –FY26) to execute on its mandate;
- A total of 35 per cent of Content carried out by the SABC is mandated;
- That leaves 65 per cent of content that can be commercially exploited;
- With the introduction of digital media, the SABC has seen not only a decline in audiences as more and more people move to consuming streaming content digitally versus the traditional linear television, but also a decline in advertising revenues which has also been significantly impacted by load shedding;
- The industry expects that digital advertising revenues will surpass linear advertising by 12 per cent in 2025;
- This places significant risk on the financial health of the SABC and its ability to unlock new revenue streams. The introduction of OTT platforms seeks to align the SABC with the change in media consumption patterns;
- The increased competition creates yet another challenge as the playing field remains uneven. With the barrier to entry lowered through digitization and a lack of regulation, the burden on the public broadcaster to provide a comprehensive offering at a huge cost continues to put pressure on the financial stability of the organisation;
- License conditions for television channels and radio stations require the SABC to offer programming that, while being of value to the public, does not necessarily generate revenue;

- Among these are sports of national interest that the SABC must broadcast. However, the exorbitant cost of sports rights and the limited potential for revenue generation are prohibitive and lead to guaranteed losses; and
- Only 3.2 per cent of the SABC's total income is from Government Grants. Grant allocations have declined compared to the financial year 2022 due to the restricted fiscus spending.

7. Observations made by the Committee

Having considered the revised SABC Corporate Plan, the Committee noted:

(i) and welcomed the presentation made;
(ii) with concern that the SABC was in dire financial crisis;
(iii) that the Corporate Plan was delayed as a result of allowing the new Board to familiarise themselves with the environment;
(iv) with greater concern on the indication by the Deputy Minister that the 2023/24 2nd Quarter Report of the SABC already indicates a net loss of R464 million year to date contrary to the presentation of the Corporate Plan which indicates a surplus;
(v) that the current Corporate Plan needs to be revised on the basis of the Deputy Minister's remarks and current financial constraints and unforeseen developments;
(vi) with greater concern that the SABC is technically bankrupt;
(vii) that a long-term strategy which will be concluded by the end of November, is being developed to address current challenges, especially the financial sustainability;
(viii) that the National Treasury was approached for an amount of R1.5 billion to, among others, cover costs associated with National Elections, and the request was declined due to the current fiscal constraints;
(ix) that Competition Commission declined to intervene in the dispute between Sentech and SABC;
(x) that despite the high competition in the broadcasting space, South African citizens rely on SABC services;
(xi) that challenges such as the delay in analogue switch-off, Over-The-Top players and continued load shedding have had a negative impact on SABC's financial prudence;
(xii) with optimism that SABC+ has accumulated over 700 000 subscribers, although no monetization has yet been realised;
(xiii) with concern the Low Audience Ratings (LARs) experienced by the public broadcaster;
(xiv) with concern the high employee costs whereas the Section 189 process was supposed to address this;
(xv) that the Committee does not expect the SABC to implement further staff reduction-related strategies as they have not worked thus far;
(xvi) with greater concern that there is a failure by the SABC to maintain liquidity;
(xvii) that the switch-off dates have been announced and that certain areas have already been switched off, with some sites remaining. These sites will be switched off by December 2024;
(xviii) with concern that the SABC spends large amounts of money on the unfunded mandate, whereas the government grant is miniscule;
(xix) that the unfunded mandate is a burden to the SABC;
(xx) that considering the grants received by the government and the debt owed to Sentech, the financial sustainability of SABC will remain a concern;
(xxi) with greater concern the escalating signal distribution debt now standing at over R745 million;
(xxii) that the SABC Bill referred to the Committee will create certainty to the sustainability of the SABC; and
(xxiii) that broad support will be needed to sustain the SABC.

8. Recommendations of the Committee

Having considered the SABC Corporate Plan, the Committee recommends that the Minister should ensure:

(i) that Entities reporting to the Department adhere to PFMA and relevant legislation in meeting deadlines for submission of reports;
(ii) that in the future, the SABC desist from late submission of reports to Parliament;
(iii) that the SABC provide the Committee with an updated Corporate Plan with updated key performance indicators which takes into account the current financial loss during quarterly reporting of the Department and its Entities;

(iv) that the SABC revise the Corporate Plan to be consistent with the performance information of the 2023/24 2nd Quarter Report;
(v) that once complete in November as indicated, the Department and the SABC must appear before the Committee to present the Long-term Strategy;
(vi) that the two Boards (SABC & Sentech) must continue to engage to resolve the impasse and that the SABC accepts that it is still liable to pay for the signal distribution services provided by Sentech;
(vii) that the SABC regularises the servicing of all its debts, especially one owed to Sentech;
(viii) that the Department play a lead role in resolving the impasse between its Entities;
(ix) that the SABC put processes in place to ensure that it attracts more viewership;
(x) that the SABC improves on the identified Low Audience Ratings;
(xi) that the SABC ensures that all critical positions are filled;
(xii) that the SABC monetises the SABC+ platform as a matter of urgency; and
(xiii) that the SABC does not implement further staff reduction-related strategies.

The Committee commits itself to avoiding a situation of making late interventions considering the dire performance reporting of the SABC. The Committee will further engage relevant authorities to ensure adequate funding of the unfunded mandate, especially concerning the upcoming National Elections 2024.

Report to be considered.