

SABC Interim Board
2nd Briefing to Parliament
2 November 2009



Introduction

Non-Executives

Ms. Irene Charnley

Prof. Phil Mtimkulu

Ms. Libby Lloyd

Mr. Leslie Sedibe

Mrs. Suzanne Vos

SABC Interim Chairperson

Apologies

SABC Interim Board Member

SABC Interim Board Member

SABC Interim Board Member

SABC Executives

Mr. Gab Mampone

Mr. Robin Nicholson

Ms. Charlotte Mampone

Company Secretary: Thelma Melk

SABC Acting Group CEO

SABC Director

SABC Acting Group COO

SABC Interim Board

Briefing Objectives –2 November 2009

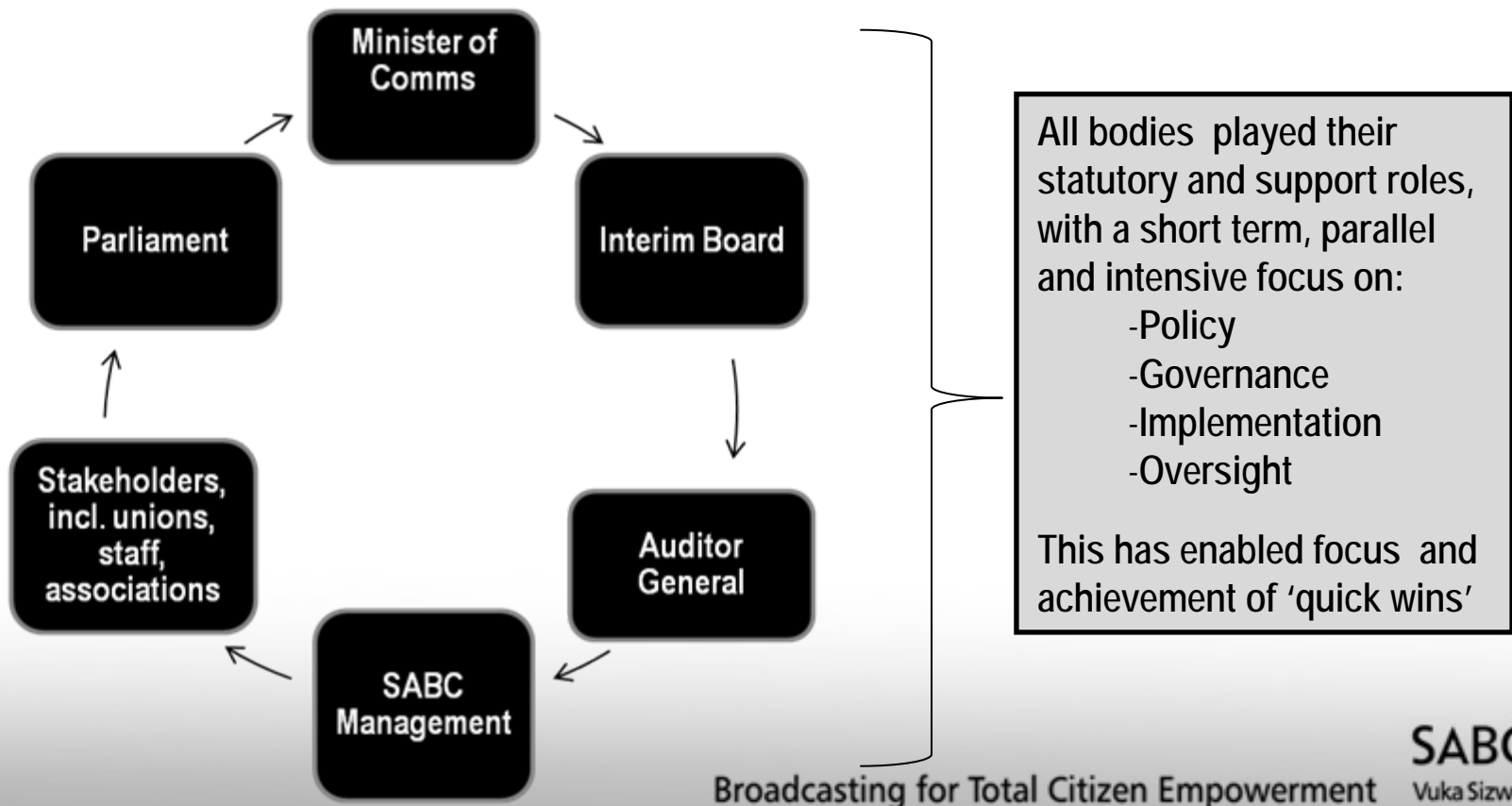
Briefing Objectives

- To update Parliament on:
 - Stabilization Environment
 - 3 Monthly Review: Deliverables against objectives since 21 July 2009
 - Deliverables Achieved
 - Stabilization
 - Operational Issues
 - Legislative Compliance
 - Key Focus Areas
 - Resolution of Liquidity and Going Concern Issues
 - Update on recommendations from Auditor General's Forensic Report
 - Handover to Permanent Board

Stabilization Environment

Stabilization Environment

Spirit of collaboration and commitment by all stakeholders to stabilizing the SABC has contributed to environment for Interim Board to tackle core challenges



Deliverables Against Objectives

Key Objectives

as presented to Parliament on 21 July 2009

Significant progress is being made with many objectives having been reached, and others on-going:

Stabilise SABC

- Resolution of wage dispute and impending strike
- Resolution of impasse with former GCEO
- Instituting Plans for Payment of Critical debts
- Re-establish Good Corporate Governance and Integrity
- Filling key Vacant Executive Positions including Head of News
- Strengthening Management Capacity
- Decrease Costs
- Achievement / Increase of Revenue Targets

Legislative Compliance

- Establish Audit Committee and Finalise External Audit report
- Comply with all legislation (Broadcasting Act, PFMA , etc)
- Finalise Annual Report for submission to Parliament
- Annual General Meeting (date to be set)

Key Operational Issues

- Ensure 2010 FIFA World Cup preparation remains on track
- Review of impending business decisions that will impact immediate operations
- Oversee and support Forensic Investigation by Auditor General
- Ensure implementation of compliance of Delegated Authority Framework
- Address outstanding internal audit issues (including allegations by organised labour)
- Oversee submission of funding requirements to Treasury (MTEF)
- Manage the liquidity issues

Completed

In progress

To be commenced

Broadcasting for Total Citizen Empowerment

Deliverables Achieved

Deliverables:

Stabilization

Deliverable	Description
Resolution of Wage Disputes and Strike	<p><i>Staff: 10% across the board</i></p> <ul style="list-style-type: none"> • 8% paid by August, backdated to 1 August; 1.5% to be paid in December 2009 • 2 days salary deducted for strike action (1 day Aug, 1 day Nov) • Once off payment of R 2000 subject to profit of R21m by SABC by May 2010 <p><i>Senior Management: 5% across the board</i> - backdated to April 2009</p> <p><i>Executive Management: No increases</i></p>
Resolution of Impasse with GCEO	<p><i>Settlement with Advocate Mpofu</i></p> <ul style="list-style-type: none"> • Contractual obligations of R 6.7 m (had already been paid) • Legal fees of R 2.1 m (paid Sept 09) • R 900,055 bonus (paid Oct 09) • Restraint of Trade of R 4.4 m (paid)
Cost Cutting Measures	<p><i>30 July Cost Cutting Directives , e.g.</i></p> <ul style="list-style-type: none"> • No leave encashment , all accumulated leave to be taken in 6 months unless special dispensation by Board, (R 135 m leave liability), • Air travel up to 6 hrs in Economy and reduction in international hotel daily cost ranges • No petrol cards (not implemented yet, determining fair cap) , Adhere to cell phone policies

Deliverables: Stabilization

Deliverable	Description
Filling of Key Vacant Positions	<p><i>Principal Decision to re-advertise to ensure transparency</i></p> <ul style="list-style-type: none">• GCEO – Position advertised, deadline end September, External Company assisting Board, Shortlisted candidates to interviewed• COO - In line with court order ,recommendaton of previous Board's submitted to Shareholder for decision• Head: News - Interviews held with shortlisted candidates , decision on way forward pending

Deliverables: Operational Issues

Deliverable	Description
Closure of International News Bureaus	<p><i>Actual costs to year end is R60 m (Previous Board approved only R36.9m, budget and strategy not aligned)</i></p> <ul style="list-style-type: none"> • 13 offices established initially;- support previous Board decision to close 3 offices • Current Board agreed to close 5 additional : China, Belgium, Brazil, Senegal, Wall Street • Decision to retain strategic bureaus: Nigeria, Zimbabwe, Kenya, London New York • Redeployment of correspondents and staff • Good Progress to date, most Bureaus closed <p><i>Cost benefit to be reflected in 2010 onwards budget (R7m this year)</i></p>
Ensure 2010 FIFA World Cup on track	<p><i>Key for 2010 World Cup</i></p> <ul style="list-style-type: none"> • R 65 million approved for Capex and Opex related expenditure
Local Content Key Business Decisions	<p><i>Recommissioning of 3 local programmes</i></p> <ul style="list-style-type: none"> • Reinforce local content mandate • Total R 275 m
Overdue Payments to local producers	<p><i>Payment schedule agreed</i></p> <ul style="list-style-type: none"> • Board approved overdue payments to all producers under R200 000 • Facing challenges , but all payments by end November

Deliverables: Operational Issues

Deliverable	Description
AENE Submission to Treasury	<i>Unavoidable and unforeseen expenditure identified</i> <ul style="list-style-type: none">• R 200 m approved by National Treasury• SABC to receive payment from November to March 2010; funds to be utilised for commissioned local content
Employment Contracts	<i>Performance based contract to be developed and implemented</i> <ul style="list-style-type: none">• All contracts over 3 years to be approved by Board• Correct part of breakdown of compliance with DAF

Deliverables: Legal and Operational

Deliverable	Description
Audited Financial Statements and Annual Report	<ul style="list-style-type: none">• Most issues raised previously in Annual Financial Statements finalised , but• Audited Financial Statements and Annual Report not finalised pending the finalisation of SABC as a “going concern”• Government Guarantee application submitted for approval to address going concern issue• Minister of Communication and Minister of Finance support extension of submission of Annual report by end November 2009
Establishment of Audit Committee	<p><i>Board Audit Committee constituted</i></p> <ul style="list-style-type: none">• 4 Chartered Accountants (external members), 2 remaining due to all outstanding issues in annual report being finalised• 4 Members of current Board, including SABC CFO

Update on AGSA's Report

Key Focus Areas: Liquidity and Going Concern Issues

- R 200m AENE application approved by Treasury
- Audited Financial Statements signed to be signed off once going concern issue finalised and Annual Report submitted
- 5-year Government Guarantee applied for to enable Institutional borrowing by SABC:
 - Ability to repay funds lies in successful execution of proposed Turnaround Strategy;
 - Interim Board will bind the Executive Management team to measurable **performance contracts** to ensure accountability;
 - SABC should return to profitability in 2012 and repay all its debts, by the end of the 2014 financial year.



Update on AGSA's Report Findings

- Lack of Accountability
- Lack of Fiscal Discipline and adherence to Treasury Regulations
- Lack of Policies and Procedures governing the Acquisition of Content
- Failure to conduct Needs Analysis from Channels
- Acquisition of content from unauthorised suppliers
- Wastage and Inefficiencies
- Appointment of Service Providers to provide similar services
- Failure to declare Business Interests

Update on AGSA's Report Areas of Alleged Misconduct

- Exceeding the various Levels of Authority under the Delegated Authority Framework
- Splitting of Contracts to bring within the appropriate Level of Authority
- Purchases made without proper Business Plans and Deal Appraisals
- Over Payments to Suppliers including Double Payments
- Agreements not properly vetted and poorly negotiated
- Content paid for but not delivered
- Content delivered but not broadcast
- Dumping of stock and content bundling
- Titles acquired more than once from the same Supplier during the same License Period

Update on AGSA's Report Board Actions to Date

- Board Meeting September 2009 :
 - resolved to constitute a Sub-Committee to consider and implement Disciplinary Processes including the engagement of external resources
- September 2009 – Stakeholder engagement involving Senior Management
- September 2009 – Re-Diffusion Process reporting to SABC Staff
- 28 September 2009 – initial consultations with senior members of staff to inform them of the decision of the board to impose suspensions
- 1 to 10 October 2009 – Review of submissions
- 15 October 2009 – Board issues Letters of Suspensions
- 19 October 2009 – Executives presented with the Charges

Update on AGSA's Report Next Steps

- Due to relative complexity of the allegations and the seniority of the individuals involved disciplinary hearings are being arranged:
 - will be chaired by Senior Counsel and Legal representation will be allowed during the hearings
- The Disciplinary Hearings will commence on 5 November 2009
- Due to the involvement of external counsel, the targeted dates of some of the individuals have been switched to accommodate all parties
- A number of other issues involving Junior staff members have come to the attention of the board:
 - in the process of reviewing some of the charges

Update on AGSA's Report Progress Report

- The Board is pleased to inform the Committee that Letters of Demand have been issued against all the entities that were identified in the AG's Report
- Received responses to the Letters of Demand
 - currently reviewing the submissions
- Meetings are being scheduled with the Suppliers to resolve the issues affecting Content Acquisition for the Festive Period

Update on AGSA's Report Next Steps

- Areas of Investigation to include instances of Fraud, Over Payments, Under Payments and breach of the PFMA, the Companies Act and the Broadcasting Act
- Meetings scheduled with the appropriate authorities to frame the charges and the prosecution of the claims / allegations
- Final List of Charges are being framed
- A Preliminary Report on Criminal Charges was prepared and forwarded to the Commercial Branch of the SAPS

Conclusion

Conclusion:

Handover to Permanent Board

- **Objectives:**

- Brief incoming Board to ensure continuity and facilitate quick handover
- Brief Shareholder on status of SABC
- Ensure good governance and practice

- **Next steps:**

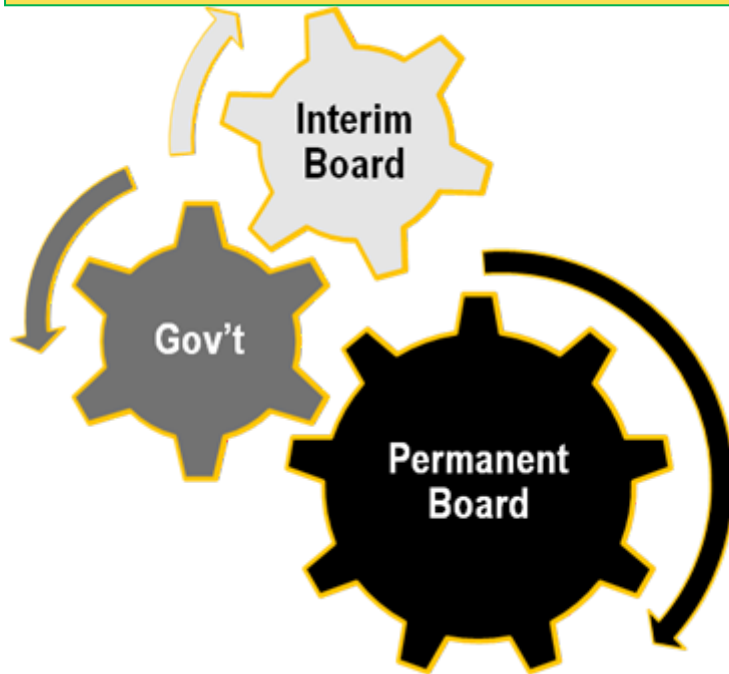
- Preparation and submission of detailed handover report

**Financial, Governance and Operational challenges are critical
Imperative that Permanent Board “hit the ground running” to ensure that no
time is wasted in taking next steps**

Conclusion

Co-ordinated Approach to Implementation of Next Steps

National Treasury and Institutions will impose financial covenants to ensure ratios are maintained



Interim Board

- Secure guarantee;
- Kick-start the turnaround process;
- Ensure that all executives have signed performance contracts (by November 2009) to ensure accountability and commitment;
- Ensure smooth handover to Permanent Board

Executive Authority and DoC

- non financial covenants;
- monthly reports;
- monthly cash flows;
- management accounts;
- appoint individual on audit, financial investment and risk committees whilst government guarantee in place

Permanent Board

- informal discussions started;
- will have to ensure monitoring of implementation this year plus implementation to March;
- mid November full board meeting on turnaround strategy to brief new Board



Conclusion

- Focus with measurable deliverables for 4.5 months
- Lay foundation for Permanent Board
 - Stabilising SABC at all levels
 - Resolution of Liquidity issues
 - Address good corporate governance concerns;
 - Meet 2010 FIFA World Cup obligations
 - Begin the process of re-building a vibrant and sustainable Public Broadcaster which effectively and efficiently meets the needs of all South African citizens.
 - Build confidence and Restore Integrity!

ANYTHING IS POSSIBLE WHEN WE ALL WORK TOGETHER

Our Citizens



Broadcasting for Total Citizen Empowerment