REPORT OF THE PORTFOLIO COMMITTEE ON TELECOMMUNICATIONS AND POSTAL SERVICES ON ITS DELIBERATIONS ON BUDGET VOTE 32: DEPARTMENT OF TELECOMMUNICATIONS AND POSTAL SERVICES, AND ITS ENTITIES, DATED 12 MAY 2015

The Portfolio Committee on Telecommunications and Postal Services, having considered Budget Vote 32: Telecommunications and Postal Services, reports as follows:

1. COMMITTEE'S OVERVIEW OF TELECOMMUNICATIONS AND POSTAL SECTOR IN SOUTH AFRICA

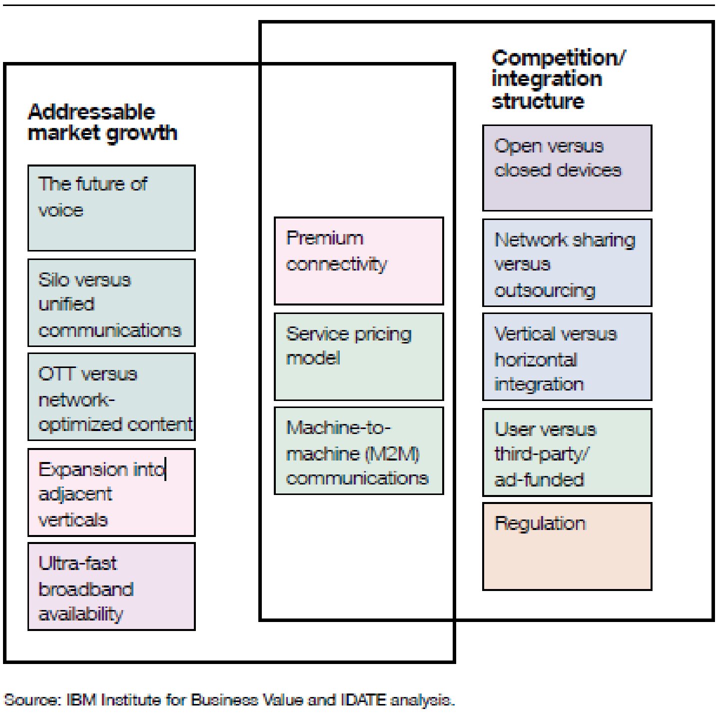


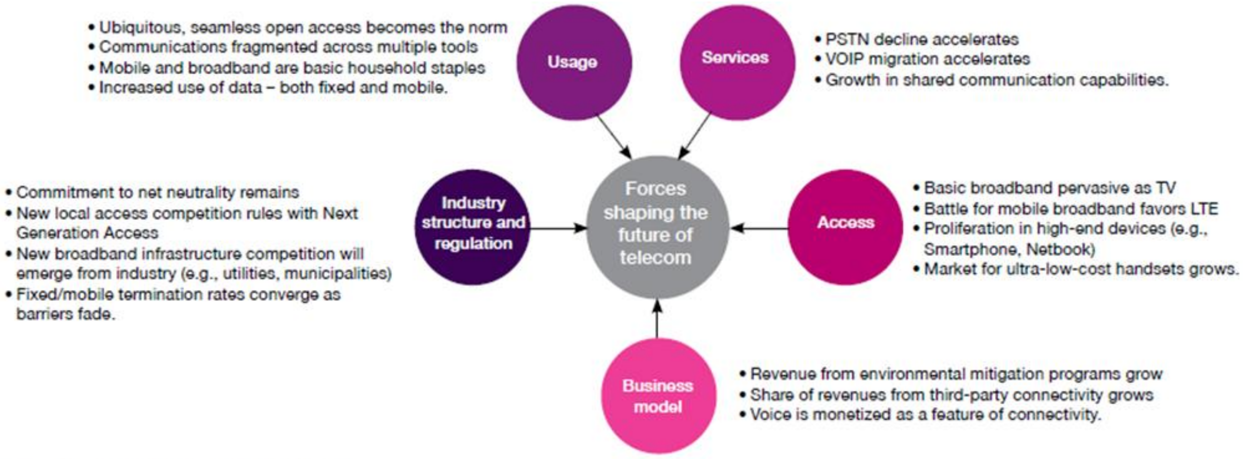
Figure 8: Variables that may shape the future of telecommunications can be grouped within two industry dimensions.

The Inform[illegible]l as a potent tool for socio-economic upliftment. In this regard, the ICT market in South Africa has been expanding quickly and is likely to continue at an exponential rate in the years ahead, driven by rapid growth in mobile telephony, Internet economy- e-commerce, and the advent of broadband. With a network that is 99.9% digital and includes the latest in the fixed-line, wireless and satellite communication, together with over 80% signal broadcasting coverage. Moreover, with the largest postal outlets (2 500 post offices) the country has the most developed electronic communications network in Africa. The sectors' potential to contribute to South Africa's growth path is therefore significant. However, whilst the country spends close to 10% of Growth Domestic Product (GDP) on ICT goods and services, however, most of these are imported.

From a technology perspective, cloud computing and social media, coupled with the move to mobility, a proliferation of devices and the consequential 'big data' issues arising from this, head up a long list of opportunities for the future. This includes a move to the digital world and linked with it, the Internet of Things. The shift towards convergence, and new services in the cloud and unified communications space is set to continue. ICT is therefore also a powerful tool in addressing development outcomes in areas like education, health and poverty reduction, and in achieving the Millennium Development Goals.[1]

The National Development Plan (NDP) sees ICT by 2030 underpinning a dynamic, inclusive and prosperous information society and knowledge economy, in which seamless information infrastructure will meet the needs of citizens, business and the public sector, providing access to a wide range of services required for effective economic and social participation at a cost and quality at least equal to South Africa's competitors.[2]

1.1 ICT INFRASTUCTURE: New technology acronyms abound but what will be their impact in the future



Source: IBM Institute for Business Value and IDATE analysis.

Figure 3: A number of forces are shaping the future of the telecommunications industry.

ICT enterprises are investing in new network technologies to improve their efficiency. It all sounds great, but how is technology working for the digital economy? Who is investing and who is making money from it? How will technologies that have been tried-and-tested in developed markets work in South Africa?

5G wireless networks will support 1 000-fold gains in capacity, connections for at least 100 billion devices, and a 10 Giga Bits per Second (Gb/s) individual user experience capable of extremely low latency and response times. Deployment of these networks will emerge between 2020 and 2030. 5G radio access will be built upon both new radio access technologies (RAT)

[1] ICT RDI Roadmap(2014)
[2] National development Plan (2014)

and evolved existing wireless technologies (Long Term Evolution (LTE), High Speed Packet Access (HSPA), Global System for Mobile Communications (GSM) and Wi-Fi). [3]

5G is in its early research stages. New IMT spectrum is expected to be agreed upon for the World Radio Communication Conference (WRC) in 2015. The International Telecommunications Union (ITU) is at work on IMT spectrum requirements for 2020 and beyond. After WRC-15, ITU will have a clearer path for determining network system and technology requirements.

The uptake of data services is increasing rapidly, data revenues have increased at a staggering 67% over the last four years and now represent 26% of total revenues. The introduction of the Internet and the arrival of 'Over-The-Top' players, such as (WhatsApp, Skype) has leveraged a structural change away from revenues being concentrated in layers 3[4] and 4[5] to towards layer 1.[6]

This has shifted the development paradigm surrounding mobile phones from one that simply reduces communication and coordination costs to one that could transform lives through innovative applications and services.[7]

South Africa however, is lagging behind on deployment of fast, advanced broadband (LTE).[8] In fact, according to the latest Global Information Technology Report[9], South Africa has dropped from 70th position to 75th for most prepared out of 144 countries in the Network Readiness Index, defined as the "propensity-ability for countries to exploit the opportunities offered by ICT. This is far below South Africa's potential for a country whose economy is the 33rd largest in the world according to the World Bank

1.1.1. Market Consolidation and the potential changes to the future Market Structure of Telecoms operators

The year 2014 has been the ICT sector's most active year, as companies such as Telkom bid to take over Business Connection in a transaction worth Billions. Mobile Telephone Network (MTN) has already taken a stake in Afrihost and MTN is also currently courting Telkom. Blue

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[3] Roadmap and workplan on future technologies(2020)
[4] Layer 3: refers to access: the access layer is that 'last mile" of network that connects Customer Premises Equipment (CPE) to the network (excluding any in-building wiring). This 'last mile' consists of any technology that can connect a CPE to the network that conveys electronic communications signals
[5] Layer: Infrastructure: the infrastructure layers refers to any and all electronic communications facilities that support the achievement of 'last mile' access.
[6] Layer 1: end-users application/software: applications and software represents the tolls which ends-users actually use and include word processing, graphics and graphics and spreadsheets, as well as the proliferation of applications now available in the mobile. The growth of the machine-machine communications will drive new interfaces between machine with no human interface.
[7] Jenny, C, Aker, Mbiti, I. (2010)
[8] Independent Communications Authority of South Africa (ICASA) 2015
[9] Complied every year by the World Economic Forum

label announced it is in preliminary buyout talks; and Internet Solutions bought out the bulk of MWeb Business.

The ICT/Telecoms mergers and acquisition activity is expected in the course of the 2015/16 financial year and or onwards, as competition continues to heat up and new players enter the telecoms and IT spaces. This is likely to lead to innovative services being created for the benefit of end-users, as companies seek new revenue streams. There are also other deals which still require approval from the ICASA and Competition Commission, such as the proposed acquisition of Neotel by Vodacom, and those involving MTN and Telkom.

1.1.2. ICT Policy Review and SOC Institutional arrangements

In March 2015, South Africa launched the Inaugural South Africa WiFi Forum which debated on how WiFi can be a catalyst in achieving connectivity targets set out in the National Development Plan vision 2030 (NDP) and SA Connect. With State Owned Companies (SOC) rationalisation process is still to be concluded, a number of ICT SOCs will either be merged or will have added mandates or responsibilities to their existing mandate. Efforts are to be made towards ensuring that such institutional arrangements follows ICT Policy Review Recommendations that are geared towards achieving vision 2030 and SA Connect.

1.1.3. Broadcasting Signal Distribution

Since the 2010/11 financial year to 2014/15 financial year, the population coverage increased by 4.7 million and geographical coverage by 129.4 square kilometres. The Common-carrier signal distributor has completed all 178 migration sites, which provide the population coverage of 84% and geographical coverage of 58%. The 16% of the population for DTT will be covered by DTH satellite gap filler solution.

The common-carrier signal distributor, working with National Association of Broadcasters (NAB) and Southern African Digital Broadcasting Association (SABIDA) launched the DAB+ Digital Radio Trial Transmission. Once the policy and the regulations have been finalised these new platforms will transform the sector by unlocking numerous new and existing opportunities.

1.1.4. The growth of e-Commerce; New entrants in the market and Cost to Communicate

A new mobile virtual network operator is set to make its debut in South Africa in early May 2015. Me&you mobile will be launched by Durban-based Ignition Group.
Piggybacking on Cell C's infrastructure, me&you mobile intends offering a Sim-only service to clients with competitive voice and data rates. Call rates will start at just 39c/minute, while data rates will be "competitively priced". It is also believed[10] that me&you mobile will be targeting a

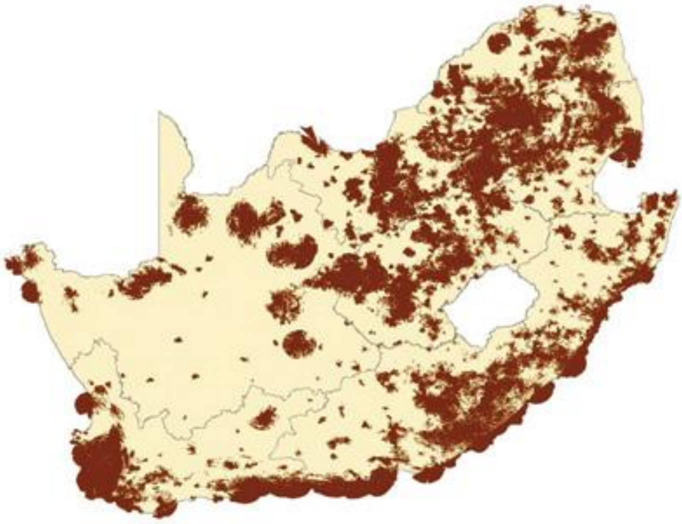
[10] TechCentral(2015)

niche market of customers in the higher living standards measures (LSM 6-10) who don't want to be tied into 24-month contracts, but who still want flexibility that can't be offered by prepaid. The brand will operate entirely online which will require customers wanting Simcards to place orders on the website using their credit card.

1.1.5. Future of the postal sector

Postal service continues to have a central role in the development of an effective and dynamic single market. At the same time, the postal sector is challenged by developments in electronic communications technologies. The recent debates on Remittances and Postal Network and international money transfer discussions organised by Universal Postal Union (UPU) are set to change the sector.

Broadband Map of South Africa



Broadband coverage map in South Africa: Source: Ministry of Communications (2012)

2. Introduction

The Portfolio Committee on Telecommunications and Postal Services considered the 2015/16 budget of the Department of Telecommunications and Postal Services (the Department) on 14

April 2015. This report contains a summary of the DTPS budget allocation and the strategic objectives of its programmes with Committee findings and recommendations on the budget.

The Minister tabled the Strategic Plans of the Department and its entities in March 2015. In performing its constitutional mandate, the Committee scrutinised the alignment of the Department and its entities' Strategic Plans (2015-2019) and Annual Performance Plans (2015/16) to the following key government objectives:

(i) 2015 State-of-the-Nation Address (SoNA);
(ii) 2015 Budget Statement;
(iii) Government's five priorities i.e. health, education, employment, rural development, and fighting crime and corruption;
(iv) Recommendations made in the National Policy Frameworks, National Development Plan (NDP); National Growth Path (NGP), Industrial Policy Action Plan (IPAP) and the Broadband Policy, and SA Connect.

The Committee was briefed on the 2015/16-2019/20 Strategic Plans and 2015/16 Annual Performance Plans (APPs) of the Department and its entities. Accordingly, the Committee met with the Department and the following entities to discuss their Strategic Plans, APPs and Budgets:

- Universal Service Access Agency of South Africa (USAASA) and Universal Service Fund (USAF);
- SENTECH;
- State Information Technology Agency (SITA);
- Ikamva National E-Skills Institute (iNeSI);
- Broadband Infraco (BBI);
- South African Post Office (SAPO).

3. Mandate of the Committee

In terms of Chapter 4 of the Constitution of the Republic of South Africa, Act No 108 of 1996 (the Constitution), gives a mandate to Portfolio Committees to legislate, conduct oversight over the Executive and also facilitate public participation. The Committee may also investigate any matter of public interest that falls within the ICT area of responsibility.

The Committee is required to consider legalisation referred to it and to consider all matters referred to it in terms of the Constitution, the Rules of the National Assembly or resolutions of the House. It is also required to respond to matters referred to it by Government within its mandate. Moreover, the role of the Committee is to consider the Budgets, Strategic and Annual Performance Plans of the Department and its entities that fall within its portfolio.

To this end, the Constitution of the Republic of South Africa, 1996 identifies the legislative responsibilities of different levels of Government pertaining to telecommunications, postal services, e-government, broadband and signal distribution. In addition, the 1996 White Paper on Telecommunications identifies the central importance of access to telecommunications to the achievement of its economic and social goals.

The policy further indicates that affordable communications for all citizens and business, throughout South Africa, is at the core of its vision and is the goal of its policy. The challenge is to articulate a vision that balances the provision of basic universal service to disadvantaged rural and urban communities with the delivery of high-level services capable of meeting the needs of a growing South African economy. The ICT sector is therefore key to the success of the national economic policies of the country. Access to communications facilities is not only necessary for the delivery of services in critical sectors such as education and health; it is the essential backbone for development and offers the only opportunity for leapfrogging its relatively slow sequential phases.

4. Mandate of the Department of Telecommunications and Postal Services

The Department has certain core functions, many of which are legislated, some expressed in the Constitution, and some reporting to other Government Departments. The Electronic Communications Act of 2005 (ECA) also defines these core functions in section 3, Policy and Policy Directions, namely:

- To develop Telecoms policies and legislation that create conditions for an accelerated and shared growth of the South African economy, which positively impacts on the well-being of all our people and is sustainable;
- To ensure the development of robust, reliable, secure and affordable Telecoms infrastructure that supports and enables the provision of a multiplicity of applications and services to meet the needs of the country and its people;
- To contribute to the development of an inclusive information society which is aimed at establishing South Africa as an advanced information-based society in which information and telecommunications tools are key drivers of economic and societal development;
- To contribute to e-Skilling the nation for equitable prosperity and global competitiveness;
- To enhance the capacity of, and exercise oversight over, State Owned Enterprises (SOEs) as the delivery arms of government; and

- To fulfil South Africa’s continental and international responsibilities in the telecommunications field.

In addition to the above, the Minister of Telecommunications and Postal Services is authorised to make policy and issue policy directions to ICASA under section 3 of the ECA. In an endeavour to discharge its mandate, the Department has the following programmes:

- Administration;
- ICT Trade;
- ICT Policy, Research and Capacity;
- ICT SOC Oversight;
- ICT Infrastructure Support.

5. Overview of the 2014/15 Financial Year Quarterly Expenditure Trend of the Department

Table 1 below paints a picture of how each programme performed from the First to the Third Quarter of the 2014/15 financial year, while graph 2 depicts the same quarterly expenditure of the Department.

Table 1: Performance per Programme per Quarter

Programme	Quarter 1	Quarter 2	Quarter 3
Administration	26%	49%	67%
ICT International Affairs	26%	49%	72%
ICT Policy, Research and Capacity Development	28%	45%	53%
ICT Enterprise Development and SOC oversight	17%	36%	26%
ICT Infrastructure Support	5%	8%	22%
Total Expenditure	**20%**[11]	**35,2%**	**51.4%**

Source: National Treasury (2014-2015)

[11] Expenditure per term does not include transfers and subsidies of the Vote

5.1.1. First Quarter Expenditure

The then- Department of Communications[12] had a total budget allocation of R1,6 billion which represented a nominal decrease of R799,4 million or 42% from the 2013/14 financial year. Transfers and subsidies accounted for R 1,1 billion of the available budget and of this amount, the Department transferred R345,2 million or 31,8%, mainly to departmental agencies and accounts. This means that the Department had a total budget of R508,9 million for operations. Of this, it spent R99,8 million, or 19,6%, (as opposed to a National Treasury benchmark of 25% per quarter), the majority being used on goods and services and compensation of employees.

According to National Treasury, a complete/ adjusted budget is not made available to a Department at the beginning of the year, but instead, funds are drawn from the National Revenue Fund on a monthly basis. At the prologue of each financial year, each Department must submit a schedule for these drawings that is used as a proxy for planned spending. Schedule drawing are also used to check whether the Department's expenditure is on track or not.[13]

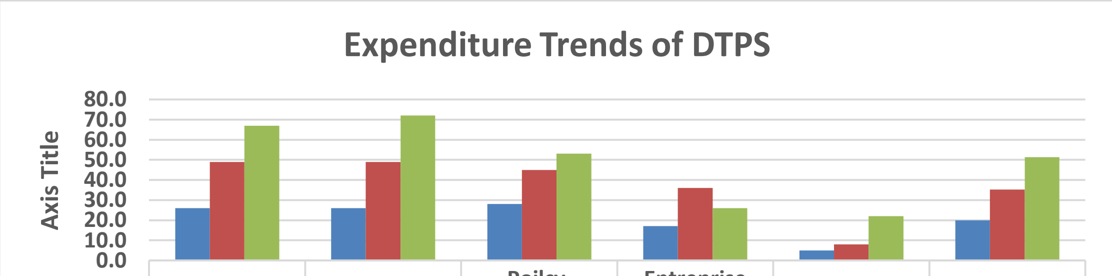
5.1.2. Second Quarter Expenditure

The Department of Communications had a total budget allocation of R1,6 billion which represented a nominal decrease of R778,7 million or 32,8% from the 2013/14 financial year. Transfers and subsidies accounted for R 1,1 billion of the available budget and of this amount, the Department transferred R692,8 million or 63,9%, mainly to departmental agencies and accounts.

This means that the Department had a total budget of R508,9 million for operations. Of this, it spent R179,1 million, or 35,2%, (as opposed to a National Treasury benchmark of 25% per quarter which means in the second quarter the Department ought to have spent 50% or close to this percentage), the majority been used on goods and services and compensation of employees.**Graph 2: Performance per Programme per Quarter**

[12] The Department had not been fully disbanded and new Department of Telecommunications and Postal Services was not yet established which once established, it took over the functions of the former Department
[13] Budget and expenditure summary(2012)

Source: own calculations



	Adminstration	International Affairs	Poilcy, Research and Capacity Development	Entreprise Development and SOC Oversight	ICT Infrastructure Support	Total Expenditure
Q1	26.0	26.0	28.0	17.0	5.0	20.0
Q2	49.0	49.0	45.0	36.0	8.0	35.2
Q3	67.0	72.0	53.0	26.0	22.0	51.4

5.1.3. Third Quarter Expenditure

The Department of Communications had a total budget allocation of R2.2 billion after the adjustment process, which represented a nominal decrease of R135.5 million or 5.7% from the 2013/14 financial year. The decrease was as a result of a once-off allocation to Telkom for schools connectivity in the 2013/14 financial year. This also accounted for the high proportion of transfers spent by December 2013/14 financial year relative to 2014/115 financial year.

Transfers and subsidies accounted for R1,7 billion of the available budget and of this amount, the Department transferred R877,7 million or 51,4%, mainly to departmental agencies and accounts and public corporations and private enterprises.

This means that the Department had a total budget of R529 million for operations. Of this, it spent R271,8 million, or 51,4%, (as opposed to a National Treasury benchmark of 25% per quarter which means in the second quarter the Department ought to have spent around 75% or close to this percentage), the majority been used on goods and services and compensation of employees.

Summary of Quarters 1 and 3

The largest element of operational expenditure the 2014/15 financial year, was spent by Programme One - Administration on goods and services and compensation of employees. The second largest was programme 3; Policy, Research and Capacity Development followed by ICT Infrastructure Support, again primarily on goods and services and compensation of employees.

6. Policy Priorities for the Department during the 2015/16 Financial Year

6.1.1. State of the Nation Address (SoNA) and The Impact to the ICT sector

In his eighth State of the Nation Address, President Jacob Zuma said, "Our economy needs a major push forward".[14] The President pronounced government's nine-point plan to ignite growth and create jobs, which must include:

- State reform and boosting the role of state owned companies, ICT infrastructure or broadband rollout.

The President in his speech also noted, "The year 2015 will mark the beginning of the first phase of broadband roll out. Government will connect offices in eight district municipalities. These are Dr Kenneth Kaunda in North West, Gert Sibande in Mpumalanga, O.R. Tambo in the Eastern Cape, Pixley ka Seme in the Northern Cape, Thabo Mofutsanyane in the Free State, UMgungundlovu and UMzinyathi in KwaZulu-Natal, and Vhembe in Limpopo. Government has also decided to designate Telkom as the lead agency to assist with broadband rollout."[15] In addition, Telkom was also announced as lead entity for broadband rollout in the country.

6.1.2. National Development Plan and Medium Term Strategic Framework (MTFS)

In its discussion on social and economic development, the National Development Plan (NDP) emphasises the necessity of sound economic infrastructure as a precondition for economic growth. In a nutshell, the NDP proposes to eliminate poverty and reduce inequality by 2030. Chapter Four of the NDP, entitled *Economic infrastructure - the foundation of social and economic development* focuses on three pillars where the ICT sector has a critical role. These are:

- South Africa needs to maintain and expand its telecommunications infrastructure in order to support economic growth and social development goals;

- Social services and wage goods should be affordable so that majority can achieve decent standard of living; and

- There should be channels to influence factors that influence citizen's well-being.

Much of the economic growth in the world today is located in emerging markets. To this end, Budde Communication's 2013 research noted that Africa has the largest remaining growth potential in the world, and estimates that the market in telecom services alone will grow by 1,5 billion people, almost half of the remaining market worldwide, by 2050.[16]

In a way similar to any infrastructure project, the deployment of broadband networks creates jobs and acts over the economy by means of multipliers. Broadband network construction

[14] Zuma, J.(2015)
[15] Ibid
[16] Budde, P Communications(2013)

affects employment in three ways (network construction requires the creation of direct jobs (such as telecommunications technicians, construction workers, and manufacturers of the required telecommunications equipment). The creation of direct jobs has an impact on indirect employment (such as upstream buying and selling between metal and electrical equipment manufacturing sectors). Finally, the household spending based on the income generated from the direct and indirect jobs creates induced employment.

Similarly, Government's Medium-Term Strategic Framework (MTSF) underlines the need to reach 90 % broadband connectivity by year 2019. In this regard, the MTSF underscores the need to prioritise "the maintenance, strategic expansion, operational efficiency, capacity and competitiveness of [the] ICT infrastructure".

6.1.3. SA Connect

South Africa Connect, the national broadband policy and the associated strategy and plan, gives expression to South Africa's vision in the NDP of "a seamless information infrastructure by 2030 that will underpin a dynamic and connected vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous".[17]

With the dependence of South Africans on mobile broadband to access the Internet, the long-awaited policy directive that has delayed the Long Term Evolution (LTE) spectrum to be assigned must urgently be issued to avoid network congestion.[18]

In the converged broadband environment the roles of the public and private sectors are changing rapidly and stakeholders must find common ground to achieve universal broadband. There is also a need to find effective ways to develop Public Private Partnership projects in Research and Development.

In accordance with the outcomes based performance management framework adopted by government, the Departments by developing ICT policies and legislation as well as overseeing the operation of public entities within the ICT sector. For the 2015/6 financial year, the Department will focus on the implementation of 9 of the 14 outcomes for Government, as outlined in the MTSF. These nine outcomes are:

- **Outcome 1**: Improved quality of basic education;
- **Outcome 2**: A long and healthy life for all South Africans;
- **Outcome 3**: All people in South Africa are and feel safe;
- **Outcome 4**: Decent employment through inclusive growth;
- **Outcome 5**: A skilled and capable workforce to support an inclusive growth path;

[17] South Africa connection(2013)
[18] Research ICT Africa(2014)

- **Outcome 6:** An efficient, competitive and responsive economic infrastructure network;
- **Outcome 7:** Vibrant, equitable and sustainable rural communities contributing towards food security for all;
- **Outcome 11:** Create a better South Africa and contribute to a better and safer Africa and World; and
- **Outcome 12:** An efficient, effective, and development oriented public service and empowered, fair and inclusive citizenship.

7. Strategic Priorities for the Department in 2015/16

7.1.1. Broadband: Radio Frequency Spectrum and Cyber security

As part of phase 1, the Department will develop the Digital Development strategy that will focus on the following main deliverables:

- Provide connectivity to 1296 identified government institutions inclusive of schools and health centres;
- Develop phase 2 implementation plan and securing required funding;
- Develop SA Internet Strategy;
- Operate the Virtual Cybersecurity Hub;
- Develop Rapid Deployment Policy aimed at removal of administrative bottlenecks for approval of right of way for Broadband Infrastructure rollout.

7.1.2. Cost to Communicate

As part of this priority the Department will focus on the following main deliverables:

- Develop Policy Direction on National Roaming to facilitate access to infrastructure and improve competition in the market;
- Develop draft Local Loop Strategy to ensure quality improves. Cost are reduced and fixed-line coverage is expanded to meet the demand of high-speed telecommunications;
- Develop Policy Direction on data cost;
- Develop the Implementation of a Monitoring and Evaluation Framework to reduce cost to communicate.

7.1.3. ICT Policy Review

As part of this priority the Department will focus on the following main deliverables:

- The Department will use stakeholder’s input on the Discussion Paper to inform the finalisation and subsequent gazetting of the White Paper on National Integrated ICT Policy.

7.1.4. National e-Strategy

As part of this priority the Department will focus on the following main deliverables:

- Following the finalisation of the National e-Strategy Framework, the Department will finalise and obtain Cabinet approval of the National e-Strategy.

7.1.5. Postal Sector: SAPO Turn Around Plan, Postbank Corporatisation and Programme of Action for the Postal Sector

As part of this priority the Department will focus on the following main deliverables:

- Support, coordinate and monitor the implementation of Turn-Around Plan;
- Develop and obtain approval of the National Address System Policy;
- Licence of Postbank;
- Appointment of Postbank board members;
- Establishment of Postbank Holding Company; and
- Incorporation of the Postbank Company.

7.1.6. Summary of the Department's Allocation Against Planned Objectives

A perusal of the Department's budget allocation for 2015/16, however, reveals ironic or contradictory statements which gives different meanings as to whether it give credence to the objectives of the NDP, MTSF and SoNA or not.

This is evidenced by a greater investment in the ICT Infrastructure Support which has been allocated the biggest share of funds R642.7 million or 46% of the total Departmental allocation. Sub-programme- broadband is allocated R271.4 million.

At the same, entities like Broadband Infraco requires R170 million in the short term guarantee and a further R528 million medium term guarantee otherwise the company will run out of funds before the end of September 2015. SAPO is currently headed by an Administrator and has been temporally placed under Deputy President Cyril Ramaphosa.

The combination of the two ironic statements does not augur well for economic growth through broadband, e-governance, postal sector delivery and job creation. In addition, it will therefore not stand the country in good stead for attracting investors. The exclusion of Broadband Infraco from the list of entities under the Department for SOC rationalisation and funding was also worrying.

8. Budget Analysis of the Department 2015/16

Table 3: Overall Budget – Telecommunications and Postal Services

Programme	Budget				Nominal Rand change	Real Rand change	Nominal % change	Real % change
R million	2014/15	2015/16	2016/17	2017/18	2014/15-2015/16		2014/15-2015/16	
Administration	216.4	173.7	178.6	188.2	- 42.7	- 50.7	-19.73 per cent	-23.41 per cent
International Affiars and Trade	36.8	43.4	45.8	48.2	6.6	4.6	17.93 per cent	12.53 per cent
Policy, Research and Capacity Development	98.0	105.6	111.8	118.1	7.6	2.8	7.76 per cent	2.82 per cent
ICT Enterprise Development and SOC Oversight	719.2	447.9	195.2	212.6	- 271.3	- 291.8	-37.72 per cent	-40.57 per cent
ICT Infrastructure Support	523.0	642.8	1 014.3	708.2	119.8	90.4	22.91 per cent	17.28 per cent
TOTAL	**1 593.4**	**1 413.4**	1 545.7	1 275.3	**- 180.0**	**- 244.7**	**-11.30 per cent**	**-15.36 per cent**

Source: National Treasury 2015: - Vote 32: Telecommunications)

Over the medium period, the overall departmental budget will increase from R1,4 billion in 2015/16 financial year to R 1,5 billion in 2016/17 and the budget is also projected to decrease to R1,3 billion during the 2017/18 financial year.[19]

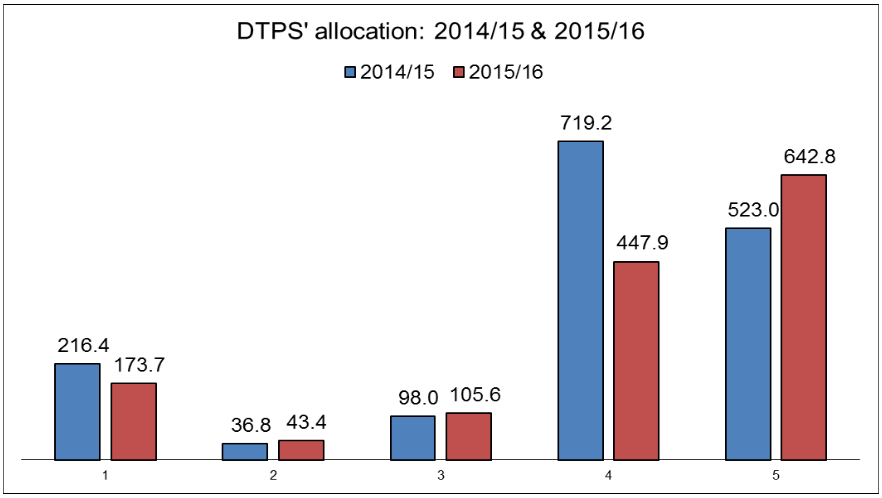
The spending focus over the medium term will be on implementing the broadcasting digital migration, broadband, universal postal services and ICT Policy Review. These relate to the rollout of infrastructure for digital terrestrial television by providing a subsidy scheme for set-top boxes, reviewing ICT policies, and accelerating access to ICT by coordinating the participation of the government in specialised ICT agencies.

From the budget of R1,4 billion allocated to the Department for 2015/16, R679,7 million or 48,1% is allocated for current payments, which includes compensation of employees (R191,8 million) and goods and services (R487,9 million).[20]

In the 2015/16 financial year shows a different picture on the overall allocation of the Department. The large portion of the Department's budget which amounts to R R642,8 million or 46% is allocated to ICT Infrastructure Support.[21]

Graph 4: Department's allocation for 2014/15 and 2015/16 per Programme

[19] National Treasury(2015)
[20] National Treasury(2015)
[21] National Treasury (2015) Estimates of National Expenditure



(Source: own calculations)

The above graph shows a comparative analysis of the vote allocation in the 2014/15 financial year and 2015/16. The bulk of the budget, as illustrated in the graph, was allocated to programme 4 and 5. These two programmes received R719,2 million and R523,0 million in the 2014/15 financial year respectively. Meanwhile, in 2015/16 financial year, these programmes (programme 4 and 5) received R447,9 million and R642,8 million respectively.

8.1.6. Transfers and Subsidies

From the allocation of R1,4 billion allocated to the Department, R728,6 million or 51,9% goes to Departmental agencies and account which constitutes R532,6 million and public corporations and private enterprises (R487,9 million) as well as R22,2 million for foreign governments and international organisations.[22]

8.2. Programme Analysis

Programme 1: Administration – R173,7 million

The purpose of this programme is to provide strategic support to the ministry and overall management of the Department.[23] This programme comprises the following sub-programmes:

- Ministry;
- Departmental Management;
- Internal Audit;
- Corporate Services;
- Financial Management; and

[22] National Treasury(2015)
[23] Department of Telecommunications and Postal Services(2015)

- Office Accommodation.

In the 2015/16 financial year, Administration/ Programme one has been allocated R173,7 million which shows a decline compared to R216,4 million of the previous financial year. This programme's allocation constitutes about 12,3% of the overall allocation of the Department.[24]

In terms of the Nominal Rand change, which does not take into effect the inflation rate per given year, the budget depreciates by more than R42,7 million or 19,7%. In real rand change[25], however, the amount depreciates by R50,7 million or a decline of 23,4%.

Sub-Programme: Financial Management

From the total allocation of R173,6 million for programme one: Sub-programme: Financial Management receives largest allocation of R 69,9 million or 40,3% compared to R56,5 million adjusted budget received in the previous financial year.[26]

Sub-Programme: Corporate Services

Sub-programme: Corporate Services receives second largest allocation of R52,3 million or 30,1% of programme one allocation. The sub-programme should prioritise stakeholder engagement and general publicity of the work and mandate of this Department in relation Broadband roll-out, SA Connect, postal sector and e-commerce take up by SMMEs especially in provinces and municipalities.

Programme 2: International Affairs – R43,4 million

The purpose of this programme is to ensure alignment between South Africa's international activities and agreements in the ICT sector and the country's foreign policy.[27] The objective is to achieve the harmonisation and coordination of the frequency spectrum with neighbouring countries through bilateral agreements with neighbouring countries by March 2016.[28]

This programme comprises the following sub-programmes:

- International Affairs; and
- ICT Trade/Partnerships.

[24] Nene, S. (2015) Research Unit Parliament
[25] Real rand change takes into account the inflation rate per given year
[26] National Treasury(2014), pg7
[27] Department of Telecommunications and Postal Services (2015)
[28] Ibid

Since 2009/10- to 2015/16, this programme[29] has been allocated the least amount, which has averaged not more than 4% of the total budget. In the current financial year programme 2 is allocated R43,4 million or 3,1% of the overall allocation of the Department, which shows an increase compared to the 2014/15 financial year allocation of R36,8 million.

Based on the size of this programme's portion, it may be argued that International Affairs is one of the least important programmes in terms of budget allocation. However, from a global perspective, Telecommunication and Postal sectors are regulated by international law through the International Telecommunication (ITU) and Universal Postal Union (UPU) respectively and therefore programme 2 plays an important role for South Africa, i.e. to be a global player in ICT related matters so as to keep abreast of the most current ICT developments that will assist government to deliver services effectively and efficiently to its citizens.

Sub-programme: ICT Trade/Partnerships

The bulk of the allocation of the programme 2 goes to sub-programme ICT Trade/Partnerships which constitutes R29,1 million which represents 67,1% of the total programme allocation of R43,4 million. This current amount is an increase from R24,4 million or 66,3% of the total programme allocated in the outer financial year.

Programme 3: Policy, Research and Capacity Development – R105,6 million

The programme develops legislations that support the development of an ICT sector that creates favourable conditions for accelerated and shared growth of the economy. Develop strategies that increase the uptake and use of ICTs by majority of the South African population in order to bridge digital divide.[30]

The primary objective is to ensure that broadband connectivity provides secure and affordable access for all citizens to education, health, police and other e-government services; promote affordable ICT services; achieve economic inclusion through postal services as well as SMMEs take up of digital opportunities.

This programme comprises the following sub-programmes:

- ICT Policy Development;
- Economic and Market Analysis;
- Research;
- Information Society Developments; and

[29] Department of Telecommunications and Postal Services(2015, 2013; 2012, 2011, 2010, 2009) Strategic Plans
[30] Department of Communications (2013)

- Capacity Development.

The Policy, Research and Capacity Development programme has been allocated R105,6 million or 7.5% of the total Department's budget for the 2015/16 financial year. This allocation has increased by R7,7 million compared to the allocation R98,0 million or 6,2% received in the previous financial year.[31]

Sub-programme: ICT Policy Development

Out of the total allocation of R105.6 million to this programme, sub-programme: *ICT Policy Development* is allocated second largest allocation of R28,3 million or 26,7% of programme three' entire budget. In the previous financial year, this budget was R2.9 million more than in this financial year, as it received R31.0 million or 31.6% of the total programme allocation.

Sub-programme: Information Society Development

Out of the total allocation of R105.6 million to this programme, *sub-programme Information Society Development* is allocated the largest budget share of R53,5 million or 49,3% of programme 3's entire budget. This allocation has increased by R10,6 million, compared to the allocation of R42,9 million or 43,8% received in the previous financial year.

Programme 4: ICT Enterprise Development and SOE Oversight – R447,9 million

The purpose of this programme is to oversee and manage government's shareholding interests in the ICT public entities. This programme also facilitates growth and development of Small Micro Medium Enterprises[32] (SMMEs). The main objective is to ensure optimally function ICT state owned companies that effectively deliver on their respective mandates.

This programme comprises the following sub-programmes:

- Public Entity Oversight;
- Small, Medium and Micro Enterprise Development; and
- ICT Support.

In the past financial year, the programme was allocated the most funds, R719,2 million which constituted 45% of the total allocation of the Department received in 2014/15.[33] During this

[31] Nene, S. (2015) Research Unit Parliament
[32] Department of Communications (2014)
[33] Department of Communications (2014)

current 2015/16 financial year, programme 4/ ICT Enterprise Development and SOE Oversight received R437,4 million or 31,7% of the entire allocation of the Department.[34]

The decrease in the allocation of more than R291,8 million is underpinned by the changes in the structure and administration of government post the May 2014 general election. A Presidential Proclamation split the Department into two: Departments of Communications became Department of Telecommunications and Postal Services) and the Department of Government Communications and Information Systems (GCIS) which previously had its stand-alone vote, became a vote within the newly established Department of Communications.

The latest proclamation issued in December 2014, also refers to the reshuffling of the entities that historically reported to one Department while other entities reported different Departments during 4th Parliament. It is important therefore to consider the new arrangement that has affected the budget allocation of the Department.

Another proclamation, issued in December 2014, adjusted legislation to accompany the movement of some entities to the new Department of Communications. It is important therefore to consider the new arrangement that has affected the budget allocation of the Department.

Equally there are concerns about the implementation of the 112 Emergency Centre whose planned roll-out dates as far back in 2008/9 financial year[35], answers are needed around the project timelines and the consequences or and implications of its continued postponement.

Programme 5: ICT Infrastructure Support - R642,8 million

The purpose of this programme is to promote investment in robust secure reliable ICT infrastructure that supports the provision of a multiplicity of applications and services.[36]

The objective is to implement digital development and digital future pillars in line with South Africa Connect (the national broadband policy).

This programme comprises the following sub-programmes:

- Broadband; and
- Digital Terrestrial Television.

In the 2015/16 financial year, an amount of R642,8 million or 46% of the overall allocation of the Department is now allocated to ICT Infrastructure Support programme. In the previous

[34] National Treasury(2015)
[35] Department of Communications(2013) Annual Report/Strategic Plan
[36] Department of Communications (2014)

financial year, this programme was allocated the second largest allocation, which amounted to 32,8% or R523,0 million.

Sub-programmes: Broadband

Of the total of R642,7 million allocated to programme 5, sub-programme Broadband, is allocated R271,5 million or 42%. In the previous financial year, this sub-programme was allocated R68,2 million or 13% of total budget allocation of programme 5. This means that this sub-programme's allocation has increased by R203 million.

9. Expenditure Trends

The spending focus over the medium term for the Department will be on providing strategic support to the Ministry and overall management to the Department. The significant increase between 2011/12 financial year and 2014/15 financial year on advertising is due to funds reprioritised in 2012/13 and 2013/14 financial years for the DTT awareness campaign. The funds were reprioritised from spending on the 112 emergency call centre project, which was delayed as well as other programmes. The decrease of funding over the Medium Term Expenditure Framework (MTEF) is mainly due to the DTT function shift to the Department of Communications as well as the reprioritisation exercise that took place in the Department.

In terms of infrastructure and capital, over the medium term R196 million has been allocated for broadcasting digital migration project. SENTECH has been allocated R109 million for dual illumination. These allocations do not include R1 billion allocated to USAF to subsidise STBs, antennas, and installation. Additional funding of R64,9 million has been approved in the 2015/16 financial year for SAPO to implement a new delivery model to meet its service obligations.

10. Entities Reporting to the Department

The following entities and agencies report to the Minister of Telecommunications and Postal Service as well as the regulatory authority on matters pertaining to telecommunications, signal distribution, broadband, e-commerce and postal sector in the broader ICTs.

10.1. South African Post Office – R64,8 million

SAPO is a schedule 2 public entity in terms of the PFMA. It is a government business enterprise established to provide postal and related services to the public, and derives its mandate from the South African Post Office SOC LTD Act (Act No 22 of 2011) and the South African Postbank Limited Act (Act No 9 of 2010). The Postal Services Act (Act No 124 of 1998) grants SAPO the exclusive mandate to conduct postal services. This Act further makes provision for the regulation of postal services and the operational functions of the postal company, including Postbank's universal service obligations and associated financial services.

SAPO's strategic goals over the medium term are to:

- Establish business operations and engagements with stakeholders to improve and strengthen the company's position as the national provider of postal, courier and financial services;
- Ensure that business operations operation models are reviewed and aligned to deal with the challenges the organisation faces;
- Improve cash flow management, reduce cost through improved efficiencies such as the rationalisation of physical infrastructure and the optimisation of procurement; and improving service delivery by enhancing the quality of customers services;
- SAPO will also upgrade its IT infrastructure, which partially accounts for the high spending on acquisition of assets.

101.1. Expenditure Analysis of SAPO

SAPO generates revenues from the provision of postal services and courier services, as well as from interest income and financial transaction fees. Non-tax revenue is expected to grow at 4,3% over the medium term due to difficult trading conditions, declining mail volumes and increased competition, with total revenue increasing to R7,9 billion in the financial year.

Expenditure on compensation of employees is expected to grow at 1,3% and decrease as a proportion of total expenditure over the medium term to reduce the growing gap between revenue and expenditure. As a result, the number of posts in the organisation is expected to decrease from 23 775 in the 2015/16 financial year to 22 831 in the 2017/18 financial year, due to the expected rationalisation of staff in line with the turnaround plan. In addition, SAPO is negotiation with the Independent Communications Authority of South Africa (ICASA) to temporally suspend or reduce its universal service obligations over the medium term due to difficult trading conditions.

As a result of the expected corporatisation of Postbank, the total value of depositor funds is expected to increase from R4,7 billion in 2013/14 to R5,6 billion over the medium term, whilst the Postbank programme is expected to grow at an average annual rate of 7,8% over the same period.

In addition, for the 2015/16 financial year following will be the key focus areas for SAPO:

- Finalise and implement the Strategic Turnaround Plan;
- Create a customer centric organisation to restore customer confidence;
- Position SAPO as a key service partner that delivers government services;

- Corporatisation of Postbank and increase access to financial services;
- Ensure good corporate citizenship and corporate governance.

10.2. SENTECH – R109 million for Digitisation

Sentech Limited is an SOE established in terms of the SENTECH Act (Act No 63 of 1996) and is listed as a schedule 3B public entity in terms of the PFMA. Its mandate is to provide broadcasting signal distribution for broadcasting licensees, with a particular focus on accelerating the implementation of government ICT interventions within the framework of the NDP and the strategic integrated project for expanding access to communication technology.

SENTECH's strategic goals and the three main priorities for the 2015/16 are:

- **Infrastructure Roll-Out**
  - DTT Network Expansion: Complete 4 Greenfield sites;
  - Connect and install 300 terminals;
  - FM: Connect 33 Community Radio Broadcasters;
  - FM: Install 31 transmitters for the South African Broadcasting Corporation (SABC);
  - Digital Media: Connect 1 new customer on Hybrid Broadcasting Platform.

- **Organisational Performance**
  - Redesign the Organisational Structure.

- **Financial Sustainability of the Company**
  - Generate Net Profit Before Tax of R195,7 million; and
  - Receive the 3rd clean audit in a row.

A leadership gap created by the departure of the CEO could create a risk, as the Board is likely to appoint a CEO by end of September 2015.

10.3. Universal Service and Access Agency of South Africa (USAASA) – R66,4 million (Operations) USAF R52,3 million; and USAF (Set-Top Boxes, subsidies, antennae and installations cost) R181,1 million.

USAASA was established in terms of section 80 of the Electronic Communications Act (ECA) (2005) as a statutory body and is listed as a schedule 3A public entity in terms of the PFMA (1999). Its sole mandate is to promote universal service and access to electronic communication services, electronic communications network services and broadcasting services.

In order to contribute to the achievement of government priorities and outcomes; USAASA is to pursue the following strategic goals for the 2015/16 financial year:

- Facilitate the rollout of broadband infrastructure in the identified underserviced areas;
- Subsidise 5 million needy households with Set-Top Boxes(Scheme for STB Ownership Support);
- Provide 2 Municipalities in under-serviced with Internet(Albert Luthuli and Vhembe local municipalities);
- Provide 3 schools for Persons with Disabilities with Internet service (Gert Sibande District Municipality, Mutale local Municipality and Vhembe District Municipality);
- There is a risk of the term of office of the Board coming to an end within the financial year.

10.4. Ikamva National e-Skills Institute (INeSI) – R36,6 million

NEMISA was established as a non-profit institute of education by the Department of Communications in terms of the Companies Act (1973) and is listed as a schedule 3A public entity in terms of PFMA (1999). Formed as part of government initiative in 1998 in response to the White Paper on Broadcasting Policy, the institute's main purpose is to train previously disadvantaged individuals, particularly women, to equip them with the necessary skills to play significant roles in the constantly changing broadcasting environment. The institute offers hands-on training in electronic media, including content design and production, technical operations and content transmission.

The institute's ongoing activities included offering national certificates and short courses in the areas of television production, animation and radio production. The institute's programmes are structured to enhance the market readiness of students in a wide range of broadcasting disciplines.

INeSI tabled its APP before Parliament for the second time after the merger with Institute of Space and Software Applications (ISSA) and E-Skills Institute (E-Skills). It is ongoing and it acts as a national catalyst and change agent for the development of e-skills supported by the following five programmes: Administration; Multi-Stakeholder Collaboration; e-Astuteness Development; Knowledge for Innovation and Aggression.

In order to contribute to the achievement of government priorities and outcomes; iNeSi is to pursue the following strategic goals for the 2015/16 financial year:

- **Build** (through campaigns, public awareness and partnerships) a substantive formalised multi-stakeholder collaborative network involving, government, business, civil society, organised labour that will contribute to the massification of e-skills delivery at all levels.

- **Leverage** existing ICT education and training expertise, infrastructure and courses so as to:
    - Produce 3 customised/targeted courses;
    - Transform 18 existing ICT Centres into smart community knowledge centres and provide access online course;
    - Train of 400 ICT practitioners; 1250 e-literacy learners and 625 sector users
    - Promote continuous research in a cross disciplinary manner through the funding of two post graduate researchers, conducting a national environment scan to access research gaps and overlaps and host a research colloquium; and
    - Implement a monitoring framework to aggregate the uptake of technology within society.

10.5. State Information Technology Agency (SITA) – No allocation from Government

E-Government is quite difficult to define with many different definitions in the public domain. Defining e-government too narrowly as electronic service delivery only can result in exercises that are overly complex and costly. Such a definition can also miss the transformative potential of e-Government to speed-up decision-making, streamline or reduce processes, or reduce costs of engagement.

SITA is governed by the founding legislation, State Information Technology Agency (SITA) Act (Act No 88 of 1998), as amended by the SITA Act (Act No 38 of 2002). Section 6 of the Act states the following as the objectives of the agency:

- To improve service delivery through the provision of information technology, information systems and related services, in a maintained information system security environment, to government departments and public bodies; and

- To promote the efficiency of government departments and public entities through the use of information technology.[37]

In addition, the Act[38] separates SITA's services into mandatory services (services that SITA must provide) and non-mandatory services (services that SITA may provide. SITA's strategic goals and the three main priorities for the 2015/16 are:

- **E-government**
    - Drive modernisation of the public sector;
    - Improve government business processes; and
    - Enhance access to government services by the citizens.

[37] SITA Act No 38 of (2002)
[38] Ibid

- **Data Security**
  - Safegaurd and protect government information.

- **Value-added (IT) Procurement**
  - Generate Net Profit Before Tax of R195,7 million; and
  - Receive the 3rd clean audit in a row.

The production of the APP and Strategic Plan was considered as a clear cut-and-paste exercise. The Committee noted that due to the above, the Strategic Plan should be withdrawn and resubmitted to ensure that it aligns with the APP. Further, members expressed their disapproval and noted that the officials responsible for the production of the report should be held accountable for this transgression. In response SITA re-submitted a revised Strategic Plan (2015-2019) and APP (2015/16) on 05 May 2015.

10.6. Broadband Infraco (BBI) – No allocation from Government

Broadband Infraco's legislative mandate is set out in the Broadband Infraco Act.[39] The main objectives as set out in the Act are to expand the availability and affordability of access to electronic communications, including, but no limited to underdeveloped and underserviced areas, in accordance, with the Electronic Communications Act,[40] and commensurate with international best practice and pricing, through the provision of electronic communications network services and electronic communication services.[41] BBI must, on the face of its licence, offer "open access" wholesale backhaul connectivity services to other service providers although this term is not well defined in the licence or regulatory environment in South Africa.

In term of its mandate, Broadband Infraco interventions are focused on two areas; namely long-distance fibre optic cable and participation of Broadband Infraco in the international connectivity projects. The long distance fibre optic network to provide a high capacity communications services between the main metropolitan areas that will over time be expanded into the previously under-services areas. Whilst, at the same time, the company participates in the international connectivity project, most particularly the cable project that will connect South Africa to the United Kingdom along the west coast of Africa.

BBI's strategic goals and the three main priorities for the 2015/16 are to:

- **Strengthening Capex Management**
  - BBI to embark on developing the institutional structure to minimise the current funding challenges through focussing on effective Capex management;

[39] Broadband Infraco Act, Act No 33 of 2007.
[40] Electronic Communications Act, Act No 36 of 2005
[41] BBI Corporate Plan(2015)

- **New Product Development for additional revenue stream focussed at:**
    - Comprehensive Open-Access, carrier-neutral, connectivity enabler, that offers higher industry service level performance and diverse route coverage.

- **SA Connect**
    - BBI has extensive pre-existing infrastructure that can be important in the implementation of SA Connect connectivity projects.

The Committee was concerned that BBI was going to run out of funds by September 2015, which if not addressed adequately would negatively affect employees, government's investment and customers of BBI. At the same time, the DTPS APP does not reflect the funding shortfall. The Department's APP on SOC rationalisation also did not reflect BBI as an entity which is to be considered during the SOC rationalisation process.

10.7. .ZA Domain Name Authority (ZADNA) – No allocation from Government

The .ZA Domain Name Authority (ZADNA) was established to assume responsibility for the .ZA Domain Name Space. The entity was established in terms of Chapter 10 of the Electronic Communications and Transaction Act (ECTA), 2002.

.ZA Domain Name Authority has not been allocated any budget for the period under review. The transfer payment did not flow due to the entity being self-sustainable. In order to contribute to the achievement of government priorities and outcomes; ZADNA is to pursue the following strategic goals for the 2015/16 financial year:

- Inclusive, vibrant domain name community;
- Enhanced regulatory and policy environment;
- Developed centre of operational excellence; and
- Inclusive Internet Governance.

11. Observations and Recommendations

The Committee made the following observations and recommendations about the Strategic Plans and the APPs of the Department and its entities:

11.1. Observations on the Strategic Plan of the Department

(i) The Committee was of opinion that the policies of the Department were generally outdated, except for SA Connect, and that the completion and implementation of ICT Policies Review Recommendation and possible amendment of other policies affecting the sector and entities must be prioritised. Where necessary, the Department should not redevelop policies, but focus on review, implementation and monitoring thereof.

(ii) The Committee noted that legislated policies and regulations were not implemented by the Department. A case in point was legislation dealing with Call Centres and ICT Museums that were not implemented.

(iii) Concern was expressed about insufficient co-ordination and planning by the Department and its SOC entities. At times, it appeared that the Department was unaware of issues affecting its entities.

(iv) The Department should increase co-ordination in terms of planning across the spheres of government, especially if it plans to roll out 100 % broadband.

(v) Concern was expressed that the Department does not have a Chief Financial Officer and the Minister committed that this issue would be resolved within 3 months from the tabling of the APP;

(vi) The Committee noted that the allocation of under R3 million for research capacity was inadequate and that such allocation needs to be prioritised.

(vii) Concern was expressed in respect of the delays in school connectivity as well as the percentage of schools connected. The intended amount of 1 296 schools to be connected was considered low and needs to broken down into the name of schools, provinces, districts, e-health centres and government buildings.

(viii) The Committee noted that Telkom was chosen as the lead agency in Broadband rollout due to its advanced technical capacity. It was envisaged that BBI and USAASA would collaborate with Telkom.

(ix) The Committee questioned the increase in advertising costs as well as the costs for the use of consultants and noted that it would not approve these increases.

(x) The Committee noted its support for the programme on manufacturing as an important tool for job creation.

(xi) The Committee noted that when finalising SA Connect, the Department did not consult with entities.

(xii) The Committee was concerned about the capacity of the Department to meet its mandate.

11.2. Observations on the Strategic Plan of the Entities

The Committee noted:

(i) the vacant positions at SENTECH and SAPO in respect of Chief Executive Officers (CEO);

(ii) that there is a financial shortfall for dual illumination which might negatively impact on SENTECH should government not allocate more funding for the next two financial years' dual illumination;

(iii) that the acting CEO of SENTECH would table a request to consider the allocation of a 13th cheque for employees to the Board;

(iv) that the aging analogue television infrastructure was creating significant maintenance expenditure for SENTECH. The entity had not accounted for costs of aging infrastructure and it needed to spend money on replacing analogue television transmitters;

(v) that the new CEO for SENTECH should be appointed by September 2015;

(vi) an increase in professional and consultant service fees for SENTECH;

(vii) the vacant positions at BBI in respect of its Chief Financial Officer and at iNeSI , in respect of its Chief Operations Officer which were assumed by individuals in an acting capacity, which created uncertainty and leadership instability in the institution;

(viii) that SAPO's Five Strategic Objectives were different to those presented by the Department (Broaden access through the Post Office branch network; Finalise Postbank Corporatisation Process; Broadcasting Digital Migration(alignment of SAPO's distribution plan with final approved BDM Policy and Qualifying Qualification Criteria, Concluding of SLAs and Distribution of the digital Set-Top Boxes);

(ix) that SAPO's presentation before the Committee mentioned that 5 079 employees would be affected by staff rationalisation. This was in contradiction with SAPO's information submitted to National Treasury. In it, SAPO indicated that the number of posts in the organisation is expected to decrease from 23 775 in the 2015/16 financial year to 22 831 in the 2017/18 financial year, due to the expected rationalisation of staff in line with the turnaround plan;

(x) that SAPO must submit a list of all its creditors and the amount it owes each creditor and planned strategy of paying each creditor;

(xi) that the current funding model of SAPO is inadequate to fulfil its public mandate and to ensure universal rollout of postal services in line with the licence obligation imposed by ICASA and Universal Postal Union (UPU) regulations;

(xii) that the current funding model of BBI is insufficient to fulfil its public mandate and to roll out backhaul ICT infrastructure. In this regard, for the current financial year, the total Capex that BBI requires is R327million and a further R717 million for the 2016/17 is required until 2020/21 financial year;

(xiii) that BBI was going to run out of funds by September 2015 which, if not addressed adequately, could negatively affect employees, government's investment and customers of BBI;

(xiv) that BBI had undertaken to collect outstanding monies from its debtors, such as the Department of Science and Technology;

(xv) that the largest component and costs of employment were within its engineering capability of BBI. Further, that qualified engineers have been a challenge to retain because of the scarcity of skills in the country;

(xvi) that it was faced with the position that it would need to approve the APP of the entity, whereas the reality was that by August 2015, BBI would have to close down. Furthermore, no budget was allocated to the entity and the role of the Department in relation to BBI had to be clarified;

(xvii) that the original mandate of USAASA, which was relevant during period of voice telephony, needs to be reviewed in line with the modern broadband and data services;

(xviii) that the lack of an ERP system of USAASA may lead to lost opportunities to operate and monitor the control environment more effectively and efficiently;

(xix) that there seems to be more than 5,2 million needy households than was budgeted for and the initial budget did not include, antennas and installation and this means that more funds from government is required to cover the funding shortfall of USAASA;

(xx) that there was no allocation or subsidy for SAPO for Universal Service Obligation despite the persistent global decline in mail volumes;

(xxi) that neither the Department nor its entities have an IT storage or Disaster Recovery Plan as per the recommendation in the report of the Auditor-General of South Africa (AGSA);

(xxii) that SAPO has projected a net loss of R123 million and this could increase given the licence and mandate obligations, the gradual conversion of contract workers to permanent employees as well as the impact of strikes;

(xxiii) that there was no clarity on the additional R3,5 billion required by SAPO for Postbank Corporatisation as well as SAPO operations;

(xxiv) that the process of Postbank Corporatisation is on track;

(xxv) that the need for INeSI to address the distribution of the budget as the greater portion (95%) of the budget is spent on staff and salaries, leaving very little (5%) to deal with relevant projects;

(xxvi) that there was a need for the Department to expedite the merger of iNeSi which would also allow the institute to have adequate funds;

(xxvii) the need for an effective marketing strategy in respect of services provided by INeSI;

(xxviii) with concern that INeSI's existence is not highly publicised to the general public who stands to benefit from its offerings. Furthermore, the Committee noted that INeSI was not properly funded;

(xxix) that the delay by ICASA in the issuing licences to all affected entities has had an impact on their delivery;

(xxx) with serious concern the poor quality of the Strategic Plan presented by SITA. The production of the APP and Strategic Plan was considered as a clear cut-and-paste exercise. The Committee noted that due to the above, the Strategic Plan should be withdrawn and resubmitted to ensure that it aligns with the APP. Further, members expressed their disapproval and noted that the officials responsible for the production of the report should be held accountable for this transgression;

(xxxi) that there were concerns about the different organisational structures: one that appeared in SITA's Strategic Plan is a different structure to the one which appeared in the APP (two Deputy CEOs, Project Management Office (employing non-SITA employees) and the two newly-established subsidiaries);

(xxxii) that the APP of SITA had not been signed by the Minister in accordance to National Treasury Regulation governing Sign-off of documents such as Strategic Plans, APPs and Annual Reports;

(xxxiii) that SITA had appointed a new 18th CEO since its establishment and the new appointee is the former CEO of SENTECH;

(xxxiv) on the revised SITA APP the following issues were observed:

(xxxv) that the founding legislation is outdated and efforts must be made to amend the legislation to align it with the digital era;

(xxxvi) that there were concerns about the bloated organisational structure (which has Deputy CEOs, Project Management Office(employing non-SITA employees) and the two newly established subsidiaries)

(xxxvii) there were concerns about the imminent establishment of the two subsidiaries of SITA. While the founding legislation permits this, the Committee is, however, of the view that SITA, as a holding company, must improve its services, minimise instances of tender irregularities, fix old data centres, and put effective and efficient measures in the Supply Chain Management of the company in place first before embarking on the subsidiaries;

(xxxviii) that, despite the realisation that cyber security is a critical issue internationally and in South Africa, no funds were allocated, nor any mention made of any efforts SITA might be making to develop and manage a world-class data protection system for government data centres or to recruit, train and retain the best possible cyber security professionals.

12. Recommendations

The Committee recommends that the Minister:

(i) ensure DTPS and all its entities fill all critical funded vacant positions especially those at Senior Management Service (SMS) level within 3 months from the tabling of the APP;

(ii) ensure the finalisation of new policy directives on Transparency Pricing Policy in an effort to deal with the cost of communications;

(iii) ensure the finalisation of new policy directives on National Spectrum Policy that will support the digital dividend;

(iv) ensure that sub-programmes on Research, Market and Economic Analysis are allocated sufficient resources;

(v) ensure that the mandate and funding of BBI, the funding model and the budget of SAPO and funding of iNeSi are reviewed;

(vi) should ensure that all entities include timeframes against their targets and each target must include a budget attached to it to ensure efficient oversight by Parliament;

(vii) ensure that the Department and its entities have existing Disaster Recovery Plans;

(viii) ensure that SITA develops as a matter of urgency a Cyber-Security vision and strategy that will ensure government-wide data protection;

(ix) ensure that USAASA’s mandate is reviewed to be in line with the modern broadband and data services;

(x) ensure that the Department and all entities, especially iNeSI and SAPO, review the ratio of the spending on salaries versus operational costs;

(xi) ensure that clear time frames in respect of completion of rationalisation of SOCs is made available;

(xii) that the Department reduces the amount allocated for professional consultancy fees to reflect the approved amount in relations to the discussions led by the Minister of only allowing 5% expenditure on consultants;

(xiii) that the Department, National Treasury and BBI urgently intervene to avoid unintended consequences while the entity’s future is being finalised,

(xiv) conduct an audit of legislated policies and regulations that became law, but were not implemented by the Department;

(xv) ensure that INeSI develops a new marketing strategy to ensure that more people are aware of the e-skills initiative.

(xvi) ensure that the Minister engage SITA Board to revise its bloated structure and instead a new strategy be developed that will maximise the efficiency of the institution;

(xvii) ensure that the Minister engage the SITA Board on the establishment of the proposed subsidiaries, their importance and submit a report to Parliament within 3 months after the APP process;

(xviii) ensure that the filling all vacant Board positions in affected entities is expedited.

The Committee is satisfied with the Strategic Plans 2015 – 2019 and Annual Performance Plans for 2015 – 2016 of the Department of Telecommunications and Postal Services, USAASA, SITA, BBI, INeSI, SENTECH, ZADNA and accordingly supports their implementation.

The Committee recommends that the 2015-2016 budget allocation of the Department of Telecommunications and Postal Services and its entities be approved.

The Democratic Alliance reserved its position on the department's budget allocation.