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 10 MAY 2016

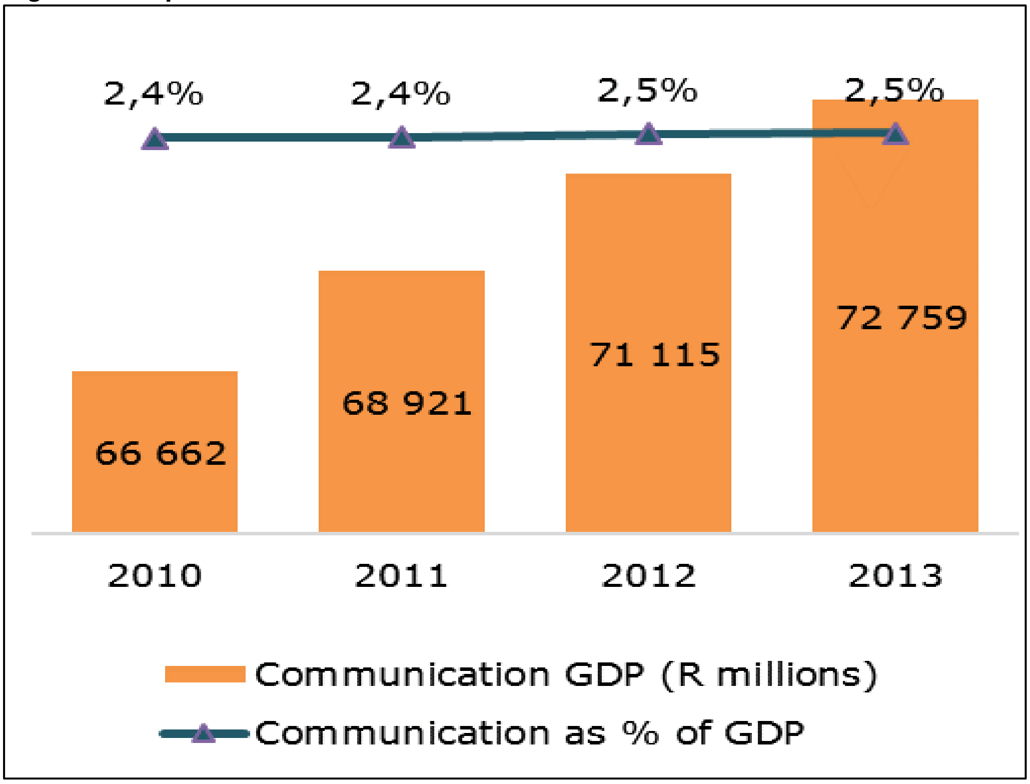
The Portfolio Committee on Telecommunications and Postal Services, having considered Budget Vote 32: Telecommunications and Postal Services, reports as follows:

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

The National Development Plan (NDP) sees Information and Communications Technology (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, provide access to a broad range of services required for effective economic and social participation at a cost and quality at least equal to South Africa's competitors.[1]

ICT is widely recognised 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. The recent study conducted by the BMI-T for the Independent Communications Authority of South Africa (ICASA) indicates a clear benefit of the contribution of ICT the country Gross Domestic Products (GDP). As can be seen in figure 1, value added by the communications sector rose 9,1% between 2010 and 2013 from R67 billion to R73 billion (at constant 2010 prices). The communication sector contribution to South Africa GDP was 2,5% in 2013, up 0,1% from 2010[2]. The figures can be improved with increased access and availability of broadband services.

Figure 1: Report on the state of the ICT sector in South Africa



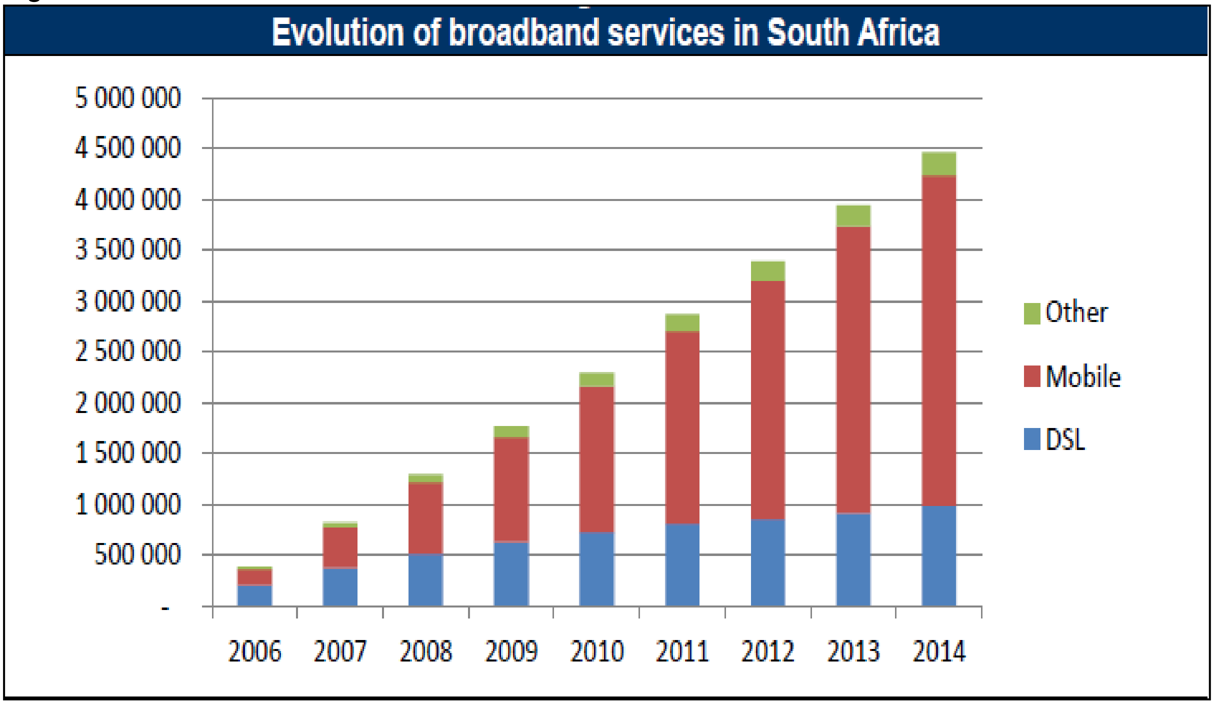
[1] National development Plan (2014)
[2] Report on the state of the ICT Sector in South Africa – ICASA(2016)

Source: ICASA (2016)

1.1 ICT INFRASTRUCTURE: The Broadband Status

The vision in the NDP of a seamless information infrastructure that by 2030 will underpin a dynamic and connected vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous.3 Broadband is a widely recognised catalyst for socio-economic development and research has discovered that there is a positive relationship between the high penetration of broadband services and the socio- economic development. For example, 10% of broadband penetration will on average contribute about 1,3% of economic growth.4 The countries that have a high penetration of broadband services have a higher Gross Domestic Product (GDP). Growth in South Africa's ICT sector has not been accompanied by a realisation of the primary policy objective of affordable access, for all, to the full range of communications services that characterise modern economies. Figure 2 indicates that the broadband penetration is lower than 4,5 million from a total of 54 million people which is about 8% of the population.

Figure 2: Broadband Penetration in South Africa



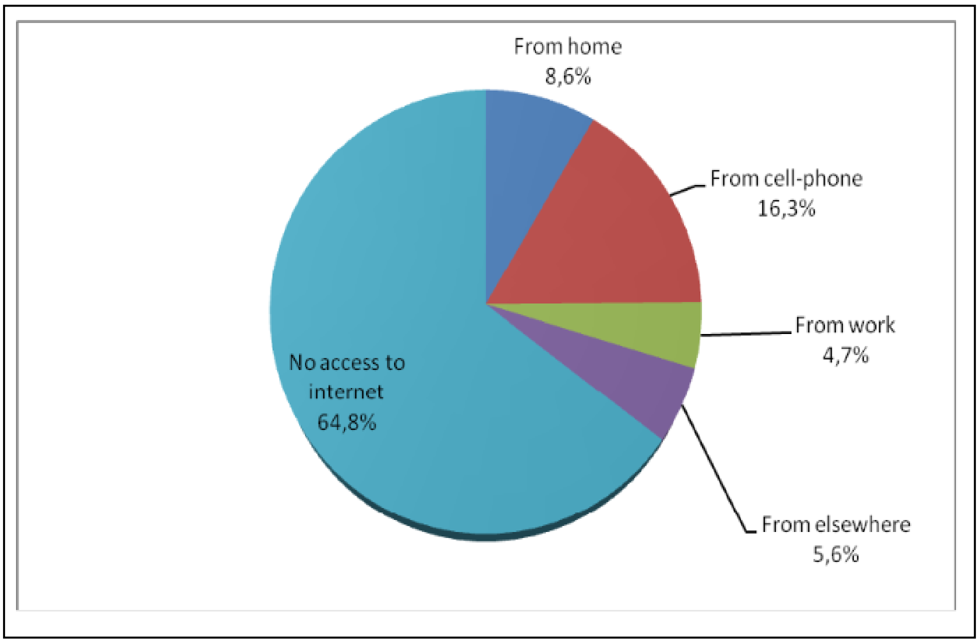
Source: SA Connect – Review by the BMI-Tech knowledge (2015)

It is very evident in the graph above that the broadband access is mainly through the use of mobile phone access. It has to be noted though that the most likelihood is that the majority of the mobile phone owners with broadband access are from the urban areas. The majority of the mobile phone owners within the underprivileged areas are only able to access GPRS/Edge networks which have a theoretical maximum speed of 135kbps which is far below what is defined as broadband.

The figure 3 below from census 2011 highlights that 35% of the population had access to the internet. This number has since increased to 46% in 2015 and can be attributed mainly to the availability of smartphones and recent increase on access to social media platforms such as Whatsapp, Facebook and Twitter.

[3] Department of Communications (2014)
[4] Simon (2013)

Figure 3: Percentage of households who have access to the internet



Source: Statistics South Africa Census (2011)

However, South Africa still has much work ahead to ensure that the country can compete with the rest of the world. South Africa's ranking on the ITU ICT Development Index has slipped from 72 in 2002 to 90 in 2010[5]. South Africa has also fallen steadily down on other global indices.[6] In Africa, South Africa ranks fifth after Mauritius (69), Seychelles (71), Tunisia (84), Morocco (90), and Egypt (91) in the ITU Index[7]. South Africa is steadily slipping down international and African indices and this landscape is characterised by high access and usage costs, low PC ownership, and a weak IT literacy. Growth in the sector is supported by high-end users who can pay high prices, but this result in a smaller number of users which quickly becomes saturated. Broadband is not reaching the critical mass of 20% believed to trigger the positive network effects associated with accelerated economic growth and development[8]. South Africa's internet use is very low for a country of its size and GDP per capita. While fixed services have stagnated (the fixed line network is smaller now than before privatisation), mobile services in the country have grown exponentially[9]. Four mobile operators, Cell C, MTN, Vodacom and Telkom, together with virtual network operator Virgin, claim to have over 100% penetration[10].

1.2 National e-strategy and e-government

The Electronic Communications and Transactions (ECT) Act states that the Minister of Telecommunications and Postal Services should lead the development of a three-year national e-strategy and monitor its implementation. It states that this should include provisions on e-government strategies developed in consultation with the Minister of Public Service and Administration, and a national policy for electronic transactions[11]. It is important to note that, the NDP has called for the finalisation of a national e-strategy that cuts across government departments and sectors of society. It is clear that the issues related to building a digital society that cut across many different government departments, entities and spheres of government.

[5] World Economic Forum (2015)
[6] Ibid
[7] Gillwald, Moyo and Stork (2012); Information Telecommunications Union -ITU (2014)
[8] Gillwald and Simon (2011)
[9] Simon (2013)
[10] Ibid
[11] National Integrated ICT Policy review (2014)

There is, therefore, a need for a holistic overarching approach that would define the various issues and areas to be covered and assign responsibilities for e-government, the development of infrastructure and networks to support strategies, the promotion of a digital society, e-commerce and e-services across society as well as issues of crime and security.

Some very encouraging progress has been made in establishing e-government strategies such as e-education especially in Gauteng and Western Cape. The implementation of the e-health strategy in line with the National Health Insurance (NHI) policy, which is being implemented by national Department of Health (DoH), is also at an advanced stage. The Department of Home Affairs recently implemented eHomeAffairs which will enable an application of smart ID cards online, and link this to other online services.

1.3 Postal Sector

The SA Post Office is mandated through its Universal Service Obligation (USO) licence agreement to provide postal, and communication services to all South Africans at affordable prices.

The post office has faced some challenges including a disruption of services, labour unrest, intermittent strikes, and failure of good governance. There are some reasons for this state of affairs including, but not limited to poor management, the decline in revenues as a result of mail substitution by electronic means and skills shortages. There is a government plan to stabilise the post office and ensure the implementation of a turnaround strategy to address the short to medium term challenges.
Schedule 2(1) of the Postal Services Act defines unreserved Postal Services as including items listed below:

- All letters, postcards, printed matter, small parcels and other postal articles that fall outside the ambit of the reserved services set out in Schedule 1 up to and include thirty kilogrammes;
- Courier services in respect of items mentioned in paragraph (a); and
- Any other postal service that falls outside the ambit of the Reserve services as set out in Schedule 1.

Operators wanting to operate within the unreserved area must apply for a registration certificate with the regulator. SA Post Office is also required to register to provide unreserved postal services. When issuing a licence or registration certificate, ICASA may impose certain terms and conditions.

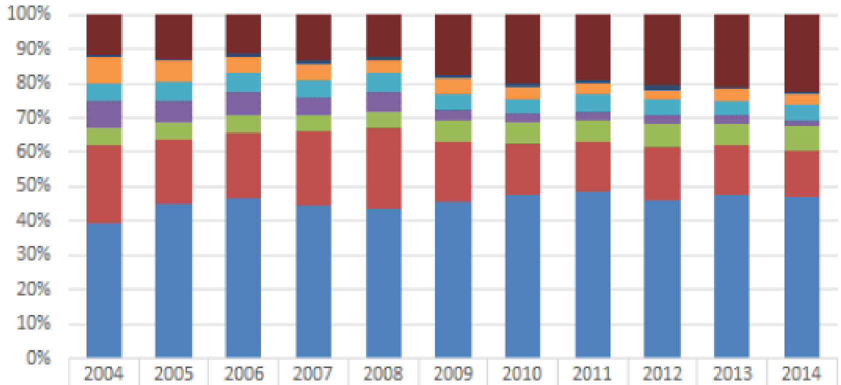
SA Post Office remains a monopoly entity in the reserved mail business, which constitutes the biggest component of its business. The global trend has seen a steady decline in the letter mail volumes as other forms of communication pervade the market. The postal industry has been going through a major transformation to adjust to structural changes in its core mail business, for some years, which has seen declines in revenue and volumes[12].

To fulfil its mandate regarding the Universal Service Obligation (USO), a strategic priority for the SA Post Office includes rolling out new addresses and points of presence in rural and underserviced areas. This requirement is aligned to enabling the Government’s National Development Program for 2030.

The figure 4 below firstly, shows that the percentage of households that reported that they did not receive any mail increased consistently from 11,7% in 2004 to 2014. Secondly, the proportion of households that received mail through a third party like neighbours or relatives, a shop, or tribal or traditional authority decreased continuously from 18% in 2004 to 13,5% in 2014. The percentage of households that received their post mainly through work also declined over the reference period. Thirdly, postal delivery to a postbox also dropped from 22,7% in 2004 to 13,1% in 2014.

Figure 4: Households with access to Postal Services

[12] Report on the state of the ICT sector in South Africa- ICASA(2016)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Do not receive mail	11.7	12.7	11.0	13.2	12.2	17.5	19.9	18.9	20.6	20.9	22.5
Through local authority office	0.8	0.8	1.1	1.0	1.0	0.9	0.9	0.8	1.2	0.7	0.7
Through a workplace	7.5	6.2	4.7	4.6	3.6	4.4	3.6	3.4	3.1	3.4	2.9
Through a school	5.3	5.5	5.7	5.5	5.8	4.9	4.1	4.9	4.2	4.5	4.5
Through a shop	7.5	6.3	6.6	5.1	5.7	3.3	2.9	2.7	2.6	2.3	1.9
Through friend or neighbour or relative	5.2	5.2	5.1	4.7	4.7	5.8	6.2	6.2	6.8	6.5	7.2
Delivered to a post box/private bag	22.7	18.2	19.4	21.3	23.2	17.5	14.7	14.3	15.5	14.1	13.1
Delivered to the dwelling	39.4	45.2	46.4	44.7	43.7	45.7	47.7	48.8	46.2	47.8	47.2

Source: StatsSA GHS (2004-2014)

It is important to note that there have been some cases brought before the regulator by SA Post Office and one of those cases is South African Post Office SOC Limited versus 29 National Municipalities. The complaint from SA Post Office was the implicated municipalities are offering reserved postal services by delivering their utility bills to their customers. The matter has since been withdrawn as SA Post Office could not provide substantive evidence to support the complaint.

2. Introduction

The Portfolio Committee on Telecommunications and Postal Services considered the 2016/17 budget of the Department of Telecommunications and Postal Services (the Department) on 05 April 2016. 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 April 2016. In performing its constitutional mandate, the committee scrutinised the alignment of the department and its entities' Strategic Plans (2016-2020) and Annual Performance Plans (2016/17) to the following key government objectives:

- (i) 2016 State-of-the-Nation Address (SoNA);
- (ii) 2016 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, NDP, National Growth Path (NGP), Industrial Policy Action Plan (IPAP) and SA Connect.

The committee was briefed on the 2016/17-2019/20 Strategic Plans and 2016/17 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);
- .ZDNA; and
- South African Post Office (SAPO).

3. Mandate of the Committee

Chapter 4 of the Constitution of the Republic of South Africa, Act 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 the issues referred to it regarding the Constitution, the Rules of the National Assembly or resolutions of the House. It is also required to respond to the issues 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 about telecommunications, postal services, e-government, broadband and signal distribution. Also, the 1996 White Paper on Telecommunications identifies the central importance of access to telecommunications to ensure 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, the 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 ICT 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 ICT 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 Companies (SOCs) 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;
- International Affairs and Trade;
- ICT Policy, Research and Capacity;
- ICT SOC Oversight; and
- ICT Infrastructure Support.

5. Overview of the 2015/16 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 2015/16 financial year while figure 5 depicts the same quarterly expenditure of the Department.

Table 1: Performance per Programme per Quarter

Programme	Quarter 1	Quarter 2	Quarter 3
Administration	37,3%	67,5%	92,0%
ICT International Affairs	18,7%	39,1%	61,3%
ICT Policy, Research and Capacity Development	14,5%	34,3%	50,2%
ICT Enterprise Development and SOC oversight	16,9%	33,1%	51,3%
ICT Infrastructure Support	1,8%	3,5%	5,5%
Total Expenditure	**14%**[13]	**27,1%**	**39,4%**

` **Source: National Treasury (2015-2016)**

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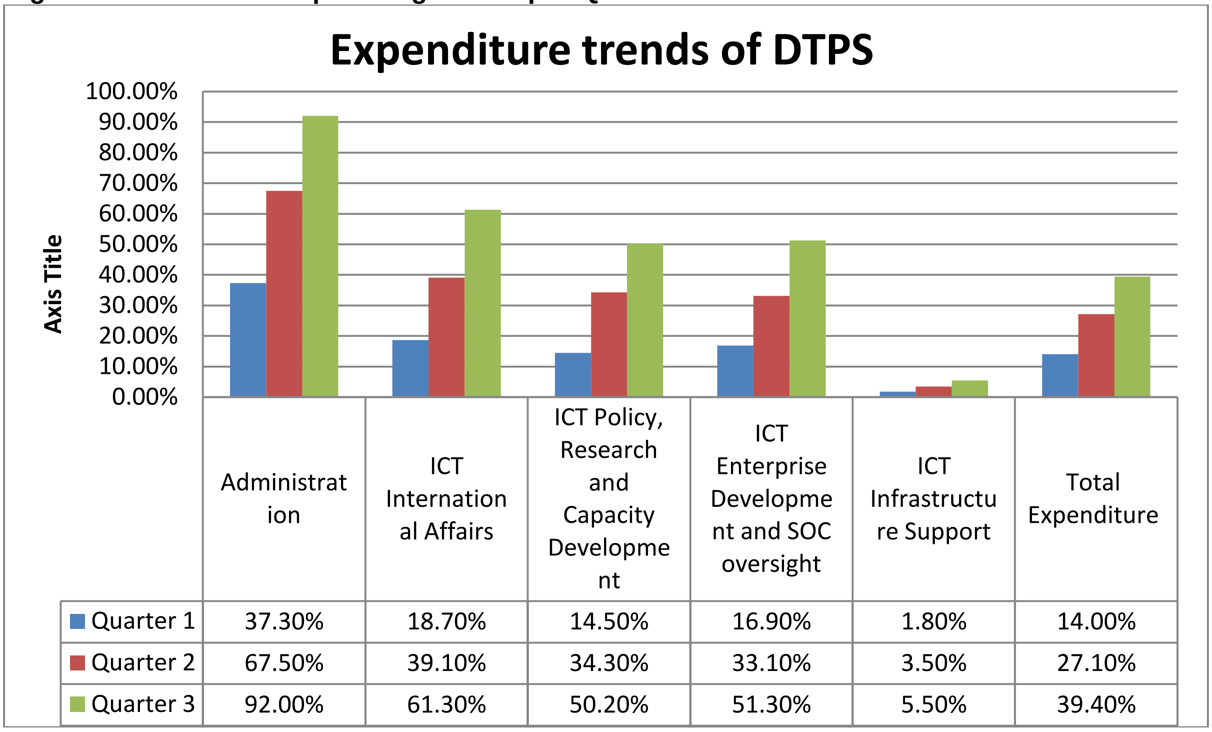
[13] Expenditure per term does not include transfers and subsidies of the Vote

Figure 5: Performance per Programme per Quarter



	Administration	ICT International Affairs	ICT Policy, Research and Capacity Development	ICT Enterprise Development and SOC oversight	ICT Infrastructure Support	Total Expenditure
Quarter 1	37.30%	18.70%	14.50%	16.90%	1.80%	14.00%
Quarter 2	67.50%	39.10%	34.30%	33.10%	3.50%	27.10%
Quarter 3	92.00%	61.30%	50.20%	51.30%	5.50%	39.40%

5.1. First Quarter Expenditure

The DTPS had a 2015/16 available appropriation of R1,4 billion. The department had an available budget of R684,7 million for operations. Of this, the department had spent R95,9 million for Quarter 1 2015/16, or 14%, the majority of which had been used on goods and services and compensation of employees.

Transfers and Subsidies amounted to R728,6 million of the available budgets and of this amount the department had transferred R354,3 million, or 48,6%, mainly to departmental agencies and accounts. An amount of R115 million was transferred to USAASA for its operations (R17m) and the distribution and Project Management Costs (R98m) associated with the Broadcasting Digital Migration Project (BDM); R28 million to Sentech for Dual Illumination costs; R11,8 million to NEMISA for its operations; R174,5 million to Universal Service Access Funds (USAF) for its operations (R24.5m) and the payment of subsidies for broadcasting digital migration project (R150m) as well as R28,4 million to SA Post Office as a subsidy to implement a new delivery model to meet its USOs.

5.2. Second Quarter Expenditure

The DTPS had a 2015/16 available appropriation of R1,4 billion. Transfers and Subsidies accounted for R728,6 million of the available budget and of this amount the department had transferred R605,5 million, or 83.1%, mainly to departmental agencies and accounts. An amount of R230,7 million was transferred to the USAASA for its operations of which R196 million of these funds was for the distribution and project management costs associated with the broadcasting digital migration project; R56 million to Sentech for dual illumination costs relating to the digital migration project; R23,1 million to NEMISA for its operations. A total of R221,7 was transferred to USAF (R40.5 million) for operations and R181,2 for the broadcasting digital Migration Set-top box subsidy, antenna and installation costs.
SA Post Office received transfers of R49,6 million as a subsidy to implement a new delivery model to meet its universal service obligations.

The department had an available budget of R686,6 million for operations. Of this, the department had spent R186 million, or 27,1%, the majority of which has been used for compensation of employees and goods and services.

5.3. Third Quarter Expenditure

The DTPS had a 2015/16 available budget of R1,4 billion. Transfers and Subsidies accounted for R728,6 million of the available budget and this amount; the department had transferred R678,2 million, or 93,1%, mainly to departmental agencies and accounts. An amount of R246,4 million was transferred to USAASA for its operations, of which R196 million of these funds was for the distribution and project management costs associated with the broadcasting digital migration project; R109 million to Sentech for dual illumination costs relating to the digital migration project; R36,6 million to NEMISA for its operations. A total of R227,6 was transferred to USAF (R40,4 million for its operations and R181,2 for the Broadcasting Digital Migration Set-top box subsidy, antenna and installation costs).
SA Post Office received transfers of R64,9 million as a subsidy to implement a new delivery model to meet its universal service obligations.

5.4. Summary of Quarters 1 and 3

The largest element of operational expenditure in the 2015/16 financial year was spent by Programme 1 - Administration on goods and services and compensation of employees. The second biggest 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 2016/17 Financial Year

6.1. Overview by the Minister

During the meeting, the Minister highlighted that the tabled Strategic Plan 2015-2020 has been revised with targets that are measurable and achievable. The revision of the Strategic Plan is to ensure that it is aligned with the NDP, Nine Points Plan and the Medium Term Strategic Framework (MTSF). The department noted that the major priorities remained the broadband rollout, integrated ICT policy, national e-strategy, and e-government.

The department indicated that the plans for the broadband rollout to eight districts have been finalised. The review of the National Radio Frequency Plan will also be a priority to ensure that the most needed spectrum is reallocated to expedite the broadband rollout. The rationalisation of the SOCs will also be accelerated.

The department noted that the biggest challenge in the MTEF is the local and economic difficulties and as a result phase 2 has not been appropriated. Cabinet has requested that the department look at alternative funding mechanisms for the phase 2 broadband rollout.

The department has committed to continue to support the municipalities Wi-Fi broadband initiatives. One of the reasons for supporting the free Wi-Fi is that the technology can offer the broadband speed and this will be important to help achieve the 2020 objectives of the SA Connect.

Finally, the other priority is to ensure that the department functions better. It was noted that the department has commenced with the revision of the current organisational structure in line with the revised strategic plan and annual performance plan. The finalisation of the organisational structure will also lead to the documentation, mapping, optimisation and subsequent automation of identified core business processes as part of improving how the department operates internally.

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

In his ninth SoNA, President Jacob Zuma said: “A resilient and fast-growing economy is at the heart of our radical economic transformation agenda and our National Development Plan (NDP)”.[14] The President pronounced the following plans to stimulate growth and create jobs:

- The need to empower Small, Medium and Micro Enterprises (SMMEs) to accelerate their growth. Access to high-quality, innovative business support can dramatically improve the success rate of new ventures;
- State reform and boosting the role of State Owned Companies (SOCs), ensure the implementation of the recommendations of the Presidential Review Commission on SOCs, which outlines how the institutions should be managed;
- Streamline and sharpen the mandates of the SOCs and ensure that where there are overlaps in the mandates, there is an immediate rationalisation. Those companies that are no longer relevant to the development agenda will be phased out;
- ICT infrastructure or broadband rollout, the government, will fast-track the implementation of the first phase of broadband roll-out to connect more than 5 000 government facilities in eight district municipalities over a three-year period and funding to the tune of R740 million over a period of three years has been allocated in this regard.15

6.3. National Development Plan and SA Connect

In accordance with the outcomes-based performance management framework adopted by the government, the Department of Telecommunications and Postal Services contributes to the development of an efficient, competitive, and responsive economic infrastructure network (outcome 6) by developing ICT policies and legislation as well as overseeing the operation of public entities within the sector.

The NDP highlights that ICT should underpin the development of an inclusive, dynamic information society and knowledge economy that entails the development of a “comprehensive and integrated e-strategy that reflects the crosscutting nature of ICTs”. In 2013, Cabinet approved SA Connect policy, which gives expression to South Africa’s vision 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. The New Growth Path plans to restructure the economy in a bid to ensure a more inclusive and sustainable growth and sets a target of creating five million new jobs by 2020. The road map to do this is provided for in the Industrial Policy Action Plan, which proposes multi-sectoral interventions.

The department has finalised the implementation plan for SA Connect. SA Connect aims to catalyse broadband policy, strategy to ensure access to broadband to 50% of the population by March 2016 and 90% by 2020

The promotion of ICT diffusion strategies that will develop in tandem with e-literacy and wider ICT skills, and institutional development strategy to enable inter-governmental and private/public coordination are essential parts of the goal of achieving 100% broadband penetration by 2020.

This goal includes expanding the definition of broadband from 256 kilobits per second to at least two megabits per second. Between 2020 and 2030, the government plans to use ICTs extensively to deliver services to citizens. These include government, information and educational services. Part of the strategy involves greater collaboration between the state, industry and academia. Although the goal of the plan is to achieve 100% broadband access by 2020, currently there is only connectivity for 15 to 35% of the population.

In accordance with the outcomes-based performance management framework adopted by the government, the department develops ICT policies and laws as well as oversees the operations of the entities within the ICT sector. For the 2016/7 financial year, the department will focus on the implementation of 9 of the 14 outcomes for government as outlined in the MTSF.

[14] Zuma, J.(2016)

[15] Zuma, J. (2016)

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;
- **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 2016/17

According to the annual performance plan for the current financial year, the department prioritised the following key policy initiatives:

- Finalisation and implementation of the National Integrated White Paper on ICT.
- Monitoring the turnaround of the South African Post Office and the corporatisation of the Postbank.
- Implementation, as a matter of urgency of the SA Connect
- The development of an e-Strategy for South Africa
- Expedite the rationalisation of SOCs in the department's portfolio in line with the recommendations of the Report of the Presidential Review Committee on SOCs.

These priorities are consistent with government goals. In the 2016 SoNA, President Zuma stated that "(i)the state should reform and boost the role of SOCs, ensure implementation of the recommendations of the Presidential Review Commission on SOCs which outlines how the institutions should be managed, (ii) streamline and sharpen the mandates of the SOCs and ensure that where there are overlaps in mandates, there is immediate rationalisation, those companies that are no longer relevant for development will be phased out, iii) Government will fast-track the implementation of the first phase of broadband roll-out to connect more than 5 000 government facilities in eight district municipalities over a three-year period. Funding to the tune of R740[16] million over a period of three years has been allocated in this regard".[17]

7.1. Broadband

Broadband is crucial for economic development and must be extended to rural and underserviced areas so as to improve access, uptake and usage of ICTs to address the digital divide. Therefore, top priorities for DTPS:

- Project managing the roll out of the broadband connectivity Implementation Plan. (Phase 1 towards connecting of 2700 sites)
- Reviewing the National Radio Frequency Plan (NRFP) taking into consideration the outcomes of WRC-15 & national policies
- Conducting SOC rationalisation assessment (BBI, SITA, SENTECH and SAPO)

7.2. ICT Policy Review

South Africa has in place distinct and separate policy frameworks for addressing the various ICT sub-sectors. Hence, the review of all ICT policies to inform the National ICT Policy is both a necessity and an opportunity to accelerate the development of inclusive information society and knowledge economy, which will also provide a global competitiveness edge for South Africa. Therefore, top priorities for DTPS:

- Development of the draft Integrated ICT legislation

[16] The budget vote put the figure at R1,5 billion rate over three years
[17] Zuma (2016)

- Development of the Postal Services Amendment Bill
- Development of the SA Post Office Amendment Bill

7.3. National e-Strategy and e-government

There is an urgent need to focus on the development of a National e-Strategy that will take into account the review of the Information Society and Development (ISAD) Plan to be aligned with the present global conditions. To address this external challenge, there is a need for the department to develop an e-Strategy that will harmonise the fragmented Information Society initiatives taking place within South Africa and to encapsulate the e-Government initiatives that will drive service delivery imperatives. Therefore, top priorities for DTPS:

- Develop the National e-Strategy
- Develop the 3-year e-Services Programme

7.4. Budget Analysis of the Department 2016/17

Table 2 below outlines the breakdown of the total budget of the DTPS.

Table 2: Overall Budget – Telecommunications and Postal Services

Programme	**Budget**				**Nominal Rand change**	**Real Rand change**	**Nominal % change**	**Real % change**
R million	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2015/16-2016/17**		**2015/16-2016/17**	
Administration	**17,.7**	**193,3**	205,6	217,2	19,6	7,6	11,28 %	4,39 %
International Affairs and Trade	**43,4**	**44,7**	46,8	49,5	1,3	- 1,5	3,00 %	-3,38 %
Policy, Research and Capacity Development	**105,6**	**95,6**	93,9	96,4	- 10,0	- 15,9	-9,47 %	-15,07 %
ICT Enterprise Development and SOC Oversight	**447,9**	**891,8**	260,2	279,6	443,9	388,7	99,11 %	86,78%
ICT Infrastructure Support	**642,8**	**1 191,9**	1 029,7	1 108,5	549,1	475,3	85,42 %	73,94 %
Total Expenditure Estimates	**1 413,3**	**2 417,4**	1 636,3	1 751,1	1 004,1	854,4	71,05 %	60,46%
TOTAL	**2 826,7**	**4 834,7**	3 272,5	3 502,3	**2 008,0**	**1 708,7**	**71,04 %**	**60,45 %**

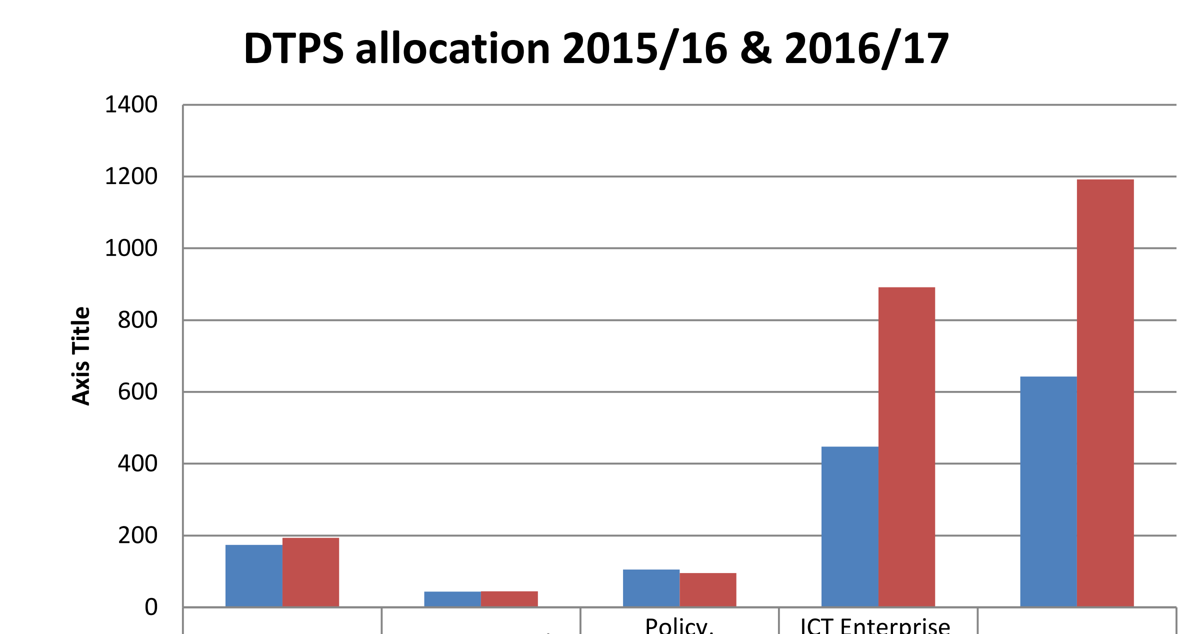
Source: Data from ENE, 2016)

Funding is required for the department to be able to deliver on the aforementioned top priorities. For the current financial year, the department has been allocated an amount of R2,4 billion, an increase from R1,4 billion of the previous financial year, 2015/16. Of the total allocated budget for the current financial year, an increase from R728,6 million to R1,054 billion is allocated for transfers and subsidies. A significant portion of the budget is for the ICT Infrastructure Support programme (R1,1 billion) and ICT Enterprise Development and SOC Oversight Programme (R891,8 million).
Current payments, which include compensation for employees, goods and services, received a total budget of R708,2 million, an increase from R671,5 billion from the previous financial year. On the compensation of employees, the allocation for salaries and wages has increased from R176 million in the previous financial year to R189,3 million in the current financial year. Goods

and services have been appropriated an amount of R494,5 million, an increase from R473,0 million from the previous financial year.

The 2016/17 financial year shows a different picture on the overall allocation of the Department. ICT infrastructure support, which is allocated R1 191, 90 million or 49%, constitute a significant portion of the department budget[18].

Figure 6: Department's allocation for 2014/15 and 2015/16 per Programme



	Administration	International Affairs and Trade	Policy, Research and Capacity Development	ICT Enterprise Development and SOC Oversight	ICT Infrastructure Support
2015/16	173.7	43.4	105.6	447.9	642.8
2016/17	193.3	44.7	95.6	891.8	1191.9

The above figure 6 shows a comparative analysis of the vote allocation in the 2015/16 financial year and 2016/17. The bulk of the budget, as illustrated in figure 6, was allocated programme 4 and 5. These two programmes received R447,9 million and R642,8 million in the 2015/16 financial year respectively. In comparison, these two programmes received 891,8 million and 1191,9 million in the 2016/17 financial year.

7.5. Transfers and Subsidies

For the current financial year, the department has been allocated an amount of R2,4 billion, an increase from R1,4 billion of the previous financial year, 2015/16. Of the total allocated budget for the current financial year, an increase from R728,6 million to R1,054 billion is allocated for transfers and subsidies.

7.6. Programmes Analysis

Programme 1: Administration – R193,3 million

[18] National Treasury (2016) Estimates of National Expenditure

The purpose of this programme is to provide strategic support for the Ministry and overall management of the department through the provision of strategic leadership and operational support, enabling the department to deliver on its mandate, smoothly, efficiently, professionally and on time.

This programme is assigned the task of implementing the strategic plan, particularly focusing on ensuring that the department is functioning optimally and that the SOCs effectively deliver on their respective mandates.

For the programme to deliver on the task that it has been entrusted with, in the current financial year, it has been appropriated an amount of R193,3 million, an increase from R180,3 million in 2015/16 financial year. The primary cost drivers in this programme are the compensation of employees, goods and services. Allocation for the compensation of employees has increased from R77,6 million in 2015/16 financial year to R92,3 million in 2016/17. Of the R92,3 million, R81,7 million is for salaries and wages; this compares to R69,3 million of the previous financial year.

In contrast, the allocation of goods and services has decreased from R101 million in 2015/16 to R98,2 million in the current financial year. The largest portion of the total allocated budget for goods and services in this programme is for the following:

Programme 2: International Affairs and Trade – R44,7 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.[19]

The budget allocation in support of the above objective is R44,7 million, an increase from R43,4 million in 2015/16 financial year. The bulk of the budget, R20,7 million, is for the current accounts (compensation of employees, goods and service), and the remaining R23,3 million is for transfers and subsidies. Allocation for the compensation of employees has been reduced from R13,3 million in 2015/16 to R13,0 million in 2016/17. Of the total allocated budget for compensation of employees for the current year, R10,051 million is for salaries and wages; this compares to R10,5 million of the previous financial year.

Contrary to the above, allocation of goods and services has increased from R7,4 million in 2015/16 financial year to R7,7 million in 2016/17 financial year. The primary cost drivers in goods and services are travel and subsistence as well as operating leases, both of which shows no significant increase in the budget when compared to the previous financial year.

Based on the size of this programme's portion, it may be argued that International Affairs is one of the least important programmes regarding budget allocation. However, from a global perspective, telecommunication and postal sectors are regulated by international law through the International Telecommunication Union (ITU) and Universal Postal Union (UPU) respectively and therefore Programme 2 plays an important role in 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.

Programme 3: Policy, Research and Capacity Development – R95,6 million

The programme develops legislation that supports the development of an ICT sector that creates favourable conditions for accelerated and shared growth of the economy. It develops strategies that increase the uptake and use of ICTs by the majority of the South African population to bridge the digital divide.[20]

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

[19] Department of Telecommunications and Postal Services (2015)
[20] Department of Communications (2013)

affordable ICT services; achieve economic inclusion through postal services as well as SMMEs take up of digital opportunities.

To fulfil its mandate, the programme is appropriated an amount of R95,6 million in 2016/17, a decrease from R105,5 million in 2015/16. A significant portion of the budget is for the compensation of employees, goods and services. Allocation for the compensation of employees is R56,8 million; this compares to R68,4 million in the previous year. Of the total allocated budget for the compensation of employees, R49,4 million is for salaries and wages, a decrease from R61,4 million in 2015/16.

Allocation for goods and services has increased slightly, from R36 million in 2015/16 to R37,9 million in 2016/17.

Programme 4: ICT Enterprise Development and SOC Oversight – R891,8 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 SMMEs[21]. The primary objective is to ensure optimally functioning ICT SOCs that effectively deliver on their respective mandates.

This programme is assigned the task of ensuring broadband connectivity that provides secure and affordable access for all citizens to education, health and other services. The key measures or performance indicators of ensuring that the programme delivers or has delivered on the objective above are as follows:

- Rationalisation of SOCs delivering on government priorities
- Monitor the performance and compliance of SOCs for improved and sustainable service delivery. This will be done by producing a state of SOCs reports on the level of performance and compliance.

In the 2016/17 financial year, this programme is allocated an amount of R891,8 million, an increase from R447,8 million in 2015/16. A significant portion of the budget in this programme is for transfers and subsidies, R201,4 million, a decrease from R416,2 million in the 2015/16. Transfers are mainly to Departmental agencies (non-business entities). The second largest portion is for the compensation of employees, goods and services, R39,7 million, an increase from R31,0 million in 2015/16. Of the total allocated budget for the compensation of employees for the current financial year, R29,0 million is for salaries and wages; this is a significant increase when compared to R17,9 million of the previous financial year. In contrast, the budget for goods and services has decreased from R11,0 million in 2015/16 to R8,1 million in 2016/17. Interestingly, the budget for consultants has been reduced significantly from R5,7 million in 2015/16 to R2,8 million in 2016/17.

During the SoNA, the President pronounced plans to stimulate growth and create jobs as well as the need to empower SMMEs to accelerate their growth. The NDP projects that 90% of new jobs will be created in small and expanding firms.[22] One of the strategic outcomes of programme is to promote the transformation of the ICT sector through the development of the ICT SMME strategy. It is incumbent on the department's programme 4 to provide specific and practical strategies and guidelines on how to realise this with the allocation of R13 million for the 2016/17 financial year.

Programme 5: ICT Infrastructure Support – R1,1 billion

The vision 2030 in the NDP promises "a seamless ICT infrastructure by 2030 that will underpin a dynamic and connected, vibrant information society and a knowledge economy that is more inclusive, equitable and prosperous".[23] One of the strategic objectives of the programme is to coordinate the broadband connectivity to achieve 100% population coverage by 2020.

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[21] Department of Communications (2014)
[22] National Development Plan(2010)
[23] National Development Plan (2010)

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.[24] This programme is entrusted with the responsibility of ensuring broadband connectivity that provides secure and affordable access for all citizens to education, health and other government services and stimulates socio-economic development.

7.7. Expenditure Analysis of DTPS

This programme has been allocated the largest budget from the entire Departmental allocation. The budget for this programme has increased from R627,9 million in 2015/16 to R1,1 billion in 2016/17. The increase is for the implementation of the broadband infrastructure roll-out. The largest portion of the budget, R829,3 million, increasing from R290,1 million in the previous year, is for transfers and subsidies. The second biggest allocation is for the compensation of employees, goods and services, an allocation of R362,2 million, and an increase from R336, 6 million in the previous year. On compensation of employees, mainly salaries and wages there is no significant change. Major change is on goods and services, an increase from R317,5 million in 2015/16 to R342,0 million in 2016/17. The primary cost drivers in goods and services are payment to agency and support/outsourced services as well as consultants.

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 money was reallocated to fund free WiFi for the municipalities. The decrease in funding over the 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.

Regarding 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 SA Post Office to implement a new delivery model to meet its service obligations.

7.8. Observations and Recommendations for the Department

Having considered the Strategic Plan, Annual Plans and budget for the Department, the committee noted the following observations and recommendations:

7.8.1. Observations

- The committee was concerned with the media reports around the “merger” between the Broadband Infraco and Telkom and requested the department to provide clarity on the matter.
- The committee noted that the consultants’ fee is still very high and wanted to know if the department had plans to resolve the bloated budget of consultants.
- The committee highlighted the regular importance interaction between the department and the entities to ensure an alignment of objectives between the entities and department.
- The committee was very concerned that there were changes in the governance structure of some of the entities such as USAASA and members were not officially informed of these significant resignations. The members asked the department to make sure that all the changes at the executive and board level be brought to the attention to the committee.

7.8.2. Recommendations

[24] Department of Communications (2014)

- The department was asked to provide feedback on the SIU investigations and what steps will be taken to discipline and criminally charge those implicated in the investigation within 3 months of the adoption of the report.
- Members urged the department to finalise the rationalisation of the SOCs as this has an impact on the effectiveness of its entities.
- The committee raised concerns about the governance issues with some entities with acting Chairpersons of the board. The department was asked to fill the vacant positions with competent and relevant expertise.
- The department should ensure compliance with National Treasury regulations by entities when it comes to tabling of Annual Performance Plans and Strategic Plans.
- The committee recommended that the department should note the example of a quality Annual Corporate Plan of Sentech and encouraged it be adopted and replicated as a model across the entities to ensure effectiveness.
- The committee urged the Minister to look at the size of the boards of directors of entities as part of the policy review process, as some of the boards are too big for the size of the entity and its budget.
- The committee urges the Minister to urgently finalise the establishment of the new entity, iNesi, so that the uncertainties can be resolved, and report to back to the parliament on progress within 3 months of adoption of the report.

8. Entities Reporting to the Department

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

8.1. SA Post Office – R890 million

In terms of the Public Financial Management Act (1999), the SA Post Office is regarded a Schedule 2 public entity. It is a government business enterprise and is required to provide postal and related services to the public. It derives its mandate from the SA Post Office SOC Ltd Act (2011) and the South African Postbank Limited Act (2010). The Postal Services Act (1998) grants it an exclusive mandate to conduct postal services and makes provision for the regulation of postal services and operational functions of the postal company, including universal service obligations and the financial services activities of Postbank.

For SA Post Office to achieve and maintain the anticipated profitability, the organisation plans to focus on the following

- Increasing and diversifying revenue streams.
- Cost Management.
- Improving operating efficiency.
- Foster a modern and performance driven organisation.

The focus of the SA Post Office over the medium term will be on implementing its revised business operating model, corporate plan, and strategic turnaround plan. This will stabilise business operations and engagements with stakeholders to improve and strengthen the organisation's position as the national provider of postal and related services. It will aim to adapt to the rapidly changing environment, increase productivity, and improve business operations and financial performance while delivering on government's social mandate of providing postal services to areas that were traditionally neglected.

Over the medium term, the organisation will focus on continuing to provide for access to postal and related services, and increasing the number of addresses to allow wider access to postal and financial services in under-serviced areas. The organisation expects to roll out 1,5 million community addresses over the medium term to allow both new communities and existing communities without street or postal addresses to receive mail. It also plans to maintain 2 373 points of presence (which include post offices, mobile units and retail postal agencies) by

2018/19 to meet government’s social mandate. The organisation will also continue with the restructuring and corporatisation of Postbank to meet South African Reserve Bank requirements so that it can operate as a bank.

8.1.1. Expenditure Analysis of SA Post Office

To allow the organisation to attract funding and improve revenue, R650 million is allocated in 2016/17 for the recapitalisation of the SA Post Office. Also, the organisation has been tasked with managing the distribution of set-top boxes and antennae for the broadcasting digital migration project and receives an additional R480 million from the Department of Telecommunications and Postal Services over the medium term for this.

The Universal Service and Access Agency of South Africa is also expected to contribute an additional R146 million. As the organisation continues to reduce costs through improved efficiencies such as streamlining its operations, transport and property portfolios, and managing the cost of its retail branches by closing some branches based on a needs analysis, expenditure is projected to decrease at an average annual rate of 0,8% from R6,9 billion to R6,7 billion over the medium term. This reduction is particularly evident in the logistics programme (in which expenditure is expected to decline at an average annual rate of 9,3% from R695,6 million in 2015/16 to R518,2 million in 2018/19) and the mail, retail and e-business programme (in which expenditure is expected to decline at an average annual rate of 3,3% from R4,4 billion in 2015/16 to R3,9 billion in 2018/19).

The logistics programme is still expected to account for 8,1% of the organisation’s total expenditure over the medium term to cover the costs of vehicles, fuel, staff, and other operational expenses. As the turnaround plan is implemented, compensation of employees is expected to decrease at an average annual rate of 3,2%, from R4,2 billion in 2015/16 to R3,8 billion in 2018/19, with the number of personnel expected to decline from 22 670 to 18 590 over this period. The reduction in the number of personnel will not affect the organisation’s performance due to improved efficiencies.

SA Post Office will also consider the following initiatives to raise funds:

- Sale of further properties
- Reapply for subsidies
- Establish strategic partnerships
- Engage with various stakeholders to review and refresh regulations to suit the current operating environment.

SA Post Office funding requirements:

- Requirement of R3,5 billion in the 2016/17 financial year. To conclude the past obligations and position SA Post Office for recovery and growth.
- Current borrowings of R1,2 billion supported by the guarantee.
- Engagements with banks underway to raise additional funding.
- Existing loans and guarantees to be extended to 2018/19 financial year.

8.1.2. Observations and Recommendations for SA Post Office

Having considered the Strategic Plan, Annual Plans and budget for SA Post Office, the committee made the following observations and recommendations:

8.1.2.1. Observations

- The committee raised concerns about whether the assumptions made on the corporate plan are realistic and that SA Post Office will be able to post a profit by the 2017/18 financial.

- SA Post Office highlighted a continuous engagement with ICASA to conclude the complaint lodged about the reserved postal services which are being serviced by private companies. However, the members raised concerns that the process is taking long.
- The committee raised a concern on a shift of the tabled corporate plan from the strategic turnaround plan presented and approved by the committee recently. Members wanted to have comfort that the submitted plan is not going to change after the approval.
- SA Post Office highlighted that part of the cost management is the staff reduction and the committee raised concerns about how is this going to be carried out.
- The committee wanted to know if the SA Post Office corporate plan had factored the cost from the delay of the digital switch on which has been moved to 2020.
- SA Post Office indicated that it was in the process of reviewing its overall property strategy. The committee wanted to know on whether the most sustainable way will it be selling or leasing of the properties.

8.1.2.2. Recommendations

- The committee will be monitoring SA Post Office very closely.
- The committee recommended a follow-up discussion on the desirability of possible exemptions from the PFMA. It was understood that SA Post Office sometimes experiences delay due to the PFMA requirements and finds it difficult to compete with the private sector.
- The committee noted that there would be a need for further discussions on how to ensure SAPO does business with the government.
- The committee raised concerns about performance contracts which are yet to be signed by top management including the Chief Executive Officer (CEO). The Minister through SA Post Office board of directors should ensure that performance contracts are finalised and signed within 3 months of the adoption of the report.
- The committee noted that SA Post Office had one of the largest footprints and recommended that SA Post Office should consider sharing the facilities with other government entities.
- The committee requested that SA Post Office must ensure that in future the APP includes the findings and recommendations of the Auditor-General of South Africa (AGSA) so that the committee may be able to provide monitoring and oversight on the findings raised.
- The committee wanted to know the financial impact on the SA Post Office if the revenue generated from the Post Bank is taken into consideration.
- The committee wanted to know the cost to the SA Post Office due to the Universal Service Obligations and the report to be submitted within 3 months of the adoption of the report.

8.2. Sentech– No allocation from government

Sentech Limited is an SOC established regarding the Sentech Act (Act No 63 of 1996) and is listed as a Schedule 3B public entity regarding 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 focus over the medium term will be on providing and operating communications network services that enable all broadcasting and content services to be accessible to all South Africans. In line with its mandate and vision, the organisation is committed to being a world-class provider of sustainable communications network infrastructure and services in South Africa. This is evident in its focus on expanding the radio network; rolling out digital terrestrial television; launching an improved digital media service that will allow content to be stored, processed and prepared for distribution across any number of content distribution platforms; and maintaining existing networks to deliver quality services. This also supports the NDP's vision of ICT as a critical enabler of economic activity that improves productivity and efficiency through enhanced communication and flow of information, as well as outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 medium term strategic framework.

Sentech's strategic goals and the three top priorities for the 2016/17 are:

- Broadband connectivity that provides secure and affordable access for all citizens to education, health and other government services and stimulates economic development.
    - Sentech will actively participate with the DTPS about the development of the NBN strategy, SA Connect and implementation plan. Also, internal processes will be amended to compliment the said initiatives.
    - Sentech will participate in the reviewing and updating of the National Radio Frequency Plan.
    - Sentech will ensure that its networks are shielded from cyber-attacks.

- Stable ICT Policy and Regulatory Environment that contributes to socio-economic development in the country.
    - Provide input into the development of the policies, regulations and programmes that enhance the viability of the broadcasting and the digital content sector based on operational insight into various regulatory, technical and business interactions in the communications industry and strategic insights into the future of digital content systems.
    - Continue with the implementation of an Enterprise and Supplier Development (ESD) strategy that supports local ICT SMME procurement and develops the entrepreneurship capabilities for the content industry and in particular, the digital media content sector.
- South Africa has a modern, sustainable and competitive postal and telecommunications sector
    - Sentech will actively participate in the development of the of country position papers to advance SA ICT policies and programmes.
- Inclusive Information Society and Knowledge Economy
    - Sentech will actively engage, participate and contribute to the development and implementation of the e-strategy.
    - Sentech will use its infrastructure to support its obligations about the National e-Strategy.
- Optimally Functional Department and SOC that effectively delivery on their respective mandates
    - Ensure that Sentech has the appropriate corporate governance structures and policies to enable effectively shareholder insight.

8.2.1. Expenditure Analysis of Sentech

Over the medium term, Sentech will strive to maintain the quality of its services to meet the target of 99,8% network availability across all platforms. To achieve this, the organisation will invest in human resource development and operations maintenance to address potential weaknesses that could affect its overall efficiency and effectiveness, and this will increase secondary operating expenses to support the business. Due to the maintenance work required for digital equipment, expenditure on goods and services is expected to grow at an average annual rate of 6,8% over the medium term, from R583,1 million in 2015/16 to R710,9 million in 2018/19.

This expenditure will also allow digital television infrastructure to cover 85% of households by the end of the medium term. As digital terrestrial television capital projects are concluded, expenditure in the attain digital terrestrial television network programme is expected to decline at an average annual rate of 7,2% over the medium term, from R131,2 million in 2015/16 to R104,9 million in 2018/19.

To meet its medium-term targets of facilitating 42 schools being connected to broadband services, including equipment such as computers, laptops, and connection points, and the installation of 900 very small aperture terminals (VSATs) to enable internet connections in areas where other means are not practical, expenditure in the administration programme is set to increase by 6,6 % over the medium term. For Sentech to meet its medium-term objectives, the number of personnel is expected to increase from 539 to 549 over the medium term, as some temporary positions are phased out and replaced with permanent posts. Expenditure on the compensation of employees is set to increase at an average annual rate of 4,8% over the medium term, from R366,9 million in 2015/16 to R421,9 million in 2018/19, due to salary increases, new recruitments, and gratuity payments in the form of incentives.

Sentech derives an average of 85% of its revenue from its product portfolio of broadcasting signal distribution solutions (television and radio services), and 6% from government and enterprise solutions, which comprise facility leasing and VSAT services. An additional source of funding is government grants for digital migration. Revenue from digital television services is expected to grow by 3.1% over the medium term as the country migrates from analogue to digital transmission. Also, R113 million over the medium term is allocated for the migration of analogue signals.

8.2.2. Observations and Recommendations for Sentech

Having considered the Strategic Plan, Annual Plans and budget for Sentech, the committee made the following observations and recommendations:

8.2.2.1. Observations

- The committee raised concerns that the dual illumination project had no budget allocation for the year under review and wanted to know who is supposed to allocate the budget and why was it not allocated.
- The committee noted that the delay on the reallocation of the spectrum has further exacerbated the digital divide and wanted to know if Sentech has an idea of what is the cost of the delay of rolling out set-top boxes and the switch off the analogue network.
- The committee was concerned with Sentech's financial sustainability and wanted to know if Sentech has put measures in place to avert the potential risks is likely to face.
- The committee noted the discrepancies between the number of strategic goals between Sentech and the department and highlighted that this is an indication of lack of communication between the shareholder and its entities. The department was asked to ensure that this does not happen again in future.
- The committee noted that the targets presented by Sentech were smart and achievable and encouraged other entities to learn from these best practices and the approach be replicated across the entities.
- The committee highlighted that skills availability required talent management and retention and emphasised the importance of work back arrangement after the students have been sponsored and trained by Sentech.

8.2.2.2. Recommendations

- The committee recommended a joint meeting with the PC on Communications and all affected entities to address the delay on the digital migration and the cost implication of the delay.
- The committee recommended that Sentech through the Minister provides a cost estimate with associated risks on the dual illumination between 2015/16 to 2020, within 3 months of the adoption of the report by the National Assembly.
- The committee also noted that the community radio stations are battling to pay their licence fees to ICASA and wanted to know if there was any impact on the Sentech revenue. A meeting between Sentech and the Media Diversity and Development Agency (MDDA) to address the financial sustainability of community radio stations was recommended.
- The committee appreciated the various expertise and competencies of board members of Sentech and commended the department and recommended that this example is replicated with the rest of the entities where board positions are due to be filled.
- The committee was very concerned about the time it takes to fill critical positions and requested that Sentech speeds up the appointment of the Chief Financial Officer (CFO) and Executive (Strategy) to ensure that the gains on the organisational stability are not reversed.

8.3. Universal Service and Access Agency of South Africa (USAASA) – R69 million Universal Service Access Fund – R644 million

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

To contribute to the achievement of government priorities and outcomes; USAASA is to pursue the following strategic goals for the 2016/17 financial year:

USAASA 2016/17 focus areas:

- Organisational development and re-alignment process underway for a more effective USAASA.
- Implementation of the ERP system through a staggered approach prioritising core SAP solutions such as Financial Management and Human Capital Management (incl. Payroll). The ERP system will provide and integrated approach to all business processes.
- Focus will remain on improved governance and accountability.

The Universal Service and Access Fund was established regarding section 89(1) of the Electronic Communications Act (2005). The fund's sole mandate is to make payments for subsidies towards the provision of ICT equipment or services as well as the construction or extension of electronic communication and broadcasting networks for needy persons in under-serviced areas. The fund is managed by USAASA and is financed by contributions from all telecommunications licensees except community broadcasting service licensees.

To contribute to the achievement of government priorities and outcomes; USAF is to pursue the following strategic goals for the 2016/17 financial year:

USAF focus will remain on the key areas of:

- Connecting communities and institutions through broadband infrastructure and access.
- Maintenance of connectivity to educational institutions and primary healthcare facilities.
- Implementation of the Broadcasting Digital Migration (BDM) programme.

8.3.1. Expenditure analysis of USAASA

The agency's operational budget for 2016/17 is R69 million. The focus of the Universal Service and Access Agency over the medium term will be on promoting universal access to electronic communication and broadcasting services by ensuring the full utilisation of the USAF, as well as providing a platform to ensure the implementation of the fund's projects. This will entail providing managerial support to the fund for its projects, and the distribution of set-top boxes and antennae for the broadband digital migration project.

The agency will also roll out broadband projects over the medium term in support of the SA Connect policy, the first phase of which envisages providing schools, clinics and other government institutions with broadband connectivity. The main cost driver in the organisation is compensation of employees, which is expected to increase at an average annual rate of 6,3%, from R41,2 million in 2015/16 to R49,4 million in 2018/19, as a result of annual increases.

The agency's main source of revenue is transfers from the DTPS, and total revenue in 2018/19 is expected to amount to R80,1 million. An allocation from the department of R196 million for distribution and project management costs related to the broadcasting digital migration project accounts for the large increase in revenue in 2015/16 to R262,4 million. Of this amount, R146 million will be paid to the SA Post Office, as it is tasked with managing the distribution of set-top boxes and antennae, and the installation process. This allocation is also responsible for the decline in total expenditure over the medium term, as it was appropriated in 2015/16.

8.3.2. Expenditure analysis of USAF

The USAF fund's total budget for 2016/17 is R644,5 million. Over the medium term, it will focus on the rollout of subsidies to identified households for the broadcasting digital migration project, and support the SA Connect policy, in line with the NDP's vision of improving flows of communication and information.

The fund will focus on subsidising an estimated 766 242 households in support of the broadcasting digital migration process over the medium term. This will enable qualifying households to acquire set top boxes and antennae, and thereby enabling them to receive digital signals once the switchover from analogue to digital transmission takes place. Expenditure is expected to increase at an average annual rate of 14,3%, from R233,5 million in 2015/16 to R349,2 million in 2018/19. Expenditure in the broadcasting digital migration programme is set to increase at an average annual rate of 16,7% from R181,2 million in 2015/16 to R287,9 million in 2018/19, accounting for a projected 83,5% of total expenditure over the same period.

The fund expects to roll out 6 broadband projects per year in municipalities in under-serviced areas in support of South Africa Connect, giving rise to an average annual growth of 5.7% in the broadband infrastructure in under-serviced areas programme from R30.9 million in 2015/16 to R36.5 million in 2018/19. Other projects include providing schools in under-serviced areas with educational devices to access and make use of their connectivity, and resuscitating old internet access centres by upgrading old equipment and providing high speed connections.

The fund's main source of revenue is from transfers from the DTPS, and total revenue is expected to grow from R233,5 million in 2015/16 to R349,2 million in 2018/19. As stipulated in section 88(1) of the Electronic Communications Act (2005), funding is used exclusively for the payment of subsidies to assist needy persons with the costs of provision of broadcasting and electronic communication services; to assist broadcasting and electronic communication network service licensees to build or extend electronic communications networks in under-serviced areas; and to assist schools and further education and training institutions with the procurement of broadcasting and electronic communications services, and access to electronic communications networks. The fund has no personnel as it is managed by the USAASA.

8.3.3. Observation and Recommendations on USAASA

Having considered the Strategic Plan, Annual Plans and budget for USAASA and USAF, the committee made the following observations and recommendations:

8.3.3.1. Observations

- The committee highlighted the importance of ensuring that the AGSA findings are part of the APP to ensure monitoring and oversight of corrective measures and commended USAASA for including this as their targets.
- The committee cautioned the entity against using the USAF for the SA Connect broadband roll out as there is a particular process to be followed if such funds are used for any other project outside of the Universal service and access.
- The committee also cautioned that the monitoring of universal service and access cannot be done by the entity as they cannot implement and monitor themselves. The department has the obligation to ensure proper monitoring is enforced.
- The committee raised concerns about whether the entity will be able to meet targets with the lack of skills as highlighted on their risk register.
- The committee cautioned the entity against managing targets that are depending on third parties as it will be difficult to account.
- The committee highlighted that the entity is operating in a highly specialised environment and will have to address a risk of service providers who have been paid to roll out the networks but with no contractual obligations to implement, support and maintenance the network. This observation was emanating from the oversight committee visit in Limpopo.

- The committee asked for clarity on the process used to select the final three suppliers for the set-top boxes as it was later established that two of the suppliers did not have places to manufacture. The members wanted to know if the criteria and requirements were perhaps changed during the selection resulting in omitting this important requirement.

8.3.3.2. Recommendations

- The committee was concerned with regards to the lack of clarity on the role of the entity in the national broadband rollout and requested that the department clarifies the role of USAASA on the implementation of the SA Connect and requested the Minister to provide clarity on this matter.
- The committee noted that more than 60% of the budget goes to salaries even though part of the highlighted risks was the inadequacy of the skills set to deliver on the USAF targets. It further emphasised that the skills issue was raised the previous year and it was concerning that the matter has not been resolved. It recommended that the matter get resolved speedily and progress be reported to parliament within 3 months of the adoption of the report by the National Assembly.
- The committee noted that during the portfolio committee joint meeting with Basic Education it was stressed that USAASA will need to take over the funding of the network maintenance after the universal service obligation period and it was concerning that the plan does not outline how this will be done. The committee recommended that this matter is addressed speedily and reported back to the parliament within 3 months of the adoption of the report by the National Assembly.
- The committee requested clarity on the broadband rollout plan from USAASA as it replicates the plans of the department, especially the planned project in the Eastern Cape Province. A detailed plan of the connectivity of the project should be submitted to the committee within 3 months of the adoption of the report by the National Assembly.

8.4. NEMISA – R77 million

In terms of the Public Financial Management Act (1999), NEMISA is regarded as a non-profit institute listed as a Schedule 3A public entity.

The consideration and tabling of the NEMISA Strategic Plan and Annual Performance Plan were postponed for a later date. It was reported that the CEO, CFO and Chairperson of the Board have resigned from the entity.

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

The State Information Technology Agency is tasked with consolidating and coordinating government's IT resources to achieve cost savings through economies of scale, increased delivery capabilities, and the enhanced interoperability of systems. To deliver on this, the agency's focus over the medium term will be on embarking on an infrastructure modernisation programme that entails upgrading the agency's central data centre to consolidate all government data and disaster recovery systems in a safe and central place, investigating the building of an additional data centre, and exploring the development of disaster recovery capabilities.

The SITA strategic priorities as presented in the 2015-2019 Strategic Plan include:

- Procurement of goods and services at a lower cost than any single Department could be on their own, within similar time frames.
- Deliver to customers through an efficient and service-oriented procurement process.
- Leverage economies of scale to provide core Information Technology (IT) services (e.g. infrastructure & security) at market-competitive rates and productivity levels.
- Provide advisory services and architecture standards and ICT governance as well as transversal capabilities.
- Act as a thought-leader to customers to proactively identify and deliver on technology needs.

- Be the driving force behind the continued digitisation of public sector resources in South Africa.
- Set and drive the e-Government agenda for the country and drive the modernisation of the public sector.

In addition, State Information Technology Agency (SITA) Act[25] 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 most important priorities for the 2016/17 are:

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

- **Data Security**
    - Safeguard 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.

8.5.1 Expenditure Analysis of SITA

Modernising technology within the agency's data centres will allow it to implement, provide and support systems used by government, and enable the government to consolidate its ICT investments. This is expected to allow the organisation to complete 95% of its projects effectively by 2018/19, on time and within budget, and allow for bandwidth capacity to be maintained at less than 75% per year over the medium term. Expenditure in the business operations programme is therefore expected to grow at an average annual rate of 8,4% over the medium term, from R4,6 billion in 2015/16 to R5,8 billion in 2018/19.

As the agency upgrades its ICT infrastructure, it expects an increase in its client base. These upgrades will result in various efficiency benefits such as reducing the duplication of functions and providing capacity for syndicated disaster recovery, and will drive an expected increase in expenditure on goods and services at an average annual rate of 9,1%, from R3,5 billion in 2015/16 to R4,6 billion in 2018/19. To support this investment in and modernisation of infrastructure, assets of R1,7 billion are expected to be acquired over the medium term while the carrying value of assets is projected to increase to R2,8 billion in 2018/19. Total expenditure is expected to grow at an average annual rate of 5,6%, from R6,2 billion in 2015/16 to R7,3 billion in 2018/19

8.5.2. Observations and Recommendations on SITA

Having considered the Strategic Plan, Annual Plans and budget for SITA, the committee made the following observations and recommendations:

8.5.2.1. Observations

- The committee expressed concerns over the lack of transformation regarding doing business with SMMEs and questioned whether enough was being done to encourage SMMEs, and specifically those owned by previously disadvantaged groups, to do business with SITA.
- The committee noted that SITA should consider the implications of the Protection of Personal Information (PoPI) Act concerning its plans to use personal data for the public and social benefit.
- The committee cautioned that the 25 targets set out in the APP might be too ambitious, but nevertheless wished SITA well in trying to achieve them. From the committee's previous oversight visit during which it interacted with SITA staff, it was clear that a lot needed to be done to rebuild SITA as an organisation.

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[25] Ibid

- The committee noted that, due to its current reputational deficit, SITA was finding it hard to attract the necessary and appropriate skills. Members, therefore, stressed the importance of succession planning and critical skills transfer within SITA.
- The committee indicated that it would closely monitor future developments on whether there would be an improvement in audit findings around procurement, an area where SITA had been found wanting in the past.
- The committee further stressed the importance of governance structures especially at board level.

8.5.2.2. Recommendations

- SITA to ensure that they revise the APP target to be in line with the 30% set out by government for SMMEs.
- Regarding the organisational structure, the committee re-emphasised its previous position that the top structure was too bloated. There had been an expectation that this would have been addressed. The committee recommended that SITA get this issue resolved.
- The committee also emphasised the importance of all staff within the organisation signing performance agreements and being held accountable, to ensure that non-performance became a thing of the past.
- The committee expressed worry at SITA's financial position; however, it would give the entity time to hopefully turn it around. Members also requested more detail on the spending on salaries, consultants and legal fees as a percentage of overall expenditure and a report to be submitted to parliament within 3 months of the adoption of the report.
- The committee raised concerns about the labour cost and recommended that the organisation look into the matter. The cost of labour was around 30% of the total budget.

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

Broadband Infraco's legislative mandate is set out in the Broadband Infraco Act.[26] The main objectives as set out in the Act are to expand the availability and affordability of access to electronic communications, including, but not limited to underdeveloped and underserviced areas, in accordance, with the Electronic Communications Act,[27] and commensurate with international best practice and pricing, through the provision of electronic communications network services and electronic communication services.[28]

The department wrote to the committee and requested that the tabling of the strategic plan and annual performance plan of BBI be withdrawn and, subsequent, to that the meeting consider withdrawing the strategic plan.

The committee is concerned about the financial status of BBI. It is now the second financial year under DTPS that the entity's future is uncertain. The committee believes this is reckless and urges the department to urgently resolve the matter and report to parliament within three months.

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

The .ZADNA is a statutory, not-for-profit entity established regarding Chapter X of the Electronic Communications and Transactions (ECT) Act 25 of 2002 to administer, manage and regulate the .ZA namespace. As stated in the Strategic Plan/ APP, the 2016/2017 to 2018/2019 strategic plan and the 2016/2017 Annual Performance Plan are meant to define better some of the performance targets of .ZADNA in line with the stipulations of the ECT Act. The Act requires .ZADNA, as a matter of "must," to perform certain functions, and this plan uses those specific functions as .ZADNA's strategic goals. This is a shift away from the previous years (2015/2016) when specific ECT Act responsibilities were grouped into four strategic goals.

.ZA DNA has not been allocated any budget for the period under review as it self-sustaining. To contribute to the achievement of government priorities and outcomes; .ZADNA is to pursue the following strategic goals for the 2016/17 financial year:

- Administer and manage the .ZA namespace.
- Comply with international best practice in the administration of the .ZADNA space.
- Licence and regulate registries and registrars.
- Publish guidelines on:
  - The general administration and management of the .ZADNA space.
  - The requirements and procedures for domain name registration.
  - The maintenance of and public access to a repository.

- Enhance public awareness of the economic and commercial benefits of domain name registration.
- Conduct research into, and keep abreast of, developments in the Republic and elsewhere on the domain name system.
- Continually survey and evaluate the extent to which the .ZA domain name space meets the needs of the citizens of the Republic.
- When so requested by the Minister, make recommendations to the Minister about policy on any matter relating to the .ZA domain name space.
- Continually evaluate the effectiveness of this Act and things done in terms thereof towards the management of the .ZADNA space.

8.7.1. Expenditure Analysis of .ZADNA

[26] Broadband Infraco Act, Act No.33 of 2007.
[27] Electronic Communications Act, Act No.36 of 2005
[28] BBI Corporate Plan(2015)

The .ZADNA anticipated collecting R7,7 million from the ZA Central Registry (ZACR) domain names which were forecasted to reach 1,1 million registrations by the end of 2015/2016. Limited revenue was also expected from interest from invested contingency (around R8 million). No provision was made for income from dotCities' registrations because .ZADNA first needed to agree on clear roles with the three metros that the municipalities expected .ZADNA to play on their behalf.

The 2016/17 Strategic Plan states that .ZADNA recently resolved to increase the per-domain-name fee that it receives from ZACR regarding the ZA Operating Agreement from R7,00 to R12,00 VAT exclusive. Accordingly, .ZADNA anticipates collecting R13,2 million from the ZACR domain names which are forecasted to reach at least 1,1 million registrations by the end of 2016/2017. Limited revenue is also expected from interest from invested contingency funds. No provision has been made for income from dotCities' registrations because .ZADNA first needs to have DTPS formalising .ZADNA's role over dotCities.

.ZADNA continues to invest some surplus funds for contingency and business continuity purposes. The surplus resulted from savings in delayed staff appointment and has been invested and earning interest. In 2014/2015 surplus resulted from savings in new director appointments, education, and awareness and delayed staff appointment.

Major budget expenditure in the 2016/17 Plan are:

- Basic Office Cost **(10%)**;
- Marketing, education and awareness **(13%)**;
- Rent and Office Relation **(9%)**;
- Company Fleet **(3%);**
- Legal and Professional Fees **(8%)**;
- Meetings and events **(7%)**;
- Namespace Development **(8%)**;
- Salaries **(35%)**;
- Travel and Accommodation **(7%)**; and
- Deficit **(R300 000).**

8.7.2. Observations and Recommendations on .ZADNA

Having considered the Strategic Plan, Annual Plans and budget for .ZADNA, the committee made the following observations and recommendations:

8.7.2.1. Observations

- The committee raised concerns on the income and expenditure deficit and how it will be funded. Members emphasised that the state-owned entities are expected to deliver value to the shareholder not take away from the state. The spiralling of costs is a major concern.
- The committee raised serious concerns about the school.za domain which is not part of the mandate of the entity. Members highlighted that the schools website is going to cost the entity R700 000 and wanted to know who is going to maintain the website going forward. They further indicated that most of the schools have domain names already and members wanted to know if these will also be migrated to the new domain.
- The committee further questioned the need for a new vehicle and the relocation to new premises and wanted to know if this was necessary given the escalating costs.
- The entity indicated that the process of hiring additional nine board of directors who will cost the entity R10 000 for each meeting attending will be finalised in the year under review. The committee highlighted and cautioned that this is a small organisation and does not warrant nine boards of directors to run the entity.
- The committee highlighted that there is no need for the entity to go to communities for awareness as the ISPs do most of the domain registrations.
- The committee also highlighted a need for clarity on role of the entity in relations to the policy review process.

8.7.2.2. Recommendations

- The committee raised concerns about the delay to finalise critical staff appointments and wanted to know if the organisation is using the services of consultants. It recommended that critical positions be filled.
- The committee recommended that the entity must consider partnering with other departments to promote and create awareness on the work of the entity.
- The entity highlighted in its submission that one of the risks is that the ECT Act amendment is not as fast as desired and this will have an impact on the licence and regulating Registries and Registrars programme. The entity further indicated that the relationship with the department is not as effective as it should be, and as a result, there are unclear expectations about what type of policy recommendations the DTPS seeks from .ZADNA. The committee recommended that the department look into the issue urgently.

The Committee noted the Strategic Plans 2015 – 2019 and Annual Performance Plans for 2016 – 2017 of the DTPS, USAASA, USAF, SITA, SENTECH, and .ZADNA and accordingly supports their implementation.

The Committee recommends that the 2016-2017 budget allocation of the DTPS and its entities be approved.

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

Report to be considered.