Report of the Portfolio Committee on Telecommunications and Postal Services on the Second Quarterly Report on the Performance of the Department of Telecommunications and Postal Services (DTPS), dated 14 March 2017

Overview of the Information and Communications Technology (ICT) sector

The National Development Plan (NDP) stipulates that by 2030, South Africa's rural communities should have greater opportunities to participate fully in the economic, social and political life of the country. These opportunities will need to be underpinned by good quality education, healthcare, transport and other basic services There is still a long road ahead, to achieve the growth and redistribution and build a more inclusive and equal society as envisaged in the NDP.[1] South Africa has set a growth target of five percent by 2019, and has identified various measures and interventions to jump-start the economy. In his state of the Nation Address in 2016, the President pointed out that the most effective weapon in the campaign against poverty is the creation of decent work, and that this requires faster economic growth[2].

The ICT industry currently has pockets of strengths, but inherent weaknesses too. The subsector of the South African ICT market, comprising of hardware, packaged software and services, is regarded as one of the most developed and sophisticated within the country.

Therefore, the thrust of the DTPS's existence is to promote policies that push for universal access and universal broadband and related services which can contribute to reducing the digital divide and help citizens to benefit from the digital economy.

The NDP highlights the following in order to be successful:

- Integrated e-strategy;
- Intergovernmental co-ordination and public and private co-ordination;
- Effective regulation of markets;
- Hundred (100) per cent broadband penetration by 2020 (>2mbs);
- 2030 deployment for full range of government, educational, informational services; and
- High demand spectrum, structural separation.

The Portfolio Committee on Telecommunications and Postal Services, having considered the Second Quarterly Report on the Performance of the DTPS in meeting its strategic objectives for 2016/17, reports as follows:

1 NDP (2010)
2 SONA (2016)

1. Introduction

The Portfolio Committee on Telecommunications and Postal Services considered the Second Quarterly Report on the performance of DTPS and its entities in meeting its strategic objectives for 2015/16 on

21 February 2017. The Committee reviewed the performance of the DTPS, Sentech, Universal Service Access Agency of South Africa (USAASA), Broadband Infraco (BBI), South African Post Office (SAPO) and the State Information Technology Agency (SITA), .ZADNA and NEMISA.

This report gives an overview of the presentations made by the DTPS and its entities, focusing mainly on its achievements, output in respect of the performance indicators and targets set for 2016/17 and the financial performance. The report also provides the Committee's key deliberations and recommendations relating to the performance of the Department and its entities.

2. Opening remarks by the Acting Chairperson

The Acting Chairperson made opening remarks and noted that 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. One of the tools used to track progress on the implementation of policy and government programs is the use of various reports by the department and it entities. Quarterly reporting is just one of those mechanisms to track progress and effectiveness of government bodies for policy implementation and government agenda.

There are a number of key areas which the committee look at when scrutinising the presented reports and these are, amongst others:

- The technical quality of all the reports produced by the Department and State Owned Entities (SOEs);
- The economic, efficiency and effectiveness of service delivery as measured by performance indicators presented in the annual reports;
- Evaluating management's explanation as to why the department and the entity's service delivery performance did not attain the targets set in the corporate plans;
- Ensuring equitable service delivery; and
- Investigating the circumstances that led to financial underperformance and the impact this had on service delivery and the measures taken by management to rectify the situation.

These are some of the points worth noting for the department and the entities to ensure an effective engagement with the Portfolio Committee.

3. Opening Remarks by the Deputy Minister

Professor H. Mkhize, the Deputy Minister of Telecommunications and Postal Services, noted that there was progress in respect of ICT infrastructure, spectrum, rapid deployment and e-strategy initiates by the Department. In respect of connectivity, there was also progress made with e-skills programmes. In general, the Department has emphasised connectivity as it pertains to rural communities and continue to monitor and work closely with SOEs. The Department would focus on connectivity and assist with issues of growth to ensure sustainability of Small, Medium and Micro-Sized Enterprises (SMMEs). Growth, transformation and Postbank are all developments in this area. There was also a need to engage the private sector in all areas.

4. Committee deliberations

During deliberations on the Second Quarterly Report of the Portfolio Committee on Telecommunications and Postal Services the Committee was briefed by DTPS and its entities. The presentations covered the following issues:

5. Presentation by DTPS

Mr. R. Nkuna, Director-General (DG): DTPS, made the presentation on behalf of the Department in respect of its second quarter performance. The presentation highlighted the following issues:

- Introduction;
- Significant achievements;
- Programme 1: Administration;
- Programme 2: International Affairs;
- Programme 3: Policy, Research and Capacity Development;
- Programme 4: ICT Enterprise Development and SOE Oversight;
- Programme 5: ICT Infrastructure Support; and
- Financial Information.

6. Presentation by SAPO

Mr. M. Barnes, CEO: SAPO, made the presentation on behalf of SAPO in respect of its second quarter performance. The presentation highlighted the following issues:

- Overview;
- Financial performance;
- Performance indicators;
- Critical next steps; and
- Additional slides.

7. Presentation by SITA

Dr. S. Mohapi, CEO: SITA, made the presentation on behalf of SITA in respect of its second quarter performance. The presentation highlighted the following issues:

- Performance overview;
- Programme performance;
- Financial performance;
- Service revenue analysis; and
- Audit overview.

8. Presentation by USAASA

Mr. L. Mtimde, CEO: USAASA, made the presentation on behalf of USAASA in respect of its second quarter performance. The presentation highlighted the following issues:

- Vision, mission and values;
- USAASA and USAF Strategic Objectives 2016/17 – 2020/21;
- USAASA Q2 performance;
- Auditor General implementation plan;
- USAASA Expenditure; and
- USAF Q2 Performance Report.

9. Presentation by NEMISA

Mr. P. Ramatswana, previous acting CEO: NEMISA, made the presentation on behalf of NEMISA in respect of its second quarter performance. The presentation highlighted the following issues:

- Overview;
- Programme 1: Administration;
- Programme 2: Multi-stakeholder collaboration;
- Programme 3: e-Astuteness development;
- Programme 4: Knowledge and innovation;
- Programme 5: Aggregation framework;
- Statement of financial position;
- Plans for Q3; and
- Conclusion.

10. Presentation by Sentech

Mr. M. Booi, CEO: Sentech, made the presentation on behalf of Sentech in respect of its second quarter performance.

The presentation highlighted the following issues:

- Overview of performance against corporate KPIs;
- Financial performance;
- Product and network performance;
- Governance;
- Internal audit;
- Management letter points;
- Risk management;
- Enterprise development; and
- Human capital development.

Presentation by BBI

Ms. P. Kwele, CEO: BBI, made the presentation on behalf of BBI in respect of its second quarter performance. The presentation highlighted the following issues:

- Legislative mandate of BBI;
- Performance against predetermined objectives;
- Fibre rolled out per province (network infrastructure);
- Financial position;
- Financial performance;
- Statement of cash flow;
- Funding initiatives;
- Human capital;
- Procurement overview;
- External audits and irregular expenditure; and
- Strategic top 10 risks.

11. Presentation by .ZADNA

Mr. V. Mpisane, CEO: .ZADNA, made the presentation on behalf of .ZADNA in respect of its second quarter performance. The presentation highlighted the following issues:

- Administration and management;
- International best practice compliance;
- Registry-registrar licensing;
- Publish registration guidelines;
- Enhance public awareness;
- Conduct research and surveys;
- Publish domain name registration information;
- Domain name policy recommendations;
- Evaluate ECT act effectiveness in relation to .ZA management;
- Oversee ZA ADR Process;
- Ensure .ZADNA business sustainability; and
- Financial performance.

12. Performance per Programme

The priorities of the DTPS in the 2016/17 financial year were anchored on the following key programmes:

12.1 Programme 1: Administration

The purpose of this programme is to provide strategic support to the Ministry and overall management of the Department.

All the targets for the quarter under review were not achieved. This is against the backdrop of a budget spend of 57% of the R193 000 total budget of the program after Q2. The Q1e spend was 27% and means that the program spent 30% for Q2 to make a total spend of 57% to date. It is important to note that the target "Climate and culture survey Action Plan developed" was delayed from Q1. Core business processes identified, documented, optimised and mapped so as to enable process automation target for Q2 was not achieved because of "Project delayed due to lack of sufficient funds as the actual project cost exceeded the budget which impacted on the appointment of the service provider". It will be important to find out if the department has enough financial capacity for proper budget projection and project management.

12.2 Programme 2: ICT International Affairs

The concern is that about 79% of the program budget has been spent and the questions that remains whether the balance of the budget will cover the two remaining quarters of the year. This was against the backdrop of after spending 9% during the Q1 with the same number of targets for each quarter. The expenditure trend was very uneven based on the expenditure rules from national treasury of ensuring a 25% expenditure for each quarter. The programme will have to explain the huge jump on the expenditure during Q2.

12.3 Programme 3: Policy, Research and Capacity Development

The purpose of this programme develops legislation that supports the development of an ICT sector that creates favourable conditions for accelerated and shared growth of the economy. The development of strategies that increase the uptake and use of ICTs by majority of the South African population is to bridge digital divide.[3]

[3] Department of Telecommunications and Postal Services (2016)

The programme achieved all its targets for Q2. It is important to note that the total budget spent to date is 43% which is not very far and below the recommended spent of 50% for Q2. It will be important to find out if the spend will improve for Q3 to ensure compliance with the quarterly spent for each programme.

12.4 Programme 4: ICT Enterprise Development and SOC Oversight

The purpose of this programme is to oversee and manage government's shareholding interests in the public ICT entities. This programme also facilitates growth and development of Small Micro Medium Enterprises[4] (SMMEs). The main objective is to ensure optimally functioning ICT state owned companies that effectively deliver on their respective mandates. The programme has achieved 100% of the Q2 targets with a total budget spend of 86%. The bulk of the budget which had been spend was for the transfer to entities with most of these entities remaining with 50% to be transferred during the remainder of the year.

12.5 Programme 5: ICT Infrastructure Support

The purpose of this programme is to promote investment in robust, secure and reliable ICT infrastructure that supports the provision of a multiplicity of applications and services.[5]

No targets relating to the national broadband plan have been met as the tender for connecting government institutions and schools has not been awarded as yet. The department has requested the State Information Technology Agency to procure the service provider. In June 2016, the agency issued a bid document inviting prospective service providers to bid for broadband connectivity of the identified sites, and the bids are currently being evaluated. It is anticipated that the procurement process will be completed by the end of October 2016, after which the broadband connection of government buildings and schools will begin[6].

It was important to note that none of the targets for the second quarter have been met with about 35.4% budget spent for quarter after spending about 0.6% for the quarter which constitutes a total spent of 36% of the total budget of the programme. This is one of the programmes which only achieved one of its three targets the previous year. This raises serious concerns and including what the bulk of the money was spent on if none of the targets were achieved.

13. DTPS Financial Report

Figure 1 below indicates the expenditure patterns of the Department:

Figure 1: DTPS Expenditure

4 Department of Telecommunications and Postal Services (2016)
5 Department of Telecommunications and Postal Services (2016)
6 Treasury (2016)

PROGRAMME	BUDGET R'000	BUDGET %	PROJECTED BUDGET TO 30 SEPTEMBER 2016 R'000	EXPENDITURE R'000	VARIANCE R'000	AVAILABLE TO YEAR END R'000	% Spent
Administration	193 337	8%	98 584	109 699	(11 115)	83 638	57%
ICT International Affairs	44 710	2%	3 5 955	35 280	675	9 430	79%
Policy Research and Capacity Dev	95 618	4%	47 390	40 681	6 709	54 937	43%
ICT Enterprise Develop and SOE Oversight	891 801	37%	789 365	765 450	23 915	126 351	86%
Infrastructure Suppport	1 191 946	49%	461 375	428 253	33 122	763 693	36%
Total	2 417 412	100%	1 430 669	1 379 363	51 306	1 038 049	57%

13.1 DTPS Expenditure Analysis

The DTPS has a total main budget appropriation of R2.4 billion for the 2016/17 financial year. Transfers and subsidies accounts for R1.1 billion of the available budget and is mainly to departmental agencies and accounts as well as to public corporations and private enterprises. Payment for financial assets accounted for R650 million of the available budget and is allocated for the recapitalisation of the South African Post Office (SAPO)[7].

For the period ending September 2016, the department had spent a total amount of R1.38 billion or 57.1% of the available budget. This is R51.3 million lower than the projected expenditure of R1.43 billion up to the end of this period and is due to critical vacant posts that have not yet being filled, and also due to lower spending on consultants: business and advisory services arising from a delay in the appointment of the broadband service provider.

The expenditure amount includes transfers to recapitalise SAPO which was already made during the first quarter, in April 2016. It also includes transfers to USAASA (R34.5 million) for its operations and USAF (R27.2 million and R294.7 million) for its operations and Subsidies for Set Top Boxes (STBs) respectively. NEMISA received a Transfer of R38.1 million for its operations (R24.8 million) as well as for the establishment of the e-skills institute (R13.3 million). All payments for membership of International organisations were transferred[8].

13.2 Programmes

Programme 1: Spending was R11.1 million higher than the approved projections to the end of September 2016 as a result of higher than expected audit costs due to forensic audits conducted by the Special Investigation Unit, as well as software and intangible assets due to Microsoft licenses that were more expensive as a result of the depreciation of the USD ($) since the date of quotation. Other reasons include temporarily high occupational rent payments charged while awaiting renewal of the lease

[7] Treasury (2016)
[8] Treasury (2016)

agreement by the Department of Public Works, as well travel and subsistence due to Minister and Deputy Minister's international travels for statutory meetings with intergovernmental organizations in order to fulfil international obligations.

Programme 2: Spending was R1.3 million higher than projected due to higher than budgeted expenditure on payments for foreign membership fees as well as under travel and subsistence for attending critical meetings and conferences abroad. These can be attributed to the weakening of the Rand exchange rate.

Programme 3: Spending was R6.7 million lower than the approved projections to end September 2016. The variance is mainly due to 2 vacant DDGs post and due to a change in approach in appointing consultants. The latter included revising procurement plans to focus on essential areas only, and contracting the State Law Advisor to render services required for some of the projects.

Programme 4: Spending was R23.9 million lower than the approved projections to end September 2016 as the first payment (R13.3m) of the R40 million allocation for the establishment of iNeSi was only transferred in September. The delay was due to a consultation process with the Department of Higher Education and Training (DHET) on ICT skills development projects.

Programme 5: Spending was R33.1 million lower than the approved projections to end September 2016. The variance is mainly due to slower spending in Consultants: Business and Advisory Services due to the delay in the appointment of the service provider for the Broadband project (SA Connect). It was expected that SITA will finalise the tender in the third quarter of 2016/17.

13.3 Personnel spending

The department is allocated a total amount of R213.7 million for compensation of employees in 2016/17 and is specifically and exclusively earmarked for this purpose. At the end of September 2016, the department had spent R99.6 million. This amount is lower that the projected R107.5 million up to this period. This is due to the non-payment of pay progression, possible performance rewards and the non-filling of the DG and three Deputy Director-General (DDG) posts on the establishment of the Department. There were 298 staff, five (5) vacant posts at the end of quarter of 2016/17. The department had a total establishment of 303 posts as at 30 September 2016[9].

14. Portfolio Committee Observations

The Portfolio Committee raised the following with the DTPS and the entities in respect of the Second Quarterly Report for 2016/17:

- The Committee noted the collapse of the SA Connect tender and wanted to know the envisaged timeline to appoint the service providers. The SITA tender process was not successful due to the fact that the Department was unable to identify a bidder. SITA and the Department were expected to finalise the tender during Q3. However, failure to conclude the tender and the institutional arrangements would pose a risk in terms of potential underspending of the broadband rollout project.
- The Committee requested an update on the issue of Media Corner and the criminal actions pending in this regard. The Department indicated that certain issues in this regard are under the mandate of the Department of Communications and therefore there was an ongoing

[9] Treasury (2016)

engagement between the two departments. In addition, the matter was still sub judice and therefore court processes were ongoing.

- The Committee enquired about the finalization of vacant posts within the Department and was informed that the Department would finalise the Acting Deputy Director-General posts and that these targets would be finalised before the end of the financial year. Furthermore, 303 employee posts were available of which 298 posts were filled with 5 outstanding posts still vacant.
- The Department noted that the following legislation, emanating from the National Integrated ICT White Paper, would be referred to the Committee, namely Postal Services Amendment Bill, South African Post Office State Owned Company (SoC) Ltd Amendment Bill, Digital Development Fund Bill, ICT Economic Regulator and Tribunal Bill, Electronic Communications Amendment Bill, Electronic Communications and Transactions Amendment Bill and the iKamva National e-Skills Institute (iNeSI) Bill.
- The members wanted clarity on the reason why .ZADNA had nine board members against only four staff members. The Department noted that the intention was to incorporate .ZADNA with the regulator. To date .ZADNA had also increased its staff members to eight members.
- The Committee enquired why .ZADNA spent R793 000, which was not budgeted for. The entity responded that the monies were spent on the Africa Internet Forum, which was a reputable forum to attend and it was informed of it at short notice. The budget was used from the surplus of the entity.
- The Committee wanted an update on the availability of stamps and stock shortages. SAPO noted that the stamps were ordered and should reach SAPO outlets shortly and that stock shortages have been cleared.
- SAPO business has increased its revenue in respect of digital terrestrial television, traffic fines, motor licenses amongst others. In addition, SAPO submitted an application to issue SASSA grants as an additional service. Furthermore, SAPO staff have received 2000 new bicycles.
- The Committee requested Sentech to clarify its training programme and provide information on gender to assist in transformation. Sentech noted that in respect of internships they partner with universities in training for engineers and have sponsored 14 students, mostly female. Four students are at the University of Cape Town with the composition of three female and one male. The rest of the students were placed at the University of Pretoria and Witwatersrand.
- The Committee further observed that the KPI achievement by SAPO was only 25% for Q2, due to the delay in funding to enable operations and revenue recoveries. SAPO indicated that the revenue recoveries and growth still remained a challenge.
- On SITA, there were 24 planned targets and of the 24 targets, only 12 or 50% were achieved. This was against the backdrop that the committee had cautioned the entity on the huge number of targets and highlighted concerns that the entity was likely not to achieve the targets.
- The SITA target for the awarding of tenders within the turnaround time is becoming an ongoing concern as this would adversely impact on the intended service to be delivered. This target was also not met during the time of the tabling of the 2015/16 annual report.
- SITA staff turnover had been one of the biggest problems in the organization. SITA should update the Committee on this matter.
- The Committee noted that there was a slow-spending risk on the BDM project due to the delays associated with the on-going litigation. There was therefore a greater risk regarding the extent of burden the BDM project is placing on the fiscus. USAASA noted that the delay on the project was due to the produced STBs and also the Supreme Court of Appeal judgment. While distribution of STBs has been halted, the STBs that were already manufactured requires storage, and this has triggered unfunded warehousing costs for SAPO (estimated to be R422 million). These delays further place burden on the fiscus with regards to the funding to Sentech to cover dual Illumination costs (essentially sunk costs). The Committee wanted clarity on the action taken with regard to National Treasury investigation on the irregular procurement processes around the STBs.

- On USAASA, the entity had undertaken to validate and achieve all deliverables relating to the Organisational Development Process by the end of the 2015/16 financial year which included new operational structures, jobs and skills profiles and matching individuals to jobs and thus paving the way for implementation of a Work Skills Plan in 2016/17. This will ensure all identified skills gaps are adequately addressed.

- USAASA incurred an over-spending on goods and services with the quarterly budget exceeded by 15%. There was also an over-spending on Capex with the quarterly budget exceeded by

85% which is almost twice the allocated amount. This pointed to either a clear lack of accurate budget estimates expertise or a lack of capacity on project management.

- On NEMISA, the Committee noted that only 50% of the targets have been met.
- On BBI, the Committee notes that operating expenses were below budget as a result of good management and cost containment.
- It was concerning that the BBI revenue target was not achieved, and the question was whether this led to the decline on operations cost.
- On .ZADNA, the entity had been encouraged by the AG to ensure that corporate governance is always prioritised, and this requires that critical positions such as the Company Secretary are filled and finalised. It was very concerning that terms of reference for the Company Secretary are yet to be finalised.

15. Portfolio Committee recommendations

Based on the observations made above, the Portfolio Committee recommends that the Minister of Telecommunications and Postal Services:

- Ensure that the Department and its Entities set realistic targets in future as most of the targets were not achieved during the quarter under review;
- Ensure that the Department report back to the Committee on the revised SA Connect implementation plan;
- Ensure that the matter around Media Corner is finalised as a matter of urgency by the Department;
- Ensure that the Department institutes the disciplinary actions based on the National Treasury investigation on the irregular procurement processes around the STBs;
- Ensure that the Department fill the critical vacant posts such the DDGs and other senior positions;
- Ensure that the entities refrain from spending money where there was no budget allocation as was the case with .ZADNA and curb the over-spending as was the case with USAASA;
- Ensure that NEMISA expedite the filling of critical positions as a matter of urgency;
- Ensure that Sentech implement the diversification of product offerings to minimise the future risk of not achieving the revenue targets. The major revenue driver for Sentech at the moment was the SABC, and this poses a major risk to depend on one revenue generator;
- Ensure that the matter between Sentech and labour is resolved as a matter of urgency to ensure continued stability of the entity; and
- Ensure that BBI is able to raise capital for the injection of equity needed to raise revenue. One of the risks highlighted by the entity during Q1 reporting was the difficulty to raise funds.

Report to be considered.

Integrity