PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

RESEARCH UNIT
PO Box 15 Cape Town 8000 Republic of South Africa
Tel: 27 (21) 403 8273 Fax: 27 (21) 403 8118
www.parliament.gov.za

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**BROADBAND INFRACO THIRD QUARTER PERFORMANCE REPORT FOR THE 2016/17 FINANCIAL YEAR**

## 1. INTRODUCTION

Broadband Infraco is mandated to expand the availability and affordability of access to electronic communications;

- Including but not limited to under developed and under serviced areas;
- In support of projects of National Interests;
- In accordance with the Electronic Communications Act and commensurate with international best practice and pricing;
- Through the provision of electronic communications network services and electronic communications services.

The brief provides an analysis of the entity's third quarter financial and performance targets for the 2016/17 financial year including the period April – December 2016. This will be compared to the Department's annual performance report to enable the Committee on Telecommunications and Postal Services to do oversight over the entity.

## 2. PERFORMANCE[1]

The following section will briefly highlight the performance of the entity per programme.

### 2.1 PROGRAMME PERFORMANCE

The entity has four strategic objectives, namely to: maintain a reliable network; ensure financial sustainability; sound human resource (HR) practices; economic transformation. Targets related to each is discussed below.

#### 2.1.1 Maintain a reliable network

Under this objective, the entity had three performance targets. Of the three performance targets, all three have been achieved. These targets relate to:

- Network performance rebates paid as percentage of gross revenue annually (≤0.3% of customer revenue);
- Actual time to restore core network faults (8 hours);
- Decrease the rate of lost time injury frequency (0.40 rate).

[1] Broadband Infraco (2017)

In the previous financial year, same period, the entity had three targets which no longer appear in the current financial year. These key performance indicators related to network saleability and network improvement.

- Number of kilometres (KM) of fibre added to the network;
- Oberholzer to Ramatlabama link upgraded to DWDM;
- Number of projects on time, scope and cost.

**Issues for Consideration:**

- The entity and/or the Department should account for the change in indicators. This will make it difficult to compare performance across years due to the changes in performance indicators.

### 2.1.2 Ensure financial sustainability

The strategic objective has 6 indicators of which 3 indicators were not achieved. These indicators not achieved are as follows:

- Percentage increase of actual revenue annually (18.6 per cent where -10.6 per cent was achieved)
- Decreased amount of operating loss annually (-R91 million, where –R89.9 million was achieved)
- Number of days per outstanding customer invoice (debtors collection of 45 days per contract plus 15 days, where 60.6 days were achieved)

The following targets have been added to this strategic objective.

- Number of days per outstanding customer invoice (debtors' collection of 45 days per contract plus 15 days);
- Reduced period for unallocated creditors (creditors suspense account cleared weekly);
- Number of STM1 equivalent sold annually (400 STM-1 equivalent) – this target moved from the strategic objective network saleability to ensure financial sustainability.

**Issues to consider:**

- The entity/Department should account for the addition and shift in targets across strategic objectives.

### 2.1.3 Sound HR practices

The strategic objective only has one indicator which relates to the training spend as a percentage of payroll annually (1 per cent of the wage bill spend on training by the end of the year). This target was not achieved for the third quarter at 0.24 per cent, but cumulatively it is at 1.55 per cent so the annual target was achieved. This target was previously under the strategic objective Economic Transformation.

### 2.1.4 Economic Transformation

Of the eight key performance indicators, the entity achieved 6, while 2 were not achieved. The 2 not achieved are:

- Percentage spend on People with disabilities owned entities annually (R500 000 spend on people with disabilities, where nothing has been spent)
- Percentage spend on Black Youth owned entities annually (10 per cent spend of 40 per cent on BOE, where only 0.46 per cent was achieved)

Both indicators were not achieved in the first and second quarters of 2016/17. The target relating to people with disabilities was not achieved in the 2015/16 financial year.[2]

The strategic objective has one new target, which is:

- Number of small Black Economic Empowerment (BEE) companies trained on OSHAS (3 small BEE companies trained on OHSAS 18001) (target was achieved).

**Issues to consider:**

- The entity/Department should account for the non-performance for the target relating to people with disabilities as this is the second year running that the target has not been met. Why were strategies not put in place to correct this in the previous financial year?

Overall, of the 18 key performance indicators reported on, 5 was not achieved, therefore 72 per cent of targets was achieved for the third quarter of the 2016/17 financial year.

The entity also reports on Fibre roll out per km with 1 180.83 km completed, 76.04km more than in the second quarter and 18.6 km still in progress. Pop/Customer site optimisation of 41 completed with 2 still in progress.

## 3. FINANCIAL PERFORMANCE[3]

Revenue collected is under budget which was set at R403 million, while only R302 million (75 per cent) was actually collected. The entity states that a new sales strategy will be implemented to address this.

[2] Braodband Infraco (2016)
[3] Broadband Infraco (2017)

The entity managed to keep Cost of sales below budget, where the budget was R274 million, the actual amount is R269 million for the third quarter. Cost of sales items were renegotiated which resulted in overall contracted cost savings. This attributed to the gross profit of R33 million.

Operating expenses was contained to R121 million, where R176 million was budgeted for. The entity states that this was due to good management of cost containment.

Despite the above cost containment, the loss for the third quarter amounted to R83 million, compared to the loss of R58 million which was budgeted. The earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to R29.2 million compared to the budgeted amount of R41.5 million.

Net cash and cash equivalents at the end of the quarter amounted to R59 million against a budgeted amount of R56 million. It should be noted that a loan of R124 million budgeted to be received by the entity did not materialise as budgeted for. It should also be noted that the cash flow from operations was negative at R26 million by the end of December 2016. This will be unsustainable going forward.

### Issues to consider:

- The entity's cash from operations is negative. What is the entity doing to ensure its financial sustainability in the long-run? Slide 10 of the presentation presents the funding initiatives of the entity. Has this resulted in any funding being received?
- What is the Department doing to assist the entity to be financially viable going forward?
- The Department budgeted for a loan of R124 million (slide 9), but was not received. Why is this?

## 4. CONCLUSION

Broadband Infraco has achieved 72 per cent of its targets by the third quarter of the 2016/17 financial year. Financially, the Department is generating negative cash from operations. This is concerning as this is not sustainable going forward. The entity and the Department need to address this to ensure the entity is able to fulfil its mandate per the Act.

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## 5. REFERENCES

Broadband Infraco (2016) *Integrated Report 2016*

Broadband Infraco (2017) *Presentation to Portfolio Committee on Telecommunications and Postal Services, Quarter 3, ending 31 September 2016. BMC Ngcobo, Chairperson of the Board.* Parliament of the Republic of South Africa, Cape Town.