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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Overview of the 2016/2017 3rd Quarter Performance Report of the State Information Technology Agency (SITA)

1. Background

The following brief, seeks to provide Members of the Portfolio Committee on Telecommunications and Postal Service (the Committee) with information pertaining to the 3rd Quarterly Performance Report of the State Information Technology Agency which is an entity of the Department of Telecommunication and Postal Service (the Department).

1.1 Mandate of the Department

The Department of Telecommunications and Postal Services is mandated to develop ICT policies and to ensure the development of robust, reliable, secure and affordable ICT infrastructure. This contributes to the development of an inclusive information society in which information and ICT tools are key drivers of accelerated and sustained shared economic growth and societal development. The Electronic Communications Act (2005) allows the Minister of Telecommunications and Postal Services to draft policies to fulfil South Africa's obligations under bilateral, multilateral, and international treaties and conventions; set guidelines for the determination of certain licence fees by the Independent Communications Authority of South Africa; and promote universal service and electronic communications services in underserviced areas. The act also allows the minister to promote the participation of small businesses in the ICT sector, and oversee and strengthen the capacity of state-owned enterprises. The department also contributes to building an ICT skills base in the country to ensure equitable prosperity and global competitiveness.[1]

In addition to the Electronic Communications Act (2005), the department's mandate is derived from the following legislation[2]:

- the Electronic Communications and Transactions Act (2002)
- the Sentech Act (1996)
- the Postal Services Act (1998)
- the South Africa Post Office SOC Ltd Act (2011)
- the South African Postbank Limited Act (2010)
- the State Information Technology Agency Act (1998)
- the Broadband Infraco Act (2007).

1.2 Mandate of the State Information Technology Agency

The State Information Technology Agency is governed by the State Information Technology Agency Act (1998), as amended and is listed as a schedule 3 A public entity. The agency is

[1] National Treasury Estimates of National Expenditure 2017
[2] Ibid

responsible for the provision of IT services to government. The act separates the agency's services into mandatory services, which are services that it must provide; and non-mandatory services, which are services that it may provide. Mandatory services include the provision and maintenance of transversal information systems and data processing or associated services for the transversal systems. The act mandates the agency to consolidate and coordinate government's IT resources to achieve cost savings through economies of scale, increased delivery capabilities and enhanced interoperability of systems.[3]

The work of SITA is divided into the following programmes:

- Programme 1: Service Delivery
- Programme 2: Infrastructure
- Programme 3: Procurement
- Programme 4: Financial Sustainability
- Programme 5: Organisation
- Programme 6: Governance & Admin

2. Expenditure Framework of the Department 2016/2017

According to the 2016 Estimates of National Expenditure, the key key focus for the department over the medium term will be the ongoing rollout of South Africa Connect, the department's broadband policy. The emphasis is on ensuring connectivity in under-serviced areas, prioritising schools, health facilities and other government institutions. Increased funding of R500 million is allocated over the medium term for this purpose, which accounts for the average annual growth of 94.2 per cent in the budget for consultants in the ICT Infrastructure Support programme. The department projects that 4 442 schools and 3 158 government institutions will be connected over the medium term.[4]

As South Africa migrates to digital broadcasting, the Department of Telecommunications and Postal Services will continue to support the Department of Communications in the rollout of broadcasting digital migration. The South African Post Office has been tasked with the distribution of set top boxes and antennae to identified qualifying households, and receives an increase of R480 million in the ICT Infrastructure Support programme over the medium term for this purpose. Sentech will also bepreparing to migrate digital signals, and receives an increase of R113 million in the ICT Infrastructure Support programme.[5]

The national integrated ICT policy review process has made significant progress, and the department expects to table the White Paper on the National Integrated ICT Policy and the draft National Integrated ICT Bill in Parliament in 2016/17. This work is budgeted for in the ICT Policy Development subprogramme in the Policy Research and Capacity Development

[3] Estimates of National Expenditure 2017
[4] Estimates of National Expenditure 2016
[5] Ibid

programme. It also expects to develop 15 ICT position papers for international engagements over the medium term, funded in the International Affairs and Trade programme.[6]

The merger of the National Electronic Media Institute of South Africa, the eSkills Institute, and the Institute of Satellite Software Applications to form the Ikamva National eSkills Institute was initiated to address the overlap, duplication and gaps in e-skills development within and between government departments, the education sector, business and civil society. The Ikamva National e-Skills Institute is aimed at developing the local e-skills required by South Africa's ICT sector, and it will also develop ICT user skills by training people how to use electronic devices, how to use the internet, and how to access public services online. While the merger proceeds, the department is finalising the institute's founding legislation. The process of establishing the institute is supported by increased funding of R126.4 million over the medium term transferred to the National Electronic Media Institute of South Africa in the ICT Enterprise Development and Oversight programme.[7]

To ensure the growth and sustainability of the postal sector, the department will support the implementation of a strategic turnaround plan by the South African Post Office. An additional R650 million is allocated in 2016/17 for the recapitalisation of the entity, which accounts for the large increase in the budget of the ICT Enterprise Development and Oversight programme in that year.[8]

2.1 Expenditure Framework for the 2016/2017 financial year for the State Information Technology Agency (SITA)

According to the 2016 Estimates of National Expenditure, SITA 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.[9]

Modernising technology within the agency's data centres will allow it to implement, provide and support systems used by government, and enable government to consolidate its ICT investments. This is expected to allow the organisation to complete 95 per cent 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 cent per year over the medium term.[10]

[6] Ibid
[7] Estimates of National Expenditure 2016
[8] Estimates of National Expenditure 2016
[9] Ibid
[10] Ibid

Expenditure in the business operations programme is therefore expected to grow at an average annual rate of 8.4 per cent over the medium term, from R4.6 billion in 2015/16 to R5.8 billion in 2018/19.[11]

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 per cent, from R3.5 billion in2015/16 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 expected to increase to R2.8 billion in 2018/19. Total expenditure is projected to grow at an average annual rate of 5.6 per cent, from R6.2 billion in 2015/16 to R7.3 billion in 2018/19.[12]

The agency plans to align its organisational structure with its business optimisation strategy to increase capacity in order to ensure growth, encourage learning and innovation through research and development, and ensure efficiency. The agency employs 3 320 personnel, and this number is expected to increase to 3 351 over the medium term as it requires qualified technicians to provide services to the expected new clients. However, expenditure on compensation of employees is expected to decrease at an average annual rate of 0.6 per cent over the medium term, due to a planned reduction in the payment of bonuses.[13]

The agency generates revenue from funds received for IT services rendered, as stipulated in service level agreements entered into with departments and organs of state. These services include data processing, transversal systems (ICT solutions), information system security, procurement, and disaster recovery planning. Revenue is expected to grow by an average annual rate of 5.9 per cent over the medium term from R5.7 billion in 2015/16 to R6.8 billion in 2018/19.[14]

3. 3rd Quarter Performance of the Department of Telecommunications and Postal Services

According to the 2016/2017 3rd Quarter performance report for the Standing Committee on Appropriations, the Department of Telecommunications and Postal Services had a total available budget 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.[15]

[11] Estimates of National Expenditure 2016
[12] Estimates of National Expenditure 2016
[13] Ibid
[14] Ibid
[15] Standing Committee on Appropriations 3rd Quarter Expenditure Report 2016/17 Financial Year

For the period April to December 2016, the department spent R1.79 billion or 74.2 per cent of the available budget. This is lower than the projected expenditure of R1.86 billion up to the end of this period and is due to lower than projected expenditure in compensation of employees, goods and services and transfers and subsidies.[16]

The expenditure amount includes transfers of R650 million and R240 million to the SA Post Office for the recapitalisation of the company and to cover distribution costs for the broadcasting digital migration respectively. There was also a transfer of funding of operational costs for National Electronic Media Institute of South Africa (NEMISA) (R37.2 million), Universal Service and Access Agency of South Africa (USAASA) (R51.8 million) and Universal Service and Access Fund (USAF) (R42.5 million). All transfer of membership fees to international organisation was also made.[17]

3.1 3rd Quarter Performance of SITA

According to a submission to the Committee by SITA on its 3rd Quarter performance the following can be reported[18]:

Performance Targets

- The projected annual performance is 88 per cent.
- 48 per cent of the performance measures are currently performing well and will be achieved.
- 40 per cent of the performance measures are currently not performing well but have a high likelihood of being achieved
- Interventions to close the performance gap are being implemented and progress is monitored on a weekly basis.
- 12 per cent of the corporate targets will not be achieved as planned, new tactics are being defined to ensure the achievement of the overall strategic objectives.

Financial Matters

- Revenue forecast for the year will be less by R400m taking into account the under-performance at the end of November 2016 (R306m). The associated costs have also been adjusted accordingly. This will result in an overall gross margin of services revenue gross margin of 16.8 per cent
- Training expenses will be spent at 50 per cent of the Annual Performance Plan (R24m).
- Depreciation is assumed to end up at two thirds of the Annual Performance Plan amount.

[16] Ibid
[17] Estimates of National Expenditure 2016
[18] Submission to the Committee by SITA on its 3rd Quarter performance

- CAPEX is assumed to be spent at R331m of the budgeted R497m in the APP. An amount of R228mm needs to be catered for CAPEX still to be spent.
- This entails that cash is available to fund these acquisitions.
- A Bad Debt provision of R40m (based on the November 2016 361+ days bucket) has been raised, given the current collection trends

- The revenue for the quarter amounted to R1.348 billion, which is R56.7 million (4 per cent) below the budget of R1.404bn.
- The year to date revenue amounted to R4.462 billion which is R276.9 million below the budget.
- To date the tariff increases have not been formally approved and the budget assumed a 6 per cent increase in the tariff which would impact the Service Revenue. The assumed 6 per cent increase in the tariffs contributed approximately R200m to the total year to date services revenue shortfall of R370m.

- Cost of sales (year to date) is R260.5m below budget which is in line with the shortfall in revenue resulting in the gross margin for Services Revenue being in line with the budgeted gross margin of 22 per cent. The agency gross margin achieved for the 9 months ended 31 December 2016 is 7 per cent.
- In order to address the underperformance in service revenue, remedial action plans have been developed by the Deputy Chief Executive Officer: Service Delivery. This includes the Prioritisation of filling the recoverable vacancies that contribute towards the generation of revenue.
- Delays experienced with tenders are being addressed with the revised Bid specification review committee and quality reviews

- Trade and other payables decreased by R51m due lower service delivery expenses and lower accruals compared to year end. This balance includes an amount of approximately R125m that relates to credit notes (for invoices that have been paid) that are due to SAPS that spans numerous financial years. It is likely that this amount will be refunded back to National Treasury before the conclusion of this financial year.
- Total trade and other receivables amounted to R1.189bn as at 31 December 2016 compared to the provinces make up R431m of the total outstanding debtors book which is disproportionate of their contribution to revenue and there are some concerns as to the ability of some of these clients to pay. A task team has been set up, under the direction of the DCEO and the CFO, between Customer Relations Management (CRM), Operations and Finance to reduce the debtor’s balances to the PFMA level by year end.R1.038bn as at 31 March 2016.
- The cash balance at the end of December 2016 amounted to R1.118bn. A positive cash flow from operations has been realised for the first time this financial year as at end December 2016. The free cash flow position however (the ability of the company to generate cash from core operations and to fund its capital expenditure) is still a cause for concern.

4. Concluding Remarks: What to expect from SITA in 2017/2018

In terms of the Expenditure Framework, the 2017 Estimates of National Expenditure states that the agency's focus over the medium term will be on collaborating with the Department of Telecommunications and Postal Services in the implementation of phase 1 of the South Africa Connect programme, which intends to provide broadband connectivity to 6 135 government institutions and 4 983 for schools across eight district municipalities.[19]

Furthermore, the agency will by 2019/20 implement 75 e-services, which provide access to government services online. It will also work with National Treasury in driving supply chain reforms by rolling out g-commerce components to 33 per cent of government departments. The agency will also upgrade and invest in ICT infrastructure through the consolidation and modernisation programme. To plan for this, a business case is expected to be approved and the tender awarded by 2017/18 for implementation. These activities are in the business operations programme, increasing at an average annual rate of 5.6 per cent.[20]

The agency intends to spend R1.5 billion on its capital expenditure plan to upgrade its internal ICT infrastructure and build internal capacity. In addition, the projected surpluses of R845 million over the medium term will be used for business re-engineering. The total compensation budget is projected to decrease to R2.1 billion in 2019/20 from R2.2 billion in 2016/17, at an average annual rate of 2.3 per cent. The agency has 3 280 staff members in 2016/17 which will be reduced to 3 257 in 2019/20 because of natural attrition and vacant posts that will not be filled.[21]

The Committee through oversight, will continue to monitor the activities of both the Department and its entities

5. References

[19] Estimates of National Expenditure 2017
[20] Ibid
[21] Ibid

Estimates of National Expenditure 2016: Vote 32 Telecommunications and Postal Services. Available from: http://www.treasury.gov.za/documents/national%20budget/2016/enebooklets/Vote%2032%20Telecommunications%20and%20Postal%20Services.pdf (Accessed 11 August 2017).

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