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Overview of the 2016/2017 3rd Quarter Performance Report of the Universal Service and Access Agency of South Africa (USAASA) and the Universal Service and Access Fund (USAF)

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 two entities of the Department of Telecommunication and Postal Service (the Department), namely the Universal Service and Access Agency of South Africa (USAASA) and the Universal Service and Access Fund (USAF).

1.1 Mandate of the Department

The Department of Telecommunications and Postal Services is mandated to develop Information and Communication Technology (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 underserved 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 legislation²:

- 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 National Treasury Estimates of National Expenditure 2017

² Ibid

2. Expenditure Framework of the Department 2016/2017

According to the 2016 Estimates of National Expenditure, the 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.³

As South Africa migrates to digital broadcasting, the Department 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 be preparing to migrate digital signals, and receives an increase of R113 million in the ICT Infrastructure Support Programme.⁴

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 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.⁵

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.⁶

³ Estimates of National Expenditure 2016

⁴ Ibid

⁵ Ibid

⁶ Estimates of National Expenditure 2016

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.⁷

2.1 Expenditure Framework for the 2016/2017 financial year for the Universal Service and Access Agency of South Africa (USAASA) and the Universal Service and Access Fund (USAF)

2.1.1 Universal Service and Access Agency of South Africa (USAASA)

The Universal Service and Access Agency of South Africa was established in terms of section 80 of the Electronic Communications Act (2005) as a statutory body and is listed as a Schedule 3 A public entity in terms of the Public Finance Management Act (1999). Its sole mandate is to promote universal service and access to electronic communications services, electronic communications network services and broadcasting services.⁸

According to the 2016 Estimates on National Expenditure, the focus on USAASA over the medium term will be on promoting universal access to electronic communication and broadcasting services by ensuring the full utilisation of the Universal Service and Access Fund, as well as providing a platform to ensure the implementation of the fund's projects.⁹

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 South Africa Connect broadband policy, the first phase of which envisages providing schools, clinics and other government institutions with broadband connectivity.¹⁰

The fund has 63 funded posts, all of which are filled. The main cost driver in the organisation is compensation of employees, which is expected to increase at an average annual rate of 6.3 per cent, from R41.2 million in 2015/16 to R49.4 million in 2018/19, as a result of annual increases.¹¹

The agency's main source of revenue is transfers from the Department 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

⁷ Estimates of National Expenditure 2016

⁸ Ibid

⁹ Ibid

¹⁰ Estimates of National Expenditure 2016

¹¹ Ibid

this amount, R146 million will be paid to the South African Post Office, as it is tasked with managing the distribution of set top boxes and antennae, and the installation process.¹²

2.1.2 Universal Service and Access Fund (USAF)

The Universal Service and Access Fund was established in terms of section 89 (1) of the Electronic Communications Act (2005). The fund's mandate is to make payments for subsidies towards the provision of ICT equipment or services, as well as the construction or extension of electronic communications and broadcasting networks for needy person in under-serviced areas. The fund is managed by the Universal Service and Access Agency of South Africa and is financed by contributions from all telecommunications licensees, except community broadcasting licensees. The fund has no personnel as it is managed by the Universal Service and Access Agency of South Africa.¹³

According to the 2016 Estimates of National Expenditure, over the medium term USAF will focus on the rollout of subsidies to identified households for the broadcasting digital migration project, and support the South Africa Connect broadband policy, in line with the national development plan's vision of improving flows of communication and information.¹⁴

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 pay for installation costs, 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 per cent, 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 per cent from R181.2 million in 2015/16 to R287.9 million in 2018/19, accounting for a projected 83.5 per cent of total expenditure over the same period.¹⁵

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 per cent 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.¹⁶

¹² Ibid

¹³ Estimates of National Expenditure 2016

¹⁴ Ibid

¹⁵ Ibid

¹⁶ Estimates of National Expenditure 2016

The fund's main source of revenue is from transfers from the Department, 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.

3. 3rd Quarter Performance of USAASA and USAF

According to the 2016/2017 3rd Quarter 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 account for R1.1 billion of the available budget and are 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.¹⁷

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.¹⁸

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 transfers of membership fees to international organisation were also made.¹⁹

Issues for noting by the Committee reflected in the report are as follows²⁰:

- Broadcasting Digital Migration: Litigation around the control mechanism in the Broadcasting Digital Migration (BDM) project has resulted in USAASA suspending the procurement of set top boxes.
- The entity is currently in discussions with the Department of Communications (which is the policy making department) on the way forward on this matter.

¹⁷ Standing Committee on Appropriations 3rd Quarter Expenditure Report 2016/17 Financial Year

¹⁸ Ibid

¹⁹ Ibid

²⁰ Standing Committee on Appropriations 3rd Quarter Expenditure Report 2016/17 Financial Year

- USAASA has also procured set top boxes at a far higher cost than the budget allowed for, which will result in a significant budgetary shortfall once the moratorium on procurement is lifted.



4. Presentation of the 2016/2017 3rd Quarter Performance Report to the Committee by Mr Lumko Mtimde, CEO of USAASA

Strategic Objectives	KPI	Annual Target	Q3 Target	Actual Performance	Outcomes	Variance Explanation
Optimise organisational efficiency by 2021 to support the project delivery of the Universal Service Fund	Human capital training and development programmes aligned to organisational strategy	Implement the organisational Work Skills Plan (WSP)	Implement the Work Skills Plan (WSP) interventions to address identified skills gaps	Round Table Clean Audit planned training was implemented in terms of the WSP	Achieved	The target was achieved as planned
Optimise organisational efficiency by 2021 to support the project delivery of the Universal Service Fund	Optimally functional Human Resources policies and systems aligned to organisational strategy	Review and implement functional human resources policies	Review Performance & Progression policy	The Performance & Progression policy was still in a draft format at the end of the quarter under review	Not achieved	Performance & Progression policy had not yet been approved by the Board as planned in the 3 rd quarter

Optimise organisational efficiency by 2021 to support the project delivery of the Universal Service Fund	Optimally functional Human Resources policies and systems aligned to organisational strategy	Develop and Implement an HR Service Level Agreement (SLA)	Monitor and report on SLA implementation	HR SLA was not implemented during the quarter under review	Not achieved	The Human Resources (HR) SLA was approved by the Board on way of a round robin passed between the 22 nd December 2016 and the 29 th December 2016, implementation thereof will commence in the last quarter of the financial year
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Strategic Objectives	KPI	Annual Target	Q3 Target	Actual Performance	Outcomes	Variance Explanation
Ensure availability of automated and integrated business processes by 2021 to support the project delivery of the Universal Service Fund	Automated and integrated business processes	ERP system rollout an SAP capacity building	ERP System maintenance and support	<p>The delayed targets of Quarter 1 (ERP system Go-Live) were achieved in Quarter 3.</p> <p>Subsequently, the Q2 & Q3 targets for ERP support and maintenance were also achieved. This support and maintenance are for all SAP ERP systems in Dev, QA, & Production.</p>	Achieved	The target was achieved as planned

Ensure availability of automated and integrated business processes by 2021 to support the project delivery of the Universal Service Fund	Automated and integrated business processes	ERP system rollout and SAP capacity building	Capacitation of IT human resources through training on SAP Critical skills	IT Human Resources capacitated through SAP Technical Training during Quarter 3	Achieved	The target was achieved as planned
Ensure availability of automated and integrated business processes by 2021 to support the project delivery of the Universal Service Fund	Percentage availability of business systems to support USAASA and USAF business processes and operations	98.5% availability of business systems in line with the approved IT Service Level Agreement (SLA)	Monitor and Report on percentage availability of business systems	Actual percentage availability of business systems is 99.0%	Achieved	The target was achieved as planned
*Provide legally sound services to the Agency by 2021 to support the project delivery of the Universal Service and Access Fund	Number of days for providing **legal services in accordance with relevant legislation and policy	Ensure sound legal services are provided to the Agency	Promote legal compliance by providing written legal opinions and/or advice within 7 working days and drafting contracts with 21 working days from date of receipt of all relevant information	Written legal opinions and/or advice within 7 working days and drafting contracts with 21 working days	Achieved	The target was achieved as planned

Strategic Objectives	KPI	Annual Target	Q3 Target	Actual Performance	Outcomes	Variance Explanation
USAASA established as a centre of excellence for universal access and universal service market information, knowledge and expertise by 2021	Information on impact of the provision of universal access and universal service	Monitor and evaluate the impact of universal access and universal service provision on access gaps and disseminate the findings	Consolidated impact assessment report developed on the six (6) identified USAF subsidised local municipal areas developed and presented to key stakeholders	Consolidation of impact assessment report on the six (6) identified USAF subsidised local municipal areas was not done end of the 3 rd quarter	Not Achieved	The process of data analysis had not started as at the end of the quarter

<p>Positioning the Agency as a focal point for universal service and access to ICT</p>	<p>Positive messages about the Agency on media and social platforms</p>	<p>Implementation of the Stakeholder Engagement Strategy and Integrated Communications Policy</p>	<p>Implementation of the Stakeholder Engagement Strategy and Integrated Communications Policy</p>	<p>The Agency participated in four BDM Imbizo projects through Interviews, Branding and Exhibition in Limpopo, Free State and KZN. USAASA also participated stakeholder in (buy-in) engagement meetings through the Broadband project that is being rolled out in the OR Tambo District Municipality in the Eastern Cape. Buy-in meetings with Municipal managers for the District, as well as the (School) Principals forum: the Qumbu District were conducted during the quarter under review</p>	<p>Achieved</p>	<p>The target was achieved as planned</p>
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Strategic Objectives	KPI	Annual Target	Q3 Target	Actual Performance	Outcomes	Variance Explanation
Promotion of legal and regulatory compliance by 2021 to support the project delivery of the Universal Service and Access Fund	Clean administration in compliance with applicable legal and regulatory prescripts	Compliance with the Public Finance Management Act (PFMA) and Treasury Regulations Checklist for Public Entities	Monitor and report on organisational compliance with the PFMA and Treasury Regulations Checklist for Public Entities	PFMA and Treasury Regulations Compliance Checklist updated for Quarter 3	Achieved	The target was achieved as planned

4.1 Issues for Parliamentary Consideration

- The Performance & Progression policy has not yet been approved by the Board as planned in the 3rd quarter. What were the reasons for this delay?
- The Strategic Objective of USAASA being established as a centre of excellence for universal access and universal service market information, knowledge and expertise by 2021 has not been achieved because the process of data analysis has not started as at the end of the quarter. When will the data analysis commence?



5. Concluding Remarks

According to the 2017 Estimates of National Expenditure, the National Development Plan (NDP) envisages that by 2030, the ICT sector will underpin the development of a dynamic and connected information society, and a vibrant knowledge economy that is inclusive and prosperous. Drawing from this vision, the Department of Telecommunications and Postal Services contributes to outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government's 2014-2019 Medium-term Strategic Framework by ensuring that ICT infrastructure and services are accessible, affordable, robust, reliable and secure. Over the medium term, the department will expand and modernise ICT infrastructure by implementing the South Africa Connect broadband policy, coordinating the migration to digital broadcasting, and implementing the legislative framework stemming from the 2016 National Integrated ICT Policy White Paper.

In terms of the Expenditure Framework, the 2017 Estimates of National Expenditure states that USAASA's total budget for 2017/18 is R75.7 million. In addition, in terms of the USAF, the 2017 ENE states that the total budget for 2017/18 is R133.7 million. Despite the expenditure ceiling imposed by National Treasury, USAASA and the USAF remain priorities of the Department.

6. References

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).

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

Standing Committee on Appropriations 3rd Quarter Expenditure Report 2016/17 Financial Year