

Report of the Portfolio Committee on Telecommunications and Postal Services, on its deliberations on Budget Vote 32: Telecommunications and Postal Services, and its Entities, Dated 16 May 2017

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) emphasises the need for access to Information and Communications. Accessibility, availability and affordability of communications has consistently been a national priority and has been seen as a means of improving socio-economic development, increasing economic productivity and increasing cohesion, amongst others. Although the country has achieved a significant infrastructure development and a strong economy relative to its regional peers, the majority of citizens are still low income earners and, therefore, the high cost of electronic communications remains a concern. The countrywide access to electronic communications infrastructure and relevant content also remains a challenge. As the sector develops, and as the nation faces the potential challenge of not just a “digital divide” but a “broadband divide”, additional issues such as e-literacy, e-skills and awareness of the use and benefits of communication, despite the platform, becomes key.

Despite a considerable global progress within the Sector, 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. The high cost of domestic broadband remains a major hindrance. Therefore, South Africa needs to sharpen its innovative edge and continue contributing to global scientific and technological advancement. This will require a greater investment in research and development, better use of existing resources, and more agile institutions that facilitate innovation and enhanced cooperation between public science and technology institutions and private sector.

2. Introduction

The Portfolio Committee on Telecommunications and Postal Services considered the 2017/18 budget of the Department of Telecommunications and Postal Services (DTPS) on 2 May 2017. 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 Annual Performance Plan of the Department and its entities on 2 May 2017. In performing its constitutional mandate, the committee scrutinised the alignment of the department and its entities Annual Performance Plans (2017/18) to the following key government objectives:

- (i) 2017 State-of-the-Nation Address (SoNA);
- (ii) 2017 Budget Statement;
- (iii) Government's five priorities i.e. health, education, employment, rural development, and fighting crime and corruption; and
- (iv) Recommendations made in the National Policies Framework such the NDP, National Growth Path (NGP), Industrial Policy Action Plan (IPAP) and SA Connect.

The committee was briefed on the 2017/18 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;
- NEMISA;
- Broadband Infracore; 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 through the National Assembly 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 legislation 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 regarding 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 DTPS

The department has certain core functions, most of which have been legislated 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 2017/18 Financial Year Quarterly Expenditure Trend of the Department

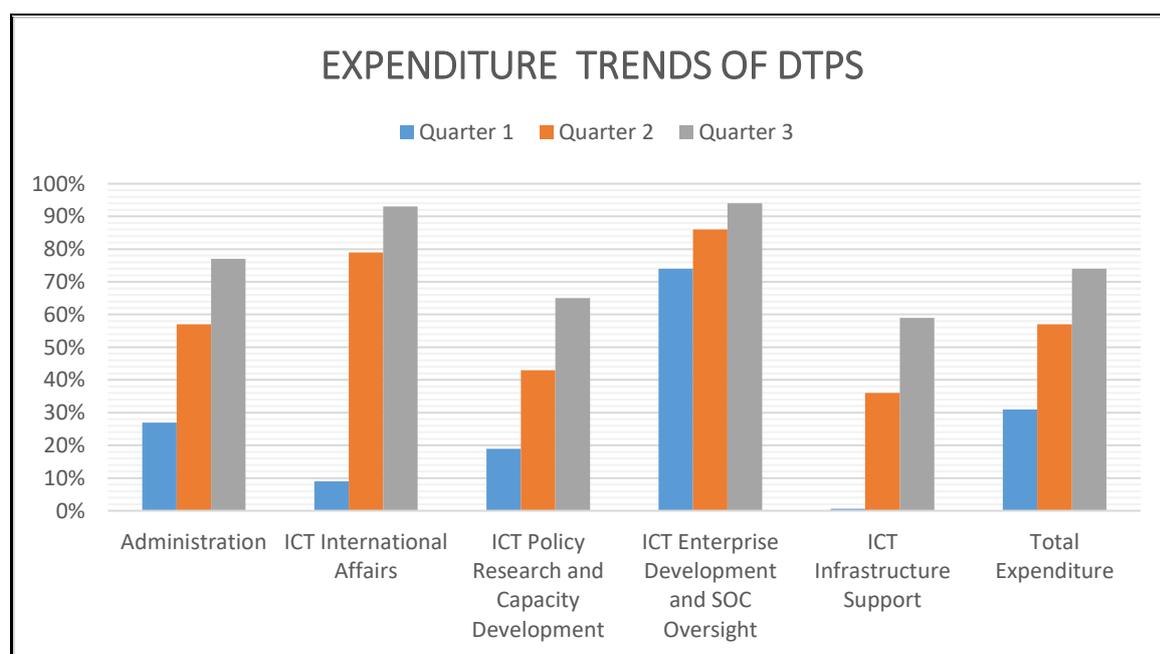
Table 1 below paints a picture of how each programme performed from the First to the Third Quarter of the 2016/17 financial year while figure 1 depicts the same quarterly expenditure of the department.

Table 1: Performance per Programme per Quarter

Programme	Quarter 1	Quarter 2	Quarter 3
Administration	27%	57%	77%
ICT International Affairs	9%	79%	93%
ICT Policy, Research and Capacity Development	19%	43%	65%
ICT Enterprise Development and SOC oversight	74%	86%	93%
ICT Infrastructure Support	1%	36%	59%
Total Expenditure	31%	57%	74%

Source: National Treasury (2016-2017)

Figure 1: Performance per Programme per Quarter



5.1.1. First Quarter Expenditure

The DTPS had a total main budget appropriation of R2.4 billion for the 2016/17 financial year. For the period April to June 2016, the department spent a total amount of R739.3 million or 31% of the available budget. This was lower than the projected expenditure of R965.5million up to end of this period.

Transfers and Subsidies account for R1.1 billion of the available budget and were mainly to departmental agencies and accounts and public corporations and private enterprises. At the end of the quarter, there was a small total spending of R100 000 made for transfers and subsidies (R86 000 to households for leave gratuities, R7 000 for payments for license renewals, and R9 000 for gifts and donations given as act of grace (condolences given to bereaved staff members) and R1 000 to a private company for a claim against the state). The department did not make any transfers to Public Corporations and Departmental Agencies. This is due to the fact that in order to ensure effective monitoring on utilisation of funds allocated to entities and to foster accountability, DTPS requires that entities submit with each request the performance report regarding the utilisation of the previously transferred funds. Insufficient information was received from various entities in this regard leading to delays in payment for transfers and subsidies hence the under-spending during this quarter.

Payments for financial assets accounted for R650 million of the available budget and is allocated for the recapitalisation of the South African Post Office (SAPO). The department made this transfer to SAPO in April 2016.

5.1.2. Second Quarter Expenditure

For the period 1 April to September 2016, the department spent R1.38 billion or 57% of the available budget. This was R51.3 million lower than the projected expenditure of R1.43 billion been 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.

5.1.3. Third Quarter Expenditure

For the period 1 April to 31 December 2016, the department spent R1.79 billion or 745 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.

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.

Summary of Quarters 1, 2 and 3

The largest element of operational expenditure in the 2015/16 financial year from quarter 1 to 3 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

6.1.1. Overview by the Minister

The Minister articulated that the South African government had taken a decision to make Information and Communication Technology (ICT) central to the developmental and transformation agenda of the country. The National Development Plan (NDP) identified the ICT industry as one of the key sectors that will foster economic growth.

The Minister further highlighted that, in the 2017 State of the Nation Address, President Jacob Zuma directed government to pursue, “fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are black African and female, as defined by the governing party which makes policy for the democratic government”. The problem of diminishing resources presents a unique opportunity to come up with innovative solutions to continue to deliver services in an environment that demands the creative use of resources. It is in this environment that ICTs can play a pivotal role.

He further highlighted that the work to modernise the SAPO was aimed at facilitating financial inclusion of the citizens who are currently unbanked and making the Post Office a platform to deliver more government services, especially in rural areas.

The Minister informed the committee about the climate and culture survey conducted in the department has highlighted various interventions that the department is building into an implementation plan that we will monitor to ensure development of a culture of selfless service delivery in the Department.

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

In his ninth SoNA, President Jacob Zuma said: “Government will also continue to pursue policies that seek to broaden the participation of black people and SMMEs, including those owned by women, people with disabilities and the youth, in the ICT sector”¹

The President mentioned that in this 23rd year of freedom, government’s mission remained the quest for a united, democratic, non-sexist, non-racial and prosperous South Africa. The President further said that, “*Guided by the National Development Plan (NDP), we are building a South Africa that must be free from poverty, inequality and unemployment.*”²

He said, while the global economic environment remained uncertain, indications were that the country had entered a period of recovery, with an anticipated economic growth rate of 1.3% in 2017 following an estimated 0.5% growth rate in 2016. The President acknowledged that the economy was still not growing fast enough to create much-needed jobs, especially for the youth.

The focus areas of the Nine-Point Plan was to reignite the economy in order to be able to create much-needed jobs through industrialisation, mining and beneficiation, agriculture and agro-processing, energy, small, medium and micro enterprises (SMMEs), managing workplace conflict, attracting investments, growing the oceans economy and tourism.

6.1.3. National Development Plan and SA Connect

In accordance with the outcomes-based performance management framework adopted by the government, the DTIS mandate of the department is 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 the 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.

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

¹ SONA (2017)

² SONA (2017)

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. 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 2017/18

According to the APP 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; and
- 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.

7.1.1. Broadband

In South Africa there is limited high speed and high quality bandwidth, especially in rural and some urban areas, which is required by all sectors of business and institutions. This has negatively impacted the country's development and global competitiveness. Over the past decade the ICT sector has exponentially grown but has however not been accompanied (in some areas) by the 'realisation' of the primary policy objective of

providing universal access across all communication services. The slow roll out of fixed broadband services, unavailability of appropriate spectrum due to the failure to meet the international deadline for analogue signal switch off, and stalled programme to convert to Digital Terrestrial Television has led to mobile broadband being rapidly adopted as a primary form of access.

Based on the broadband gap analysis conducted by CSIR in 2014, it was identified that 70% of all government sites are within a 10km radius of a fibre access node, thus implying that the major infrastructure gap is related to the access network. The remaining 20-30% of sites are further away from an access point, thus requiring extension of the core network.

To address this gap, the department's key objective will be to provide access to quality, affordable and safe ubiquitous high-speed broadband. To achieve this objective the department prioritised the provision of broadband connectivity to 8 districts as part of Phase 1 of the implementation of SA Connect, however this target was not achieved. The lack of progress is largely attributed to the delays in the appointment of the broadband connectivity service provider via the SITA tender as the bidders did not meet the technical specifications as required. This delay had negatively impacted on the implementation of Phase 2 of the broadband connectivity programme. Going forward, the department will finalise the appointment of the connectivity service provider in order to roll-out broadband in a phased approach over the medium term which will also lead into the second phase of the programme. The 2017/18 priority will focus on the implementation of phase 1 in the 8 identified districts while planning for phase 2 through engagements with funding institutions and development partners.

7.1.2. National Integrated ICT Policy White Paper

With regard to the ICT Policy environment, South Africa until recently had distinct and separate policy frameworks for the various ICT subsectors inclusive of telecommunications, broadcasting and postal amongst others. Given that we are in an era of convergence of information and communication technologies and platforms, the National Integrated ICT Policy White Paper was developed to respond to the development of converged technologies, digitisation, the increasing use of the Internet, and how South Africans communicate, work and interact with Government. The White Paper is a strategic instrument to contribute to the implementation of the National Development Plan as it introduces a range of interventions to ensure all South Africans/citizens, irrespective of where they live or their socio-economic status, can access the benefits of participating in the digital society.

Following the Cabinet approval of the National Integrated ICT Policy White Paper in September 2016, the Department plans to focus on the phased implementation of the White Paper over the medium term with specific priority being given to the drafting of identified Bills such as the Digital Development Fund, ICT Economic Regulator and amendments to the ECA. Drafts will be ready for Socio-Economic Impact Assessment System tool (SEIAs) and public participation by end March 2018..

7.1.3. National e-Strategy and e-government

The NDP identified the need for a National e-Strategy, that cuts across government departments and sectors of the economy; energy, science, education, and health. The National e-Strategy should stimulate demand by promoting e-Literacy, stimulate sector growth and innovation by driving public and private ICT investment, especially in network upgrades and expansion (particularly in broadband) and development of local content and applications.

The socio-economic situation of South Africa requires the South African government to look for efficient and cost effective means to provide service delivery to the citizens through the use of electronic government. The e-Government initiative provides an enormous opportunity to deliver government services without having to rely on manual processes that require human intervention. Therefore, as part of the development of a National e-Strategy, the DTSP is also developing a National e-Government Strategy which articulates the overall aim and objectives as well as sets out the strategic initiatives, which will be prioritised in order to achieve a mature delivery of e-Government services. Therefore the implementation of the e-Strategy was essential for the transformation and modernization of public service delivery.

The Department had undertaken extensive work in developing a coherent National e-Strategy which will also provide a clear direction for the implementation of e-Government in the public service.. Specific focus in 2017/18 financial year will be on finalising and implementing the National e-Strategy.

7.1.4. SOC Rationalisation

President Jacob Zuma established the Presidential Review Committee (PRC) to strengthen the role of SOEs to ensure that they respond to public mandate and support the developmental goals of Government. In line with the PRC recommendations, the DTSP through the ICT SOC rationalization project, seeks the alignment of ICT SOEs in order to achieve the developmental objectives and aspirations of South Africa. Furthermore, the NDP calls for the review of the market structure, the analysis of the benefits and cost of infrastructure duplication and the need for a common carrier network that will ensure delivery of ICT services to the citizens.

The PRC and the NDP noted several challenges, amongst others, related to extensive duplications within the government portfolio of State Owned Enterprises leading to inefficiencies and wastage of scarce financial resources coupled with poor governance and a lack of clear understanding of their mandates in context of a developmental state. The ICT White Paper further states that all State Owned Companies and entities within the DTSP portfolio should be rationalised in line with the proposal in the national broadband plan (as informed by the SA Connect). Following the development of the SOC Rationalisation Report and its recommendations, the Department will over the short to medium term focus on implementing harmonisation of SOCs to establish a State IT Company and a State Infrastructure Company.

7.1.5. Corporatisation of the Postbank

A critical element to economic development and financial inclusion was the availability and access to financial services to under-serviced areas and the unbanked population of South Africa. Therefore the Corporatisation of the Postbank was a key priority for Government and has been on the agenda of the DTSP in the recent past. The focus of the Postbank will largely be on implementing the developmental agenda of the country. Due to the complex nature of the corporatisation process, the project has taken longer than anticipated.

The authorisation for licence application was granted in July 2016 by the South African Reserve Bank, for SAPO's application to establish a bank in terms of Section 12 of the Banks Act. The Department will facilitate the corporatisation of the Postbank as a strategic priority in the 2017/18 financial year and support the submission of the final application for the banking licence while also providing oversight in the medium to long term to ensure the growth and sustainability of the Postbank.

7.1.6. Cybersecurity

Cyberspace comes with new types of challenges to governments and other stakeholders in the form of cybersecurity. It was a borderless platform that enables more sophisticated threats such as cybercrime, cyber terrorism, cyber war and cyber espionage. For this reason, the cyber threats need to be addressed at both the global and national levels. Government, working with other role players has a duty to protect our nation from cyber-attack and protect children. Government must therefore focus on enabling citizens to protect themselves online.

The department had therefore adopted a phased approach which will lead to the establishment of a fully-fledged Cybersecurity Hub. In October 2015, the department established a Cybersecurity Hub, with limited functionality, in support of a secure cyberspace in the interest of citizens, private and public sectors. In the medium term, the department will focus on establishing a fully operational Cybersecurity Hub that will provide a full bouquet of required services. For the 2017/18 financial year, focus will be on supporting and monitoring the operations of the existing Cybersecurity Hub.

7.1.7. ICT SMME Development

The department had developed an ICT SMME strategy so as to create a substantial number of internationally competitive, dynamic, innovative, technologically driven sustainable ICT SMMEs that significantly contribute to the country's developmental priorities. Over the medium term, the department will focus on facilitating the implementation of the ICT SMME Strategy with specific focus in 2017/18 on finalising and commencing with the implementation of the ICT SMME Strategy.

7.1.8. International Engagements and Partnerships

Government will focus on international engagements and partnerships to encourage investment in ICT skills, local manufacturing of ICT equipment, capacity building and

access to finance to support the ICT sector and the NDP goals. To achieve the above, the department will engage with key partners and stakeholders to promote trade and investment so as to improve competitiveness of the economy.

7. Budget Analysis of the Department 2016/17

7.1. Expenditure Analysis

Table 1 below gives a brief summary of the allocated budgets and the comparisons between the previous (2016/17) and the current (2017/18) financial year. There are downward adjustments on some of the programmes such as Programme 1, Programme 4 and Programme 5 which have been adjusted from R207 million to R194 million, R886 million to R251 million and R1.1 billion to R1.03 billion respectively.

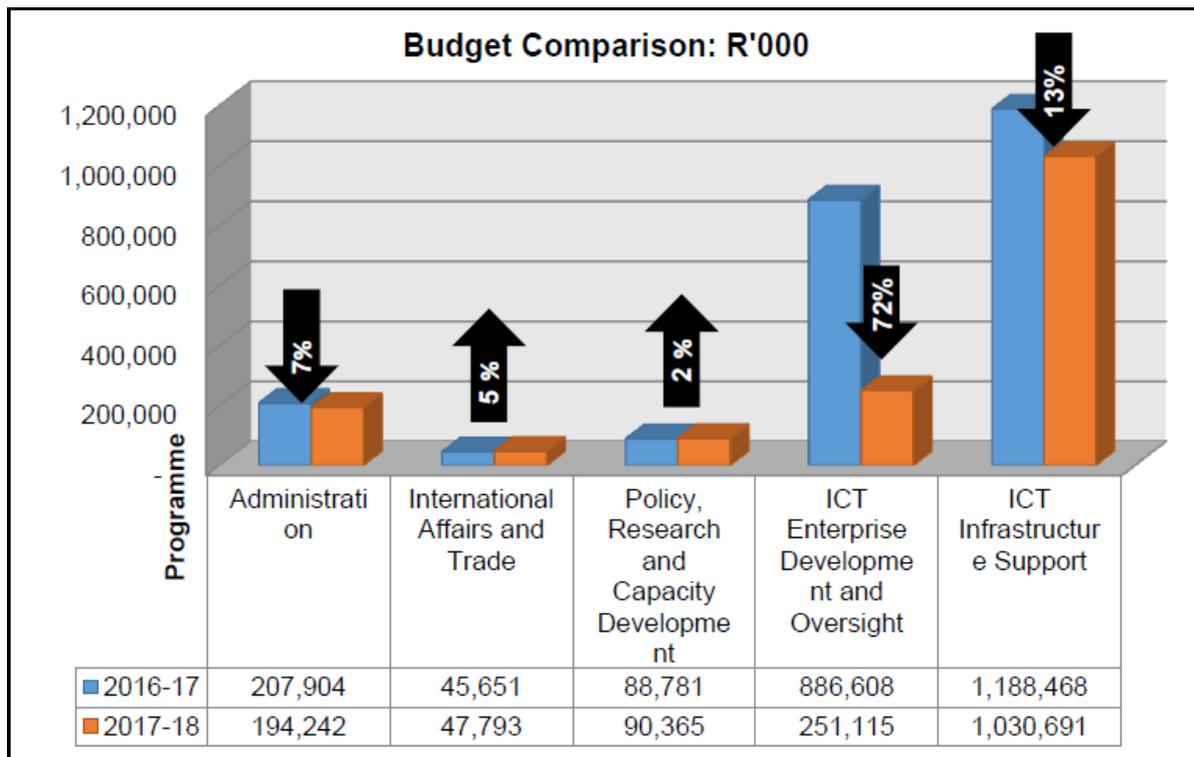
Table 2: Overall Budget – Telecommunications and Postal Services

Budget summary						
R million	2017/18				2018/19	2019/20
	Total	Current payments	Transfers and subsidies	Payments for capital assets	Total	Total
MTEF allocation						
Administration	194.2	186.7	-	7.6	206.3	219.2
International Affairs and Trade	47.8	21.9	25.5	0.4	50.2	53.2
Policy, Research and Capacity Development	90.4	89.8	-	0.6	95.2	101.7
ICT Enterprise Development and Oversight	251.1	33.8	216.1	1.3	265.2	280.5
ICT Infrastructure Support	1 030.7	463.4	565.1	2.2	1 110.7	1 174.1
Total expenditure estimates	1 614.2	795.5	806.7	12.0	1 727.5	1 828.8

Source: Data from ENE, 2017

The figure 2 below shows a comparative analysis of the vote allocation in the 2016/17 financial year and 2017/18. The bulk of the budget, as illustrated in figure 2, was allocated programme 4 and 5. These two programmes received R251 million and R1 billion in the 2017/18 financial year respectively. In comparison, these two programmes received R886 million and R1,1 billion in the 2016/17 financial year.

Figure 2: Budget Comparison 2016/17 and 2017/18



The National Development Plan (NDP) envisaged 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 DTSP seeks to contribute 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 plans to 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. The department oversees state-owned companies within its portfolio to ensure that they grow sustainably, fulfil their mandates and are aligned with broader government objectives. An estimated 41% of the department’s total budget will be transferred to these entities over the medium term to cater for operational expenditure and specific projects such as digital migration. Spending in the Public Entity Oversight subprogramme in the ICT Enterprise Development and Oversight programme is expected to amount to R757 million over the medium term. A once-off sum of R650 million in 2016/17 for the recapitalisation of the South African Post Office resulted in spending in this programme increasing to R886.6 million in that year.

The department will focus on completing a review of its organisational structure over the medium term, in line with its revised mandate, strategic goals and objectives. This

review will take into account Cabinet-approved reductions in the budget for compensation of employees over the period. Figure 6: Department's allocation for 2017 and 2015/16 per Programme.

7.2. Programmes Analysis

Connecting South Africa

The department's broadband policy places emphasis on ensuring connectivity in underserved areas, prioritising schools, health facilities and other government institutions. A key focus of the department over the medium term will be on project managing and coordinating the implementation of the first phase of South Africa Connect broadband policy by rolling out broadband services to an estimated 6 135 government institutions and 4 983 schools. An amount of R1.9 billion is allocated for this in the ICT Infrastructure Support programme over the medium term on account of the increased budget for consultants and agency support.

Coordinating digital migration

South Africa was given until June 2015 to meet the International Telecommunications Union's deadline to switch off analogue transmitters as part of the broadcasting digital migration project. However, the project has been delayed following a court ruling that declared part of the digital migration policy unlawful and invalid, and effectively placed the manufacture of digital terrestrial television set-top boxes on hold. As a result of the delay, Sentech will continue to maintain both the analogue and digital platforms until the issue is resolved. An amount of R193 million has been reprioritised in 2017/18 from the allocation for subsidies for set-top boxes to Sentech to cover dual illumination costs. The South African Post Office is set to receive R240 million in 2017/18 for the distribution of approximately 1.8 million set-top boxes, including registering households qualifying for the subsidy. An amount of R176.4 million is allocated to Sentech for expenditure related to the migration of digital signals over the medium term. Spending on these activities is expected to amount to R1.3 billion over the medium term in the Digital Terrestrial Television subprogramme in the Infrastructure Support programme.

Implementing ICT policy

Following Cabinet's approval of the 2016 White Paper National Integrated ICT Policy, the department will focus on the ongoing legislative processes to implement the recommendations of the white paper. The department will also facilitate and coordinate the implementation of the national e-strategy to realise the e-services programme. Finalising a national e-strategy will plan for the digital transformation of South Africa to achieve the ideals of the NDP by prioritising sectoral electronic services such as e-health, e-agriculture and e-education. To give effect to these activities, spending in the *Policy, Research and Capacity Development* programme is expected to amount to R287.2 million over the medium term.

8. Observations and Recommendations to the Minister

Having considered the APP and budget for the Department, the committee noted the following observations and recommendations:

8.1. Observations

- The committee was concerned with some of the cost escalations such as computer services and emphasised the importance of cost containment.
- The committee highlighted the importance of the development and involvement of the small businesses within the distribution value chain in the sector.
- The committee raised a concern on the proposal to establish 2 new companies, ICT Infrastructure and State IT Company, and wanted to know the details of how this would be done, over what timeframe, at what cost and how duplication of functions would be avoided as SITA existed and was already carrying out the mandate of the state IT services.
- The committee noted that the priority legislation did not include rapid deployment guidelines as set out in the white paper which is very critical for the success of co-ordinated broadband rollout across all three spheres of government jurisdiction.
- The committee noted the indication that the SOEs will play a leading role on the implementation of the SA Connect and members raised reservations as most of the SOEs did not have strong balance sheets and would not have the capacity to roll out the project.
- The committee raised a concern that DTT is a critical project in delivering wireless broadband, particularly to rural South Africa, but none of the targets in the APP was related to DTT.
- The committee wanted to know if the recommendations from the cost to communication report had been considered and queried on whether any of the APPs had been linked to those recommendations.
- The committee noted that the budget allocation for consultants had escalated and members sought an explanation from the Department
- The cost of training and entertainment were also increased considerably and the committee registered a concern on cost escalations.
- The committee raised a concern on whether there was enough capacity given that there were additional indicators compared to the previous APP.

8.2. Recommendations

- Ensure that cost containment was always considered when the APP and budget get prepared.
- Ensure that the proposed legislation included all other proposed policies such the rapid deployment guidelines which were quick wins to ensure a turnaround time during the implementation of broadband network.
- Ensure that the recommendations from the cost to communication report were considered and given a priority and this will have to form the operational KPIs of the Department.

- Ensure that small businesses are actively involvement during the procurement and implementation of major projects such DTT and the Broadband rollout.
- Ensure that there was enough capacity to for the successful implementation of the KPIs including additional Indicators.
- Ensure that the corporate governance issues on the number of board members for .ZADNA is resolved urgently.

9. 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.

9.1.SA Post Office (SAPO)

The SA Post Office is a schedule 2 public entity established regarding the Public Finance Management Act (1999). 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.

SAPO will grow revenue with the introduction of revised products and services offerings that will offer increased value to customers.

Cost reductions will be realised by increasing **operational efficiencies** across the organisation. Particular focus will be paid to standardisation and innovation amongst core business processes and systems. SAPO is rethinking all aspects of its logistics systems, including mail processing, material handling, purchasing, and managing transportation services as it works to drive down costs and increase efficiencies.

To enhance a performance-based culture, SAPO will embark on reskilling and rebuilding lost capacity as well as designing the performance incentives and workplace environments for all employees. During 2017, SAPO will implement a revised operating model and streamline its business support services.

SAPO strategic focus areas for the 2017/18 financial year will be the following:

- Revenue growth;
- Optimising the Cost Base;
- Rebuilding Operations and become Operationally Efficient;
- Become a Performance Driven Organisation;
- Become the face of Government; and
- Stakeholder engagement.

10.1.1. Expenditure Analysis of SAPO

To meet the demands of government's social mandate to provide postal services to areas that were historically neglected, the SAPO will continue to focus on providing universal access to postal and related services. The entity will also implement a turnaround strategy and revenue growth plan to improve productivity and return to consistent delivery standards to restore customer confidence. Over the medium term the organisation will increase the number of addresses to allow for wider access to postal and financial services in the underserved areas. The organisation expects to roll out 1.5 million community addresses over the medium term to enable both new communities and existing communities without street or postal addresses to receive mail and to have a verifiable address. It also plans to maintain the 2 357 points of presence per annum (which include post offices, mobile units and retail postal agencies). Spending on these activities is allocated to the mail, retail and e-business programme, which is projected to spend R5.8 billion by 2019/20.

SAPO will finalise the process of converting Postbank into an independent commercial company to meet South African Reserve Bank requirements to operate as a bank by 2017/18. The process entails obtaining a licence to operate and registering Postbank with the Companies and Intellectual Property Commission as a state-owned company. Expenditure in the programme for Postbank is expected to increase over the medium term from R383.5 million in 2016/17 to R616.5 million in 2019/20, at an average annual rate of 17.1%, with the main cost drivers being compensation of employees, interest, and depreciation and information technology costs.

SAPO is tasked with managing the distribution of subsidised set-top boxes and antennae to 5 million qualifying households for the broadcasting digital migration project and will receive R240 million over the medium term for this purpose. It will also distribute subsidies to 5 million qualifying households.

Over the medium term, the SAPO will continue to implement the turnaround strategy and revenue growth plan. The plan calls for growth in and the diversification of revenue streams in financial services for underserved areas and e-commerce. The post office will also reduce its funded establishment from 21 798 in 2016/17 to 19 632 posts over the medium term as part of the turnaround plan. The reduction in personnel is not anticipated to affect the organisation's performance. Expenditure over the medium term is projected to increase by 3.8% from R8 billion in 2016/17 to R8.9 billion in 2019/20. The main cost drivers in operating expenditure are compensation of employees (which comprises 47.8% of total expenditure over the medium term) and to a lesser extent, transport and property costs. Property costs are expected to decrease as contracts are terminated and renegotiated as the network of branches is rebalanced over the next three years.

The organisation generates its revenue from the provision of postal services, courier services, as well as from interest income and financial transaction fees. Revenue growth over the medium term is forecasted at 18.3% due to increased revenue opportunities in the government sector and the unreserved market, expanding services such as the

renewal of motor vehicle licenses and reacquisition of clients that were lost during the period of the strike in 2014/15. The most substantial growth in revenues is expected to come from logistics and parcels because of reforms to improve operations; and the wider range of services offered at the Courier Freight Group, a wholly owned subsidiary of the post office. The projected surplus for the 2017/18 is R514 million and will be used to fund operations and capital investments.

SAPO has highlighted that it is currently over geared and unless it receives a capital injection to significantly lower its debt equity ratio. SAPO will spend over R 2 billion in interest over the next 6 years. SAPO is targeting a 50-50 debt-equity ratio, to ensure an appropriate capital structure.

It is anticipated that a significant portion of current debt funding will be replaced with equity funding from government as a means of reducing the interest burden on SAPO. The corporate plan assumed that 2.7 billion of equity injections would be received in equal tranches of R1.35 billion in each of the 2017 and 2018 financial years, however, due to the current fiscal challenges, SAPO will not be receiving an allocation in the 2017 financial year budget.

10.1.2. Observations and Recommendations for SAPO

Having considered the Annual Plan and budget for SAPO, the committee noted the following observations and recommendations:

10.1.2.1. Observations

- The committee commended SAPO for its progress in its turnaround strategy and the stabilisation of its labour force. The committee observed that to that extent staff now have real sense that they play an important role in the stabilisation of the SAPO.
- The committee raised concerns as it recently noted on its oversight visit to Gauteng that the conveyer belt at the Johannesburg International Mail Centre (JIMC), which was quite costly, was not in operation.
- The committee notes that SAPO has identified 58 properties to the approximate value of R78 million to be sold.
- The committee notes that SAPO's strategic themes are to grow revenue, reduce costs, improve operational efficiencies and have a performance based culture with stakeholder engagement and adherence to governance and compliance. SAPO would have to manage its business differently to compete and therefore the committee welcomed the development of an "Uber" type courier service to aid in this process.
- The committee notes that mail revenue has changed and that revenue for letters is declining and revenue for small parcels is growing.
- The committee enquired as to how SAPO would finance its medium term universal service obligations.
- The committee notes the section 13 approval for the establishment of a Postbank was granted in July 2016, the Postbank Board was appointed in March 2017 and the company incorporation documents lodged. SAPO would still have to address the banking structure and legislative conflict issue as well as the transfer of its staff and

operations to the new entity once the banking license have been obtained. The committee further notes that SAPO would not be profitable if Postbank was to be removed.

10.1.2.2. Recommendations

- Ensure that the conveyer belt at its Johannesburg International Mail Centre (JIMC) becomes fully functional.
- Ensure that it improves its quality of service to customers by minimising the amount of goods that goes missing and that mail despatched on behalf of customers reaches its destination.

10.2. SENTECH

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.

- Develop and execute a strategic sourcing plan to realise maximum value from the capital expenditure programme and operating expenditure;
- Pursue opportunities to diversify revenue streams both locally and in the African continent – this will include strengthening the Business Development part of the business;
- Identify possible acquisition targets which will assist with growing the business and diversification;
- Develop a funding plan (including borrowings) for acquisitions and consider options around funding of capital expenditure;
- Accelerate the activities aimed at creating a high-performance organisation;
- Review organisational structures with the intention of creating an agile and competitive Company;
- Disciplined execution of the capital expenditure programme; and
- Innovation and efficiency in the delivery of services.

10.2.1. Expenditure Analysis of Sentech

During the MTEF period, the company will increase capital expenditure, funded mainly from its own funds, for the expansion of the radio network and improvement of existing infrastructure. All capital expenditure for the company is evaluated based on business cases which incorporate financial returns that are attractive when compared to competing investment opportunities.

Sentech budgeted R330 million for capital expenditure in the 2017/18 and financial year from internal funding as informed by the strategic direction. The budgeted capital expenditure will have the following main objectives:

- Increase the scope of operations and thus improve the base of profitable revenues;
- Improve internal efficiencies; and
- Transform business capabilities.

The entity will focus on the following Indicators for the 2017/18 financial year:

- Develop and execute a strategic sourcing plan to realise maximum value from the capital expenditure programme and operating expenditure;
- Pursue opportunities to diversify revenue streams both locally and in the African continent – this will include strengthening the Business Development part of the business;
- Identify possible acquisition targets which will assist with growing the business and diversification;
- Develop a funding plan (including borrowings) for acquisitions and consider options around funding of capital expenditure;
- Accelerate the activities aimed at creating a high-performance organisation;
- Review organisational structures with the intention of creating an agile and competitive Company;
- Disciplined execution of the capital expenditure programme; and
- Innovation and efficiency in the delivery of services.

10.2.2. Observations and Recommendations for Sentech

Having considered the APP and budget for Sentech, the committee noted the following observations and recommendations:

10.2.2.1. Observations

- The committee wanted to know if Sentech had conducted any research on the viability of conducting business within the continent in order to diversify on its product portfolios.
- The committee noted the involvement of Sentech on the implementation of satellite and raised serious concerns on whether this was not going to affect Sentech future revenue. The committee wanted to know if the implementation of this satellite will help Sentech to reduce costs of procuring satellite bandwidth at a reasonable cost.
- The committee noted lack of skills for the organisation particularly within the area of business development and this was against the backdrop of Sentech spending only 63% of the training budget during the 2016/17 financial year.
- The committee raised a concern on the cost of maintenance of the current DTT Infrastructure and members wanted the financial implication on the Sentech revenue sustainability since there was no income generated by DTT.
- The committee raised serious concerns around the intention by Sentech to approach funding institution to borrow funds.
- The committee noted that the SABC constituted about 60% of the revenue and this was a huge risk given the current development at the public broadcaster.

- The committee raised serious concerns around the implementation of the products diversification if the proposed timeline was not too far and this might jeopardise Sentech revenue stability.
- The committee wanted to know the risk associated with the broadcast licensees' failure to pay for license fees to the regulator with particular interest around the community broadcasters who have cash flow problems.

10.2.2.2. Recommendations

- Ensure that there was a clear business model around the implementation of the proposed satellite and this will have to be accompanied by equivalent revenue.
- Ensure that there were adequate skills and expertise for effective business development which will assist on the efficient implementation of the products and services diversification plan.
- Ensure that there was a clear maintenance plan of the DTT infrastructure and this will have to be accompanied a clear cost element of such maintenance.
- Ensure that there was a viable business plan with projected equivalent revenue before going out into the market to borrow funds.
- Ensure that there was a clear plan on how to mitigate the risk of one customer generating 60% of the total revenue.
- Ensure that there was a clear intervention plan to assist community broadcaster to be sustainable.

10.3. Universal Service and Access Agency of South Africa (USAASA) and Universal Service Access Fund (USAF)

USAASA was established through 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.

10.3.1. Expenditure analysis of USAASA

USAASA will implement the following focused areas:

- Optimised organisational functioning towards the achievement of a clean audit
- Increase USAASA capability as an information hub on universal service issues

The total allocation for USAASA for the 2017/18 financial year is R75.7 million with about 63% of the budget going to employee compensations.

USAASA highlighted that expenditure is expected to stagnate over the medium-term as the spending focus will be on the same items that the budget has always been spent on historically. The main historical cost driver has been employee compensation, which averaged 60% of the total annual budget, followed by goods and services at an average 40% of the total budget.

10.3.2. Expenditure analysis of USAF

The Fund's main source of revenue is transfers received from the Department of Telecommunications and Postal Services.

USAF has a budget allocation of R133 million for the 2017/18 financial year. Over the medium-term USAF's spending will focus on:

- The rollout of broadband infrastructure and provision of equipment to identified underserved municipal areas (including educational institutions, ICT centres and primary health care facilities);
- The rollout of the Broadcasting Digital Migration and the main cost drivers will be subsidising the provision of set-top boxes and antennas to identified TV-owning needy households; and
- Maintaining existing broadband networks to connected sites in underserved areas (within the initial 2-years period).

10.3.3. Observations and Recommendations on USAASA/USAF

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

10.3.3.1. Observations

- The committee noted that the annual performance plan identified that two additional municipalities were selected for broadband rollout. In this regard, the committee made reference to its recent oversight visit to Mpumalanga and in particular, noted the lack of service to the Chief Albert Luthuli municipality and cautioned that the intended broadband rollout would have to be seamless in these two municipalities.
- The committee observed that of the improved brand and reputation USAASA was at 40% for beneficiary brand awareness level and at 50% for stakeholder satisfaction level. The committee regarded these targets as far too low and noted that USAASA should increase the targets in order to gain confidence in brand awareness.
- The committee noted that USAASA/USAF conducted a swot analysis and that the finding on human resource capabilities and attitudes was of concern. The committee was equally concerned and noted that USAASA lacks confidence in respect of clarity of its role and doubted whether the entity would achieve its goals. Furthermore, the committee was not confident that the USAF fund would be used correctly due to the highlighted challenges.
- The committee questioned the target on research capabilities and noted that it was not a core mandate of USAASA.
- The committee was not convinced that USAASA had the correct people with the necessary skills employed to manage its functions and this would impact its efficiency. In addition, the committee noted that service providers should provide the right specifications and deliver on its mandate.
- The committee was of the opinion that USAASA lacked a coherent development plan as the figures did not seem to add up in respect of its programme

performance indicators of increased digital literacy and increased rollout to underserved areas such as schools, clinics and Wi-Fi hotspots.

- The committee questioned the number of ICT training programmes implemented to improve the digital literacy rate and noted that this strategic objective amounts to a duplication of the functions of NEMISA.

10.3.3.2. Recommendations

- The committee recommended that USAASA ensure that the rollout of broadband to two municipalities should proceed without any disturbances.
- The targets for brand and reputation was too low and should be increased.
- USAASA to address its human resource issues and to submit a report to the committee on changes made in respect of consequence management after the recent oversight visit of the committee to Mpumalanga.
- USAASA to ensure that staff with relevant qualifications, experience and skills is employed.
- USAASA to ensure that the suitably qualified service providers are contracted to deliver on its mandate.
- USAASA to address its legacy issues such as the Broadcasting Digital Migration (BDM) targets which have not improved and broadband connectivity issues.
- The committee further recommends that USAASA provide a record of sites where connectivity has collapsed and a report on the action taken where mismanagement occurred.

10.4. National Electronic Media Institute of South Africa (NEMISA)

The **NEMISA** was established as a non-profit institute for education in terms of the Companies Act (1973) and is listed as a schedule 3A public entity in terms of the Public Finance Management Act (1999). The institute's ongoing activities include offering national certificates and short courses in the areas of television production, animation and radio production. The institute's programmes are structured to enhance the market readiness of students in a wide range of broadcasting disciplines. The institute's total budget for 2017/18 is R91 million.

10.4.1. Observations and Recommendations on NEMISA

Having considered the Annual Plans and budget for NEMISA, the committee noted the following observations and recommendations:

10.4.1.1. Observations

- The Committee noted that the NEMISA had allocated about 67% to goods and services and wanted to know the reason for such huge allocations.
- The Committee highlighted that part of NEMISA is to ensure strong stakeholder management and wanted to know if the 5% allocation of the total budget was enough.
- The Committee noted the high cost of operations of about R43 million and wanted to know if this cost could be reduced by partnering with other institutions such as universities and universities of technology.

10.4.1.2. Recommendations

- Ensure that the operational costs are optimised by partnering with other strategic partners for necessary capacity and expertise.
- Ensure that there was enough budget allocations to strength stakeholder relationship as the success of the Entity is depended on external stakeholder.
- Ensure that the future budget on goods and services was not bloated as the committee felt that an allocation of more than 65% was a huge amount.

10.5. State Information Technology Agency (SITA)

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

Operationally funded strategic programmes

- Programme 1: Service Delivery;
- Programme 2: Infrastructure;
- Programme 3 Procurement;
- Programme 4: Financial Sustainability; and
- Organisational and Governance and Administration.

SITA strategic focus will be to achieve the following:

- 1) Improve customer satisfaction;
- 2) Maintain and improve current “STARS” products/services;
- 3) Introduce new services that respond to modern government demands;
- 4) Retain current business/customers;
- 5) Extend full incorporation to national and provinces;
- 6) Grow business in strategic departments and provinces; and
- 7) Grow business at local government level.

10.5.1. Expenditure Analysis of SITA

The State Information Technology Agency contributes to outcome 6 (an efficient, competitive and responsive economic infrastructure network) of government’s 2014-2019 medium-term strategic framework by ensuring the expansion, modernisation, access and affordability of the country’s ICT infrastructure. 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.

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 e-commerce components to 33% 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%.

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.

10.5.2. Observations and Recommendations on SITA

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

10.5.2.1. Observations

- The Committee wanted to know when was the last time SITA had conducted a research to establish the type of services might be required by various departments.
- The Committee noted the improved procurement system and wanted to know if there have been benefits for SITA in terms increased revenue, increased orders and increased profits.
- The raised noted that customer centric was one of the major strategic objectives for SITA and wanted to know why customer satisfaction target was set to 70%.
- The Committee wanted to know the role SITA within the SA Connect.

10.5.2.2. 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.

10.6. Broadband Infraco (BBI)

BBI SOC is a licensed state owned company in the telecommunications sector. It is intended to improve market efficiency in the long distance connectivity segment by increasing available long distance network infrastructure. It will also avail capacity to stimulate private sector innovation in telecommunications services and content offerings. Broadband Infraco provides long distance national and international connectivity to licensed private sector partners, license-exempt project of national importance and to previously underserved areas

BBI strategy is anchored around the following goals:

- Resilient network;
- Financial sustainability;
- Economic and Social transformation;
- Operational excellence;
- Sound Human Capital practices; and
- Proactive corporate governance

10.6.1. Expenditure Analysis of BBI

BBI is projected to generate revenue of about R492 million for the 2017/18 financial year. This will comprise R391 million from the existing contracts, about R72 million from the high probability revenue which is the 15% of the total revenue and about R29 million from expected revenue of perspective new business opportunities.

The cost of sales is expected to be about R191 million before depreciation for the 2017/18 financial year. This amount was expected to be reduced by 11.2% during the 2017/18 financial plan. Cost of sales is then expected to stabilise thereafter and increase by the inflation (7.0%) per annum. The main saving in cost of sales are the reduction from the fibre lease costs.

The operational cost drivers are mainly constituted by the human capital of about 23.7% of the total revenue which is aligned to international best practice and 59.2% of total operational costs. Employ costs are reduced due to vacant positions. Critical positions are however being filled as they arise. Provision is made for the retention incentive to ensure critical skills are attracted and retained. Salary increases will be negotiated with organised labour. The rest of the costs are repairs and maintenance (9.2%), marketing costs (0.5%), operational leases (3.8%) and administrative expenses (17.0%).

The other cost driver is the Capital expenditure of about R127.5 million, approximately R44.3 million which is 35% of the total Capex budget is required for Capex spend to protect revenue through essential refurbishment of AdLash and Access networks. R38.7 million which is 38% of Capex will be utilised for revenue generation through the rollout of IP Core network. R30.3 million which is 24% of the total Capex will be

utilised for essential upgrades and refurbishment and R14.1 million for operational Capex to improve national operations.

10.6.1.1. Observations

- The committee commended BBI on its progress and noted that it previously had concerns about the entity's ability to maintain its services. The committee noted that the entity had done well under challenging circumstances.
- The committee noted the six strategic goals of BBI include a resilient network, financial sustainability by 2018, economic and social transformation, operational excellence, sound human capital practices and proactive corporate governance. However, only one of these strategic objectives vaguely discuss how BBI intends to grow its business. The committee therefore found the strategic objectives too internally focused.
- The committee noted that BBI plays a role in SA Connect 2 in that it provides the core network to SITA.
- The committee noted that in terms of training and inclusion of SMMEs, the customer base of BBI grew to 27 and network utilisation increased. There had been growth in secondary towns and this allows for assistance to SMMEs. The companies that BBI train would be SMMEs who are already operating in the sector.
- The committee acknowledged that BBI functions in a competitive market and that the challenge with presentations to the committee was to provide information without disclosing our strategies. It is for that reason that documents are classified "confidential" when it is presented to the committee.
- The committee noted that in order to build a high performance organisation, the acquisition of scarce skills was important. To that end, approximately 70% of staff complete and obtain their qualifications via BBI, yet there was no incentives to maintain these interns in the system.
- The committee noted the impact on non ICT SOCs on the cost to communicate and that BBI continues to engage the above SOCs, although these risks should be minimised.
- The committee noted that BBI had indicated as a strategic risk the difficulty the entity experiences in raising funds although it continues to apply for funding from external parties.
- The committee noted that BBI had engaged Eskom on core skills to avail infrastructure to the market.
- The committee noted that in order to promote sound human capital practices, BBI would have to implement strategies to retain employees with scarce skills.

10.6.1.2. Recommendations

- The strategic objectives of BBI should clearly depict the manner in which BBI intends to grow its business with more focus its engagements with partners/customers and its role in rural towns.
- BBI to ensure that incentives were available to interns to ensure sound human capital management and the acquisition of scarce skills.

- The strategic risks in respect of non ICT SOCs should be minimised and engagement with regulators should be finalised to ensure that non ICT SOCs are governed by regulations.

10.7. .ZA Domain Name Authority (.ZADNA)

The .ZADNA is a statutory, not-for-profit entity established regarding Chapter 10 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.

To contribute to the achievement of government priorities and outcomes; .ZADNA is to pursue the following strategic goals for the 2017/18 financial year:

- Stimulate growth in domain registration growth;
- Enhance domain value proposition;
- Drive service innovation;
- Maintain inclusive policy and regulatory framework;
- Improve organisation’s delivery capacity;
- Maintain active research; and
- Enhance business sustainability.

10.7.1. Expenditure Analysis of .ZADNA

For the 2017/18 financial year, .ZADNA has a total budget allocation of R15.3 million. .ZADNA expects the ongoing ZACR dispute over the R5.00 per domain name fee increase to be resolved before 2017/18 commences. Accordingly, the revenue is budgeted based on the expectation that .ZADNA will be collecting revenue based on the R12.00 (VAT exclusive) per domain name fee. .ZADNA anticipates collecting R14 million from the ZACR domain name registrations, which are forecasted to reach at least 1.170 million registrations by the end of 2017/18.

The 2017/18 budget also anticipates that at least 6 new positions will be approved and filled during the course. This is in line with building .ZADNA’s operational requirements. The proposed positions are:

- Internet Governance Coordinator;
- Project Coordinator;
- Human Resource Officer;
- Personal Assistant;
- General Assistant; and
- Vehicle Driver.

Major budget items

- a) Basic office costs (**R1 110 000**);

- b) Awareness and promotions (**R2 000 000**);
- c) External relations (**R737 000**);
- d) Legal and professional (**R1 210 000**);
- e) Meetings and events (**R986 000**);
- f) Namespace development (**R1 300 000**);
- g) Salaries (**R6 079 491**); and
- h) Travel and accommodation (**R870 000**).

10.7.2. Observations and Recommendations on .ZADNA

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

10.7.2.1. Observations

- The Committee noted the high salary bill of 42% of the total budget and wanted to know if the amount include the new positions.
- The Committee raised concerns on the number of board members.
-
- The Committee wanted to know the criteria which was used to allocate the 10% performance bonus to staff members.
- The Committee wanted to know if it was not cost effective to rent a vehicle than an outright purchase of a new vehicle.
- The Committee raised concerns around the dispute for the increase of R5 per domain name and cautioned .ZADNA against making revenue projections based on the increase.

10.7.2.2. Recommendations

- Ensure that critical positions are filled urgently.
- Ensure that the risk of not achieving the projected revenue due to the dispute around the R5 increase was well managed and the Committee is kept abreast on the development.
- Ensure that the budget deficit was avoided in all future budgets.

The Committee noted the Annual Performance Plans for 2016 – 2017 of the DTSPS, USAASA, USAF, SITA, NEMISA, SAPO SENTECH, and .ZADNA and accordingly supports their implementation.

The Committee recommends that the 2017-2018 budget allocation of the DTSPS and its entities be approved.

Report to be considered.