

Report of the Portfolio Committee on Communications on the 2021/22 First and Second Quarter Performance and Expenditure Report of the Department of Communications and Digital Technologies, dated 22 March 2022

The Portfolio Committee on Communications (the Committee), having considered the 2021/22 First and Second Quarter Performance and Expenditure Report of the Department of Communications and Digital Technologies (DCDT), here referred to as “the Department”, reports as follows:

1. Introduction

The Committee considered the 2021/22 Second Quarter Performance Report (01 April 2021 – 30 June 2021, and 01 July 2021 - 30 September 2021 respectively) of the Department and its entities in virtual meeting on 8 March 2022.

This report gives an overview of the presentation made by the Department to the Committee, focusing mainly on its achievements, outputs in respect of the performance indicators, targets set for the 2021/22 financial year, and related financial performance. The report also provides the Committee’s key deliberations and recommendations in relation to the performance presentation by the Department and its entities.

2. Organisational Environment

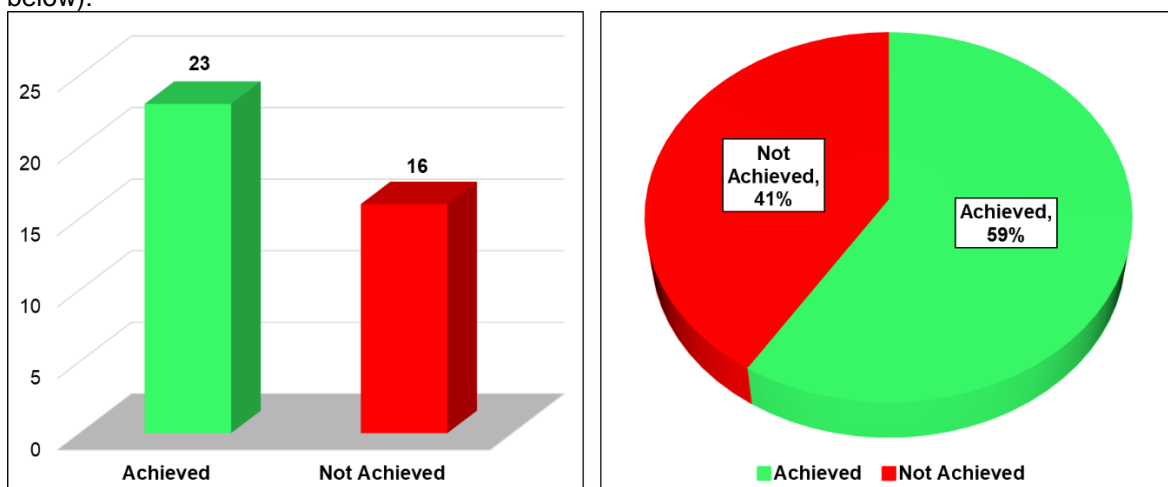
The Department is mandated to create a vibrant ICT sector that ensure that all South Africans have access to robust, reliable, affordable and secure ICT services in order to advance socio-economic development goals and support the Africa agenda and contribute to building a better world.

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 Department is comprised of various public entities, namely South African Post Office (SAPO), SENTECH, Universal Service Access Agency of South Africa (USAASA), Universal Service Access Fund (USAF), Broadband Infraco (BBI), National Electronic and Media Institute of South Africa (NEMISA), State Information Technology Agency (SITA), and. ZADNA, the South African Broadcasting Corporation (SABC), Film and Publication Board (FPB) and the Independent Communications Authority of South Africa (ICASA).

Similarly, like the 2020/21 financial years, the 2021/22 First and Second Quarter Performance and Expenditure relatively took place during the declared state of disaster. The President had declared a National State of Disaster on 15 March 2020, which set in motion disaster regulations with an adverse impact on the economy and South Africans in general.

3. Second Quarter Performance Overview

The Department committed to achieving **39 (thirty-nine)** Annual Performance Plan (APP) quarterly targets by the end of Quarter 2 (01 July 2021 - 30 September 2021) of the 2021/22 financial year. This is a total number of quarter 2 APP targets of all six (6) Programmes of the DCDT. Overall, the Department has Achieved 23 (59%) of the APP targets, and 16 (41%) were Not Achieved. Overall, the Department achieved 23 (59%) of the APP targets, and 16 (41%) were not Achieved. (see Charts below):



3.1 Second Quarter Achievements

The Department realised significant achievements against the planned Second Quarter 2 targets as indicated below:

- (i) WSP Training Implementation Report for the period 1 April to 31 August 2021 was developed;
- (ii) all invoices received from suppliers were paid within 30 days;
- (iii) the 2021/22 Communications Plan was developed and monitored
- (iv) the WTDC Consultation paper was developed and consulted;
- (v) the International Relations and Engagement Strategy was coordinated through engagement with relevant external stakeholders;
- (vi) public consultations/hearings on the Draft Audio and Audio Visual content Services White Paper have been conducted;
- (vii) Draft Electronic Communications Amendment Bill was developed;
- (viii) stakeholder consultation was conducted on PC4IR Strategic Implementation Plan;
- (ix) broadband services to 970 connected sites were monitored and sustained;
- (x) funding application for Phase 2 of SA Connect was developed;
- (xi) funding application for Household Connectivity Programme was developed;
- (xii) a 3-Year Implementation Plan of the National e-Government Programme developed and approved;
- (xiii) training conducted through NEMISA on pre-entry Digital skills;
- (xiv) draft Framework on Digital Transformation and Digital Inclusion submitted to relevant stakeholders for consideration and input;
- (xv) first draft report on the DCDT integrated action plan in support of the NSP was developed;
- (xvi) draft Implementation Plan for the DDM was developed and aligned with COGTA; and
- (xvii) Consultation conducted with ICASA on the Performance Management System (PMS).

3.2 Second Quarter Areas of Under-Achievement

The Department did not achieve sixteen of its thirty-nine planned quarterly targets. The Department highlighted the following areas for under-achievement against its Second Quarter targets:

- (i) the absence of the formalisation (designation) of the BRICS Institute for Future Networks (BIFN-S) render the achievement of the target impossible, hence the BIFN-S was not operationalised as planned;
- (ii) final Draft BRICS 2021 Position Paper was completed after the end of the second quarter deadline;
- (iii) the ICT Investment Conference target has been put in abeyance as the Department will leverage off the SA Investment Conference;
- (iv) the South African Post Office SOC Ltd Amendment Bill was not submitted to the Office of the CSLA as there in obtaining stakeholder inputs;
- (v) the Data & Cloud Policy held in abeyance due to revised directive from Minister;
- (vi) implementation of the Digital Economy Masterplan (DEM) delayed due to the fact that the DEM Executive Oversight Committee has not been operationalised;
- (vii) additional comments are being incorporated into the ICT SMME Development Strategy;
- (viii) the development of the Business Case for the Regulatory Reform Bill has been put in abeyance- awaiting further direction;
- (ix) delays in the procurement process has negatively impacted this project on Study on Cost To Communicate;
- (x) delays in obtaining feedback from the OCSLA has delayed the finalisation of the Postbank Amendment Bill;
- (xi) the process of establishing a PMO for SA Connect Phase 2 has not as yet been concluded as the Department is adopting a revised approach;
- (xii) the Department is revising the Digital Transformation Centre (DTC) approach due to challenges related to the Project;
- (xiii) only 20 790 installations (6 460 July, 7 531 August, and 6 799 September) of the 240 000 subsidized digital television installations 39 839 registrations were recorded (25 663 in July, 2 835 in August 2021 and 11 431 in September 2021). However, the Department has adopted a revised approach;

- (xiv) delays by USAASA to deliver on the set the plans for the distribution of 400 000 vouchers of the Voucher Subsidy; and
- (xv) progress report reflective of GDYC matters was be submitted to DWYPD and DSD, but DCDT reported at the quarterly meetings held by the DWYPD and DSD.

4. Second Quarter Budget Overview and Expenditure Analysis Per Programme

The Department of Communications and Digital Technologies (DCDT) has a total budget appropriation of R3.7 billion for the 2021/22 financial year.

Current payments amounts to R724.9 million (of which R304.3 million is for Compensation of Employees and R420.7 million for Goods and Services) of the total budget.

Transfers and subsidies accounts for R2.9 billion of the budget and is mainly allocated to departmental agencies and accounts: (i) R100.9 million to the Films and Publication Board (FPB) for operations; R508.2 million to the Independent Communications Authority of South Africa (ICASA) for operations; (ii) R98.5 million to the National Electronic Media Institute of South Africa (NEMISA) for operations; (iii) R82.1 million to the Universal Service and Access Agency of South Africa (USAASA) for operations and R95 million for distribution costs in the broadcasting digital migration project; and (iv) R64.2 million to the Universal Service and Access Fund (USAF) for operations; and a further R1.073 billion to USAF for Broadcasting Digital Migration (BDM).

There is also funding to public corporations and private enterprises: (i) R209.7 million to South African Broadcasting Corporation (SABC) for operations; (ii) R504.2 million to the South African Post Office (SAPO) as a subsidy to cover costs related to Universal Service Obligations; R100 million for Sentech to cover Dual illumination costs relating to the digital migration project; and (iii) R69.7 million to Sentech for migration of digital signals. At the end of the second quarter, the Department spent R1.44 billion or 39.1 per cent of the total budget.

Spending at the end of the second quarter is R380.3 million or 20.8 per cent lower than projected.

This is mainly due to the slow spending under Compensation of Employees (R14.2 million), Goods and Services (R78 million), as well as Payments for Capital Assets (R9.8 million). Transfers and subsidies is spending less by R278.2 million than was projected.

The Department has a total budget of R304.3 million for compensation of employees in the 2021/22 financial year. At the end of September 2021, the Department had spent R133.6 million, which is lower than the projected amount by R14.2 million.

The slow spending is due to the critical vacancies not yet filled since the merger due to the structure of the Department not being finalised yet. The Minister has issued a moratorium on the filling of posts until this has been completed. At the end of September 2021, the Department has reported 37 vacant positions, including the Director-General post.

Spending on Covid-19 related items is R1.2 million up to the end of the 2nd quarter. This is for expenditure incurred for the decontamination/fumigation/fogging of the buildings whenever there are COVID cases reported in the Department. It also involves the costs of communication for providing data to officials to enable them to work from home during COVID. No Virements were approved by the National Treasury during Q2.

4.1 Programme 1: Administration

The purpose of the programme is to provide strategic leadership, management and support services to the Department.

Spending of R112 million under this item is R25.4 million lower than the projected R137.4 million up to the 2nd quarter. The variance of 18.5 per cent is due to unfilled posts within the Department as the process of developing the organisational structure is still in progress. Spending under Goods and Services items travel and subsistence as well as venues and facilities were lower than projected due to fewer business activities as a result of the COVID 19 pandemic.

The slow spending on Payments for Capital Assets is due to the delay in the ICT migration project and purchasing of servers and upgrading of ICT infrastructure. There has also been changes in the ICT priorities for the department regarding the security cameras and upgrade of access control project, which is currently under procurement.

The Minister of DCDT has decided that the security features should be provided by the landlord since the Department does not own the buildings. The Department's facilities unit will therefore request approval from the Acting Director-General to cancel the tender in this regard and further engagements will be held with the landlord to discuss this matter.

4.2 Programme 2: ICT International Relations and Affairs

The purpose of the programme is to ensure alignment between South Africa's foreign policy and international activities in the field of ICT.

Spending of R43.2 million under this item is R8.7 million lower than the projected amount of R51.8 million up to the 2nd quarter. The variance of 16.7 per cent is due to slow spending in goods and services: travel and subsistence due to fewer activities as a result of COVID 19 pandemic.

Furthermore, slow spending under transfers and subsidies to foreign government for membership fees is due to the savings of R7.4 million made as a result of exchange rate fluctuations. There was also slow spending in Compensation of Employees due to unfilled posts within the branch.

4.3 Programme 3: ICT Policy Development and Research

The purpose of the programme is to develop ICT policies and legislation that support the development of an ICT sector that creates favourable conditions for accelerated and shared economic growth. Develop strategies that increase the adoption and use of ICT by the majority of South Africans to bridge the digital divide.

Spending of R14.4 million under this item is R12.8 million lower than the projected amount of R27.1 million up to the 2nd quarter. The variance of 47.1 per cent is mainly due to vacancies that are not yet filled as the organisational structure is still being finalised. There was also lower than expected spending under Goods and Services items on travel and subsistence due to the slow-down of activities and as a result of the work from home policy.

4.4 Programme 4: ICT Enterprise and Public Entity Oversight

The purpose of the programme is to oversee and manage government's shareholding interest in the ICT public entities and state-owned companies. Facilitate the growth and development of small, medium and micro enterprises in the ICT sector.

Spending of R781.2 million under this item is R24.3 million lower than the projected amount of R805.5 million up to the 2nd quarter. The variance of 3 per cent is due to slow spending on compensation of employees due to vacant posts that are not yet filled pending the finalisation of the organisational structure. Slow spending on goods and services is mostly from funds related to the drafting of Bills for the State Digital Infrastructure Company (SDIC) and the State Digital Services Company (SDSC), as the respective business cases that would inform the Bills has not yet been finalised.

While the funds were anticipated to be spent towards at the end of the second quarter, the programme is awaiting a directive from the new Minister in terms of the Rationalization Project (which informs the business cases and Bills), which might change the policy direction and affect the intended spending. Finally, transfers to USAF for operations (R17 million) was not made due to delays in the Department's internal processes for the transfer. However, higher spending than projected was made to USAASA for operations and for distribution costs related to BDM in order to accelerate the project.

4.5 Programme 5: ICT Infrastructure Development and Support

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

Spending of R470.4 million under this item is R304.3 million lower than the projected amount of R774.6 million up to the 2nd quarter. The variance of 39.3 per cent is mostly due to transfers to USAF (R251.3 million) for the BDM project, which was not made due to delays on the internal processes of the Department before transfers can be made to the entity.

Slow spending was also experienced in the goods and services item computer services due to an advance payment of R53 million made to SITA for 400 sites for SA connect project previously, and as a result the transfer is not currently required and will be made later in the year.

Slow spending under consultants is due to the expiry of the Memorandum of Agreement (MoA) that governs the relationship between DCDT and the Council for Scientific and Industrial Research (CSIR). The MoA will be vetted by DCDT Legal unit, after which it can be signed by both parties. Thereafter the Department would then request National Treasury's approval to appoint the CSIR, which will allow the department will sign the annual contract and start the payments.

4.6 Programme 6: ICT Information Society and Capacity Development

The purpose of the programme is to develop and implement strategies to build capabilities to bridge the digital divide.

Spending of R23.9 million under this item is R4.8 million lower than the projected amount of R28.7 million for the 2nd quarter. The variance of 16.7 per cent is mainly due to slow spending on compensation of employees due to unfilled posts within the Department pending the finalisation of the organisational structure.

Slow spending on Goods and Services is due to delays in the procurement process of appointing a service provider to assist with the development of the district digital enablement plans and the finalisation of Terms of Reference to be submitted to the Departmental Bid Adjudication Committee for approval. With regards to capital expenditure, no request for procurement of laptops was received as expected from officials during the previous months, resulting in slow spending.

4.7 Issues for the committee to note

SA Connect project: The focus of the Department during the 2nd quarter continued to be on the monitoring and sustaining of the 970 sites connected to Broadband services. Unreliable power supply remains the biggest challenge that affected connectivity at the 506 sites as well as network performance. This was mainly due to load-shedding, power rationing and power failures at the district municipalities concerned.

Broadcasting Digital Migration project: The Department has submitted to Cabinet and received approval for the integrated rollout plan. As outlined in the plan, the Analogue Switch-Off (ASO) is scheduled to be completed by March 2022, with the Department assuming responsibility for the management of the project.

The SAPO will still play a role with regards to registrations and while funding of this project will still be done through allocations on USAF.

5. Committee Observations and Recommendations

5.1 The Department

Having considered the 2021/22 Second Quarter Performance and Expenditure Report of the Department, the Committee noted:

- (i) its appreciation for the presentation made by the Department;
- (ii) with concern that the Department did not achieve 16 of its 39 targets in the period under review;
- (iii) that the targets not achieved included delays in the finalisation of the South African Post Bank Amendment Bill and the Postbank Amendment Bill, Data and Cloud Policy, ICT SMME Development Plan; the study on Cost to Communicate and Digital Transformation Centre, the target for subsidised digital television installers have not been met and delays on distribution of voucher subsidies amongst others;
- (iv) that there was a moratorium on some entities as a result of a process of review of all entities. This process has been concluded and it has been finalised BBI and Sentech will merge;
- (v) and welcomed the intervention by the Department to broker a deal between the litigant and the country on spectrum auction (Part B);
- (vi) that unreliable power supply remains the biggest challenge that affected connectivity for SA-Connect programme at the 506 sites as well as network performance, and
- (vii) commended all entities for the areas of achievement in the period under review.

5.2 SAPO

On SAPO, the Committee noted:

- (i) its appreciation for the presentation by the SAPO considering an improvement in performance;
- (ii) with concern that there has been lack of adequate funding and that it was experiencing various other challenges, which include COVID-19 related issues;
- (iii) that SAPO requires new revenue generation avenues;
- (iv) with serious concern that SAPO historical debt that needs to be dealt with as it has an impact on performance;
- (v) with concern that SAPO offices closed due to various issues including non- payment of rent;
- (vi) concern in that SAPO had a R 563 million loss and experienced a procurement moratorium;
- (vii) with concern that there was a high number of theft at branches of SAPO;
- (viii) with serious concern the depletion of Board Members at SAPO; and
- (ix) with appreciation that SAPO Postbank Bill would be referred to the Committee in due course.

5.3 USAASA

The Committee noted

- (i) that USAASA and USAF areas of under-achievement included irregular, wasteful and fruitless expenditure, the failure to distribute and install the required Set Top Boxes (STBs) amongst others; and
- (ii) that Cabinet approved the extension of the USAASA Board.

5.4 SENTECH

The Committee noted:

- (i) that Cabinet has approved the Sentech Board;
- (ii) the positive financial performance for the Second Quarter;
- (iii) that the broadband portfolio continues to provide potential for additional revenue streams;
- (iv) that the Managed Infrastructure Services portfolio would attract potential customers when the Nasrec Data centre is complete;
- (v) that the overall network performance was above SLA, however connectivity service underperformed due to power related issues; and
- (vi) that the migration project remains a high risk but USAASA has agreed to revise the installation prices as per request from suppliers, and this should assist with stakeholder management for the migration project team.

5.5 SITA

The Committee noted:

- (i) with appreciation that Cabinet has approved SITA Board appointments;
- (ii) that SITA achieved 12 of its 16 targets for the period under review;
- (iii) that the overall performance results exclude the SA-Connect KPI in that SITA Board approved a request to remove it from the APP;
- (iv) that SITA has entered into a Business Agreement (BA) with the South African Post Office (SAPO) from 01 April 2021 to 31 March 2024; and
- (v) that a number of initiatives between the two entities are currently underway which include the Jitsi Meeting Platform, ageing IT Infrastructure and Data Centre Challenges, the use of Cloud Platforms to modernize applications, moving the SAPO Trust Centre onto the GCPE and a skills collaboration.

5.6 BBI

The Committee noted:

- (i) that for the quarter under review, 13 of the 19 targets were achieved; and
- (ii) that of the six targets not achieved, three pertained to the financial sustainability of the entity and the others to a resilient network, the socio-economic transformation target and organisational enablement

5.7 NEMISA

The Committee noted:

- (i) that NEMISA achieved 15 of its 18 targets for the period under review;
- (ii) that the entity has achieved 83 percent of its set targets; and
- (iii) that areas of under-achievement included the creation of work experience for interns, training of citizens in basic digital learning and basic technology courses.

5.8 ICASA

The Committee noted:

- (i) its appreciation for the work done by ICASA, in particular, the spectrum auctioning process;
 - a. that the spectrum auction process was due to start;
- (ii) its appreciation for the corporation between the private and public sectors;
- (iii) that the tangible societal benefits such as 500 police stations, 18 000 schools and over 5 800 government clinics will be digitally connected as part of the spectrum auctioning conditions;
- (iv) that ICASA would make lawful interventions on the Cost to Communicate on broadband data and voice; and
- (v) that input costs are high and with the auction process, ICASA will be able to hold applicants accountable on costs.

5.9 SABC

The Committee noted:

- (i) a great sense of appreciation for the continued improvement in performance by the SABC;
- (ii) that the SABC was on track and that an 87 percent achievement of its mandate was achieved;
- (iii) with appreciation that the entity managed to recover revenue and develop a robust target operating model to ensure that it is agile and competitive;
- (iv) the improvement of profit by SABC of R77 million;
- (v) with concern that the SABC reported a loss of R155.4 million for Quarter 2;
- (vi) that the revenue was below budget by R 394.1 million;
- (vii) that the advertising revenue was also below budget by R289,7 million;
- (viii) that sponsorship revenue exceeded budget by R35,0 million; and
- (ix) with concern the regulatory and legislative bottlenecks that affect SABC negatively.

5.10 FPB

The Committee noted:

- (i) with concern that vacancies are not yet filled at the FPB;
 - a. that vacancies are as a result of the moratorium placed on the entity, which it was trying to address by preparing a strategy document for FPB to ensure that its role is maintained;
- (ii) the secondment of Dr Boloka to FPB as acting CEO;
- (iii) with concern the 'going concern' and sustainability matters including irregular expenditure, fruitless and wasteful expenditure; and
- (iv) that the Films and Publications Amendment Act has come into operation as indicated by the President and will fundamentally change the mandate of the Board.

6. Recommendations

6.1 The Department

The Committee recommends that the Minister should ensure that:

- (i) processes are in place to ensure that all areas of under achievement are addressed;
 - a. present a mitigation plan with emphasis on improvement on planning and resourcing to achieve the targets and eliminate underachievement in the Portfolio;
- (ii) the Department presents an update on irregular expenditure and consequence management thereof;
- (iii) international membership fees are paid in full;
- (iv) SAPO Board Member appointments are finalised;
- (v) a clear action plan to fill all vacant posts is provide to the Committee;
- (vi) the DTT Project Team appears before the Committee to present a Stakeholder Management Plan;
- (vii) a plan to mitigate the unreliable power supply that impacts negatively on network performance for the SA-Connect programme is present to the Committee;
- (viii) the Department must appear before the Committee to present a proposal on a revised SABC Funding Model;
- (ix) all legislative reforms needed to transform the sector be expedited so that the Committee can finalise them before the end of the current parliamentary term; and
 - a. present to the Committee an updated Legislation Programme.

6.2 SITA

The Committee recommends that the Minister should ensure that:

- (i) plans to address the Auditor-General's findings are presented to the Committee on; and
- (ii) SITA, during its next appearance before the Committee, reports in detail its Business Agreement with SAPO.

6.3 NEMISA

The Committee recommends that the Minister should ensure that:

- (i) NEMISA presents a Plan of Action to address areas of under-achievement.

6.4 ICASA

The Committee recommends that the Minister should ensure that:

- (i) ICASA continuously updates the Committee on the auctioning of spectrum;

- (ii) companies are held accountable for the tangible societal benefits such as digital connectedness of 500 police stations, 18 000 schools and over 5 800 government clinics; and
- (iii) ICASA appears before the Committee to present on the lawful interventions for the Cost-to-Communicate programme.

6.5 SABC

The Committee recommends that the Minister should ensure that:

- (i) the Department fast-track legislative and regulatory reforms to guarantee financial viability of the SABC.

6.6 SAPO

The Committee recommends that the Minister should ensure that:

- (i) there must be a concerted effort by the Department to save SAPO because of its footprint and proximity to service delivery to communities;
- (ii) its mandate remains relevant;
- (iii) SAPO has a full Board complement;
- (iv) the various challenges at SAPO are addressed expediently;
 - a. such as SARS and inability of the entity to collect revenue from its clients;
- (v) a strategy is in place for SAPO to receive the necessary resources to function optimally and efficiently;
- (vi) the cash flow crisis at SAPO is resolved expediently;
- (vii) security at SAPO outlets is improved and processes are in place to deter the high number of theft at various SAPO branches;
 - a. present to the Committee its plans for mitigating risks associated with security;
- (viii) the Postbank Board vacancies are advertised and ultimately filled;
- (ix) SAPO provide a timeline for filling of critical vacancies; and
- (x) the human resource element at SAPO is improved to ensure good governance
 - a. SAPO present to the Committee a framework for good governance.

6.7 FPB

The Committee recommends that the Minister should ensure that:

- (i) a timeline is presented to the Committee on filling of all vacancies at the FPB;
- (ii) the Board appears before the Committee to present on irregular, fruitless and wasteful expenditure;
- (iii) once finalised, the '*FPB of the Future*' Strategy is presented to the Committee; and
- (iv) the Board updates the Committee of the plans for the implementation of the Films and Publications Amendment Act.

6.8 BBI

The Committee recommends that the Minister should ensure that:

- (i) processes are in place to ensure that the targets that was not achieved during the period under review are achieved in future; and
- (ii) BBI appears before the Committee with a remedial plan.

6.9 Sentech

The Committee recommends that the Minister should ensure that:

- (i) Sentech appears before the Committee to provide assurance on how it plans to assist other entities to achieve the Department's mandate; and
- (ii) Sentech presents its mitigation plans to the Committee on network performance, especially relating to the impact of power outages on connectivity.

6.10 USAASA/USAF

The Committee recommends that the Minister should ensure that:

- (i) processes are in place to ensure that the targets that were not achieved during the period under review are achieved in future; and USAASA/USAF appear before the Committee with a remedial plan.

Report to be considered.