Report of the Portfolio Committee on Communications and Digital Technologies on 2022/23 Third and Fourth Quarter Performance and Expenditure Report of the Department of Communications and Digital Technologies, dated 24 October 2023

The Portfolio Committee on Communications and Digital Technologies (the Committee), having considered the Third and Fourth Quarter Performance and Expenditure Report of the Department of Communications and Digital Technologies (DCDT) and its Entities, here referred to as "the Department," reports as follows:

1. Introduction

The Committee considered the 2022/23 Third and Fourth Quarter Performance Report (01 April 2022 – 30 June 2022, and 01 July 20222 - 30 September 20222, respectively) of the Department and its Entities in a virtual meeting on 5 September 2023.

This report gives an overview of the presentation made by the Department to the Committee, focusing mainly on its achievements and outputs in respect of the performance indicators, and targets set for the 2022/23 Third and Fourth Quarters, including related financial performance. The report also provides the Committee's key deliberations and recommendations in relation to the performance presentations by the Department and its Entities.

2. Organisational Environment

The Department is mandated to create a vibrant ICT sector that ensures that all South Africans have access to robust, reliable, affordable, and secure ICT services to advance socio-economic development goals, support the African 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),.ZA Domain Name Authority (ZADNA), the South African Broadcasting Corporation (SABC), the Film and Publication Board (FPB) and the Independent Communications Authority of South Africa (ICASA).

3. Third and Fourth Quarter Performance Overview

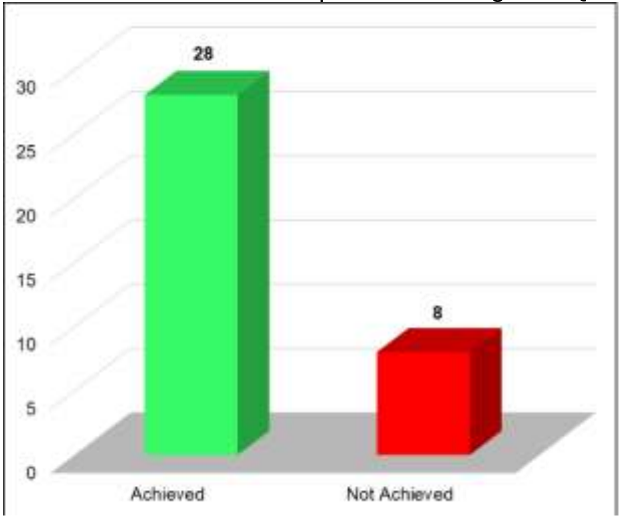
Table 1 below depicts summarised information on the performance of all Departmental Programmes regarding the status of planned targets for the Third and Fourth Quarter reporting period. This information translates into the overall organisational performance.

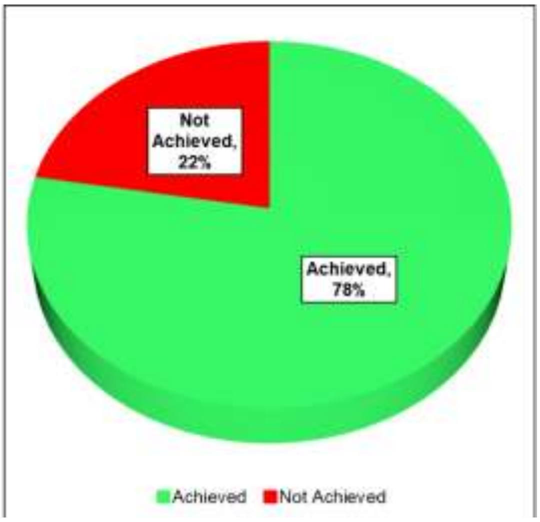
Programme	**Total APP Targets**	**Achieved**	**Not Achieved**	**% Achieved**
Administration	3	2	1	67%
ICT International Relations and Affairs	5	5	0	100%
ICT Policy Development and Research	9	5	4	56%
ICT Enterprise and Public Entity Oversight	5	4	1	80%
ICT Infrastructure Development and Support	7	5	2	71%
ICT Information Society and Capacity Development	8	5	3	63%
Total	37	26	11	70%

Administration	4	3	1	75%
ICT International Relations and Affairs	2	2	0	100%
ICT Policy Development and Research	9	6	3	67%
ICT Enterprise and Public Entity Oversight	6	5	1	83%
ICT Infrastructure Development and Support	7	7	0	100%
ICT Information Society and Capacity Development	8	5	3	63%
Total	36	28	8	78%

The Department committed to achieving **36 (thirty-six)** Annual Performance Plan (APP) quarterly targets by the end of Quarter 4 (01 January 2023 - 31 March 2023) of the 2022/23 financial year. This is the total number of Quarter 4 APP targets of all six (6) Programmes of the DCDT. Overall, the

Department has Achieved 27 (78%) of the APP targets, and 9 (22%) were Not Achieved. The Graph below is the overall DCDT performance against Quarters Three and Four Annual Performance Plan:





3.1 Third and Fourth Quarter Achievements

The Department realised achievements against the planned Third and Fourth Quarter targets, some indicated below:

Departmental and SOCs GDYC Responsiveness programmes monitored in line with National targets.

Report on Framework on Gender-responsive Planning, Budgeting, Monitoring, Evaluation and Auditing focusing on the Pillars in the Framework covering the period the period October 2022 to March 2023 was developed.

National Strategic Plan (NSP)

Implementation of an integrated plan of action in support of the National Strategic Plan (NSP) on gender-based Violence, focusing on Prevention, Reporting and Economic Power Pillars working with SOCs and Branches of DCDT, was implemented in quarters under review successfully.

District Development Plan (DDM) Plan

Coordination and monitoring progress report regarding the implementation of the DDM plan was developed.

Country Positions to support the National ICT priorities

ITU-PP22 Country Position was developed and a report on key outcomes of ITU-PP22 was developed. Campaign for South Africa's candidature was advanced. South Africa was successfully re-elected to the ITU Council. The BRICS Outcomes Report was developed.

International Programmes to support the digital economy initiatives

The engagements with relevant stakeholders were conducted to agree on identified international programmes. A report on the implementation of the Identified international programmes status report was developed.

Digital Economy Framework

Draft Digital Economy Framework and Strategy was developed and submitted to the Minister for approval.

The Department did not Achieve the following planned Q3 & 4 quarterly targets as reflected below:

Digital transformation strategy (Workflow management system)

There was a delay in the appointment of a service provider due to proposals thatwere above the budgeted amount**.**

Audio-Visual White Paper

The Draft Audio-Visual White Paper document was not submitted to the cabinet as planned due to delays in internal processing and receiving final inputs.

Policy Direction on the discontinuation of analogue TV sets

External dependencies to conclude the publishing of the final policy directives (the DTIC, ICASA) was a challenge.

Draft Regulatory Reform Policy

Change of direction, on the proposed digital regulator resulting in the delay.

Monitoring and evaluation of the Performance Management System (PMS) for ICASA Councillors

Delays in getting the approved PMS by the National Assembly.

Study on Cost to Communicate

Though the study has been finalised, the recommendations were not implemented as planned.

Digital Economy Masterplan

The Implementation of the DEM was put on hold until the finalization of the Digital Economy Strategy Framework.

Green Paper on Digital Government Act

Draft Green Paper was developed on the Digital Government Act but it was not revised for finalisation as planned.

4. Third and Fourth Quarter Budget Overview and Expenditure Analysis

The Department spent R2.1 billion or 73.2 per cent of the total budget. Spending at the end of the Third Quarter is R213.9 million or 9.1 per cent lower than projected.

Programme 1: Administration spent R161.9 million against a projection of R175.5 million. Spending is R13.5 million or 7.7 per cent lower than the projected as the process of developing the organisational structure is in progress and due to delays in appointing consultants to conduct an IT internal audit for the financial year, and on appointing consultants to conduct job evaluations on the organisational structure review process.

Programme 2: ICT International Relations and Affairs spent R55.7 million against a projection of R55.4 million. Spending is R400 000 higher than projected due to higher spending on compensation of employees due to costs for an employee who was seconded as a telecommunications attaché to the South African permanent mission to the United Nations in Geneva.

Programme 3: ICT Policy, Development and Research spent R25.1 million against a projection of R29.9 million. Spending is R4.8 million or 16 per cent lower than projected due to the cancellation of the legislative development project and lower travelling costs.

Programme 4: ICT Enterprise and Public Entity Oversight spent R1.6 billion against a projection of R1.6 billion. Spending is R1.3 million or 0.1 per cent lower than projected due to lower-than-expected spending on advertising, consultants, as well as travel and subsistence. This is due to public nominations for the Boards of NEMISA and Sentech that had not taken place. The. ZADNA and NEMISA adverts will be placed between January and February 2023.

Programme 5: ICT Infrastructure Development and Support spent R288 million against a projected R476.8 million. Spending is R188.8 million or 39.6 per cent lower than projected due to no spending on the broadband fund project, which is part of the Presidential Employment Stimulus programmes. The department is completing due diligence and capacitating Broadband Infraco (BBI) to manage the fund. There is also slow spending on consultants due to a new directive from the Ministry that the cybersecurity hub should be relocated to SITA from the Council for Scientific and Industrial Research (CSIR) since the expiry of the Memorandum of Agreement (MoA). The cybersecurity unit is engaging with the legal division to develop a revised MoA between DCDT and SITA. A memo is currently being routed to request approvals to formally engage with SITA and the CSIR around the proposed relocation. The payment for the hub will depend on the finalization of all these processes.

Programme 6: ICT Information Society and Capacity Development spent R46.5 million against a projection of R52.4 million. Spending is R5.8 million or 11.2 per cent lower than projected due to the suspension of the Digital Economy masterplan as the unit will focus on the establishment of the Artificial Intelligence Institute as per the recommendations of the Presidential Commission on Fourth Industrial Revolution (PC4IR) report.

Virements

During the 3rd Quarter, as part of the Adjustment budget process, the National Treasury recommended for Parliamentary approval a shift of R6 million to support the establishment of artificial intelligence hubs A further R3.4 million was approved by the accounting authority of the Department to cover shortfall in goods and services under Programme One.

Covid-19 spending

Spending for Covid-19 is R341 000 up to the end of the 3rd Quarter.

4.1 Issues for the committee to note.

SA Connect project: The department has completed Phase 1 of the rollout of broadband connectivity and services to 971 government sites. Maintenance of services is being undertaken, although there have been challenges due to power outages and other technical challenges.

Broadband Access Fund: An amount of R200 million was allocated in the adjustment budget to the Broadband Access Fund, which will enable 13 million households to access broadband internet at an affordable rate and competitive speed as part of the presidential employment initiative. The department still undertaking due diligence and capacitating BBI to manage the fund.5. Committee Observations and Recommendations.

Broadcasting Digital Migration (BDM) Project – The National Treasury granted approval of R2.8 billion of surplus funds by USAF in order to ensure the finalisation of this project.

For the Fourth Quarter, the Department of Communications and Digital Technologies has an adjusted budget appropriation of R5.3 billion for the 2022/23 Financial Year. The Department spent R5.22 billion or 98 per cent of the total budget.

At the end of the Fourth Quarter, spending is R106.4 million or 2.0 per cent lower than the total allocation.

Programme 1: Administration: This programme spent R225.8 million against an available budget of R279.4 million. Preliminary underspending of R53.6 million or 19.2 per cent is the moratorium on the filling of positions until the new organisational structure is finalised. The preliminary underspending on goods and services is mainly on consultants: business and advisory services and can be attributed to the non-appointment of consultants for conducting the IT internal audit, the job evaluation on the organisational structure review process, and for IT system management for the financial year. Underspending on legal fees was due to outstanding invoices from the State Attorney for legal advice, while not advertising posts due to the moratorium resulted in underspending on advertising. The unspent funds will be moved to cover overspending in households for leave gratuity costs made to employees who have left the department.

Preliminary underspending on payment for capital assets is due to the delays experienced with SITA in the invoicing for the Local Area Network upgrade project. Lastly, overspending on payment for financial assets is due to the damages and losses incurred, which were not budgeted for.

Programme 2: ICT International Relations and Affairs: This programme spent R64.6 million, against an available budget of R64 million. Preliminary overspending of R553 000 or 0.9 per cent is on the compensation of employees due to costs for an employee who was seconded as the telecommunications attaché to the South African permanent mission at the United Nations in Geneva, and for which costs were not sufficiently provided for. Funds will be moved from underspending areas within the department to augment the overspending.

Programme 3: ICT Policy, Development and Research spent R34 million against an available budget of R45.3 million. Preliminary underspending of R11.3 million or 25 per cent is mainly due to the cancellation of the legislative development project, and delays in the creative industries project, while underspending on travel and subsistence was due to meetings and webinars being held online, resulting in fewer travelling costs. There is however an overspending under households due to leave gratuities made to employees who have left the employment of the department.

Programme 4: ICT Enterprise and Public Entity Oversight spent R4.3 billion against an available budget of R4.3 billion. Preliminary underspending of R4 million or 0.1 per cent is mostly due to public nominations for the Board of NEMISA that did not take place, the appointment of the Boards for relevant public entities and the evaluation of the South African Post Office (SAPO) Board will take place in the new financial year due to recent changes in the Ministry.

Furthermore, preliminary underspending on travel and subsistence was due to meetings with the Portfolio Committee on Communications and Parliament being done virtually. The savings realized are being redirected to payment for financial assets to make payment for the historic SABC loan.

Programme 5: ICT Infrastructure Development and Support spent R533.3 million against an available budget of R544.5 million. Preliminary underspending of R11.1 million or 2 per cent is due to the payments for data lines that were not made as an ICT security service was not included. Payments will be made when the service is successfully delivered. Furthermore, certain ICT security devices and services, such as a firewall, were returned to the supplier as they did not fulfil the order specifications, which had an impact on the underspending. A new firewall will be procured in the new financial year.

Programme 6: ICT Information Society and Capacity Development spent R63.1 million against an available budget of R90.1 million. Preliminary underspending of R27 million or 30 per cent is on the compensation of employees due to unfilled posts within the programme. Furthermore, there were delays in the procurement processes which led to the digital skills programme and the district digital enablement project not being executed, and the funds budgeted for these projects were redirected to other priorities of the Department.

Covid-19 spending.

Spending for COVID-19 is R341 thousand up to the end of the 4th Quarter.

The Department has a total budget of R302.9 million for the compensation of employees in the 2022/23 financial year. At the end of March 2023, the Department had spent R264.6 million.

Preliminary underspending by R48.9 million is due to the critical vacancies not yet filled, which includes the position of the Director-General. The Department is still in the process of finalising its new organisational structure, and there is currently a moratorium on the filling of posts. At the end of March 2023, the Department reported 58 vacant positions mostly under Programme 1: Administration.

4.2. Issues for the Committee to note:

Recapitalisation of SA Post Office: The Second Adjustments Appropriation Act for the 2022/23 financial year was tabled by the Minister of Finance in March 2023, which included an allocation of R2.4 billion for the SAPO.

Due to this additional allocation, the total appropriation of the Department was therefore increased to R5.328 billion. The Act allows the department until 31 May 2023 to spend this allocation and have it recorded in the 2022/23 financial year.

Broadband Access Fund: Following the undertaking of due diligence and capacitating Broadband Infraco to manage the fund, the department has transferred an amount of R200 million allocated in the adjustment budget to the Broadband Access Fund. This will enable 13 million households to access broadband internet at an affordable rate and competitive speed as part of the presidential employment initiative.

The South African Post Office: Financial update as of 31 March 2023

Revenue of R2 6 billion for the year is 46 under budget due to failure to implement revenue initiatives, increased customer migration to digital alternatives, and the weak financial position of SAPO impacting its ability to pay suppliers.

Expenses of R5 1 billion are 24 under budget However, due to SAPO's high fixed cost structure, expenses continue to exceed revenue Staff costs of R3 6 billion for the year contribute 70 of the total cost. The poor revenue performance has resulted in SAPO forecasting a net loss for the year of R2.1 billion despite SAPO's USO mandate being funded (USO subsidy of R452 million).

SAPO's financial position continues to be severely constrained resulting in SAPO being commercially insolvent and illiquid. SAPO creditors amount to R5 billion as of 31 March 2023 with statutory obligations amounting to R2.4 billion Included in the statutory obligations are R1.1 billion due to Post Office Retirement Fund, R539 million to SARS, R596 million to Medipos and R108 million to UIF.

No government guarantees are currently in place for SAPO and SAPO has been recapitalised with R2 4 billion prior to the entity receiving provisional liquidation order. The DCDT has developed a strategy to deal with the provisional liquidation which has been submitted to Cabinet for consideration. The plan is intended to form part of the response to the Court Judgement and will be tabled in court on 01 June 2023.

5. Observations

Having considered the 2022/23 Third and Fourth Quarter Performance and Expenditure Reports of the Department and its Entities, the Committee noted:

(i) and commended the performance of the Department;
(ii) with concern that the Department did not achieve 8 of its programmes, in particular the appointment of service providers;
(iii) that DCDT was in the process of analysing the report on the business rescue process for SAPO;
(iv) with concern that there have been many delays in the implementation of the Postbank legislation;
(v) with concern that there are high private security costs in excess of R70 million at Postbank;
(vi) with concern that sundry costs are high at Postbank;
(vii) with concern that SAPO has reported a loss of R1.1 billion;
(viii) with concern that load shedding has become a problem for the SABC;
(ix) with concern that there has been a loss of audience ratings and viewership of SABC programmes;
(x) that there has been difficulty in replicating the Metro FM model;
(xi) that the SABC needs to utilise the bailout properly and that they seem to be worse off now than when they had a bailout;
(xii) with further concern that matters at the SABC do not show signs of improvement other than another bailout;
(xiii) that the matter with respect to the Rugby World Cup rights for the SABC has not been resolved;
(xiv) that the producers of the soap opera Sevende Laan would continue its production at the SABC;
(xv) that the SABC has kept its producers informed of the financial matters, especially with respect to the top 5 productions;

(xvi) that the radio stations at SABC are in full swing and operating;
(xvii) that the OTT was taken over from Telkom by SABC;
(xviii) with concern that the ICASA performance management system has been delayed by Parliament and that this is not agreed to;
(xix) that there was a need for the Postbank to be responsible to Departments and government departments to bank with it;
(xx) and commended Sentech for doing well and that the team is quite capable and should maintain the standard;
(xxi) with concern that SAPO is closing post offices across the country, which has a severe impact on people;
(xxii) with concern that the post office staff have paid in medical aid and yet are not paid out;
(xxiii) and questioned the tagging process in respect of the SAPO Amendment Bill;
(xxiv) that the IT Structure was important to secure revenue for the Postbank;
(xxv) that security costs include that the SASSA contract was ceded over from Postbank and is therefore responsible for the payment of grants;
(xxvi) that there is a commitment to get management back on board at SITA;
(xxvii) that SAPO was placed under business rescue and a creditors meeting has taken place and the creditors confirmed their status as business rescue practitioners;
(xxviii) that medical aid liability of SAPO and all historical debts of SAPO have been ring-fenced, the business rescue practitioners have been in contact with all practitioners;
(xxix) that the branches of SAPO have been forced to close by landlords who have locked premises as SAPO has not paid;
(xxx) that Creditors will ensure that SAPO debts are settled;
(xxxi) that the Committee was informed that the CEO of Sentech has not resigned, he is finishing off his second term; and
(xxxii) Resolved to deal with issues of Postbank and to determine if the business rescue plan of SAPO will deal with the issues at hand.

6. Recommendations

The Committee recommends that the Minister should ensure that:

(i) ensure that processes are in place to address the 8 targets not achieved by the Department**;** and
(ii) ensure that the Minister of DCDT deals with his counterparts to ensure that the SABC is sustained.

SAPO

(i) SAPO gives the Committee an update on the criminal cases under investigation and investigated;
(ii) ensure that SAPO address the closure of post offices; and
(iii) ensure that pensions and UIF of post office staff are accounted for.

Postbank

(i) ensure that processes are in place for Postbank to ensure banking by government departments.

SABC

(i) ensure that the Committee has further engagement with SABC;
(ii) ensure that processes are in place to address the issue of load shedding; and
(iii) and ensure that the loss of its membership was addressed.

ICASA

(i) ensure that its draft regulations are completed.

The Committee endeavours to ensure that the Department and Entities consistently appear before the Committee.

Report to be considered.