



# SAVINGS@WORK



## GOVERNMENT SPENDING REVIEWS CONFERENCE

Topic: ICT Rip-off?  
Name: Nomthi Mjuza  
Date: 07 May 2021

# Introduction

---

- Study sought to understand the main drivers of ICT expenditure with an intention to discover if these costs are in fact exorbitant
- The study explored the following:
  - Procurement process of ICT services
  - ICT expenditure trends in the province
  - Laws, regulations and prescripts governing relationship between departments and SITA
  - Understand how SITA charges for its services
- The study found the following”
  - ICT costs doubled when comparing 2016/17 to 2018/19
  - SITA was not transparent on how prices were charged to departments
  - Network rental costs were found to be exorbitant compared to the market
  - Network/bandwidth speed was also found to be very low and not of good quality
  - However, costs of laptops were found to be cheaper compared to the market

# Introduction

---

## Recommendations

- When the Business Agreement is entered into by departments and SITA, the mark-up costs be included in the agreement and be open for negotiation with departments
- Importantly the business agreement should provide an exit clause that allows departments who can prove that a similar services provided by SITA can be procured from a service provider directly at a cheaper price
- In-depth study into the costs of the mandatory ICT services provided by SITA be undertaken, with an intention to determine how comparable these costs are to the market
- Engagement with SITA and NT is necessary in order to understand their business processes and what measures they take to ensure that services are provided in an economical and efficient manner

# Findings: Institutional analysis

---

- Government has designated the provision of Information and Communication Services (ICT) to a dedicated institution called State Information Technology Agency (SITA). The mandate and mission of SITA focuses on value added ICT service in an efficient, cost-effective and integrated manner
- SITA derives its mandate from the State Information Technology Amendment (SITA) Act (Act 88 of 1998 as amended by Act 38 of 2002).
- SITA Act para 7(1)(a) list the following as **mandated** services to be provided by the entity:
  - Provide or maintain a private telecommunication network or a value-added network service in accordance with the Telecommunications Act, 1996 (Act N.103 of 1996)
  - Provide or maintain transversal information systems; and
  - Provide data-processing or associated services for transversal information systems;
- Departments may procure other non-mandatory services directly without the involvement of SITA (eg software development, training, dept specific IT softwares)

# Findings: Programme delivery and performance

---

- The SITA Act provides that departments must enter into a business agreement with the Agency to regulate their relationship in terms of services to be provided. A service level agreement is also prepared to support the business agreement concluded between the department and SITA
- As part of the business agreement prepared by departments, a procurement plan should be prepared by IT directorates in departments and submitted to SITA.
- SITA keeps transversal contracts for some of the main services such as Hardware procurement (laptops), services (such as consultants), servers and storage. However, if the department needs a specialised service that SITA service providers cannot provide, departments can undertake procurement process directly

# Findings: Programme delivery and performance

---

- The guideline provides that where procurement is less than R500 000, then the department must request quotes from 3 suppliers in the transversal contract and award procurement in accordance with its own internal process in accordance with its SCM policy to procure services
- Where procurement is more than R500 000, the department should approach all services providers in the panel accredited for that particular service
- This central procurement of services has some benefits for departments as they can use service providers in the transversal contract instead of engaging SCM processes every time they need IT related services

# Findings: Expenditure Analysis

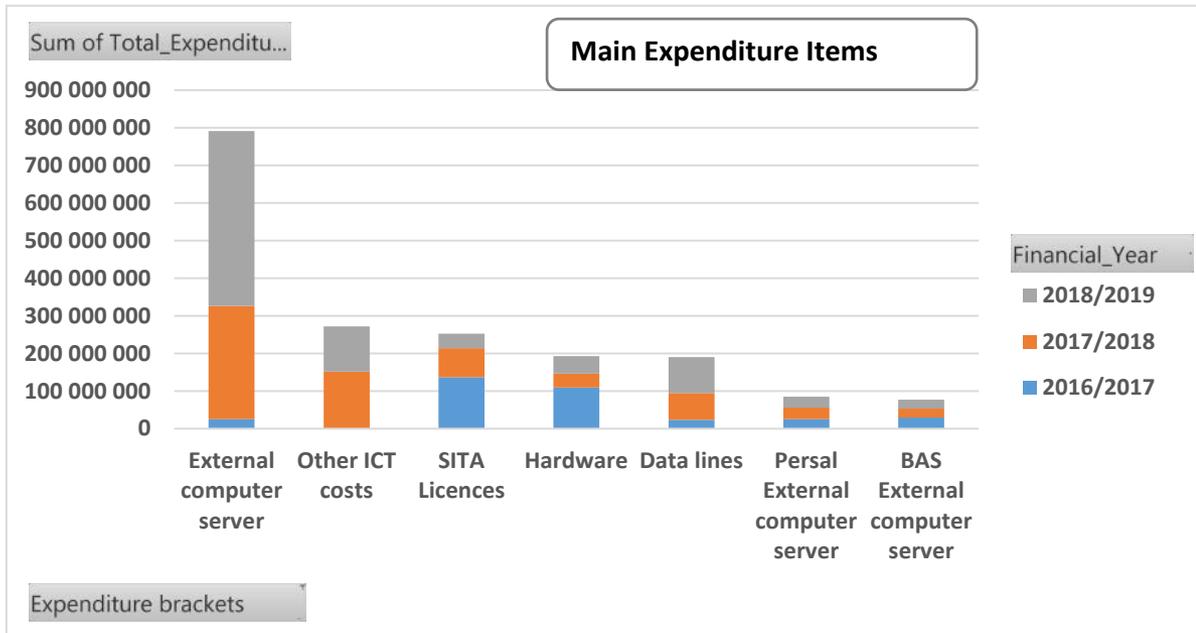
**Table 1: ICT expenditure in KZN from 2016/17 to 2018/19**

Departments	2016/2017	2017/2018	2018/2019	Grand Total
Transport	42 391 301	136 748 288	217 211 674	396 351 263.41
Health	70 652 502	128 559 969	145 316 594	344 529 064.53
Finance	83 613 366	112 822 078	112 576 967	309 012 411.33
Education	29 676 330	66 632 192	78 303 962	174 612 484.51
Agriculture and Rural Development	33 724 409	73 154 879	57 445 897	164 325 184.44
Social Development	24 174 256	47 629 490	55 741 930	127 545 676.32
Cooperative Governance and Traditional Affairs	36 382 355	38 048 069	47 191 068	121 621 492.65
Public Works	11 462 043	30 391 628	30 949 615	72 803 286.75
Economic Development Tourism And Environmental Affairs	16 122 425	19 469 819	27 284 501	62 876 744.62
Office of the Premier	11 294 419	20 767 064	27 037 098	59 098 580.20
Arts and Culture	12 665 605	14 835 234	17 456 397	44 957 236.30
Human Settlements	11 380 200	13 102 191	15 518 034	40 000 424.36
Sport and Recreation	6 067 937	8 155 597	8 247 584	22 471 117.17
Community Safety And Liaison	6 042 575	6 396 523	4 737 436	17 176 534.12
<b>Total</b>	<b>395 649 723</b>	<b>716 713 021</b>	<b>845 018 757</b>	<b>1 957 381 501</b>

- ICT expenditure has grown significantly at 113% from 2016/17 to 2018/19
- Four department's total spending accounts for 63% in the last 3 years, with Transport at a grand total of R396.351m, followed by Health (R344.529 million), Finance/Treasury (R309.012m) and Education at( R174.612m)
- This is mainly due to the nature of system and software requirements that these departments have, such as Integrated Traffic Contravention Management System (ITCMS) by Transport and BAS and PERSAL servers by Provincial Treasury

# Findings: Expenditure Analysis

Fig1: Main expenditure items



- Spending by the province on external computer servers accounts for 40% of total spending by the province
- This expenditure item has seen considerable growth of 1061 per cent when compared to 2016/17 expenditure. Departments spend significant amounts of expenditure on connectivity, which is provided by SITA through the means of Telkom Fibre link

# Findings: Expenditure Analysis

Table 2: Comparison of network service

Current SITA service	External Service provider
Connectivity – Telkom Fibre link	Radio Link line of sight is possible
Bandwidth on current link is 16MB	Increased bandwidth possibilities from existing 16MB to 1GIG link.

- SITA connectivity costs were found to be expensive compared to a quote obtained from a service provider
- SITA connectivity options are outdated. They have a slow bandwidth

# Findings: Savings, Trade-offs and Constraints

---

- SITA is not transparent about mark-up on services provided to departments
- There is no exit clause for services where SITA is expensive compared to the market
- Bandwidth provided by SITA is slow compared to market offerings
- However, it is also very expensive when compared to the market, therefore no value for money for this service
- Procurement of laptops and computers were found to be cheaper compared to the market. This exercise was done for the Provincial Treasury though
- Deeper study could be conducted for the rest of departments to compare services procured from SITA vs market offerings

# Conclusions and recommendations

---

- It is recommended that service level agreements signed between departments and SITA should transparently show how SITA charges for its services, especially the mark-up on services to departments
- There should also be an escape clause to allow departments to procure privately where SITA is expensive compared to the market
- Departments are incurring quite high costs renting network related services and bandwidth from SITA, however, this service is slow, outdated and therefore no value for money
- The role of National Treasury in overseeing SITA could not be further interrogated in this study – but should be understood so that it can be strengthened
- A nationwide study that would also include experts in ICT could be undertaken. These experts could be departments 'own internal stuff, who would have done comparisons of services and costs of services provided by SITA vs market offerings

## Topic: ICT Rip-off?

---

**Thank you**