Information Communication and Technology expenditure in KZN 2016/17 to 2018/19

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Summary

SITA is mandated to provide ICT services in a cost effective manner and this also includes the provision of skills, expertise and facilities required to deliver a competitive ICT. SITA is also responsible for sourcing these goods and services and is therefore responsible for all SCM related processes in order to save time for departments from engaging the lengthy SCM processes whenever they need an ICT service or goods. However, there has been growing concerns on the costs of IT services procured through SITA, while the drivers of these costs have not always been understood. This study sought to understand the main drivers of ICT expenditure with an intention to discover if these costs are in fact exorbitant. The study found that indeed network services provided by SITA are exorbitant when compared to the market and the technology is outdated. Surprisingly though the costs of laptops and desktops were found to be cheaper compared to the market. This comparison was only conducted from a sample of invoices obtained from the Provincial Treasury and therefore it could not be determined if this was the case for all departments in the province. Importantly, this study also found that SITA was not transparent in the mark-up percentage they charge departments and nor are departments given an opportunity negotiate the rates charged. This is in contravention with the PFMA, which requires that the procurement of services be costs efficient, economical and there be a transparent use of the resources of the department. It is recommended that when the Business Agreement is entered into by departments and SITA, the mark-up costs are included in the agreement and are open for negotiation with departments.

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1. Introduction

Information Communication Technology in the 21st century plays a significant role in the delivery of services for organisations and companies. Government is no exception, as it has to deliver services to citizens on time and effectively. 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. However, there is growing concerns that the services offered are not cost-effective. The current trend is that ICT expenditure has increased annually and the drivers for the increase have not been properly identified and understood. ICT expenditure in 2016/17 was R345 million and has grown astronomically to R845 million in 2018/19.

In 2011, the CEO of SITA Blake Mosley-Lefatola acknowledged that SITA had received complaints from its client base relating to cost of services rendered. In response to this challenges SITA would engage and develop a cost model that would meet the expectations of all stakeholders. The KwaZulu-Natal provincial government through the MEC of Treasury; Ravi Pillay, has also noted the rising ICT costs and has tasked Provincial Treasury to investigate these costs drivers and report on the main finds as part of the expenditure review process.

The KZN government has faced significant budget cuts. The budget has been reduced by more than R36 billion since 2013/14. To this end a process has been initiated to identify costs savings. IT is essential that the review of all ICT related expenditure be undertaken to identify main drivers of ICT expenditure, determine expenditure trends from 2016/17 to 2018/19, and determine if costs savings can be realized.

2. Policy and Institutional Information

SITA derives its mandate from the State Information Technology Amendment (SITA) Act (Act 88 of 1998 as amended by Act 38 of 2002), which is to "to improve service delivery to the public through the provision of information technology, information systems and related services in a maintained information system security environment to the departments and public bodies; and to promote the efficiency of departments and public bodies through the use of information technology''. There is a list of services that SITA is mandated to provide. Departments may procure other non-mandatory services directly without the involvement of SITAhe SITA Act in paragraph 7 (1)(a) list the following as *mandated* services to be provided by the entity:

(i) 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)

(ii) Provide or maintain transversal information systems; and

(iii) Provide data-processing or associated services for transversal information systems; and

(b) *may*, on behalf of a department or public body, which so requests in terms of subsection (4) or (5), provide –

(i) training in information technology or information systems,

(ii) application software development,

(iii) maintenance services for information technology software or infrastructure,

(iv) Data-processing or associated services for departmentally specific information technology applications or systems;

(v) Technical, functional or business advice or support or research regarding information technology; and

(vi) Management services for information technology or information systems.

Figure 1 shows that SITA is a separate entity from departments and accounts to the national sphere of government. 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.

Fig 1: Institutional information
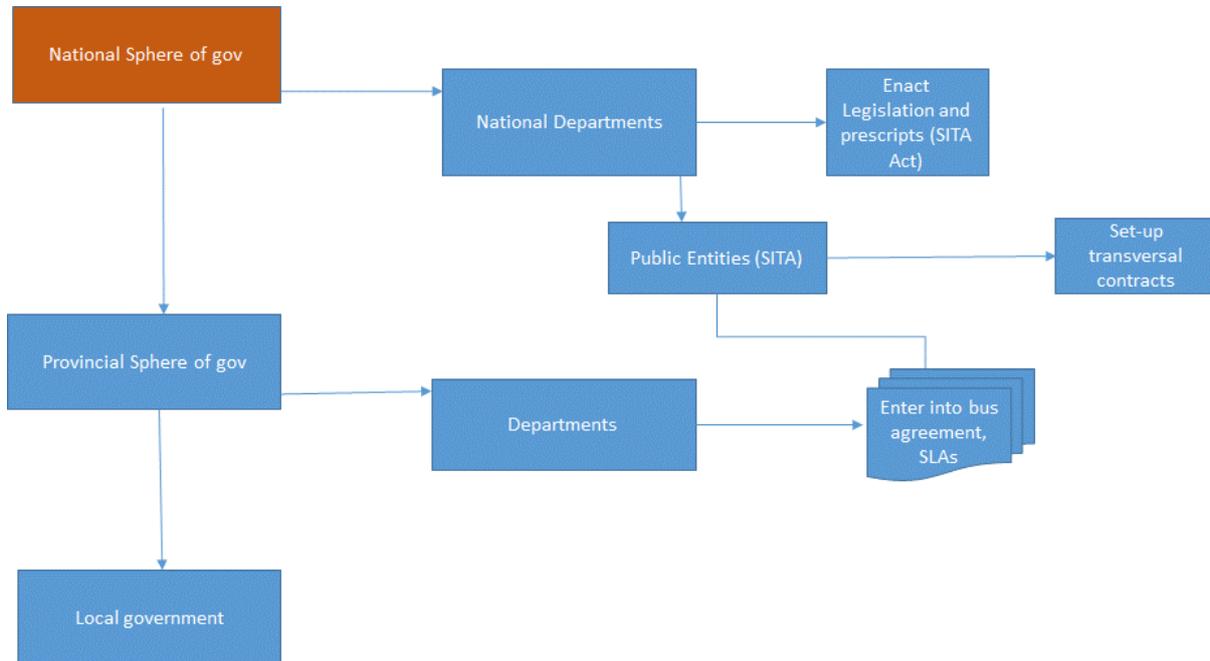
ICT services play a very critical role in the delivery of services in the 21st century. ICT services makes it possible for the province to generate, bill and process the R3 billion worth of provincial own revenue. Departments such as Transport and Health require software systems for patient information in the case of Health, which is used to recover revenue from medical aids and from the road accidents funds for applicable cases, while Transport needs ICT systems that also interface with third parties for the collection of motor vehicle licences and traffic fines, etc.

Another important use of financial system is the management of government personnel. The province has in excess of 250 000 employees, a majority of them are teachers and health professionals, spread across the province. The province requires systems such as PERSAL for employee records but also for processing salaries of employees. BAS is one system used by the province for transactions and accounting for expenditure and payments. These systems require mainframe servers, maintenance and licencing. The responsibility for transversal systems lies with National Treasury but Provincial Treasury

are expected to pay for all costs related to the transversal systems i.e PERSAL and BAS used by the province.

# 3. Programme Chain of Delivery

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, as mentioned. 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. This procurement should contain the ICT needs of the department for that particular year. Once the procurement plan has been submitted to SITA, the organisation logs the request and prepares a business case, containing the requirements of the department. The department is required by SITA to indicate and confirm availability of budgets. A technology officer of SITA then assesses the business case containing departmental needs in order to develop product specifications for procurement process. The tender is advertised and contract awarded or the department could use service providers currently in the transversal contracts of SITA.

The Public Finance Management Act (2009) Section 38(1) (b), tasks the accounting officer of a department with a responsibility to "*ensure effective, efficient, economical and transparent use of the resources of the department*". As such, it is in the interests of accounting officers and government to determine whether the ICT services provided by SITA have been efficient and economical.

The identification of ICT needs rest with the respective departments led by the IT directorate of the department. IT directorate has to engage with various programme managers to determine programme ICT needs. Budget availability is also an important part of this process which needs to be demonstrated in the procurement plan. SITA assessment processes includes confirmation of the availability of budget to procure the ICT service. There are two main areas of services provided by SITA, as mentioned; it is the mandatory services as

contained in the Act and those that are not mandatory. Departments can only procure mandatory services through SITA. While the non-mandatory services, departments may procure these directly from service providers. 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

Figure 2 : Process Flow of the procurement of services
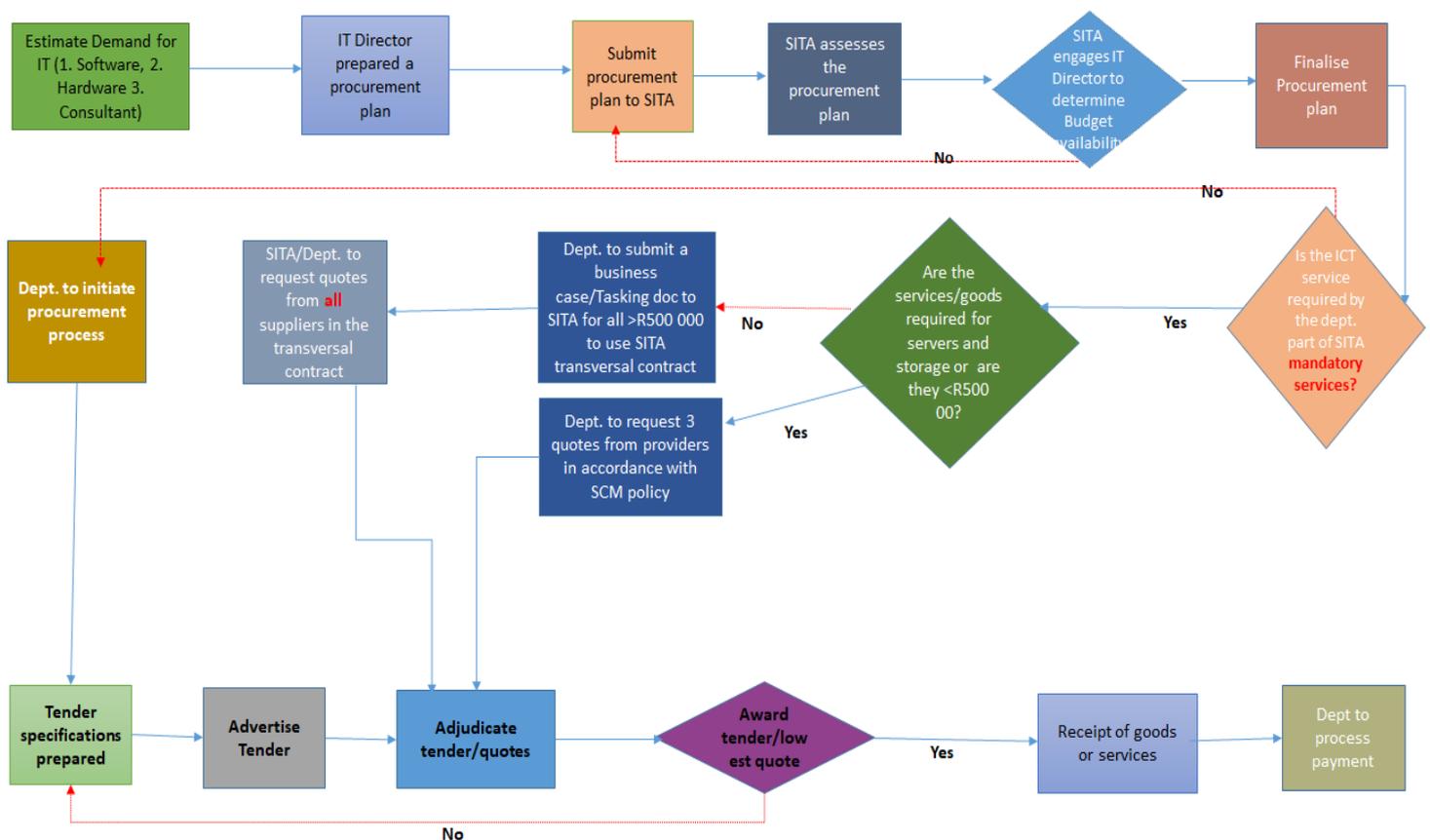
The SITA engagement model and guidelines for the use of transversal contracts issued in 2014, states that the following process must be utilised in the provisioning of servers and storage:

1. A department may engage directly with prospective suppliers based in a user requirement specification approved by the relevant department, a supplier must submit quotes based on department's specifications,

2. The department selects the specific supplier;

3. The Department directly places the order with the selected supplier and furnish a copy of the order to the relevant contract manager of the Agency.

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. A service provider shall not be appointed to provide a service for which they are not credited. Furthermore, Regulations 15 of SITA, states that "departments must for use in a province, procure from service providers located in that province concerned to ensure optimal spending in that province".

When departments use service providers which are in SITA transversal contract, there are required to enter into a contract with the supplier, which should provide details on service levels, scope of specific project, project duration, price break down and total price in line with awarded requests for quotation and payment terms and conditions in line with the relevant government legislation.

Where departments have procured goods and services directly from SITA in terms of enterprise agreement, SLAs or project charter, SITA will provide the department concerned with an invoice, by the 15th of the month. Where procurement was done directly with the service providers, invoices and payments are dealt with directly between the service provider and the department concerned.

4. Expenditure Observations

In order to analyse procurement spend by KZN departments on ICT services, data sets for 2016/17, 2017/18 and 2018/19 financials years were obtained and interrogated.

Table 1: IT related expenditure by KZN province – 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
Total	**395 649 723**	**716 713 021**	**845 018 757**	**1 957 381 501**

Table 1 shows that ICT expenditure has grown significantly at 113 per cent 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 R396.351 million, followed by Health (R344.529 million), Finance/Treasury (R309.012 million) and Education at(R174.612 million). The growth in ICT services can also be accounted for to the top 4 big spenders. This is mainly due to the nature of system and software requirements that these departments have. Transport is the largest spender on ICT services, since 2017/18. This department has various IT system for the management of traffic such as Integrated Traffic Contravention Management System (ITCMS), as well as infrastructure related systems for infrastructure projects. The department of Health has also been improving its patient information records, installing computers with relevant software in health facilities, while the Provincial Treasury is responsible for transversal systems in the province, ie Persal and BAS.

Table 2: IT related expenditure by KZN province – 2016/17 to 2018/19

Sum of Total_Expenditure	Column Labels				Year on year growth		
Expenditure items	2016/2017	2017/2018	2018/2019	Grand Total	2017/18	2018/19	CAGR
External computer server	25 926 410	301 052 220	464 549 855	791 528 485	1061.2%	54.3%	323.3%
Other ICT costs	0	151 593 221	120 474 426	272 067 647	-	-20.5%	-
SITA Licences	136 800 071	77 091 512	39 328 422	253 220 005	-43.6%	-49.0%	-46.4%
Hardware	109 785 344	36 879 363	46 755 975	193 420 682	-66.4%	26.8%	-34.7%
Data lines	23 823 656	70 938 300	95 491 186	190 253 143	197.8%	34.6%	100.2%
Persal External computer server	25 989 249	29 948 314	29 306 556	85 244 119	15.2%	-2.1%	6.2%
BAS External computer server	30 318 388	23 773 996	23 445 313	77 537 697	-21.6%	-1.4%	-12.1%
System Development	26 501 430	10 913 623	3 154 647	40 569 700	-58.8%	-71.1%	-65.5%
Operating system software	11 142 826	7 307 905	8 508 520	26 959 252	-34.4%	16.4%	-12.6%
SITA HELP DESK	3 727 208	3 338 585	2 682 470	9 748 263	-10.4%	-19.7%	-15.2%
System Advisors		786 959	8 190 451	8 977 411	-	940.8%	-
SITA Printing works		2 741 740	2 912 417	5 654 157	-	6.2%	-
Security software	1 279 838	149 963	0	1 429 801	-88.3%	-100.0%	-100.0%
Logis	355 301	197 319	218 519	771 138	-44.5%	10.7%	-21.6%
Grand Total	395 649 723	716 713 021	845 018 757	1 957 381 501	81.1%	17.9%	46.1%

When analysing spending according to expenditure items, a few observations may be made. Spending by the province on external computer servers accounts for 40 per cent of total spending by the province. This expenditure item has seen considerable growth of 1061 per cent when compared to 2016/17 expenditure. Reasons for this growth needs further interrogation and investigation.

Figure 2 illustrate expenditure performance patterns for the top seven ICT related expenditure items over the 3 financial years in review. Hardware and SITA licences were relatively high in 2016/17 financial years compared to 2017/18 and 2018/19 financial years.

Figure 2: IT related expenditure by KZN province – 2016/17 to 2018/19
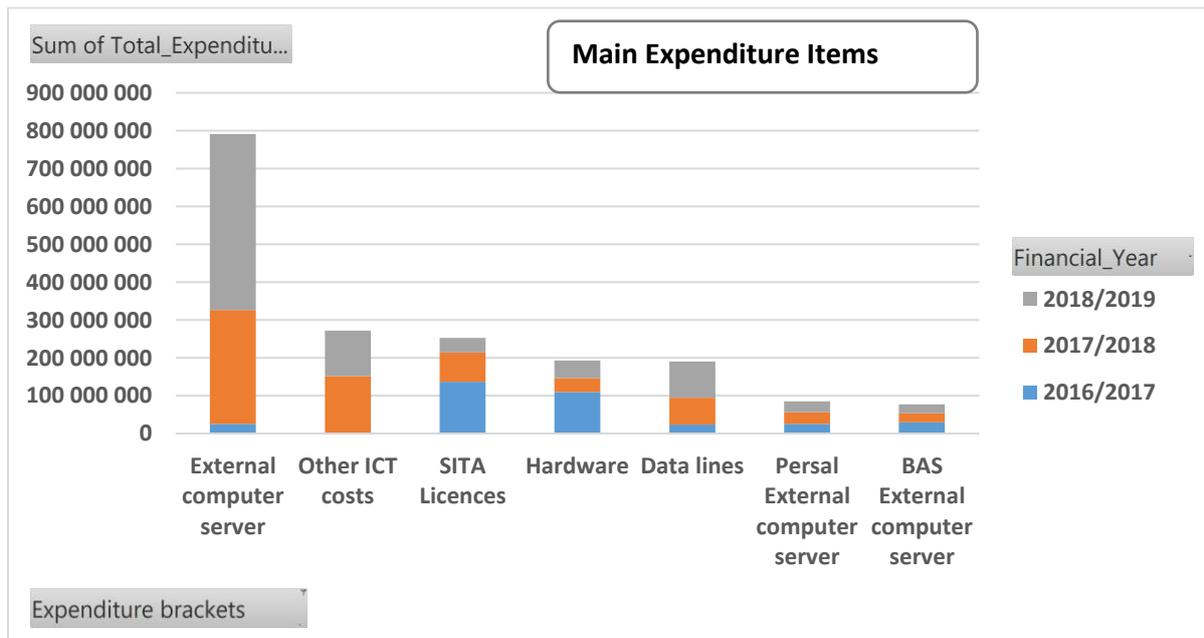
Evidently, expenditure on external computer server has increased astronomically in 2018/19 financial years, compared to previous financial years. It is also noted that no expenditure was recorded under "Other ICT costs" in 2016/17. "Other ICT costs" are made up of purchase of ICT systems at < R5000, expenditure on SITA operating systems, patent and licencing < R5 000 and therefore the 2016/17 amounts could have been classified on other expenditure items. Departments spend significant amounts of expenditure on connectivity, which is provided by SITA through the mean of Telkom Fibre link. I conducted an interview with a Deputy Director: IT services for the Provincial Treasury on 05 and 08 January 2020 who provided the following information regarding the current network environment and also shared some information obtained when the current network service was compared to private parties.

Table below compares internet connectivity service provided by SITA and one provided by an external service provider.

Table 3: Comparison of network costs

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.
An invoice obtained from an external service provider showed costs for installation and rental of internet bandwidth of the system. Provincial Treasury pays R43 608 per month per site (3 sites) as rental for connectivity line to SITA. It was noted that a saving of R105 480,39 could be achieved if the services of the private service provider were sourced, which will result in annual savings of R1 265 764,70. In addition, the Provincial Treasury indicated that SITA data connectivity service is slow as the agency is using old and outdated, while the market is willing to offer faster and new technology at a cheap price.	

Comparison of a Laptop procured through a transversal contract and online stores

	SITA service provider 26 November 2019	PC Express 30 January 2020	Loot.co.za 30 January 2020
1. Dell Latitude 5500	16 299 excl VAT	R18 939	R22 362

In addition, considering that one of the drivers of expenditures is hardware, I obtained an invoice from the Provincial Treasury for the purchase of a laptop and a Desktop. These costs were then compared to online ICT stores offering the same products and it was noted that the

service provider utilised by the Provincial Treasury form the SITA transversal contract was cheaper than the prices that were obtained from online providers.

Comparison of Desktop costs

Item	SITA service provider	PC Shopper	Raru.co.za	Ubuy South Africa
EliteOne 800 AO – 9500, 8GB	R17 310 (excl VAT)	R23 529	R24 022	R18 578

The above comparison of costs to the market also reveal a surprising and unexpected find, that costs incurred by the department in the purchase of a laptop and a desktop were cheap compared to the costs of the same product in the market.

5. Performance

As mentioned, the mandate of SITA is to provide ICT services in a cost effective manner and this also includes the provision of skills, expertise and facilities required to deliver a competitive ICT. SITA's objective is that it should source these goods and services and should therefore be responsible for all SCM related processes in order to save time for departments from engaging the lengthy SCM processes whenever they need an ICT service or goods. As demonstrated above, while the provision of laptops and desktops seems to be reasonable when compared to same products in the market, the provision of telecommunication services and rental of data lines are expensive compared to the market. Not only are these services costly, they are also outdated and performance has been considered to be poor when compared to what is available on the market. I conducted an interview with the IT Director in the Provincial Treasury, who mentioned that the main concern is with regards to the lack of transparency on the mark-up charged by SITA on the services procured through them. It appears that this mark-up has made services procured through SITA quite expensive. The concern with this is that the Public Finance Management Act (2009) Section 38(1) (b), tasks

the accounting officer of a department with a responsibility to "ensure effective, efficient, economical and transparent use of the resources of the department". Therefore, the SITA Act that stipulates mandatory services that departments need to procure from SITA should not take precedence over the PFMA, which requires that accounting officers take reasonable steps to procure services in an economical and transparent manner. More concerning is the lack of transparency with regards to the mark-up charged by SITA on these services.

6. Options

It would seem that departments are required to pay a premium through the mark-up costs that SITA charge in order to ensure that this entity is sustainable. Government has to consider whether this is the most efficient way of providing ICT services through an agency instead of departments procuring the services directly from services providers. While this might take a considerable time to process, it would be best that SITA is transparent on the mark-up they charge departments and departments can be given an opportunity to negotiate this mark-up with SITA. More importantly there is a need to review the clause in the SITA Act that makes the procurement of certain services to only be procured through SITA. If departments could be given an exit clause in the agreement that allows them to procure similar services or goods provided by SITA elsewhere in the market if they can prove that savings will be achieved by doing so.

7. Recommendations

This analysis has raised concerns on the exorbitant costs that departments pay for network related services that are provided by SITA. These services are part of the mandatory services that are departments have to procure through SITA. It has also been noted that SITA is not transparent with regards to the mark-up costs they charge for these services and departments do not robustly negotiate this mark-up with SITA. It is therefore recommended that when the Business Agreement is entered into by departments and SITA, the mark-up costs are included in the agreement and are 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. It is also recommended that an 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. An engagement with SITA would be 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. It is also recommended that the National Treasury is engaged in order to understand their role in monitoring SITA's mark-up costs. It is not clear at this stage whether SITA is meant to be self-sustaining through selling of their services to departments or they are partly subsidised by departments. An answer to SITA's sustainability question would clarify to what extent should SITA charge mark-up rates on services to departments on services provided.

8. Action

An engagement with SITA would be paramount in order to understand the mark-up they charge but also the measures they have to ensure services are economical. It would be important to also understand National Treasury's oversight role into the affairs of SITA, therefore an engagement with National Treasury would be necessary.

The finalised report would be submitted to the Head of Department for consideration with an intention that the report would be submitted to the Committee of Heads of Departments in the province. The report would also be submitted to the MEC of Finance, if the Head of Department concurs.