

Reference: RCS/C.6

TREASURY CIRCULAR NO. 23/2018

THE PREMIER
THE MINISTER OF ECONOMIC OPPORTUNITIES
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS AND SPORT
THE MINISTER OF EDUCATION
THE MINISTER OF FINANCE
THE MINISTER OF HEALTH
THE MINISTER OF HUMAN SETTLEMENTS
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING
THE MINISTER OF SOCIAL DEVELOPMENT
THE MINISTER OF TRANSPORT AND PUBLIC WORKS
THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT
THE EXECUTIVE AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MINISTER IH MEYER)
THE EXECUTIVE AUTHORITY: WESTERN CAPE NATURE CONSERVATION BOARD (MINISTER A BREDELL)
THE EXECUTIVE AUTHORITY: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MINISTER A WINDE)
THE EXECUTIVE AUTHORITY: SALDANHA BAY IDZ LICENCING COMPANY (MINISTER A WINDE)
THE EXECUTIVE AUTHORITY: WESTERN CAPE CULTURAL COMMISSION (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: WESTERN CAPE LANGUAGE COMMITTEE (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: WESTERN CAPE HERITAGE (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: CASIDRA (MINISTER A WINDE)
THE EXECUTIVE AUTHORITY: WESTERN CAPE LIQUOR AUTHORITY (MINISTER D PLATO)
THE ACCOUNTING OFFICER: VOTE 1: PREMIER (ADV B GERBER)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (DR G LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (MR G MORRIS)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR BK SCHREUDER)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (DR B ENGELBRECHT)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (DR R MACDONALD)
THE ACCOUNTING OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR T MGULI)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR P VAN ZYL)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MS J GOOCH)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (MR G PAULSE)
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THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)
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THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)
THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)

For information

THE ACCOUNTING AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MR T ARENDSE)
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 THE DEPUTY DIRECTOR GENERAL: FISCAL AND ECONOMIC SERVICES (MR H MALILA)
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 THE CHIEF DIRECTOR: ASSET MANAGEMENT (MS N EBRAHIM) (ACTING)
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 THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)
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 THE DIRECTOR: FISCAL POLICY (DR N NLEYA)
 THE DIRECTOR: INFRASTRUCTURE (MR K LANGENHOVEN)
 THE DIRECTOR: LOCAL GOVERNMENT ACCOUNTING (MR L BRINDERS)
 THE DIRECTOR: LOCAL GOVERNMENT BUDGET OFFICE (MR D CRONJÉ) (ACTING)
 THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (VACANT)
 THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
 THE DIRECTOR: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR R MOOLMAN)
 THE DIRECTOR: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)
 THE DIRECTOR: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS RH SLINGER)
 THE DIRECTOR: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
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 THE DIRECTOR: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (VACANT)
 THE DIRECTOR: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A MAZOMBA)
 THE PROVINCIAL AUDITOR
 MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT
 THE DEPUTY DIRECTOR GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

OPTIMISATION OF EXISTING FIXED-LINE VOICE SERVICES AND TELECOMMUNICATIONS INFRASTRUCTURE CONTRACTS

NATIONAL TREASURY SCM CIRCULAR NO. 12 OF 2016/2017

1. PURPOSE

1.1 The purpose of this Circular is to:

- (a) Inform accounting officers and accounting authorities of the National Treasury SCM Circular 12 of 2016/2017 (attached as Annexure A) on optimisation of existing fixed-line voice services & telecommunications infrastructure contracts and to provide guidance regarding the implementation of the said circular.
- (b) Note that National Treasury SCM Circular No. 6 of 2016/2017 dated 19 May 2016 on fixed-line telecommunications and PABX services has been repealed and replaced by National Treasury SCM Circular 12 of 2016/2017 dated 31 March 2017.
- (c) Inform accounting officers and accounting authorities that SITA is now responsible for the establishment of a transversal PABX contract.

2. BACKGROUND

2.1 Mandatory participation in Transversal Contracts

- 2.1.1 In terms of the compulsory implementation of purchasing via RT (Transversal) contracts entered into by National Treasury (NT), the WCG has resolved via its Cabinet Resolution item 2.1 of 70/2016 that it will only participate in RT contracts when it makes sound financial and business sense to do so.
- 2.1.2 In this regard, National Treasury, via the then Finance Minister (Minister Gordhan), indicated in the response to MEC Meyer's letter dated 16 March 2016, that the circulars regarding the use of transversal term contracts provides information in preparation of the new Treasury Regulations when promulgated and are not mandatory instruments (letter attached as Annexure B). As such the current Treasury Regulations apply which allows the Accounting Officer the discretionary power to participate in RT contracts arranged by National Treasury.
- 2.1.3 Due to the impact of the NT's SCM Reform process on governance and operational requirements the Provincial Treasury's (PT) Chief Directorate: Asset Management decided that an assessment will be done of all new requirements issued by the NT. The PT will in response issue a circular indicating said risk and the mitigating measures that should be followed or will be put in place. Departments may have unique operational requirements in terms of its respective mandates, it is expected that

departmental SCM units also assess new NT requirements to identify issues that may not have been detected by PT.

- 2.1.4 In terms of the SITA Act, a distinction is made between certain services that must be provided and services that may be provided by SITA. This implies that there must be a consultation process with SITA in terms of all goods and services that fall within the ambit of the Act, which in this instance would include the telecommunication services and infrastructure referred to in this circular. The consultative processes in terms of NT/SITA transversal contacts are extensive as provincial impact and financial implications must be considered. The PT's process to mitigate the risk related to the implementation of new or amended requirements as referred to in paragraph 2.1.3, has subsequently delayed the issuing of this circular as to provide the required guidance and clarification, which is deemed to be in the best interest of the province.

2.2 PROVINCIAL CONTEXT AS IT RELATES TO FIXED-LINE COMMUNICATION SERVICES

2.2.1 WCG Broadband Strategy

- (a) In terms of the Western Cape Government's Broadband Strategic Framework and Integrated Master Plan, a long-term agreement was entered into with *Neotel* for the provision of telecommunication services to the Western Cape Government (referred to as the WCG hereafter). The agreement with *Neotel* was originally envisaged for a ten-year period and entails a broadband network service that would provide connectivity to all Provincial Government buildings and other facilities across the Western Cape Province. Such facilities would include WCG corporate sites; schools; healthcare institutions such as clinics, day hospitals, emergency medical services, forensic pathology services and hospitals); libraries (provincial as well as municipal libraries in rural areas) as well as satellite administrative offices and depots of the WCG. The telecommunications network is furthermore able to carry data, voice and video communications and is capable of providing public Internet access together with private corporate government network access (for multiple government clients), on the same infrastructure.

2.2.2 Levers of the Broadband Strategy/Neotel contract

- (a) The connecting of all WCG corporate sites, schools, healthcare institutions (clinics, day hospitals, emergency medical services, forensic pathology services and hospitals), libraries (provincial as well as municipal libraries in rural areas) as well as satellite administrative offices and depots of the WCG was used as a catalyst to develop the telecommunications infrastructure for a connected Province. It consequently allowed for the development of regional and local backbone networks as well as some of the subscriber access infrastructure.

- (b) The Broadband contract has eradicated the historical duplication of procurement efforts across provincial departments, which was administratively inefficient and did not lever the benefits of aggregated demand. By aggregating the WCG requirements it allowed the service provider with the necessary incentive to invest in the development of the telecommunications infrastructure and to be more competitive in the pricing of their solutions.
- (c) The WCG also serves as the anchor tenant which allows the service provider to leverage off the Provinces' aggregated demand to achieve economies of scale which allows for:
 - (i) The leveraging of public infrastructure and investment to reduce the cost of and speed up the deployment of broadband network access throughout the Western Cape – especially in marginalised areas;
 - (ii) Using the aggregated demand of provincial government (along with the possible inclusion of municipalities and other government stakeholders) in order to achieve cost efficiencies whilst simultaneously achieving improved quality of service delivery and access; and
 - (iii) The utilisation of government as a catalyst to drive broadband infrastructure development, enable more private sector service providers and increase competition.

3. PROVINCIAL ASSESSMENT OF NATIONAL TREASURY CIRCULAR 12 OF 2016/2017

3.1 Fixed-line communication

3.1.1 The WCG is committed under the Broadband Strategy and 10-year contract with Neotel which encompasses voice, data and video. Provincial departments would therefore not be able to enter into agreement for said services with another service provider as it this would be tantamount to contract breach.

3.2 Private Automatic Branch Exchange (PABX)

3.2.1 The Ce-I (Broadband unit) has advised the Provincial Treasury that the PABX arrangements are subject to on-boarding to the existing *Neote*/broadband contract and that the client could choose to proceed with the following voice solutions:

- (a) A full Voice over IP (VOIP) solution, in which case the clients PABX is no longer required, however, in most cases this would result in the need for upgrade to the client's Local Area Network (i.e. the on-site data network infrastructure) in order to deliver the solution, as the voice traffic is now also carried over the traditional data network; and

(b) An Interim Voice Solution, in which case the client retains their PABX, and Ce-I simply connects Neotel telephone lines to the PABX to carry the voice traffic over the *Neotel* voice network, and in this way savings are still achieved on voice minutes for the Province.

3.2.2 National Treasury Circular 12 of 2016/2017 specifies that a One-government rate was renegotiated with Telkom for all provincial and national contracts that were held with Telkom at 1 January 2017. Consequently, departments who held contracts with Telkom at the said time, should be eligible for the renegotiated rates as it relates to PABX costs. However, upon enquiry with Telkom, it came to light that the renegotiated rates do not apply to WCG sites that use the interim-VOIP solution by Neotel. The reason being that Telkom renegotiated rates do not apply in instances where a third party vendor (such as Neotel) participates in the routing of a call.

3.2.3 In the spirit of the National Treasury's drive for efficiencies and the message contained in NT Circular 12 of 2016/2017, departments are still encouraged to negotiate improved rates with Telkom or other vendors as it pertains to PABX infrastructure whilst continuing to benefit from the portion of the call that is routed via Neotel in terms of the interim-VOIP solution.

3.2.4 The National Treasury has handed over the responsibility for the establishment of a Transversal PABX contract to SITA. SITA has confirmed that they are in the process of establishing a contract but cannot provide a conclusive timeline as yet.

4. THE WAY FORWARD WITH EXISTING FIXED-LINE VOICE AND TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

4.1 Departments are no longer required to consult the Provincial Treasury on the conclusion of PABX contracts.

4.2 Given that the WCG is not able to benefit from the renegotiated rates with Telkom and that it is already using a Voice Over IP (VOIP) or interim-VOIP solution, departments are not obliged to adhere to the implementation of the renegotiated rates under paragraph 8 of National Treasury Circular 12 of 2016/2017 as the telecommunication infrastructure optimisation and internal levers referred to under paragraph 3 of National Treasury Circular 12 of 2016/2017 are already implemented by WCG.

5. REQUEST

5.1 Accounting officers and accounting authorities are advised to take note of the content of this circular and adhere to paragraph 4 of this circular.

5.2 All queries relating to this circular may be directed to:

theresa.soetzenberg@westerncape.gov.za

A handwritten signature in black ink, appearing to read 'Tasneem Rakiep', written in a cursive style.

MS TASNEEM RAKIEP

ACTING DIRECTOR: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT

DATE: 3 July 2018



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Ref 2/2/9

**TO: ACCOUNTING OFFICERS OF DEPARTMENTS AND CONSTITUTIONAL
INSTITUTIONS
HEAD OFFICIALS OF ALL PROVINCIAL TREASURIES**

NATIONAL TREASURY SCM CIRCULAR NO 12 OF 2016/2017

**OPTIMISATION OF EXISTING FIXED-LINE VOICE SERVICES & TELECOM-
MUNICATIONS INFRASTRUCTURE CONTRACTS**

1. PURPOSE

- 1.1 The purpose of this SCM Circular is to inform Departments and Constitutional Institutions to the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) about the implementation of National Treasury's project relating to fixed-line voice and telecommunications infrastructure services.
- 1.2 This Circular is also aimed at informing Accounting Officers and Accounting Authorities of the outcome of negotiations with Telkom on rates for existing contracts for fixed-line voice services and telecommunications infrastructure services for National and Provincial Departments as well as the withdrawal of Circular 6 of 2016/17 issued on 19 May 2016.

2. BACKGROUND

- 2.1 In terms of Section 38(1)(a) (iii) and 51(1)(iii) of the PFMA, the Accounting Officer of a Department or Constitutional Institution and the Accounting Authority of a Public Entity listed in Schedule 3A and 3C to the PFMA must ensure that their respective institution has and maintains an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.
- 2.2 The South African Government spends approximately R2.2 billion per annum on fixed line communication services for National and Provincial Departments. In 2016, as part of the top 100 Government suppliers' review, National Treasury entered into negotiations with existing fixed-line voice and telecommunications service providers, the largest of which is Telkom SOC. The negotiation was aimed at exploring options to reduce fixed line communication and PBX costs for existing contracts.
- 2.3 The negotiations took place between the Office of the Chief Procurement Officer (OCPO) and Telkom SOC. The engagement identified, amongst other inefficiencies, the fragmented procurement of the same or similar fixed voice services by Government Departments from Telkom. The benefits of the revised contracts between Government and Telkom will comprise the following for National and Provincial Departments:

- 2.3.1 One-government-rate for all fixed line voice services for National and Provincial Departments will be charged, except in cases where Departments were already on a Telkom PSB contract, as of 01 January 2017;
- 2.3.2 One-government-rate will be a per second billing rate for all outgoing calls for all National and Provincial Departments from the first second;
- 2.3.3 Prioritising the implementation of migration of 10 biggest Government customers to new rates and per second billing method. The 10 biggest Government customers will be confirmed by National Treasury, Telkom and the applicable Departments. Implementation will be phased in from 1 January to 31 March 2017. These Departments are:
- Department of Justice and Constitutional Development
 - Department of Basic Education
 - Correctional Services
 - Department of Defense
 - Department of Health
 - Department of Transport
 - Department of Home Affairs
 - Department of Rural Development and Land Reform
 - South African Police Service
 - Department of Social Development
- 2.3.4 For all other National and Provincial Government Departments with existing Telkom fixed line voice services contracts, implementation will take place from 1 April 2017 and the renegotiated rate will be effective from date of implementation; and
- 2.3.5 Master Service Agreement will be applicable for two years (1 April 2017 to 31 March 2019).
- 2.4 Constitutional Institutions and Public Entities listed in Schedule 3A and 3C are excluded from the current Master Service Agreement with Telkom. Negotiations with all telecoms service providers supplying fixed-line voice and telecommunications infrastructure services will be addressed in an ensuing phase of negotiations aimed at benefitting Constitutional Institutions and Public Entities listed in Schedule 3A and 3C.

3. IMPLEMENTATION

- 3.1 National Treasury and Telkom reached an agreement to afford all National and Provincial Departments a significantly reduced and standard set of call rates. A standard Master Services Agreement (MSA) and Service Agreements (SA) for fixed-line communication and PBX services were developed to consolidate the existing disparate contracts with a view to benefit from standard reduced call rates. The Master Service Agreement and Service Agreements will be made available to Departments with existing Telkom contracts for perusal and according to the implementation plan.
- 3.2 The reduction of telecommunication costs affords Accounting Officers the opportunity to implement the afore-mentioned Master Services Agreement and Service

Agreements for fixed-line voice and telecommunications services as per the implementation plan established by Telkom and National Treasury. This renegotiated contract will be in place for a period of two years starting 1 April 2017 to 31 March 2019.

- 3.3 The renegotiated rates provided in the Memorandum of Understanding (MOU), Master Services Agreement (MSA) and Service Agreements (SA) are applicable to existing Telkom fixed-line voice and telecommunications services. New services including PBX services and hardware must be acquired in accordance with procurement procedures.
- 3.4 A holistic effort to reduce fixed line communication related expenditure is required from Departments, Constitutional Institutions and Public Entities listed in Schedule 3A and 3C. Significantly reduced rates for Telkom customers are one measure that will be available to all national and provincial departments. The following additional measures are required from all Accounting Officers and Accounting Authorities:

Telecommunication Infrastructure Optimisation:

- 3.4.1 Departments and Public Entities should conduct an audit that will report on:
- the call traffic between the Department's various branches; and
 - the usage of their trunk lines or PRI lines to ensure that trunk lines to Departments and Entities are optimally provisioned (i.e. not too many, not too few trunk lines).
- 3.4.2 Conduct an assessment of their LAN/WAN networks with a view determine the networks' capability to carry voice traffic in a possible SIP-Trunking and VoIP environment.
- 3.4.3 Departments and Constitutional Institutions are encouraged to review and conduct cost comparison exercises on their existing PBX contracts versus migrating onto an IP-based PBX platform, which is capable of connecting multiple branches to a shared IP-PBX using a Voice Over IP (VoIP) solution and appropriate gateways at branches. However, existing PBX contracts must be allowed to run their course until expiry; and

Internal levers

- 3.4.4 Make use of internal controls to assist in the reduction of telecommunications (telecoms) and related expenditure. Internal controls for telecoms cost reduction refer to the controls that managers within the respective Government Departments can implement in order to make their telecoms environment/s more efficient and cost effective. These include:
- 3.4.4.1 Implementing a centralised modern Telephone Management System (TMS), but preferably a Telecommunications Expense Management (TEM) solution, that can produce individual and consolidated telecommunications usage and billing reports across multiple branches of the Department. The TMS/TEM solution should also provide the Department with the ability to set and report on budgets at user level and separately identify users' Business Numbers and Private Numbers – to aid in the reduction of telephone abuse and changes user behavior;

- 3.4.4.2 Register, if using Telkom's voice services, for a Telkom Ease-e-Bill account and load all Telkom accounts billed to the organisation. This will allow for electronic monitoring by verifying usage versus billed amounts and identifying unnecessary expenditure, such as outdated or unnecessary infrastructure being billed to the organization.
- 3.4.4.3 For any other voice services provided by any other voice carrier service providers or least cost routing service providers, Departments and Constitutional Institutions must ensure that such service providers can produce raw call data records (CDRs) and the associated call costs for all outgoing call traffic per branch upon request, to verify the benefit to Departments and Constitutional Institutions.
- 3.4.4.4 Develop, implement and distribute a policy on the usage of telephony services in every department and public entity to create awareness on how to use telephony resources in the most cost-effective way. This should include policy on private calls, budgets per user and the recovery of costs for private calls and related matters;
- 3.4.4.5 If Departments and Constitutional Institutions do not have necessary internal capacity, should periodically consult industry experts, who are not voice or data connectivity service providers (i.e.companies which provide any voice carrier services or data/broadband/Internet connectivity services), periodically on optimising telephony and telecommunications efficiency and cost effectiveness relevant to the Department or Public Entity's needs.

4. APPLICABILITY

- 4.1 This Circular applies to all National and Provincial Departments.

5. DISSEMINATION OF INFORMATION CONTAINED IN THIS CIRCULAR

- 5.1 Head Officials of Provincial Treasuries are requested to bring the contents of this Circular to the attention of Accounting Officers and Accounting Authorities of Departments and Public Entities in their respective Provinces.
- 5.2 Accounting Officers of National Departments are requested to bring the contents of this Circular to the attention of Accounting Authorities of Schedule 3A Public Entities reporting to their respective Executive Authorities.

6. STATUS OF THIS CIRCULAR

- 6.1 This Circular is issued to provide Departments, Constitutional Institutions and Schedule 3A and 3C Public Entities with information related to implementation of the cost containment project related to 1 April 2017 to 31 March 2019.

7. REPEAL OF CIRCULAR 6 of 2016/17

- 7.1 National Treasury SCM Circular 06 of 2016/ 2017 fixed-line telecommunications and PBX services dated 19 May 2016 is hereby repealed.

8. COMMENCEMENT DATE

Departments and Constitutional Institutions may extend their current fixed line and PABX contracts on a month-to-month basis no later than 30 September 2017 to allow adequate time to advertise, evaluate and adjudicate bids for such services if required. Departments and Constitutional Bodies with existing TELKOM contracts must implement the renegotiated rates as prescribed in this circular.

9. INFORMATION

- 9.1 Enquiries related to this Circular may be directed to:
Willie Mathebula
Chief Director: SCM Policy and Legal
Email: Willie.Mathebula@treasury.gov.za
Telephone: 012 315 5377

Regards



SCHALK HUMAN
ACTING CHIEF PROCUREMENT OFFICER
DATE: 31/03/2017