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TREASURY CIRCULAR 41/2006

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (DR GA LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR R HINDLEY) (ACTING)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (MR M DELIWE)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR RB SWARTZ)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KG HOUSEHAM)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL SERVICES AND POVERTY ALLEVIATION (MS K LUBELWANA) (ACTING)
THE ACCOUNTING OFFICER: VOTE 8: LOCAL GOVERNMENT AND HOUSING (MS S MAJIE)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR T TOLMAY)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR T MANYATHI)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (DR H FAST) (ACTING)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR MN LINDIE)

**RE: TRANSVERSAL CONTRACT FOR THE PROVISION OF A COST EFFECTIVE
MANAGEMENT SERVICE FOR AIR TRAVEL, CAR HIRE AND ACCOMODATION
FOR THE PROVINCIAL GOVERNMENT OF THE WESTERN CAPE**

1. PURPOSE

1.1 To recommend the facilitation of a transversal contract

- For the rendering of a cost effective management service for travel and accommodation for the Provincial Government of the Western Cape (hereinafter referred to as "PGWC),
- To establish cost savings for the commodity concerned which consists of air travel, accommodation and car hire; and,
- To ensure that black economic empowerment (hereinafter referred to as "BEE") initiatives are supported and extended where possible.

1.2 Obtain confirmation on participation

- To obtain written confirmation, before or on the 22nd December 2006, from Accounting Officers to participate in this transversal contract if the research indicate that participation will lead to a reduction in the total cost of ownership and that the socio economic goals were obtained.

2. BACKGROUND

In reviewing the existing supply chain management arrangements of the PGWC, travelling was identified as deemed to be more cost effective if procured in terms of a transversal contract. Travelling and related activities was not afforded sufficient management attention, therefore the potential savings for the Province could not be realised.

A transversal contract was then arranged by PGWC for this type of services but the bid had to be withdrawn in April 2006 as a result of a Competition Commission ruling on the fee structure charged by the airlines and the travel agents. This resulted in a considerable change in the specifications of the bid and consequently the bid had to be withdrawn. PGWC also advised departments that it would conclude the transversal contract for the services concerned again at a later stage.

2.1 LEGAL FRAMEWORK

2.1.1 The PGWC is compelled to comply with section 217 of the Constitution which states that "When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective."

2.1.2 The facilitation of a transversal contract for the respective services would give effect to sound supply chain management practice in accordance with Regulation 18(2)(a), 38(1) and 76(4) of the Public Finance Management (Act No 1 of 1999); Regulation 16A3.2, 16A6.5 and 16A6.6 of the National Treasury Regulations; Regulation 16A2.3 of the Provincial Treasury Instructions issued on the 13th October 2005 as well as other principles and objectives as set out in the various practice notes /policies/ instructions issued by National and Provincial Treasury with regard to Supply Chain Management.

2.1.3 The transversal bid process must be conducted in a manner prescribed by all legislation applicable to the procurement and supply chain management environment of government which includes but is not limited to the Broad-Based Black Economic Empowerment Act No 53 of 2003 (hereinafter referred to as

the BBBEEA), the Preferential Procurement Policy Framework Act No 5 of 2000 (hereinafter referred to as the PPPFA).

2.1.4 The request to obtain the buy-in from accounting officers within departments is in line with Provincial Treasury's proposed circular on transversal contracts which is to ensure uniformity within the province with regard to the arrangement of transversal contracts and to ensure that all parties involved in such contracts have the necessary knowledge and a clear understanding of their responsibilities when participating in such contracts. The proposed circular will be sent to departments in due course. In terms of the proposed guidelines and regulations outlined in the circular, the Head: Asset Management must request written buy-in from departments to participate in a transversal contract if the value proposal/needs analysis indicate that participation will lead to potential economies of scale, standardization, value for money, and preferential procurement advantages.

2.1 CURRENT SERVICE AND COST

2.2.1 There is a considerable amount of freedom in departments on the use of the travel agencies and the costs involved. A reasonable idea of the overall travel expenditure exists, but no regular information on travel and expenditure patterns is available. This motivates the Province's need for being cost effective and the employee's need for quality service and support. Table A indicates a spending pattern for the financial year 2003/2004 for travel and accommodation in a few departments:

Table A

DEPARTMENT	2003/04	2002/03
<i>Cultural affairs and sport</i>	477,237.72	476,880.24
<i>Education</i>	4,558,021.00	2,223,564.00
<i>Environmental affairs</i>	1,221,194.00	1,150,755.00
<i>Housing</i>	878,530.00	879,006.00
<i>Local Government</i>	970,813.00	425,218.00
<i>Provincial Treasury</i>	1,075,550.00	1,188,681.00
TOTAL	<u>9,182,345.70</u>	<u>6,344,104.24</u>

2.2.2 There is no specific travel agency contracted, which result in each department making use of travel agencies based on preference. Departments have a

considerable amount of freedom and no real control or management over the travel cost is exercised. In table B the travel agencies being used are listed. The assessing of the performance of the various travel agencies on their service or value for money is not possible.

TABLE B

<u>SPEND ANALYSIS ON AIR TRAVEL</u>					
Department	Agency used	Frequency	Tickets		Value
			Domestic	International	
<i>Provincial Treasury</i>	<i>Momentum</i>	242	241	1	<i>R847,000.00</i>
<i>Local Government</i>	<i>Trigon Travel</i>	42	42		<i>R147,000.00</i>
	<i>Connex Travel</i>	18	12	6	<i>R102,000.00</i>
	<i>Sure ITC Travel</i>	30	30		<i>R105,000.00</i>
<i>Cultural affairs and sport</i>	<i>Business Executive Travel</i>	11	11		<i>R37,958.00</i>
	<i>Sure Travel Trigon Travel</i>	63	62	1	<i>R198,061.00</i>
	<i>Star Travel</i>	1	1		<i>R4,501.00</i>
	<i>Sure Travel Flywell Travel</i>	6	3	3	<i>R142,278.00</i>
	<i>Naledi Corporate Travel</i>	2		2	<i>R58,756.00</i>
<i>Education</i>	<i>Connex Travel</i>	593	582	11	<i>R2,353,852.00</i>
<i>Environmental Affairs and Development Planning</i>	<i>Momentum</i>	6	6		<i>R21,000.00</i>
	<i>Embassy Travel</i>	11	5	6	<i>R57,200.00</i>
	<i>Trigon Travel</i>	50	50		<i>R175,000.00</i>

	Harvey World Travel	1	1		R4507.00
Housing	Sure Travel Trigon Travel	150			R634, 889.81
TOTAL		1530	1506	24	R5,631,288.81

2.2.3 **Table C** is an approximate of the expenditure for accommodation in a few randomly selected departments within the Western Cape Province for 2003/04. Accommodation is also selected on preference and not necessarily on negotiated rates.

TABLE C

<u>SPEND ANALYSIS ON ACCOMODATION</u>				
Department	Travel Agency	Accommodation used	Frequency	Value
Provincial Treasury	Momentum		65	220,000.00
Local Government	Direct	Protea/Holiday Inn	70	42,000.00
	Connex Travel	Protea/Holiday Inn	12	12,000.00
Cultural affairs and sport	Business Exe Travel	Mkekweni, Queens	2	1,069.90
	Star Travel		1	798.50
	Sure Flywell travel		3	9,540.00
Education	Connex travel	Holiday Inn	39	23,400.00
Environmental affairs and development planning	Trigon travel	Holiday Inn/Royal	12	10,200.00
	Sure ITC Travel		6	6,000.00

<i>Housing</i>	<i>Direct</i>	<i>Holiday Inn/ Protea</i>	55	200,000.00
<u>TOTAL</u>			<u>267</u>	<u>525,008.40</u>

2.2.4 Table D is an approximate of the expenditure for car hire in a few randomly selected departments within the Province of the Western Cape for 2003/2004. Although standard rates exist for car hire the frequency justifies a negotiated rate for government, and or a discount. This means the total spend can be less than the current rates charged.

TABLE D

<u>SPEND ANALYSIS ON CAR HIRE</u>				
<i>Department</i>	<i>Travel Agency</i>	<i>Car hire used</i>	<i>Frequency</i>	<i>Value</i>
<i>Provincial Treasury</i>	<i>Momentum</i>	<i>Imperial</i>	19	8,550.00
<i>Local Government</i>	<i>Trigon Travel</i>	<i>Imperial</i>	38	21,400.00
	<i>ITC Travel</i>	<i>Imperial</i>	14	7,000.00
<i>Cultural affairs and Sport</i>	<i>Business Exe Travel</i>	<i>United</i>	6	2,301.30
	<i>Sure Flywell Travel</i>	<i>United</i>	20	14,615.00
	<i>Star Travel</i>	<i>United</i>	10	7,359.00
<i>Education</i>	<i>Dept Booking</i>	<i>Imperial</i>	290	98,600.00
<i>Environmental affairs and Developing Planning</i>	<i>Direct</i>	<i>Imperial</i>	114	79,926.73
		<i>Avis</i>	6	3,997.19
		<i>Magic bus</i>	6	2,357.00
	Momentum	<i>Imperial</i>	1	830.26
		<i>Avis</i>	2	896.85
	Trigon Travel	<i>Imperial</i>	3	1,959.63
		<i>Avis</i>	2	1,316.89
		<i>Magic Bus</i>	4	2,020.00
		<i>Devon's</i>	6	1,020.00
Housing	Trigon Travel	<i>Avis</i>		
		<i>Imperial</i>	100	60,000.00
<u>TOTAL</u>			<u>641</u>	<u>314,149.85</u>

2.2.5 It must be understood that figures for past travel and related services will be made available without commitment and the service provider shall be bound to provide whatever travel and related services the PGWC may require during the contractual period.

2.3 INITIAL MARKET ANALYSIS

2.3.1 There are a number of travel agencies available and the following are a few of the travel agencies that are being used randomly by the various departments for their travelling requirements on an as need basis:

- Momentum Travel
- Sure Trigon Travel
- SACC Star Bureau
- Seekers Lesedi
- Pulanala Travel
- Royal International Travel and Tours
- Rennies Travel
- Flywell Travel
- BTI Connex Travel
- Uniglobe Sechaba Travel
- Connex Travel, etc.

The services, which they offer, consist of the following:

- Arranging travel bookings e.g. car hire, accommodation and air travel.
- Arrangements of visas for international travel
- Delivery of travel documents to the relevant persons and personnel who will be traveling
- The provision of reports indicating the saving/loss incurred resulting from travel arrangements made and also recommendations to further reduce costs in respect of travel.
- Aiding corporates in drawing up travel policies
- Evaluate the existing process and develop travel demand formulas

2.3.2 The major airlines operating within South Africa e.g.

- South African Airways
- British Airways
- Virgin Atlantic

- Nationwide airlines

offer corporate agreements to corporates such as PGWC that allows for a further reduction in cost depending on the requirements of the organization. Encapsulated within the corporate agreement would be the following:

- Incentivising corporates on the amount of money spent with the specific airline. Depending upon the requirements of the corporate concerned, this can be in the form of cash or miles that can be later exchanged for further air travel.
- Direct on-line booking with the airline
- Reporting on savings/losses in respect of air travel undertaken and providing recommendations to improve travel management, etc.

2.3.3 Similar corporate agreements also exist for car hire. The current service providers utilized for car hire by PGWC are the following:

- Imperial
- United
- Avis
- Magic Bus
- Devon's

The market is saturated with service providers for car hire and the opportunity exists for PGWC to implement a fair competitive bid process in this regard, which may lead to reduction in the current cost for car hire.

2.3.4 Currently, fixed government rates exist for accommodation that is being offered to PGWC by various suppliers e.g. Protea Hotels, Southern Suns, etc. Various other accommodation service providers exist within the market and will therefore provide for a competitive bid process.

4. REQUIREMENTS FOR THE SERVICES NEEDED

4.1 BUSINESS REQUIREMENTS

To make provision for an acceptable balance of cost, benefit and risk, the following business requirements is needed:

4.1.1 The PGWC will facilitate a Request for Proposal to conclude corporate agreements with all the airlines and several service providers for car hire and

accommodation. The most favourable rates will thus be negotiated for air travel, car hire and accommodation, based on the economies of scale of the PGWC.

4.1.2 In addition, a bid process must be conducted to conclude contracts with several travel agencies for the management of travel arrangements and to adhere to the specifications stipulated in the corporate agreements for air travel and car hire or provide more favourable rates based on their economies of scale with the respective service providers. Travel agencies will also be responsible for the negotiation of the most favourable rates in respect of accommodation.

4.1.3 The corporate agreements concluded in 4.1.1 will in turn be provided to the travel agencies to manage. In summary the travel agent duties therefore will include:

- the opportunity in this arrangement to negotiate, in accordance with their economies of scale, more favourable travel arrangements with the airlines and car rental companies;
- ensure compliance to the Service Level Agreements that PGWC have with the respective corporates identified in 4.1.1.
- management and user support of the bookings of air travel, car hire and accommodation. This should include services such as worldwide air travel bookings, worldwide car hire, worldwide accommodation, passports and visas, airports assistance, personal profile records of travellers, foreign currency rail bookings, delivery of tickets and travel documents 24 hours prior to travel date, etc.

4.1.4 The contract period will be for a minimum of one year from the signing of the contract agreement subject to PGWC having an option to extend for a further two years or terminate the contract. The contract will also be subject to a performance review of the desired outcome and objectives as set out in the contract and service level agreement after the duration of the first year of the contract.

4.2 DRAFT SPECIFICATIONS FOR THE SERVICES REQUIRED

This section provides an indication of the minimum specifications in terms of the services required. Further requirements and alterations to the specifications can be deliberated and concluded in the Specifications Committee.

4.2.1 TERMS OF REFERENCE FOR ASSESSING PERFORMANCE

The service provider's capability to provide and manage the level of service will be assessed against their performance in the following areas:

- have a firm understanding of the reasons for travel and knowing the extent and nature of it
- will be able to stimulate the need for the PGWC to receive the desired results on travel and related services and challenging the effectiveness of the current process and the true value they add
- ensuring the successful implementation and management of a travel and related services contract
- understand the intention of the legislature within the PMFA, Preferential Procurement, and any other legislation, national or Provincial that may have an impact on Supply Chain Management with all spheres of the Western Cape Province
- provide a travel management service to all departments in the Western Cape Province
- design, supply, delivery, installation, testing, commissioning, upholding, training and maintenance of an in-house electronic and reporting mechanism to provide reports on travel per user, department, savings in respect of travel achieved, etc
 - practice as a travel management agency; and
 - be an IATA/ASATA travel agent or associates of IATA / ASATA travel agents.
 - capability to manage the said volumes
 - sound financial condition
 - supply and logistics capability
 - quality
 - customer references

- Account Management, and
- goals and objectives for continuous improvements to the provision of its services

4.2.2 SELECTION CRITERIA

4.2.2.1 An evaluation/adjudicating committee representative of all departments within the PGWC will be assembled to evaluate/adjudicate the bids posing critical issues and review recommendations.

4.2.2.2 Should a service provider or service providers be selected; the selection of a service provider, in addition to 4.2.1, will be on the basis of, but not limited to:

- The service provider having the necessary financial, infrastructure and management capacity and other resources
- Profile of the service provider, including their key staff committed to the bid
- All collective experiences in both public and private sectors and references or comparable institutions.
- The management information system (MIS) used
- Organizational structure
- Existence of Employment Equity
- Links with world wide travel service organizations
- Cost benefits to the Western Cape Province
- Points in terms of preferential procurement policy
- BEE initiatives
- Plan of action in terms of risk management
- Other value added services
- Service provider's compliance to specifications

4.2.2.4 The bid will be evaluated with the 90-10 preference points system, namely:

Preference = 10%

Price = 50%

Functionality = 40%

4.2.2.5 Service providers can possibly expect a site visit from a PGWC representative/s and therefore will be expected to have selected produce, vehicles, and facilities etc on display and in working order for team inspection.

4.2.3 SPECIFIC REQUIREMENTS IN RESPECT OF SERVICES REQUIRED

4.2.3.1 TRAVEL ARRANGEMENTS

The service provider must provide the following specific requirements in respect of travel arrangements:

- Ease of order placement (booking)
- Arrangements of visas for international travel
- Confirmation of orders (bookings)
- After hours emergency service and placing bookings
- Arrangement of international travel for the PGWC staff and guest visiting the PGWC
- Delivery of travel documents to the relevant persons and personnel who are going travelling
- The efficiency and effectiveness of arranging/changing 'urgent' travel needs
- Indications to guarantees in terms of further reduced costs; apart from the negotiated corporate agreements PGWC has in place with suppliers.
- Evaluate the existing process and develop travel demand formulas
- Develop a travel plan based on the province's goals and objectives.
- Incorporate air travel quality, congestion management, and other travel issues through the travel management planning process.
- Develop a financial management plan
- Provide a time-table for specific travel projects that might arise

4.2.3.2 FINANCIAL REQUIREMENTS

Service providers are required to provide the following financial information (non-disclosure upfront cannot be considered as fair practice when competing with others):

- the percentage commission they receive from the respective travel

suppliers for air travel, accommodation and car hire

- a proposal on a firm and fixed management fee structure for the duration of the contract period (should it not be possible for service providers to fix cost for the remainder of the contract period, the service provider must specify in their bid proposal a "safety margin". This would result in the service provider disclosing all cost factors affecting their management fee. If the contract is awarded; and the successful service provider has failed to mention all the cost, the extra cost will not be allowed to be charged as an after thought and/or at a later date)
- a budget breakdown indicating all discounts and or rebates received from suppliers.

4.2.3.3 REPORTING

4.2.3.3.1 In order to monitor performance and give effect to the management of risk and achievability of the goals and objectives; the service provider is required to submit the monthly reports to PGWC and departments on the following information:

- Department
- Name of traveller
- Travelling date and time
- Corporate rate
- Negotiated rate
- Saving or loss
- Reason for saving or loss

4.2.3.3.2 The following will apply in the respect of grievances:

- all grievances by travel agencies must be reported to departments as well as to the Provincial Treasury, and
- all grievances by departments must be reported to the Provincial Treasury.

4.2.3.4 GENERAL REQUIREMENTS

In addition to the above, the following general requirements in respect of the above will also apply:

- the service provider must state whether they have any international

partners for international travel and also who their preferred suppliers are and why.

- the service provider must submit a proposal (with examples) of the type of statistical data and management information that would be available to the PGWC to manage their travel and related services. This information will be required on a monthly basis.
- the service provider is requested to highlight any technological capabilities in terms of EFT, EDI, Internet and e-travel, etc.
- the service provider must provide a breakdown of the level of service they provide, i.e. the level of operations, accounting etc.
- The management information system (MIS) used must be implemented in the different departments.
- Training must be provided on the use of the system.
- A travel policy, relevant to all departments, must be formulated.

5. PROPOSAL

5.1 In summary, it is proposed that PGWC embark on a bid process to establish a transversal contract for the provision of a cost effective management service for air travel, car hire and accommodation for the following reasons:

- It makes provision for a platform to test the marketplace and thereby obtain competitive pricing for the required service
- It provides all suppliers in the marketplace an equal opportunity to engage in a process, which is fair, competitive, transparent and cost-effective
- PGWC will be able to facilitate the arrangement for the best possible corporate agreement, in respect of quality of service, for air travel, car hire and hotel accommodation.
- PGWC will be able to facilitate the arrangement for the best possible contract with travel agencies, in respect of quality of service, for air travel, car hire and hotel accommodation
- Better management of travel arrangements by departments will be possible
- Regular performance reporting will now assess the travel agencies
- There will be standardized processes and procedures throughout PGWC.

- Using the economies of scale of that PGWC and its related departments will allow for a possible reduction in cost for the services required.
- 5.2 To remain with the current practice with regard to air travel, car hire and accommodation in PGWC will effectively mean that PGWC will not be able to realise the benefits as encapsulated in 5.1 above.

6. REQUIRED

- 6.1 In order to ensure a successful facilitation of the process, it is imperative that Accounting Officers provide their confirmation to participate in the proposed transversal contract and a contact person with whom Provincial Treasury will liaise on suitable nominations for the 3 committees, by latest 22 December 2006. This is to ensure that a balance of skills and knowledge in the areas of supply chain management, legal expertise and the travel industry for the respective Specifications, Evaluation and Adjudication Committees is obtained.
- 6.2 Any queries in this regard may be directed to Craig Golding / Henry van Jaarsveldt on tel no: (021) 483 9940 or via e-mail to cgolding@pgwc.gov.za or hvanjaar@pgwc.gov.za.

TD PILLAY
CHIEF DIRECTOR: ASSET MANAGEMENT
PROVINCIAL TREASURY

DATE: