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 & TELECOMMUNICATIONS 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:

<u>Telecommunication Infrastructure Optimisation</u>:

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

<u>Internal levers</u>

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:
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Regards

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