

INFORMATION STATEMENT

**ON THE BUILD, OPERATE AND TRANSFER AGREEMENT FOR THE
PROPOSED BROADBAND BACKBONE NETWORK TO BE ENTERED INTO
BY THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY**

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1. EXECUTIVE SUMMARY

The City of Tshwane Metropolitan Municipality ("the City") is pursuing the establishment of a broadband backbone network which will be built and operated for a period of 18 years by a Special Purpose Vehicle (SPV) established as a result of tender number GICT 01/2014/15 being awarded. In exchange, the City will receive telecommunications services at a discounted rate which will also benefit small, medium and micro enterprises (SMMEs), Tshwane residents and government entities.

In addition to the above, the City will receive an incentive amount from the SPV during the term of the contract which is equivalent to 30% of the net profit generated from external sales of telecommunications services after tax deductions.

At the end of the 18-year of the broadband network and telecommunication business will be transferred to the City.

This information statement outlines the City's plans for building, operating and transferring the broadband backbone network.

The City further aims to use the broadband network to –

- improve quality of life and empower residents;
- prioritise delivery of services to previously under-serviced areas and the parties shall, from time to time, agree which sites to prioritise.
- promote job creation;
- promote the development of SMMEs;
- provide discounted broadband services to micro enterprises; and
- enable the development and transfer of skills in the information, communication and technology sector.

The broadband network will further impact on areas of economic output and the GDP by enhancing the role of human capital through easier acquisition of

knowledge and technical skill and through improving the efficiency and productivity of enterprises, increasing community competitiveness by attracting knowledge-based businesses and providing new innovative technologies, services, applications and business models.

The precise function of the agreement will be to provide the City with telecommunication services and to sell the spare capacity on the network to private parties. This includes the following:

- Providing spare capacity on the network to ICASA-licensed operators at competitive pricing to drive down the cost of telecommunications
- Managing delivery of the City's Smart City objectives
- Managing the City's information, communication and technology operations
- Managing and coordinating access to and use of the City's telecommunications assets
- Maintaining a city-wide database of telecommunication assets

Subject to this agreement obtaining approval from the National Treasury and completion of the process in terms of section 33 of the Municipal Finance Management Act (56 of 2003) read together with section 21A of the Municipal Systems Act (32 of 2000), it is envisaged that the building of the network will commence in March 2016.

2. PURPOSE OF THE INFORMATION STATEMENT

This information statement outlines the City's plans for building, operating and transferring the broadband backbone network and its implications for the City, businesses and residents.

3. BUILDING OF THE BROADBAND NETWORK

- 3.1 The SPV will build and design a network based on an agreed scope approved by the City at its own cost, subject to the City being an anchor client who will pay a minimum offtake amount of R244 000 000,00 (two hundred and forty-four million rand) in exchange for telecommunications services from the SPV at discounted rates.
- 3.2 It is anticipated that the design and building phases of the network will take three years. However, the SPV will make services available to the City as and when they become available.

4. OPERATION OF THE BROADBAND NETWORK

- 4.1 The City will be entitled to receive an incentive amount from the SPV during the term of the contract that is equivalent to 30% of the net profit generated from the external sales of telecommunications services after tax deductions.
- 4.2 The SPV will operate the network for a period of 15 years after the three-year building phase before transferring the network to the City.

5. TRANSFER OF THE BROADBAND NETWORK

After the three-year building phase and the 15-year operating phase are complete, the SPV will transfer ownership of the network to the City.

6. CONCLUSION

The broadband backbone network infrastructure will achieve all of the above-mentioned goals while ensuring that there are no adverse financial implications for the City.