



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**TO: ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS AND
CONSTITUTIONAL INSTITUTIONS**

**ACCOUNTING OFFICERS OF ALL MUNICIPALITIES AND MUNICIPAL
ENTITIES**

**ACCOUNTING AUTHORITIES OF ALL SCHEDULE 2 AND 3 PUBLIC
ENTITIES**

HEAD OFFICIALS OF PROVINCIAL TREASURIES

**NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 10 OF
2016/2017**

**INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM
THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR RAIL SIGNALLING
SYSTEM AND ASSOCIATED COMPONENTS**

1. PURPOSE

- 1.1 The purpose of this Instruction note is to regulate the environment within which Accounting Officers (AOs) and Accounting Authorities (AAs) may procure rail-signalling systems and associated components as a sector for local production and content.

2. BACKGROUND

- 2.1 The Preferential Procurement Regulations, 2011 ("the regulations") issued in terms of Section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) which came into effect on the 7 December 2011, make provision for the Department of Trade and Industry (**the dti**) to designate sectors in line with the national development and industrial policies for local production.
- 2.2 Regulation 9 (1) of the Regulations prescribes that, in the case of designated sectors, wherein the award of bids for local production and content is of critical importance, such bids must be advertised with the specific bidding condition that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content, will be considered.
- 2.3 **the dti** has designated and determined the stipulated minimum threshold for rail signalling systems and associated components for local production and content.

3. SECTOR DESIGNATION

- 3.1 A rail signalling system is used to control the flow of railway traffic in a safe, efficient and reliable manner as a means of preventing trains from colliding with each other. Being guided by fixed rails, trains are uniquely susceptible to collision; furthermore, trains cannot stop quickly, and frequently operate at speeds that do not allow stopping within sighting distance of the driver. Also, rail signalling systems are one of the key factors to assure the safety, punctuality, reliability and effectiveness (train speed and traffic density) of the railway operation.
- 3.2 **Table 1** indicates the stipulated minimum local content for rail signalling systems and associated components.

Table 1: Rail signalling system

Types of systems	Local content thresholds
Rail Signalling System and associated components	65%

- 3.3 **Table 2** provides the stipulated minimum threshold for local content and production for rail signalling systems and associated components categorised by systems and components. To ensure that the minimum local content designated is applied on manufacturing activities, the components and conversion activities in the manufacture of rail signalling system and associated components are further designated and must also be included in bid invitations:

Table 2: Local Content Designated on a Fully-Built Unit and Components and Conversion Activities against which the overall Local Content must be discharged, per rail signalling system and components

No	Components and manufacturing processes against which the overall local content must be discharged	
	Components and manufacturing processes	% local content
1	Centralised Traffic Control (CTC) Equipment	40%
2	Cabinets (Apparatus cases)	100%
3	LED Light Signal	95%
4	Level Crossing Components	90%
5	Auxiliary Power Supplies	90%
6	Point Machines	90%
7	Cables & wire	90% (Cable instruction note)
8	Axle Counter	75%
9	Track Circuits	90%

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No	Components and manufacturing processes against which the overall local content must be discharged	
	Components and manufacturing processes	% local content
10	Electronic Interlocking	50%
11	Relay Interlocking	90%
12	Assembly and testing of the fully-built units	100%
Total minimum local content (per system)		65%

- 3.4 The following primary input materials used in the manufacture of railway signalling systems and associated components are deemed as local in this designation:
- raw copper rod;
 - paper and boards for insulation;
 - aluminium billets and rod;
 - ceramics;
 - porcelain;
 - reinforced fibre glass;
 - polymers; and
 - epoxy.
- 3.5 The designated local content thresholds (on the components/conversion processes and on the overall) apply to new purchases, refurbishments, replacements and general overhauls.
- 3.5.1. For further information, bidders and procuring state organs may contact the Metals Fabrication, Capital and Rail Transport Equipment unit within the dti at telephone 012 394 1356/3138 or email Thandi Phele at tphele@thedti.gov.za.
- 3.6 Bid specifications for the rail-signalling system and associated components referred to above may be done in collaboration with the dti.

4. INVITATION OF BIDS FOR RAIL SIGNALLING AND ASSOCIATED COMPONENTS

- 4.1 Bids in respect of rail signalling system and associated components must contain a specific bidding condition which states that:
- Only locally manufactured rail signalling system and associated components with a stipulated minimum threshold for local production and content will be considered.
 - If the quantity, input materials and/or components of rail signalling systems and associated components cannot be wholly sourced from South African (SA)-based manufacturers to achieve the designated local content threshold, both on the overall and at the components and conversion processes levels, at any particular time of procurement or order placement, bidders entities should obtain written exemption from

the dti. **the dti**, in consultation with the SA industry and procuring Organ of State, will grant exemption on a case-by-case basis and will consider the following:

- a) required volumes in the particular bid;
 - b) available collective SA industry manufacturing capacity at that time;
 - c) delivery times;
 - d) availability of input materials and components;
 - e) technical considerations including operating conditions and technical compliance protocol;
 - f) quality and reliability;
 - g) materials of construction;
 - h) security of supply and emergencies;
 - i) localisation plans aimed at establishing and/or increasing local manufacturing capacity through ramping-up of capital investments in the initial phases; and
 - j) replacement of components on the existing infrastructure (i.e. track circuit procured prior to the implementation of this instruction notes) in order to honour the warranties and guarantees.
- 4.1.3. Bidders must clearly indicate in their bids the quantities of rail signalling systems and associated components to be supplied and the level of local content for each product.
- 4.1.4. Organs of State may contact **the dti** in instances where the stipulated minimum threshold for local content cannot be met in order for **the dti** to verify and, in consultation with the AO/AA, provide directives in this regard.
- 4.2 AOs/AAs must stipulate in bid invitations that:
- 4.2.1. the exchange rate to be used for the calculation of local production and content must be the exchange rate published by the South African Reserve Bank (SARB) on the date of advertisement of the bid; and
- 4.2.2. only the South African Bureau of Standards (SABS) approved technical specification number SATS 1286:2011 must be used to calculate local content.
- 4.3 The local content (LC) expressed as a percentage of the bid price must be calculated in accordance with the following formula which must be disclosed in the bid documentation:

$$LC = \left(1 - \frac{x}{y}\right) * 100$$

Where

x is the imported content in Rand

y is the bid price in Rand excluding value added tax (VAT)

- In the case of turnkey products/projects x and y will only refer to the value of rail signaling systems and associated components in the project.
- Prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the SARB on the date of advertisement of the bid.

- 4.4 AOs/AAs must clearly stipulate in the bid documentation that the SABS-approved technical specification number SATS 1286:2011 and the Guidance on the Calculation of Local Content together with the Local Content Declaration Templates [Annex C (Local Content Declaration: Summary Schedule), D (Imported Content Declaration: Supporting Schedule to Annex C) and E (Local Content Declaration: Supporting Schedule to Annex C)] are accessible to all potential bidders on the dti's official website http://www.thedti.gov.za/industrial_development/ip.jsp at no cost.
- 4.5 For the purpose of paragraphs 4.1, 4.2 and 4.3 above, the attached Declaration Certificates for Local Production and Content (SBD/MBD 6.2) must form part of the bid documentation. The SBD 6.2 is for use by all National and Provincial Departments, Constitutional Institutions and Public Entities listed in Schedules 2, 3A, 3B, 3C and 3D to the Public Finance Management Act whilst the MBD 6.2 is for use by all Municipalities and Municipal Entities to which the Municipal Finance Management Act (MFMA) applies.
- 4.6 AOs/AAs must stipulate in the bid documentation that:
- 4.6.1 the Declaration Certificate for Local Production and Content (SBD / MBD 6.2) together with the Annex C (Local Content Declaration: Summary Schedule) must be completed, duly signed and submitted by the bidder at the closing date and time of the bid;
- 4.6.2 the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.
- 5. EVALUATION OF BIDS FOR RAIL SIGNALLING SYSTEM AND ASSOCIATED COMPONENTS**
- 5.1 Two-stage evaluation process may be followed to evaluate the bids received.
- 5.1.1 First stage: Evaluation in terms of the stipulated minimum threshold for local production and content**
- a) Bids must be evaluated in terms of the minimum threshold stipulated in the bid documents.
- b) The declaration made by the bidder in the Declaration Certificate for Local Content (SBD / MBD 6.2) and Annex C (Local Content Declaration: Summary Schedule) must be used for this purpose. If the bid is for more than one product, the local content percentages for each product contained in Declaration C must be used.
- c) The amendment of the stipulated minimum threshold for local production and content is not allowed.
- d) AOs / AAs must verify the accuracy of the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate for Local Content (SBD / MBD 6.2).
- 5.1.2 Second stage: Evaluation in terms of the 80/20 or 90/10 preference point systems**
- a) Only bids that achieve the minimum stipulated threshold for local production and content may be evaluated further. Unless otherwise exempted by the Minister of Finance, the evaluation must be done in accordance with the 80/20 or 90/10 preference point systems prescribed in Preferential Procurement Regulations, 2011.

- b) AOs/AAs must ensure that contracts for rail signalling systems and associated components are awarded at prices that are market related taking into account, among others, the dti's pre-determined benchmark prices, value for money and economies of scale.
- c) Where appropriate, prices may be negotiated with short-listed or preferred bidders. Such negotiations must not prejudice any other bidders.

5.2 Benchmark / market related prices

- 5.2.1 AOs/AAs are required to ensure that reasonable or market related prices are secured for the rail signalling systems and associated components being procured taking into account factors such as benchmark prices, value for money and economies of scale.
- 5.2.2 For this purpose, AOs/AAs may approach **the dti** for assistance, where possible, with benchmark prices for rail signaling systems and associated components that have been designated for local production and content. **the dti** will be in a position to provide price references for the various products that have been designated for local production and content.

6. EVALUATION OF BIDS BASED ON FUNCTIONALITY

- 6.1 Whenever it is deemed necessary to evaluate bids on the basis of functionality, the prescripts contained in regulation 4 of the Preferential Procurement Regulations, 2011 and paragraphs 6 and 11 of the Implementation Guide must be followed.

7. POST AWARD AND REPORTING REQUIREMENTS

- 7.1 Once bids are awarded, **the dti** must be:
 - 7.1.1 notified of all the successful bidders and the estimated value of the contracts; and
 - 7.1.2 provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the Declaration C submitted by the successful bidders.
- 7.2 The purpose of the requirements of paragraph 7.1 above is for **the dti** to among others conduct compliance audits with a view to monitor the implementation of the industrial development strategies.
- 7.3 Contractors must not be allowed to sub-contract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.
- 7.4 Where, after the award of a bid, contractors experience challenges in meeting the stipulated minimum threshold for local content, the dti must be informed accordingly in order to verify and, in consultation with the AO/AA, provide directives in this regard.

8. CONTACT INFORMATION

- 8.1 **Any enquiries in respect of Local Production and Content and all documents to be submitted to the dti must be directed as follows:**

The Department of Trade and Industry
Private Bag X84
Pretoria
0001

For Attention:

Dr Tebogo Makube
Chief Director: Industrial Procurement
Tel: (012) 394 3927
Fax: (012) 394 4927
EMAIL: TMakube@thedti.gov.za

9. APPLICABILITY

This Instruction applies to all National and Provincial Departments, Constitutional Institutions; Public Entities listed in Schedules 2 and 3 to the PFMA, and, Municipalities and Municipal Entities to which the MFMA apply.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION

- 10.1 Heads of Provincial Treasuries are requested to bring the contents of this Instruction to the attention of Accounting Officers and Supply Chain Management Officials of their respective Provincial Departments.
- 10.2 Accounting Officers of National and Provincial Departments are requested to bring the contents of this Instruction to the attention of Accounting Authorities and the Supply Chain Management Officials of Schedule 3A and 3C Public Entities reporting to their respective Executive Authorities.
- 10.3 Accounting Officers of Municipalities and Municipal Entities are requested to bring the contents of this Instruction to the attention of the Supply Chain Management Officials of their Municipalities and Municipal Entities.
- 10.4 Accounting Authorities of Schedule 2, 3B and 3D Public Entities are requested to bring the contents of this Instruction to the attention of the Supply Chain Management Officials of their Public Entities.

11. NOTIFICATION TO THE AUDITOR-GENERAL

A copy of this Instruction Note will be forwarded to the Auditor-General for notification.

12. AUTHORITY FOR THIS INSTRUCTION NOTE AND EFFECTIVE DATE

This Instruction is issued in terms of Regulation 9(2) of the Preferential Procurement Regulations, 2011 and takes effect on **27 July 2016**



KENNETH BROWN
CHIEF PROCUREMENT OFFICER

DATE: 30/6/2016 -