



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 CIRCULAR NUMBER 2 OF 2017/2018:
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM
THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR RAIL PERMANENT WAY
SECTOR**

1. PURPOSE

- 1.1 The purpose of this circular is to regulate the environment within which accounting officers (AOs) and accounting authorities (AAs) may procure Rail Permanent Way Sector which have been designated as a sector for local production and content.

2. BACKGROUND

- 2.1 The Preferential Procurement Regulations, 2017 ('the regulations') made in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) which came into effect on 01 April 2017 make provision for the Department of Trade and Industry (**the dti**) to designate sectors in line with national development and industrial policies for local production.
- 2.2 Regulation 8(1) and 8(2) of the Preferential Procurement Regulations 2017 prescribe that in the case of a designated sector, an organ of state must advertise the invitation to tender with a specific condition that only locally produced services or goods or locally manufactured goods with a stipulated minimum threshold for local production and content, will be considered.
- 2.3 To this end, **the dti** has designated and determined the stipulated minimum threshold for the Rail Permanent Way sector for local production and content.

3. SECTOR DESIGNATION

- 3.1 A permanent way is the structure consisting of the rails, fasteners, railroad ties (sleepers) and ballast or slab track, plus the underlying subgrade. It enables trains to move by providing a dependable surface for their wheels to roll.
- 3.2 In this circular, the Rail Permanent Way sector system/subsystem and components have been recommended for designation.
- 3.3 Rail permanent way sector system/subsystem and components refers to:
 - 3.3.1 **Rails** which are widely used in the making of rail tracks and consist of two parallel steel tracks and lies steadily on the railway sleepers. These will also include rail joints.
 - 3.3.2 **Ballasts** refer to gravel or coarse stone used to form the bed of a railway track.
 - 3.3.3 **Ballastless track** consists of steel rail resting on concrete supports via rubberised cork absorption pads with galvanised steel tie beams which wrap around the concrete members rather than being cast into the concrete as with other ladder tracks.
 - 3.3.4 **Turnouts, crossings and accessories** comprise of mechanical installations enabling railway plays an important role is as afar as safety is concerned, it allows the train to switch from one track to another. This will also include frogs and blades.
 - 3.3.5 **Railway sleepers** support and restrain the rails. They transfer and spread the vertical load from the bottom of the rail to the ballast. Sleepers can be made of steel, concrete or wood, plastics or other materials.
 - 3.3.6 **Rail fastening system and accessories** is used to fix rails to railway sleeper or railroad ties, which is usually comprised of rail anchors, rail tie plates, fishplate, chairs, fasteners, spikes, track bolt, nut and bolt, oval neck, diamond neck, button-head, cast iron shoulders, pressed mild steel shoulders, elastic clips, gage tie bar, check rail, screw & track spike, etc.
 - 3.3.7 **Maintenance of way plant & equipment** includes railway track maintenance and construction machines for 1067mm and 1435mm gauge, both rail-bound and road rail. These include track maintenance equipment (i.e. sleeper, rail drilling, rail grinding, ballast tamping, ballast screener, ballast regulator and drain cleaning machines) as well as conditioning monitoring machinery, track safety equipment and track lubricators, cranes and material handlers.

- 3.4 Table 1 indicates the stipulated minimum local content rail permanent sector

Table1: Rail Permanent Sector

System/ Sub-systems and Component	Local content threshold
Rail Permanent Way sector	90%

- 3.5 Table 2 provides the stipulated minimum threshold for local content for Rail Permanent Way Sector. To ensure that the minimum local content designated is applied on manufacturing activities, the following system/subsystem and components which have been designated must also be included in bid invitations of bids for CAPEX & OPEX:

Table 2: Rail Permanent Way Sector system/subsystem and components

No	System/ Sub-systems and Components	Local content threshold
1.	Rails and rail joints	100%
2.	Ballasts	100%
3.	Ballastless	100%
4.	Turnouts /switches and crossings	100%
5.	Railway sleepers	100%
6.	Rail fastening and accessories	100%
7.	Railway maintenance of way plant & equipment	70%
8.	Assembly and testing of fully built units	100%

- 3.6 All primary steel related products: flat products (plates, coils and seamless tubes) and long products (rounds, forged, angles, sections and wire related products) are included in this designation and must be manufactured and sourced locally. This is to support and sustain the existing local steelmaking capacity.
- 3.7 All castings and forgings related products made of ductile iron; aluminium; stainless steel; and mild steel, relating to the assembly and manufacture of Rail permanent way sector (system/subsystem and components as indicated in paragraph 3.2 to 3.5) are included in this designation and must be manufactured and sourced locally. This is to support and sustain the existing local foundry industry and the creation of additional castings and forging capabilities.

- 3.8 In this designation, imported input raw materials (i.e. concrete products additives, steel products additives, coke - refractories, raw copper rod, paper and boards for insulation; aluminum billets and rod; ceramics, porcelain, reinforced fibre glass, polymers (i.e Hytrel) and epoxy resins are deemed as locally manufactured input materials. These inputs should be imported in raw material form for further fabrication in South Africa.
- 3.9 The imported input raw materials and finished components indicated in 3.8 used for the assembly and manufacture of Rail Permanent Way Sector will be deemed to have been sourced locally for the purposes of calculating local content.
- 3.10 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.
- 3.11 For further information, bidders and procuring state organs may contact the Metal Fabrication, Capital and Transport Equipment Unit within **the dti** at telephone 012 394 1356/3138/3522 or email Thandi Phele: TPhele@thedti.gov.za

4. INVITATION OF BIDS FOR RAIL PERMANENT WAY SECTOR

- 4.1 Bids in respect of Rail Permanent Way Sector must contain a specific bidding condition that:
- 4.1.1. Only locally produced or locally manufactured Rail Permanent Way Sector with a stipulated minimum threshold for local production and content will be considered.
- 4.1.2. If the quantity of materials and/or products required cannot be wholly sourced from South African (SA) based manufacturers and/or at the designated local content threshold stipulated in paragraph 3.4 and 3.5 at any particular time, bidders and the procuring entity should obtain written approval from **the dti** to supply the remaining portion at a lower local content threshold. Such approval requests should be submitted and approvals should be obtained prior to the closure of the bid(s) concerned. **the dti**, in consultation with the procuring organ of state and the local industry, may grant such approval on a case-by-case basis and will consider the following:
- required volumes in the particular bid;
 - available collective SA industry manufacturing capacity at that time;
 - delivery times;
 - security of supply;
 - availability of input materials, key components; and
 - technical considerations including operating conditions.
- 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:

$$LC = (1 - x/y) * 100$$

Where

x is the imported content in Rand

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

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:

(a) The Declaration Certificate for Local Production and Content (SBD / MBD 6.2) together with **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; and

(b) The rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.

4.7 Market related prices:

4.7.1 AOs/AAs are required to ensure that reasonable or market related prices are secured for Rail Permanent Way being procured taking into account factors such as value for money and economies of scale.

4.8. Bid specifications for the sector referred in paragraph 3 above may be done in collaboration with the dti. Contact information in this regard is provided in paragraph 8 below.

5. EVALUATION OF BIDS FOR RAIL PERMANENT WAY SECTOR

- 5.1 An evaluation process in line with Preferential Procurement Regulations, 2017 must be followed.

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 5 of the PPR of 2017 and paragraphs 6 of the Implementation Guide must be followed.

7. POST AWARD AND REPORTING REQUIREMENTS

- 7.1. Once bids are awarded, **the dti** must be:
- (i) Notified of all the successful bidders and the value of the contracts; and
 - (ii) 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 for **the dti** 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** in respect of paragraph 7.1 above 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

- 9.1 This circular 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 applies.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS CIRCULAR

- 10.1 Heads of provincial treasuries are requested to bring the contents of this circular 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 circular 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 circular 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 circular to the attention of the supply chain management officials of their public entities.

11. NOTIFICATION TO THE AUDITOR-GENERAL

- 11.1 A copy of this Circular will be forwarded to the Auditor-General for notification.

12. AUTHORITY FOR THIS CIRCULAR AND EFFECTIVE DATE

- 12.1 This circular is issued in terms of Regulation 8(1) and 8(2) of PPR, 2017 and takes effect on 2 December 2017.



WILLIE MATHEBULA
ACTING CHIEF PROCUREMENT OFFICER

DATE: 13.11.2017