



DEPARTMENT OF TRANSPORT
UMNYANGO WEZOKUTHUTHA

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Reference : T6/17/P

TO: ALL HEADS OF DEPARTMENT
ALL DEPARTMENTAL TRANSPORT OFFICERS
MEMBERS OF THE MOTOR TRANSPORT ADVISORY COMMITTEE

PROVINCIAL TRANSPORT MANAGEMENT (PTM) CIRCULAR NO 4 OF 2005: AUCTIONING OF BOARD OF SURVEY (BOS) VEHICLES: PROVINCE OF KWAZULU-NATAL

1. As you are aware, the existing auctioneers contract which originally expired at the end of November 2004, has been extended for a further 6 months and will expire on 31 May 2005. As mentioned at previous DTO meetings, specifications for the new auctioneer's contract will be changed, whereby the auctioneer will arrange for the vehicles to be transferred directly to the auctioneer's premises. Reserve prices will be set by MTS based on a method decided by and agreed to by User Departments. Vehicles will only be auctioned once the deregistration certificates are handed to the auctioneer. In other words the entire auctioning process will be de-centralised with greater responsibility being placed on the auctioneer and User Departments.
2. In addition to the above, the risk of vehicles being vandalised, stolen, stripped etc needs to be addressed and minimised. This is of great concern because the condition of the vehicles in turn, adversely affects returns on the sale of vehicles on Board of Survey (BOS).
3. In view of the above, it became imperative that the abovementioned practice of parking BOS vehicles at the Fleet Services whilst awaiting auction, be discontinued with immediate effect. Departments were therefore requested to retain vehicles identified for BOS at the owner Department's premises, until notification has been received from the Department of Transport (DOT) that an auction is to be held. It must be mentioned that once a vehicle is in the possession of the DOT, the risk is transferred to DOT. Once the vehicles are sold on BOS, the losses incurred, due to the decreased value of the vehicles are written off as losses to the Department of Transport.
4. It is also acknowledged that by Departments retaining vehicles until the date of the auction also exposes the Departments to the same risk of vehicles being vandalised, stolen, stripped etc. The Department is also obliged to find storage space for the vehicles which impacts financially on the Department especially if it has to rent or lease such storage space, etc.
5. In order to eliminate the risks/problems encountered above, the entire auctioning process needs to be reviewed and consensus reached between the Departments on the way forward. Bearing in mind the time limits in place, and the fact that extensions to the contract will not be viewed positively, it is imperative that the processes be reviewed as a matter of urgency, specifications finalised and the tender advertised before the end of May 2005. The finalisation of the tender specifications and advertisement thereof by the end of May 2005 will assist in motivating for a request for a short extension. It has been recommended by this Department's Procurement section that once the specifications are ready, a pre-tender meeting of auctioneers be held to determine whether the auctioneers will be willing to bid on such a proposal. A period of two weeks is required for the advertising thereof prior to holding the meeting.

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MOTOR TRANSPORT SERVICES DIRECTORATE

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6. The following areas of impact therefore need to be addressed and workshopped urgently:

6.1 **PROCEDURE**

a) **QUANTITY OF VEHICLES TO BE SOLD/FREQUENCY OF SALES**

Currently, once the Fleet Services yard is full with approximately 80 – 100 vehicles, an auction is held. In an attempt to determine the QUANTITY OF VEHICLES TO BE SOLD at a time and/or the FREQUENCY OF SALES, consideration needs to be given to the options available to Province in order to reach an informed decision in this regard. The status quo could remain in that once a sizeable amount of vehicles have been identified for auction, the auctioneer could be requested to hold a sale. "Sizeable amount of vehicles" will need to be quantified as the number of vehicles to be auctioned at a time will depend on the auctioneer's capacity to store the vehicles.

Another option which is worth serious consideration is that government vehicles be included in any sale that the auctioneer will hold as this would ensure quick sales after the vehicle is withdrawn, thus reducing problems with storing the vehicles which will come at a cost, whether on premises owned or rented by other Departments or by the auctioneer; further deterioration of vehicles which will affect the resale value of the vehicles, vandalism and the associated loss to government, and make the process of monitoring the whereabouts of vehicles and the progress in disposing of the vehicles easier to manage.

b) **CALCULATION OF RESERVE PRICES**

The basis for calculating the reserve price is of paramount importance. Expert advice received by this Office indicates that if government wishes to set the reserve price, the auctioneers will question how this is calculated and the method should be transparent. Furthermore, should government wish to withdraw a lot because the reserve price is not achieved, we could be challenged in court because the calculation is not standardised and recognised by means of a policy or the retail motor industry. Currently the technicians calculate the reserve price based on their own experience.

To this end the following are as a priority being undertaken by MTS:

- Review of the Depreciation policy which had been shelved pending the outcome of the introduction of the Asset Management Framework as per the decision taken at an MTAC meeting held on 1 October 2004.
- Determining a method of calculating reserve prices scientifically that is acceptable to all roleplayers.
- Researching and comparing the method of reselling government vehicles.

It is important to note that specifications relating to reserve price must be resolved before going out to tender.

User Departments must decide on whether the Department of Transport handles the calculation of the reserve price and if so, must sign an undertaking to abide by the reserve price.

c) **HANDING OVER OF DE-REGISTRATION CERTIFICATES**

In terms of the general specifications mentioned in paragraph 1 above, vehicles will only be auctioned if the deregistration certificates are handed to the auctioneer. Placing the onus of accepting motor vehicles with de-registration certificates purely on the auctioneer is not reasonable, and it is suggested that the responsibility should be shared between the Department and the Auctioneer.

d) **GEOGRAPHICAL AREAS**

Currently DOT provide an auctioneering service at three Fleet Services offices and in keeping with the one stop shop arrangements within the DOT, Ladysmith region was included as the fourth centre.

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e) **LOCAL PRESENCE AT AUCTIONS**

In order to ensure that the auction of vehicles are effected in the best interest of the State, it is proposed that an official or independent assessor attend the auction sales, whether they are held on government premises, at the auctioneer's premises, or whether the vehicles are included in any sale the auctioneer may hold. This individual should have mechanical knowledge and be knowledgeable about the used car market. The person in question must be delegated with the authority to withdraw lots from the sale should the reserve price not be realised. Your thoughts and comments on this proposal will also be appreciated when discussing such at the workshop.

6.2 **COSTS**

- a) If the decision as government is to have the vehicles sold in any sale that an auctioneer may hold, conditions relating to the size of the advert, cost thereof, etc must be reviewed. Government should then be charged a pro-rata cost of advertising.
- b) Currently, a bank guaranteed cheque is presented by the Auctioneer prior to the sale and a second cheque after the sale, which is the difference between the amount tendered on the first cheque and the actual amount realised from the sale, less the auctioneer's commission. It must be mentioned that in the event of government vehicles being sold as part of any sale the auctioneer holds, it may prove costly to the auctioneer to present a bank guaranteed cheque each time he receives vehicles, and the impact of this would be for the cost to be passed onto government. In an attempt to address the financial implications to both the auctioneer and government, it is suggested/proposed that a special condition be included in the specifications whereby the auctioneer will be required to provide a written undertaking to Government that he/she will "make good" any payment to Government within 7 days of the auction. This will eliminate the need for bank guaranteed cheques and the associated costs which will impact on the auctioneer and ultimately on Government.

6.3 **COLLECTION OF SOLD VEHICLES FROM AUCTIONEER**

- a) A condition must be included in the contract that when a vehicle is sold but not collected by the buyer, the matter remains an issue between the buyer and the auctioneer.

6.4 **SPECIAL CONDITIONS**

- a) The old Special Conditions allowed the auctioneer to participate in the auction. This condition will be deleted from the new Special Conditions as the auctioneer will have inside knowledge about the vehicles.

7. The finalisation of specifications for the new contract hinges on consensus being reached by all roleplayers on the processes/procedures that need to be workshopped. Some of the key issues to be discussed have already been mentioned in paragraph 6 above. A workshop to discuss this matter and the associated implications to the stakeholders has therefore been set for 18 March 2005 at the following venue:

VENUE: RTI BUILDING
2ND FLOOR BOARDROOM
224 PRINCE ALFRED STREET
PIETERMARITZBURG

TIME: 10H00

8. In the interim, MTS will, in addition to the undertaking in paragraph 6.1 (b) prepare a draft process detailing the revised BOS procedure. Draft documents will, time permitting, be forwarded to the Departments for perusal prior to the workshop.

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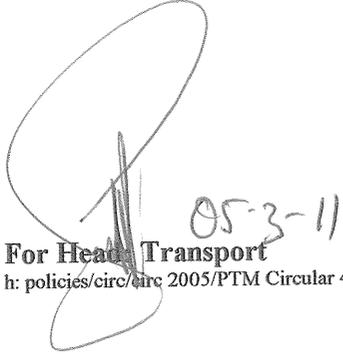
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9. It is crucial that Departmental Transport Officers (DTO's) attend this workshop in order to obtain input from all role players. Should DTO's not be in a position to attend, kindly ensure that a suitable replacement from your Department attends. Once the process has been finalised after the workshop, an urgent ad hoc meeting of the Motor Transport Advisory Committee (MTAC) will be called in order to ratify the new BOS procedures which will then allow for the specifications for the new auctioneering contract to be finalised.
10. Your co-operation and urgent attention to this matter is of extreme importance and would be highly appreciated.

A large, stylized handwritten signature in black ink, with the date '05-3-11' written next to it.

For Head Transport

h: policies/circ/circ 2005/PTM Circular 4 of 2005.KZN Provincial vehicles.Board of Survey

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