

State and construction companies finalise deal

● Infrastructure spending not guaranteed, says Patel ● Minister, however, hails model as ground-breaking



Deal: Economic Development Minister Ebrahim Patel and WBHO chairman Mike Wylie address the media in Pretoria on Monday regarding the settlement agreement between construction groups and the government. /Freddy Mavunda

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Economic Development Minister Ebrahim Patel says the voluntary settlement agreement between the state and seven major construction groups over transforming the industry does not guarantee an increase in national infrastructure spend.

However, the agreement might mean Murray & Roberts, Group Five, Wilson Bayly Holmes-Ovcon (WBHO), Stefanutti Stocks, Raubex, Basil Read and Aveng – which reached an agreement with the government last year after claims they colluded in the 2010 Soccer World Cup projects – might see better days again, even as Group Five still refuses to acknowledge guilt over certain allegations by the Competition Commission.

"The view of all the participants is that this settlement agreement is a ground-breaking model for effective and massive transformation," Patel said on Monday. He also said an industry summit would be held within the next four months to further transform the sector.

"The settlement agreement is

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R850bn
is roughly the amount the state spends on infrastructure over each three-year medium-term budget policy period

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R1.5bn
is expected to be paid into a trust account by the construction companies for the support of black-owned companies

not a direct quid pro quo that government will increase infrastructure spend," Patel said.

Instead, it would enable the government and the JSE-listed companies to co-ordinate efforts to improve lives.

All the companies – apart from Murray & Roberts, which has sold its South African business to empowerment entities – have agreed in terms of the deal to sell stakes to or mentor and financially support black-owned construction companies.

This included paying R1.5bn over 12 years into a trust governed by a board appointed by the state, the construction companies and the South African Forum of Civil Engineering Contractors.

Patel said the main outstanding potential litigation between state enterprises including the South African National Roads Agency (Sanral), and these companies had been well defined and "largely covered".

Critically, though, Transport Minister Dipuo Peters said on Monday that Sanral would not pursue a multimillion-rand claim against companies

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Construction deal 'ground-breaking'

involved in the settlement agreement. "It is proper for Sanral to discontinue [these] claims ... and be part of this milestone [agreement]. This is for us 'the transformation' [deal] and we are excited to be part of this."

Peters joined Patel, Public Works Minister Thulas Nxesi and Rural Development and Land Reform Minister Gugile Nkwinti in Pretoria to detail the "ground-breaking instrument for transformation".

State spending on infrastructure amounts to about R850bn over each three-year medium-term budget policy period including all costs. The value of annual infrastructure build in SA by the public and private sectors generally exceeds R400bn, of which about 60% is government spending. However, there has

been a lull in big infrastructure projects since the end of the 2010 World Cup.

Nkwinti said the construction sector was the first industry to achieve such a deal. "Business in their wisdom – which government appreciated – wanted to contribute voluntarily to transformation in the industry."

This was over and above the R1.46bn Competition Commission fine that had earlier been levied on 15 construction companies for collusive practices.

In terms of the deal, Murray & Roberts has decided to exit infrastructure and building markets in SA, selling the business to a consortium led by the Southern Palace Group for R314m.

Aveng, SA's largest construction and engineering group by turnover, had agreed to sell a

51% stake in African subsidiary Aveng Grinaker-LTA to Kutana Construction, a black women-owned group. WBHO would mentor three emerging contractors, enabling them to acquire skills and the volume of work needed to generate a combined annual turnover of at least 25% of WBHO's yearly South African civil engineering and building revenue within seven years.

Representatives from some of the companies were also at the briefing in Pretoria.

IT IS PROPER FOR SANRAL TO DISCONTINUE THESE CLAIMS AND BE PART OF THIS MILESTONE AGREEMENT

WBHO chairman Mike Wylie acknowledged there had been tension in the three years of negotiations that led to the agreement. But essentially, what was also known as the Voluntary Rebuilding Programme was exactly that, as far as the industry was concerned, he said.

Sanral allegedly overpaid by at least 116% for the Gauteng Freeway Improvement Project, a report commissioned by the Organisation for Undoing Tax Abuse (Outa) said earlier in February. This means civil litigation might well continue.

Outa had rejected the settlement agreement between the government and construction firms and said it wanted a commission of inquiry into collusion in the sector established.

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