

Road Pavement Forum Presentation on the State of the Civil Engineering Industry from SAFCEC'S perspective: 8 May 2018

If the general mood amongst SAFCEC Members at the moment could be summed up in one word, that word would be: "uncertain"

Being uncertain simply means being the opposite of certain, which is also defined as firm or positive.

Uncertain by implication, thus implies negativism.

Uncertainty in a business is not good news, as it impacts on two major aspects in any organisation, namely the ability to plan and the ability to make informed decisions. Under such circumstances, Contractors do not invest in new plant and equipment and neither do they invest in appointing and training staff. Therein lies the tragedy, as the construction sector has the ability to create a significant number of entry level employment opportunities, thus lessening unemployment.

I wish to look at the sources of this uncertainty, by examining four major factors, although there are considerably more.

The first (and in no particular order) is the **Economy**.

The recently published SAFCEC 3rd Quarter State of the Industry Report highlights pertinent issues. Amongst these the following:

- The Civil Engineering Contracting Industry has weakened further in the last 12 months.
- All indications are, that this deterioration will continue for the foreseeable future.
- Expenditure by government on infrastructure has shown no real growth since 2014.
- Although all employers have felt the brunt of the slowdown, larger contractors have felt it more severely and much sooner. We know that 3 out of the big 7 listed Companies are in serious financial difficulties.
- Liquidations of construction companies rose by 150 percent in the first 11 months of 2017.
- Expected turnover is at its lowest level since 2005 and is expected to further contract in the next 2 years.
- Profitability remains under pressure and the large contractors have reported a negative margin of – 2,4 percent, which simply means operating at a loss.
- Fewer contracts are being put out to tender and cancellation of contracts have increased. Activities are at a record low.

The announcement of the increase in VAT and the large hike in the price of fuel, as part of the latest Budget is obviously not helping the situation. Of concern, is the high international fuel price and the weakening Rand/dollar exchange rate, after the latter's positive showing since December 2017.

The second factor is the **Political situation**. Although the election of Mr. Cyril Ramaphosa to the position of leader of the governing party, and since former President Zuma's resignation as President of the Republic, has brought some political clarity, the road ahead is going to be a bumpy one. It is known that the President is not in full control of his Party. The tussle between Radical Economic Transformation on one hand and Pragmatic Reform on the other, plays itself out daily, with allegations of State Capture thrown in the mix. We daily encounter service delivery protests, which in intensity and in terms of damage caused, rivals the rolling mass action of the 1990's.

The third factor I wish to discuss is **Transformation**. We all realize the urgency and importance of transformation in our country, which remains one of the most unequal societies in the world. At SAFCEC we have embraced transformation as a strategic imperative. It may interest you to know, that as an organisation SAFCEC has already transformed, with more than 54 % of our Members having black ownership. A further example is the major role that SAFCEC played in setting up the Voluntary Rebuild Program, between Government and 7 listed Construction Companies. The VRP is set to irrevocably convert the Industry.

By the same token, we believe that transformation is a journey – not an event. We further believe that the pace and effectiveness of transformation needs to be measured. To measure is to know – there should not be any guessing involved. The measurement tool should be the Revised Construction Scorecard, which has been exhaustively debated and negotiated by all the parties at the Construction Sector Charter Council. The Revised Scorecard was finally implemented in December 2017, after SAFCEC put strong pressure to the highest levels of Government. This has been followed by proposed changes to the Generic Scorecard, as announced by the DTI in March. The ripple effect is, that changes to the Generic Scorecard will eventually also affect the Construction Scorecard. Thus, the spiral of uncertainty just continues

The fourth factor I wish to touch on is **Procurement Policies**. As Civil Engineering Construction Contractors we perform work mostly for organs of State and thus must comply with Treasury policies and procedures, regarding procurement as well as a host of legislation, which I am not going to discuss. I do wish to mention the revised PPFA Regulations, which came into effect on 1 April 2017. One contentious clause, states that a prospective tenderer is required to have a stipulated minimum B. BEE status. Imprudently applied, this clause could exclude the very emerging Contractors, which the Regulations are meant to advance.

Another clause instructs subcontracting to the value of 30 % of all Contracts above R 30 Million, *if feasible*, without defining what feasible means or how it is to be evaluated. More uncertainty.

This brings me to another issue, without wishing to step on any toes. I am referring to SANRAL's **Horizon 2030** and proposed **Transformation Policy**. Both these documents are drafts and SANRAL is actively canvassing public opinion on them. Suffice to say, SAFCEC is currently consulting with its Members and will comment on these documents. I just want to mention one item of importance. This is the aspect that SANRAL intends to only do business with Contractors who are 51 % or more black owned. It remains to be seen, if this will pass muster above Section 9 (3) of the Constitution, which states: "The state may not unfairly discriminate directly or indirectly against anyone on one or more grounds, including race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language and birth".

The ultimate test as to whether any form of discrimination is unfair, lies with the Constitutional Court. In the meantime, we have this proverbial sword hanging over the heads of white owned Contractors, who have been doing business with SANRAL for years. It might simply not be practicable for these, to effectively realign their businesses.

I wish to conclude. All is not doom and gloom though. I recently had the opportunity to page through the Minutes of a SAFCEC AGM Meeting, held in 1948. As an aside, SAFCEC was formed in 1939 and we will celebrate our eightieth birthday in 2019.

Reading those old Minutes, gives one a sense of déjà vu. The old timers had much of the same issues as we have today. The second world war had ended a few years earlier and the world economy was in the dumps. There were shortages of fuel, steel and cement.

Very few large Projects were on the go or planned. There was a skills shortage. Lastly, the National Party had just narrowly won the elections and there was major uncertainty about future policies and government direction. Sounds familiar?

One thing is for sure. Contractors are resilient and amendable to change. They have to be. As a united Industry, we can meet and beat the challenges that await us. South Africa has a skilled Engineering base, capable of managing complex Projects. We are ready to deliver any infrastructure which may be required to grow and develop our beloved country.

I thank you