

PRESS RELEASE

CESA CONCERNED ABOUT LACK OF EXPENDITURE BY PUBLIC SECTOR – INDUSTRY WAITING WITH BAITED BREATH FOR R844Billion PROMISED

The results of Consulting Engineers South Africa's (CESA) bi-annual Economic and Capacity Survey for the period July to December 2011, just released, indicate that conditions in the consulting engineering industry have eased slightly with member firms being involved in design and feasibility studies. Capacity utilisation within member firms has increased from 80% in the first 6 months of last year to 90% in the period under review. All of this planning needs to be converted into actual projects and in this regard the industry is waiting in anticipation of Government's promised (R844 billion in the next 3 years) spend on infrastructure.

The contribution of Gross Fixed Capital Formation (GFCF) to GDP in the last quarter of 2011 improved to 20.3%, from 19.7% in the last quarter of 2010 with the construction sector contributing 44% to GFCF. CESA believes that strong investment in fixed capital will provide structural support to the economy. Given the commitment by Government to improve capacity, CESA believes that by spending on infrastructure such as roads, water and electricity (albeit over the longer term) will continue to support further investment in construction although at much slower rates than those experienced in recent years.

Graham Pirie, CEO of CESA, states "Expenditure on infrastructure remains a powerful counter-cyclic measure in dealing with an economic downturn and should be embraced by Government, the organisation looks forward to the promised spend on infrastructure".

Actual expenditure on infrastructure, including all three tiers of government, PPP's, and non-financial public enterprises (ACSA, Eskom, TCTA, Rand water, Transnet and CEF) decreased by 12,7% y/y in 2010/11 to R177 billion. An analysis of the expenditure by client type, shows that spending by local authorities fell by 21,9% y/y in 2010/11, having only spent 73% of their allocations. Spending by national government increased marginally up 1,4% y/y (nominal terms) and provincial departments increased spending by 4,8%, having spent 85% of their allocations. PPP's fell by 47% from over R13 billion spent in 2009/10 to only R7,3billion (effectively only spending 61% of the allocations). Spending by Eskom and ACSA fell by 6,7% and 90% respectively in 2010/11. Spending by Rand water and TCTA increased by 21% and 11,8% respectively, the most impressive improvement in infrastructure expenditure during the period under review.

Conditions in the last six months were not as good as expected. Confidence dipped slightly from expectations in the previous survey to an index value of 87.4 (compared to 88.7 as reported in the previous survey), but as working conditions are expected to recover in the next 12 months, confidence index improves to 89.0 and 91.4 for the first six months of 2012 and the last six months of 2012 respectively. Competition in tendering was very keen to fierce and increased strongly during the current survey, from 66,9% in the June 2011 survey to 95,7%.

CESA looks forward to the Presidential Infrastructure Coordinating Commission releasing of a list of key priority economic and social projects, within the next two months. The establishment of this commission was necessary given the lack of coordination and integrated planning surrounding key infrastructure projects and poor or delayed project execution. These issues have been a major problem for the construction industry and caused much frustration. The question remains whether this commission can turn talk into action. The commission ultimately seeks to develop a ten-year rolling pipeline of priority projects, which will be updated once a year.



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A further serious concern for the industry is that approximately 24% of fee earnings were outstanding for longer than 90 days, compared to 18% in the June 2011 survey and 23% in the June 2010 survey. This is the highest rate since the inception of this survey (1999) and is affecting all firms across the industry. Having more than 40% of income outstanding is not exceptional, with several firms (including larger firms) reporting these high rates.

Transformation and Human Resources

Black (including Asian and Coloured) equity, including executive directors, non-executive directors, members and partners, increased to 27,8%, from 21,2% in the June 2011 survey. The number of firms looking for engineers increased to 74% from 66% in the June 2011 survey. This is a positive recovery, following 2009 and 2010, when recruiting of engineers was not a priority. Trying to conform to BBBEE requirements, means demand for black engineers will continue to put pressure on firms, as there are simply not enough black engineers available to fill those positions. There was a further 7% increase in black Pr. Eng in the first six months of 2011 compared to the December 2010 survey.

In spite of a marginal decrease in employment, the salary and wage bill increased to an average of 63% of the salary and wage bill compared to 59% in the previous few surveys. Inflated to annualised rates, the salary and wage bill increased by 9% in nominal terms since the June 2011 survey, to R11,3 billion, up from R10,3 billion in the June 2011 survey.

Training

Training expenses averaged 32% of the total estimated salary bill, compared to 18% in the June 2011 survey, 22,6% in the December 2010 survey and 23,6% in the June 2010 survey. Firms are spending less on bursaries, in relation to the growing salary and wage bill. The industry spent on average 0.3% of the salary and wage bill on bursaries, down from between 0.4% and 0.8% in recent surveys. This may, however, be due to the cyclic nature of bursary allocation and the decline in infrastructure spend.

Industry challenges

Unlocking greater private sector participation is seen as a critical element to fast track delivery. Service delivery, especially at municipal level remains a critical burning issue. The involvement of non-CESA members in government tenders and procurement continues to threaten the standard and performance of the industry. Lack of attention to maintain infrastructure poses a serious problem to the industry. A further challenge to the industry is to find a way to standardise the procurement procedures applied by the different government departments.

The full report is available on www.cesa.co.za.

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