

PRESS RELEASE

CONSULTING INDUSTRY NOT FIRING ON ALL CYLINDERS – AWAIT ACTION FROM GOVERNMENT

The results of Consulting Engineers South Africa's (CESA) bi-annual Economic and Capacity Survey for the period January to June 2012 just released indicate that the industry is not firing on all cylinders while they eagerly await Government's planned Infrastructure Programme rollout. Government is not spending and although there appears to be a lot of planning taking place the physical manifestation is just not happening. Consequently many firms are looking north for work across our borders. Procurement standardisation, Public Private Partnerships, Maintenance and Quality Management all remain challenges for the industry.

Industry Outlook

Capacity levels dipped slightly in the first six months of 2012, from an average utilisation rate of 90,9% in December 2011 to 89,1% in the current survey. The majority of firms (63%) expect capacity utilisation rates to remain the same in the next 6 months.

Conditions in the first six months of 2012 were more difficult than expected, especially with regards to earnings and work conditions affecting the larger firms, although most of the larger firms were quite busy during the first half of 2012. However, this did not materialize into the expected earnings.

Overall confidence in the industry fell by 6,4% to 81.8 as at June 2012, from 87.4 in the last six months of 2011 and was lower than the expected level of 89.0 predicted in the previous survey. Firms nonetheless remain optimistic that conditions will improve in the next 6 to 12 months, increasing the confidence index to 94.5 and 94.7 for the next 12 months.

Confidence in the consulting engineering sector generally lags business sentiment. Business sentiment deteriorated after improving to 52 in the first quarter of 2012, down 21% to an index value of 41, mainly due to growing concerns over the global economy and the widespread downward revision of South Africa's growth outlook. Project postponements and delays in project implementation affected confidence in the contracting fraternity. Civil contracting confidence improved marginally to 34 and 38 in the first two quarters of 2012, but is still well below levels experienced between 2005 and 2008.

Challenges

Unlocking greater private sector participation is seen as a critical element to fast track delivery and engineering development in the industry resulting in improved municipal capacity and efficiency. 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 maintenance of infrastructure poses a serious problem to the industry. A further challenge to the industry is to find a way to standardize the procurement procedures applied by the different government departments.



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Earnings

The slight improvement in average net profit before tax at 13,5% last year to 14,7% is encouraging and although the firms surveyed were expecting margins to come under pressure, the majority (39%) were satisfied with the profit margins. Fee income increased by 12% in the first six months of 2012, in-line with expectations. Total fee income as at June 2012 is estimated to have increased to just over R20 billion. Taking inflation into consideration, fee earnings are estimated to have increased by 8,4% y/y in real terms, with similar increases reported in the previous survey.

Approximately 9,4% of fee earnings were outstanding for longer than 90 days, compared to 24% in December 2011 and 18% in the June 2011 survey. This is the lowest rate since the December 2002 survey. This translates to an estimated R1,9bn outstanding in fee earnings. The "improvement" was mainly due to firms reporting less monies outstanding from foreign clients, down from 62% of fee earnings internationally to 15,3%. Provincial clients were the poorest paying client, where 17% of earnings were outstanding for longer than 90 days, up from 12,2% in the December 2011 survey.

The contribution by the private sector fell to 34,3% in the June 2012 survey, down from an average of 44,8% in 2011, while the contribution by Parastatals or State Owned Enterprises improved to 20,5% (from an average of 13% in 2011), and provincial government to 14,3% (from an average of 9,7% in 2011). At a rate of 34%, this is the lowest contribution by the private sector since 2005 and as a result reported a 20% drop in earnings since December 2011. Earnings by provincial government doubled since December 2011, with a 56% and 66% increase reported in earnings respectively from Parastatals and Central government.

Human Resources

Employment increased by an estimated 6% to 20 796 since December 2011, mainly due to an increase in black, coloured and Asian staff, which increased by 30,2%, 16% and 21,5% respectively. The number of firms looking for engineers increased to 86,5% in June 2012, from 74% in December 2011.

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 5% increase in black Pr. Eng in the first six months of 2012 compared to a 7% increase during the same period last year.

Training

Direct training costs averaged 1,2% of the salary and wage bill, compared to 1,9% in the December 2011 survey, and only 0.3% in the June 2011 survey. 69% of the firms that responded to the survey spent less than 1% of their salary and wage bill on direct training costs, compared to 56% in the June 2011 survey.

Firms are spending less on bursaries, in relation to the growing salary and wage bill. Bursaries are important to improve productivity in the industry, as well as to secure future employment opportunities. The industry spent on average 0,8% of the salary and wage bill on bursaries, slightly up from 0,3% in the December 2011 survey.



Quality Management

A quality management system (QMS) is a control that is implemented at various stages of production process or service delivery stages. A QMS system is important for all firms, big and small. All firms now have a QMS system in place as a condition of membership. CESA recommends the ISO:9001:2008 frame work as being comprehensive and internationally recognised and it is noteworthy that some 41% of firms are now ISO9001:2008 certified.

To download the full report please visit www.cesa.co.za.

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