

## **Press Release**

### **Regulation and Procurement Biggest Issues facing Consulting Engineers**

Consulting Engineers South Africa's (CESA) latest Bi-Annual Economic and Capacity Survey (BECS), January to June 2014, just released, indicates that regulation issues, including the procurement of consulting engineering services, remain one of the biggest challenges faced by the industry.

Procurement is currently based on price and broad-based black economic empowerment (BBBEE) points, with functionality or quality having a minimum threshold, thus being largely price driven. This is affecting tender prices, as firms sometimes tender below cost in view of the diminished availability of projects.

"The way that the service of consulting engineers is procured is a sore point and leaves a lot to be desired. Even our President, Abe Thela, cautioned about this practice that relegates our noble profession as if they are procuring commodity goods," says CESA CEO Lefadi Makibinyane.

Unrealistic tendering fees remain a concern for members, while the extended time it takes in which to finalise a proposal is affecting profitability in the industry. The quality of technical personnel is argued by some firms to have deteriorated, putting greater risk on the built environment sector. Skills shortage is regarded as one the most significant institutional challenges faced by the private and the public sector. CESA has offered their services to Government to procure and implement projects and advocates a speedy review of the PPPFA (Preferential Procurement Policy Framework Act). This will not only harmonise the Procurement modalities of the Professional Services (which includes Consulting Engineering) but will bring accelerated implementation of the National Infrastructure Development Plan.

After a more optimistic 2013, conditions in the first six months of 2014 appeared to have been less satisfactory. The confidence index for the first six months was revised downward from an expected level of 98.3 to 87.7, suggesting weaker than expected conditions. In spite of the slower than expected start to the year, firms are more optimistic with regard to business conditions for the next 12 months, averaging 96.6 for the last six months of 2014 and 96.2 percent for the first six months of 2015.

Larger firms were unanimous in their views that the outlook for business conditions is satisfactory over the next 12 months, compared with 82,5 percent of the medium size firms.

The relationship between confidence levels of engineers and civil contractors deteriorated from 2009 onwards, as the business environment in terms of consulting engineering did not seem to deteriorate at the same pace as that experienced by the civil construction industry. Opinions expressed by civil contractors, as measured by the FNB/BER indices, were more depressed in the first three quarters of 2014, moderating from a nett satisfaction rate of 66 percent in the last quarter of 2013, to 55, 44 and 48 percent in the first three quarters. The FNB/BER Building Industry confidence index, declined to a nett satisfaction rate of 45 percent in the 3<sup>rd</sup> quarter of 2014, from 52 percent in the first quarter. Thus at a contracting level, conditions in both the building and civil industries are still very much depressed.

Confidence in the consulting engineering sector generally lags business sentiment. Business sentiment slumped back to a level of 41 in the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2014, but showed some improvement to a level of 46 in the 3<sup>rd</sup> quarter. Business confidence is still

negatively impacted by the industrial strike action in the first half of the year, poor economic growth, rising inflation and the expectation of further monetary policy tightening. Confidence levels have deteriorated since 2007 (when it was at a level of 69) and until it recovers back to a level of at least 60, the outlook for increased private sector investment will remain subdued.

Fraud and corruption is affecting the ethos of our society, with a lot of talk and little action accompanying the growing evidence of corruption. CESA is aware that members are under pressure from contractors and corrupt officials, to certify payment for work not completed. This is regarded as an extremely serious matter for CESA and as such will be relentless in holding those in power accountable.

Unlocking greater private sector participation is seen as a critical element to fast track delivery which will support engineering fees and as such engineering development in the industry. Private sector participation in this context refers to involvement on a more technical level (and not as a client), to improve municipal capacity and efficiency.

Government must create an environment for the private sector so that it can play a much bigger role in infrastructure delivery. Many of the projects highlighted in the National Development Plan can be carried out by the private sector through public-private partnerships.

Service delivery, especially at municipal level remains a critical burning issue. The consulting engineering industry is threatened by incapacitated local and provincial governments. As major clients to the industry, it is important that these institutions become more effective, more proactive in identifying needs and priorities and more efficient in project implementation and – management.

The involvement of non-CESA members in government tenders and procurement continues to threaten the standard and performance of the industry. Non-CESA members do not seem to comply with the same standards and principles as those firms that are members of CESA. Whether this is linked to complaints of “below cost” tendering since 2009, is not certain, but CESA members should be better informed about engaging in below cost tendering.

Firms from across South African borders are tendering at rates that are not competitive for local firms. Complaints have been received of some of these firms not producing proper drawings and not attending site visits. Clients, unfortunately, are not always properly experienced or educated to conduct proper procurement assessments and unknowingly award contracts to these “unscrupulous” firms. While these occurrences may be limited to smaller rural areas, it remains an unacceptable practice.

Lack of attention to maintain infrastructure poses a serious problem for the industry. Not only is it much more costly to build new infrastructure, but dilapidated infrastructure hampers economic growth potential. The cost of resurfacing a road after seven years at current prices, is estimated at R175 000 per kilometre, compared to R3 million per kilometre to rebuild, less than 6% of the construction price. In many cases, infrastructure is left to deteriorate to such a state, that maintenance becomes almost impossible.

A further challenge to the industry is to find a way to standardize the procurement procedures applied by the different government departments. Procurement procedures should be standard for the country, or at least for the specific tier of government.

“To complement the Public Sector technical/engineering capacity, which cannot be built overnight, I would like to urge the Government Departments and Entities to establish a Panel of Consulting Engineers for speedy mobilization and fair distribution of work amongst the

profession and for competitiveness of the Public sector in regards to the Infrastructure Development and refurbishment”, reiterates Makibinyane.

He adds that this will ensure that the government gets on with its Infrastructure Development Plans and boosts the needed Business confidence from the current index of 46 to the magic figure of 60.

**Contact details:**

Dennis Ndaba  
CESA Media Liaison  
073 981 2066  
[dennis@cesa.co.za](mailto:dennis@cesa.co.za)