



THE ECONOMICS OF CONSTRUCTION IN SOUTH AFRICA

The **cidb**
Quarterly Monitor

The Construction Industry Development Board
Development Through Partnership

APRIL
2012

Acknowledgements: The support of Industry Insight in providing details of contracts awarded is gratefully acknowledged.



CIDB QUARTERLY MONITOR; APRIL 2012

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CIDB QUARTERLY MONITOR; APRIL 2012

1. Introduction

The *cidb Quarterly Monitor*, which covers the 2nd quarter of 2011 to the 1st quarter of 2012, provides an overview of the structure of the construction industry and the state of contractor development and construction employment in South Africa. The *Quarterly Monitor* focuses on public sector supply and demand at national and provincial levels, and deals primarily with the General Building (GB) and Civil Engineering (CE) *cidb* Class of Works.

The *cidb Quarterly Monitor* has been developed, amongst others, to be used as input into developing targeted development intervention strategies in support of the *National Contractor Development Programme* (NCDP)¹. The *Quarterly Monitor* must however only be seen as a guide to assist in developing targeted intervention strategies^{2,3}, and the *Quarterly Monitor* should be seen as a tool for interrogating existing intervention strategies.

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- 1 DPW & *cidb* (2008). *NCDP Summary Framework; Towards 2010 and Beyond*. Department of Public Works and Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports
 - 2 *cidb* (2010). *Guidelines for Implementing Contractor Development Programmes*. Construction Industry Development Board, http://www.cidb.org.za/contractor/publications/ncdp_framework/default.aspx
 - 3 *cidb* (2010). *Targeting for Contractor Development Programmes; Guidelines*. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

2. Background and Assumptions

The background and key assumptions used in developing and in interpreting the *cidb Quarterly Monitor* are highlighted below:

- i) **Contracts Awarded:** Details of contracts awarded is obtained from the *cidb iTender Register of Projects* supported by the *Industry Insight Project Database*. (The support of *Industry Insight* in providing this information is gratefully acknowledged.) The *cidb iTender Register of Projects* has limited information, while the *Industry Insight Project Database* is more complete and representative.

However, because of the time taken to process the data by the information provider, the *Industry Insight* information for contracts awarded lags the *Quarterly Monitor* by one quarter.

- ii) **Expenditure Against Budget:** Details of infrastructure expenditure against budget is obtained from National Treasury. At present details are presented here only for Municipalities, while Provincial and National expenditure against budget will be included when available. Note that the fiscal year for expenditure begins 1 July, which corresponds to Quarter 3 of the calendar year.

- iii) **Business Conditions:** The *cidb Quarterly Monitor* includes perceptions of the confidence in business conditions and insufficient demand for work obtained from the *cidb BER SME Business Confidence Survey*⁴, which measures business conditions at a national and at provincial level and in various contractor grades.

- iv) **Employment:** The *cidb Quarterly Monitor* includes details of formal and informal construction employment obtained from Statistics South Africa's *Quarterly Labour Force Survey*⁵, as well as surveys of growth (or decline) in employment obtained from the *cidb BER SME Business Confidence Survey*⁶. Note that the *Quarterly Labour Force Survey* data lags the *Quarterly Monitor* by one quarter.

- v) **Contractor Registrations:** Contractor information is obtained from the *cidb Register of Contractors*, and considers:

- contractors registered in Grades 2 to 9; and
- General Building (GB) and Civil Engineering (CE) Class of Works.

The data is then aggregated into the following categories:

- Grade 9 contractors; typically contractors that operate at a national and international level;
- Grades 7 and 8; typically contractors that operate at a regional / provincial level;
- Grades 5 and 6; typically contractors in transition from operating at a local to a regional / provincial level; and
- Grades 2 to 4; typically established and developing contractors that operate at a local level.

Grade	Characteristics
9	national / international
7 & 8	provincial / regional
5 & 6	local / regional
2 to 4	local

It should be noted that Grade 9 contractors in particular work across provinces, and do not therefore reflect the contracting capacity within a particular province.

4 *cidb* (2011). *cidb SME Business Conditions Survey*. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

5 StatsSA. *Quarterly Labour Force Survey; Publication P0210*. <http://www.statssa.gov.za/qlfs/index.asp>

6 *cidb* (2011). *cidb SME Business Conditions Survey*. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

vi) **Contractor Development:** This *cidb Quarterly Monitor* includes information on:

- the number of, and trends in, registrations per categories of contractor grades; and
- the number of, and trends in, upgrades and downgrades per categories of contractor grades.

In assessing upgrades and downgrades, non-compliant applications for regarding have been excluded.

However, while trends in the number of registrations and in the number of upgrades / downgrades are useful indicators of the state of contractor development, it is important to note that these are only weak indicators of contractor development and do not necessarily imply an increase in sustainability or improvement in the performance of the contractor. Rather, indicators of development that should be included (but are currently not available) are that of⁷:

- a growth in competence reflected through technical skills and construction experience; and
- the 'process maturity' within a contracting organisation – normally expressed in terms of its business and construction processes.

vii) **Empowerment:** The *cidb Quarterly Monitor* includes information on black and woman ownership, and on the relative value of contracts awarded to black and women owned companies. Black and woman ownership is defined here as ownership greater than 50%, as recorded on the *cidb Register of Contractors*.

Two sources of information are given as empowerment indicators. Firstly, information on the relative value of **public sector** contracts awarded to black and woman owned companies has been obtained from the *cidb iTender Register of Projects*. It should be noted however that the information recorded on the *cidb iTender Register of Projects* is incomplete, and a reliable breakdown of contract awards per province is therefore not possible.

Secondly, the turnover of black owned companies is used as an indicator of empowerment. In this regard it should be noted that the turnover of most companies is derived from contracts with both the **public and private sectors**, and therefore possibly represents a more fair reflection of empowerment.

It should also be noted that Grade 9 contractors are largely (but not exclusively) publically listed organisations (or wholly owned subsidiaries of publically listed companies) and black/female ownership is therefore not comparable with privately owned companies – and is therefore not given in the *Quarterly Monitor*.

7 *cidb* (2009). *SA Contractor Development Programmes; Status Quo Report*. Construction Industry Development Board, http://www.cidb.org.za/knowledge/publications/industry_reports

3. Contracts Awarded; Public Sector

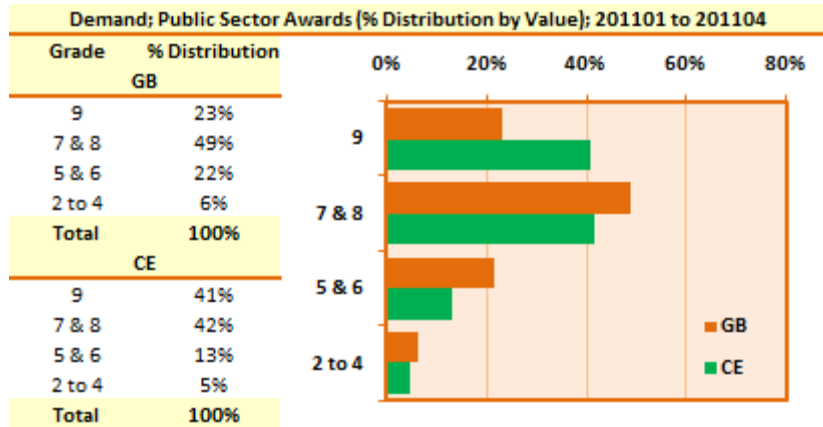
(Note: that it has been necessary to lag the information provided by *Industry Insight* for contracts awarded by one quarter. The information reflected here in this 2012Q1 *cidb Quarterly Monitor* is therefore a reflection of the 2011Q4 spend.)

Estimates of the distribution of public sector contracts awarded for South Africa as a whole in the four quarters under review (2011Q1 to 2011Q4) in Grades 2 to 9 is shown in the adjacent figure – with around 70% of public sector awards by value being in tender Grades 7 to 9 in General Building (GB) and around 80% in Civil Engineering (CE). (It should be noted however that the largest proportion of the contracts awarded in Grades 7 to 9 are subcontracted down to sub-contractors – typically in Grades 2 to 6).

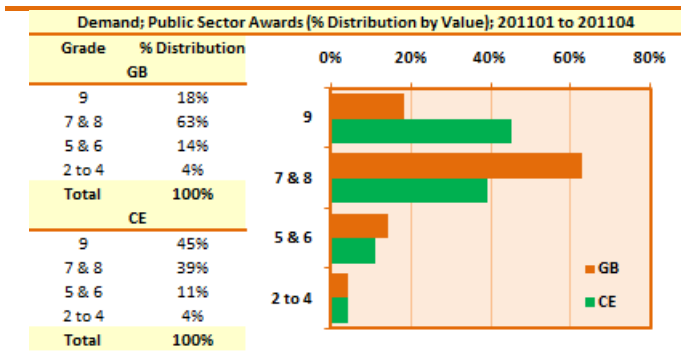
Estimates of the distribution of public sector contract awards for selected provinces is also shown in the adjacent figure. (Data for other provinces can be provided on request.)

Acknowledgements:

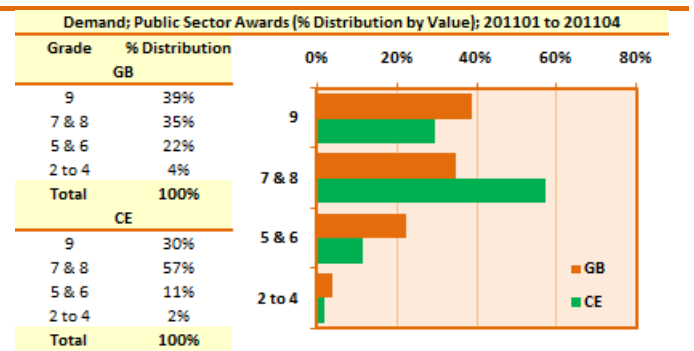




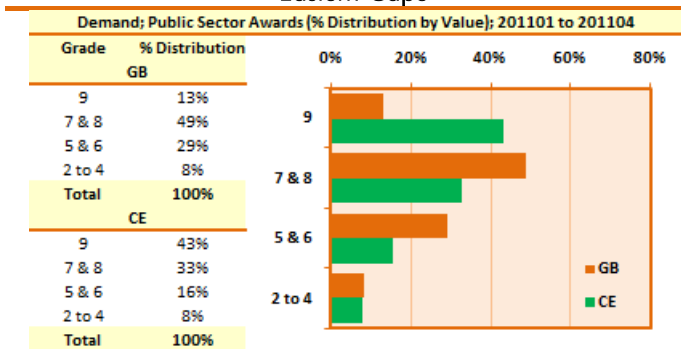
South Africa



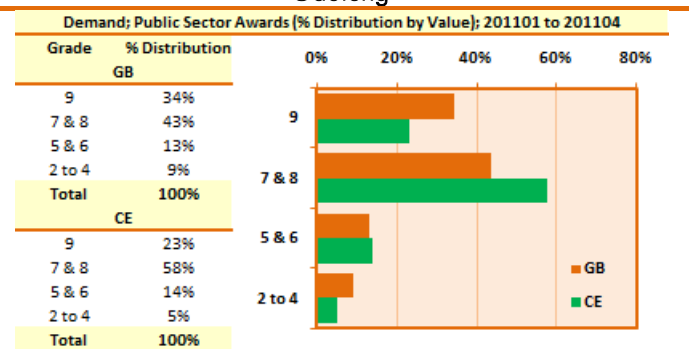
Eastern Cape



Gauteng



Kwa-Zulu Natal



Western Cape

4. Expenditure against Budget

An analysis of municipal capital expenditure for South Africa for the municipal 2010/2011 financial year and Q1 and Q2 of the 2011/12 financial year is shown in the adjacent figures, for:

- the phased linear budget, actual expenditure and variance (in Rm) for all municipalities; and
- actual spending against phased budget (%) for metro, local and district municipalities.

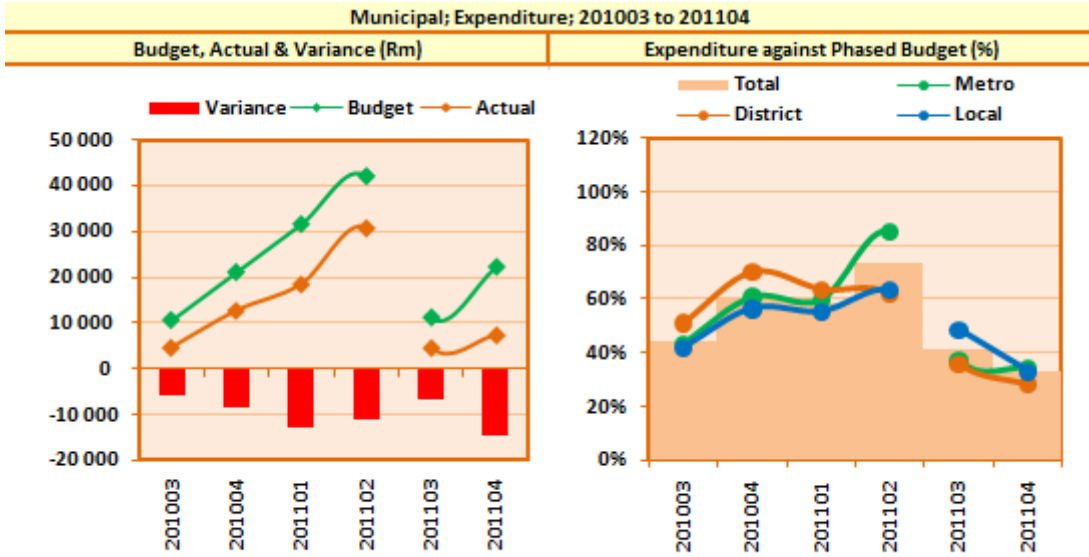
2010/11 financial year:

- Of the total municipal capital budget of around R42.3 billion, total expenditure amounted to around R30.9 billion – i.e.; the overall underspend amounted to about R11.3 billion (or around 27% of the total municipal budget amounted to 73%).
- Spending was highest amongst the Metro's, which achieved a total spend of around 85% of the capital budget.
- Spending was lowest amongst the District and Local Municipalities, which achieved a total spend of around 62% and 64% respectively.

2011/12 financial year:

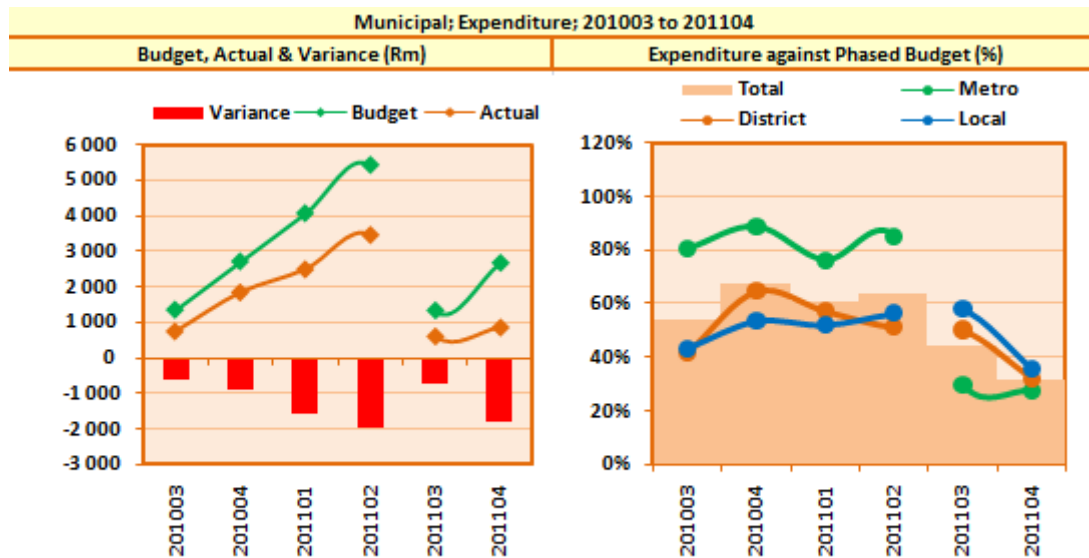
- Total municipal capital budget for the 2011/12 municipal financial year amounts to around R44.6 billion, of which municipal capital expenditure amounted to R11.9 billion at the end of Q2 – but this amounts to only around 26.5% of phased budget at the end of Q2!
- Municipal capital expenditure against phased budget for Q1 and Q2 appears to be significantly lower against phased budget compared to the 2010/11 municipal financial year.

An analysis of municipal expenditure for selected provinces is also shown in the following figures. (Data for other provinces can be provided on request.)

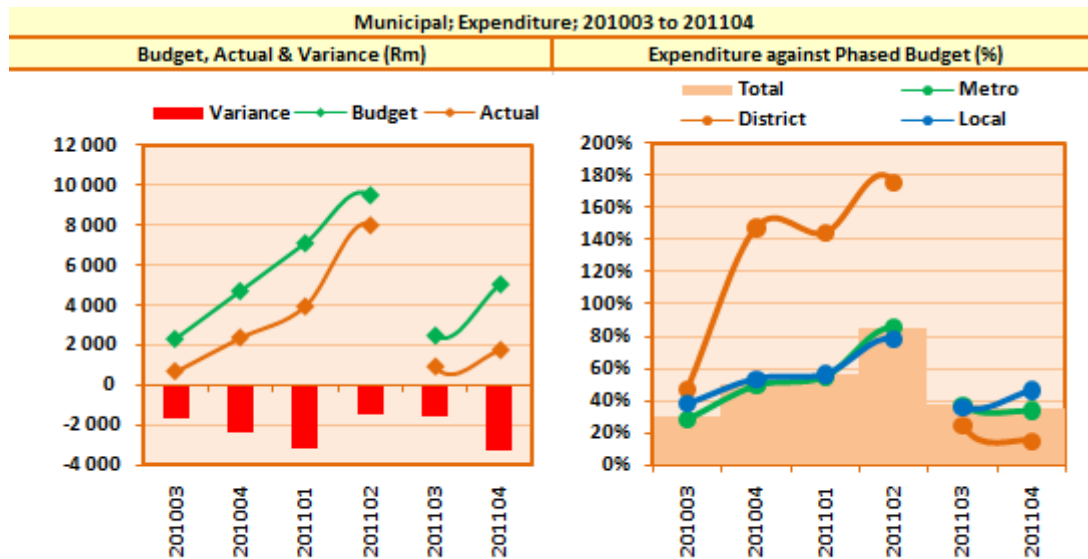


South Africa

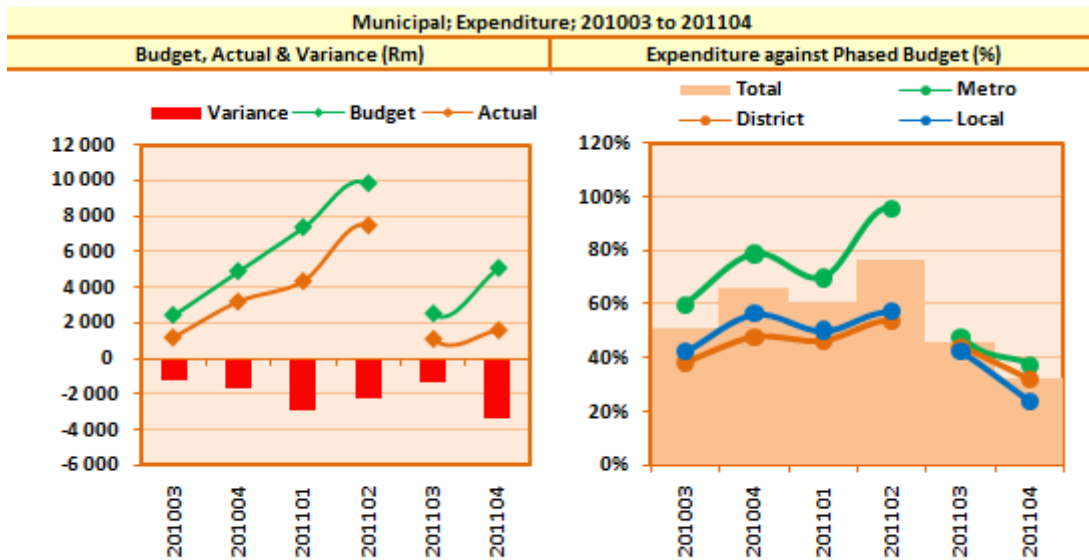
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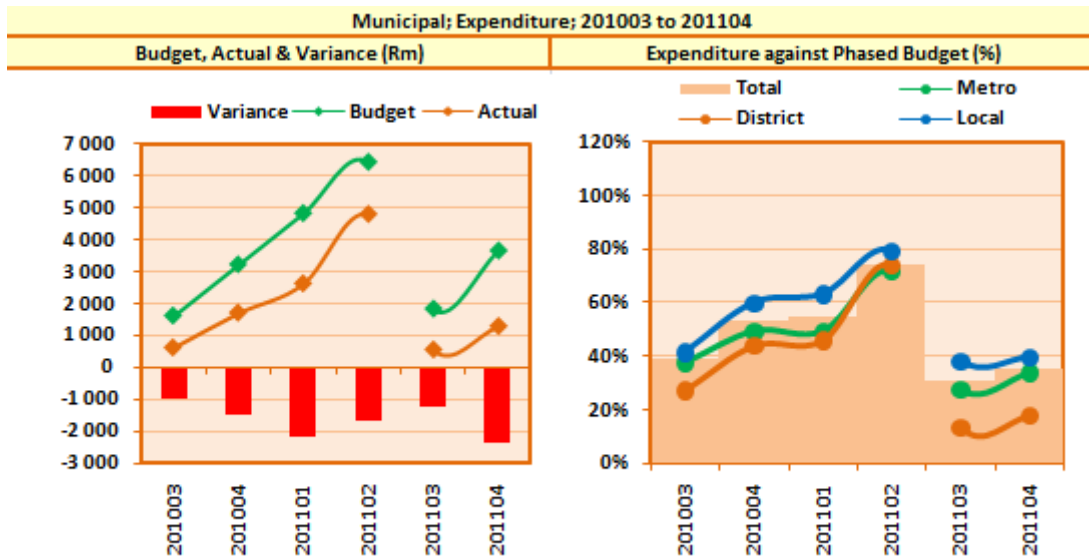
Eastern Cape



Gauteng



Kwa-Zulu Natal



Western Cape

5. Maintenance Contracts Awarded; Public Sector

(Note that it has been necessary to lag the information provided by *Industry Insight* for contracts awarded by one quarter. The information reflected here in this 2011Q1 *cidb Quarterly Monitor* is therefore a repetition of the 2011Q4 *cidb Quarterly Monitor*.)

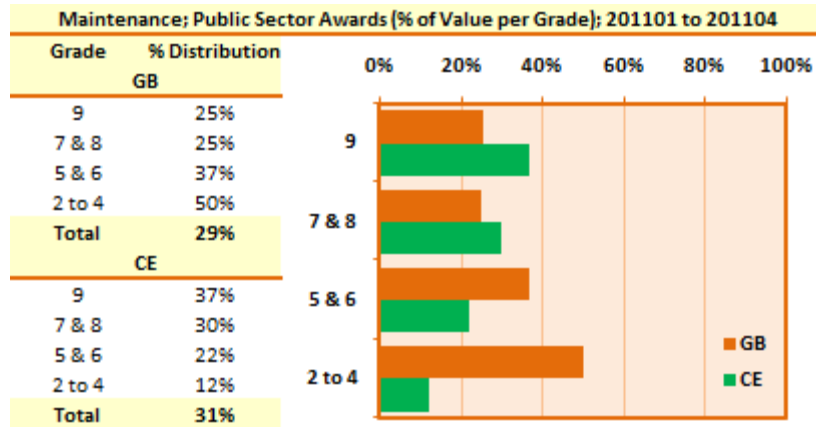
Estimates of the distribution of public sector maintenance contracts awarded by value (including refurbishment, renovations, etc.) in South Africa as a percentage of the total contracts awarded in the Grades 2 to 9 is shown in the adjacent figure. From the adjacent figure it can be seen that, for the period under review:

- overall, in tender Grades 5 to 9, maintenance contracts in General Building (GB) and Civil Engineering (CE) amounted to around 30% of total spend;
- the value of maintenance contract awards has in Grade 9 contractors decreased from 32% to 25% in GB when compared to the previous Quarterly Monitor report (January 2012), but remained reasonably constant at 37% in CE; while
- maintenance contracts for Grade 9 CE decreased from around 60% of spend in the same period last year (2010Q2 to 2011Q1) to around 37% for the period 2011Q2 to 2012Q1.

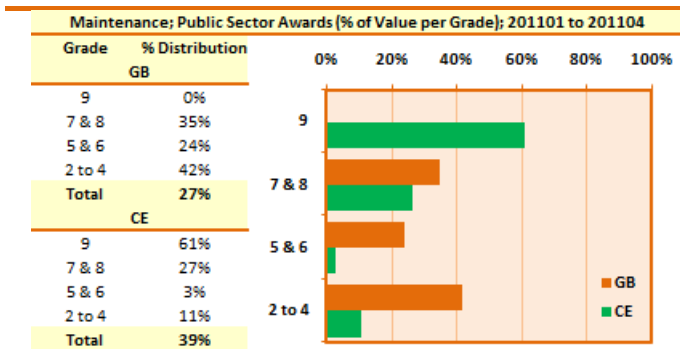
Estimates of the distribution of public sector maintenance contract awards for selected provinces is also shown in the adjacent figure. (Data for other provinces can be provided on request.)

Acknowledgements:

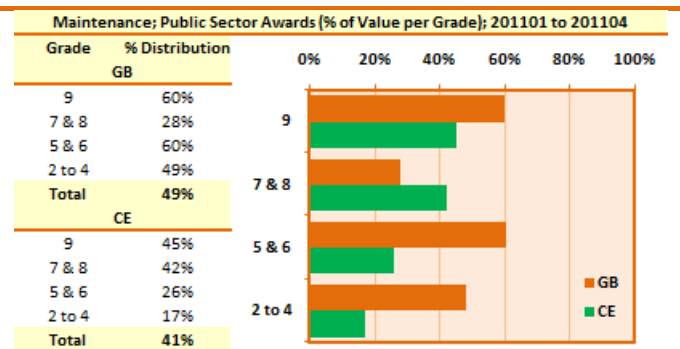




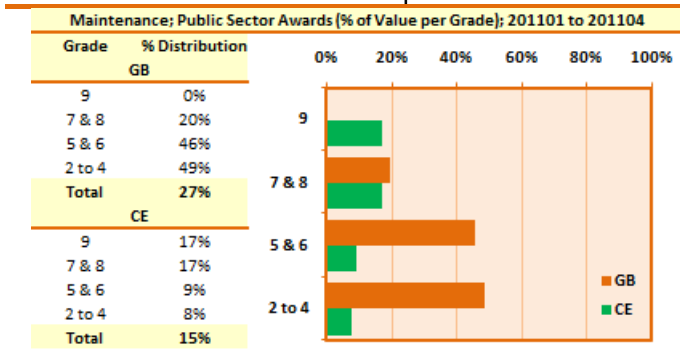
South Africa



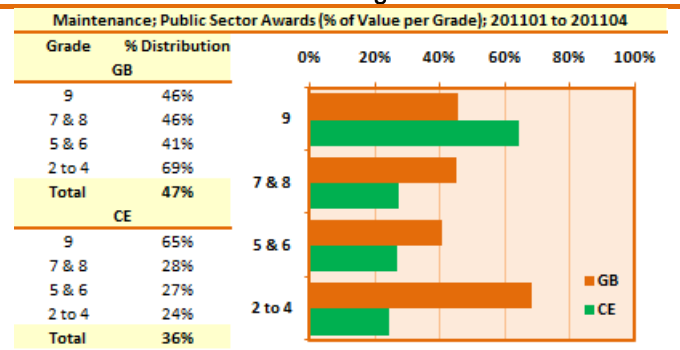
Eastern Cape



Gauteng



Kwa-Zulu Natal



Western Cape

6. Business Conditions; Public and Private Sectors

General Building: The overall business confidence of building contractors rose marginally from an index number of 34 in 2011Q4, to a value of 39 in 2012Q1.

The decline in growth in building activity stabilised in 2012Q1. Compared with a net -43% in 2011Q4, a net -23% of the survey respondents indicated that building activity was still lower than the same quarter a year ago. The tempo of labour shedding slowed during the survey quarter.

When tendering, respondents encountered keener competition for new work. Nevertheless, the pressure on profit margins eased during the survey quarter.

Shortages of skilled labour are being experienced by 45% of survey respondents. Seventy-six per cent of the survey respondents reported that insufficient demand for building work was constraining their business operations. Respondents anticipate that business conditions would improve in 2012Q2.

The business confidence levels of Grades 3 & 4 and Grades 5 & 6 rose quite sharply in 2012Q1. The confidence level of Grades 7 & 8 deteriorated from 38 to 29 in 2012Q1. Regionally, business confidence increased significantly in the Eastern Cape, KwaZulu-Natal and in Gauteng. However, a slight weakening of business confidence was reported in the Western Cape.

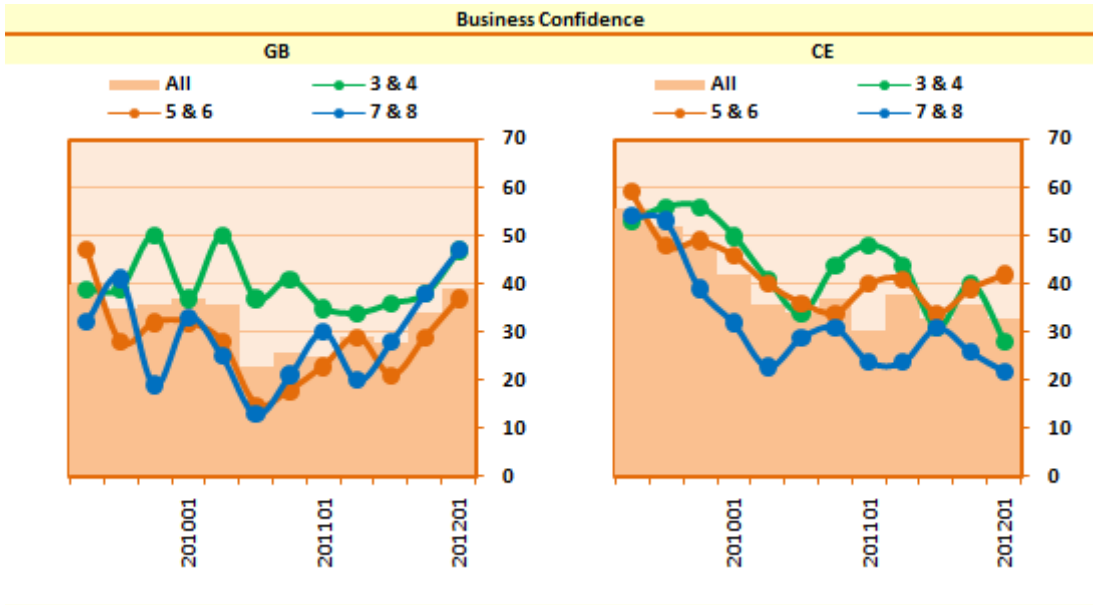
Civil Engineering: The overall business confidence of civil contractors dropped slightly from an index value of 36 in 2011Q4, to a level of 33 in 2012Q1. Business conditions during the survey quarter underperformed expectations, and weakened considerably when compared to 2011Q4.

When compared to 2011Q4, the survey respondents indicated that the growth in construction activity stabilised during the survey quarter. Tendering competition also stabilised during the survey quarter, but the overall profitability of their businesses dropped.

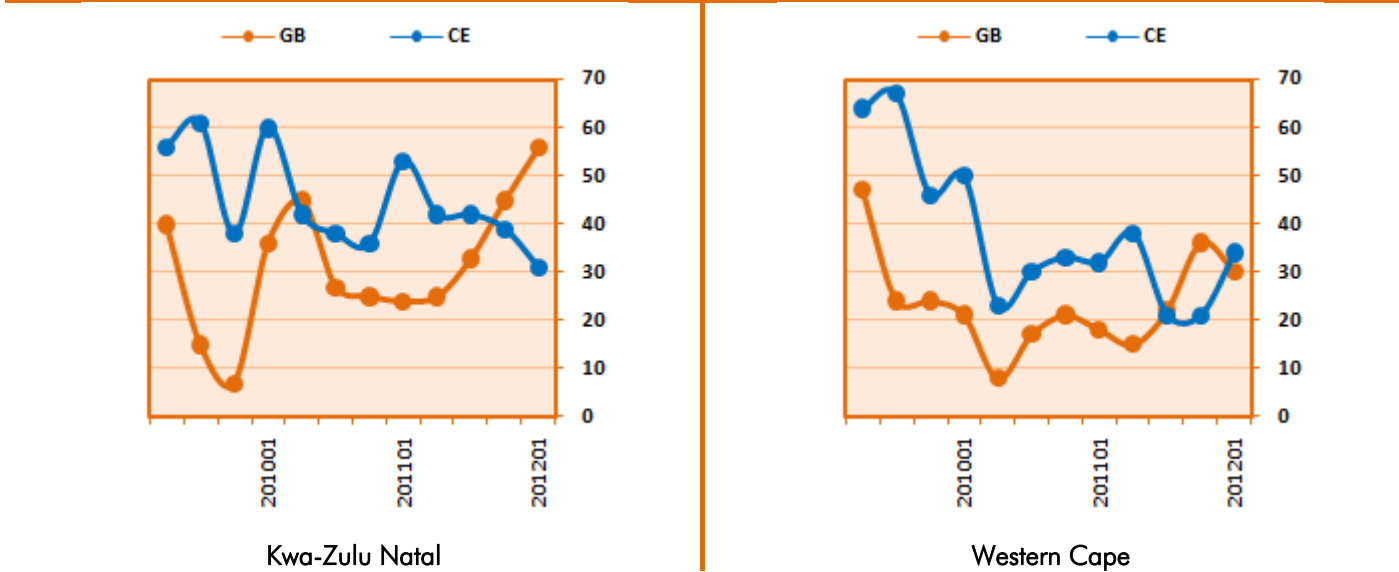
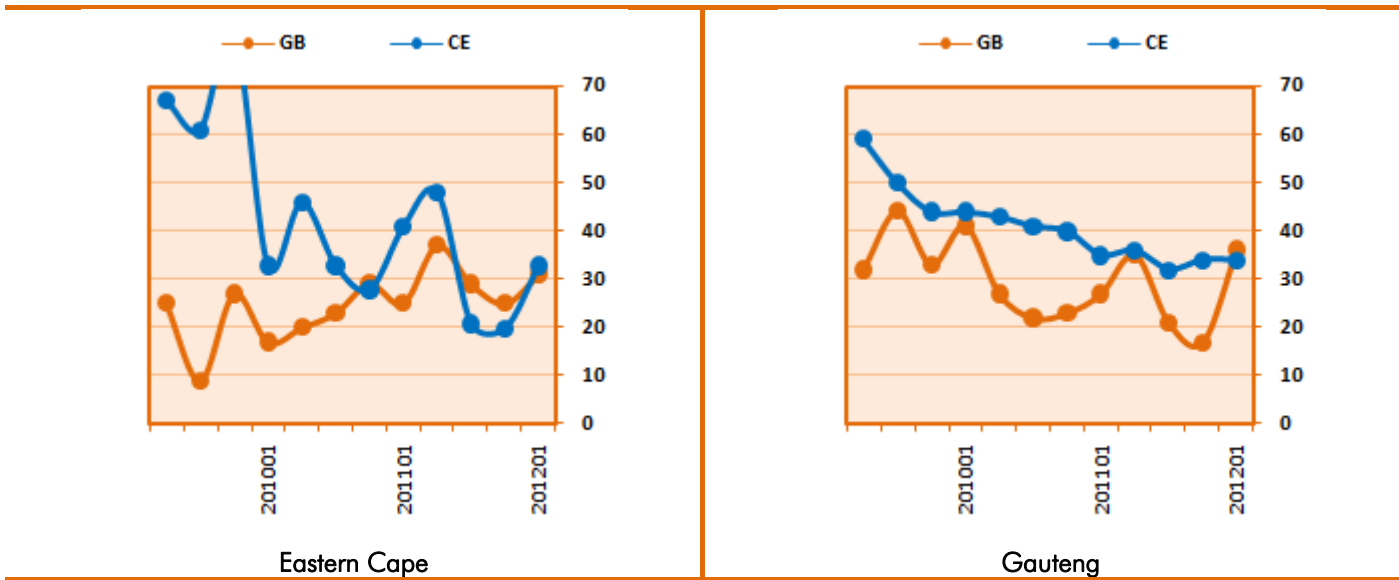
Forty-one per cent of survey respondents reported skilled labour shortages.

A majority of 80% of the respondents reported insufficient demand as a serious constraint on their operations. Almost half of the respondents expect general business conditions to improve in 2012Q2.

The business confidence of civil contractors in Grades 3 & 4, as well as in Grades 7 & 8, weakened during the survey quarter. The business confidence of civil contractors in Grades 5 & 6 rose from an index value of 39 to a level of 42 in 2012Q1. Regionally, business confidence in Gauteng remained constant, and dropped sharply from 39 to 31 in KwaZulu-Natal. Confidence levels improved markedly in the Western and Eastern Cape.



South Africa



7. Construction Employment; Quarterly Labour Force Survey

(Note: The *Quarterly Labour Force Survey* results lag by one quarter. The *Quarterly Labour Force Survey* results for 2012 Q1 will only be available from Statistics South Africa in 2012 Q2)

The StatsSA *Quarterly Labour Force Survey* shows a total gain in construction employment of 43 000 jobs in 2011Q3 but a total loss of 29 000 jobs in 2011Q4.

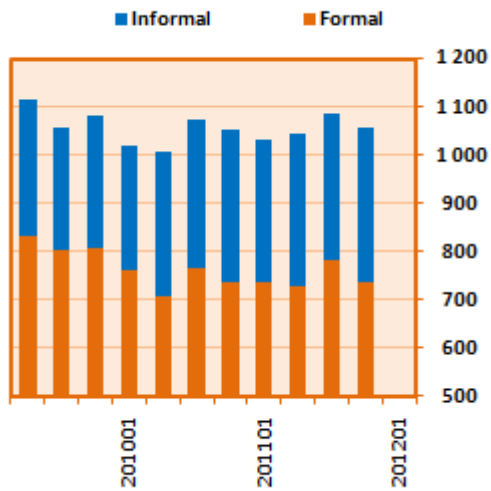
Total construction employment in 2011Q4 amounted to 1 057 000 in the formal and informal sector – representing 7,8% of total employment in South Africa. Between 2011Q3 and 2011Q4, 46 000 job losses were experienced in the formal sector and 17 000 job gains were experienced in the informal sector.

However, although the *Quarterly Labour Force Survey* shows a net loss in employment of 29 000 jobs in 2011Q4, as shown below the net losses varies significantly between provinces. Specifically:

- net losses have been experienced in the Free State, Limpopo and Northern Cape in 2011Q4; while
- net gains have been experienced in the Eastern Cape, Kwazulu Natal, Mpumalanga, North West and Western Cape.

Quarter-on-quarter net gains/losses in construction employment (* 1000)										
yyyyqq	SA	EC	FS	GP	KZ	LP	MP	NC	NW	WC
201002	-15	3	4	-10	-7	-11	3	3	-11	10
201003	70	11	2	59	4	6	8	2	-6	-17
201004	-20	9	3	-34	-6	15	2	-2	5	-11
201101	-25	-9	2	10	1	-16	-5	-4	2	-6
201102	12	-2	-2	29	9	-15	0	-1	0	-6
201103	43	-11	54	-54	-1	33	7	8	-4	11
201104	-29	17	-59	0	5	-16	2	-2	8	15

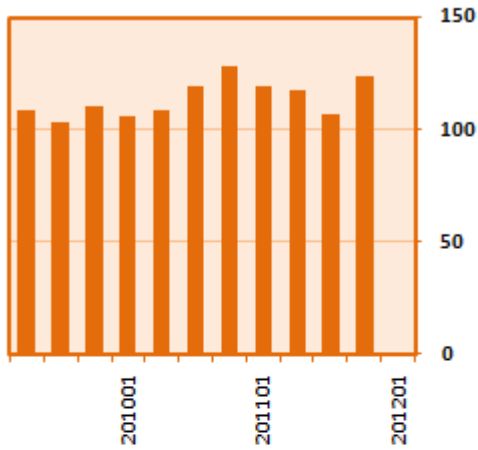
Employment (*1 000); 200902 to 201201



South Africa

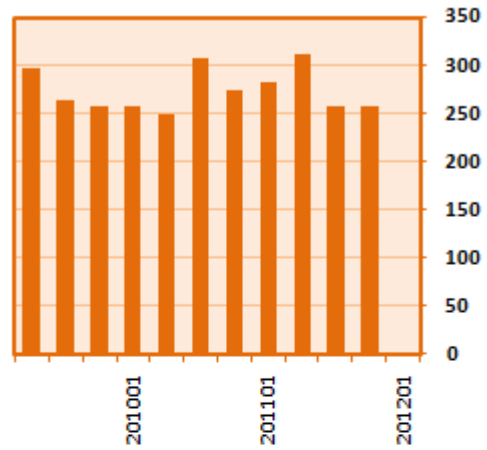
Eastern Cape

Total (*1 000)



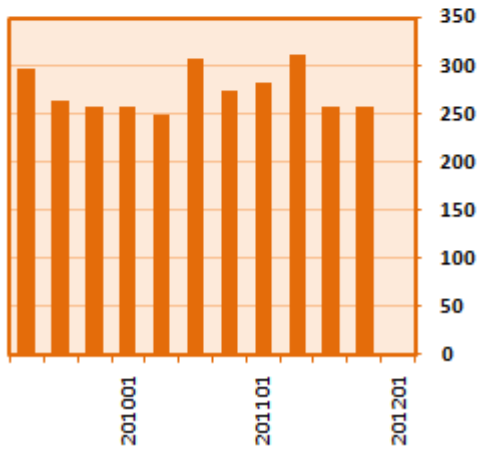
Gauteng

Total (*1 000)



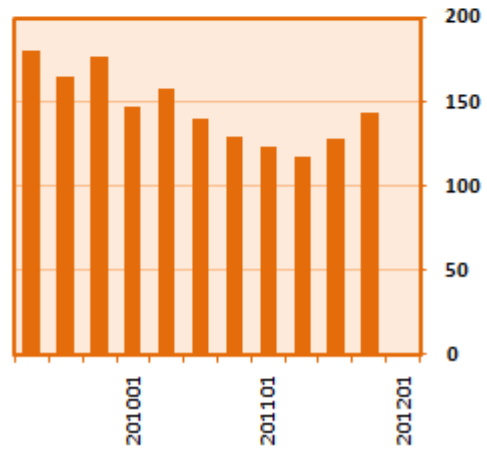
KwaZulu - Natal

Total (*1 000)



Western Cape

Total (*1 000)



8. Construction Employment; cidb / BER Business Conditions Survey

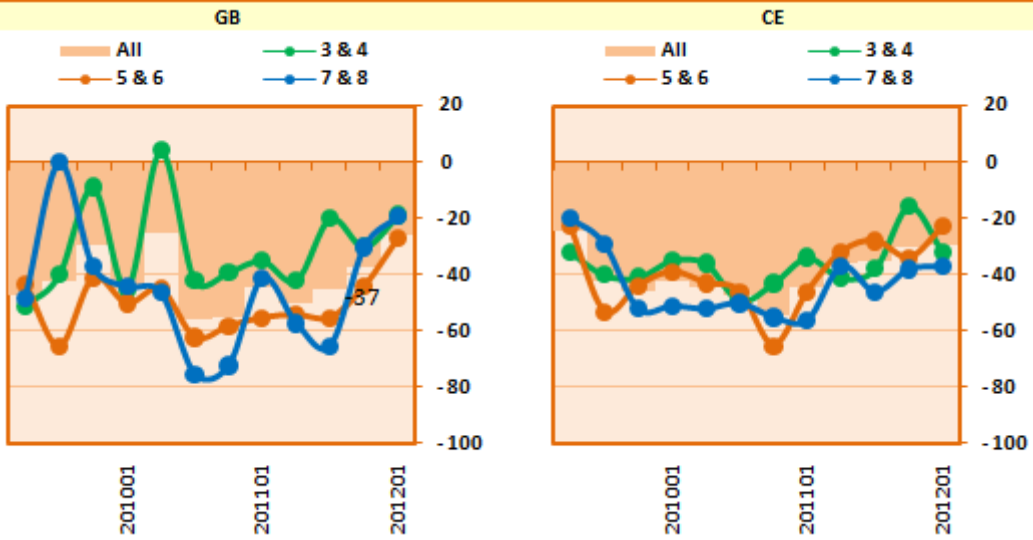
The net balance of companies (percentage) indicating a growth (positive) or decline (negative) in the appointment of construction employers is shown in the adjacent figure.

General Building: The overall employment index of building contractors rose marginally from an index number of -37 in 2011Q4, to a value of -26 in 2012Q1, showing that the tempo of labour shedding slowed during the survey quarter. The most notable gains have been in Grade 5 and 6 contractors. Overall, the shedding of labour tends to remain the lowest amongst Grade 3 and 4 contractors.

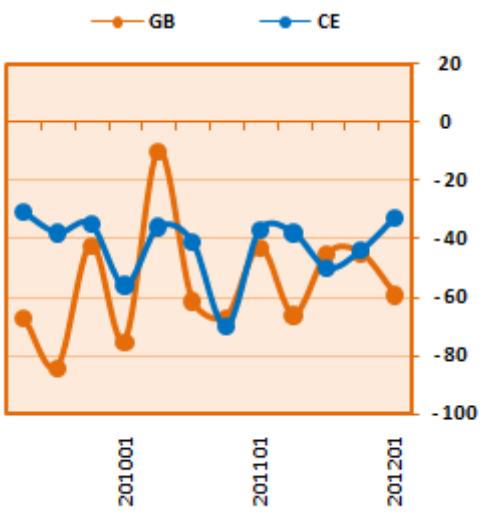
In line with the changes in business conditions, KwaZulu Natal showed the best improvements.

Civil Engineering: The overall employment index of civil contractors rose from an index number of -30 in 2011Q4, to -29 in 2012Q1, showing a slight decrease in the tempo of labour shedding. The most notable gains have been in Grade 5 and 6 contractors.

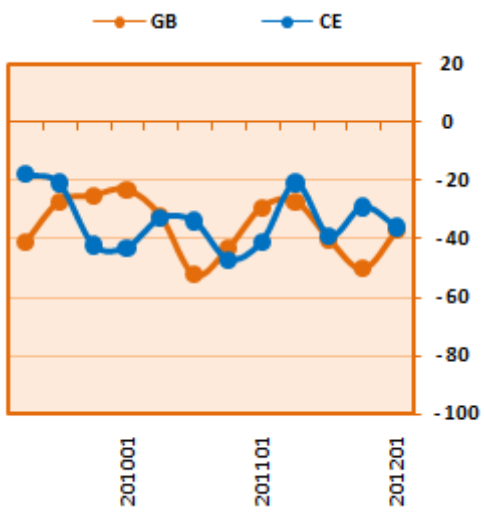
Employment Indicator



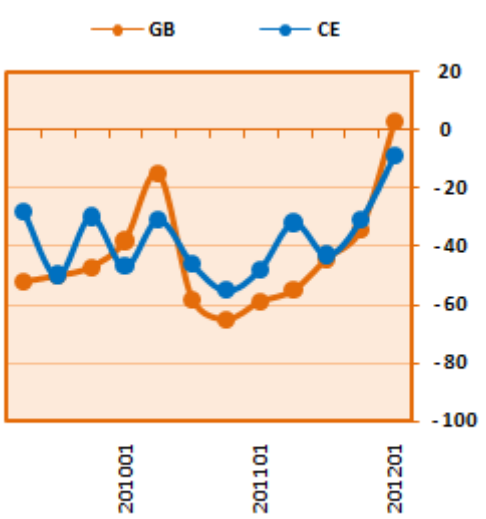
South Africa



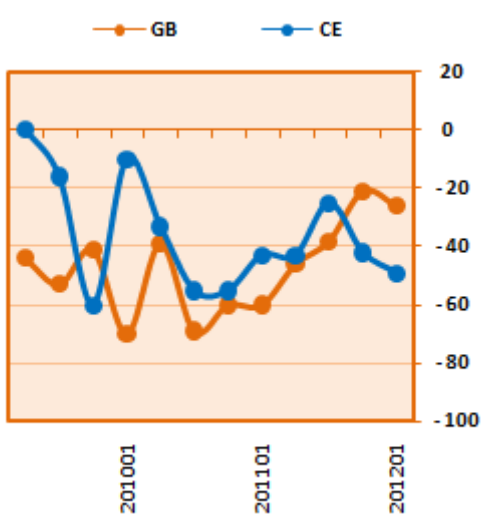
Eastern Cape



Gauteng



Kwa-Zulu Natal



Western Cape

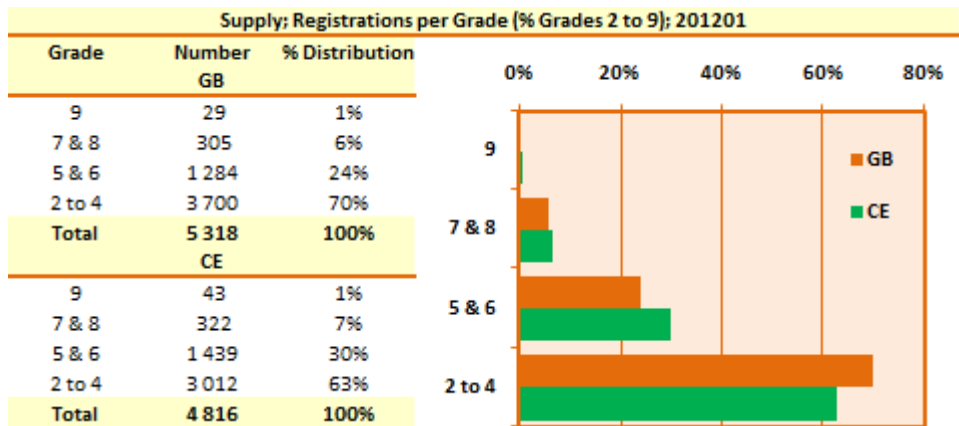
9. Registrations; Grades 2 to 9

Details of the distribution of the total number of registrations in Grades 2 to 9 in General Building (GB) and Civil Engineering (CE) for South Africa and selected provinces are shown in the following figures, together with the total number of registrations over the past three years. (Details for other provinces can be provided on request.)

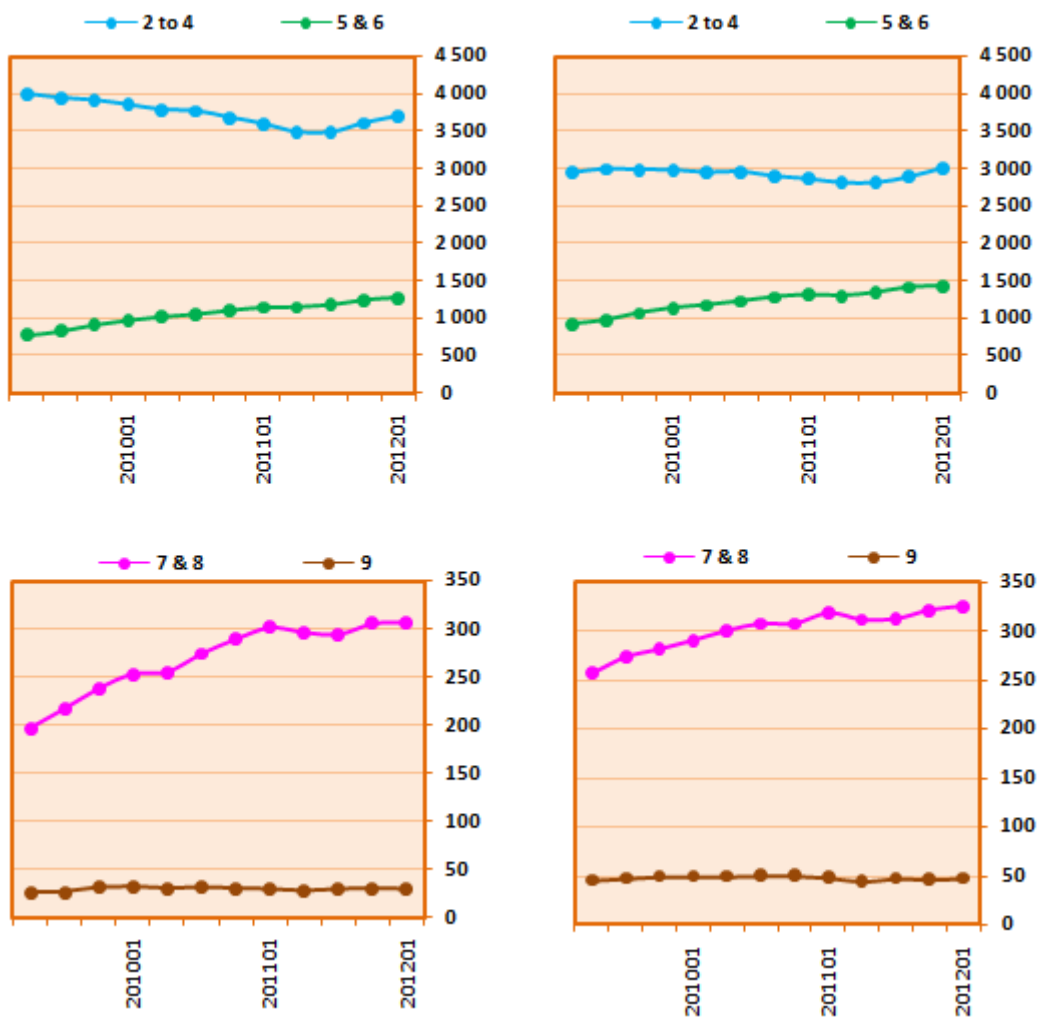
Overall, it is seen that the number of registrations in Grades 2 to 4 account for around 60% to 70% of the total registrations in Grades 2 to 9, whereas the number of registrations in Grades 7 to 9 account for around 8% of the total number of registrations.

The distribution of the total number of registrations in Grades 2 to 9 per province is shown on the following pages. Again, it should be noted that the Grade 9 contractors, and to a lesser extent Grades 7 and 8 contractors, are largely regional contractors and operate in any province – but tend to be based in Gauteng and the Western Cape. Other than the concentration in the Grade 9 contractors and the Grade 7 and 8 contractors, it is seen from the figures that the distribution in profile in registrations is reasonably consistent between provinces.

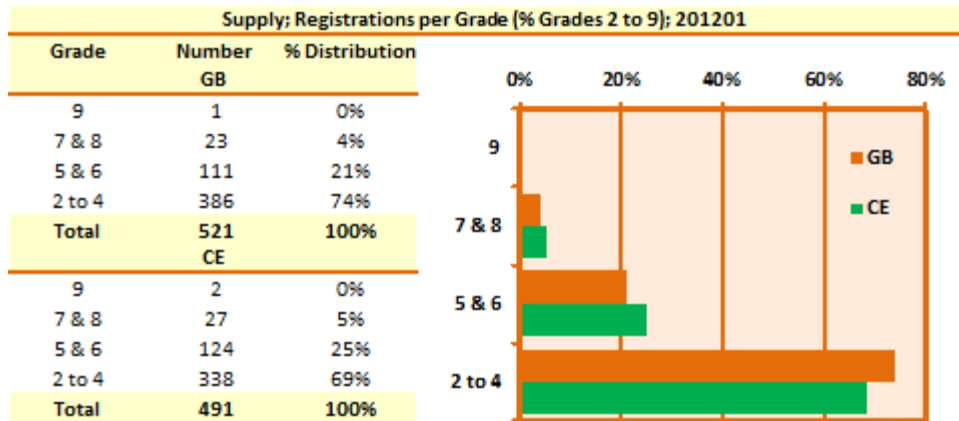
Of significance is that the trend in a reduction in the number of registrations in Grades 2 to 4 in both GB and in CE has reversed. However, the growth in the number of registrations in Grades 5 to 9 is seen to be small.



Supply; Number of Registrations; 200902 to 201201



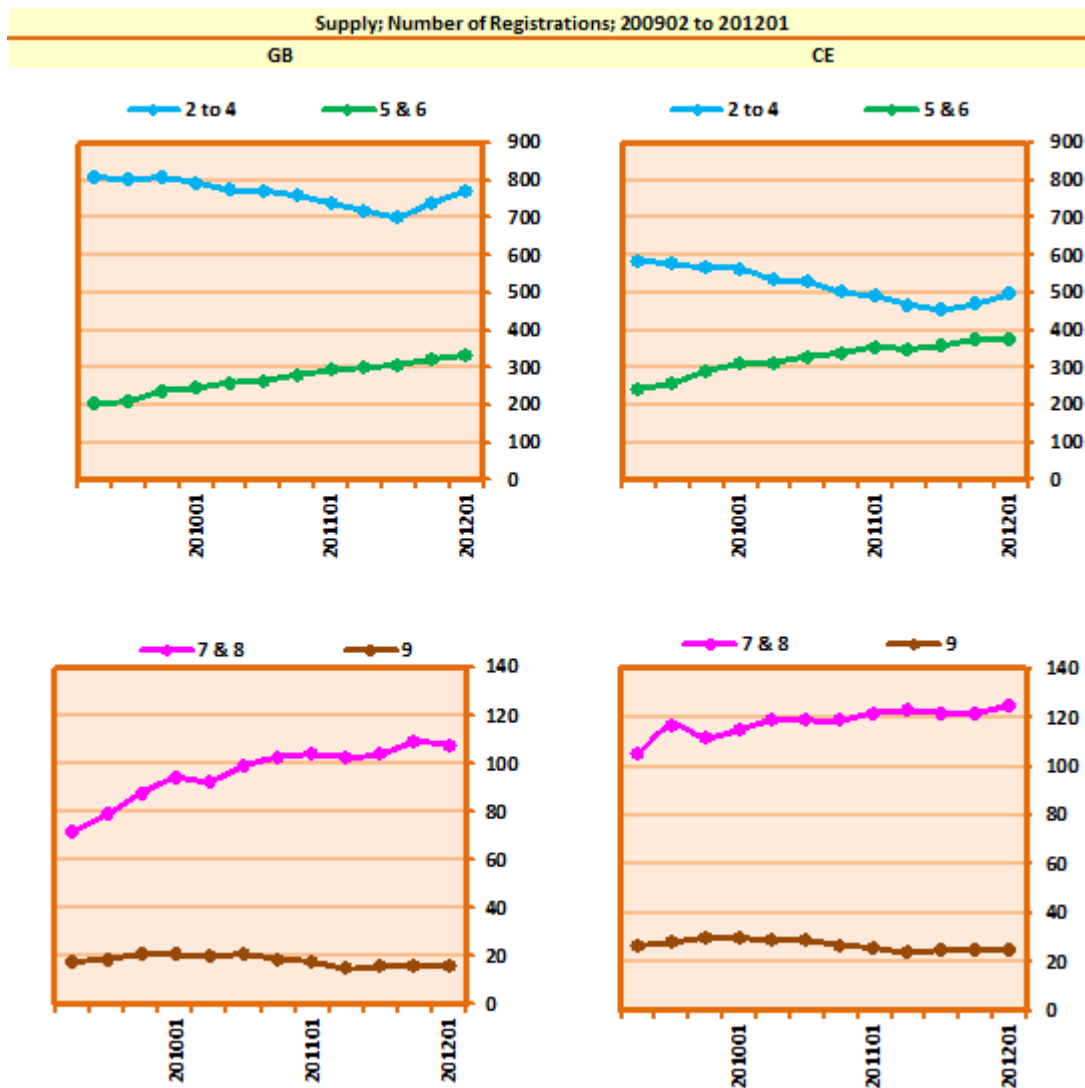
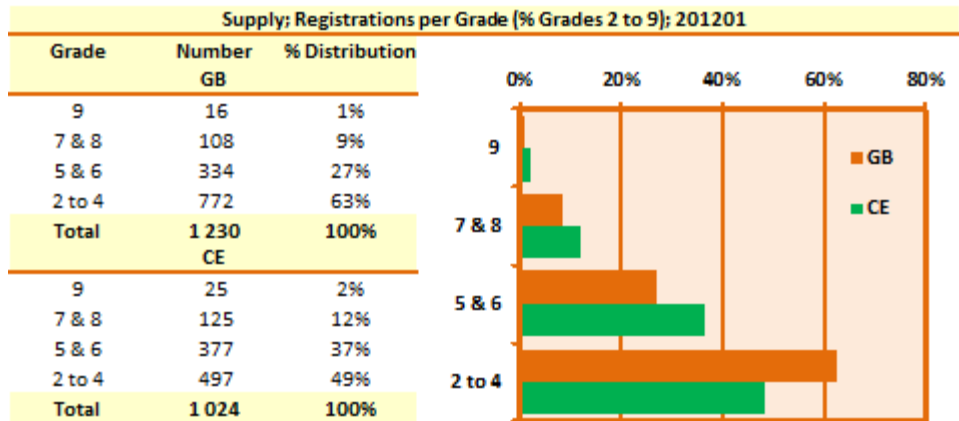
South Africa



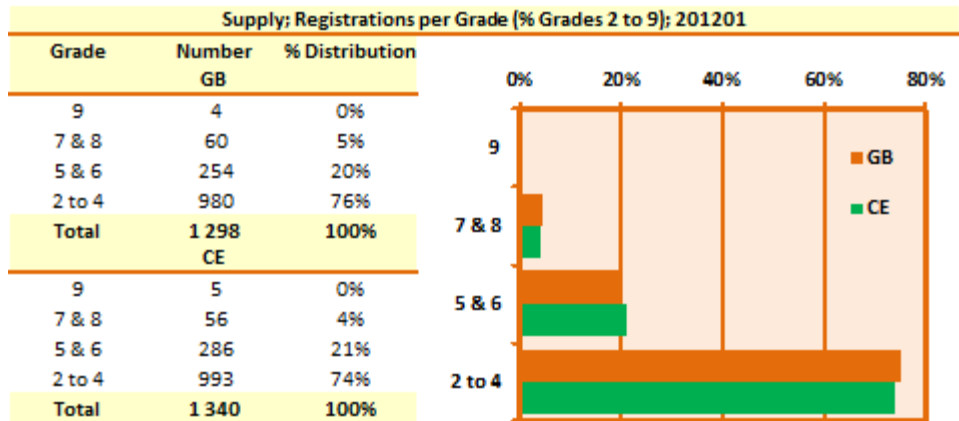
Supply; Number of Registrations; 200902 to 201201



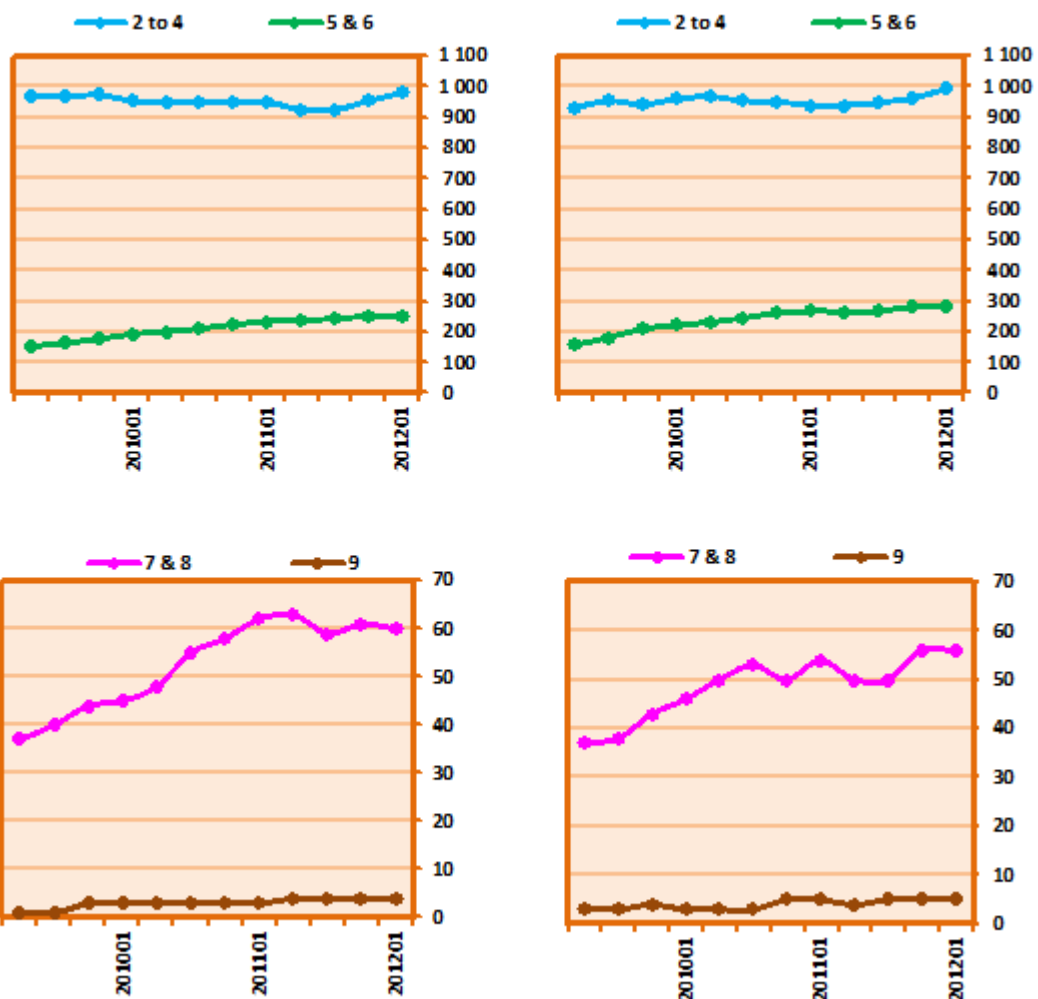
Eastern Cape



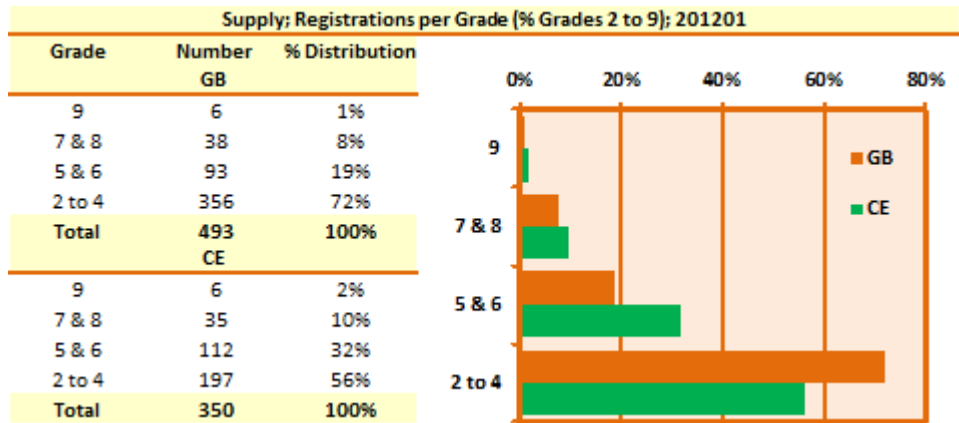
Gauteng



Supply; Number of Registrations; 200902 to 201201



Kwa-Zulu Natal



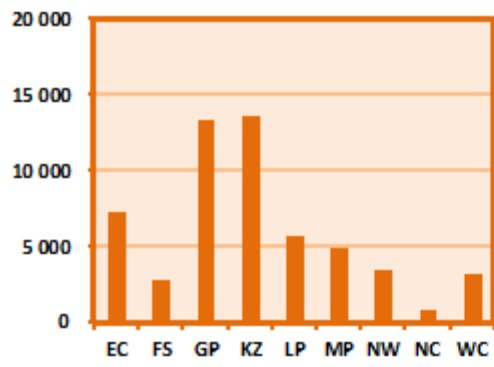
Western Cape

10. Registrations; Grade 1

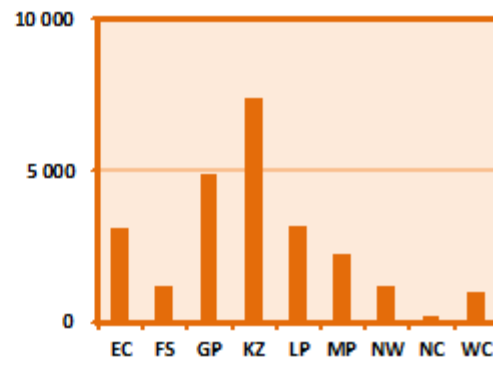
The absolute number of Grade 1 contractors per province is shown in the adjacent figure. It is seen that the number of registered Grade 1 General Building (GB) and Civil Engineering (CE) contractors in KwaZulu-Natal and the Eastern Cape appears to be disproportionately high – especially compared to the GDP or construction spend per province.

Supply; Grade 1 (Absolute)

GB



CE

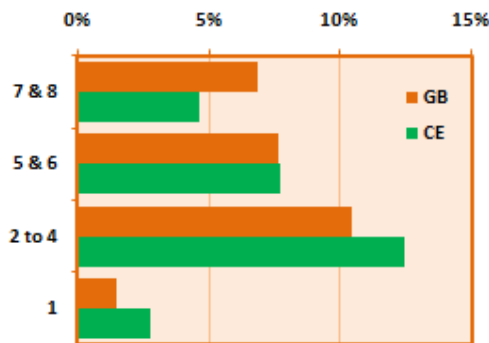


11. Contractor Development; Upgrades

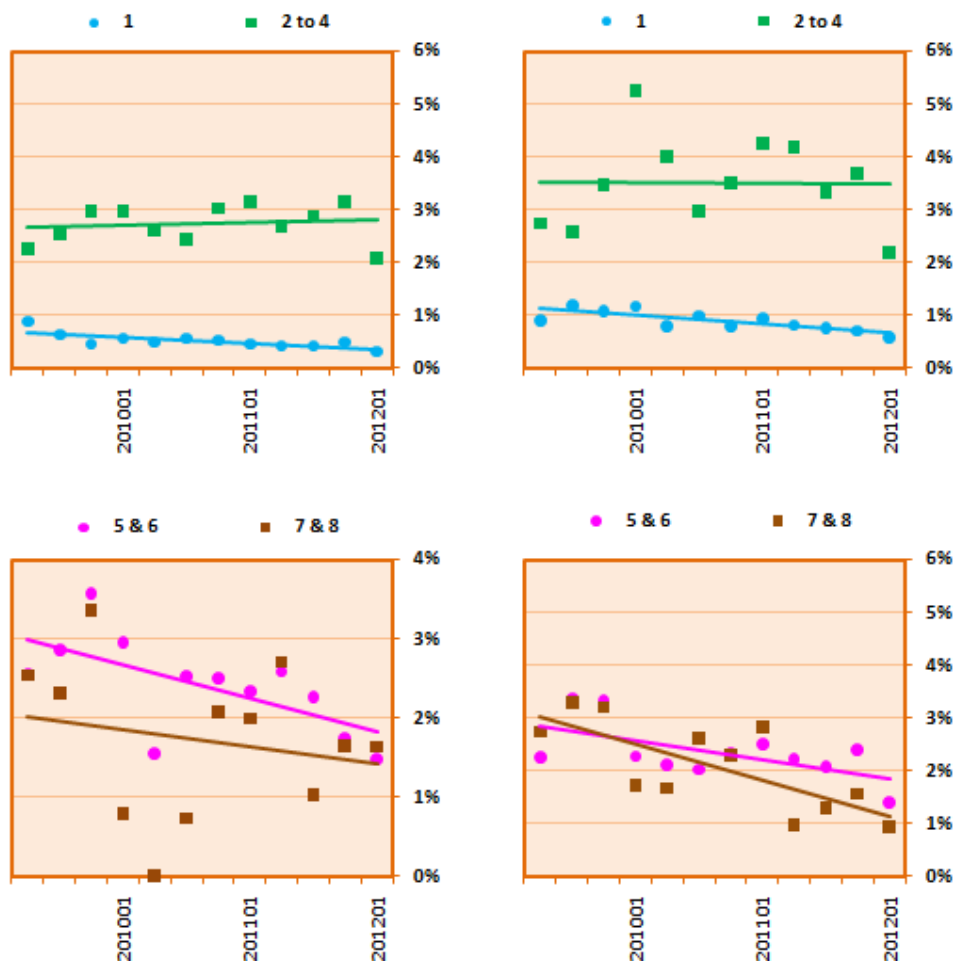
Details of the upgrading of contractors in General Building (GB) and in Civil Engineering (CE) within the past four quarters are shown in the adjacent table. The average rate of contractor upgrades in Grades 2 to 8 is seen to be around 5% to 15% per year – while for Grade 1 contractors the rate of upgrading is significantly lower, namely around 1% to 3%.

Of interest, except for the rate of upgrades in Grades 2 to 4, the overall rate of upgrades in General Building (GB) and Civil Engineering (CE) appears to be decreasing over the past three years (possibly reflecting the difficult economic conditions).

Upgrades; 201102 to 201201							
From/To	2 to 4	5 & 6	7 & 8	9	Total	Registrations	%
GB							
7 & 8	0	0	18	3	21	305	7%
5 & 6	0	58	39	1	98	1 284	8%
2 to 4	222	158	6	0	386	3 700	10%
1	755	84	0	0	840	55 388	2%
Total	977	300	63	4	1 345	60 677	2%
CE							
7 & 8	0	0	9	6	15	322	5%
5 & 6	0	69	42	0	111	1 439	8%
2 to 4	203	169	2	0	374	3 012	12%
1	594	89	0	0	687	24 543	3%
Total	797	327	53	6	1 187	29 316	4%



Upgrades per Quarter; 200902 to 201201

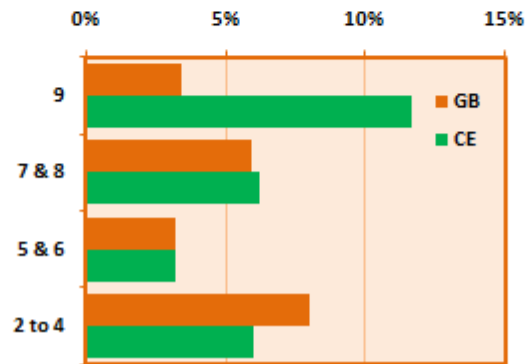


12. Contractor Development; Downgrades

Details of downgrading of contractors are shown in the adjacent figure, in which only compliant applications have been considered. Overall, in Grades 2 to 8, it is seen that the total number of downgrades is around 5% to 7% per year.

Of interest, it can be noted that in Grades 2 to 8, the number of upgrades is somewhat higher than the number of downgrades (Section 11).

Downgrades; 201102 to 201201							
From/To	1	2 to 4	5 & 6	7 & 8	Total	Registrations	%
GB							
9	0	0	0	1	1	29	3%
7 & 8	0	3	12	3	18	305	6%
5 & 6	5	18	18	0	41	1 284	3%
2 to 4	220	77	0	0	297	3 700	8%
Total	225	98	30	4	357	5 318	7%
CE							
9	1	0	0	4	5	43	12%
7 & 8	1	0	16	3	20	322	6%
5 & 6	8	25	13	0	46	1 439	3%
2 to 4	127	54	0	0	181	3 012	6%
Total	137	79	29	7	252	4 816	5%

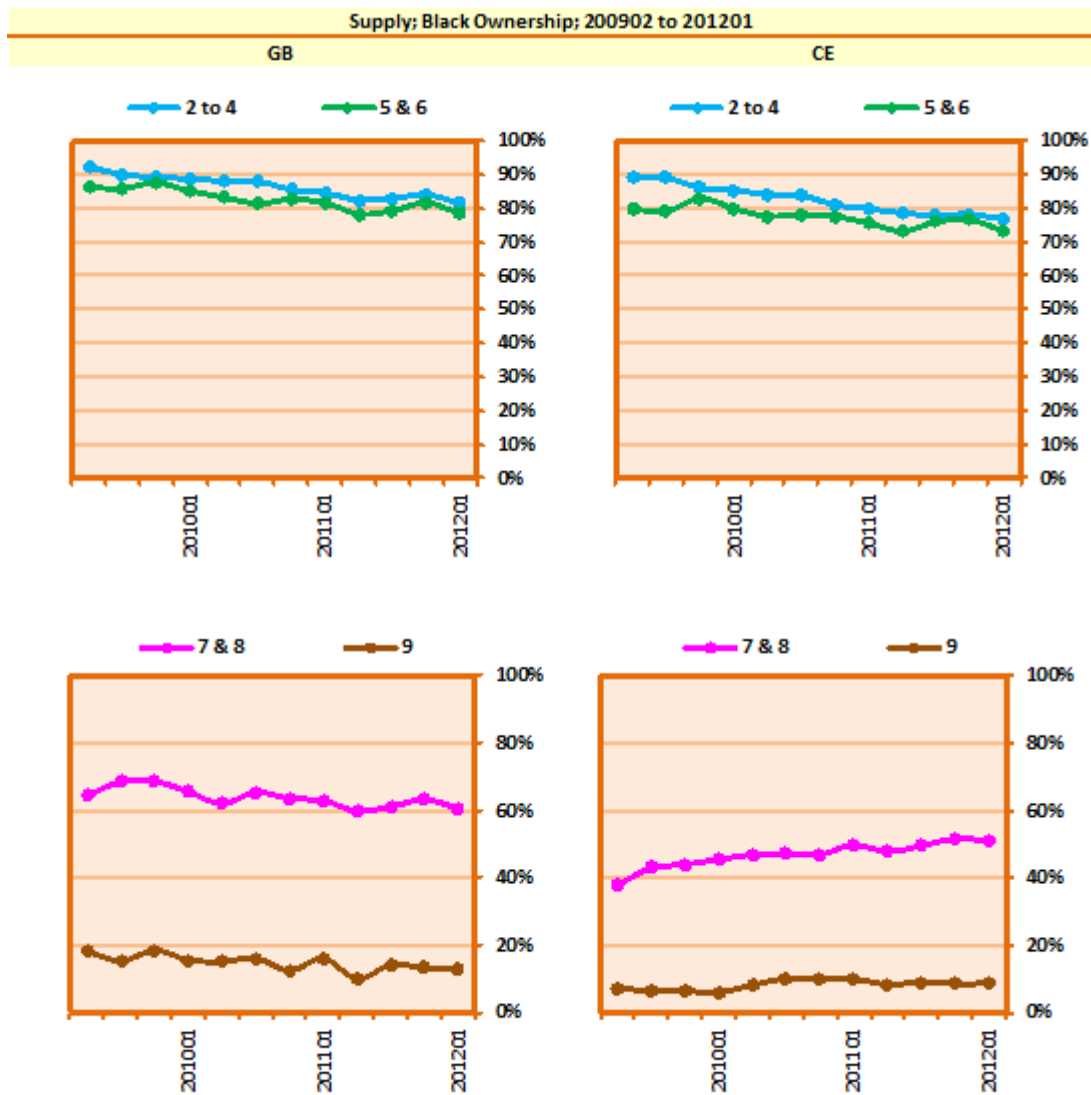
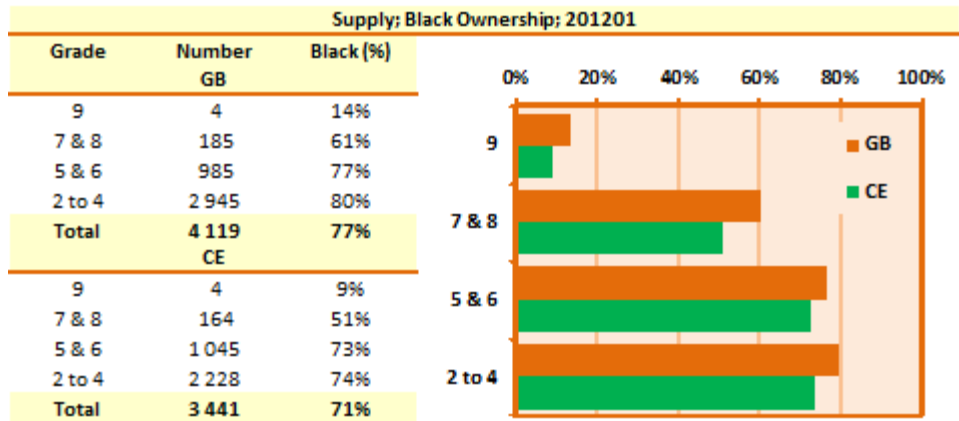


13. Equity; Black Ownership

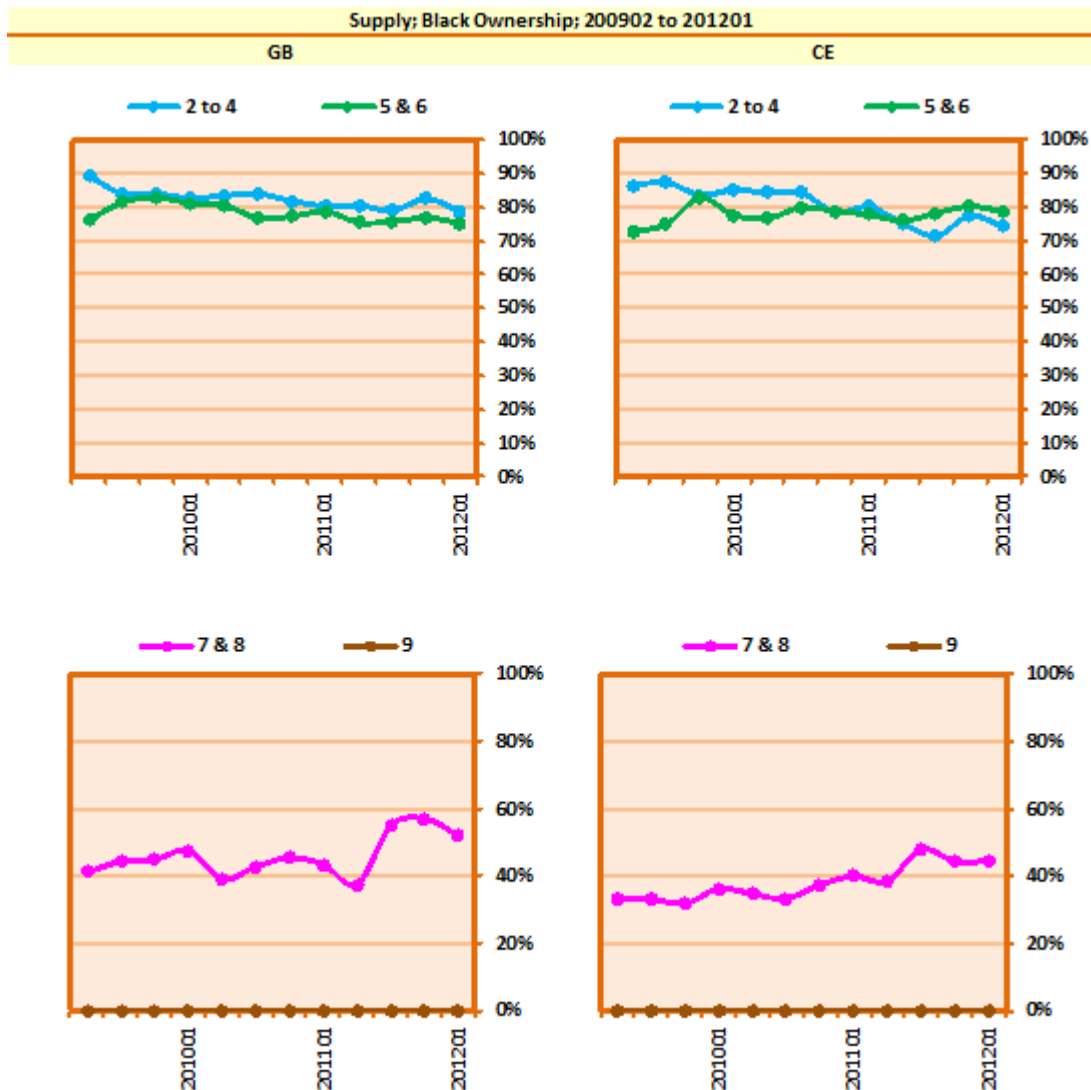
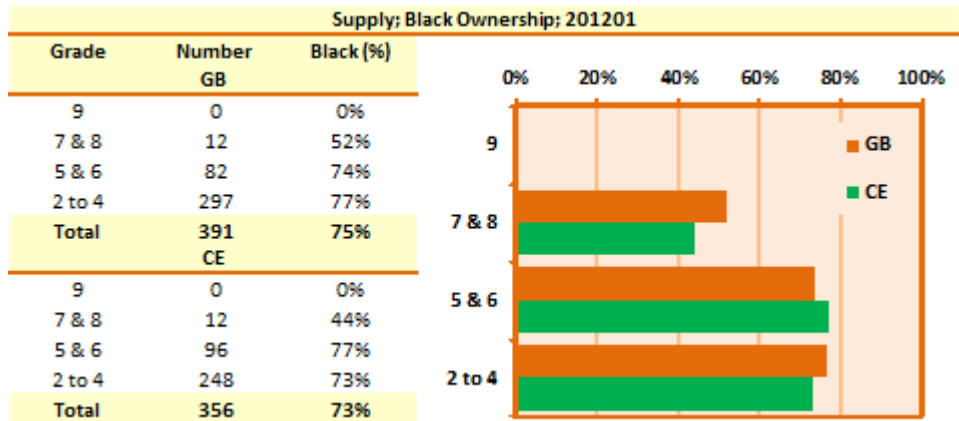
Details of black ownership of cidb registered contractors (defined as ownership control of 50% or more) for South Africa and for selected provinces is shown in the following figures. (Details for other provinces can be provided on request.)

From the adjacent figure it can be seen that around 80% of cidb registered Grade 2 to 4 General Building (GB) and Civil Engineering (CE) contractors are black owned. Furthermore, around 80% of all Grade 5 and 6 General Building (GB) and Civil Engineering (CE) contractors are black owned, while around 60% of all Grade 7 and 8 General Building (GB) contractors are black owned. Black ownership of Civil Engineering (CE) contractors in Grades 7 and 8 is however much lower – around 50% on average.

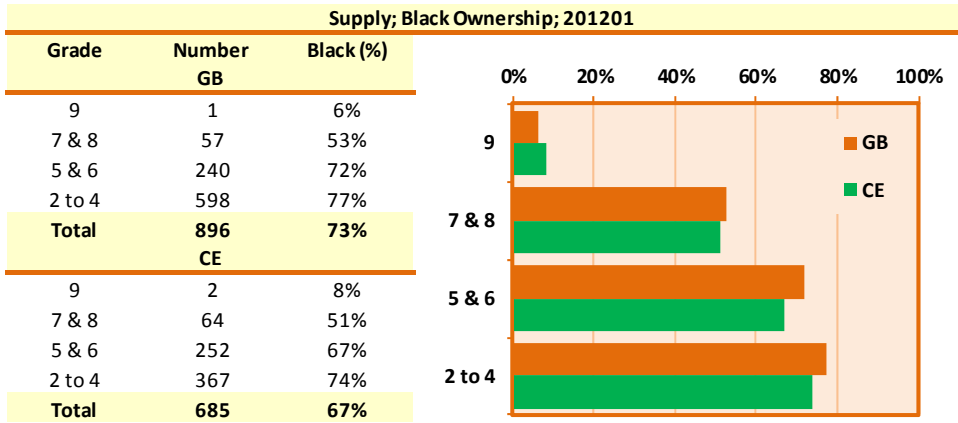
The history profiles of black ownership for South Africa as a whole and for selected provinces is also shown in the following figures. Of concern is that, overall, black ownership representation has not increased significantly over the past three years, and in some case the representation has in fact even decreased. This negative trend is most noticeable in Grades 2 to 4.



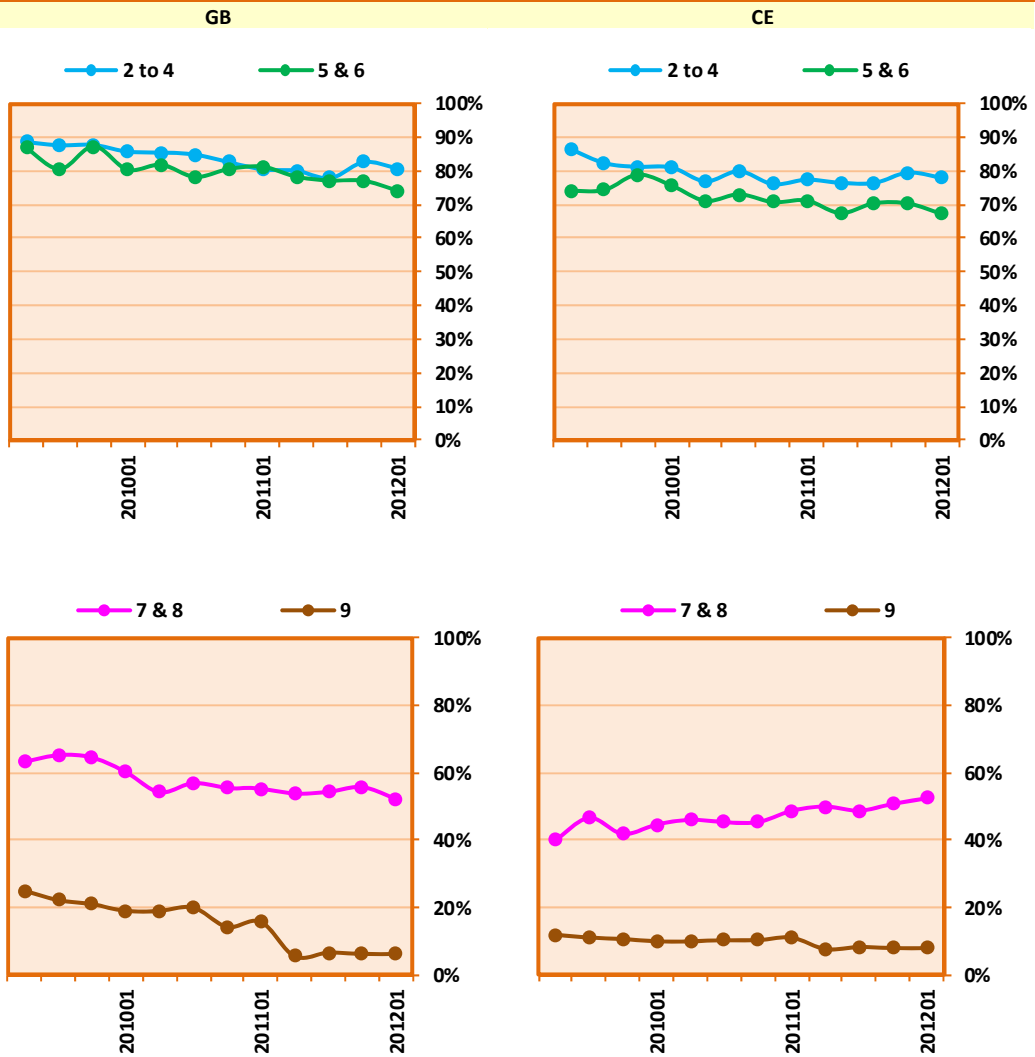
South Africa



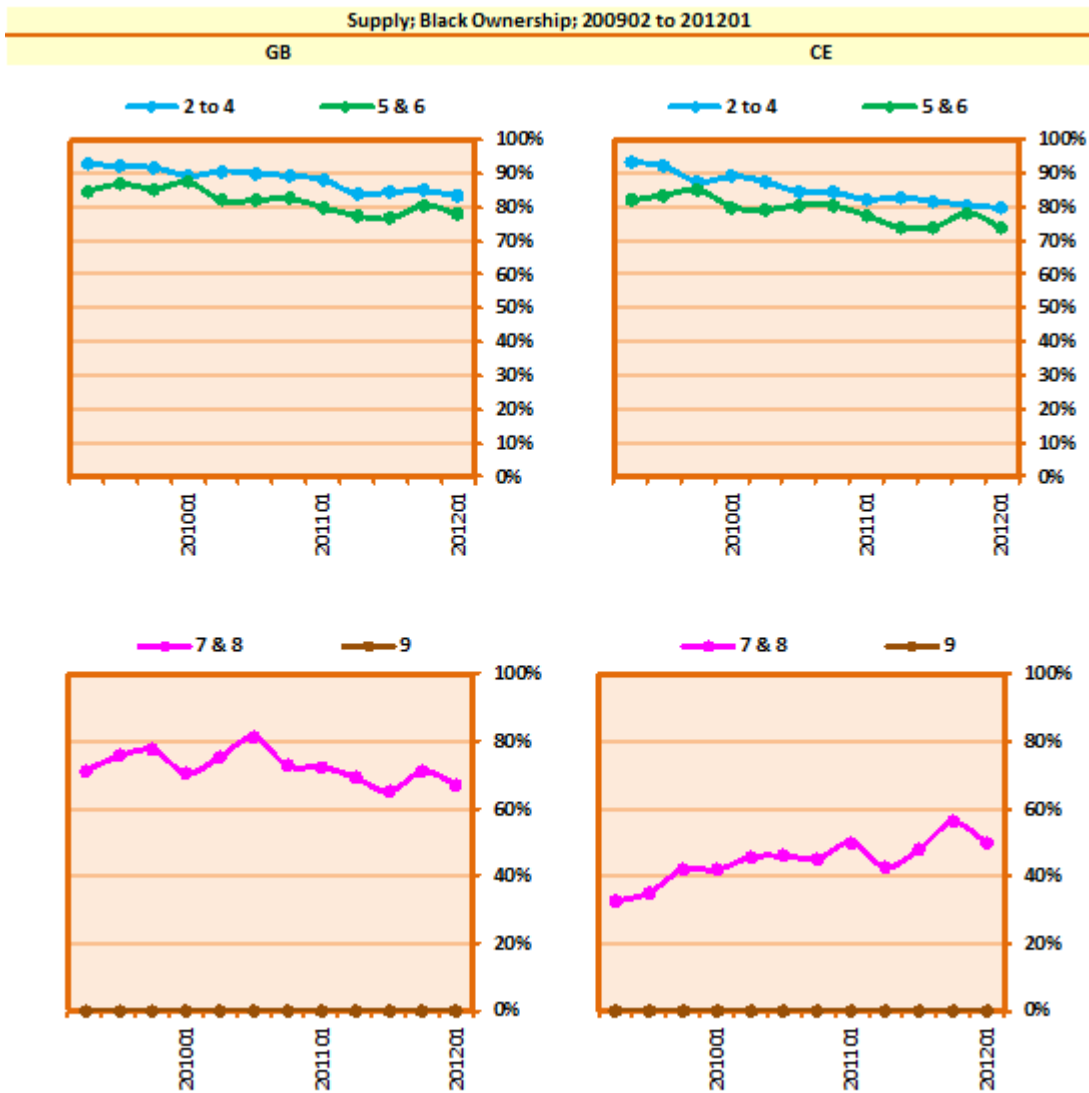
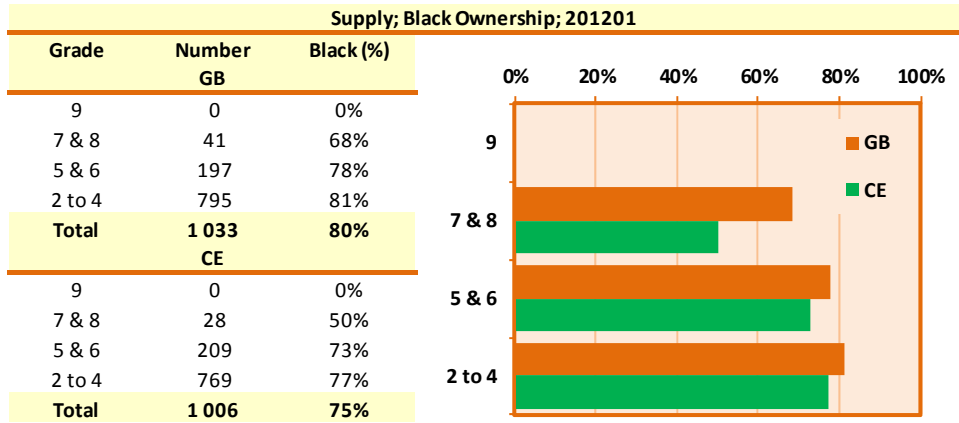
Eastern Cape



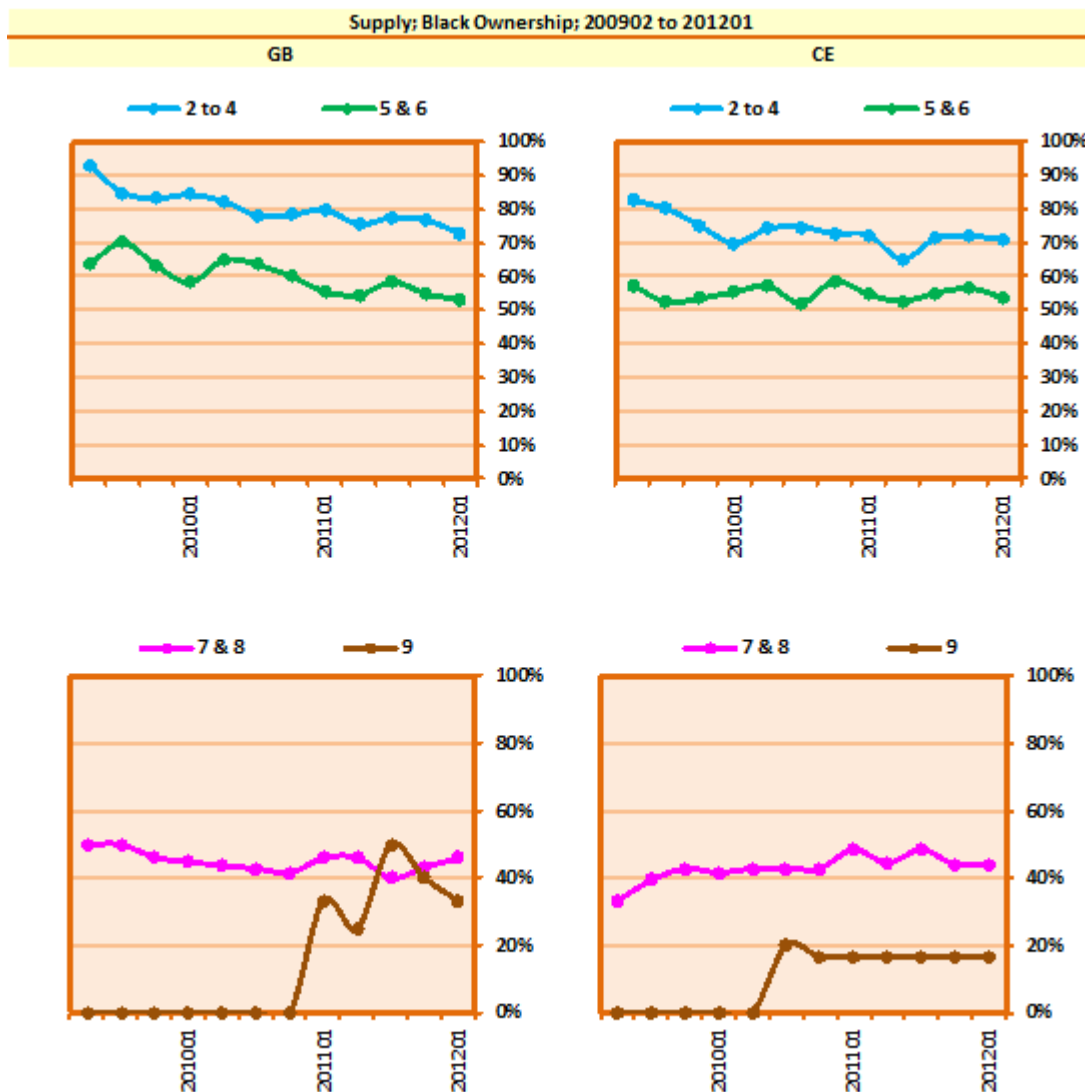
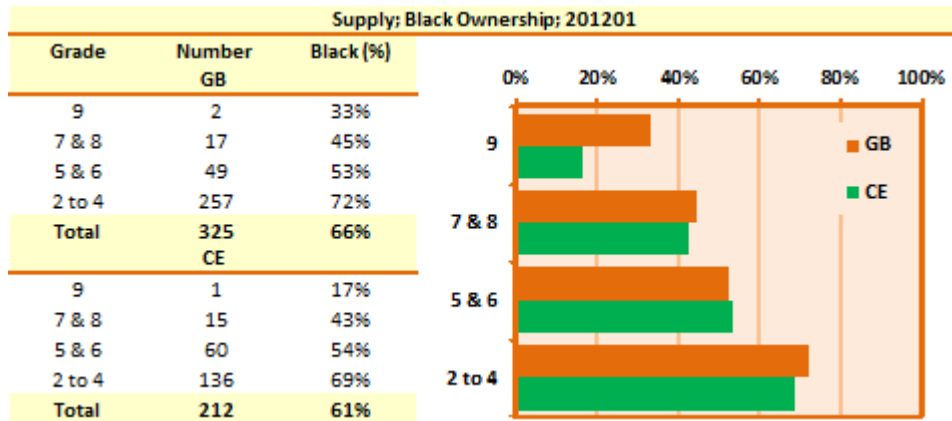
Supply; Black Ownership; 200902 to 201201



Gauteng



KwaZulu-Natal

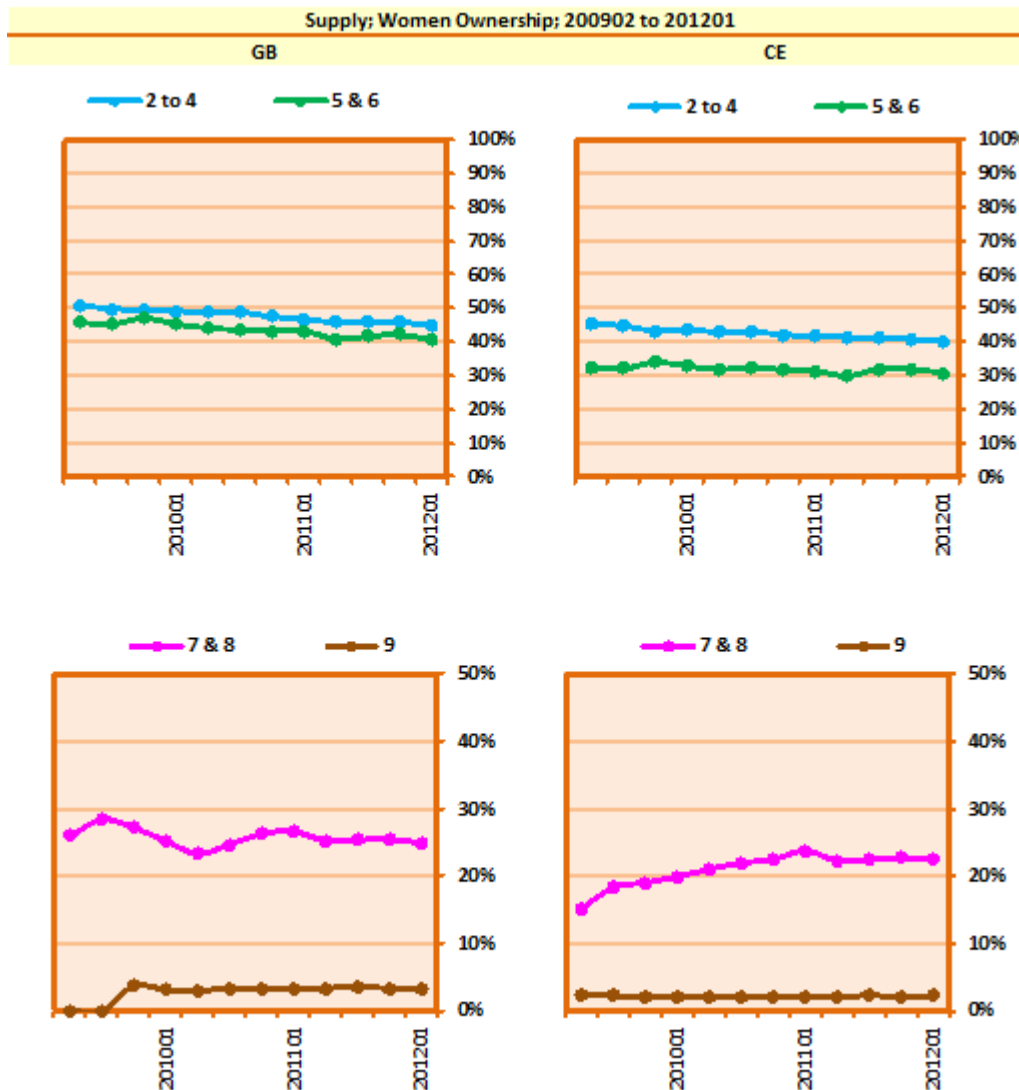
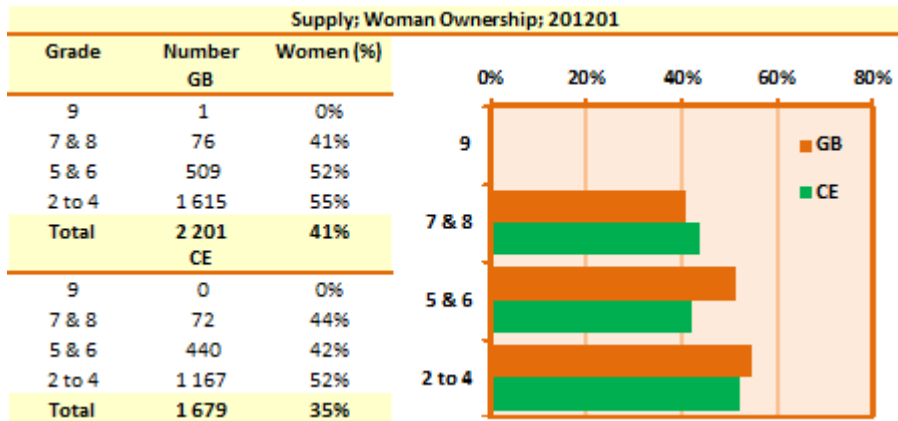


Western Cape

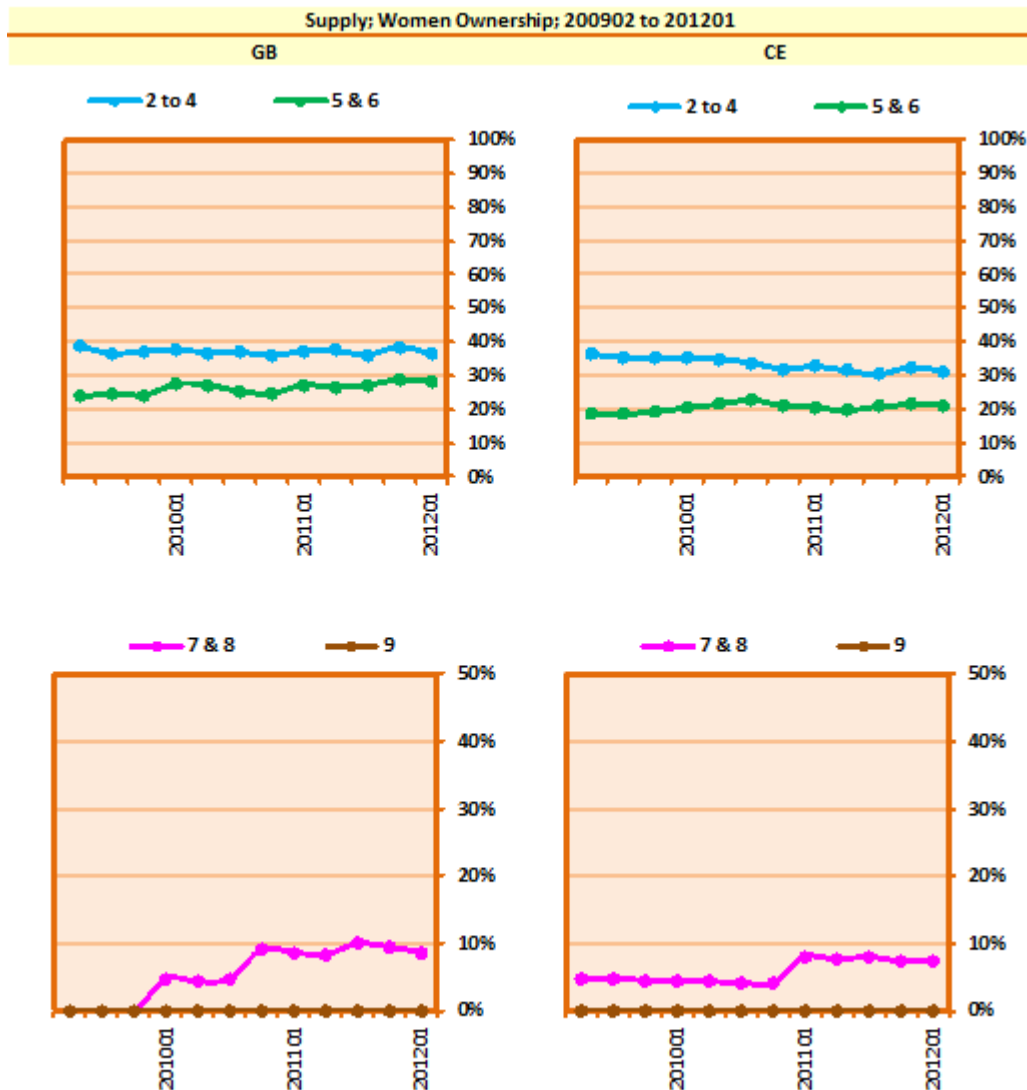
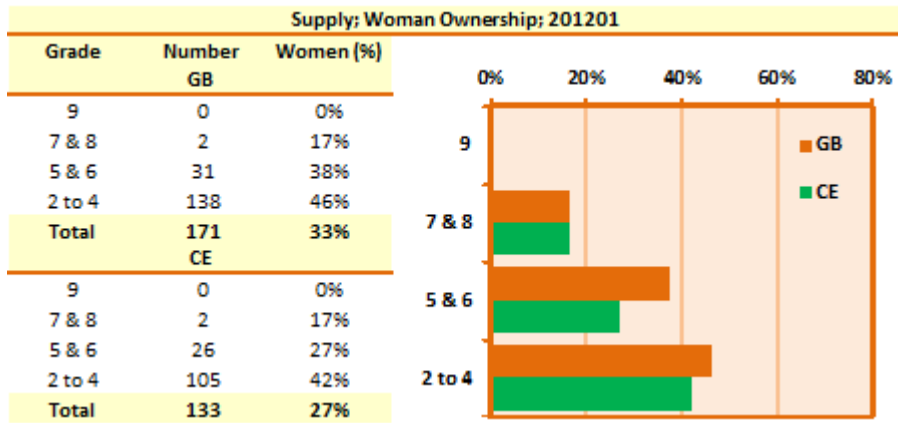
14. Equity; Women Ownership

Details of black ownership of cidb registered contractors (defined as ownership control of 50% or more) for South Africa and for selected provinces is shown in the following figures. (Details for other provinces can be provided on request.)

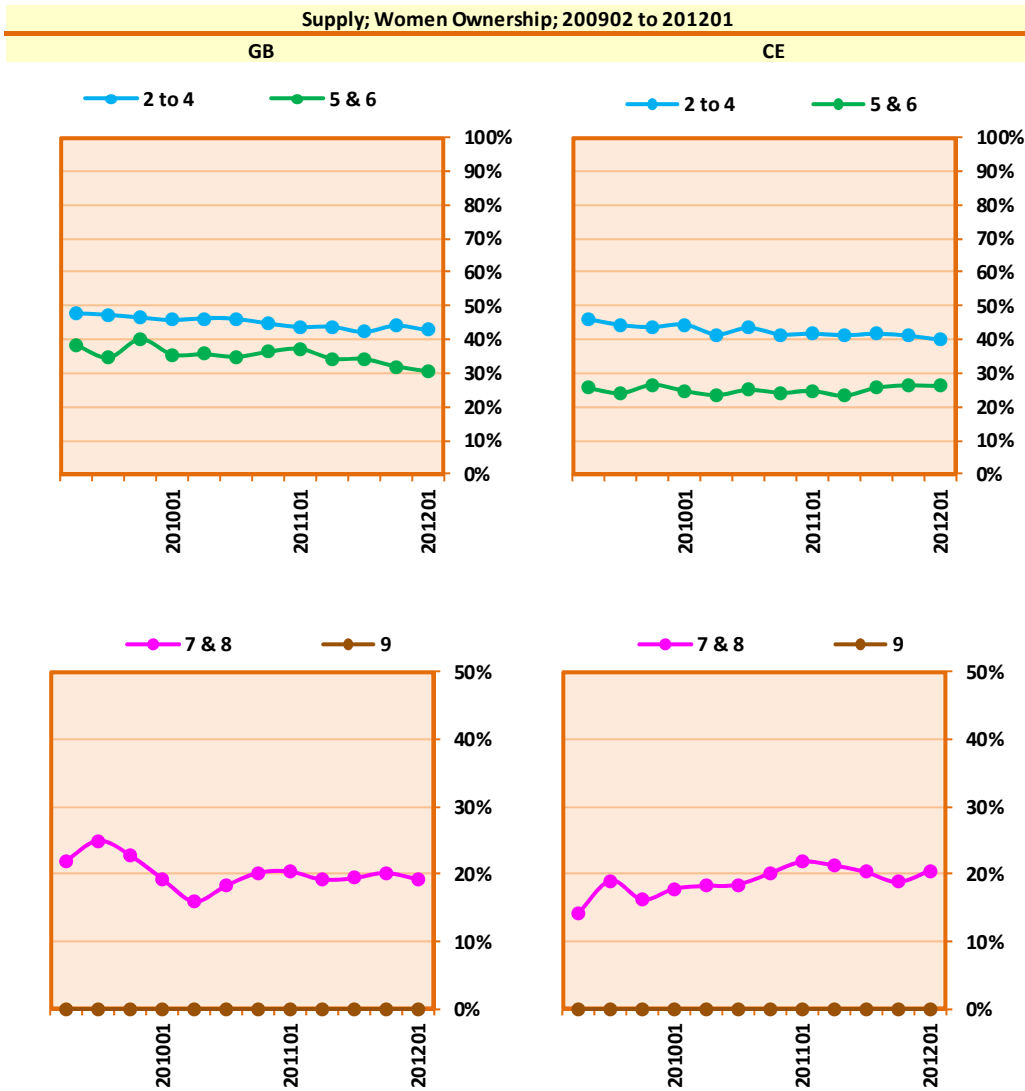
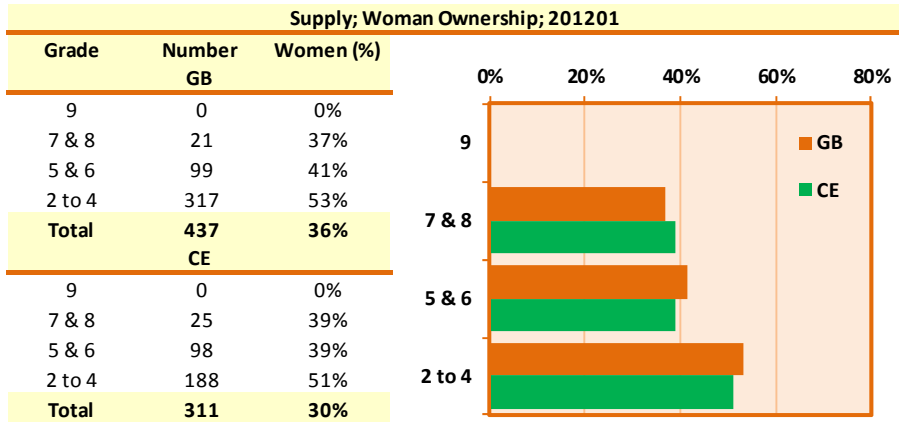
On average, around 40% of all Grade 2 to 4 contractors are women owned. From Grades 5 and 6 and above, women ownership is typically less than 30% in Civil Engineering (CE), when in General Building (GB) it is around 30% to 40%. However, women ownership varies significantly from province to province and across the Grades - with the highest ownership (not shown here) in Limpopo (which probably reflects tender preferencing in this province), followed by Mpumalanga.



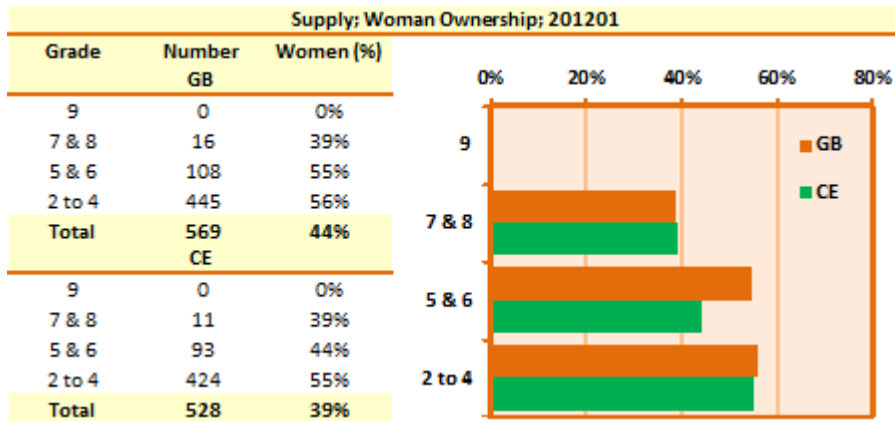
South Africa



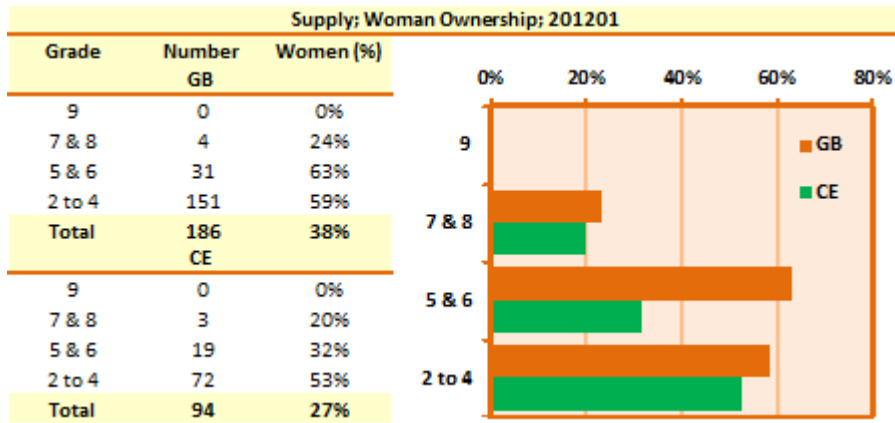
Eastern Cape



Gauteng



KwaZulu-Natal



Supply; Women Ownership; 200902 to 201201



Western Cape

15. Equity; Contracts Awarded

Estimates of the value of **public sector** contracts awarded to black owned companies during the four quarters under review are shown in the adjacent figure, from which it is seen that around 70% to 90% of the value of Grade 2 to 6 contract awards have been awarded to black owned contractors.

An alternative estimate of the value of the **public and private sector** contracts awarded to black owned companies is also given in the adjacent figure, obtained from the turnover reflected in the companies' recent financial statements. This estimate suggests that black owned companies in Grades 2 to 4 generate around 65% of the total turnover of Grade 2 to 4 contractors – and to around 50% in Grades 5 to 8.

