

Is there still a need for the Tariff of Professional fees for the Quantity Surveying Profession in South Africa?

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Abstract

The purpose of this study is to determine whether the tariff of professional fees for quantity surveying services still serves a purpose and if it should still be published and used in South Africa, by investigating the current fee use and discount situation. Tariffs of professional fees for the quantity surveying profession have been published and used in South Africa for the past four decades. Its format and use has changed significantly over that period, but its very existence is currently under threat. Under the recent economic conditions there has been a need for quantity surveying practices to offer discounts on the tariff of professional fees in order to secure work, with the size of these discounts offered causing concern in the industry. The Competition Commission has put further pressure on the tariff of professional fees by stating that it constitutes price fixing and is anti-competitive. During this study relevant literature is reviewed to provide a background to the issues and where they came from, as well as to give an international perspective by evaluating the situation in the UK and selected other Commonwealth countries. Data is gathered through quantitative and qualitative means to lead to the conclusion of the research report. The research found that there is still a need for the tariff of professional fees to be published and used in South Africa, as it is still widely used, still serves many purposes, and as there are no major reasons why it should be abolished. Certain challenges with the current situation are however identified and recommendations are made as to the way forward as well as to areas for further research.

Keywords: Built environment, professional fees, fee scales, quantity surveying services, tariff of professional fees.

Introduction

Recently there has been some concern in the construction industry regarding the need for quantity surveyors to offer discounts on their professional fees in order to get work, and the size of these discounts required (ASAQS, 2010: 3-4). The South African Council for the Quantity Surveying Profession (SACQSP) publish a recommended tariff of professional fees in respect of services rendered by a quantity surveyor which is supposed to be a fair and reasonable remuneration to the quantity surveyor for the expert knowledge and competence he has obtained to perform the relevant service (SACQSP, 2013: 1 - 27).

Quantity surveyors are more and more often required to defend their professional remuneration to the client and/or potential clients who often expect to be offered a discount just as a matter of course. The tariff of professional fees seems to have become more of a basis from which the discount is calculated than the actual remuneration that the quantity surveyor will be paid. With some practices offering unrealistically large discounts, the tariff of professional fees is not really being implemented as intended (ASAQS, 2010: 3-4).

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The research question

Main research question

“Is there still a need for the recommended Tariff of Professional Fees to be published and used in South Africa?”

Sub questions

1. On what proportion of projects do quantity surveying practices use the recommended tariff of professional fees to determine their fees for quantity surveying services?
2. When using the recommended tariff of professional fees, how often do quantity surveying practices offer discounts based on the recommended tariff of professional fees, and what is the average size of the discounts offered?
3. When not using the recommended tariff of professional fees, how do quantity surveying practices determine their fees to provide quantity surveying services?
4. Do clients experience a noticeable reduction in service quality when quantity surveying practices do not charge full fees as per the recommended tariff of professional fees?

Literature Study

Early Development

The early founders of our profession in South Africa brought with them the accepted fee practices of their British institutes. After the South African Institute of Quantity Surveyors (SAIQS) was established in 1908 they developed a fee scale which followed these fee practices and which made allowance for a basic fee of 2.5% of the contract value for the preparation of bills of quantities. An additional fee of 2.5% on additions and 1% on omissions was charged to measure the adjustments of contractors' accounts for completed work for the settlement of final accounts. The fee scale also allowed for time charges to be charged for other specific quantity surveying services where the work was of such nature that percentage charges were inapplicable, such as attendances at court, arbitration, etc. These fees were laid down as minimum fees. Tendering for work on the basis of fees was seen as malpractice and disciplinary action could be taken against such fee cutting. (Law, 1985: 128 – 129, 134)

Move to sliding fee scales

The first sliding fee scale was published on the 5th of April 1974. The Commission of Enquiry into Remuneration of the Professions made recommendations for an all-embracing fee basis for the public and private sectors to be adopted, and the revisions were a direct result of these recommendations. This meant that after a period of some 70 years in South Africa, the time-honoured 2.5% fee was finally dropped. This was a significant event in the history of the quantity surveying profession in South Africa (ASAQS, 2009:5). The sliding scale introduced a primary charge based on the value category that the project falls in, with an additional fee as a percentage on the value above certain levels (Snyman, 2004: 5). The sliding scale itself was based on a “normal” building and commenced at 3.5% and would eventually reduce to just over 2% (Law, 1985: 143).

Change from minimum to recommended fee scales

In January 1981 the Tariff of Professional Charges was published (Government Notice No. 90 of 16 January 1981) after recommendations by the South African Council of Quantity Surveyors (SACQS) to Government. These fee scales were defined as minimum fees to be

charged and it was improper conduct to charge less than the prescribed fees, but a professional quantity surveyor could negotiate higher fees. It also stated that competition on the basis of fees was prohibited and encouraged quantity surveyors to compete in terms of high qualities of service, standard of professional competence and integrity (Fourie, 2012: 24-25).

The Tariff of Professional Charges 1993 (Government Notice No. R2133 of 12 November 1993) stated that the tariff of professional fees sets out the recommended fees in respect of the services rendered by a quantity surveyor, but it still stated that competition on the bases of fees was prohibited, except under certain conditions. Thus the 1993 tariff of professional fees was issued as recommended fee scales (Fourie, 2012: 24-25).

In 1998 the Competition Commission was established. The commission ruled that fee scales constituted price-fixing and were unconstitutional, as competition on the bases of price was not allowed. As a result the Association of South African Quantity Surveyors (ASAQS) issued the tariff of professional fees in 1998 and removed the restriction regarding competition on the basis of fees (Fourie, 2012:25 - 26). Thus with the fee scales only being recommended remuneration and the restriction removed, competition on the basis of fees was allowed from here on onwards (Fourie, 2012: 27).

Fees for public sector work

Before 1994 a built environment professional had been appointed from a roster or panel to provide the required services to the public sector. With this system all quantity surveying practices that were registered on the roster got an opportunity to provide services to the Department of Public Works. The professional fees were calculated by using the recommended tariff of professional fees at the time. The Department of Public Works were part of the process of approving these fees, and thus no discounts were requested and no discounts were offered (Fourie, 2012: 2 - 3).

Between 1994 and 2004 appointments were still being made on the roster system, but alternative methods of procuring professional services also emerged. Open or invited tenders from a short list of pre-qualified practices started being used, and some of these appointments were made as non-tariff based appointments. From 2005 onwards, after the Supply Chain Management Regulations issued in terms of the Public Finance Management Act (Act 1 of 1999) and the Municipal Finance Management Act (Act 56 of 2003) came into working, the situation changed further. According to these regulations all consultancy services including the professional services from built environment professionals to a municipality or municipal entity must wherever possible be procured on a competitive basis (Fourie, 2012: 2 - 3). The days of always getting full fees according to the fee scales when doing public sector work, was thus officially over.

Current Situation

Built environment professionals, including quantity surveyors, are struggling to survive in the current economic climate (BER, 2013). With limited work available in the private sector many quantity surveying practices are now looking to secure work from the Government. The compulsory competitive tendering process implemented in terms of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), means that built environment professionals must tender for work which invariably requires them to tender a discount on the recommended fee scales to have a chance of securing the work (Fourie, 2012: 3 - 6).

Thus many practices offer large discounts in order to secure work, but do not actually calculate whether they will still make a profit from the project when determining the size of the discount that they are prepared to offer. (Snyman, 2004: 33-56)

A report on whether or not the determination of guideline professional fees can be regarded as anti-competitive practice in terms of the Competition Act (Act No. 89 of 1998) was undertaken by the chief state law advisor for the Department of Public Works in 2011 (Mosiane, Nel, Masapu & Daniels, 2011: 1 – 3). The report ruled that in their opinion the publishing of guideline professional fees may have the effect of substantially lessening or preventing competition in the market in terms of the Competition Act. They further ruled that the council must consider applying for an exemption in terms of Schedule 1 Part A read with Part B of the Competition Act (Mosiane et al., 2011: 13 – 14, 25 – 26).

A memorandum titled the CBE report on interactions with the Competition Commission was published in November 2012. In the memorandum the Competition Commission reiterated their earlier stance that professional fees have an effect of promoting horizontal price collusion which is deemed anti-competitive. (Zepe & Mazibuko, 2012: 1 – 4)

In June 2014 the SACQSP, supported by the ASAQS, officially applied for an exemption in relation to the publication of professional fee guidelines. In their application the SACQSP contested that professional fee guidelines are published with the intention to provide guidelines to professionals within the quantity surveying profession in respect of the fees to charge for their services to consumers, as well as to serve as guidelines to consumers when they procure professional services from SACQSP registered persons (Ndlovu & Mabye, 2014: 1 – 2). The outcome of the SACQSP's exemption application is not yet known.

Quantity surveying fee situation in the UK

In the UK fee scales have been abolished almost 30 years ago and although numerous studies by Hoxley (1998, 2000, 2001, 2007) have found that fee levels have deteriorated since, clients have not perceived a reduction in service quality as a result.

Quantity surveying fee situation in other Commonwealth countries

In Canada, Hong Kong and Australia guideline documents for the determination of quantity surveying fees are published which are all similar to the tariff of professional fees in South Africa in that they set out recommended remuneration and competition on the basis of fees is therefore allowed. (CIQS, 2012: 1 – 29), (Drew, Tang & Lui, 2004: 159 – 175), (HKIS, 1998: 1 – 14), (AIQS, 2000: 1 – 10)

In Malaysia the situation is different. A fee schedule is published that sets out the remuneration that a quantity surveyor should receive in a sliding scale format similar to the South African tariff of professional fees, however this schedule of professional fees is mandatory for Government projects. It is not mandatory for private sector projects (BQSM, 2004: 1 – 34).

Methodology

Questionnaires were used as part of the data collection for this study. The population for the questionnaires consists of all the professional quantity surveyors registered at the SACQSP in Gauteng.

There are 880 registered professional quantity surveyors in Gauteng according to the SACQSP's 2012/2013 annual report, making up 48% of the registered professional quantity surveyors in South Africa. Probability sampling in the form of random sampling was used to draw a sample from this population. A sample size of 20% of the registered professional quantity surveyors in Gauteng was drawn for this study and therefore the sample size was 176. The questionnaires were sent via email through the "Survey Monkey" tool that allowed the participants to complete the questionnaires electronically.

Semi-structured interviews were conducted as part of the data collection for this study. Interviews were held with two private and two public sector clients who have experience of

working with quantity surveyors on their projects in the built environment. Two further interviews were held with professional quantity surveyors. All the interview participants were specifically targeted and contacted telephonically to arrange the interviews. The interviews were recorded using a tape recorder with the main purpose of ensuring that their responses were accurately captured.

Data Collection

A questionnaire response rate of 27% was achieved as a total of 48 responses out of the sample of 176 were received. The response rate was disappointing, but due to the large sample size sufficient data was collected. The questionnaires were completed electronically and all responses remained completely anonymous. A statistical analysis was done on the data gathered from the questionnaires through using the “Survey Monkey” analysis tools in order to assist in answering the research questions. Graphs and tables were used for this purpose.

A total of 6 interviews were conducted, two each with private sector clients, public sector clients and professional quantity surveyors. The responses received during the interviews were transcribed from a tape recorder to accurately relay the responses. The interviews were held without prejudice and the interviewees’ identities will remain confidential.

Results

The questionnaire results indicate that a total of 87.6% of respondents use the fee scales on more than 60% of their projects, with 68.8% of respondents indicating that they use the fee scales on 81 – 100% of their projects.

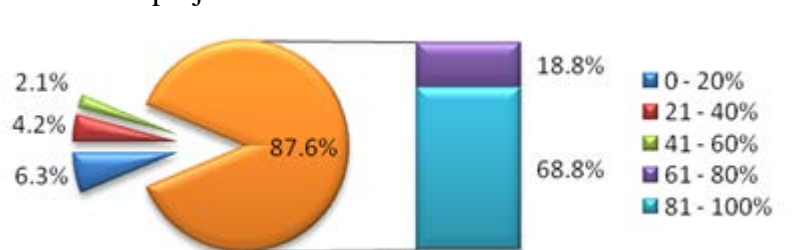


Figure 1: Use of fee scales by quantity surveyors on their projects

The questionnaires also show that 87.5% of quantity surveyors prefer to use the fee scales instead of alternative methods of determining quantity surveying fees. Reasons for their preference were indicated as 11.4% due to fairness, 15.9% due to convenience/ease of use and 52.3% due to the tariffs providing an accurate reflection of the costs/guideline.

Interviews 5 and 6 corroborated the quantitative results. These interviews were conducted with professional quantity surveyors and they indicated that they almost always use the fee scales to determine their fees, and that they prefer to use the tariffs over alternative methods because it provides a scientific basis that can easily be justified to their clients.

The questionnaire results indicate that a total of 81.2% of respondents offer discounts on more than 60% of their projects, with 60.4% of respondents indicating that they offer discounts on 81 – 100% of their projects.

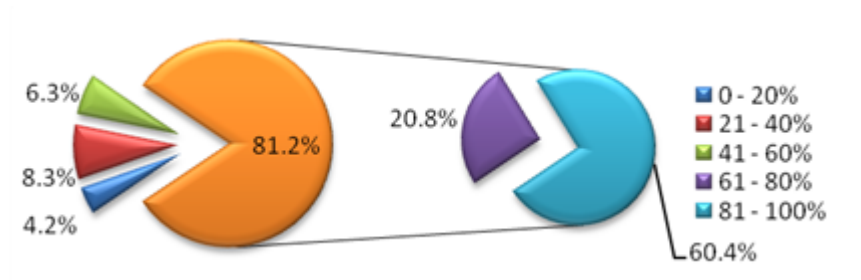


Figure 2: Summary of how often quantity surveyors offer discounts

The questionnaires also show that 25% of the respondents indicated that the average discounts were between 1 – 15%, 64.6% indicated it as between 16 – 30%, and 10.4% indicated it as between 31 – 45%.

Furthermore it was indicated by 87% of the respondents that the discount levels required to get work differs between the private and public sectors, with 72.5% agreeing that larger discounts are required in the private sector.

It was indicated during interviews 1 and 2 with private sector clients that discounts of at least 20% are required. Interviews 3 and 4 with public sector clients indicated that discounts of 25 – 40% are usually required. Lastly interviews 5 and 6 with professional quantity surveyors indicated that the discounts required are normally between 20 – 40%, but that it could be even higher. These interviews did however state that larger discounts are required in the public sector, which contradicts with the overall response received in the questionnaires regarding in which sector larger discounts are required.

The questionnaire results indicate that quantity surveyors use the tariff of professional fees to determine their fees on most projects, but not all projects, with 10.5% of respondents indicating that they use the tariffs on less than 40% of their projects. Time based fees are the most popular alternative method of determining fees, with 63.6% of respondents indicating that it is their preferred alternative method.

Furthermore 6.3% of respondents indicated that they prefer using alternative methods over the tariff of professional fees as they believe it provides a better reflection of the costs.

Interviews 5 and 6 supported the quantitative results as quantity surveyors indicated that they almost always use the fee scales to determine their fees, even if they just use it as a guideline. It was however stated that on certain types of projects, such as residential developments, alternative methods such as quoting a fee per unit or per month is also used and in such cases no reference is made to the fee scales.

The questionnaire results indicate that 66.7% of quantity surveyors don't reduce the scope of service provided in proportion to the discount offered. However it further indicates that 33.3% of quantity surveyors agree and 37.5% strongly agree that quantity surveying service quality would drop if the tariff of professional fees were abolished.

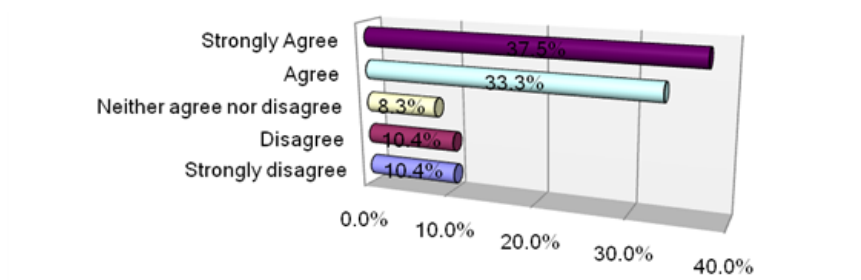


Figure 3: Quantity surveyors' opinion regarding whether service quality would drop if the fee scales were abolished

During interviews 1 and 2 the private sector clients indicated that they hardly use the fee scales as it is and would not blame bad service quality on the discount offered. Furthermore they stated that they do not believe that quantity surveying service quality would reduce if the fee scales were abolished. The public sector clients indicated during interviews 3 and 4 that they do sometimes pick up reduced service quality when discounts are given, especially in terms of site visits, financial reports and final accounts. They however further stated that they would not necessarily blame the discount for poor service, as often it is simply the quantity surveyor that is not performing, irrespective of the fee. Furthermore they stated that they do not believe that quantity surveying service quality would reduce if the fee scales were abolished.

During interviews 5 and 6 the quantity surveyors indicated that they try to provide the full service even if they have offered a discount, by working faster and smarter. They stated that in certain cases they can afford to offer big discounts and still give the full service because they have experience with similar projects or with the same client. Lastly they did however indicate that they believe fee levels would probably drop if the fee scales were abolished, with a resultant reduction in service quality.

Discussion and Conclusion

The following can also be concluded from the data gathered:

- The general perception amongst clients and quantity surveyors is that the tariff of professional fees is not anti-competitive as it is only recommended fees and not minimum. Therefore the fees are still determined on a competitive basis be it through negotiation or tendering.
- The fee scales still serve a number of important purposes, such as providing a basis from which to determine and evaluate the fees, protecting the public and the profession by providing a basis of what the fees should be and by setting out certain standards and regulations of how the fees should be determined and paid under different circumstances and for different types of projects.
- Private and public sectors clients don't believe that quantity surveying fee levels or service quality would necessarily drop if the fee scales were abolished. However quantity surveyors believe fee levels would probably drop if the fee scales were abolished, with a resultant reduction in service quality.

The data gathered does not provide a strong case to support a stance that the tariff of professional fees should be abolished. Although some respondents indicated that they would not be opposed to the fee scales being abolished, no convincing arguments were provided as to what benefits would be achieved by abolishing it.

The premise of the Competition Commission's stance that it should be abolished is that it is anti-competitive and constitutes price fixing. The data however challenges this stance as there was a unanimous opinion from both clients and quantity surveyors that it is not anti-competitive and that the competitive element is still there.

A number of uses and purposes that the tariff of professional fees still has were identified as well as challenges that would be associated with abolishing it, such as replacing it with a new guideline document.

The main hypothesis stated the following: "Although alternative methods of determining professional fees are becoming more prevalent and discounts seem to have gotten out of control, there is still a need for the recommended tariff of professional fees to be published to provide a basis for quantity surveying fees which is determined by the council for the

profession and which cannot be disputed by clients/employers. As without such a basis fee levels may drop to unprecedented lows.”

The hypothesis has been partially proved. Alternative methods of determining professional fees, particularly time-based fees, are emerging and there is generally concern amongst clients and quantity surveyors as to the size of discounts often offered. The tariff of professional fees is also generally seen to still serve certain important purposes, but the abolishment of the fee scales would not necessarily lead to the fee levels dropping to unprecedented lows nor the quality of service provided suffering.

Therefore to conclude, the research proves that there are currently no pressing reasons why the fee scales have to be abolished as it still serves many purposes. The discount levels required to get work under the current economic conditions do however provide challenges to both clients and quantity surveyors. Lastly the research indicates that there is a need to rework the way that fees are currently being determined to enable clients, quantity surveyors and Government to be satisfied with and agree on how the fees should be determined.

The way forward

The following solutions/ways forward were identified through the research:

- The tariff of professional fees must be reviewed by the SACQSP in consultation with the professional firms and the Department of Public Works so that the clients and professionals can have confidence in the fee scales that it is a fair remuneration in terms of the value that they can add.
- All the built environment professions must stand together and have one voice on this issue, because it is not only the quantity surveying fee scales that is under treat, but also those of the other built environment professions.
- The Competition Commission needs to understand that in the current environment the quantity surveying profession needs guidance by means of fee scales to protect the public and the profession, because the quantity surveying profession is not well known. Without fee scales there may be an opportunity to take advantage of uninformed clients by charging exorbitant fees, or clients may require quantity surveyors to work for unrealistically low fees that do not reflect the value that they add.
- If the fee scales were to be abolished, a replacement document would have to be developed which provides details of the services that must be rendered by the quantity surveyor, what his payment stages are, etc.

Recommendations

The following areas have been identified for further research:

- In depth analysis of alternative methods of determining quantity surveying fees and how they compare to using the recommended tariff of professional fees.
- Analysis of the time spent by quantity surveyors on projects compared to their fees to determine if they are really making profits.
- Analysis of how to incorporate functionality criteria into the tendering process for the procurement of quantity surveying services in the public sector.
- Analysis of whether there is still a need for tariffs of professional fees to be published and used in the other built environment professions in South Africa.
- Analysis and development of a new document to replace the tariff of professional fees if it were to be abolished.

Research conclusion

The research asked if there is still a need for the tariff of professional fees to be published and used in South Africa. The simple answer to this question that can be derived from the research is yes, as the fee scales are still widely used, still serve many purposes, and as there are no major reasons why it should be abolished.

Certain challenges with the current situation have however also been identified such as quantity surveying firms not doing reconciliations of the cost to company of their projects and therefore not really knowing what the limit is in terms of the discounts that they can offer, the effect that unrealistically large discounts can potentially have on service quality particularly in the public sector, and private sector clients forcing quantity surveying firms into giving unfairly large discounts.

Further consultation between the relevant stakeholders and further research regarding the identified areas mentioned above is necessary however before the issue regarding the determination of quantity surveying fees in South Africa can be completely resolved.

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