

FTSE-JSE indices		FTSE-JSE all share daily close		Bonds/forwards		Currencies		Commodities		Foreign Markets			
Close	% ch	Close	% ch	NET BFA	% ch	INET BFA	% ch	Latest	% ch	Latest	% ch		
All Share	52247.84	▼ 0.81	51800	9.28	▲ 0.00	R/\$	35.401	Gold PM Fix	126700	▼ 0.07	Dow Jones	17037.59	▼ 0.21
Top 40	46229.48	▼ 0.80	45900	8.82	▲ 0.00	R/€	21.908	Gold NY	1265.75	▼ 0.15	S&P 500	1992.21	▼ 0.48
Find 30	7861.78	▼ 0.15	47000	9.28	▲ 0.06	R/£	36.971	Brent Future	39.79	▼ 2.57	FTSE 100	6125.44	▼ 0.92
Resources 20	30533.70	▼ 3.28	45100	9.28	▼ 0.05	\$/€	1.302	Platinum PM Fix	8032.00	▲ 4.38	Nikkei 225	16783.15	▼ 0.76
Goldex	2078.44	▼ 0.80	45100	35.375	▲ 0.03	V/\$	112.560	Palladium Spot	566.00	▼ 1.39	Xetra Dax	9682.82	▼ 0.88

Change in BEE codes hammers construction sector

SPARE a thought for the embattled construction industry when talking about policy uncertainty and how it affects business and the economy.

Most industries are showing a decline in revenue, but none is more in distress than the construction industry. The dwindling of the mining sector and government budget constraints, among others, have caused new projects to be abandoned and left construction companies in great financial difficulty.

Yet another blow for the industry was presented in a Government Gazette notice on February 17, issued by the Department of Trade and Industry in respect of the construction sector codes for black economic empowerment (BEE). The old BEE codes for the sector have been discarded with immediate effect, without any transition period.

The notice also repealed the old BEE codes for chartered accountants. It confirmed the continuation, for the time being, of BEE codes set out in other sector charters, such as tourism and transport. The notice means that all construction and chartered accountancy businesses must be measured in terms of the amended BEE codes from the date of the notice. This has a dire effect, especially on the construction industry and built-environment professionals who fall under the construction sector charter.

The targets and weights of the amended BEE codes differ vastly from the old sector codes. The cost implication of this change is a huge financial burden on already distressed construction companies.

For example, the previous target for skills-development expenditure was 1.5% of the annual leviable amount or, in layman's terms, 1.5% of the annual payroll. Now, for qualifying small enterprises with an annual turnover of less than R50m, this target has been doubled to 3%, and for entities with an annual turnover of R50m or more, the target has been quadrupled to a whopping 6%.

This amendment has caught the industry by surprise. The year end of most companies is the end of February. As the notice took immediate effect, construction firms had to scramble to spend the difference between 1.5% and 6% of annual payroll before financial year end — within two weeks.

Many companies simply did not have the funds available, especially with provisional taxes due at the end of February. For generic entities with large payrolls, the difference is a couple of million rand, which had to be forked out in a short space of time, without budgeting for the spending.

The skills-development element on the BEE scorecard is a priority element: failure to achieve a subminimum of 40% would result in a discounting or drop in a company's BEE level.

Putting further pressure on the industry is the fact that, under the old construction sector codes, companies were also allowed to train white employees. The amended codes allow only for the training of employees and the unemployed who are black — Africans, coloureds and Indians.



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BEE MATTERS

This is compounded by the ill-conceived requirement to train people across the regional or national economically active population demographic targets. This applies to the amount being spent in the right ratio, and to the head count.

This is often overlooked, but could further increase the amount to be spent. For example, a company employing 100 workers that wants to offer learnerships, apprenticeships and internships, first needs to train the 2.5% target on these programmes.

Training three employees on these programmes would not suffice, as a minimum of six black employees are required to cover the African proportion of the economically active population, as well as one male and one female of each ethnic group.

For the built-environment professionals in the construction sector, expenditure on enterprise and socioeconomic development was also calculated on payroll in the past. Under the amended codes, the calculations are now made on net profit after tax that, in general, has a more significant financial implication.

The effect of the amendments will be felt later this year when BEE certificates are to be issued.

Construction companies — big and small — will drop BEE levels, which could have a negative effect on their ability to compete for projects.

The one short-term reprieve is that all BEE certificates issued before February 17 in terms of the construction sector codes will remain valid for 12 months from date of issue.

Depending on the expiry date of a BEE certificate and the financial year-end, construction companies are advised to skip a financial year for BEE measurement purposes. This may mean being without a valid certificate for a month or two, but they could save millions of rand and avoid a far inferior BEE score.

Construction companies should now, at the start of the financial year, consider restructuring their payrolls to reduce considerably the 6% of payroll to be spent over and above the 1% skills-development levy and 1% Unemployment Insurance Fund contribution employers must pay.

Wage increases in the construction industry should be carefully considered in future, as the “invisible” cost to company on payroll could balloon out of control.

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