

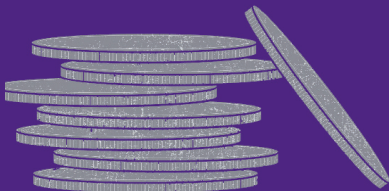


Grant Thornton

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The BEE Budget

Budget 2017



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Have you budgeted for B-BBEE?

The costs of being B-BBEE compliant can be significant, but the cost of non-compliance could potentially be disastrous for your business.

Companies that tender for business, or those that supply goods or services to customers who require a good scorecard in order for their business to be competitive, need to consider all the costs and budget for them appropriately.

Understanding, implementing and monitoring your BEE score is as important as monitoring your company's financial performance. Since your scorecard is also based on your financial period, ensuring the initiatives are achieved prior to your next year end is critical. The need for a monthly BEE report has become as essential as your monthly management accounts. Monitoring can be achieved using internal staff, software or BEE professionals and consultants.

Consultants

With the amended codes now in force, many companies are engaging with consultancies in order to ensure that they remain compliant and competitive under the stricter scorecard. Consultants can charge monthly retainers, hourly or annual fees, with a wide range of costs from R800 per month to tens of thousands a month. In some cases the fees can run into millions, for strategy, monitoring and implementation of wide-ranging initiatives.

Training

Your staff should have an understanding of the scorecard relevant to your business and how to manage the factors under their control and within their areas of responsibility. There are various BEE courses, books and qualifications on offer and this cost can vary from a few hundred Rand to thousands.

Verification

Verification costs are often the smallest consideration. Fees for the verification audit vary based on the size of the company being verified or the amount of data to be audited. Fees can differ on average between R10 000 per annum to over R1million.

Software

There are various tools on offer which can assist companies to track, monitor and collate information in preparation for verification. Costs can range from around R6 000 a month.

Time of professionals

This cost is often not taken into account. The time of staff in the HR/training departments and the procurement department spent collecting and co-ordinating data and information gathering can be significant. Larger companies are employing transformation managers to assist them to target, monitor and track their score and to implement initiatives internally.

Ownership transactions

A sale of shares to black shareholders or to employee ownerships schemes, etc., can attract capital gains taxes, can have income tax implications, and usually comes with accounting, tax and legal fees. Reducing your own shares in the company will reduce the dividends payable to you.

Management control and employees

Changing the demographics of your staff complement is a long-term strategy. Where the decision has been made to recruit based on your BEE requirements, you may find that salaries become more competitive when searching for employees with specific skill sets in the required race groups.

Skills

The target spend for skills development is 6% of your leviable amount/salaries and wages bill.

Skills development is one of the elements that can be the most cost effective, if you apply for the “learnership allowance” offered by Section 12H of the Income Tax Act. The benefit of this can be between R30 000 to R120 000 per learner, depending on the NQF level of the qualification, when they start and complete the learnership, and whether they are disabled or not. In some cases, the allowance can exceed the cost of the training. Also, while the employees are registered as learners, their salary forms part of the skills claim, towards your target of 6%.

Supplier development and enterprise development

The spend target for these elements are 2% NPAT and 1% NPAT respectively.

Contributions can be in the form of cash grants, loans, discounts, professional services, etc., but each has a different recognition factor. E.g. an interest free loan with no security requirements is recognised at 70% of the value of the outstanding amount at the end of the financial period.

Socio-Economic Development

The spend target for this element is 1% NPAT.

Monetary or non-monetary contributions can be made towards income generating activities for black beneficiaries. At least 75% of the benefit must accrue to black beneficiaries. Assistance can include monetary or non-monetary contributions in the forms of grants, loans, overhead costs, professional services, or time of your staff.

Element	Cost	Nature of spend
Ownership	?	Legal fees, tax implications, reduced share of dividends
Management control	?	Competitive salaries for key hires
Skills development	6%	Salary & wages bill
Enterprise & supplier development		
Procurement		Cost of personnel to implement BEE procurement policies and/or develop local suppliers to reduce imports and increase spend with black owned suppliers
Supplier development	2%	NPAT - monetary, discounts, loans, or cost of personnel, etc.
Enterprise development	1%	NPAT - monetary, discounts, loans, or cost of personnel, etc.
Socio-economic development	1%	NPAT - monetary or cost of personnel

Contact our BBEE experts

Verification • Training • Scorecard compilation • Scenario planning
Gap analysis • Consulting & strategy planning • Supplier analysis

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