

## NOVEMBER 2019

### CRUNCH TIME FOR SA - THE MEDIUM TERM BUDGET POLICY STATEMENT AND WHAT IT MEANS TO YOU

*"There is a tide in the affairs of men, Which taken at the flood, leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries. On such a full sea are we now afloat. And we must take the current when it serves, or lose our ventures." (Shakespeare)*

For several years commentators have been sounding alarm bells about South Africa's steadily rising debt whilst economic growth has stalled. As the Minister himself put it: "Our problem is that we spend more than we earn. It is as simple as that". On top of that State Owned Enterprises (SOEs) have been poorly led and even more poorly governed as President Ramaphosa recently said that R500 billion has gone missing due to state capture.

This has put our debt past 50% of GDP (from the low twenties a decade ago), nonproductive government spending has risen, salaries now account for 35% of state expenditure and low economic growth stifles tax collections. In addition, Eskom has received extra funding of R52 billion this year. As they say, something has to give.

There have already been consequences as two of the three major ratings agencies (Fitch and S&P) have downgraded South African debt to junk status and Moody's (as we discuss more fully below) are closely watching.

South Africa is also in a delicate socio-economic position with rising social unrest, growing unemployment and it is recovering from state capture. Thus, drastic spend cuts or growth in SARS income are unrealistic. That leaves selling state assets as the most viable alternative to arresting the ongoing rise in our debt.

It is not just ratings agencies that have been anticipating the MTBPS but also business which could throw large resources into the economy if it sees that government is committed to turning around the slide of recent years.

#### ***So, how did the Finance Minister do?***

The initial reaction to the MTBPS was one of disappointment, symbolized by the rand shedding 2.5% against the US dollar and bond yields dipping. It was not just that the Minister painted a picture of a sliding economy over the next three years but there were few specifics as to how the South African economy is going to get out of an increasingly nightmarish hole.

For example, Minister Mboweni was expected to provide some detail as to how Eskom's debt (R450 billion) was going to be restructured but all he said was that Eskom must implement meaningful reforms before tackling its debt. In the Minister's own words: "In addition to low growth, South Africa's biggest economic risk is Eskom ... Over the medium term and beyond, government will manage the massive risk to the economy and the fiscus associated with Eskom."

#### ***The main indicators – bad news and good***

- GDP was forecast at 1.5% for 2019 in the February Budget, it is now forecast at 0.5% for this year, rising to 2.4% in 2023.

*Comment: This is disappointing as population growth is 1.6%, so in reality GDP will grow by 0.8% in 2023 and be negative this year.*

- Inflation will remain benign throughout this period staying in the 5.3% average.

*Comment: As inflation hits the poor the hardest, this is good news.*



- Debt/GDP which is a key ratio for ratings agencies will progressively deteriorate, a function of low economic growth and rising costs. This is 56.8% for the current year and increasing to nearly 69% in 2023. This is before support to State Owned Enterprises (SOE) like Eskom and South African Airways.

*Comment: If we look back a few years, government were saying that Debt/GDP would peak at around 50%. We have gone through that and are now looking at 70% and beyond. The nation is in danger of falling into a debt trap – rather like the consumer who, unable to borrow more money, finally maxes out his credit cards and spends most of his time paying off debt.*

### **So, what does that mean for us?**

The Finance Minister showed a bleak scene and clearly the government is struggling to get consensus as to how to address what is becoming a very serious problem. The Minister highlighted that in the next three years R150 billion has to be found either in tax increases or spending cuts. In the February budget he will give the nation concrete measures to be taken.

### **For the man in the street expect more tax increases in the February budget.**

### **Moody's and our junk status risk**

On 1 November, Moody's changed its outlook on South Africa from stable to negative. In a blunt statement, it gave the government notice that unless it comes up with "a credible fiscal strategy to contain the rise in debt" in the budget in February, Moody's will most likely downgrade South Africa to junk status. That will trigger overseas financial institutions selling an estimated US\$15 billion of South African bonds.

That would of course hurt us all and leave our nation, as Shakespeare put it, "bound in shallows and in miseries". **Let's hope we dodge that one - on average it takes a country five to six years of hard slog to get out of junk status.**

## **BUSINESSES: THINK STRATEGICALLY WHEN COST CUTTING**

We all know times are tough and many companies are embarking on cost cutting exercises. Unfortunately, this is a necessary procedure but think of the impact on staff morale and the potential loss of productivity when undertaking cost reduction. You don't want to end up leaving your business worse off.



### **A few tips**

1. **Communicate effectively.** Cost cutting is not a pleasant experience, so be open with staff – why it is necessary, how much you plan to save and how this exercise will make the business more sustainable.
2. **Be fair.** If you plan to stop business class travel for some employees but keep it for senior executives think of the possibility of staff resentment and the potential for an "us versus them" situation to develop.
3. **Keep perspective.** A company recently stopped funding junior staff's cell phones. Not only did this cause widespread anger but the actual saving was too small to have a real impact on reducing expenses.
4. **Think it through holistically.** In another example a business made significant cuts to travel expenses and used video conferencing for team members to communicate with each other. This reduced team ethos, effectiveness and productivity was lost.
5. **Think of the side effects.** In another travel cost cutting scheme, staff were not allowed to use taxis. This, in effect, stopped travel after hours as staff then opted to travel during business hours. Thus, the company lost up to two working days a week when staff undertook business trips.
6. **Don't skimp on contractors** - such as not letting them use your canteen. They do important work for your company, so don't put this at risk by treating them badly.

Use common sense as your guide when you undertake cost cutting.

## CUT YOUR ELECTRICITY BILLS!

Electricity has become a bane in our lives – not only does it increase in price by double digits each year, but we also face the ongoing possibility (perhaps probability) of load shedding.

But we can be proactive as there are many ways to cut costs and with some research and a good plan you can cut electricity costs by 40%, by taking steps such as:

- There are several things you can do with your geyser. Turning the thermostat down can save 150kwh (kilowatt hour) per month, putting in a timer can save even more (although it does cost up to R1,250), whilst putting on an energy blanket also saves money.

A heat pump can reduce 60% of the geyser's energy consumption but they are expensive (up to R16,000) and noisy.

Solar geysers are slightly more expensive than heat pumps, are quiet and operate well (assuming your area has plenty of sunlight).

Remember that a geyser makes up 40% of your monthly electricity bill.

- Switch off unnecessary lights as these costs add up. Get into the habit of turning off lights you aren't using.
- LED lights are big savers – it's common sense that moving from 40 watt to 3 watt bulbs will drive power costs down - up to 2000 kwh per month. Prices for LED bulbs have also dropped rapidly, and you can purchase them for R20. Don't forget downlights and outside lights when considering LED as these latter two use 40 to 45 watt bulbs.
- Washing in cold water also yields savings as do new fridges which can save up to 150 kwh per month but cost from R7,000 upwards.
- Use of gas for cooking also saves as a 9-kilogram gas cylinder only costs R200 for up to 6 months.
- Finally, there is solar which is expensive (costs vary depending on requirements and scale). If your local authority allows you to sell back your excess solar power to them, then solar becomes an attractive investment.

Solar power is getting cheaper and more sophisticated and offers you the possibility of reducing or eliminating your exposure to load shedding.

**There are many ways to save on electricity - why not start now?**



## 5 REASONS TO NEVER OVERLOOK YOUR BUSINESS PLAN

***“How can I be so stupid?” (John Cleese recalling when he pitched the BBC to start the Monty Python’s Flying Circus show without a business plan)***

When setting out on a new venture or adding a new section to your business, it pays to have a strategy as to what you want to achieve and how you want to go about accomplishing your vision.

Be thorough when doing this and do a comprehensive business plan.

***Why a business plan is important***

1. Starting a business or changing your operation invariably requires funding from either a bank, investors or both. Unless they can see a clear-cut plan of action, an in-depth knowledge of the marketplace and what you plan to achieve, it is unlikely you will be able to get any money for your business.
2. Doing a business plan is a substantial commitment as it involves research plus giving every section of the proposed venture deep thought. Your efforts will be rewarded as your new venture will be a much smoother process if you have done a business plan. By



considering all the risks and pitfalls in your plan, you will avoid making some costly and potentially ruinous mistakes. In the long term your business will be more profitable and sustainable.

3. A good business plan will enable you to focus on the important areas of the company, something you will be grateful for as many issues will arise as the business unfolds and having good knowledge of the sector you are in will more easily allow you to realise which of these issues is important and requires your attention.
4. Having a good roadmap of the business will also let you effectively measure the progress you are making – measurements of how a company is performing are important and a business plan will give you a baseline to rate how you are doing.
5. A good business plan will greatly increase the chances of your new venture being successful. On an ongoing basis, you can update this plan to continually assess how the company is performing.

In next month's issue we'll share some thoughts on how to go about preparing your business plan...

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## YOUR TAX DEADLINES FOR NOVEMBER 2019

Deadlines this month are –

- 7 November – Monthly PAYE submissions and payments
- 25 November - VAT manual submissions and payments
- 29 November - Excise Duty payments
- 29 November - VAT electronic submissions and payments
- 29 November - CIT Provisional Tax Payments where applicable.

