national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

TO : ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS ACCOUNTING OFFICERS OF ALL PUBLIC ENTITIES LISTED IN SCHEDULE 2 AND 3B OF THE PUBLIC FINANCE MANAGEMENT ACT (PFMA)

PRACTICE NOTE 4 of 2009/10

SUBMISSION OF CORPORATE PLANS IN TERMS OF SECTION 52 OF THE PFMA

1 PURPOSE

1.1 This Practice Note seeks to provide clarification to accounting authorities of public entities listed in schedule 2 and 3B of the PFMA regarding the information that the National Treasury requires as part of their corporate plan submissions.

1.2 This Practice Note is intended to supplement any prescripts contained in legislation and the requirements of other stakeholders including the responsible executive authority.

2 LEGISLATIVE FRAMEWORK

2.1 This Practice Note should be read in conjunction with Section 52 of the Public Finance Management Act (PFMA) and Treasury Regulation 29.

3 SUBMISSION DATE

3.1 In terms of Section 52 of the PFMA:

"The accounting authority for a public entity listed in Schedule 2 or a government business enterprise listed in Schedule 3 must submit…to the relevant treasury, at least one month…before the start of its financial year…a corporate plan in the prescribed format covering the affairs of that public entity or business enterprise for the following three financial years, and, if it has subsidiaries, also the affairs of its subsidiaries."

3.2 With the exception of water boards, accounting authorities of other applicable public entities are reminded that their corporate plan must be submitted to their respective executive authorities and to the National

Treasury by no later than 28 February of each year. Water boards are required to submit their corporate plans to the aforementioned functionaries by no later than 31 May of each year.

3.3 The corporate plans that are submitted must include ***all*** the information required in terms of Section 52 of the PFMA and Treasury Regulation 29.

4 SUBMISSIONS BY SUBSIDIARIES OF PUBLIC ENTITIES

4.1 Where a public entity is majority owned by another public entity, the corporate plan of the subsidiary should be included as part of the corporate plan of the parent company.

5 TIME HORIZON FOR THE CORPPORATE PLAN

5.1 As outlined in Section 52, the corporate plan is required to cover the affairs of the public entity for the **next three years**. In particular, this applies to the strategy, financial plan and borrowing plan – all of which must cover a **minimum of** the next three years.

5.2 As National Treasury only receives the audited financial statements five months after the end of the financial year, National Treasury also requires that financial forecasts for the current year be provided in the financial plan.

5.3 As a minimum, public entities should therefore provide a forecast for the current financial year, plus projections for the next three years.

6 OVERVIEW AND BACKGROUND

6.1 An overview or executive summary of the corporate plan should be provided.

6.2 A general background should be provided by the public entity covering items such as:

- The establishment date and the reasons for the establishment of the public entity;
- The industry overview, competitive landscape and the legislative/ regulatory framework within which the public entity operates;
- Major products and services, including key customer bases;
- The main activities of the public entity; and
- Pertinent historical information, going back at least three years.

7 STRATEGY

7.1 The strategy should include what the public entity aims to achieve over the next three years as well as the initiatives it intends to pursue to achieve its objectives.

7.2 National Treasury requires that there be a clear link between the strategy of the public entity and the legislative/policy environment, the operating environment, key performance measures and indicators, the financial projections, capital expenditure, borrowing plans and the risk management framework.

7.3 As a result, it is required that the public entity provide an analysis of the operating environment highlighting key strengths, weaknesses, opportunities and challenges of the public entity. Such an analysis might include factors like industry trends and structure, market size and growth potential, technological changes and the regulatory environment. It might also contain an analysis of comparable companies on the agreed key performance indicators (KPIs). The strategy should speak to how these opportunities will be leveraged or challenges addressed.

7.4 In the case where a public entity has a number of subsidiaries, the corporate plan must also cover the affairs of these subsidiaries. The way in which each individual subsidiary contributes to the strategic objectives of the group should be explained clearly, together with the strategic initiatives to be undertaken over the next three years. Similarly, public entities that are comprised of a number of large divisions should clearly outline the strategic objectives and initiatives of each division.

8 KEY PERFORMANCE INDICATORS

8.1 KPIs that are based on the strategy must be provided. KPIs are intended to be the critical measures that indicate the success of a public entity in achieving its objectives.

8.2 Indicators to measure both financial and developmental performance should be included.

8.3 The KPIs should be aligned with the indicators and targets used in the shareholders' compact.

9 GOVERNANCE STRUCTURES

9.1 The corporate plan must include a brief description of:

- The composition of the Board of Directors;
- The structure of the committees of the Board;
- The executive management structure of the organisation; and
- The members of the management team.

9.2 The names, age, gender, race, academic qualifications, areas of expertise, years of service at the organisation and positions on other boards should be provided for each member of the board and executive management team.

10 FINANCIAL PLAN

10.1 The corporate plan must include a detailed projected income statement, cash flow statement and balance sheet of the public entity for the next three years. Longer term projections will be welcomed, especially where the nature of the public entity's business requires a long term outlook. Financial forecasts for the current year should also be provided.

10.2 Public entities which have subsidiaries are required to provide financial projections for each subsidiary in addition to the consolidated projection for the group. Likewise, where a public entity has a number of large divisions, financial projections should be provided for each division.

10.3 The financial plan for the public entity should include sufficient information to allow the National Treasury to assess the current financial health of the public entity and the prospects over the medium term. As such, the level of detail should be similar to that required in a company's audited financial statements. Where necessary, notes should be included to provide the supplementary detail. The format for the income statement, cash flow statement and balance sheet required by the Accountant-General represents the minimum level of detail required.

10.4 Financial projections are highly dependent on the underlying economic and financial assumptions. The economic and financial assumptions, that have been used to develop the financial projections, should be clearly explained in the corporate plan.

10.5 Deviations in the growth or decline in important line items should be explained.

10.6 In some cases, a public entity makes assumptions in their corporate plans regarding the provision of a guarantee or financial support by Government. Where such assumptions are made, the public entity should clearly explain the rationale for these assumptions.

11 DIVIDEND POLICY

11.1 In 2005 the Capital Structure and the Financial Distribution Policies for Government Business Enterprises were approved by Cabinet. National Treasury is embarking on a process for determining and agreeing appropriate capital structure and dividend targets with all public entities as required in terms of the policy.

11.2 Public entities must describe and justify the dividend policy outlined in the corporate plan.

12 CAPITAL EXPENDITURE PLAN

12.1 Information regarding the capital expenditure programme of the public entity and its subsidiaries needs to be provided in the corporate plan. The capital expenditure plan should outline the major capital investments that the public entity intends to undertake.

12.2 A motivation for these investments, which is linked to the strategy of the public entity, should also be provided.

12.3 The total capital expenditure to be undertaken in each of the next three years must be provided.

12.4 Where there are a number of subsidiaries or major divisions, the total should be broken down to reflect the planned expenditure for each subsidiary or division. Other relevant breakdowns of the capital expenditure based on the business of the public entity may also be provided.

13 BORROWING PLANS

13.1 All public entities are required to submit a three year borrowing plan as part of their corporate plan.

13.2 The borrowing plan should be based on the funding requirements. The funding requirements depend on factors like the public entity's capital expenditure plans, cash generated from operations, liquidity requirements, loan redemptions etc. Based on the cash flow statement, it should be clear how the funding requirements were determined.

13.3 For each year, an outline of the intended sources of funding should be provided, e.g. commercial paper, bonds, loans, export credit financing etc. Breakdowns should also be provided that detail the following:

- Local versus foreign borrowing (including currency); and
- Term of the borrowing.

13.4 Over and above the new borrowing, a profile of the existing debt should also be provided. This profile should show the maturity profile of the existing debt, proportion of fixed rate to floating rate borrowing, local versus foreign borrowing and currency exposures.

13.5 The impact of the new borrowing on the debt profile should also be provided.

13.6 A description of the hedging policies of the entity should be provided.

13.7 Where available, sensitivities to interest rate movements, exchange rate movements and other commodity movements should be provided. Major credit risk exposures should be highlighted.

14 RISK MANAGEMENT AND FRAUD PREVENTION PLANS

14.1 Depending on the risk management approach adopted within the organisation, the risk management and fraud prevention frameworks may be presented separately or as a single plan. Where presented as a single plan, the risk of fraud must still be addressed explicitly.

14.2 For the risk management plan, the key components required by National Treasury are:

- An explication of the governance structures and the roles and responsibilities of the various structures;
- A description of the risk management process which should comprise steps like risk identification, risk assessment, risk management and monitoring and reporting etc.; and
- A list of the most important risks together with a description of the risk mitigation strategy, target dates and person responsible. The inclusion of a matrix categorising the risks by likelihood and impact is also recommended.

14.3 Where the public entity is still in the process of implementing risk management, a plan outlining the activities for embedding risk management in the organisation should be included.

14.4 Like the risk management plan, the fraud prevention framework should also include a discussion of the governance structures. The plan should outline the fraud prevention initiatives. If the plan is still in the process of being implemented, the plan of actions, target dates and persons responsible should be included.

15 MATERIALITY AND SIGNIFICANCE FRAMEWORK

15.1 Treasury Regulation 28.3 requires that the accounting authority must develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.

15.2 As a guideline, National Treasury's Practice Note on Application Under Section 54 of the PFMA, suggests that all transactions be deemed "significant" where the rand value exceeds any of the following:

- 1% - 2% of the value of total assets;
- 0.5% - 1% of total revenue; or
- 2% - 5% of profit after tax.

15.3 In terms of Section 54(2) of the PFMA, before a public entity concludes a number of different transactions, the public entity is required to inform the National Treasury and to seek approval for the transaction from its executive authority. The significance framework specifies, for each type of transaction specified under Section 54(2), when the transaction will be considered "significant" enough to warrant that the public entity seek such approvals. The significance framework must be included each year in the corporate plan submission.

15.4 In addition to quantitative guidelines like those outlined in paragraph 15.2 above, it is recommended that qualitative factors also be taken into account.

15.5 A materiality framework must also be included in the corporate plan. The materiality framework specifies the conditions for reporting in terms of Section 55(2)(b) of the PFMA. The materiality framework should specify the criteria for inclusion of the following:

- Irregular expenditure;
- Fruitless and wasteful expenditure; and
- Losses through criminal conduct.

16 OTHER SUPPORTING PLANS

16.1 Management, in discussion with the Board of Directors, should develop all necessary plans that will support the business of the public entity. Where these plans expand on important aspects of a public entity's strategy, the National Treasury encourages their inclusion in the corporate plan. Such plans may include the following:

- Human Resources Plan;
- Employment Equity Plan;
- Environmental Plan;
- Marketing Plan; and
- Communication Plan.

17 APPLICABILITY

17.1 This Practice Note applies to all public entities listed under schedule 2 and 3B of the PFMA.

18 EFFECTIVE DATE

18.1 This Practice Note will be effective for all corporate plans submitted on or after 1 September 2009, and must be adhered to by all accounting authorities of public entities listed in schedule 2 and 3B of the PFMA.

19 DISTRIBUTION OF THE PRACTICE NOTE

19.1 Accounting officers of parent departments are requested to please distribute copies of this Practice Note to all public entities listed under schedule 2 and 3B of the PFMA that report to their respective executive authorities.

20 CONTACT PERSON

Higgo du Toit
Chief Director: Governance and Financial Analysis
Tel: (012) 315 5678
Fax: (012) 323 1783
Email: higgo.dutoit@treasury.gov.za

21 AUTHORITY FOR THIS PRACTICE NOTE

21.1 This Practice Note is issued in terms of section 76(1) to 76(4) of the PFMA which empowers the National Treasury to issue instructions applicable to all institutions in terms of this Act.

Freeman Nomvalo
Accountant-General
Date:

CHECKLIST OF INFORMATION REQUIRED IN THE CORPORATE PLAN

Strategy	
Key Performance Indicators (KPIs)	
Governance Structures	
Financial Plan (covering the next 3 years) including: • Projected Income statement • Projected Balance Sheet • Projected Cash Flow statement	
Dividend Policy	
Capital Expenditure Plan (covering the next 3 years)	
Borrowing Programme (covering the next 3 years)	
Risk Management Plan	
Fraud Prevention Plan	
Materiality and Significance Framework	
Other Supporting Frameworks	