MINISTRY FOR PUBLIC ENTERPRISES

PREPARING CORPORATE PLANS

Under Section 22(1) of the Public Bodies Act (2001), all public bodies, whether a Public Trading Body (PTB) or a Public Beneficial Body (PBB), are required to have a Corporate Plan.

The Corporate Plan (CP) should outline the plan for the future operations of the entity and shall specify forecasts relating to at least the current financial year and the next two financial years of Profit and Loss Statement, Balance Sheet, sources and application of funds, cash flow statement, statement of assumptions on which the forecasts are based and explanations for amounts taken up in the plan period. All accounting statements should use IAS formats.

CPs allow entities to pursue both commercial and public policy objectives efficiently and effectively.

A CP should include an evaluation of the entity's current strategic position including an assessment of the entity's business and operating environment. There should be a clear link among the strategic issues confronting the entity, the entity's objectives for the planning period, the strategies developed towards the achievements of these objectives and the key actions that are related to the issues and strategies. CPs should contain relevant performance measures with targets to serve as benchmarks for review in subsequent periods.

Major events that may affect the entity's operation and issues requiring Government decisions should be highlighted in the CP.

GUIDELINES FOR CORPORATE PLANS

We set out below an eight-point guideline for Corporate Plans:

1. **EXECUTIVE SUMMARY**

This should highlight the following:

- Strategic Issues facing the entity;
- Major Objectives of the entity;
- Financial objectives of the main plan including returns expected and any major changes in the financial position that are planned;
- Strategies developed; and
- Major developments anticipated.

2. **MANDATE**

This should cover the entity's mandate as set out in legislation, memorandum and articles of association (where applicable) and policy documents. The entity's public policy role should also be covered together with an outline of any non-commercial objectives (Community Service Obligations) that the State might require the entity to perform.

3. ENTITY PROFILE

The profile should cover the following:

- ♦ Entity's history;
- ♦ Organisational structure; and
- ♦ Financial status.

The profile should also include a brief on the economic policy sectors in which the entity operates. It should provide an insight into competition faced and the opportunities available to the entity. It should also highlight, if applicable, areas of Government assistance programs.

4. STRATEGIC ISSUES FOR THE PLANNING PERIOD

Key strategic issues facing the entity should be identified, based on assessments of actual performance, the anticipated external business environment, and the entity's strengths and weaknesses. The following assessments should be carried out:

♦ **Assessment of Results**

This should include an assessment and an explanation, including quantitative information, of significant differences between recent actual results and planned performance (projected). It should include comparative Balance Sheets and Profit and Loss Statements.

As corporate plans are prepared before the year ends it will not be possible to show planned results compared with recent actual results. Latest estimates should be based on year to date results annualised.

The assessment should include brief explanations (table format is preferred) of the key Performance Indicators (KPIs) including financial KPIs and the non-financial KPIs used, and explain differences between planned and latest estimates.

♦ **Analysis of the Business Environment (SWOT Analysis):**

i. External Business Environment

A projected analysis of the entity's external economic and business environment projected over the planning period should focus on the external determinants of success including such things as the level of competition faced by the entity, markets, labour relations, inflation levels, any potential change in the legal framework, foreign exchange and interest rates. This presentation should facilitate a clear understanding of the strategic issues related to the external operating environment (both threats and opportunities) of the entity.

ii. Internal Environment (Assessment of Entity's resources)

Entities resources include funds, staff, real estate, information technology and plant and equipment. An assessment of the entity's strength and weaknesses, based for example on actual performance relative to the previously established objectives and to the performance of competitors, should be presented. This assessment often leads to the identification of strategic issues requiring corrective actions in the planning period. It should also be noted that some corporate entities enjoy monopolies and this should be highlighted in the assessment.

- **Analysis of the Key Risks/Issues to the Achievement of Objectives:**

This should include explanations of the key issues that are faced by the organisation in executing its operation to achieve major objectives. These issues will affect the performance of the organisation both in providing its service and financial performance, so they should be well addressed within this section. Also to explain what the current status of resolving these issues, as well as how the organisation will perform within the next three years of the plan to ensure that they will be solved.

5. <u>OBJECTIVES, STRATEGIES AND PERFORMANCE MEASURES</u>

This section constitutes the most important aspect of the corporate plan and should clearly indicate corporate intentions over the next three years.

The section should highlight the entity's objectives, the proposed strategies for achieving such objectives and the related method of analysing the entity's performance towards this end. The above objectives, strategies and performance assessment as approved by management and the board should be based upon prior analysis of strategic issues and is to include:

- **The identification of Objectives**

The entity's objectives for each major business segment over the next three years should be clearly specified and linked to the <u>strategic issues</u> identified for the planning period as explained above. This section is very important as it should indicate all objectives the organisation will need to achieve during the next three years of the plan, including resolving the above strategic issues.

- **A Description of Strategies**

Chosen strategies should be discussed and explained to show how they will achieve their objectives. The application of these strategies should be quantified where possible and explain how it will implemented. Strategies are the actions that the organisation will be doing to achieve the above objectives during the next three years of the plan. They should link exactly to achieving the objectives.

Examples of Strategies would be reducing costs, modernisation or expansion involving new capital expenditures, initiatives aimed at increasing market share, measures to improve employee relations, etc.

- **The Establishment of Performance Measures and Targets**

There should be specific performance measures and targets, both operational and financial, for objectives identified above. Operational performance measures and targets may differ with each entity depending on sectors in which they operate and these should be clearly identified. In many instances, international industry specific performance measures exist and where this is so, they should be used.

Performance measures adopted may for example relate to productivity increases (%) or cost reduction ($) and the plan should indicate why these targets are believed to be attainable.

Performance measures need to be:

- **S**pecific: focus on one outcome.
- **M**easurable: expressed numerically.
- **A**ction
- **R**elated: relate to some planned action
- **T**ime bound: have a deadline by which time the result is expected.

Objectives, strategies and performance measures should be linked.

For example:

- Objective: To increase the return on shareholders' funds to the level achieved in the private sector.
- Strategy: To increase prices by 5% and reduce production costs by 10%
- Performance Measure: By March 2002 to achieve a rate of return on shareholders' funds of 12%

In this example the performance measure measures the result of the strategy used to achieve the objective.

6. FINANCIAL STATEMENTS

The corporate plan should include financial statements covering the two years before the start of the planning period (actual results for the first year and budget for the current year) and pro forma statements for each of the next three years (projections). Further information and examples are contained in the annex.

- **Profit and Loss Statements**

These should include major categories of revenues and expenses for each major business segment, and include statements on retained earnings.

- **Balance Sheet**

A statement of position showing the true balances in the entity's books as at balance date.

- **Statement of Changes In Financial Position**

This should include the cash flow statement.

The corporate plan should also contain an analysis of the financial statements including:

- A description of the detailed assumptions underlying the entity's forecasts.
- A description of planned major capital expenditures and their importance in relation to strategic issues and objectives identified for the planning period.
- A detail of borrowing and investment plans (if any) and related strategies, including those relating to foreign exchange and interest rate risks. Borrowing plans should set out aggregate borrowings, principal repayments and total amounts outstanding for borrowings with terms greater than one year. For borrowings with terms to maturity of one year or less, the maximum and total amounts outstanding should be stated.
- Details on the matching of borrowing terms and the useful life of assets should also be included.

- **Number of Employees**

The corporate plan should also set out the number of employees at the end of the financial year immediately preceding the current year, and as projected for the current year and over the planning period. The reporting basis for these data (e.g., person-years, full time equivalent or full –time employees) should be clearly stated.

7. SPECIFIC PROJECTS

Capital budgets or details of specific projects should form part of the entity's plan submission. This should include explanation on projected time frames of implementations, costing as well as potential sources of funds.

Where the entity is an agent of the state and has real property, it should disclose its plans for any significant disposals or acquisitions, including leases.

8. SUPPORT FOR GOVERNMENT POLICIES

The Corporate Plan can also serve as an appropriate vehicle for reporting to the government on implementation of various policies For example, Wage restraint, etc.

ANNEX: FINANCIAL STATEMENTS

Accounting Standards, Frameworks and Policies

Please find attached the following information:

1. Appropriate Accounting Policy note for State owned enterprises
2. Appropriate formats for financial statement preparation for State owned enterprises, being
    i. Format for Balance Sheet
    ii. Format for Profit and Loss Account
    iii. Format for Cash Flow Statement
3. Paper on definition and method of calculation of key accounting ratios

- The attached policy guidelines and formats are required to be used for incorporation into the preparation of Corporate Plans
- Further guidelines will be issued with regard to
    - A statement showing all changes in equity
    - Notes to the Accounts (accounting policy note included here)
- International Accounting Standards are to be followed and this fact is required to be disclosed in note1. *Any departure from international accounting standards is required to be fully disclosed as per IAS 1*
- IAS 7 provides an alternative format for the Cash Flow Statement for financial institutions

Appropriate Accounting Policy Note for State Owned Enterprises

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are stated to assist in a general understanding of these financial statements. These policies have been consistently applied except as otherwise indicated.

(a) Basis of accounting

These financial statements have been prepared on the basis of historical costs using generally accepted accounting principles consistently applied.

These financial statements comply with International Accounting Standards.

Revenue is recognised in the period in which the sale transaction occurred and accrual accounting is used to match revenue and expenses in the same reporting period.

The financial statements are prepared on the going concern basis in the belief that the company will continue trading in its current business activity for the foreseeable future and will not dispose of or realise any material part of its assets or operations.

(b) Current assets

Stocks are valued at the lower of cost and estimated net realisable value after accounting for any provision due to obsolescence.

Debtors are stated net of any provision for any doubtful debts after writing off all bad debts identified during the period.

(c) Property, plant and equipment

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives using the following rates:

Buildings and (e.g. wharves etc)	2.5% - 5%
Plant & Machinery	10% - 20%
Office furniture and fixtures	10% - 20%
Office Equipment	25%
Motor Vehicles	25%

Profits and losses on disposals of property, plant and equipment are taken into account in determining the results for the period.

Property, plant and equipment are included in the financial statements at cost unless otherwise stated. It is not the policy of ABC Limited to revalue property, plant and equipment. Any decision to calculate and include revalued property costs in the financial statements is fully documented in note xxx and has only been made after full consultation with experts and shareholders.

(d) Foreign currency

All amounts are expressed in Samoan Tala.

Transactions in foreign currencies have been converted to Tala at rates approximating those ruling at the date the transaction was incurred. Assets and liabilities in foreign currency have been converted to Tala at rates approximating those ruling at the balance sheet date. Exchange gains and losses are brought to account in determining the profit for the year.

(e) Leased assets

Assets acquired under finance leases are capitalised. The initial amount of the leased asset and corresponding lease liability are recorded at the present value of minimum lease payments. Leased assets are amortised over the life of the relevant lease or, where it is likely the company will obtain ownership of the asset on expiration of the lease, the expected useful life of the asset. Lease liabilities are reduced by the principal component of lease payments. The interest component is charged against operating profit.

Operating leases are not capitalised and rental payments are charged against operating profit in the period in which they are incurred.

(f) Taxation

Income tax has been brought to account using the liability method of tax effect accounting.

Income tax on profit comprises current and deferred tax and is recognised in the profit statement.

Provision for current tax is the expected tax payable on the earnings for the current year, using tax rates enacted at the balance sheet date, plus any adjustment to tax payable in respect of prior years.

Deferred tax provides for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

(g) Provision for employee benefits

Provision has been made in the financial statements for benefits accruing to employees in relation to such matters as annual leave and long service leave.

(h) Borrowing costs

All borrowing costs and interest payable are calculated to apply to the respective loans in the period of account and are charged as an expense item against profits for the period

(i) Grants, aid and donations

Monies received by way of grants, aid or donations are disclosed separately in the accounts from monies received as loan or equity finance. By definition grants, aid or donations are gratuitous receipts and not subject to repayment. Any caveats associated with the grants, aid or donations governing the use of the money are disclosed in note xxx

Grants aid or donations are treated as revenue in the period in which they are received.

(j) Comparative figures

Where necessary, comparative figures have been adjusted to conform with presentations adopted in the current year.

KEY RATIO CALCULATIONS FOR MONITORING

Net Profit before tax (npbt) %

Net profit before tax is the prime overall indicator of the profitability of business operations as generally controlled by management

Net profit before tax % is the profitability expressed as a return on the revenue. This measures rates of profitability when absolute comparisons are blurred by changes in the size of the business (as indicated by changes in revenue)

Calculation: net profit before tax multiplied by 100 and divided by gross revenue

Debt/Equity ratio

This measures the relative proportion of the business that is financed by debt as distinct from equity.

It is commonly considered that debt financing is cheaper, however debt providers require greater control of the business as debt levels increase. Further, underlying asset values in some enterprises are not necessarily seen by debt providers as suitable collateral for lending. Thus it is difficult to determine a benchmark debt level. In most cases debt to equity levels in the range of one to one, to one to two could be determined as prudent and efficient (i.e. borrowings half to equal to equity levels but not greater than) and where debt is less, there may be scope to increase financial efficiency by introduction of more debt.

Calculation: Sum total borrowings as disclosed in the financial statements and divide by total equity. Express as one part debt to xx parts equity (1:xx)

Current ratio

This measures the relationship between current assets and current liabilities. On the basis that such elements of the financial statements should be realisable and payable in the near future, this ratio measures the capacity to meet obligations with liquid funds. It is a key measure of liquidity and an inferior current ratio is usually an early sign of liquidity problems.

A general guideline is that ratios about 2:1 indicate suitable liquid cover to meet arising obligations while ratios below this and particularly at a level of 1:1 or below are indicative of serious liquidity problems. Ratios substantially higher than 2:1 may indicate that the financial structure is inefficient and surplus liquid funds can be better utilised invested elsewhere

Calculation: Total current assets divided by total current liabilities. Express as current assets (whole number) in relation to current liabilities e.g. 2:1

Return on Equity
This is the key determinant of an acceptable or sub-standard result, by comparing the net profit after tax as a percentage of the total equity (net assets) that is effectively invested in the business. If bank deposits are relatively risk free and pay, say 7% this becomes an indicator of what could be considered an acceptable return.

Calculation: Net profit after tax multiplied by 100 and divided by total equity

XYZ LIMITED - BALANCE SHEET AS AT 31 DECEMBER 20-2

(in thousands of currency units)

	20-2	**20-2**	**20-2**	**20-1**	**20-1**	**20-1**
ASSETS						
Non-current assets						
Property, plant and equipment	X			X		
Goodwill	X			X		
Manufacturing licences	X			X		
Investments in associates	X			X		
Other financial assets	X			X		
	------			------		
		X			X	
Current assets						
Inventories	X			X		
Trade and other receivables	X			X		
Prepayments	X			X		
Cash and cash equivalents	X			X		
	------			------		
		X			X	
		------			------	
Total assets			X			X
LIABILITIES						
Non-current liabilities						
Interest bearing borrowings	X			X		
Deferred tax	X			X		
Retirement benefit obligation	X			X		
	------			------		
		X			X	
Current liabilities						
Trade and other payables	X			X		
Short-term borrowings	X			X		
Current portion of interest-						
bearing borrowings	X			X		
Warranty provision	X			X		
	------			------		
		X			X	
Total liabilities		------	X		------	X
			------			------
Net Assets			X			X
			====			====
EQUITY						
Capital and reserves						
Issued capital		X			X	
Reserves		X			X	
Accumulated profits/(losses)		X			X	
		------			------	
			X			X
			====			====

XYZ LIMITED - INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-2

(In thousands of currency units)

	20-2	20-1
Revenue	X	X
Cost of sales	(X)	(X)
	------	------
Gross profit	X	X
Other operating income	X	X
Distribution costs	(X)	(X)
Administrative costs	(X)	(X)
Other operating income	(X)	(X)
	------	------
Profit from operations	X	X
Finance cost	(X)	(X)
Income from associates	X	X
	------	------
Profit before tax	X	X
Income tax expense	(X)	(X)
	------	------
Net profit from ordinary activities	X	X
Extraordinary items	X	X
	------	------
Net profit for the period	X	X
	====	====

XYZ LIMITED - CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-2

(in thousands of currency units)

	20-2	**20-2**	**20-2**	**20-1**	**20-1**	**20-1**
Cash flows from operating activities						
Cash receipts from customers	X			X		
Cash paid to suppliers and employees	(X)			(X)		
	------			------		
Cash generated from operations		X			X	
Interest paid	(X)			(X)		
Income taxes paid	(X)			(X)		
	------			------		
		X			X	
Cash flow from extraordinary items		X			X	
		------			------	
Net cash from operating activities			X			X
Cash flows from investing activities						
Purchase of property, plant and equipment	(X)			(X)		
Proceeds from sale of property	X			X		
Interest received	X			X		
Dividends received	X			X		
	------			------		
Net cash from/(used in) investing activities			X			X
Cash flows from financing activities						
Proceeds from long term borrowings	X			X		
Payment of finance lease liabilities	(X)			(X)		
Dividends paid	(X)			(X)		
	------			------		
Net cash from/(used in) financing activities			X			X
			------			------
Net increase in cash and cash equivalents			X			X
Cash and cash equivalents at beginning of period			X			X
			------			------
Cash and cash equivalents at end of period			X			X
			====			====