

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)

COSTING OF DEVELOPMENTAL MANDATES CIRCULAR

1. PURPOSE

- 1.1. The purpose of this circular is to inform accounting officers of national departments and accounting authorities of public entities listed in schedule 2 and 3B of the PFMA of the Costing of Developmental Mandates Framework that was approved by cabinet and to request information from accounting authorities of these entities relating to the cost of developmental mandates they undertake.

2. BACKGROUND

- 2.1. In January 2015, Cabinet Lekgotla approved several recommendations aimed at responding to addressing the challenges at SOCs. These recommendations drew on the findings of the review of SOCs that had been undertaken by the Presidential Review Committee (PRC). This ultimately led to the establishment of the SOCs Reform Project led by the Inter-Ministerial Committee.
- 2.2. Subsequent to that, National Treasury developed the Framework for costing of developmental mandates, proposing the approach to be used in setting out these costs clearly. In November 2016, cabinet approved the proposed mechanism.
- 2.3. The focus was on the non-commercial and developmental activities that generate externality benefits, whilst the costs are internalised by the State Owned Companies. This is in line with the principle of competitive neutrality, which provides that markets should not be skewed against or in favour of SOCs.

3. APPROACH

- 3.1. The approach for costing the developmental mandates will enable government to ensure that public sector resources are transparently and optimally allocated to deliver on its social objectives in an efficient manner. An “activity based” approach was adopted to identify and distinguish non-commercial, developmental activities being undertaken by the SOCs from their commercial activities.
- 3.2. Entities are required to quantify the net Cash Flows of the activity and calculate the Net Present Value (NPV) using the company cost of capital. Whilst the approach will need to be refined over time, it is sufficiently robust to start the process.
- 3.3. In consultation with its executive authority, the accounting authority of these entities must ensure that the shareholder’s compact documents the mandated activity/activities and provides explicitly what it costs to service the developmental mandate(s) each financial year, commencing in the 2018/19 corporate plans.
- 3.4. The corporate plan must further provide a detailed breakdown of what the cost to service the developmental mandate(s) is comprised of

4. APPLICABILITY

- 4.1. The circular applies to all public entities listed under Schedules 2 and 3B of the Public Finance Management Act (PFMA) and their respective subsidiaries.

5. DISSEMINATION OF INFORMATION CONTAINED IN THIS CIRCULAR

- 5.1. Accounting Authorities of parent departments are requested to bring the contents of this Circular to the attention of all accounting officers of their respective Schedule 2 and 3B public entities.

Kind Regards

ANTHONY JULIES

DEPUTY DIRECTOR-GENERAL: ASSET AND LIABILITY MANAGEMENT

DATE: