

SHORT LEARNING PROGRAMME

Financial Analysis for Economic Regulation

9 - 11 September 2015

Venue: CCRED, 2nd Floor, 5 Sturdee Avenue, Rosebank, Johannesburg

The Centre for Competition, Regulation and Economic Development (CCRED) at the University of Johannesburg is honoured to host a Short Learning Programme (SLP) in Financial Analysis for Economic Regulation.

Accounting and finance are key areas of work at economic regulators and play a critical role in the determination of tariffs and the assessment of firm conduct. Different costing methodologies can result in very different tariffs for regulated entities or different evaluations of a firm's conduct. In capital intensive industries, capital investments can account for the bulk of a regulated entity's costs, and therefore the costs of capital need to be carefully weighed when arriving at a final tariff or evaluating a firm's conduct.

Providing a strong theoretical and practical foundation for these key issues, this SLP is targeted at staff employed at competition authorities, economic regulators, departments within government and regulated enterprises, private practitioners and students.

The SLP will be led by **Thabiso Madiba**, an accounting professional and academic at the University of Johannesburg. **Dr Stephen Labson**, an international expert on regulation and finance and a Senior Research Fellow at CCRED, will provide specialist training on cost of capital. **Ryan Hawthorne**, a Senior Research Fellow of CCRED, and **Nicholas Nhundu**, a Researcher at CCRED, will also teach on and facilitate the course.

Approach

The course will be taught by means of lectures on theory and practical case studies on actual regulator decisions (internationally and from South Africa), where possible, in order for course participants to develop a working knowledge of regulatory costing and finance principles. The lectures will be complemented by in-depth case exercises involving analysis of data and fact patterns by different groups who will present findings in feedback sessions.

Key principles and tests taught during the lectures will be reinforced through the case exercises. The following topics and themes will be covered in the programme:

- Cost of capital (including case studies drawing from international experience);
- Measures of costs (including long run average incremental cost (and relevant mark-up methodologies), fully allocated cost, stand-alone cost, and variable/marginal cost) appropriate to the regulated entity and policy framework;
- Costing principles, including historical cost accounting, current cost accounting (including operating capital maintenance and financial capital maintenance) and long run incremental cost; and
- Financial analysis of regulated entities.

Cost

The course cost is **R8000** per person. This rate includes all the course material, lunch and refreshments.

Contact details





For booking forms and information on the course, please contact **Reena das Nair**; Tel: +27 11 559 7511 or +27 82 546 9705; E-mail: reenadn@uj.ac.za or **Tamara Paremoer**; Tel: +27 11 559 7517; E-mail: tamarap@uj.ac.za

Programme

Day 1, 9 September 2015	
08 30-09 00	Registration and welcome
09 00-10 45	Introduction to financial analysis <ul style="list-style-type: none"> • Outline of financial statements • Statement of financial performance
<i>Tea break</i>	
11 00-12 30	Introduction to financial analysis (cont.) <ul style="list-style-type: none"> • Statement of financial position • Statement of cash flows
<i>Lunch</i>	
13 30-14 45	Case study exercise: The evolution of investment and profitability of telecommunications operators, Transnet and Eskom <ul style="list-style-type: none"> • Analysis of financial statements
<i>Tea break</i>	
15 00-16 30	Case study exercise: Presentations
Day 2, 10 September 2015	
08 30-10 00	The role of financial analysis and cost accounting <ul style="list-style-type: none"> • Using financial analysis and cost accounting in regulatory decisions • Standards of evidence used in financial analysis and cost accounting
10 00-11 15	Activity based costing <ul style="list-style-type: none"> • Variable & fixed costs • The allocation of overhead expenditure • Discussion on cost & revenue drivers
<i>Tea break</i>	
11 30-12 30	Measures of costs <ul style="list-style-type: none"> • Volume based and non-volume based revenue drivers • Activity based costing profitability analysis • Resource consumption models • Cost vs. benefit considerations

<i>Lunch</i>	
13 30-15 30	Asset valuation and tariff setting <ul style="list-style-type: none"> • The regulatory asset base and tariffs • Asset valuation and regulatory objectives <ul style="list-style-type: none"> ◦ Return on initial investment ◦ Price signalling ◦ Price smoothing • Methodology and approach to asset valuation <ul style="list-style-type: none"> ◦ Historic cost ◦ Replacement cost ◦ Deprival value Application to the tariff model <ul style="list-style-type: none"> • Depreciation of the asset base <ul style="list-style-type: none"> ◦ Real and nominal values ◦ Tapering profile of depreciation • Rolling forward the asset base for future tariff determinations • Selected case studies
<i>Tea break</i>	
15 45-17 00	Overview to the cost of capital The role of finance in setting regulated tariffs and charges <ul style="list-style-type: none"> • Concepts of risk and return • Relevance to State Owned Enterprises • Weighted Average Cost of Capital and its key determinants <ul style="list-style-type: none"> ◦ Cost of debt • Cost of equity <ul style="list-style-type: none"> ◦ Tax ◦ Capital structure ◦ Inflation
Day 3, 11 September 2015	
08 30-10 30	Calculating the cost of capital for a tariff determination: <ul style="list-style-type: none"> • Overview of approaches and scan of regulatory practice • Cost of debt and benchmarking values • Return on equity and the CAPM • Treatment of tax • Effects of capital structure • Consistent treatment of Inflation
<i>Tea break</i>	
10 45-12 30	Putting the lessons to work <ul style="list-style-type: none"> • Spreadsheet modelling • Benchmarked values of inputs • Benchmarked WACC for a regulated utility
<i>Lunch</i>	
13 30-15 00	Case study exercise: Setting mobile call termination rates in South Africa <ul style="list-style-type: none"> • Includes an analysis of stand-alone costs, fully allocated costs, marginal costs, long run average incremental costs
<i>Tea break</i>	
15 15-16 30	Case study exercise: Presentations

Programme Lecturers and Facilitators

	<p>Thabiso Madiba qualified as a Chartered Accountant in 2006 after completing his articles at Ernst & Young in the industrial products division. In 2008, Thabiso moved to the University of Johannesburg where he currently lectures Finance 2 and Finance 3 to the Chartered Accounting stream undergraduate students. Thabiso has been involved in the marking and adjudication of the SAICA QE 2 financial management exam and is a marker and assistant umpire for the SAICA ITC exam.</p>
	<p>Dr Stephen Labson is a consulting economist specializing in the field of regulation and finance. As a founding Director of sIEconomics Pty Ltd (Australia) and Trans African Energy Pty (South Africa) he has advised governments on major industry reform initiatives, regulators in design of pricing frameworks, and corporate clients in development of regulatory strategies. He has previously been a Director with Arthur Andersen Corporate Finance; a senior government official in the state of Victoria (Australia); and held research positions at the Australian Bureau of Agricultural & Resource Economics and the University of California at Berkeley. Dr. Labson was awarded a PhD from the University of California at Berkeley and has published in academic journals such as the <i>Journal of Policy Modelling</i>, <i>Journal of Environmental Economics and Management</i>, <i>Applied Economics</i>, <i>Economics Papers</i>, and <i>Agenda</i>.</p>
	<p>Ryan Hawthorne is an economist working on regulatory issues and business strategy in the telecommunications sector. His focus areas include competition/antitrust economics, telecommunications regulation, and telecommunications strategy. For the past three years he has worked at Neotel in a number of capacities including leading projects on expanding broadband networks. Prior to his position at Neotel, he was a senior economist at the Competition Commission of South Africa. This followed work as an economic expert on competition cases with the specialist economic consultancy Johannesburg Economics, of which he was a founder.</p>
	<p>Nicholas Nhundu is a researcher at Centre for Competition, Regulation and Economic Development (CCRED). Previously, Nicholas worked as an analyst at A.R.C chartered accountants and auditors. He holds a MCom in Finance, BCom honours degree in Investment Management and BCom. Finance degree from the University of Johannesburg.</p>