

**Ministry of  
Finance**

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## Strategy and Operations Support Office

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### BACKGROUND

The overall purpose of the Strategy and Operations Support Office is to maintain a dedicated capability for the planning and execution of long-term and strategic programmes; and projects arising from the Business and Financial Plans of the Ministry. These programmes and projects generally have a service-wide application but may also include initiatives limited to the Ministry of Finance. The major works undertaken by the Strategy and Operations Support Office in the year under review were related to five specific areas: (a) accounting practices; (b) organisational reforms; (c) procurement practices; (d) EU practices; and (e) international institution co-ordination.

### ACCOUNTING PRACTICES

The changeover to the accrual accounting methodology is continuing. The Strategy and Operations Support Office works in close collaboration with the Treasury Department to implement best accounting practices. Over the past three years, the focus has been to increase the quality of the accrual accounting data being compiled by the various ministries and their respective departments. This has been possible through the strengthening of the Accrual Accounting Methodology Compliance Unit within the Treasury Department; continuing the accounting training programme; and revising the accounting standards and guidelines.

The practice of issuing Accrual Accounting Financial Statements has continued on a yearly basis since 2003. However, the quality of these statements has increased substantially over the past three years. The work carried out in the previous years regarding the various accounting guidelines and standards, and continuous training is bearing results. The long-term accounting training course leading to “A” standard, which commenced in 2006, has continued. About 150 participants are undertaking the training, with 10% sitting for the “O” Level Accounting examination. It is anticipated that a similar percentage will sit for the “A” Level exam in 2008. The major concern with the project is the need to replace the current Departmental Accounting System (DAS). The technical and business needs tender specifications have been completed. Once the new accounting system is procured, the accrual accounting methodology may take a more prominent role in the financial management of Government.

Accrual accounting will have a major impact on the way the internal financial business of Government will be conducted, particularly in areas of asset management and the management of debtors and creditors. This financial reform process will cross ministerial and departmental organisational boundaries and have a major influence on the departmental processes related to their day-to-day financial administration. Accrual accounting will provide more meaningful financial information that will enhance the quality of the Government's financial decision-making process. It will provide an in-depth understanding of the overall financial position of the Government, providing a sound basis for long-term financial planning, in such areas as asset replacement planning, management of debtors and creditors and cash flow predictions.

### ORGANISATIONAL REFORMS

A major organisational reform project undertaken is regarding the merger of the revenue earning departments. This consists of merging the Inland Revenue, Customs, Tax Compliance Unit and the VAT Department as a single united entity. An extensive implementation strategy has been defined to achieve

this ambitious objective. The formulated strategy is the result of close collaboration of the relevant departments involved and extensive research of a number of tax administrations in European and non-European countries. The defined strategy has been discussed internally and accepted in principle. However, the decision whether to proceed with the recommendations is still under consideration.

## PROCUREMENT PRACTICES

This project is based on the EC Communication document, COM 2004/841/EC, entitled “Action plan for the implementation of the legal framework for electronic public procurement”. A comprehensive strategy has been defined for the Contracts Department in line with this eProcurement EU initiative. The strategy for the implementation of eProcurement in the public sector takes a corporate wide view of Government. The objective is to introduce eProcurement services that include ePublication, eTendering, eAuction, eCatalogues, eOrdering, eInvoicing, and ePayments. Hence, there is the possibility that most of the paperwork related to the procurement function may be eliminated reducing the cost and time required to process procurement transactions. This project has an impact on the public sector as the purchaser and the private sector as the prospective supplier. Special emphasis is being given to promoting the participation of SMEs in the procurement process. The cost-benefit analysis suggests that the Government may save in the vicinity of Lm8.2 million within a five-year period, with a direct saving of approximately Lm3 million per year thereafter. The saving will be the result of aggregating procurement across Government and through extensive business process reengineering.

## EU PRACTICES

The Strategy and Operations Support Office co-ordinates all activities related to the EU Own Resources. A task force has been established chaired by the Director General (Strategy and Operations Support) to ensure that all queries and communication with the EU Commission related to Malta’s financial contribution to the EU are co-ordinated and any information given is consistent and timely. This task force consists of members from the VAT Department, Customs, Economic Planning Division, NSO, EU Paying Authority, and the Budget Office. Regular internal meetings are held to discuss issues and outstanding EU Commission matters. These internal meetings facilitate the preparatory work for three interrelated tasks:

- computation of financial forecasts regarding VAT and GNI to be provided to the EU Commission;
- consolidation of information in preparation for attending working group meetings, particularly those related to reforms in how EU Member States are to calculate their specific contribution;
- preparing for EU Audit Missions related to VAT, GNI and Traditional Own Resources (Customs).

## INTERNATIONAL INSTITUTION CO-ORDINATION

The Strategy and Operations Support Office co-ordinates all activities related to resolutions and meetings that need to be attended at the World Bank, IMF, Multilateral Investment Guarantee Agency, International Bank for Reconstruction and Development, International Finance Corporation, European Bank for Reconstruction and Development, European Investment Bank, and European Council Development Bank. Other international institutions that are actively monitored include the European Group for Public Policy (EGPA), and the UN Trade and Development workgroup on International Standards of Accounting and Reporting (ISAR). Over the past three years, the Director General (Strategy and Operations Support) presented five papers at international meetings, four of which were peer reviewed and published in international journals.

## CONCLUSION

The Strategy and Operations Support Office will proactively seek participation in projects that are in line with the strategic directions of the Government in general and the Ministry of Finance in particular. The Strategy and Operations Support Office is committed to utilising as much as possible the internal resources of Government, such as, MITTS, MEU, SDO, Treasury Department and other relevant departments to

minimise the implementation expenditure of the various initiatives undertaken. Furthermore, the level of project participation will be commensurate with the available resources and the priorities established by the Ministry of Finance.

EMANUEL CAMILLERI

*Director General (Strategy & Operations Support)*

## Financial Policy and Management Division

### MAIN FUNCTIONS

The Financial Policy and Management Division was set up in November 2006 to contribute to enhanced economic and financial well-being by ensuring that professional standards of financial management apply across Government and by promoting tax, welfare and expenditure policies that improve the quality and cost-effectiveness of public service delivery and make for a tax and benefit system that is fair and equitable.

In the course of the year under review, the Division focused primarily on the following areas:

- recruiting adequate resources for the Division to enable it to embark upon the initiatives that have been entrusted to its remit;
- reviewing the regulatory framework underpinning financial management in the public service in order to promote efficient, effective and sustainable policies and procedures that reflect best practices;
- developing a tax policy research and analysis function that makes it possible to evaluate alternative taxation policies and strategies and to advise on their impacts on the national budget and the wider economy;
- drawing on the processes underpinning the implementation of the collective agreement for employees in the public service and collective bargaining initiatives generally to seek to maximise convergence in parameters throughout the whole public sector;
- appraising the financial implications of new conditions of employment in the public service and ensuring that existing conditions of service were being implemented in line with approved parameters;
- a number of ministry-specific initiatives, including several which had service-wide impact.

### ASSIGNMENTS UNDERTAKEN

Throughout 2007, the Division was heavily involved in the following areas of activity:

- representing the Ministry of Finance in all negotiations of a sectoral nature held by the respective ministries with union representatives of specific classes of public service employees;
- evaluating the extent to which allowances/benefits awarded in terms of Sectoral Agreements were being paid in line with approved parameters;
- monitoring honoraria and/or remuneration levels currently enjoyed by, or proposed for award to, public officers and other appointees to government boards and commissions;
- overseeing the gathering of economic and financial intelligence;
- restructuring of the vehicle registration tax system in conjunction with the Ministry for Urban Development and Roads;
- reviewing financial policy regulatory frameworks and working on the phased issue of a policy manual;
- evaluating the cost implications of pandemic preparedness;
- compiling and maintaining a consolidated database of taxation legislation;
- identifying priority areas from a national perspective for eventual input into the pre-budget process;
- evaluating alternative tax and social welfare policy options and making recommendations for inclusion of same in the pre-budget and budget process;
- updating policies and procedures, monitoring implementation and recommending corrective action where necessary, in relation to expenditure-generating activities of a corporate nature such as travel on official business, transport, hospitality and utilities;
- contributing to the introduction of accrual accounting across the public service through active participation in the Accrual Accounting Task Force;

- leading the Public Private Partnerships Unit established in mid-2005 and bringing to a satisfactory conclusion the first pilot project – a Home for the Elderly in Mellieħa;
- co-ordinating the euro changeover process within the relative departments/entities falling under the Ministry of Finance, and overseeing the conversion of monetary values in legislation and other administrative instruments;
- driving the initiative to identify and simplify burdensome regulations, administrative procedures and fees within the departments/entities falling under the Ministry of Finance, as part of the overall programme of Better Regulation spearheaded by the Office of the Prime Minister through the Management Efficiency Unit;
- overseeing the implementation of budgetary measures relative to the award of grants on expenses involved in the purchase/installation of solar energy heaters, photovoltaic systems, electric-powered vehicles, domestic appliances, lifts for small and medium-sized enterprises and non-governmental organisations, roof insulation, musical instruments;
- implementing the amendments to the Pensions Ordinance that provide for special arrangements applicable to former public officers who were detailed or took up permanent appointment with public entities and taking action to secure the contribution due to Government from such entities in respect of their share of pension payable to officers serving thereat; and
- evaluating and addressing sundry claims for compensation raised by third parties against Government in relation to damages allegedly sustained in the course of some government activity.

MARIO DEBATTISTA

*Director General (Financial Policy & Management)*

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# The Treasury

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## GENERAL

Following the organisational restructuring undertaken during 2006, which saw the Treasury being reformed to focus exclusively on Treasury functions (namely Government Accounts and Debt Management), further work was undertaken in order to pave the way for the eventual hiving off of other non-related activities.

### Migration of Salaries and Pensions Section to Back-Office, Gozo

In line with government policy to transfer back office functions to Gozo, the Treasury successfully migrated the Salaries and Pensions section to Gozo on 3 October 2007.

Intensive staff training started in Floriana in November 2006 and continued uninterrupted until the migration date. Given the highly technical functions involved, a very steep learning curve provided a tough challenge. Trainees took over the issuance of the payroll as from July 2007. During their training period, trainees were also involved in the euro testing of the Payroll and Pensions systems.

During the year under review, assistance and support continued to be given to the Gozitan staff by a very limited number of personnel from the offices in Floriana. It is planned that this will be discontinued once certain highly technical functions are completely taken over by Gozitan staff. Towards this end, further training will be undertaken during 2008.

## DEBT MANAGEMENT DIRECTORATE

### Main Functions

The Directorate was established in December 2006 within the Treasury Division to carry out the key objectives in debt management activity, focused primarily to ensure that:

- the funding requirements for the central government borrowing programme (short and long term) can be financed prudently and cost-effectively, and
- the annual debt servicing costs are met at the lowest possible cost.

With regard to securities, the policy of the Government has to date been of only issuing domestic currency dominated stocks in our domestic market and avoid raising funds on the international markets. Moreover, as part of its cash management activity to cover any short-term revenue shortfalls, Government conducts weekly auctions for the issue of Treasury bills, being temporary borrowing usually of 91 day tenor but issues also include a mix of the 28 day, 273 day and 364 day Treasury bills.

For its loans in foreign currency, the Government has to date only tapped international sources, mainly other foreign governments and international institutions.

The Directorate does not to date borrow for on-lending activities.

## Treasury Bills

The issuance of Treasury bills has a dual role: primarily, to cover the temporary revenue shortfalls of Government and secondly to maintain the Bill market.

Treasury bills are offered by public auction on a weekly basis and are issued in denomination of Lm1,000 (€1,000 wef January 2008) with a range of tenors of 28 days, 91 days, 182 days, 273 days and 364 days.

Prior to 1 April 2007, Treasury bills were still in certificate form and were traded over-the-counter. As from 1 April 2007, Treasury bills were dematerialised and were admitted to listing and trading on the Malta Stock Exchange plc, while the Treasury bill yields started to be computed on Actual/360 days basis.

The maximum amount of outstanding Treasury bills is established by Parliamentary Resolution, when in 2002 the maximum amount was set at Lm300million (equivalent to €698.80 million).

The outstanding balance as at 31 December 2007 was Lm152,374,000, representing a reduction of Lm8,098,000 over the amount outstanding at end of 2006.

Interest rates ranged between a low of 3.8498% for 91 day Bills issued on 19 January 2007 and a high of 4.583% for 273 day Bills issued on 9 November 2007. Yet the weighted average rate of interest on Treasury bills issued during 2007, which amounted to Lm476,814,000 in nominal terms, reached 4.3797%.

The Treasury accepted the following offers, by tenor and the respective amounts of the Bills:

Tenor	Ratio of Volume	Amount (Lm) Nominal
28 days	0.08	71,720,000
91 days	0.49	240,435,000
182 days	0.23	91,526,000
273 days	0.15	71,209,000
364 days	0.06	1,924,000

Such interest rates for temporary borrowing are determined by the money market which in turn is influenced by the repo market rates.

## Government Bonds

In accordance with the 2007 Budget Measures Implementation Act (Act IV of 2007), the Government issuance programme of MGS was set at Lm100 million. The issues of such stocks are normally applied for the purpose of partly financing the budgetary deficit and partly to redeem MGS which are due to mature during the year.

The Directorate has to service the half-yearly issue of dividend warrants to existing stockholders

During 2007 the Directorate arranged to redeem three MGS issues which matured during the year, representing the sum of Lm70 million, and issued new stocks amounting to Lm54 million.

The Directorate continued with the current issuance programme whereby it based its issues of fungible MGS with a view to continuing to top up the existing larger MGS issues so as to contribute to a further deepening in the liquidity of current benchmark issues.

Towards the October offer of Lm50 million, which was spread over two MGS issues, Treasury introduced a new development whereby it did not specify the respective amount for each tranche with a view to afford greater flexibility in the way such offer would be taken up.



## Foreign Loans

These loans are specifically issued to finance capital projects. A total of Lm2.41 million was repaid according to the Repayment Schedule resulting in an end-of-year balance of Lm52.42 million.

## Redenomination and Conversion of Government Securities

The changeover process for the introduction of the euro as from January 2008, had involved the Directorate in meetings with the Malta Stock Exchange to ensure that the conversion was carried out smoothly and that the methodologies applied were in line with the “Guidelines on the redenomination and renominatisation of Maltese lira denominated listed financial instruments converted into euro” compiled by the Malta Stock Exchange and endorsed by the National Euro Changeover Committee (NECC).

## GOVERNMENT ACCOUNTS DIRECTORATE

### Accounting Methodology and Compliance Unit

The Accounting Methodology and Compliance Unit is primarily responsible for collecting and checking accrual accounting returns submitted by government departments on a quarterly basis. During the past year the Unit continued with its endeavours to increase the level of accuracy of the information submitted by organising one-to-one meetings with various officers responsible for providing accruals returns. The main objective is to obtain an accurate picture of the financial situation of each department when compiling the financial statements under the accrual accounting methodology.

A series of workshops, organised by the Unit in collaboration with MITTS, have been delivered. These workshops were conducted during November in Malta and Gozo and addressed topics such as Accruals (including cash flow and capital commitments); Asset Management; and Stock Control. The primary objective was to obtain feedback from officers who provided accruals information and to discuss difficulties encountered when compiling the returns. These sessions were also instrumental in clarifying treatment/recording of certain transactions/events under the accrual accounting methodology. A report on the findings, including recommendations, was compiled by MITTS intended to provide a basis on how to best address the issues raised.

As part of the preparations for the introduction of the euro, the Unit was involved in the upgrading of the Stock Control Software from the ‘Lm’ to the ‘euro’ version. The software was developed by MITTS and available to departments from January 2008.

### Other Initiatives

As part of the preparations for the implementation of the Accrual Accounting Methodology, a training programme in Accrual Accounting was offered to public officers involved in the accounting function. Participants taking part in the training programme which commenced in November 2006 have finalised module one, Financial Management Accounting, during the past year. A number of these participants also sat for the ‘O’ level Matsec Accounting examination and obtained very good results. The second module on Cost and Management Accounting commenced in October 2007. Some of the participants have opted to sit for the ‘A’ Level Matsec Accounting examination scheduled for April 2008.

### Cash Office

During 2007 the Cash Office was, as in previous years, responsible for ensuring that departments submit the required cash flow projections on time. Such projections provide the Treasury with the necessary means to plan and better manage cash requirements.

A total of 675 stop payments and 610 Garnishee Orders were handled.

In 2007 the Cash Office was involved in the process leading to the preparation of cheques incorporating the euro symbol. The cheques were available in November in time for the introduction of the euro in 2008.

As in previous years, bank reconciliation was undertaken by the Cash Office and the manual process for outstanding transactions from 2002 to 2006 was 99% complete. Manual reconciliation for 2007 is 95% complete. Liaison with departments and co-ordination with MITTS have ensured that the process progressed smoothly. Testing of the new Bank Reconciliation System to cater for the introduction of the euro was carried out at MITTS to ensure the successful implementation of the new system in January 2008.

Cash Office personnel were trained in the handling of the euro and steps taken to ensure that the office was well prepared for the new currency. The required cash float was made available on time for use at the office. All data handling systems in use at the Cash Office were modified as required to display information in euro.

### Bank Transactions Unit

The Bank Transactions Unit is responsible for effecting overseas and local payments. The following table illustrates the number of transactions by category effected by the Unit:

Transaction Type	Number	Value (Lm)
Debit Advice (Local)	2,629	521,409,807
Debit Advice (Foreign)	22	349,727
Telegraphic Transfers	1,815	38,125,205
Draft	1,044	3,478,888
Letter of Credit	8	965,471
Travel	4,022	1,589,951

### Travel

As from 2005, the Unit took over all post-travel verifications as per Treasury Circular 6/2005. The task was formerly carried out by the National Audit Office. During the year Treasury continued with the maintenance of the 2005/2006/2007 travel databases and the verification of documents following overseas travel effected in 2007.

### Accounts Section

The Consolidated Accounts Section of the Treasury is considered to be the executive arm of the Accountant General. The main functions of this Section are to ensure that ministries and departments adopt and maintain uniformity in the accounting system. The Section is guided in this exercise by the Financial Regulations 1966 and the Financial Administration and Audit Act 1962 as well as by circulars issued from time to time to help in the interpretation of financial policy and legislation.

With the publication of Legal Notice 185/2007 in the Government Gazette of 13 July 2007, the responsibility of the Accounting Officer, as defined in the amended financial legislation, is further strengthened. The processing and Vote accounting of transactions effected by ministries and departments continued to be the main routine function of the Section. These transactions involved accounts belonging to the Consolidated Fund, the Treasury Clearance Fund and other funds and accounts held by Government.

During the year, the Accounts Section processed local payments which were made up as follows:

Batches	11,266
Cheques	137,363
Value	Lm120,159,415

## Reports

Apart from its day-to-day business, the Section also carried out additional assignments during the year including the issue of *ad hoc* reports requested by the Ministry of Finance, the National Statistics Office and the Central Bank of Malta. Other reporting as required by legislation is also carried out by this Section within the established time-frames. Amongst these reports, of particular relevance are the Section 65 Statements, the Annual Financial Report, the monthly Comparative Return of Expenditure and Revenue, and the publication on a quarterly basis of the Consolidated Fund Account.

The Section also carried out other duties relating to the Public Credit, Government Loans and Investments, Investments through MGI, Trust Funds and their related Investments, Warrants and Advances, compilation and collection of Arrears of Revenue, Write Off exercises and the monitoring of Other Deposit Accounts.

## Euro Changeover Preparatory Work

In preparation for the euro changeover, the Treasury organised various Train the Trainer courses during the month of October to Accounting Officers in departments regarding the enhancements effected to the DAS application. During these courses the departments were also informed about the latest developments regarding the changeover which would have impacted on their operations.

## EU Funds Management Unit

The role of the EU Funds Management Unit is to ensure the efficient management and control of Transition, Cohesion, Structural, and Equal Funds allocations. It is the responsibility of the unit to:

- ensure that sound accounting procedures relating to requests for payment are being applied at all administrative levels;
- effect payment after careful verification of the compliance of the invoice with national and European rules;
- record all payment transactions in *ad hoc* accounts;
- reconcile accounts; and
- provide substantiating documents to all the relevant stakeholders involved in the above-mentioned funds.

During the period under review, the Unit processed 2,374 payments, an average of 198 payments per month. The table below summarises the payments made throughout the year by their respective fund.

	National Lm	Community Lm	Total Value Lm	No. of Payments
Transition Funds	200,872	1,941,531	2,142,403	116
Cohesion Funds	944,136	2,929,539	3,873,675	30
Structural Funds	4,493,045	8,538,667	13,031,712	2,012
Equal	65,283	157,118	222,401	216
<b>Total</b>	<b>5,703,336</b>	<b>13,566,855</b>	<b>19,270,191</b>	<b>2,374</b>

In preparation for the new programming period 2007-2013, progressive meetings were held with the Planning and Priorities Co-ordination Division and MITTS Ltd. with the scope of integrating the Unit's Financial Information System with the new Structural Funds Database that would be operational in 2008. The integration of these systems will generate a common database for all transactions relating to EU Funds.

Enhancements were also effected in the Unit's internal application to ensure familiarisation with the dual display of monetary amounts during 2007 and Euro compliance in 2008.

## Corporate

The Government Accounts Directorate also issued Circulars outlining Factoring Arrangements and the implementation of the SEPA.

NOEL CAMILLERI

*Director General (Treasury)*

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## Economic Policy Division

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The Economic Policy Division provides Government with expert advice and assistance in the formulation of economic policy and the management of economic activity, with the aim of attaining Government's overall objectives of economic growth and development, high employment and low inflation. Within this context, attention is devoted towards the achievement of a stable macroeconomic framework, also by attaining an appropriate fiscal policy. Furthermore, efforts are being made to improve the incentive to work and to continue to attract foreign direct investment, to develop the tourism industry, to improve the educational system and the environment, to improve the competitiveness of the domestic economy, to support small and medium sized enterprises, to reduce excess bureaucracy and to support creativity and innovation. Within this context, the Economic Policy Division provides Government with the relevant technical input, so that the implementation of policy measures is done within the framework of Malta's economic developmental goals.

The Division also provides technical advice and assistance to Government on international economic/trade issues. Through its participation in Commission Working Parties and Article 133 formations, the Division monitors and advises on the economic/financial impact of issues and strategies concerning the EU's *common commercial policy*.

Furthermore, the Division assists Government by providing economic analysis of policy issues emanating from Malta's participation in a host of international, regional, bilateral and multilateral institutions. The Division also provides support to other government entities whose area of activity may be affected by EU initiatives with third countries in the area of international trade and investment.

### ECONOMIC STRATEGY DIRECTORATE

#### Budgetary Process

The Economic Policy Division participates in the budgetary process, which is an essential tool in the implementation of Government's economic strategy. As in previous years, the Division provided information on the domestic and international economic situation as well as on the macroeconomic outlook. This information is important in order to ensure that the appropriate economic policy measures are formulated. The Division also contributes to the budgetary process by analysing the economic and fiscal impact of proposed budgetary measures.

Throughout the year, the Division also provided an important input to the analysis of the fiscal situation and projections within the context of the process of the abrogation of Malta's excessive deficit situation as well as the obligations of the Stability and Growth Pact.

Furthermore, during 2007, the Division provided input for the macroeconomic section of the 2008 Pre-Budget Document (Families Growing Stronger).

#### EU Economic Policy Co-ordination

The Division continued to participate actively in the EU economic policy co-ordination processes. In particular, the Division participates in the Economic and Financial Committee (alternates) and the Economic Policy Committee. In addition, the Division also provided support for the preparations for the

Economic and Financial Committee meetings. The Division also participated in a number of working groups attached to the EPC. In particular, the Division is actively involved in the Working Group on Ageing Populations (AWG) which examines the economic and budgetary consequences of ageing. Moreover, it participates in other working groups of the EPC namely the Output Gaps Working Group, the Working Group on Energy and Climate Change and the Lisbon Methodology Working Group. It also monitors closely developments in the Labour Market Working Group and the Quality of Public Finances Working Group. Furthermore, as from August 2007, the Division attended the EFC (Alternates) Eurogroup Working Group and the EPC Working Group on Eurogroup Issues as observer.

The Economic Policy Division is also engaged in the preparation of briefings for the ECOFIN meetings as well as for meetings of other Council formations and for the European Council meetings, as requested.

During 2007, the Division provided direct input to the preparation of Malta's first *Stability Programme 2007-2010*. A Member State joining the Euro Area is required to submit a Stability Programme within six months of the Council Decision on its participation in the single currency. This Stability Programme constitutes an update of the *December 2006 Update of Convergence Programme*. The Stability and Convergence Programmes are important documents within the framework of the EU's multilateral surveillance of budgetary positions and the surveillance and co-ordination of economic policies.

The Stability Programme 2007-2010 includes macroeconomic forecasts, budgetary projections, an in-depth analysis of the fiscal situation and Government's fiscal policy, sensitivity analysis as well as an overview of the long-term fiscal sustainability. The analysis is conducted within the framework of the requirements set out by the Stability and Growth Pact. The document was compiled in collaboration with the Budget Affairs Division of the Ministry of Finance and the Treasury, and with important inputs being received from the National Statistics Office as well as various ministries and entities.

The Economic Policy Division participated in the assessment of Malta's Update of Convergence Programme 2006-2009. In particular, it presented Malta's position in the Economic and Financial Committee (alternates) and contributed towards the preparation for the relevant Economic and Financial Committee and ECOFIN meetings.

Furthermore, during the first half of 2007, the Division co-ordinated closely with Commission officials from DG ECFIN and provided the requested information during the process of the abrogation of the excessive deficit procedure for Malta. Close collaboration with the Ministry of Finance and the National Statistics Office was maintained during this process. This was a crucial decision in the context of the process leading to the Council decision on Malta's adoption of the euro.

In January 2007, the Division participated in the country examinations meeting held by the EPC. The aim of this meeting was primarily to draft the updated country-specific conclusions, following the submission by Member States of their 2006 Annual Progress Reports on their National Reform Programmes (NRP). In July, the Division participated in a meeting with officials from the European Commission on their mission on the Implementation of the Growth and Jobs Agenda. The Division provided input to the drafting of the NRP Annual Progress Report 2007 which was submitted to the European Commission in October 2007. In November 2007, the Division participated in the country examinations meeting held by the EPC, which reviewed the 2007 Progress Reports on the NRPs of the Member States. The Economic Policy Division also participates in the Cabinet Committee on Competitiveness which is responsible to monitor the progress registered within the NRP and to ensure that the NRP is implemented in a timely manner.

During 2007, the Division continued to provide information on the domestic economic situation and on the economic policies and measures that are being pursued by Government to the European Commission and other relevant parties. In particular, the Division continued to co-ordinate closely with Malta's desk officer in DG ECFIN. Bilateral meetings were held both in Malta as well as in Brussels with Commission officials from DG ECFIN. In September 2007, the Division also met Commission officials from DG ECFIN who visited Malta to present the 2007 Public Finances in EMU Report.

## Euro Adoption

During the first half of 2007, the Division was actively involved in work related to the euro adoption process, starting from Malta's request for the preparation of a Convergence Report in February 2007 to the final Council decision on Malta's participation in the single currency in July 2007. The Division participated in meetings during the missions made by both the European Central Bank and the Commission (DG ECFIN) as part of their preparations for their respective Convergence Reports. Throughout the process, the Division co-ordinated closely with DG ECFIN and collaborated with the Ministry of Finance and the Central Bank of Malta. The Division provided the necessary inputs throughout the process and prepared the respective briefings for the relevant Ecofin and European Council meetings.

The Division was also represented in sub-committees of the National Euro Changeover Committee. Furthermore, officers from the Economic Policy Division assisted the NECC on a study of the potential inflationary impact of rounding and smoothing of specific products and services as a result of the euro changeover.

## Malta Council for Economic and Social Development

The Division is represented in the Malta Council for Economic and Social Development and during 2007 it continued to participate actively in its proceedings. Furthermore, as in previous years, the Division computed and presented the relevant cost-of-living adjustment for 2008 as stipulated in the Incomes Policy Agreement of 1990.

## National Econometric Modelling

The Division has two econometric models of the domestic economy. One model is used to produce short-term forecasts for the main macroeconomic indicators. The purpose of the second model is to undertake economic policy simulation exercises and to provide a framework for medium-term forecasts. During 2007, the Division pursued work related to strengthening its econometric modelling capability. Work on the construction and maintenance of these models is undertaken in conjunction with foreign experts.

The short-term model was used to produce economic forecasts for spring and autumn, which were presented during the Economic Forecasts Meetings held between the Commission and the EU Member States. Discussions on these forecasts were held with Malta's desk officer in DG ECFIN. Such forecasts were also used for the preparations for the Budget and the Stability Programme 2007-2010.

The second disaggregated model was used on a number of occasions for the preparation of scenario analysis, including sensitivity analysis assignments as well as policy simulation exercises. This model is being further fine-tuned in order to reflect better the realities of the Maltese economy and to modify the way in which a number of important relationships within the model are calibrated.

## International Institutions

The Economic Policy Division provides information on the performance of the Maltese economy as well as on Government's economic strategy to representatives of international organisations.

As in previous years, the Economic Policy Division contributed during meetings with representatives from credit rating agencies such as Standard and Poor's, Moody's and Fitch. As the credit ratings assigned to Malta bear a direct influence on the interest rate charged on loans raised from international markets, the Division assigns significant importance to its interaction with these agencies. During these meetings, the performance of the domestic economy and the policies and measures pursued by Government to address the economic challenges faced by the Maltese economy were discussed.

In addition, during 2007, the Economic Policy Division was an important focal point in the extensive discussions held with representatives from the International Monetary Fund (IMF) who visited Malta in May for the Article IV consultation. Such visits are followed by published reports on the local economic scenario. As part of the preparations for the mission, the Economic Policy Division prepared a series of analysis covering various aspects of the domestic economy.

### **Pension Modelling**

Following the technical work carried out in the context of the preparations for the pension reform which were enacted by Parliament in December 2006, during 2007 the Division provided support in the preparation of a number of scenarios/simulations in the context of additional refinements to the pension system. A number of measures were subsequently announced in the Budget for 2008. These simulations were carried out using the World Bank's PROST (Pensions Reform Simulation Toolkit) model.

The Division also carried out work on the proposed EU Directive on the portability of supplementary pension rights, specifically to estimate the impact on government expenditure.

During the course of 2007, officers from the Division provided technical support to the Ministry for Family and Social Solidarity for the purposes of a pension modelling effort co-ordinated by the OECD aimed at calculating pension adequacy indicators.

### **Financial Perspectives 2007-2013**

During 2007, the Division continued to provide support and input for the monitoring of developments regarding the Financial Perspectives 2007-2013. This included estimates for the Preliminary Draft Budget for 2008 with respect to Malta's net budgetary position and technical input on the EU Budget Review.

The Division is also involved in the Task Force on Own Resources which carries out work related to the Advisory Committee on Own Resources (ACOR). It provides technical input in line with its expertise related to the financial perspectives. In addition, an officer from the Division also participated in the 139th ACOR forecast meeting held in Brussels and was involved in the forecasts of GNI and VAT base estimates for 2007 and forecasts for 2008.

### **Research and Publications**

The professional staff at the Division carries out research work on various issues. During the year, the work carried out on competitiveness indicators by the technical working group chaired by the Division was updated. The Division also continued to collaborate with the VAT Division regarding the macroeconomic impact of EU proposals aimed to combat tax fraud.

Economic input was also provided in the context of the preparations of Malta's application for a contribution from the European Globalisation adjustment Fund (EGF). The Division also provided the requested input to the Planning and Priorities Co-ordination Division, OPM.

The Division also contributed to work regarding Malta's National Action Plan for the Community emissions trading scheme, as well as the preparation of the Malta position on the EU aviation emissions trading scheme, through the provision of macroeconomic data and other technical economic input.

The Division is also participating in the public debt management strategy committee and in the interdepartmental working group on car taxation.

As from 2007, the Economic Policy Division has been actively involved, in partnership with the Ministry for Family and Social Solidarity and with the help of the National Statistics Office, in the development of a micro-modelling strategy. The development of a micro-model for Malta will allow Government to



simulate the effect of various policy measures in the area of taxation and social benefits, thus allowing a better socio-economic and financial analysis of the impact of government policy. The development of this strategy is being undertaken in collaboration with the European Centre for Social Welfare Policy and Research in Vienna (ECV) as part of the Improving the Capacity and Usability of EUROMOD (I-CUE) project.

The aim of I-CUE is to re-design and upgrade EUROMOD, a tax-benefit microsimulation model presently covering 15 (pre-May 2004) Member States of the EU. The model will now be extended to the ten new Member States of the EU, including Malta. EUROMOD was developed to enable research on the effects of policies and policy reforms that have an impact on incomes, poverty, inequality and social inclusion. During 2007, the Division was involved in the formulation of the Feasibility Study for the application of EUROMOD to Malta, providing technical input on the tax structure of the Maltese economy and how this can be simulated.

In addition, research was undertaken by the Division's professional staff on various economic, fiscal and financial topics.

The Division published the Economic Bulletin March 2007 and July 2007. These documents review the recent economic developments, and also include analysis of selected specific economic themes in line with internal economic research carried out by the Division.

Moreover, the Division published the Economic Survey October 2007. This document, which is presented to the House of Representatives at the beginning of discussions on Government's budgetary estimates, provides a comprehensive analysis of Malta's recent economic performance and emerging economic trends, as well as an overview of international economic developments.

During 2007, the Economic Policy Division continued to hold active discussions with the Central Bank of Malta on the co-ordination of economic policies with a view to ascertain an optimal macro environment for further economic growth. It regularly collaborates with the Central Bank of Malta in areas of mutual interest, as well as to discuss local economic developments and prospects. The Division also continued to sustain contacts with similar organisations abroad.

## **INTERNATIONAL ECONOMIC RELATIONS DIRECTORATE**

### **The Common Commercial Policy**

The Article 133 Committee is a trade co-ordination and advisory committee to the European Union covering all aspects of trade policy. The Division, in liaison with the Ministry of Foreign Affairs and the Permanent Representation in Brussels, is constantly monitoring and analysing developments that take place during the various Article 133 Committees in order to ensure that the views and interests of Malta are taken into account in the formulation of the EU's common commercial policy.

The Division monitored and analysed the ongoing developments on Anti-Dumping, Anti-Subsidy and Safeguard mechanisms. Advice was provided on a number of anti-dumping issues to the Ministry of Foreign Affairs, based on an economic analysis and bearing in mind the objectives, interests and priorities of the various government entities and stakeholders. The necessary consultations with local and Community stakeholders have been maintained.

### **Multilateral Trade: The WTO Doha Development Agenda Negotiations**

The Division, in consultation with the Ministry of Foreign Affairs, the Permanent Representations in Brussels and Geneva and other pertinent authorities, monitored developments and provided feedback on Malta's position with respect to various issues under the WTO Doha Development Agenda (DDA) negotiations.

The main issues included agriculture, services, non-agricultural market access, trade facilitation and trade rules. The year 2007 should have been a crucial year for the Round; however, a definitive agreement has not been reached in 2007. Thus, negotiations will extend to the first quarter of 2008. The Division is also closely monitoring the developments that are taking place within the Rules Negotiating Group in the realm of the Doha Development Agenda.

### Bilateral and Regional Trade Relations

The Division consulted and co-ordinated with the competent authorities across Government in order to provide advice and economic analysis to the Ministry of Foreign Affairs in its policy formulation vis-à-vis a number of trade agreements with third countries that were negotiated in 2007 or are currently under negotiation:

- *Economic Partnership Agreements*: In view of the 2007 deadline for the trade agreement on goods between the EU and the African, Caribbean and Pacific countries, Economic Partnership Agreements (EPA) had to be negotiated and finalised by not later than the end of 2007. The Division co-ordinated Malta's position on EPAs with other government entities and stakeholders. Malta supported the European Commission's proposal to conclude an interim agreement on goods and subsequently to continue negotiations on other sectors, thus avoiding trade disruption. Furthermore, the inclusion of reformed Rules of Origin for EPAs was also supported.
- *EU-Euromed Free Trade Area*: Negotiations with Euromed countries continued in an effort to conclude an FTA by 2010. Discussions included progress on negotiations with respect to the liberalisation of agricultural, processed agricultural and fisheries products with Egypt, Israel and Morocco; the text for the liberalisation of trade in services and establishment; and for the conclusion of the dispute settlement agreement.
- *FTA Agreements with ASEAN, India and South Korea*: In April 2007, EU Member States agreed on a mandate granted to the Commission to negotiate an FTA with ASEAN (Association of Southeast Asian Nations), India and South Korea. Following this mandate, the Commission is currently negotiating with these countries/regions on an FTA in close collaboration with EU Member States. The Division continued to follow-up developments related to these negotiations.
- *Association Agreements with Andean Community and Central America*: Similar to the FTA agreements mentioned above, a negotiating mandate was also granted to the Commission in April 2007 to negotiate Association Agreements with the Andean Community and Central America. Negotiations are currently underway on the three main elements of association agreements with these countries, namely political dialogue, broad co-operation (including human rights and migration) and trade.
- *EU-Gulf Cooperation Council (GCC) Free Trade Area*: During 2007, the EU continued negotiations with the GCC region, including the exchange of documents in the areas of services, investment and public procurement. The Division followed developments, including discussions on possible flexibilities to GCC countries.
- *EU-China Framework Agreement of Partnership and Co-operation*: The Division, in co-ordination with the Ministry of Foreign Affairs, monitored further developments in EU-China relations, aimed to enhance trade and investment.
- *EU-Russia relations*: The Division continued to analyse developments in connection with Russia's bid for accession to the WTO.
- *EU-US Partnership*: The Division, together with the Ministry of Foreign Affairs and other pertinent authorities, reviewed developments in transatlantic relations, with a view to deepen transatlantic economic integration and further regulatory convergence.
- *EU-Canada Regulatory Co-operation*: The EU's efforts to establish and implement bilateral co-operation arrangements to facilitate the achievement of regulatory objectives as formulated in the EC-Canada Regulatory Co-operation Roadmap 2007/2008 were followed and analysed by the Division.

## Thematic Issues

### Aid for Trade

The Division submitted the respective economic/trade feedback to the Ministry of Foreign Affairs with respect to the EU Strategy on Aid for Trade.

### Market Access Strategy

The Commission, following consultations with Member States and other interested parties, renewed the Market Access Strategy. The Market Access Advisory Committee has been activated as the relevant body to discuss market access issues. In addition, the Commission revamped the market access database and established a complaint register and specific working groups which operate under the Market Access Advisory Committee. The aim of these groups is to tackle specific barriers to trade in third countries. The Division, in co-ordination with the Ministry of Foreign Affairs and other pertinent authorities, submitted its views with respect to the review of the market access strategy.

### GATS Commitments on Gambling and Betting Services

Further to the withdrawal in the WTO of GATS commitments on gambling and betting services by the US, including online gambling, bilateral negotiations were conducted in order to obtain the best possible compensation for such a withdrawal. In liaison with several competent entities, the Division conducted negotiations with stakeholders and intervened in the Article 133 Services meetings on the issue. A Final agreement with the US was signed in Geneva in December 2007.

### Global Europe Agenda

In view of the informal meeting of the Heads of State and Government meeting that took place in Lisbon on 18-19 October 2007, the Division continued to give its feedback on the external dimensions of competitiveness. Issues addressed included the Doha Round, the renewed market access strategy, the review of the Trade Defence Instruments, Free Trade Agreements, trade relations with China and the US, Intellectual Property Rights and Public Procurement.

### Reflection Process on Trade Defence Instruments

The Reflection Process on Trade Defence Instruments continued throughout this year. In March 2007, the Division, together with the Ministry of Finance and *Forum Malta fl-Ewropa*, organised an information seminar for stakeholders on the Green Paper. A Commission officer was invited to address this seminar. The Division continued to follow up developments in this area.

### WTO Subsidy Notifications

The Division co-ordinated the compilation of the WTO subsidies notifications for the years 2005-2006 with the respective government entities and advised accordingly. These notifications serve as a transparency instrument and as a source of information on government intervention in international trade.

### Anti-Counterfeiting Trade Agreement (ACTA)

During 2007, the 133 Committee discussed a mandate to be granted to the Commission to negotiate a plurilateral Anti-Counterfeiting Trade Agreement (ACTA) on behalf of the Member States. The aim of a plurilateral agreement is to increase the level of co-operation between enforcement authorities and to harmonise high standards of IPR enforcement. In steering this discussion, the 133 Committee worked in close collaboration with other relevant Council committees.

### **Advisory Support Services and Participation in Seminars**

The Division extended its advisory services to various government entities, mainly through the compilation of briefings, the drafting of instruction notes, technical advice, and research and economic analysis on specific requests as the need arose.

### **Investment Guarantee Agreements**

The Division, in consultation and co-ordination with the Ministry of Foreign Affairs and other pertinent authorities, continued negotiations on a number of bilateral Investment and Promotion Agreements. Other negotiations on draft Investment Guarantee Agreements have also been initiated.

Furthermore, the Division in liaison with other pertinent authorities compiled a preliminary study on Intra-EU bilateral Investment Guarantee Agreements.

### **OECD**

The Division continued to provide technical support/briefings with respect to Malta's application to join the OECD.

### **Human Resource Development**

The Division attaches importance to the enhancement of its human resource potential.

During 2007, the Library and Information Unit of the Division was strengthened through the appointment of an Assistant Librarian.

Training of professional staff constitutes a priority to the Division. Staff members participate in training courses organised by the Staff Development Organisation and other training institutes, as well as in various conferences and seminars held both locally and abroad. In particular, during 2007, officers from the Division participated in specialised training courses abroad focusing on pension issues and econometrics, whilst an officer participated in a training course on Financial Programming and Policy at the IMF Institute. Furthermore, one officer completed a course leading to a post-graduate degree in Economics, whilst another officer started a course leading to a post-graduate degree in Economics and Finance, both of which in UK universities.

### **Information Systems and Support**

The Division continued to work to ensure that it has the appropriate IT systems to support its professional staff in their work as well as its desktop publishing capacity.

The Economic Policy Division also continued to maintain its extensive information base on international economic affairs, in particular relating to the EU and the WTO.

JOSEPH RAPA

*Director General (Economic Policy)*

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## Contracts Division

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### RESTRUCTURING

The Department continued to strengthen its organisational structure by means of filling the vacancies of the post of Assistant Director (EU Related Procurement) and that of Assistant Director (Post-Contracts).

During the latter part of 2007 the process was initiated for the appointment of a number of Procurement Managers who will cater for the new allocated EU budget obtained by Malta under the Structural Funds 2007-2013 as well as to fill in a number of vacancies which will cater for locally-funded procurement.

### REFURBISHMENT WORKS

The Department has continued in its efforts to utilise all the possible office space available within the existing building premises. A refurbishment programme at the basement level was drawn up and all the necessary tender documentation of the works to be undertaken has been completed. Despite extensive consultations with institutions such as Heritage Malta and the National Commission Persons with Disability and obtaining their approval, these works have not yet been sanctioned by MEPA.

Another project initiated in 2007 is the transfer of the existing archives at Wied il-Kbir stores in Qormi to the recently acquired premises previously owned by the ex-Lotto Department which is situated very close to Notre Dame Ravelin. This transfer will result in the saving of time, fuel consumption and a reduction in the watchman complement, leading to increased efficiency in the use of documentation.

Other premises have been taken over which are envisaged to cater for the Appeals Board.

### PUBLIC CONTRACTS REGULATIONS

Training, in collaboration with the Staff Development Organisation, on local legislation ie Legal Notices 177 and 178 of 2005 relating to Public Contracts Regulations, and Public Procurement of entities operating in the Water, Energy, Transport and Postal Services Sectors Regulations, was sustained throughout 2007.

The Department, acting proactively, seeks ways to streamline its operations and direct best practices for the gradual adoption of these new procedures whilst converging the two elements of local and EU procurement. Common templates used for both local and EU tendering were revised in an effort to better distinguish between the roles and responsibilities of the Department and those of implementing agencies.

A senior official actively participates in meetings organised by the Commission of the Advisory Committee on Public Contracts, the Working Group on e-Procurement, the Working Group on Public Procurement Statistics and informal meetings for new Member States. In this way the Department contributes to the development of public procurement methodologies adopted in the EU as well as advising Government on proposed new legislation. In fact, the Commission has proposed a new Directive on Defence and Security related procurement.

## EUROPEAN UNION MATTERS

The EU Unit is responsible for the administration of all tenders which are fully or partially funded through EU funds and Norwegian Funds. These operations, which include vetting of tender documentation and publication thereof, are related to the procurement of Supplies, Services or Works. Such tenders owe their origin to the Financing Memoranda signed for 2003, from the Financing Memorandum signed for the Transition Facility for 2004 and also from the Single Programming Document for the years 2004-2006. The Head of the EU Unit is also in charge of all Twinning and Twinning Light projects carried out under Malta's Transition Facility Programme.

The Department of Contracts is heavily involved in the Structural Sub-Committee on Pre-Accession and Transition Facility Assistance for Malta. In fact the Department is a member of this committee and attends both the Sectoral Monitoring Sub-Committee (SMSC) and the Joint Monitoring Committee (JMC) meetings.

The Transition Programme 2004 for Malta was concluded on 15 December 2006, and the Transition Facility Programme 2005 was concluded on 15 December 2007, whereas the Transition Facility Programme 2006 is at an advanced stage of completion. The Structural Funds Programmes for Malta of 2004-2006 are at an advanced stage of implementation and the Structural Funds Programmes for Malta 2007-2013 are at their initial stages.

The Assistant Director of the EU Unit also delivered two training seminars during 2007 - Training on Public Procurement Regulations - EEA and Norwegian Financial Mechanisms 2004-2009 Seminar (Malta) on 5 June; and Transition Facility Training Seminar on 21 June.

## EXTENDED DECENTRALISED IMPLEMENTATION SYSTEM

Following the granting by the EU Commission, in 2004, of the Extended Decentralised Implementation System (EDIS) to Malta, the Department took on board several recommendations by the EU Auditors in order to enhance the monitoring, contracting and control systems in place. A revision of the Manual of Procedures, introduction of checklists (which were further enhanced later on) and other tools was recommended and effectively carried out.

## AUDIT VISITS

A systems audit was carried out on the EU Unit in June, and another administrative audit was carried out in November. These visits brought along with them further recommendations by the Commission, which the Department is considering, in order to further enhance its operating efficiency.

## TRAINING

A number of officials were afforded the opportunity of training abroad in public procurement. Two officials attended a *Regional Workshop on Critical Negotiation Strategies for Senior ICT Managers and Professionals in the Public Sector in Cyprus and Malta*, organised by the Commonwealth Secretariat/Cyprus Academy of Public Administration in Paphos, Cyprus, in March, while another two officers attended a training course *Tender Evaluation – Getting It Right! Seminar for the Public Sector* organised by ETC London, UK, in December 2007.

Training on information technology modules was constant throughout the Department while other specific training modules for middle managers were also encouraged and participation sustained. An intensive training course on Accrual Accounting was continued by another leading to 'Advanced Level' status in Accounts. Training on social issues such as green initiatives show the wide range of training made available to all employees.

## GENERAL CONTRACTS COMMITTEE

The General Contracts Committee held 102 sittings during which 1,310 contractual issues were considered. These issues ranged from pre-contractual matters, such as approval of clarifications to prospective bidders, to post-contractual ones involving approval of extra works/variations. Amongst these cases the Committee evaluated reports and recommendations submitted by Contracting Authorities resulting in the issue of 333 Letters of Acceptance/Contracts signed by the Department. The Committee deliberated on 14 objections emanating from appeals lodged against recommendations of award of contracts pertaining to departmental tenders.

## PUBLIC CONTRACTS APPEALS BOARD

The Public Contracts Appeals Board is appointed by the Prime Minister to decide on objections lodged against the recommendations of the General Contracts Committee on the award of public contracts. During 2007, the Public Contracts Appeals Board held various sittings that dealt with 18 objection cases, seven of which were upheld.

## WEBSITE

The Department's website contains information on the workings of the Contracts Department. Prospective bidders are provided with essential facts on public procurement. The site offers links to details on published tenders, General Contracts Committee recommendations and contracts awarded. A link is also available to the EU procurement SIMAP website. During 2007 the Department issued and awarded a contract for the development of a Procurement Management System, partially financed through EU funds, to enhance the existing web based information system. It is anticipated that the site will be upgraded to include enhanced functionalities once the proposed Procurement Management System is operational. The latter will be programmed to be user friendly, with an efficient and effective platform for bidders, that minimises the need to seek information elsewhere and for the procurers by providing a mechanism for dealing with the interaction with these same bidders. The system will also provide services to bidders in Malta and abroad to stay informed about procurement requirements for items that are of interest to the particular bidder without the overwhelming volume of information relating to other items that are not of interest. Hence, the new system will offer clients the ability to view, download and effect payment for tender documents. The system will enhance the existing web portal by having search engine capabilities for prospective suppliers who will be able to view information on tender publications, the phases of adjudication, recommendation for awards, appeal procedures and other tender processes on a 24x7 basis as well as the ability to receive SMS alerts on decisions taken or on new tenders immediately they are published. The system will also have a management system capable of report generating facilities enabling the Department to fully adapt to EU statistical requirements.

## E-PROCUREMENT

The aim of introducing e-procurement across Government is that each and every economic operator across the European Union should be able to participate with simple and commonly used equipment and basic technical know-how in public procurement processes.

An e-Procurement Working Group was set up by the Director General (Contracts) in March 2005. The Group was entrusted with the drafting of a national plan entitled *Action Plan 2006-2009 Implementation of e-Procurement across Government*, setting the roadmap that leads to the introduction of electronic public procurement in Malta.

Following the presentation of the Action Plan to the Permanent Secretary MFIN, the latter formed an e-procurement Implementation Task Force whose brief is to review the status of the e-procurement project and prepare a strategic business case, including a benefits realisation plan that shows the indicative costs

and benefits of the proposed system. Based on these findings, the Task Force prepared the appropriate implementation project plan for approval.

## RESEARCH AND INNOVATION IN PUBLIC PROCUREMENT

During 2007 a senior member of the Department was appointed member of a Task Force to introduce transparent mechanisms to reward research and innovation through public procurement as part of the National Strategy for Research and Innovation 2007-2010. Together with the Malta Council for Science and Technology, representatives of the Department delivered presentations to approximately 170 participants during the Introducing Innovative Procurement Workshop.

## BETTER REGULATION

The Department proposed and initiated three projects focusing on the harmonisation of tender documentation, bid bonds and facilitating the payment of fees. Three measures aimed at reducing burdens on the private sector were implemented. These involved the synchronisation of tender documentation through common templates, the harmonisation of bid bonds through standard thresholds and facilitating the payment of fees through the introduction of an Electronic Point of Sale (EPOS) system.

## STATISTICS

### Projects Fully or Partially Funded through European Union Funds

The following is the contracting activity carried out in relation to projects fully or partially funded through international funds (the various EU Programmes, as well as the EAA Financial Mechanism & Norwegian Financial Mechanism). These were related to the procurement of Supplies, Services and/or Works.

<b>Contracts Awarded</b>				
<i>Transition Facility Programme 2005 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost (€)</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works)	6 <sup>1</sup>	1,835,882	10 <sup>2</sup>	1,321,015
Twinning Light Contracts	8	1,009,950	8	1,009,637
<i>Transition Facility Programme 2006 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost (€)</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works)	1	300,000	Nil	Nil
<i>Structural and Cohesion Funds 2004-2006 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost (€)</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works)	12	1,444,751	9 <sup>3</sup>	3,308,224
<i>Structural and Cohesion Funds 2007-2013 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost (€)</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works)	15	74,126,837	1	1,106,452
<i>Other Funds (EAGGF, European Commission, DG-Employment, EEA/Norway Funds)</i>				
	<b>Published</b>	<b>Estimated Cost (€)</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works)	5	961,052	6 <sup>4</sup>	802,857

<sup>1</sup> Including one departmental tender

<sup>2</sup> Three tenders were awarded in different lots (of two, three and three respectively)

<sup>3</sup> Including two published in 2006

<sup>4</sup> Including one tender which was awarded in three distinct lots



## Locally Funded Projects

### Commercial Tenders (Supplies, Services and Works)

The Department published 413 calls for tenders, resulting in over 1,600 offers being submitted. The total value of contracts awarded by the Department in 2007 reached Lm28,805,000. The following is a breakdown of the contracts awarded (according to category and item of expenditure):

Categories	No. of Contracts Awarded	Totals (Lm)
Supplies	259	17,808,800
Works	52	9,441,200
Services	21	1,555,000
<b>Total</b>	<b>332</b>	<b>28,805,000</b>

Item of expenditure	Total (Lm)
Purchase of pharmaceuticals	13,355,000
Maintenance on schools	6,449,900
Supply of miscellaneous Items	1,677,800
Housing construction	791,700
Various services	1,022,000
Various works	107,800
Purchase of foodstuffs	258,000
Construction of roads	322,700
Various construction works	1,769,000
Period contracts	1,035,260
Hire of vehicles	107,900
Cleaning services	201,800
Various school supplies	331,500
IT equipment and software	926,600
Purchase of various equipment	224,700
Consulting services	223,300
<b>Total</b>	<b>28,804,960</b>

FRANCIS ATTARD

*Director General (Contracts)*

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## Inland Revenue Division

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### Mission Statement

*To collect taxes and social security contributions effectively and efficiently in order to ensure that all taxpayers and social security contributors pay their fair share, in accordance with the relevant legislation. In doing so the Division endeavours to provide the Ministry responsible for finance with guidance in enacting such legislation and to provide taxpayers and social security contributors with quality and timely service and to simplify procedures while minimising the cost of collection and the burden to taxpayers, in order to encourage compliance.*

### GENERAL

During 2007, the Inland Revenue Division achieved the revenue targets as set in the financial estimates. This was the result of continued enforcement on compliance and collection of tax arrears and social security contributions.

Various initiatives were taken to have the project-brief on the euro changeover finalised by the end of year and that computer systems and relative data were ready for implementation.

The year 2007 also brought about the setting up of a Call Centre in Gozo. This will by far improve the image of the Division as taxpayers can receive immediate replies to their queries over the phone by well trained IRD personnel.

The Cash Office was fully refurbished and equipped for a better service to the general public while the Inland Revenue Division continued to promote and encourage taxpayers to make use of the various online services being offered through our website.

### INCOME TAX

#### Legislation

The Income Tax Acts were amended a number of times during the year to introduce various measures. The main changes were the following:

- new tax rates, new deductions (including deductions for childcare fees) and a minimal tax of 5% on rental income received from the Housing Authority, as announced in the budget speech for 2007;
- a new system of credits available to company shareholders;
- the implementation of the tax side of the CBM Scheme for conversion of currency to the euro;
- new tax rates and new deductions in respect of residents in homes for the elderly, sports fees and kindergartens, as announced in the budget speech for 2008.

A number of legal notices (subsidiary legislation) were also enacted during the year. The most noteworthy implemented were the following:

- a new deduction in respect of euro changeover related expenditure;
- exemption from fringe benefits of child-minding facilities;
- amendment of the Fringe Benefit Rules to reduce the tax on share options to 15%;
- extension of the exemption to women returning to employment also as self-employed;
- amendments to the schedules filed on transfers of shares (capital gains);

- amendments to the Electronic Communications Rules (notaries forms etc);
- new double tax treaty with Morocco;
- extension of the Savings Directive to new EU Member States Bulgaria and Romania;
- extension of the tax index of financial data rules to banks and trusts.

The full list of Acts and Legal Notices issued during the year concerning income tax are the following:

Act II of 2007	Various Laws (Amendment) Act <i>implements extensive amendments to the ITA re credits to non-residents</i>
Act IV of 2007	Budget Measures Implementation Act <i>various amendments, especially re new deductions, to the ITA and ITMA</i>
Act IX of 2007	Income Tax (Amendment) Act <i>CBM registration scheme under 9B, R&amp;D amendment, amendment of ITMA</i>
Act 32/2007	2008 Budget Measures Implementation Act <i>amends tax rates and provides deductions for "elderly" homes, kindergartens, sports</i>
GN 64/2007	First and Second Boards of Special Commissioners <i>appointment of both boards</i>
LN 37/2007	Capital Gains (Amendment) Rules <i>amendment of schedules re share transfers</i>
LN 60/2007	European Union Directives (Amendment) Regs <i>extends the Savings directive to Bulgaria and Romania</i>
LN 61/2007	Income Tax Exemption (Philanthropic Work) Notice <i>exempts the Federation of persons with disability and the Pedron legacy</i>
LN 84/2007	Tax Index of Financial Data (Amendment) Rules <i>adds applicability of TIFD to banks and trusts</i>
LN 93/2007	Deductions (Euro Related Expenditure) Rules <i>deduction for cash registers etc ivo euro changeover</i>
LN 100/2007	Income Tax (Deductions) (Amendment) Rules <i>deduction for wages when a spouse is employed by the other spouse</i>
LN 101/2007	Fringe Benefits (Amendment) Rules <i>exempts the provision of child-minding facilities by employers</i>
LN 130/2007	Tax Credit (Women Returning to Employment) (Amendment) Rules <i>women may now also return as self-employed</i>
LN 138/2007	Electronic Communications (Income Tax) (Amendment) Regulations <i>extension of electronic filing of forms: notaries, trusts, shipping lawyers</i>
LN 147/2007	Fringe Benefit (Amendment) (No 2) Rules <i>taxes the FB on the exercise of share options on 42.85% of the benefit</i>
LN 158/2007	Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises Order, 2007 <i>as per Malta's commitment to the EU</i>
LN 166/2007	Income Tax (Form of Returns) (Amendment) Rules <i>amends return for individuals and prescribes various attachments</i>
LN 174/2007	Deductions and Tax Credits (General & Specific Qualifications) (Amendment) Rules <i>Deductions and Tax Credits (General &amp; Specific Qualifications) (Amendment) Rules</i>
LN 189/2007	Double Taxation Relief (Taxes on Income) (Kingdom of Morocco) Order, 2007 <i>treaty with Morocco</i>
LN 305/2007	Income Tax Exemption (Philanthropic Work) (No 2) Notice <i>exempts the Dementia Society and the Noah's Ark Animal Sanctuary</i>
LN 344/2007	Final Settlement System (Amendment) Rules <i>substitutes form FS4</i>
LN 409/2007	Adaptation of Laws (Chap. 101-150) Order [Euro Adoption Act] <i>translation into euro of ITA and its subsidiary legislation</i>
LN 425/2007	Adaptation of Laws (Chap. 101-150) Order [Euro Adoption Act] <i>translation into euro of ITMA and its subsidiary legislation</i>

## FSS Tax

During 2007 employers submitted the following FSS annual reconciliation documents for:

2006:	8,044	Employees:	37,095
2005:	41	Employees:	616
2004:	18	Employees:	370
2003:	14	Employees:	191
2002:	4	Employees:	137
2001:	6	Employees:	107

The FSS section captured and reconciled data. Total documents processed were 8,127 FS7s and 38,516 FS3s. The FSS section processed 7,384 Adjustment forms during 2007. The FSS division also batched the following amounts of documents: 8,127 FS7s and 38,516 FS3s. FSS web correct submissions: Total processed 539. Total electronic errors solved: 16,681.

Archiving for 2006 has been completed. The Agriculture product scheme documents were also processed and finalised. New registration of taxpayers during 2007 amounted to 653.

### **Enforcement**

During 2007 the Section embarked on an intensive enforcement programme, as a result of which the number of defaulters has been decreased to 584 from 4,237. A total of 6,790 notices had been issued from 26 February to 8 October. Compliance has increased to 95.4%.

In June, 4,094 default notices re FSS and SSC for current year, that is from January to April 2007 were sent to taxpayers. All queries regarding these notices were dealt with by the FSS Section.

FSS enforcement resulted in Lm1,508,350 in FSS tax and Lm2,693,619.13 in SSC as well as Lm69,643 in additional taxes being collected over and above the normal monthly tax revenue through employers' payroll.

### **Ledgers Section**

Journal Adjustments: 88 files – 142 years.

### **Assessments**

During the period under review, the Department continued with its drive to clear the backlog of assessments and to collect arrears of tax. A total of 98,163 assessments for past years prior to year of assessment 1999 were served on taxpayers.

### **Self-assessment Returns for Y/A 2007**

A total of 98,026 self-assessment returns for year of assessment 2007 were processed up to 31 December 2007 apart from 135,624 tax declarations. These resulted in 233,650 statements for the year being issued to taxpayers up to the end of December 2007.

### **Outstanding Book Balance**

The outstanding book balance is a fluctuating figure that is automatically inflated whenever assessments are raised and similarly reduced whenever tax is paid in settlement and assessments under objection revised following agreement. In view of the restructuring of the Tax system with the introduction of Self-Assessment and the Year by Year Accounting system from Y/A 1999 onwards, the book balance is being presented in parts; the balance for the years of assessment from 1949 up to 1998 and the book balance for years of assessment 1999 to 2007.

### **Book Balance for Years of Assessment up to 1998**

The Debit balance up to Y/A 1998 as on 31 December 2007 was Lm113,651,116. This figure represents the total outstanding balance of all claims issued since 1949 less all payments of PAYE/FSS and Provisional Tax for the years of assessment for which assessments have been raised, less settlement tax. Against this book balance of Lm113.6 million one has yet to set off any overpayments of PAYE/FSS and Provisional Tax held in Suspense in respect of which assessments have not as yet been raised, claims for settlement of tax not legally due, and the difference resulting from the revision of "best of judgement" assessments following settlement of objections.

### Book balance for Years of Assessment 1999 to 2007

On 31 December 2007 the book balance Y/A 1999 to 2007 stood as shown in the following table:

<b>Book Balance for Y/A 1999 to Y/A 2007</b>		
<i>Y/A</i>	<i>No of Taxpayers</i>	<i>Amount Due (Lm)</i>
1999	14,084	28,879,106
2000	13,458	9,012,218
2001	15,867	11,605,932
2002	17,993	12,681,849
2003	18,800	13,608,602
2004	20,952	15,168,610
2005	22,369	17,757,057
2006	27,313	23,873,977
2007	37,368	30,099,152

Included in the above table is an amount of Estimated Tax charged to taxpayers who did not submit any form of Tax document. This book balance will be reduced by the difference between the value of self-assessment returns submitted after end 2007 and the estimated tax charged. The following table shows the Estimated Tax:

<b>Estimated Tax for Y/A 1999 to Y/A 2007</b>		
<i>Y/A</i>	<i>No of Taxpayers</i>	<i>Estimated Tax (Lm)</i>
1999	9,457	16,776,991
2000	9,447	6,739,436
2001	10,526	8,342,579
2002	11,777	9,701,621
2003	12,676	10,680,453
2004	14,621	12,519,618
2005	15,389	14,744,078
2006	19,540	20,958,175
2007	26,945	26,904,761

### Tax in Dispute for Years of Assessment 1999-2006

A number of assessments have been issued against which the taxpayer has filed an objection. Details of the Tax in Dispute for Y/A 1999 to 2006 are given in the table below:

<b>Tax in Dispute for Y/A 1999 to Y/A 2006</b>		
<i>Y/A</i>	<i>No of Taxpayers</i>	<i>Estimated Tax (Lm)</i>
1999	58	852,194
2000	62	1,674,402
2001	74	1,547,126
2002	69	1,180,055
2003	61	1,451,620
2004	49	1,088,356
2005	31	513,197
2006	7	81,021

The book balance in Foreign Currency for Y/A 1999 to 2007 as on 30 December 2007 stood at Lm37,563,477 of which Lm400,957 represents Estimated Tax in Foreign Currency in respect of taxpayers who did not submit any form of Tax document.

## Tax Audits

During the year, the Division continued to conduct tax audit enquiries. A total of 398 new cases were opened while 485 cases were concluded, resulting in an increase in income brought to charge of Lm13,683,358. Cases in hand at the beginning of 2007 were 283, while at the end of the year the cases in hand were 196.

During the year a total of 198 new objections were received by the Division against assessments raised under the self-assessment system. A total of 189 objections were concluded, resulting in an increase in income brought to charge of Lm3,538,088. At the beginning of the year the objections in hand were 360, while at the end of the year the objections in hand were 369.

## Computerisation

The Information Systems deliverables that were implemented during 2007 were:

- Euro conversion for all IRD and Capital Transfer Duty systems.
- In its endeavour to increase the number of Non-Filers, more initiatives were taken to remove taxpayers from the Tax Return filing cycle.
- Changes to the Tax Return for Individuals both on-line and back office, with regards to format, structure and capture of attachments.
- Creation of a Refund sub-system to cater for the issue of letters and refund instalments to taxpayers with a credit due to them for years prior to 1998.
- Online filing of the Property Transfer Forms.
- Enhancement to the Capital Transfer Duty system due to Budget changes.
- Technical upgrade of Infrastructure, Operating System, Database Management System for Back End Systems.
- Technical upgrade of Development platform for Internet e-commerce applications.
- Support to and the creation of statistics, data models for Budget 2008, EU, Central Bank of Malta, NSO etc.
- A new sub-system is ready for implementation that interfaces the Taxpayer Services System with the Internet, where authenticated taxpayers (or their representatives) can submit enquires that will be directed to an Inland Revenue User automatically and response from Taxpayer Services module is also directed to the taxpayer automatically.
- Creation of a new online sub-system, which is also ready for implementation, to merge ETC and IRD engagement and termination forms with automated registration for expatriates who are given work permits.

## Take Up Statistics

### *Corporate Tax Return Filing (Year of Assessment 2007)*

#### **Returns filed electronically:**

Internet	12,544
Manual	2,963

#### **% of total return filed electronically**

Internet	81
Manual	19

### *Individual Tax Return Filing (Year of Assessment 2007)*

Returns filed electronically	620
% of total returns filed electronically	1

**FSS Services for Employers (due in 2007)****Employers filing electronically (diskette):**

No of Forms FS 7	630 (35%)
No of Forms FS 3	44,135

**Employers filing through the Internet:**

No of Forms FS 7	1,184 (65%)
No of Forms FS 3	78,789

The figures above shows the total potential internet users. Government and Pension data, which is also processed electronically, is not included in the above figures.

**Payments (Year 2007)**

e-PG Payment (Credit & Direct Debit Cards)	4,922 (Lm957,493.64)
Internet banking	10,567 (Lm20,925,082.18)

**Workflow Management System**

The Workflow Management System was introduced to manage and control the work flow devolving on the various units of the Division. For the year 2007, 84,640 work items were received and forwarded for processing while 80,857 cases have been closed.

**Objections****Companies**

The Companies Section is primarily engaged in determining pre-1999 objections which, at the start of 2007, stood at 4,042 years of assessment. During the year, new objections were filed against 275 years of assessment. 866 years were cleared, leaving a balance of 3,451 years of assessment under objection, as at 31 December 2007.

The Section examines applications and processes approvals for changes in accounting dates. It also issues different certificates including clearance and residence certificates. All public relations relative to corporate taxpayers are carried out in the Section.

Company tax returns filed manually are processed by the Data Processing Unit. About 85 % of company return filers for the Y/A 2007 submitted the return electronically.

**Individuals**

The number of pending objections of individual taxpayers against one or more assessments on 1 January 2007 stood at 8,777. There were 1,042 new objections registered during the year whilst objections settled by the Division for the year were 5,359, leaving 4,460 objections outstanding as on 31 December 2007.

**Board of Special Commissioners**

In terms of Section 35 (1) of the Income Tax Management Act, a taxpayer is entitled to file an appeal with the Secretary of the Board of Special Commissioners. The appeal should be filed within 30 days from the service of a Notice of Refusal by the Commissioner of Inland Revenue to an objection made by a taxpayer. In terms of the Bill regarding Provision of Administrative Justice, which has been processed in Parliament, the above-mentioned provisions may be expected to undergo certain changes in the future.

During the whole of 2007, all the workload in respect of appeals fell on Board No 2 in view of the total non-operation of Board No 1, despite the fact that the appointment of the latter had been duly gazetted.

Despite this situation, the number of cases concluded during 2007 was, at 51, still the highest in any year since 2000, with the number of still unconcluded cases at end 2007 being 104.

### Cases before the Court of Appeal

The number of cases involving the Court of Appeal during 2007 was as follows:

Cases before the Court of Appeal		Cases before the Constitutional Court	
Cases pending as on 01.01.07	11	Cases pending as on 01.01.07	1
New cases for 2007	12	New cases for 2007	1
Concluded cases	10	Concluded cases	0
<b>Total cases pending 31.12.07</b>	<b>13</b>	<b>Total cases pending 31.12.07</b>	<b>2</b>

  

Cases before Civil Court		Law Court Sittings	
Cases pending as on 01.01.07	1	Court of Appeal	53
New cases for 2007	2	Constitutional Court	7
Concluded cases	0	Civil Court	6
<b>Total cases pending 31.12.07</b>	<b>3</b>		

### Revenue

Revenue from Income Tax collected during 2007 amounted to Lm284.8 million.

Furthermore the Division also collected Lm205.5 million in Social Security contributions. As from January 2007, by Act III, which amended the Social Security Act, the Inland Revenue Division was handed the responsibility for the enforcement and collection of Social Security contributions for years also prior to 1998.

The following table shows the revenue from Social Security contributions:

Class I	122,313,789
Class II	14,614,133
Further Contribution	70,449
State Contribution	68,463,961
<b>Total</b>	<b>205,462,332</b>

The following table shows the revenue from Income Tax collected over the past seven years and the percentage variance from the previous year:

Year	Revenue	Variance from previous year	
	Lm million	Lm million	%
2000	149.5	21.1	+16.5
2001	166.3	16.8	+11.2
2002	190.1	23.8	+14.3
2003	205.2	15.1	+ 7.9
2004	211.2	5.9	+ 2.9
2005	221.8	10.6	+ 5.0
2006	256.5	34.7	+13.5
2007	284.8	28.3	+ 9.9

The following table gives a breakdown of the revenue collected in 2007:



<b>I INCOME TAX</b>					
	<b>Settlement Tax Lm</b>	<b>PAYE/FSS Lm</b>	<b>Provisional Tax Lm</b>	<b>Self-Assessment Lm</b>	<b>Total Lm</b>
Government/Parastatal Employees	1,029,126	20,781,422	1,906,759	1,636,536	<b>25,353,843</b>
Dockyard Employees	75,252	651,835	66,658	50,626	<b>844,371</b>
Private Employees	1,235,502	55,038,700	2,866,675	2,588,938	<b>61,729,815</b>
Shareholders	44,851	0	133,132	190,200	<b>368,183</b>
Expatriates	399,102	0	2,395,253	1,387,001	<b>4,181,356</b>
Business, Trade, Profession & Ecclesiastic Entities, Clubs	966,050	0	6,974,424	3,595,066	<b>11,535,540</b>
Rentiers	506,508	0	849,293	681,541	<b>2,037,342</b>
Companies (local)	2,793,555	0	74,022,305	16,878,046	<b>93,693,906</b>
Companies (foreign)	9,191	0	834,734	784,150	<b>1,628,075</b>
Other Categories	49,967	0	14,555,739	128,704	<b>14,734,410</b>
Capital Gains	0	0	45,805,481	0	<b>45,805,481</b>
Tax at Source	0	0	640,407	0	<b>640,407</b>
15% Withholding Tax	0	0	20,944,817	0	<b>20,944,817</b>
Others	1,312,854	0	0	0	<b>1,312,854</b>
<b>Total</b>	<b>8,421,958</b>	<b>76,471,957</b>	<b>171,995,677</b>	<b>27,920,808</b>	<b>284,810,400</b>
<b>II SOCIAL SECURITY CONTRIBUTIONS</b>					
Class I					122,784,426
Class II					14,614,133
Further Contribution					70,449
State Contribution					68,699,280
<b>Total</b>					<b>206,168,288</b>

### Cash Office Receipts

The number of receipts issued by the Cash Office in respect of Income Tax and SS contributions were:

Revenue	Receipts	Value
Income Tax	270,209	Lm 231,786,978.89
Social Security Contributions	154,985	Lm 100,630,856.70

### Enforcement

The Collection Section commenced judicial action on a number of individuals and companies to secure revenue in the eventuality of tax falling statute-barred. Defaulting taxpayers were served with Demand Notices requesting them to regularise their position. Various cases were concluded while others were offered instalment plans for settlement.

<b>Pre Y/A 1999 - Individuals</b>		
<i>Type of Enforcement</i>	<i>No</i>	<i>Value (Lm)</i>
Demand Notices issued	1,049	6,143,040
Judicial letters created	1,005	10,281,791
Agreements	271	562,514

<b>Pre Y/A 1999 - Companies</b>		
<i>Type of Enforcement</i>	<i>No</i>	<i>Value (Lm)</i>
Demand Notices issued	601	10,515,870
Judicial Letters created	314	6,570,641
Agreements	24	223,482

<b>PAYE/FSS Pre-2006</b>		
<i>Type of Enforcement</i>	<i>No</i>	<i>Value (Lm)</i>
Demand Notices issued	769	7,259,517
Judicial Letters created	351	4,027,840
Agreements	131	2,707,589

<b>Year by Year – Individuals</b>	
<i>Type of Enforcement</i>	<i>No</i>
Default Notices issued	3,445

<b>PAYE/FSS 2006</b>	
<i>Type of Enforcement</i>	<i>No</i>
Default Notices issued	4,094

During 2007 the Section had 75 Court Cases and attended to 236 court sittings. Out of these 75 cases, 17 have been concluded and 22 new cases commenced during 2007. There were also 38 cases of *subbasta* and 24 Garnishees were issued.

### Receipts Adjustments – Renewals of Permits

This responsibility also devolved on the Collection Section in 2007. The tasks performed during 2007 were:

Adjustments of receipts (individuals and employers)	3,221
Journal adjustments	101
Work permit renewals re-Expatriates	2,609

### Mutual Recovery of Tax

During 2007 collection section commenced to take enforcement action and precautionary measures for the recovery of claims from EU Member States as per directive 76/308 EEC and amended directive 2001/44/EC. The number of cases initiated in 2007 was 24.

### Outdoor Inspections

The services of the Revenue Security Corps were regularly availed of to help the Division in its drive against tax evasion and for tax collection. Outdoor inspections were carried out mainly to identify cases of persons liable to tax who had failed to register as taxpayers, to ensure payment by employers of outstanding remittance of tax/SSC deducted from salaries/wages under the FSS system, and tracing taxpayers who fail to claim assessments sent by registered mail.

Inspections by RSC carried out in 2007 were:

Cash Escorts	645
FSS/SSC	884
Investigation	65
Capital Transfer Duty Branch	504
PAYE	237
Objections	62

### Taxpayer Service

The Division operates a one-stop-shop taxpayer service to address the needs of taxpayers, especially pensioners and individuals.

During 2007 the Taxpayer Service Office (Help Desk):

- dealt with 29,840 personal encounters;
- registered 1,503 new taxpayers;
- reached 462 direct agreements for programmed tax payments by individuals;
- reached 369 agreements with employers on behalf of taxpayers for programmed payments of tax;
- amended 3,326 addresses;
- issued 15,114 Income Tax returns.

### Expenditure

The total recurrent expenditure, inclusive of all personal emoluments and other operating expenses, to administer income tax and the enforcement for the collection of social security contributions was Lm1.98 million.

Thus, the cost per Lm1 of income tax collected during 2007 works out at 7 mils. When considering also the actual revenue collected from social security contributions, the cost per Lm1 of revenue collected from both sources works out at 4 mils.

### Refunds

A total of 3,745 refunds of overpaid tax amounting to Lm853,810 was issued for Y/A prior to 1999. Up to 31 December 2007, the total of refunds issued for Y/A 2007, which also in some cases included Y/A 2006 and Y/A 2005, was 59,705, amounting to Lm24,551,180.

### Capital Gains Tax

The Section deals with queries from professionals and taxpayers as regards Capital Gains Tax. During the year, 1,081 requests for a permit in terms of Clauses 10(2) and 10(4) of LN 5/2005 were received while 994 permits were issued. As regards permits in terms of Article 43(3), a total of 202 requests was processed, out of which 161 were authorised for a reduced rate while 41 applications were refused.

### Social Security Contributions

During 2007 the Social Security Section moved to the Collection Section and continued with the verification and enforcement of social security contributions. Class two payers continued to be informed of their Social Security payment through the issue of the form PT1 every four months. Enforcement notices for defaulted payers for years 2002 to 2006 were issued.

The major tasks carried out during 2007 were the following:

- 4,765 personal encounters;
- 158 agreements;
- 346 determination of class one contributions for persons working abroad;
- 1,025 adjustments of SS receipts;
- 84 refunds issued, amounting to Lm37,467.88.

## INTERNATIONAL TAX UNIT

### Double Taxation Agreements

- The double taxation agreements with Morocco entered into force and the related legal notice was published.
- The double taxation agreement with Bosnia and Herzegovina was negotiated and initialled.
- Negotiations were held with Libya for the possible amendment of certain provisions of the existing double taxation agreement but have not been concluded.
- Negotiations at the technical level were held with Turkey but have not been concluded.
- Exploratory talks were conducted with the USA on the possibility of opening negotiations on a double taxation agreement.

### Work Processed

During 2007 the International Tax Unit processed:

- 735 requests for certification of exemption from duty under the provisions of the Duty on Documents and Transfers Act;
- 630 claims for refunds;
- 316 applications for new Advance Revenue Rulings;
- 23 applications for renewals of Advance Revenue Rulings;
- 65 exchanges of information with foreign tax authorities.

## Revenue

During the year, Lm18,200,000 were transferred to revenue from tax paid by companies dealt with at the International Tax Unit

## EU and OECD Affairs

Members of the International Tax Unit attended 24 meetings in connection with EU/OECD related matters abroad.

## Tax Law Amendments

Members of the International Tax Unit took part in discussions and drafting sessions relating to legislation concerning the agreement reached with the EU Commission and within the Code of Conduct (Business Taxation) Group in order to replace the ITC regime; and in discussions relating to the fiscal regime concerning securitisation.

## CAPITAL TRANSFER DUTY

### Duty on Documents

During 2007 the Capital Transfer Duty Department examined 14,614 notarial deeds, out of which 7,412 cases were inspected by the Department's engineers. As a result, 5,388 original assessments were raised. During the same period 1,577 objections were filed and 571 revised claims were issued.

During this period, 82 refusals were issued in anticipation of appeals for the consideration of the Board of Special Commissioners for Duty on Documents and Transfers.

Besides duty on the transfer of immovable property, revenue under this source included also the duty collected in respect of share transfers, insurance policies, bank credit cards and other duties payable on various documents.

Total revenue collected from this source amounted to Lm44,021,966 (Duty on Documents) whilst outstanding balance of assessed duty, including disputed duty up to and including 31 December 2007, amounted to Lm13,621,148. This included revenue in respect of *causa mortis* transmissions. The figure of arrears of revenue under the Duty on Documents and Transfers is around Lm1,500,000.

Since its inception, late in 1992, the *Causa Mortis* Section received 32,551 declarations of *causa mortis* transfers, mainly consisting of multiple transferees or beneficiaries in respect of Malta and Gozo.

During the year, 2,879 *causa mortis* returns were processed and 223 declarations filed by notaries were referred to the Department's technical experts to verify the valuation of immovable properties declared therein.

The Department receives and investigates a number of deficient returns - 1,736 claims were issued and 31 revised assessments were raised.

During the same period 25 objections were filed by transferees against the said *causa mortis* claims, while 24 objections have been concluded; appeals to eventual refusals will have to be finally considered by the above-mentioned Board.

The Department offers efficient public relations service and maintains full liaison with notaries and the public in general.

## Death and Donation Duty

The number of returns of chargeable transmissions filed during the period was 129 - all were processed and no outstanding returns remained unassessed.

Duty claimed was Lm6,658. Revenue collected, including prepayments on account and from arrears, totalled Lm72,200. Outstanding balances of assessed duty, including disputed duty up to 31 December 2007, amounted to Lm2,222,463.

## Acquisition of Immovable Property by Non-Residents

New provisions were enacted under Chapter 246 of the Laws of Malta to bring legislation related to the acquisition of immovable property in Malta by non-residents in line with the *acquis communautaire* of the European Union, as agreed in pre-accession negotiations. During 2007, the Department received 589 applications for the acquisition of immovable property and issued 477 permits.

## Revenue

The total revenue collected in Malta and Gozo during the year was:

	<b>Lm</b>
Death and Donation Duty	72,200
Duty on Documents and Transfers	44,021,966
Fines and Late Fees	5,621
Fees on AIP Permits	111,277
<b>Total</b>	<b>44,211,064</b>

## Computerisation

In collaboration with MITTS, the implementation of the computerisation programme of all sections within the Department was further accelerated and almost all sections, except the Monte Office and the Consul's Office, were automated.

## Preliminary Agreements

The registration of Promise of Sale Agreements at the Capital Transfer Duty Department was introduced. A Promise of Sale is to be registered within 21 days from its completion whereby the transferee is obliged to pay in advance 20% of the amount chargeable under the Duty on Documents and Transfers Act.

By the end of 2007, the Department registered a total of 10,067 Promise of Sale Agreements, of which 953 were registered in Gozo.

## *Il-Monti*

*Il-Monti* advances money on pledges of precious metal. Below is a record of its activities during 2007:

Pledges accepted	2,508
Pledges redeemed	3,269
Money loaned	Lm108,806
Money received back	Lm145,164
Interest received	Lm12,816

The number of pledges remaining on hand at end 2007 was 7,802 against which Lm331,453 had been advanced. Besides advancing money on pledges, *Il-Monti* also holds regular Court deposits lodged for safe keeping. At end 2007 a total of 695 deposits were still held.

Expenditure in running *Il-Monti* during the period was Lm200, excluding Lm16,764 for Wages and Bonus.

Moreover, a sum of Lm34,031 was spent for Contractual Services in connection with watch duties of the *Monti* and Consul's Offices. Such watch duties were terminated in June 2007 as the security of the Monte di Pieta' Building has been changed over from the night watchmen system onto a remote camera and alarm set up.

Steps taken to improve the cost effectiveness of the Monte di Pieta' Institution have led to fruition with reduced capital outlay and undiminished service.

### Assay and Valuations Office (Office of the Consul)

This Office regulates the marketing and distribution of precious metal articles and conducts also direct market surveillance via shop inspections.

The Goldsmiths and Silversmiths Act which came into force on 1 April 2004 requires that all marketed goods must be hallmarked either by an Assay Office Hallmark or by a manufacturer's or sponsor's hallmark as authorised in Malta or in an EU Member State. The implementation of the new Act was carried out smoothly in 2007 in spite of the radical changes involved, thus demonstrating the viability of the new legislation in both the local and single market environments.

The price of gold and silver, on which valuations made by this Office are based, was determined daily on the values quoted by the Central Bank of Malta.

The number of articles assayed, weighed and valued as well as the number of inspections during the period is shown below:

	Gold	Silver	Total
Articles received	939	17,047	<b>17,986</b>
Assays	371	320	<b>691</b>
Articles weighed and valued	246	0	<b>246</b>
Articles broken up on being found to be made of an inferior standard	0	295	<b>295</b>
Articles marked at a lower standard than the declared standard	0	0	<b>0</b>
No of Inspections	<b>76</b>		

Revenue from fees on assays, hallmarking, valuing and manufacturers/sponsors registrations was Lm4,414.

Expenditure incurred in running the Consul's Office was Lm58,690 including salaries, overtime, bonuses and expenses.

ADRIAN CHETCUTI  
*Director General (Inland Revenue)*

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## Customs Division

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### MANAGEMENT

Customs worldwide operates in a constantly changing environment. In the face of this challenge, the Division continued to adapt and refine its procedures to meet the expectations of the trading community and prepare for emerging threats and opportunities. During 2007 the Maltese Customs administration continued to:

- improve service to clients particularly the trading community;
- enhance control on inward and outward movement of goods, people and vessels;
- enforce legislation more effectively;
- improve revenue collection and fraud prevention;
- protect the country from illicit drugs and other prohibited goods; and
- deliver assistance to industry more effectively.

Control and processing functions continued to be streamlined in line with Government's commitment to the Lisbon Agenda, thus reducing administrative burdens on economic operators and citizens in general. However there is also growing pressure for Customs to provide greater security and safety in the face of an increasing number of global threats. Finding a balance between conflicting demands of trade facilitation and security is not always easy.

Customs has implemented a series of initiatives aimed at strengthening co-operation with the Commission and the Customs administrations of other Member States. Our efforts to prevent imports of prohibited and restricted goods, fraud and international crime have continued to yield good results. In fact our administration was ranked third amongst 171 members of the World Customs Organisation for its efforts in the fight against counterfeit goods. During 2007 a record amount of illicit drugs was confiscated, and the intuition of our officers led to the greatest seizure of heroin ever recorded in Malta in passenger luggage (11.5 kg).

Twenty-five members of staff terminated their employment during the year under review, thus bringing the number of employees down to 480 by the end of December 2007 (20% less than in December 2004). Experienced senior Customs officials made up most of the departures. This high rate of retirement without replacement with new intake is creating a generation gap in our human resources. Procedures are underway to fill two headship positions and to recruit the services of a Senior Legal Officer and a Principal Scientific Officer replacing our Senior Customs Analyst. In line with the Customs Class staff collective agreement, vacancies at the senior level have been filled and process has also been initiated to fill other vacancies at all levels.

The training unit continued to provide a variety of training courses aimed at providing officers with the skills required to carry out their duties effectively. The unit also organised training for economic operators and co-ordinated the delivery of training courses produced by other training organisations. During 2007 Customs received two awards from the Foundation for Human Resources: one for Excellence in Training and Development and another for Excellent Training and Development. The University of Leicester (UK) also presented a certificate for Excellence in Training to the Customs Division.

All these changes are taking place against a background of budgetary constraint and amidst increasing calls for the provision of more extensive and client-focused services. Consultation with the business community continued prior to the introduction of changes in procedures to the mutual benefit of the Customs Division and of the trading community.

### **CUSTOMS EU SPECIALIST**

The function of the Customs EU Specialist is to support the Division's senior management in all areas where Community legislation or relations with EU institutions are significant. The role has three major aspects: co-ordination within the Department, liaison with outside entities and the creation of substantive EU-related input.

Issues requiring the intervention of the Customs EU Specialist range from the everyday (e.g. compilation of routine returns required by the Commission) to policy (e.g. the draft Modernised Customs Code, evolution of regulations such as 1875/06 and 918/83, preparation of documents required in relation to our requests for derogations or to our replies to infringement proceedings), with most tasks falling somewhere in-between, for example vetting of translations produced by the EU Institutions.

Customs EU Specialist is also a member of the committee set up by the Division to administer the AEO system. In this capacity he contributed to information seminars organised by traders' associations.

During the year Customs EU Specialist represented the Division at several meetings convened by the Commission and the Council in Brussels and elsewhere. The Customs Union Working Party on Legislation and Policy was attended regularly while the Modernised Customs Code was being discussed (up to June). This Working Party is now being attended by our Technical Attaché in Brussels but Customs EU Specialist co-ordinates the Division's input and drafts the relevant Instruction Notes, in co-operation with EU Secretariat MFIN. Discussions on the Modernised Customs Code also required Customs EU Specialist's presence at two sessions of COREPER.

### **ADMINISTRATION**

#### **Finance**

The major project undertaken by the Finance Branch was the preparation for the changeover from Maltese lira to the euro at the beginning of 2008. A Euro Changeover Implementation Team was set up for this purpose. In association with MITTS the team prepared a number of electronic simulation modules for the hands-on training of officials involved in the handling of monies and the Customs Electronic System (C.E.S.). Various channels of communication were used to keep the trade informed of all changes.

The Finance & EU Economic Procedures Unit was subject to audits both locally and from the EU Commission.

#### **Accounts Section**

During 2007 the Accounts Section continued to clear debts owing to Customs, particularly arrears arising from the attendance of Customs officials at traders' premises. This was done with the collaboration of the Enforcement Unit.

The Section also maintains detailed records about issues connected with transport matters, chiefly fuel and maintenance costs. A computerised system intended to monitor the issue of fuel to the Customs fleet of vehicles started to be operated during the year under review.



### **Customs Debt Unit (CDU)**

The total sum of import duties (Traditional Own Resources) collected by the Division for the period December 2006 to November 2007 was Lm6,542,643. 75% was transferred to the EU and the remaining 25% was retained by the Division as administration fee. The CDU also continued to chase outstanding dues to Customs as established by the CES, to effect refunds, monitor the deferred payment facility extended to certain importers and manage bank guarantees.

### **The Cash Office**

The main Cash Office was responsible for the collection of sums totalling Lm101,336,909 in import duties, excise duties, VAT and other charges such as fees, fines, store rent, proceeds from sales etc.

### **Procurement/Stores Unit**

The Unit supported the various sections of the Customs Division in replacing/providing new furniture and equipment as required. Seven departmental tenders, including one for the procurement of an X-Ray machine for the Parcel Post Office, were issued. Uniform issues were catered for and all health and safety items procured. Obsolete forms and registers were destroyed.

### **EU Procedures Unit**

During 2007 the Unit continued to approve import declarations subject to an agricultural licence (AGRIM) at the processing stage. The Unit also controlled intra-community sugar on behalf of another government agency which pays subsidies to traders bringing EU sugar into Malta. At the request of other Member State administrations, the Unit controlled the movement of certain agricultural goods under the transit procedure so that these could benefit from export refunds. It also endorsed and maintained records relating to the importation of wine as required by EU regulations.

Several quota requests were processed. With the assistance of the Computer Section, the Unit started to operate the Surveillance 2 system to collect data for the monitoring of trade with third countries. Monthly anti-dumping reports were sent to the EU Commission.

The members of the Unit participated in various meetings with other local agencies, namely the Paying Agency within the Ministry for Rural Affairs and the Environment, the Internal Audit and Investigations Department and the Malta National Laboratory. They also participated in a number of meetings on the Common Agricultural Policy in Brussels. The Unit participated in two Economic Tariff Questions Group (Quota and Surveillance) meetings, a one-day seminar on the Surveillance 2 project, and the Anti-Dumping Duty meeting, all of which were held in Brussels.

### **Human Resources**

The complement targets in the Customs class grades set in the Memorandum of Understanding and Agreement between the Government and the Union Haddiema Maghqudin, were reached. Calls for applications for the filling of posts of Customs Senior Inspectors, Customs Inspectors, Customs Officers and Managers were issued during 2007. Calls for applications for the filling of vacancies in the grade of Assistant Technical Officer (Electrical) and two Senior Operatives (Plasterers and Painters) were also issued and finalised accordingly.

During the year under review 21 members of the staff retired from the Service on attaining pensionable age, three were medically boarded out, two resigned, three were transferred to other departments and one passed away while still in service.

Constant monitoring of personal emoluments, particularly of allowances and overtime, was maintained throughout the year. The new OMERA System, which computes the overtime pay and allowances earned by Customs staff, was launched in December 2007.

### **Training Unit**

During 2007 the Training Unit organised a total of 293 hours of in-house training of which 168 hours were delivered to staff and 125 hours to the private sector, namely traders, shipping agents and *burdnara*. Courses totalled 58 and required a total of 94 sessions. A total number of 979 persons were invited, of whom 857 were staff and 122 from the private sector. Rates of attendances were 79% and 93.4% respectively. Courses to the private sector are against payment.

Overall, 18 in-house facilitators/trainers and 19 external trainers (of whom 4 from local and 15 from foreign organisations) worked on the above courses. Co-operation was received from nine external training entities.

During the last quarter of 2007 all frontline, operational and processing Heads of Section were given access to four WCO e-learning training modules. There are now 50 members of staff who have access to these modules. Discussions are underway between the Training Unit and the Computer Section to host all four EU e-learning modules on the Customs Intranet.

### **Health and Safety Unit**

During 2007 the Health and Safety Unit continued with the projects launched during the previous year. These included the continuation of various risk assessments for the Customs Division's work places and work practices, the provision of assistance to the Procurement Section in the procurement of Personal Health and Safety Equipment, meetings regarding the Pandemic Influenza and risk assessments at head office. The Unit also assisted the Non-Proliferation Unit in the finalisation of the Vehicle and Container Inspection System (VACIS) evaluation report and carried out radiation test at the new warehouse location for VACIS at the Freeport.

The Unit also participated in the Training Contact Persons meetings in collaboration with the Officer i/c Training Unit.

### **EU Programmes**

The EU Programmes Unit catered for all travel by the Division's staff. The Unit was responsible for the compilation of statistics on travel and for the maintenance of records for audit purposes. Visits processed totalled 257 for 347 participants (respectively an increase of 40% and 173% over 2005, the first full year of EU membership).

Eight incoming and 17 outgoing working/study visits were organised under the Customs 2007 Programme, and eight exchange visits from/to other EU Member States.

### **Legal Services**

A total of 44 Letters to Prosecute and 118 Seizure Notes were compiled by the Legal Section and duly signed by the Comptroller. As per standard procedure, the former were sent to the Commissioner of Police for further necessary action, whilst the latter were sent directly to offenders.

Customs had representations in 313 court sittings regarding civil cases and 553 court sittings concerning criminal cases. Personnel from the Customs Legal Section were required to testify and/or assist Prosecution in practically all the cases.

Twelve civil cases were decided, resulting in fines amounting to Lm92,127. Also decided were 41 criminal cases in the Court of Magistrates. In 16 of these cases the offenders were found guilty and given a suspended sentence.

Cases settled administratively in full or in part amounted to 77, apart from another three cases regarding civil debt which were settled after court sentences in their regard had been issued. Fines issued by Customs in relation to infringements of excise tax, import duty and VAT regulations amounted to a total of Lm29,154.

## **EXCISE AND SYSTEM CONTROL**

### **Computer Section**

2007 was a very busy year with preparations for the euro changeover and for the new MASP initiatives in full swing. In view of the euro conversion all the main Customs systems had to be either adapted or replaced. A new Customs Declaration Processing System retaining historical data in Maltese lira was implemented to segregate euro from MTL transactions. Similarly a completely new OMERA (traders' billing and staff emoluments) application also had to be implemented as the old one, apart from being technologically and functionally outdated, was not euro-compliant.

Applications for Surveillance, Export Control, and the Authorised Economic Operator program were developed and implemented. Work on the other MASP and EMCS requirements continued apace. In parallel with discussions on the legal and administrative measures, user and functional requirements for ICS, ECS Phase II, ECIP, SEAP, and SASP were being developed. It was decided that the acquisition of EMCS would be made by open tender. Many important MASP developments have an implementation deadline of July 2009 but actual system development is still to be initiated. All these systems enable the application of Customs regulations, hence project teams need to be fully familiar with the legislative, administrative and business requirements in order for the systems to be developed. This can only be gained from very frequent and intensive technical and functional meetings with colleagues from the Commission services and other Member States, as well as the continual reading and reviewing of all relevant documents.

Nowadays all customs related procedures are IT-dependent, and will become even more so over the coming few years when all transactions and relative documentation will have to be electronic. The E-Customs Decision which has been signed into law provides a road-map and rapidly-approaching deadlines for all future developments. The Division's IT capability is therefore critical to its success in all fields and deserves to be considered as a core function, with all that this entails in terms of staffing and remuneration. It is crucial that the Computer Section be maintained and strengthened to face this challenge.

### **IT Section**

This section deals with all hardware issues, including networks, PC-related software and customs user support and services. In 2007 the major items were the migration from the Teamware application MS Outlook, which had to be done manually following the failure of the automated batch process, and the repair of several dozen PCs.

### **Transit**

In the area of transit, use of the New Computerised Transit System (NCTS) has led to a definite consolidation of operations. There have been corresponding decreases in the number of open transit movements, the average time taken to close transit movements and the number of enquiry procedures resulting from open movements. Traders have been informally guided towards a more efficient use of the transit procedure and this has diminished the need to resort to definitive claims of customs debt. During

October a technical liaison mission was conducted in Malta by a representative of the European Commission and a very positive report was subsequently presented.

On the technical side of NCTS, the European Commission proceeded with its plans to discontinue support for the Minimal Core Application (MCC) transit handling application. Malta has chosen to co-operate on this issue with a number of other Member State administrations which had been also using MCC. A common call for tenders was published and has reached the evaluation stage.

### **Customs Warehousing**

This section is mainly concerned with the warehousing of goods subject to Import Duty and/or VAT, and their eventual release/export from respective approved Customs warehouses. Three new Customs warehouses were approved during 2007, one existing warehouse ceased to operate and another was changed to Type A (public) from Type C (private). The major activity for this section is the warehousing of new motor vehicles. During 2007 a total of 2,799 new non-EU vehicles were imported and warehoused.

In February the Auction Sales Section was amalgamated with the Warehousing Unit. The total income derived from the three auction sales held during 2007 amounted to Lm42,354.

### **EXCISE**

#### **Tax Warehouses Unit**

The Excise Monitoring Unit controls tax warehouses situated at Barriera Tax Warehouse and on private premises. There are 33 tax warehouses at BTW and 28 on private premises.

Seven new tax warehouse keepers started operations during 2007, five of them from Barriera Tax Warehouse. One private tax warehouse keeper moved its operations to BTW.

All movements of goods into or out of tax warehouses must be declared electronically in the Customs warehousing system as well as on the paper movement control document (IAAD). New tax warehouse keepers are being encouraged to work from BTW.

#### **Excise Section (Local Producers and Traders)**

This section controls those authorized tax warehouse keepers who produce (or who until lately used to produce) excise products, as well as those excise warehouse keepers who sell duty-free goods and those traders that are not tax warehouse keepers. The section is also responsible for the issue of excise control stamps to importers and manufacturers.

All excise movements under duty suspension are monitored via the Administrative Accompanying Document (AAD) or the Internal AAD and should also be entered in the electronic customs database. All traders are required to submit regular stock reports to Customs. Despite this, late in 2007 a very large discrepancy was found in the accounts of one particular warehouse keeper. The quantities of cigarettes on the IAADs issued by its cigarette suppliers exceeded massively those declared for consumption by the company, leading to a very large shortfall in payments of duty and VAT, estimated in the region of Lm2.2 million. The case is being investigated by both the Customs Division and the Police.

#### **Fuel Section**

The Fuel Section monitors and records all fuel moved under duty suspension and ensures the proper payment of taxes and duty due on fuel released for consumption. Monitoring involves both physical checks and satellite tracking as well as keeping a full record of the quantities of fuels imported, blended or

moved. Data is submitted to the Malta Resources Authority on all imports and exports and on all the internal transfers and movements carried out between tax warehouses.

All importations are physically controlled while internal movements between tax warehouses are controlled via the IAAD and entry into the electronic database. Frequent inspections of tax warehouses and bunkering barges are made and fuel analysed to deter and detect illicit traffic.

## COMPLIANCE

### Processing Services

The main events impacting on the workings of the Processing Services were the introduction of the Electronic Export System and the EU-wide establishment of the Export Control System. During the year under review the former Verification Unit was merged with the Valuation section, except for the risk analysis function, which was moved to a newly formed Risk Management Unit. The aim was to separate the responsibility for targeting from that for control.

The year 2007 witnessed a marked increase in the use of the Onward Supply Relief Regime. Under this procedure, import duty on goods destined for other EU Member States is collected by Maltese Customs while any VAT due is deferred and paid in the Member State of consumption. The control of status documents in respect of intra-community goods was further simplified resulting in greater facilitation and the elimination of bottlenecks.

### Verification/Valuation Unit

The Unit's main duties are post-clearance verification and controls. About 45,000 import declarations were accepted by the system, of which 20% were scrutinised for fiscal and non-fiscal offences/irregularities. The number of post entries totalled 123, resulting in the collection of Lm32,124. The section is also responsible for the verification of documents in respect of Intra-Community shipments despatched from the Freeport. Said documents added up to 15,222. The Unit liaises closely with the Post Clearance Audit section, to which 29 cases were referred for further investigation.

The Unit continued to be a reference point on values to Management, heads of sections in other Customs areas, members of the business community and to private individuals. An exchange visit by the head of the section to the Agenzia delle Dogane offices in Genova offered possibilities of closer co-operation with our Italian counterparts and allowed the appraisal of new concepts in addressing the issue of undervaluation of imported goods.

### Binding Tariff Information Unit

The BTIU issues binding classifications of goods at the request of traders, Customs Clearance Agents and Customs Officers effecting documentary or physical controls. Samples are also referred to this section for further analysis and guidance, and queries are received from other Member States requesting classification opinions on various products.

Following the CN 2007 transposition, holders of affected BTIs were informed about the invalidation of their BTI and requested to report back to the BTIU. A new BTI was processed and published in the EU EBTI-3 database while another BTI was reissued.

Throughout the year the BTIU also contributed to the verification of the Maltese-language versions of a number of documents prior to their publication by the European Commission.

### Sample Management Unit

In the absence of a permanent Customs Analyst, the Unit is serving as a reference point where all samples for analysis are submitted by other sections of the Customs Division. A total of 187 such samples were referred to the Unit. Many of these were then referred to the Malta National Laboratory, with which Customs has an agreement in this regard. In-house analysis of fuel is performed by the Unit utilising the 'High Pressure Liquid Chromatography' apparatus installed at the Unit. A 'high quality' wheat sample was submitted to a laboratory in the United Kingdom for analysis by the CCFRA since no local laboratory was adequately resourced to perform this analysis.

### Customs Economic Procedures Unit (CEPU)

The year 2007 saw the transition from a manual processing of export documents to an electronic system based on risk analysis. The majority of traders opted to have a remote link facility enabling them to input declarations directly into the electronic system through the internet. At the same time a number of exporters are still making use of the inputting service offered at the Unit and have their manually filled declaration entered by Customs data imputers.

During 2007 the Export Control System (ECS) was introduced throughout the EU. This system tracks exported goods which exit the EU from a different Member State from that in which the exports were effected. Maltese exports entered in the ECS totalled 60, while other Member States' exports exiting from Maltese ports were monitored and settled in the system.

The section deals with export documentation, particularly the issue of T2L, EUR1, ATR and Form A certificates. Documents processed and issued during 2007 by the section amounted to 21,743. A total of 336 authorisations covering a number of Preferential Customs Procedure Codes were entered and monitored in the Business Registry. There were 93 claims for refund of import duty paid under the Drawback system.

### Binding Origin Information Unit

In the past year, 37 certificates of origin, covering imports from sixteen countries having trade agreements with the EU, were submitted for verification. On two occasions certificates were determined to be incorrect, preference rates revoked and duty amounting to Lm3,160 and Lm355 collected in respect of goods originating from Tanzania and India respectively. Difficulties encountered with Tunisian Customs in respect of five cases of document verification are being addressed through the Tunisian Embassy in Malta.

During 2007 two requests for verification of preference documents issued by Maltese Customs were received from Morocco and Croatia.

### Customer Services

This office processes documents in respect of importation of personal effects and vehicles by persons transferring their residence from third countries. Transhipments and shipping bills are also processed at this section and EU TARIC Database queries dealt with. The Section processes also claims for refund of overpaid duties.

In addition the Customer Service section is responsible for the compilation of the daily booking list for containers selected for control, as well as for the processing of garnishee orders and counter warrants.

The Data Input section, which forms part of the Customs Services, enters manually prepared import declarations presented by the traders into the Customs electronic system and also inputs statistical data on intra-community trade as per the 'intrastat' forms presented by traders.

The registration of new importers and administration of user accounts on the CES forms part of the sections duties. The Office is also responsible for the sale of Customs forms to the public.

### Archives/Records Office

This office was responsible for the storage and retrieval of all archived files, referred to and requested by the Registry Section. Insertions in respect of archived files were also referred to this office from Customs stations. The Section was also responsible for the storing of export documents submitted from other Customs stations.

### Risk Management Unit

The Risk Analysis module in the Customs Electronic System (CES) is monitored by two trained officers who target consignments either for a Documentary Control, a Physical Inspection or a Scanner Check. This process led to the detection of 120 fiscal and 132 non-fiscal infractions and the recovery of Lm146,130 in revenue.

This Unit is responsible for the drafting and updates of risk profiles in the Risk Analysis System. The total number of active risk profiles created during 2007 tallied to 114. The profiles are mainly drafted on the basis of Mutual Assistance Alerts disseminated by the European Antifraud Office (OLAF), Risk Information Forms (RIF) issued by Risk Management at DG TAXUD and alerts submitted by local and foreign Intelligence Services.

The Unit also performs manual selection and targeting of export consignments. A feedback reporting system has been put in place and a database is being formulated for future reference and data analysis on exports.

### Landing and Releasing

The chief duty of this branch is to ensure that Customs controls on imports and exports are fully compliant with national and EU legislation and adequately protect national and EU finances. With the help of a risk-based approach these sections offer the best facilitation possible to economic operators and at the same time ensure that all taxes are collected. Section Heads responsible for the management of units making up the Landing and Releasing branch met regularly throughout the year to co-ordinate their operations and to harmonise procedures. Stakeholders were consulted whenever changes in work practices were introduced.

### Deep Water Quay

During 2007 a total of 152 vessels discharged and/or loaded the under-mentioned cargo at the Deep Water Quay:

Discharged	Loaded
5,343 full load containers/trailers	105 full containers/trailers
74,875 metric tons of conventional cargo	860.2 metric tons of conventional cargo
2,583 new vehicles	185 cars
Containers Transferred from Freeport	Second-hand vehicles
990 units containing second-hand vehicles were transferred by transit document	Released 3,626 commercial & passenger vehicles

Close and regular liaison with VGT (Valletta Gateway Terminal) ensures the smooth running of the quays. New procedures for the clearance of second-hand vehicles started to be introduced at the beginning of December, as a result of which traders benefited from greater facilitation through a one-stop-shop facility. Valuation of vehicles is no longer carried out across the board but on prior scrutiny of documentation.

One of the sheds was leased to a private company to carry out transshipment operations of ship spares for vessels involved in the oil industry. The company is required to keep up-to-date stock records and officers from DWQ carry out regular audit checks.

### **Freeport**

The main responsibility of this Section is to ensure that all units which exit the Free Zone area are accounted for and covered by necessary Customs documentation. A total of 1,928 *pratiques* were carried out, of which 1,279 were for vessels coming from non-EU countries.

33,820 containers were dispatched for local consumption, of which 12,756 were of non-EU status. This year, the Freeport Section experienced an increase of 3,161 (10%) units destined for local consumption or to be put in free circulation.

### **Malta Shipyards**

Revenue generated by this Section amounted to Lm2,557 duty and Lm6,158 VAT. A total of Lm25,373 was raised as deposit on T1 documents. 81 full load containers were released at this station.

### **Luqa Airfreight**

The Airfreight Section supervises the release of cargo from the sheds operated by Air Malta and by Globe Air services. During 2007 the Section handled a total of 7,078 aircraft manifests and received 10,847 import declarations, of which 3,206 were selected for control. Revenue collected during 2007 totalled Lm3,482,340, of which approximately 87% was VAT and 13% customs duty. Compared to 2006, revenue collected increased by 16%.

### **General Examination Shed**

A total of 2,755 units were selected for control during 2007, of which 1,203 units were examined at the Examination Shed, 1,156 units at traders' premises and the remaining 396 units were selected for document control. Discrepancies noted amounted to an additional revenue of Lm56,404. A number of serious cases are pending that could lead to criminal proceedings, including one case of double invoicing and an attempt to avoid anti-dumping duties on outerwear.

### **Hal Far Groupage Complex**

A total of 5,621 units entered the complex, of which 1,441 were non-EU. Tallying was carried out on 657 non-EU units and 86 EU. There were also 1,734 spot checks carried out by SIAT at the gate. There was a slight increase of 37 units in the number of units entering the Complex over 2006.

Revenue collected at the complex totalled Lm2,191,580, of which approximately 19% were customs duties, 79% VAT. The total includes additional revenue generated by this section on incorrect declarations amounting to Lm19,186 and Lm24,137 collected as rent (amount only covers rent paid at complex cash office).

A relocation exercise of warehouses was carried out due to the fact that some operators ceased to operate and others wanted to reduce space. The Customs Division now has two vacant full bonds and one half bond. Plans to relocate the Examination Shed to Hal Far and make better use of the vacant storage space are at an advanced stage.



### Laboratory Wharf

This Section supervises goods landed at Laboratory Wharf, Coal Wharf and the Silo. The annual turnover of containers landed at Lab Wharf was similar to that of 2006. A total of 436 vessels landed goods at this station and the following operations were recorded:

Discharges	Loading
15,888 units of which 835 non-EU	2,365 units of which 602 exports to non-EU countries
12,720 new vehicles of which 3,798 non-EU	2,832 vehicles of which 255 were exports to non-EU countries
6,820 live stock and other live animals	152 packages heavy machinery
4,189 second-hand vehicles intended for transshipment	6,832 second-hand vehicles
12,299,102 metric tons bulk cargo cement, gypsum, gravel etc;	29,933 metric tons maize and 14,928 metric tons wheat
210,894 metric tons cereals etc.	

A new service was introduced by VGT whereby containers can be transferred from Freeport to Lab Wharf for eventual transshipment on feeder vessels. A total 429 containers were transferred from Freeport terminal during the period under review

### Parcel Post Office

The steady increase in postal traffic experienced in 2006 was maintained, as confirmed by the substantial increase in revenue collected by this section. During 2007 this amounted to Lm58,608, an increase of 25% over the previous year. Total revenue collected amounted to Lm229,259, of which 84% was VAT and the remainder import duty. The total includes Lm4,760 collected at the Gozo branch.

Work is in hand to purchase a new x-ray machine. A call for tenders has been issued and offers are currently being evaluated.

### Courier Office

During 2007 this Section handled 62,452 bags and 40,487 cartons, of which 21,633 bags and 6,501 cartons were non-EU. Total revenue collected during 2007 reached Lm1,149,653. This was 15% higher than in 2006 and was broken down as follows: Customs duty Lm14,253, VAT Lm1,035,400. Additional revenue raised due to incorrect declarations amounted to Lm6,735.

Talks were held with an international courier company which intends to start operations from the Air Malta facility early in January 2008. One of the major courier companies has relocated to more spacious and modern facilities at the Cargo Village operated by MIA. An agreement was signed with DHL International binding the company to raise a bank guarantee and pay an annual fee of Lm1,000 for Customs services. New work practices were introduced at this facility, giving more responsibility to operator. An officer is detailed on a daily basis to supervise operations and effect releases. Regular X-ray scanning is carried out especially on bags declared as documents.

### Customs Weighing Unit

The complement in this Section has depleted to one senior Customs weigher due to retirements from the service. According to EU regulations there is no need for the Customs Division to have full-time Customs weighers, but weighing equipment must be regularly calibrated by a competent standards authority. This has been done with the help of MSA (Malta Standards Authority). To meet the demand for weighing services a pool of senior clerks was set up and given the necessary training to act as official Customs weighers. Weighing fees collected during 2007 amounted to Lm1,175.

## ENFORCEMENT

### Frontier Control

Since joining the EU, roles and responsibilities have increased and become more complex particularly because Malta is situated at the southernmost border of Europe. These include safeguarding the safety and security of Maltese and EU citizens, protecting the environment (flora, fauna, etc) by enforcing national and EU legislation, safeguarding traders from unfair competition, for example by preventing the importation of counterfeit goods and by applying anti-dumping regulations.

The main operational duties of this Branch include: the clearance inwards and outwards of ships, yachts, aircraft and passengers; censorship of video tapes, DVDs and software; supervision and escorting uncustomed goods; patrols on land and sea in Customs areas, and supervising the landing and loading of all cargo imported/exported by air. Release of accompanied commercial goods is also carried out by this branch. Besides collecting the appropriate taxes (import & excise duties and VAT) this branch must also curb importation of restricted and prohibited goods. In achieving its goals, the Enforcement branch maintains constant liaison with all stakeholders and co-ordinates its resources as required to address particular issues which arise from time to time, such as avian flu.

### Grand Harbour

This Section operates on a 24-hour shift system. During the year, 5,217 vessels arrived in Malta, including 2,437 arrivals from non-EU countries, while 5,195 vessels were cleared outwards. These figures include arrivals/departures at Marsamxetto, Marsaxlokk and Mgarr harbours. Rummages on arriving vessels amounted to 90. Passenger arrivals totalled 102,938 while departures amounted to 94,256. There were 466,395 transit passengers. A total of 9,467 accompanied vehicles arrived in Malta while 8,923 departed. This section processed 3,411 duty-free deliveries and 4,570 fuel stores authorisations. A total of 1,711 searches were carried out at the various customs areas seaport gates, and 242 currency checks at the port. The sum of Lm1,914 was collected in taxes (VAT and excise).

### Airport

This Section operates on a 24-hour shift system. Aircraft arrivals from outside the EU totalled 2,591. Arrivals from non-EU countries amounted to 163,399 passengers; departures to 154,618 and transit passengers to 1,886. Freight landed was 5,400,055 kg whilst 5,877,283 kg were exported.

Import duty, excise duty and VAT amounted to Lm11,065, Lm694, and Lm32,169 respectively. The sum of Lm710 was collected as fines on dutiable goods undeclared by passengers passing through the Green Channel.

A total of 702 currency control checks were carried out on passengers, leading to the seizure of €27,000 and \$US144,300. Approximately 54 kg of meat and milk products were confiscated and destroyed as per EU Regulations.

### Yacht Marina

A total of 2,486 yachts, 211 of which from non-EU countries, arrived at the Msida and Gozo Marinas and Grand Harbour during the year and there were 2,341 departures. 68 rummages were carried out on yachts while 71 currency checks were conducted, all yielding negative results.

This Section also plays a role in the collection of VAT on pleasure craft.

### **Prohibitions and Restrictions**

A total of 60,751 software packages were submitted for censorship, 1,323 of which were viewed. From a total of 73 withheld items, 45 were appealed against and 23 were released by the Printed Matter Appeals Board. The total amount of import duty, VAT, excise duty and fines collected amounted to Lm12,753, Lm80,667, Lm24 and Lm70 respectively.

### **Investigations**

#### **Non-Proliferation Unit (NPU)**

The NPU carried out 122 documentary checks on containers in transshipment, 36 on airfreight cargo, 6 on courier cargo and 12 on local export. Five containers were withheld as the items within were found to be controlled. Two of these shipments were denied export authorisations for onward shipping while the remaining three were granted export licences by the Trade Services Directorate.

The Unit co-operated with other agencies in their investigations on the Unit's behalf, notably the Malta Police, the Trade Services Directorate and Her Majesty's Revenue and Customs. The NPU continued with its industry outreach programme for the various external stakeholders as well as with its internal awareness initiative to Customs personnel.

#### **Special Intervention Action Team (SIAT)**

The contents of 86 containers were tallied by this Unit. Of the 72,073 passes issued, 66,827 concerned 'C' status goods. 1,734 searches were carried out on exiting vehicles leading to action regarding IPR, CE markings and Excise goods.

#### **Post Clearance Audit (PCA) and Economic Procedures Enforcement Unit (EPEU)**

PCA/EPEU officers carried out 260 on-site visits. PCA officers raised 21 post-entries which netted Lm11,515 duty, Lm13,621 VAT, Lm46,804 additional duty and Lm1,278 in fines. EPEU officers raised 12 post-entries bringing in Lm23,030 duty, Lm68,130 VAT and Lm116 in fines.

#### **Customs Intelligence Services (CIS)**

Of the 4,466 containers scanned after selection by CIS, 117 were referred for further investigation. 202 Passenger and 677 Cargo alerts were issued and 35 positive results, of which five for narcotics, were obtained. 433 Risk Information Sheets were received from EU Customs Services which were disseminated as appropriate. CIS issued 21 Risk Information Forms, 309 general alerts, 19 Yacht alerts and 104 Intelligence alerts. During 2007, CIS participated in three Joint Customs Operations with customs administrations of other EU Member States and the Commission.

As from 15 June 2007, CIS is keeping records of Cash Controls carried out at the border. Statistical information is sent quarterly to the EU Commission as stipulated by Reg. 1889/2005.

#### **Container Monitoring Unit (CMU)**

During 2007 a total of 9,156 containers were scanned by the VACIS. Of these, 4,015 were in transit and 5,141 for the domestic market. The contents of 49 containers were seized. In October the operations of the monitoring and scanning teams were moved to the newly-inaugurated Customs Warehouse within the Freeport. The move coincided with the delivery of a number of new high-tech tools and equipment including an AS&E Microdose X-Ray inspection System (pallet x-ray).

### **Enforcement Unit**

Intra- and extra-EU flights targeted during the year numbered 2,529. Ensuing action included 101 personal searches and nearly 33,000 baggage scans with over 12,000 pieces being physically examined. Seizures included narcotics, weapons, cigarettes, bird skins, steroids, currency and IPR-infringing goods. The 11 positive drug cases resulted in a record haul, with one particular seizure yielding 11.6 kg heroin.

Searches in commercial outlets and open air markets for illegal excise goods totalled 406 instances, of which 157 resulted positive in the shape of 3,261 alcohol bottles, 542,079 cigarettes and 25,870 pouches hand rolling tobacco.

Over 340 containers/trailers entering the country were searched and various positive results were obtained. Three trailers and their contents were seized for non-compliance with excise regulations on alcoholic beverages. A domestic container loaded with 10.53 million cigarettes, of which six million were confirmed counterfeit, was seized as it was incorrectly declared. Investigations are still under way.

Enforcement officials assisted other Customs personnel in various outstations on 109 occasions.

In a joint exercise with ADT officials fuel samples were collected for analysis from a number of route buses. Another 60 samples were taken from various fuel pumps/private reservoirs.

47 vehicles were withdrawn/seized and a vehicle auction sale rendered Lm5,485. Another Lm3,675 was recouped on settling of the relevant files.

The Dog section carried out 759 covert searches and 199 overt searches for narcotics at MIA arrivals. Other searches were carried out at the Central Mail Room.

Other tasks included daily patrols of the Grand Harbour area, Yacht marinas and Freeport perimeter.

### **IPR Unit**

The IPR unit tackled a total of 82 cases, 51 of which led to legal action (48 transshipment, 3 domestic). 11 domestic cases were settled out of court, while no action was taken by right holder in 20 cases (12 transshipment, 8 domestic). A total of 48 transshipment containers containing over 16.6 million items were detained. The above-mentioned six million counterfeit cigarettes and another 8,950 counterfeit goods intended for the domestic market were also detained, including outerwear, footwear, cigarettes, loud speakers, wrist-watches, mobile phone accessories, razor blades and Viagra/Cialis tablets.

PAUL SCERRI  
*Director General (Customs)*

## Value Added Tax Department

### AIM

The principal aim of the Department is to ensure that the VAT revenue target set out in the annual Budget is attained, in line with Government's policy of ensuring sound public finance and with the minimum cost and burden to registered persons.

### VAT LEGISLATION

During 2007, the following legal notices were published under the VAT Act 1998 (Cap 406):

- 120 of 2007 - amendment to VAT (Capt.406) (Forms) Regulations 2004 – Government Gazette of 27/04/07
- 121 of 2007 - amendment to VAT (Capt. 406) (Fifth Schedule) – Regulations 2007 – Government Gazette 27/04/07
- 122 of 2007 - amendment of VAT (Capt. 406) (Sixth Schedule) – Regulations 2007 – Government Gazette 27/04/07
- 123 of 2007 - amendment to VAT (Capt. 406) (Eight Schedule) – Regulations 2007 – Government Gazette 27/04/07
- 124 of 2007 - amendment to VAT (Capt. 406) (Third Schedule) – Regulations 2007 – Government Gazette 27/04/07
- 443 of 2007 - amendment to VAT Act (Capt. 406) (Second Schedule) – Regulations 2007 – Government Gazette 28/12/07
- 444 of 2007 - amendment to VAT Act (Capt. 406) (Third Schedule) – Regulations 2007 – Government Gazette 28/12/07
- 445 of 2007 - amendment to VAT Act (Capt. 406) (Fifth Schedule) - Regulations 2007 – Government Gazette 28/12/07
- 446 of 2007 - amendment to VAT Act (Capt. 406) (Eight Schedule) – Regulations 2007 – Government Gazette 28/12/07
- 447 of 2007 - amendment to VAT Act (Capt. 406)(Tenth Schedule) – Regulations 2007 – Government Gazette 28/12/07
- 448 of 2007 - amendment to VAT Act (Capt. 406) (Twelfth Schedule) - Regulations 2007 – Government Gazette 28/12/07.

Other significant amendments to the Act concerned the following:

- Information from Inland Revenue Department may be obtained
- VAT data to be used for ECO Contribution enforcement
- Amendments regarding production of records during investigations
- Court of Appeal cases over Lm500,000 to be heard before 3 judges (Superior Court)
- Obligation to have transport document during carriage of goods and possibility to stop and inspect goods (fight against illicit trading).

### REVENUE AND EXPENDITURE

#### Compliance Rate

VAT returns continued to be issued regularly each month. The following table shows the returns issued and received during 2007. The overall compliance rate as on due date, expressed as the percentage of returns received over the number of returns issued, was 80.52%, increasing to 88.05% by end year.

	Returns Issued	Returns Received as on Due Date	Compliance Rate as on Due Date	Returns Received up to End of Year	Compliance Rate as at End of Year
<b>Total</b>	<b>113,372</b>	<b>91,290</b>	<b>80.52 %</b>	<b>99,829</b>	<b>88.05 %</b>

## Revenue

During 2007, gross revenue collected under the VAT Act 1998, the CET Act 1997 and the VAT Act 1994 was Lm225,197,531 compared to Lm205,109,571 in the previous year. Refund of excess credit paid out of revenue amounted to Lm44,152,250 resulting in a net revenue of Lm181,045,281 compared to Lm174,582,914 in the previous year. The relevant information is shown in the following table:

	VAT Act 1998 (Lm)	CET Act 1997 (Lm)	VAT Act 1994 (Lm)	Total (Lm)
Total Gross	224,969,843	56,589	171,099	<b>225,197,531</b>
Less Refunds	43,933,142	55,173	163,935	<b>44,152,250</b>
<b>Total Net</b>	<b>181,036,701</b>	<b>1,416</b>	<b>7,164</b>	<b>181,045,281</b>

## Outstanding Credits and Debits

As at end 2007, the Department had a net debit balance, after deducting outstanding taxpayers' credit, of Lm120,110,540. The amount of Lm113,789,050 was in the form of estimated assessments and interests which would automatically be cancelled once the relative missing returns are submitted. Hence the realistic net balance was Lm6,321,488 in the form of taxpayers' credit, as shown below:

	VAT (1998) Lm	CET (1997) Lm	VAT (1994) Lm	Total Lm
Debit Balance	132,883,116	2,876,940	6,617,548	<b>142,377,604</b>
Outstanding credits	22,202,409*	8,962	55,693	<b>17,843,557</b>
Net Balance	<i>115,104,214</i>	<i>2,867,978</i>	<i>6,561,855</i>	<b>124,534,047</b>
Less Estimated Assessments	77,132,155	282,578	696,350	<b>78,111,083</b>
Less Interests	25,821,083	2,278,023	7,578,861	<b>35,677,967</b>
<b>Realistic Net Balance</b>	<b>12,150,975</b>	<b>307,376</b>	<b>(1,713,356)</b>	<b>10,744,995</b>
Accounts with a balance as at end 2007	19,095	2,583	3,298	<b>24,976</b>
Accounts with a balance as at end 2006	17,237	2,897	3,680	<b>23,814</b>

\* As a result of a sentence delivered by the Court of Appeal awarded in favour of Go plc, the Department will be refunding the amount of Lm4,423,507 that were issued in assessments. The Department is holding negotiations with the Chairman of Go plc for the amount to be repaid in instalments until 2010.

## Cost-Effectiveness

Total recurrent expenditure during 2007, excluding the contribution to the Tax Compliance Unit amounted to Lm2,529,582. Net revenue from VAT 1994, CET 1997 and VAT 1998 amounted to Lm181,045,281. Revenue from ECO Contribution was Lm5,992,934. Net total Revenue collected amounted to Lm187,038,215. The cost effectiveness rate for 2007 was therefore 1c4 per Lm1 of revenue compared to 1c5 in 2006.

## ENFORCEMENT

### Inspections

During the year, 19,443 field inspections were carried out, consisting of 19,245 spot-check inspections and 198 surveillance visits. As a result, 625 cases were referred for Court action (vide following table):

Number of Inspections					
	Spot-Checks	Surveillance Visits	Total	Court Action	Hit-Rate
<b>Total</b>	<b>19,245</b>	<b>198</b>	<b>19,443</b>	<b>625</b>	<b>3.25 %</b>

Throughout the same year, the majority of Inspectors were assigned work connected with administrative tax enforcement and review of tax assessments. Ten inspectors were regularly assigned duties to carry out inspection visits, supported by seven Revenue Security Corps members carrying out limited inspection duties.

A task force consisting of members from the VAT Department, Customs Department and the Police has been set up to curb illicit trading in Malta. Persons have been arraigned in Court as a result of this measure.

### Court Action

Legal action was taken against taxpayers wherever it resulted that the VAT and CET legislation was being abused. As a result, 280 cases involving failure to issue fiscal receipts were brought before the Court, of which 187 were decided. Of these, 143 cases were together fined a total of Lm37,900, whilst 44 cases were acquitted.

The Compromise Fine System was started in July 1999. Taxpayers have the option to pay a reduced penalty for failing to issue a fiscal receipt, instead of appearing before the Court. During the year, 430 taxpayers availed themselves of this option, paying a total of Lm50,800 in fines.

Another 1,577 new cases involved failure to submit tax returns. As a result, 309 cases were together fined Lm353,926 whilst 1,375 cases were withdrawn once the returns were duly submitted prior to the Court's hearing. The relevant information is shown below:

	Involving Fiscal Receipts				Involving Tax Returns			
	Appointed	Fined		Acquitted	Appointed	Fined		Withdrawn
		No	Lm			No	Lm	
<b>Total</b>	<b>280</b>	<b>143</b>	<b>37,900</b>	<b>44</b>	<b>1,577</b>	<b>309</b>	<b>353,926</b>	<b>1,375</b>

### Manual Fiscal Receipt Booklets

The number of fiscal receipt booklets distributed during 2007 was 76,467, a decrease of 2.81% over 2006:

Printed Booklets	77,417
Distributed Booklets	76,467
Returned Booklets	51,961

### Fiscal Receipts Lottery

The Fiscal Receipts Lottery continued to be run by the Public Lotteries Department. During 2007 an amount of Lm348,233 was paid as prize money.

## INVESTIGATION AND REVIEW

### Audit Investigations

The number of VAT cases assigned for investigation by professional auditors and the Tax Compliance Unit was 36. A total of 53 cases were concluded, resulting in Lm652,254 of under-declared tax. The number of cases pending investigation as at the end of 2007 was 66.

### Validation of VAT Returns/Review of VAT Refund claims

The VAT returns are regularly validated for erroneous tax declarations. VAT credit claims are also regularly monitored. The number of claims reviewed during 2007 was 943, of which 228 claims were deduced, amounting to Lm524,310.

Type	Cases Assigned	Cases Concluded	Final Assessments	
			No	Lm
Validation	153	92	1	82
Correction	521	576	119	33,765
Credit Control	859	943	228	524,310
Investigations	65	135	83	597,224
<b>Total</b>	<b>1,598</b>	<b>1,746</b>	<b>431</b>	<b>1,155,381</b>

## Objections

During the year, a total of 828 objection letters were dealt with completely. As a result, the number of outstanding objections as at end-year was 93.

## Appeals Boards

During 2007 the number of new appeals lodged with the VAT and CET Appeals Boards was 62. The Boards decided a total of 148 cases compared to 264 in the previous year.

## COLLECTION OF TAX ARREARS

### Civil Procedures

A total of 163 cases were settled through Civil Court action, resulting in the collection of Lm3,515,216 of tax in arrears, as shown in the following table:

	Demand Notices	Judicial Letters	Garnishee Orders/ Warrants of Seizure	Civil Cases Settled	Tax Collected Lm
<b>Total</b>	<b>5,171</b>	<b>202</b>	<b>144</b>	<b>163</b>	<b>3,515,216</b>

## TAXPAYERS' REGISTRY

### Registration and De-registration

During the year, 4,644 taxpayers were registered with the Department, bringing the total number of registered persons to 86,733. The current active registered taxpayers is 51,113, of which 32,702 are in 'Register A', 18,109 are in 'Register B' and 302 are in Register C. The number of outstanding applications as at the end of the year was nil. During the same year, 2,818 new applications were received for de-registration. A total of 3,066 applications were processed completely.

### Maintenance of Taxpayers' Details

During 2007, a total of 11,055 interventions were made with a view to maintaining taxpayers' details. Special attention continued to be given to undelivered mail which was received back by the Department. Such mail was either redirected to the address obtained from the Common Database system or else referred for on-the-spot inspection.

## GENERAL

### Customer Service

Customer Service was also improved. The Department has improved communication with registered persons by upgrading the Department's website and publishing information leaflets for registered persons informing them of changes in legislation. The Department has enhanced training to staff and upgraded its intranet. The Department is also analysing comments made by customers in order to improve the service.



## **e-Government**

In September 2007, the VAT Department launched the electronic identification system for online services as part of e-Government project.

## **Updating of Internet Website**

The Department's website was enhanced to become more user-friendly. The Department extended its online services. These now include the submission online of VAT returns by 'Register A' taxpayers and online payment of balances due. Throughout 2007, the VAT Department has continually updated the Department's website at [www.vat.gov.mt](http://www.vat.gov.mt). The website provides useful information on VAT for the general public, for traders and for tax professionals as well as online application for VAT registration and submission of VAT returns for 'Register B' taxpayers. The intranet site was also updated for the benefit of the VAT Department officials.

The VAT Department has also continued to publish on its internet website, guidelines regarding the interpretation of issues relating to VAT. These guidelines assist traders and tax practitioners in areas which require clarification in interpretation. The guidelines published so far relate to Trusts, Onward Supply Relief, VAT Refunds to Overseas Trailers and VAT Treatment of Electronic Services.

## **Legal Committee**

The Legal Committee set up in 2005 continued to discuss the various changes proposed by the European Commission and the EU Council to the VAT 6<sup>th</sup> Directive and which should be included in the Maltese VAT legislation. The committee also makes recommendations to the Inter-Ministerial Committee regarding these changes and also deals with certain cases of VAT interpretation. The legal committee is presided by the Commissioner of VAT.

## **Participation in EU Commission and Council Working Party Meetings**

The VAT Department also participated actively in meetings held in Brussels of the Working Party No 1, VAT Committee, SCAC Committee, Recovery Committee and other meetings.

The Commissioner of VAT also participated in the Council Working Party on Tax Questions which finalises draft VAT Directives for approval by COREPER and ECOFIN. Malta has succeeded to obtain an agreement on the place of supply of hiring of pleasure boats in the VAT Package.

## **ECO Contribution**

The VAT Department is the competent authority for the administration and collection of ECO Contribution. During 2007 the amount collected from this contribution was Lm5,992,934.

## **e-Services**

The Department collected €75,696 during 2007 from e-Services.

## **Meeting re Market Surveillance**

During 2007, the VAT Department continued to participate in meetings held by the Office of the Parliamentary Secretary for Small Business and the Self Employed regarding Market Surveillance. The aim of such meetings was to increase the co-operation between different enforcement departments in the fight against unfair trading.

### **Euro Changeover Migration**

The Department has successfully implemented the euro changeover migration process in its systems. The Department published leaflets for its registered persons to inform them about any change concerning this changeover.

### **Own Resources**

The VAT Department completed the compilation of the VAT Statement on Own Resources in due time.

### **EU Related Matters**

During 2007 the Department continued to compile questionnaires related to EU matters. Notwithstanding that these commitments are increasing from year to year, the Department complies with such obligations in the prescribed time.

### **Fiscalis Programme**

The Vat Department continued to participate in the Fiscalis Programme which is targeted to update officials from all Member States on VAT issues. Nineteen officials from the Department participated in seminars, workshops, work visits and multilateral controls.

### **Training**

Training to staff was held both in-house and outside the Department. Several sessions on legal amendments were delivered to inspectors at the Department. Other basic training sessions on the VAT Act were given to six new Inspector recruits. Other in-house training on Sage/Excel was given to 20 Inspectors while three Inspectors were trained in a course on Tax on Trust organised by the Institute on Financial Services. Two Inspectors are participating in a Diploma course on VAT compliance organised by the Malta Institute of Taxation and another three participated in a course on current issues on Risk Management organised by the Malta Financial Services Authority.

### **UK–Malta Twinning Project**

This 15-month project which provided assistance by the UK Revenue and Customs to the Maltese VAT administration and the Tax Compliance Unit was successfully concluded. The main aim of the project is to strengthen the overall capacity of the VAT Department and TCU to adequately implement and control the European VAT system and to combat international evasion and fraud in the field of VAT. Besides training being given to all Inspectors in recognising and detecting VAT fraud, experts from the UK's HM Revenue and Customs have offered assistance in the EU legal process, risk analysis, methods of detecting companies involved in carousel fraud, exchange of information with other EU Member States and computer audit techniques. The experts made 86 recommendations with a view to improve the operations of the Department. Three recommendations could not be accepted, one of which being the removal of registration obligation of persons with an exempt threshold. 73 recommendations have been implemented. The remaining 10 require a period of time for implementation and are ongoing. Most of the recommendations either have been or are being implemented.

This project, which costs around €400,000, was financed through the EU Transition Facility Programme.

JOSEPH SAMMUT  
*Director General (VAT)*

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# Tax Compliance Unit

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## GENERAL

During the year the Tax Compliance Unit (TCU) continued to consolidate its core competencies of:

- expanding its Data Warehouse to include new sources of information;
- increasing its efforts in combating tax evasion and avoidance through better and more cost-effective tax audits;
- implementing the Advance Tax Agreements Scheme;
- improving the expertise and technical knowledge of the TCU professional staff through continuous education programmes.

## ADMINISTRATION

The total TCU budget allocation for 2007 was Lm525,000 under the item *Contributions to Government Entities* as part of the VAT vote. Pending recruitment drives and a conservative approach in terms of operational expenditure saw the Unit register significant savings of approximately Lm35,000. These savings were transferred to the VAT Department towards the end of 2007.

## HUMAN RESOURCES DEVELOPMENT

### Recruitment of Professional Staff

The Tax Compliance Unit's professional staff complement at the end of 2007 stood at 22. The Unit is presently seeking to recruit Accountants and Senior Accountants to raise its staff complement to more adequate levels.

### Staff Training & Professional Development

Throughout 2007, the Unit embarked on an intensive in-house training programme for its Accountants and Senior Accountants with two main focal areas. The primary subject area was income tax and this aspect of the in-house training programme included seminars such as Tax on Property Transfers, Tax Avoidance and Evasion Schemes, and Income Tax Act Amendments involving ACIT amongst others. The secondary subject area of the in-house training programme focused on the TCU's Business Objects software program and was aimed at increasing awareness and use of this analytical tool.

Furthermore, the Tax Compliance Unit participated in a number of overseas meetings and training seminars under the Fiscalis Programme and the UK-Malta Bilateral Exchange Scheme.

## IT SYSTEMS & DATA WAREHOUSE

### Use of TCU Information by Other Departments

A total of 37,331 reports were generated from the TCU data bank and furnished to other government departments, mainly the VAT, Inland Revenue and Social Security Departments as well as the ETC.

The table below lists the reports furnished by the TCU to the mentioned entities during 2007:

<b>TCU Reports for other Government Departments/Entities</b>					
	<b>IRD</b>	<b>VAT</b>	<b>DSS</b>	<b>ETC</b>	<b>Total</b>
<b>No of reports</b>	<b>207</b>	<b>13</b>	<b>24,396</b>	<b>12,715</b>	<b>37,331</b>

### **COMPLIANCE TESTING**

A number of compliance exercises were embarked upon during this year. Apart from serving as an alternative risk analysis tool, such exercises provided a thorough insight into popular tax evasion schemes being employed. As a result, a number of cases were eventually forwarded for necessary enquiries. It is also expected that upon conclusion of such exercises, a number of recommendations for legislative amendments will be put forward for the consideration of the respective tax authorities.

### **DATA WAREHOUSE**

Following the migration to a Microsoft platform in 2006, a consolidation exercise was initiated throughout 2007 in order to maximise utility of the Unit's data warehouse. In fact, a number of reports were re-visited in order to meet the Unit's requirements in a more effective manner. In addition to this, 2007 saw a continued improvement in the Unit's liaison with other government entities regarding the provision of information from the data warehouse. Towards the end of the year, particular attention was paid to the implications of the euro changeover on the same data warehouse.

### **OPERATIONS**

#### **Tax Investigations**

During 2007 the tax audit cases resulted in the following increases in income:

Income Tax	Lm 1,309,472
VAT	Lm 2,677,730
<b>Total</b>	<b>Lm 3,987,202</b>

CARMEL CONTI

*Director General (Tax Compliance Unit)*

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# Financial Management Monitoring Unit

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## STRATEGIC TASKS

### Internal Control Framework for Public Sector Entities

In January 2007, FMMU submitted a report recommending the introduction of an internal control framework for the public sector. During the year this initiative developed in line with the reorganisation of FMMU into the PIFC Division, in turn forming an integral and central part of the Public Internal Financial Control strategy.

### Public Internal Financial Control (PIFC) Reorganisation Report

During 2007, a new PIFC Division was created within the Ministry of Finance. This reorganisation brings together the FMMU and the IAID under the PIFC Division. The FMMU was in turn streamlined into three main units, namely the Central Harmonisation Unit, the Vertical Measures Unit and the Horizontal Measures Unit. The Unit's capacity was bolstered by the recruitment of three Programme Managers to replace the previous three Programme Managers who became Project Leaders in 2007. The recruitment process for a further three Programme Managers is still underway.

### PIFC Twinning Light

In the latter part of 2007, the PIFC Division through FMMU applied for EU 2005 Transition Facility programme funds for a Twinning Light Project titled *Instituting a robust Public Internal Financial Control System for the Public Sector in Malta: Acquisition of technical assistance to implement EU standards and best practices*. The proposal was accepted and a call for proposals was issued. Four applications from EU Member States were received, and the UK National Audit Office was chosen as the contractor. The contract was signed in December 2007 and the project is planned to be implemented in the first six months of 2008.

### Business Plan Directive including Business Plan Template and Performance Reward Schedule

Directive 02/2007 to public sector entities in line with 2006 Budget Speech provision was issued requiring public entities to submit their Business Plan for 2008. This Directive was sent to 71 entities that were requested to submit an annual business plan, a summary of the annual business plan and a performance reward schedule. In line with the exercise carried out in 2006, a template business plan and performance reward schedule were distributed to facilitate this exercise.

### Review of Business Plans

Out of the 71 entities to which the business plan directive was sent, 51 entities replied (2006: 41 entities), three entities were exempted from the submission, while 17 entities (2006: 30 entities) did not send the information requested. The business plans received were analysed and FMMU issued advice regarding the appropriate level of subvention, which was forwarded to the Budget Office to aid in the budget setting process for 2008.

## Financial Year Alignment

In line with the exercise started in 2006, this Unit identified 27 public entities whose financial year end was not the 31 December. Five entities were not included in the alignment exercise because their current financial year end took into account particular operating requirements. All the remaining 22 entities necessitated a financial year end change to the 31 December, with the exception of the University of Malta who expressed its preference for a change in financial year from the 31 December to the 30 September.

On 25 July 2007, a Directive was sent to limited liability companies and entities not regulated by a statutory law, enjoining them to take all necessary action to change the financial year end from 30 September to 31 December such that, with effect from 1 January 2008, the financial year of the organisation will read from 1 January to 31 December. This would facilitate data collection by the Ministry of Finance and the National Statistics Authority for ESA reporting purposes.

Meanwhile, FMMU, with the help of the Attorney General Agency, drafted an Act to amend the duration of the financial year as applicable in various laws relating to those entities that were regulated by a statutory law. On 27 September 2007, a Directive was sent to these public entities, informing them of the legal amendments and informing them that whilst during the current year, the books shall be closed on the 30 September 2007, the following financial year commencing on 1 October 2007 shall be for a period of fifteen months ending on 31 December 2008. Thereafter as from 1 January 2009 your financial year will end on 31 December of each year.

The legal amendments were enacted as part of the Budget Measures Implementation Act, 2008 and the provisions of the financial year end alignment shall be deemed to have come into force on 1 October 2007.

## Human Resources Planning

Following the previous year's report on the Human Resources Planning for the Public Sector Initiative, another report was compiled by this office on the entire public service and public sector which tackled issues that are being faced by the public service, that is, the number of officers retiring and resigning from the public sector and also giving short-term, medium and long-term solutions on how to attract the right employees, retain the best employees through strategic human resource planning and other measures. This document was presented to RRAG for discussion.

## Project Proposals Templates

The Ministry of Finance undertook an initiative whereby every entity, ministry or department planning to undertake a capital project in excess of Lm100,000 should formalise and document the process by completing project proposal and project definition templates. FMMU's contribution to this initiative includes the design of the project proposal and project definition templates and the subsequent review of the capital projects submitted. The Capital Projects Directive came into force on 1 August 2007 and by 31 December 2007 three capital project proposals were submitted.

## Transfer of Assets and Liabilities Directive

In the light of the ongoing restructuring taking place within the public service, it is considered necessary to give clear policy direction in regard to the ownership of assets and liabilities that may be subject to transfer from government departments to newly set-up public organisations. This requirement is all the more essential in view of the increased relevance of balance sheet items within the context of the accruals accounting methodology, aspects of which are being increasingly resorted to. In June 2007, a directive was issued to public entities informing them on the procedure to be followed when assets and liabilities are transferred from government departments to newly set-up public organisations. A circular was also sent to government departments informing them of this procedure.

### **Public Entities' Accounting Treatment of Immovable Property**

This Unit undertook an exercise that sought to determine the basis and extent of entities' recognition of immovable property and improvements thereto in their financial statements. The need for this exercise was felt following a number of cases involving entities' immovable property. Entities that were selected for investigation were those that are known to own, administer, and manage significant immovable property. However, FMMU's exercise was divided into two parts that were executed independently from each other. Entities whose financial statements already contained information about immovable property were included in the first stage of the exercise, while those entities that do not account for immovable property in their annual audited financial statements, were included in the second stage of the exercise. In 2007, this Unit started working on the first exercise.

### **Corporate Governance for Public Sector Entities**

This Unit developed a Framework for Corporate Governance that is applicable to public sector entities. In 2007, this framework was discussed with the Office of the Prime Minister and updated in line with the Bill for the Public Administration Act. It has been presented to the Principal Permanent Secretary for eventual approval of Cabinet.

### **Code of Ethics for Board Directors in Public Sector Entities - Updating**

This Unit updated the 1994 Code of Ethics for Board Directors of Public Sector Entities. In 2007, this framework was discussed with the Office of the Prime Minister and updated in line with the Bill for the Public Administration Act. It has been presented to the Principal Permanent Secretary for eventual approval of Cabinet.

### **National Anti Fraud and Corruption Strategy**

A National Anti Fraud and Corruption Strategy was drafted and submitted to the Cabinet Secretary for consideration. The main aim of the strategy is to set up a normative, institutional and operational framework for the effective and efficient fight against irregularities, fraud and corruption in Malta, reflecting both the local requirements and its international obligations. The strategy has four main objectives, namely: capacity building, communications strategy, maximisation of national co-operation and the maximisation of international co-operation.

## **STRATEGIC AND FINANCIAL EVALUATIONS**

### **Malta National Laboratory Co Ltd**

On 23 May 2007, this Unit was asked by Budget Office to look into the financial situation of MNL Co Ltd. On 14 June, FMMU published a report entitled Malta National Laboratory Analysis, which in its conclusions deemed that the National Laboratory is not financially viable as it runs today. MNL has over the past years failed to generate sufficient cash to be able to run on its own steam, leading to a cash starvation that is only alleviated by its dependency on government handouts. This state of affairs is clearly unsustainable - the high cost structure of the Lab can never be recouped unless test volumes (and revenues) expand to a considerable degree. The conclusion is that, as envisaged from the outset, the future viability of the National Laboratory rests only on the full implementation of the consolidation process of government testing facilities.

### **Malta Industrial Parks Limited**

During a routine enquiry into the accounts of Malta Industrial Parks Ltd (MIPL), this Unit noted that the company had last prepared audited financial statements for the year ended 31 December 2004. Upon

further inquiry with the accounting personnel of the company it transpired that the company had acted upon advice from its auditors and had not prepared audited financial statements pending the ratification of a Service Level Agreement between the company and Government. The ratification of the SLA would impact the way in which the company treats capital expenditure incurred on the properties that it manages. The company's management believe that the SLA would entitle the company to capitalise such improvements in its balance sheet. This Unit conducted an investigation into the affairs of the company with particular emphasis on the treatment of property related expenses, the SLA, its impact on the accounts of the company and its impact on Government.

## **OPERATIONAL EVALUATIONS**

### **Malta Tourism Authority Office Space Leasing Request**

FMMU received a request from MTAC for the lease of alternative premises for the Enforcement Directorate of the Malta Tourism Authority. The Directorate were required to vacate their present offices at Palazzo Spinola due to a decision by central Government since these offices were required to house an international agency. The request presented six alternative premises for the Directorate. FMMU analysed the needs of the Directorate and viewed options available and recommended the lease of office space in Msida.

### **Malta Air Traffic Services: Extension of Air Traffic Control Tower to Accommodate Office Space**

FMMU reviewed the plans for the extension of office block to the Control Tower Building at the Malta International Airport. FMMU reviewed the needs of the Malta Air Traffic Services, its EU obligations, the estimates for the project, and the financial position of the organisation. FMMU concluded that the need for the extension existed, while Malta Air Traffic Services was in a position to finance the project from internally generated funds.

### **Malta Maritime Authority: Excess Office Space at the Maritime Trading Centre**

In 2007, FMMU was represented on a Committee set up to make recommendations on the commercialisation of the Maritime Trade Centre. In July 2007, the Committee presented its report to the Malta Maritime Authority for its adoption.

### **Foundation for Social Welfare Service: Request for the Lease of Additional Premises for Agenzija Appogg and Relocation of Offices of Agenzija Sapport**

During the year, a number of requests were received from the Foundation for Social Welfare Services for the leasing of additional premises and for the relocation of some offices. Due to the increase in the number of staff coupled with the increase in the number of services that is being demanded from Agenzija Appogg, a request was received to lease the adjacent flats which could be easily converted to offices and meeting rooms for clients. This request was considered as fair and reasonable by this office.

In its effort to consolidate the corporate services, the management of the Foundation for Social Welfare Services felt the need to relocate the offices of Agenzija Sapport from Mtarfa next to Head Office in St Venera. This office evaluated this request and approval was granted.

### **Malta Environment and Planning Authority: Request for the Purchase of Premises**

MEPA, in May 2007 requested FMMU's authorisation to purchase office space in Marsa. FMMU analysed the request both from a requirements point of view and from a financing point of view. FMMU gave its go-ahead to MEPA, subject to the necessary requirements according to regulations in force.



### Mater Dei Hospital/Foundation for Medical Services

The Accrual Accounting Task Force sought the assistance of this Unit in order to determine the reliability of Mater Dei Hospital fixed asset register. Preliminary investigation by this Unit indicated that such a register did not exist at the newly inaugurated Hospital. FMMU was engaged in various meetings both with Hospital's management team as well as with the Foundation for Medical Services that was responsible for procuring all of the Hospital's assets. This exercise is continuing in 2008.

### FUNDING EVALUATIONS

#### Foundation for Social Welfare Services: Request for Additional Funding

FSWS submitted a request to FMMU for capital funds to make the additional improvements for office space to house Appogg at Guardamangia. After reviewing the needs of Appogg and the finances of the Foundation, FMMU submitted a Memo to Budget Office for consideration of the request.

#### Mount Carmel Hospital: Request for Additional Subvention

MCH requested a revision of the 2007 budget allocation since the subvention provided was less than that provided in 2006, at the same time that expenditure increased due to additional initiatives. FMMU reviewed MCH's request in line with the operational needs for the hospital and the funds available. FMMU recommended to Budget Office that the subvention to MCH be increased to cover the inevitable higher costs required to run the hospital.

#### Water Services Corporation: Request for Further Funding

In a letter dated 11 September 2007, WSC referred to the bleak financial position of the Corporation portrayed by the management accounts for the ten-month period ended 31 July 2007. According to the FC for WSC to continue operating as a going concern it must have adequate government support. This Unit conducted an investigation into the affairs of the Corporation and noted a number of factors that were contributing to the Corporation's financial difficulties, namely: the wages of some 149 employees that were surplus to requirements; decreases in own income and in government subvention; a net current liability position of Lm1 million, due to the fact the Corporation's debtors decreased from 2006 while short-term creditors increased. FMMU concluded that both the Corporation's lack of funds and the national issues of charging/subsidising/maximising resources needed to be dealt with as these impinge on the future results of WSC. Based on this Unit's recommendations, Budget Office approved an additional subvention of Lm500,000 as opposed to the requested Lm1 million.

### Monitoring Function

As part of FMMU'S monitoring functions, the management as well as the audited financial statements of the following public entities were reviewed in 2007. The entities' selection was based upon this Unit's risk classification. Issues identified are included in a Management Letter and communicated to the entities' Management.

Entity	Comment
Enemalta Corporation	Reviewed management accounts for the eight-month period ended 31 August 2007. Currently this Unit is still awaiting a reply for the queries sent late December.
Malta Tourism Authority	Reviewed management accounts for six-month period ended 30 June 2007.
Air Malta plc	Reviewed management accounts for nine-month period ended 30 September 2007. Currently this Unit is still awaiting feedback from the entity.
Malta Shipyards Limited	Reviewed management accounts for six-month period ended 30 June 2007. This Unit is in the process of submitting queries to the entity's management.
Foundation for Tomorrow's Schools	Reviewed management accounts for nine-month period ended 30 September 2007. No exceptions were noted.

Malta Environmental & Planning Authority	Reviewed the entity's estimates for 2008. This Unit will shortly be reviewing the audited financial statements for the year ended 30 September 2007.
National Orchestra Limited	Reviewed management accounts for six month period ended 30 June 2007. This Unit will be shortly issuing a Management Letter.
Malta Maritime Authority	Reviewed both management accounts and audited financial statements for the year ended 30 September 2007. Currently awaiting further information from management.
Water Services Corporation	Reviewed management accounts for the ten-month period ended 31 July 2007. Currently awaiting accounts for August and September 2007.
Malta Freeport Corporation Ltd	Reviewed management accounts for six-month period ended 30 June 2007. This entity will not be reviewed further because of the low risk assessed.
Malta Resources Authority	Reviewed management accounts for six-month period ended 30 June 2007. This Unit will be shortly issuing a Management Letter.
Lotteries and Gaming Authority	Reviewed audited accounts for the year ended 31 December 2006 as well as management accounts for the nine-month period ended 30 September 2007. This Unit will be shortly issuing a Management Letter.
Malta Air Traffic Services Ltd	Reviewed management accounts for nine-month period ended 30 September 2007. No exceptions were noted.
University of Malta	Reviewed management accounts for nine-month period ended 30 September 2007. Several exceptions were noted. However, these exceptions are being addressed by management and this Unit will continue to monitor this entity.
MCAST	Reviewed management accounts for six-month period ended 30 June 2007. This Unit is currently finalising its report and will shortly issue a management letter.
MIMCOL	Reviewed management accounts for six-month period ended 30 June 2007. Currently awaiting further information from management.
Foundation for Medical Services	Reviewed management accounts for nine-month period ended 30 September 2007. No exceptions were noted.

## CAPITAL PROJECTS EVALUATIONS

### National Blood Transfusion Centre

On 9 October 2007, the MHEC submitted a Project Proposal Document for the construction of a new National Blood Transfusion Centre at Notabile Road, Attard. This Unit reviewed the document and presented its views to Budget Office on 26 October 2007. FMMU concluded that in the absence of alternative funding from the EU, the project must be funded from local funds or else Government would be facing infringement procedures. It was thus recommended that the necessary funds are made available for the project.

## IT RELATED

### Fleet Management System

During the year, implementation of the vehicle management system developed by FMMU and MITTS continued in earnest. During 2007 the software was fully implemented in the following ministries, departments and public entities: MCMP; MEYE; MFA; MFIN; MGOZ; MRAE; MFSS; House of Representatives; MJHA; MHEC; MIIIT; OPM; Office of the President; MEPA and the EU Paying Authority. Moreover various FMS enhancements necessary were carried out including fuel allocations by Lm/month and per year for Magistrates and Judges. In December 2007, this Unit commenced testing on the web based FMS application. So far FMS has 346 users, 1,231 registered vehicles and up to the end of December had processed 12,107 fuel issues. The system has been fully implemented in eight ministries and one entity, 75% implemented in three ministries and half completed in another ministry. The implementation of the FMS software to the other ministries, departments and public entities, together with the implementation of the web based application continues in 2008.

### **Pharmacy of Your Choice (POYC) Implementation**

This Unit's involvement in this government initiative included contribution to the redesign of ideas as originally proposed especially related to security issues; setting the implementation schedule; attendance at meetings held at MITTS and at suppliers; establishing with MITTS the various communication requirements for POYC to be able to function; testing from different VPN connections. One Project Leader is also representing the Ministry of Finance on the Pharmacy of Your Choice Advisory Standing Committee.

### **ONGOING TASKS**

#### **RRAG Vetting of All Vacancies**

During the year, this Unit continued to serve as a member of the Recruitment and Redeployment Advisory Group (RRAG). The aim of RRAG is to rationalise government expenditure, to increase control on recruitment and make better use of public service employees and to improve work practices. FMMU vetted all requests for recruitment received from the public sector in respect of the salary package including any allowances and perks, qualifications, availability of funds and the need for the vacancy to be filled whether it is a new post or a replacement. During the year, 1,024 posts were evaluated.

#### **Vehicle Procurement Authorisations, Additional Cars, Leasing of Cars**

In line with the directives issued during 2005 and 2006, this Unit continued to analyse and authorise vehicle procurement, leasing and hiring requests. Such requests were evaluated by making use of discounted cash flow techniques. During 2007 cases tackled amount to 280 vehicles. This office also evaluated other transport related expenses.

#### **Restructuring Exercises and Changes in Organisational Charts**

Throughout this year, FMMU assisted a number of entities with restructuring exercises such as Zammit Clapp Hospital where a thorough evaluation was carried out on the number of employees required due to the increase of operations from 60 beds to 180 beds. This office also carried out evaluations focusing on whether it is cost-effective to employ or outsource certain services related to health care services given by Mount Carmel Hospital. Emphasis was also being made on the replacements of staff due to internal promotions. It has been noticed that entities change the organisational charts to suit their needs. Since this unit looks at the public entities from a holistic point of view, it emerged that certain vacancies were being created through internal promotions and such posts were being considered as new posts and were thus referred to the capacity building meetings.

#### **Capacity Building Meetings**

This unit was invited to attend the capacity building sessions which are held twice a year at OPM, where each respective Permanent Secretary has to plan and bring forward a list of vacancies that need to be filled both at his/her ministry and at the entities under his/her portfolio during the following six months, together with the necessary justifications. This submission is made to Permanent Secretary, Strategy and Operations at the OPM and the Permanent Secretary at the Ministry of Finance and the meetings are also attended by various officers from both ministries. During these meetings, the vacancies are discussed and a decision is taken on whether these posts are to be approved or not, depending on the finances available. This office carries out preparatory work to be in a position to advise the Permanent Secretary MFIN on which posts are justified and a member of FMMU always attends these meetings.

## General Queries re Public Procurement

Throughout the year, FMMU responded to a number of queries from the public sector regarding Government's Procurement System and policies and practices relating to expenditure.

## Parliamentary Questions

This Unit is sometimes asked to provide more depth to the answers given to certain parliamentary questions. By performing a more detailed analysis, the Unit sought to provide further information supplementing the answers to these parliamentary questions.

## National Reform Programme Contribution

Officials from FMMU, including the Director, are periodically requested to complete questionnaires sent by OPM regarding attainment of measures by FMMU regarding the NRP in the form of traffic reports.

## COLLABORATION WITH OTHER DEPARTMENTS

### IAID Investigation - Contract for Photovoltaic General Units

FMMU assisted the IAID in an investigation regarding the contract for Photovoltaic General Units.

### IAID Investigation - MTA, MMA, Air Malta Fair Stands

FMMU assisted the IAID in an investigation into the awarding of contracts for exhibition stands at various fairs by the Malta Tourism Authority, Malta Maritime Authority, Department of Information and Air Malta, mainly with the Office of the Prime Minister and the Malta Tourism Authority over a period of three years starting in 2004. A total of 62 fair participations were investigated.

### IAID - European Structural Fund Audit

An FMMU Programme Manager was involved in the audit of the Employment and Training Corporation's Training and Employment Exposure Scheme (TEES) as part of the Internal Audit Directorate's EU Funds Certifying Authority's functions.

## CONFERENCES AND SEMINARS

- *China Visit*: In August 2007, one Project Leader attended the Seminar on Macro-economy Management for Developing Countries, organised by the China Centre for Business Co-operation and Co-ordination, in China.
- *GRECO Meeting*: Between 22 and 23 March 2007, two Programme Managers attended the Start-up Training Workshop for GRECO's Third Evaluation Round on the theme of Party Funding, at the Council of Europe in Strasbourg.
- *OLAF Meeting*: Between 26 and 27 March, one Programme Manager together with an Audit Manager from the IAID) attended the Joint OLAF/EUROJUST Conference on Fraud and Corruption affecting European Communities' Financial Interests in Brussels.
- *Presentation to EU Commission Delegates*: In October 2007, FMMU on behalf of the PIFC Division participated in the activities organised for a Study Visit for EU Commission Officials through a presentation on Administering Malta module of the programme.

## COLLATION OF DATA DIRECTIVE

In February 2007, a Ministry of Finance directive to the public sector was issued to gather data, which was subsequently used in various FMMU initiatives during the year. Data gathered includes the entities'

primary financial statement component information and motor vehicle data for easy uploading in the Fleet Management System.

## OTHER AD HOC REPORTS

### Non Compete Clause

In May 2007, FMMU submitted its recommendations to the Office of the Prime Minister on a Non Compete clause, affecting the renewal and or new Employment Contracts within the Public Service and Public Sector. These recommendations were considered within the context of the Bill on the Public Administration Act.

### End of Life of Vehicles Initiative

In implementing the EU directive on the end of life of vehicles, the Ministry of Finance together with the Ministry for Rural Affairs and the Environment, was looking into short term measures to start implementing this directive. A member from this unit was present in various meetings where possible solutions were discussed in order to establish the cost involved and possible ways of financing such expenditure, since the directive itself states that the end user should not be charged directly to dispose of the vehicles at the end of their life.

### IAID - Public Entities' Accounting Treatment of EU Grants

In 2006, the European Commission issued Regulation No 1083/2006, which sets out implementing rules for the Structural and Cohesion Funds. This Regulation provides guidance for Member States to enable them to prepare well for the next programming period starting on 1 January 2007 and ending on 31 December 2013. This Unit analysed the financial statements for the year ended 2006 in a bid to determine the extent of accounting and disclosures made by public entities in respect of EU grants. The main issue was whether the current system, whereby control was exerted by the line ministries, was in breach of the EC Regulation. In a Memo dated 22 October 2007, this Unit expressed its opinion that the current system could be retained if beneficiaries are directed to account for the co-funded programme. To this effect, FMMU put forward two scenarios that are expected to apply (a) when the grant is intended to cover expenses in respect of services incurred by the beneficiary in the course of the programme; and (b) When the grant is intended for the purchase of assets or towards capital improvements. FMMU concluded that both scenarios will have the effect of accounting for EU grants in accordance with IFRSs and with Council Regulation 1083/2006, the current centralised system will be retained.

## CONTINUOUS PROFESSIONAL DEVELOPMENT

Members of this Unit have attended the following training courses during 2007:

Organisation	Course Title	No of Staff	Hours	Total Hrs
Contracts	Procurement Management Systems	3	2.5	7.5
EIPA	Remodelling the Public sector – Recent Trends & Initiatives in European Public Administration	1	16.5	16.5
IAID	Twinning Light Project 2007, including the following sessions: Auditing of IT systems and on the use of Audit Interrogation Packages – 14.5 hrs; Identifying and reporting irregularities to the European Anti-Fraud Office – 9 hrs; Risk based auditing, sampling and audit trail – 7.5 hrs; Co-ordination and liaison in the management of EU Funds – 13 hrs; Proper management of data gathered during audit assignments – 1.25 hrs; Conducting financial investigations – 10.5 hrs	3	55.7 5	167.25

Integrated Business Systems	Employment and Industrial Relations Act	2	8.5	17
MHEC	Health Labour Accounts	2	4	8
MIA	IFRS Refresher Course	3	4	12
MIA	HR Practices & Essential Labour Legislation Professional Competencies: Human Resource Management	1	2	2
MIA	Financial Instruments for the non-financial sector	2	3.5	7
MISCO	Using Emotional Intelligence	4	8	32
MITTS	Innovative Procurement	6	3.5	21
NAO	National Audit Office 10 <sup>th</sup> Anniversary Conference	4	4	16
Paragon Europe	Paragon National Conference	1	9.5	9.5
SDO	Practical Benchmarking	4	12	48
SDO	MS Projects	2	7	14
Chamber of Advocates	Fiduciary, Obligations, Trusts & Foundations	2	6.5	13
Treasury	DAS Euro changeover Training Session	5	2	10
	<b>Total of CPE Hours financed by FMMU for its staff (5 in all because two new ones came late in the year)</b>			<b>400.75</b>

## PARTICIPATION IN MINISTERIAL COMMITTEES

### Recruitment and Redeployment Advisory Group (RRAG)

During the year, FMMU continued to work as a member in the RRAG where issues of a strategic nature regarding recruitment and redeployment are discussed. FMMU is one of eight members in this group which was set up in 2005. RRAG is chaired by the Principal Permanent Secretary, and the other members come from the OPM, MFIN and MEU.

### Core ICT Advisory Committee (CITAC)

During 2007, FMMU participated as a member in the Core ICT Advisory Committee. During the year, various initiatives were discussed including the Opex and Capex programmes, capital projects and the National Plan for ICT, and various guidelines with regard to Government's ICT policy in Malta.

### Accrual Accounting Task Force

FMMU is represented on the Accrual Accounting Task Force whose role is to facilitate and monitor the introduction of accrual accounting within government ministries and departments.

### Pharmacy of Your Choice Advisory Standing Committee

Following the signing of the Memorandum of Understanding between Government, the Chamber of Pharmacists and the GRTU, an advisory committee was set up in order to advise on the roll-out of the new POYC system. FMMU is represented on this group by one Project Leader and another member from the Ministry of Finance is also a member on this committee. The other committee members represent the Ministry for Health, Elderly and Community Care, the Chamber of Pharmacists, the GRTU, the UHM and shop stewards of Pharmacists working in the various health departments.

### Government Finance Action Group

This Unit is a member of the Government Finance Action Group. Other members of the Group are Budget Office, NSO, Central Bank, Treasury and Economic Policy Division. This Group meets regularly to discuss statutory returns that are made to Eurostat.

RITA SCHEMBRI

*Director General (Financial Management Monitoring)*

## EU Paying Authority Directorate

### Mission Statement

*To perform duties and responsibilities relating to the financial management of EU-funded projects and EU Own Resources with the aim of maximising the benefits to Malta within the obligations and parameters as set out in National and EC Legislation.*

### MAIN AREAS OF RESPONSIBILITY

- To act as National Authorising Officer (NAO) in charge of the National Fund which has been set up as a Unit for the management of EU Pre-Accession and Transition Facility Funds.
- To act as the EU Paying/Certifying Authority with regard to Structural and Cohesion Funds regarding the certification of expenditure and subsequent drawdown of funds from the EU Commission.
- To open and manage accounts in connection with receipts and payments of EU-related funds.
- To disburse funds relating to Own Resources as part of Malta's contribution to the EU Budget.

### Core Functions

- to perform the duties of the Paying/Certifying Authority for Structural and Cohesion Funds;
- to perform the duties of the National Authorising Officer for Malta and be responsible for the management of the National Fund;
- to monitor progress of the projects which are being financed through foreign funds emanating from the EU and the European Economic Area and other non-EU Member States, and draw budgets and forecasts for the said funds;
- to control and report on a regular basis the financial position of the funds and relative disbursements;
- to liaise with the DG Budget on the payment and financial management of EU Own Resources;
- to compile and maintain proper records of ex-ante, interim and ex-post inspections by third parties;
- to perform on-the-spot checks on the stakeholders involved in the implementation of EU-funded projects;
- to monitor the work of the Treasury and Contracts Department, which together are equivalent to the Central Financing and Contracting Unit (CFCU);
- to maintain an ongoing liaison with government institutions on EU-related matters in order to ensure that all commitments emanating from the various funding operations are being met;
- to manage the EU Travel Envelope regarding Malta's participation in EU Council and Commission meetings;
- to manage and process funds related to other EU Initiatives and Programmes.

### Work Report for 2007

#### *Pre-Accession and Transition Facility Funding*

The Director EU Paying Authority is also vested with the responsibility of National Authorising Officer (NAO) which is a function directly delegated to him by the Minister of Finance. As stated in the Memorandum of Understanding (MOU), the Financing Memoranda (FM) and EC Financing Decisions for the four Pre-Accession and the three Transition Facility Programmes, the National Authorising Officer is recognised as the top leader in the implementation process. These Programmes are regulated by EC Regulation 555/2000.

The NAO continued adopting, in liaison with the European Commission, the Extended Decentralised Implementation System (EDIS) in the management of EU Pre-Accession funds, including the Transition Facility. The NAO ensured as an ongoing exercise that the EDIS requirements were maintained.

During 2007, the Office of the NAO finalised the closure of the Pre-accession Programmes for 2001 and 2002 and submitted the closure documents in relation to the Pre-accession Programme for 2003. Moreover the NAO ensured that the deadlines of 15 December 2007 in relation to disbursement for the Transition Facility for 2004 and regarding commitment for the Transition Facility for 2005 were attained successfully.

The NAO was also involved in the following:

- chaired regular co-ordination meetings with the participation of all the horizontal stakeholders, including the National Aid Co-ordinator (PPCD), the Contracts and the Treasury Departments to monitor the progress of all projects under the Pre-accession and Transition Facility Programmes and also to resolve any pending issues;
- participated in the biannually scheduled Sectoral Monitoring Sub Committees together with the National Aid Co-ordinator (NAC), Senior Programming Officers and the Project Leaders of projects under the Pre-accession and Transition Facility Programmes from various ministries, departments and other entities;
- participated as a permanent member, in the two Joint Monitoring Committee meetings held between the EU Commission and the Maltese authorities, with regard to the monitoring of EU Pre-Accession Programmes and Transition Facility;
- participated in Steering Committees of Twinning Projects of various departments and ministries;
- issued various circulars related to the implementation of projects under the Pre-accession and Transition Facility Programmes; these circulars included early advice to stakeholders regarding contracting and disbursement deadlines of Programmes, another on Budget Estimates for each project, and another on the submission of Irregularity Reports;
- participated in a number of monitoring visits together with the European Commission on projects under the Pre-accession and Transition Facility Programmes at various Implementing Authorities;
- monitored the iPerseus System for the updating of financial data on the various projects;
- communicated its position on various issues including an Evaluation report by independent evaluators on the implementation of Projects under the Pre-accession and Transition Facility Programmes;
- organised a training seminar on the manual of procedures for all vertical stakeholders involved in project implementation under the Pre-Accession and Transition Facility Programmes.

The total amount of funds received from the Commission during 2007 to finance projects of the Programmes still open amounted to €10,793,949 (Lm4,633,842). Following authorisation of payments according to expenditure effected at project level, €9,552,537 (Lm4,100,904) were actually transferred to Government Revenue. Detailed information is included in the following table:

<b>Pre-Accession and Transition Facility Funds 2007</b>				
<i>Programme</i>	<i>Funds Transferred to Government Revenue</i>		<i>Funds Received from Commission</i>	
	€	Lm	€	Lm
NP 2003	3,767,959.89	1,617,585.18	1,728,119.28	741,881.61
TF 2004 & TF 2005	5,784,577.24	2,483,319.01	9,065,829.28	3,891,960.51
<b>Totals</b>	<b>9,552,537.13</b>	<b>4,100,904.19</b>	<b>10,793,948.56</b>	<b>4,633,842.12</b>

### *Structural and Cohesion Funds*

The Directorate also had the role of Paying Authority (PA) for Structural and Cohesion Funds and during 2007 honoured Malta's commitments and obligations and fulfilled its functions and tasks emanating from EC Regulations 1260/1999 and 438/2001 for the Programming Period 2004-2006 and as Certifying Authority under EC Regulation 1083/2006 for the new Programming Period 2007-2013.



During 2007, the Directorate experienced a heavy load of work since it had to cope with all the obligations and responsibilities emanating from the Structural and Cohesion Funds system whilst retaining all the responsibilities pertaining to Pre-Accession and Transition Facility Programmes. The Directorate performed a total of 19 certifications of expenditure to the Commission during the year and was directly responsible for overseeing the whole certification process, and drawing up the necessary financial reports and disbursement claims. The said certifications carried out consisted of four certifications each for the ESF, ERDF and EQUAL Funds, three certifications for the EAGGF Fund and two certifications each for the FIG and COHESION Funds. All the said certifications were accepted by the Commission and the relative funds transferred to Government Revenue.

The EU Paying Authority continued to establish and maintain efficient communications and contacts with the Financial Services at the EU Commission in Brussels and with the different Funds to ensure a smooth and reliable process.

During 2007 the PA participated as a permanent member in all the various Monitoring Committees for Structural and Cohesion Funds for the periods 2004-2006 and 2007-2013.

Furthermore, the EU Paying Authority ensured that the funds concerning projects under the Structural and Cohesion Funds were provided and committed in the National Budget and the relative accounts opened. In this process, sound communication links with the Central Bank of Malta (CBM) were maintained at all times and instructions to the CBM were issued to provide statements of account of all transactions including interest earned on balances and other certifications requested by the EU Commission. Details about the relative accounts were communicated to the pertinent services in Brussels.

Throughout the year the Directorate was involved in various fora and communicated its position on various issues including comments on the interim evaluation of the implementation of projects under the Structural and Cohesion Funds for the period 2004 to 2006 and comments on the Implementing Provisions for the Structural and Cohesion Funds for the period 2007 to 2013.

The table below indicates the aggregated amounts of Structural and Cohesion Funds per fund received from the Commission totalling €32,423,907 (Lm13,919,583) together with the Certifications of Expenditure effected by the Directorate throughout 2007 which amounted to €31,656,478 (Lm13,590,126). Amounts reimbursed by the Commission following certifications and transferred to Government Revenue, during 2007 amounted to €32,043,345 (Lm13,756,208).

<b>Structural and Cohesion Funds during 2007</b>			
<i>Fund</i>	<i>Funds Received from EU Commission during 2007</i>	<i>Expenditure Certified by the Directorate</i>	<i>Amounts form Certified Expenditure Transferred to Govt. Revenue</i>
	€	€	Lm
ERDF	18,137,967.30	16,816,896.68	7,781,187.97
ESF	2,322,448.63	2,801,295.07	996,827.93
EAGGF	1,085,855.00	1,387,995.00	465,831.79
FIFG	1,034,252.26	1,034,252.26	443,694.22
Equal	726,318.40	549,797.59	311,619.89
Interreg	197,028.06	310,191.71	0
Cohesion	8,920,037.78	8,756,049.93	3,757,046.06
<b>Totals</b>	<b>32,423,907.43</b> <i>(Lm13,919,583.46)</i>	<b>31,656,478.24</b> <i>(Lm13,590,126.11)</i>	<b>13,756,207.86</b> <i>(€32,043,344.65)</i>

### Own Resources

The EU Paying Authority Directorate also managed the bank account relating to EU Own Resources. During 2007, close relations were maintained with the relevant services in DG Budget of the EU Commission on the payment and financial management of Own Resources, reporting requirements, and the

transactions to be made in the accounts and the exchange rate criteria. As a consequence, continuous contact, as an ongoing exercise, was maintained with the Customs Division regarding Traditional Own Resources (TOR), the VAT Department for the VAT-Based Own Resources calculation and the National Statistics Office (NSO) for the GNI-based workings. The PA participated and gave its contribution as a permanent member of the Ministry's Task Force on Own Resources. The Directorate ensured that payments to the EU Commission were effected on a regular basis and in the appropriate manner within the stipulated deadlines.

The table below indicates the payments of Own Resources effected by the Directorate in favour of the Commission during 2007, amounting to €55,789,042 (Lm23,950,236). During the year the Commission refunded to Malta €3,273,936.20 (Lm1,405,500.81) as indicated by the negative amounts in the totals column per month.

	<b>TOR<sup>(B)</sup> Lm</b>	<b>VAT-Based Lm</b>	<b>GNI-Based Lm</b>	<b>UK Correction Lm</b>	<b>Reserve Lm</b>	<b>Total Lm</b>
January	481,360.40	287,101.60	1,152,894.84	130,557.43		2,051,914.27
			-1,304,195.37			-1,304,195.37
February	451,395.75	832,594.64	3,393,551.86	378,616.54		5,056,158.79
March	404,015.25	172,260.96	699,453.34	78,334.46		1,354,064.01
April	486,705.00	229,681.28	932,604.45	104,445.94		1,753,436.67
May	407,294.42	172,260.96	699,453.34	78,334.46		1,357,343.18
June	370,017.75	86,130.48	349,726.67	39,167.23		845,042.13
July	405,564.00	229,681.28	742,122.19	104,445.94		1,481,813.41
August	423,671.25	287,101.60	1,138,543.81	130,557.43		1,979,874.09
September	441,891.00	287,101.60	1,138,543.81	130,557.43		1,998,093.84
October	490,605.65	445,202.79	1,319,823.60	185,426.98		2,441,059.02
				-84,421.20		-84,421.20
November	412,552.50	302,911.72	1,156,671.79	136,044.38		2,008,180.39
				-8,442.12		-8,442.12
December		302,911.72	1,156,671.79	136,044.38		1,595,627.89
				-8,442.12		-8,442.12
Opting out				889.67		889.67
Correction		290,909.91	1,141,329.41			1,432,239.32
<b>Total</b>	<b>4,775,072.97</b>	<b>3,925,850.54</b>	<b>13,717,195.53</b>	<b>1,532,116.83</b>	<b>0.00</b>	<b>23,950,235.87</b>
						<b>€55,789,042.33</b>

### Travel Vote

The EU Paying Authority Directorate managed the Travel Envelope of EU Funds allocated to Malta in respect of the reimbursement of travel expenses for participation in EU Council Meetings as per EU Decision 190/2003 and also implemented the procedures for reimbursement for participation in EU Commission Meetings.

The Directorate conducted the following related work in this regard:

- co-ordinated and completed an exercise with all government ministries, departments and entities to collect all outstanding travel claims from their end;
- formulated Malta's Travel Declaration in respect of the reimbursement of all travel expenses incurred following the participation in EU Council Meetings;
- gave its contribution towards the issuing of a travel circular issued by the Ministry of Finance laying out the procedures to be followed by all government ministries, departments and entities for the reimbursement of travel expenses for participation in EU Council and Commission Meetings;
- authorised the transfers of the EU Funds from the Central Bank of Malta to Government Revenue and the respective government ministries, departments and entities claiming reimbursement of travel expenses following their participation in the respective meetings.

The total of travel funds claimed to date and transferred to Maltese revenue for participation in EU Council and Commission Meetings during the year in question amounted to €912,451 (Lm391,715). This included €610,305 (Lm262,004 ) for Council Meetings and €302,146 (Lm129,711) for Commission Meetings.

### Other Work

The EU Paying Authority was also involved in other specific areas of work as follows:

- Involved in the successful implementation process for the euro changeover. The Directorate participated in meetings of the Public Finance Sectoral Committee, the Public Sector Sectoral Committee, the NECC Executive committee and also in the various National Euro Changeover Conferences organised by NECC throughout the year. The PA monitored and processed all funds under the PRINCE agreement with the European Commission to finance the euro changeover process and also worked in liaison with the CBM to convert all the accounts under the PA's responsibility.
- Entrusted with the responsibility to manage and process funds related to other EU Initiatives, Programmes and Funds, including JEREMIE, the European Globalisation Fund, the External Borders Fund, the European Returns Fund and the European Refugee Fund. Carried out various work and participated in various fora on the said Initiatives Programmes and Funds.
- Participated in the Monitoring Committee for the European Economic Area (EEA) and Norway Financial Mechanisms and was informed on the launching of the Financial Mechanism for Switzerland.
- Participated in activities organised by the Forum Malta fl-Ewropa and kept abreast with developments in the EU on various issues.
- Worked as National Co-ordinator and Representative of the Fiscalis Programme 2007 within the Ministry of Finance. As Account Holder, managed the Malta Fiscalis Account held at the Central Bank of Malta, regarding the transfer of funds from the EU to Government Revenue, through Treasury, and then to the respective departments (VAT, Inland Revenue, Customs and Tax Compliance Unit) and the Ministry of Finance. Co-ordinated and managed the participation of approximately 50 officials from the various stakeholders within the Ministry of Finance to participate in various activities offered by the Fiscalis Programme such as seminars, exchanges, multilateral controls, committees and workshops. Budgeted and requested funds from the EU to finance Malta's participation in the Fiscalis Programme and the financial administration of such funds. As National Co-ordinator, the Directorate participated in the Inter-Ministerial meeting chaired by the Permanent Representative of Malta to the EU in Brussels, to put forward comments and recommendations on Malta's participation in the Fiscalis Programme 2013. Contributed towards the launching of the new Fiscalis Programme for the period 2008 to 2013.

CLAUDE G CUSCHIERI  
*Director (EU Paying Authority)*

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## EU Affairs Directorate

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The EU Affairs Directorate at the Ministry of Finance continued to strengthen its co-ordinating role during 2007, especially with the appointment of a new Assistant Director responsible for EU Affairs and the recruitment of another official at the Directorate. Two technical attachés and a research officer were also appointed in order to strengthen the Economic and Financial Unit at the Permanent Representation in Brussels. This was felt necessary since the EU Affairs Directorate is becoming more and more involved in the preparation for meetings at the EU institutions. The Directorate is heavily involved in the dissemination of meeting agendas, co-ordination of attendance of officials at the meetings and the drawing up and clearance of Instruction Notes to be used by the technical officials and attachés participating in the meetings. The Directorate is also responsible for the compilation of Malta's position in consultation with the technical experts from both the public and the private sector.

During 2007, the Directorate continued to co-ordinate the consultation process on proposals published by the EU Commission. An e-consultation process was launched on the Ministry's website that enables the general public to participate in formulating Malta's position on issues that are of general interest, such as the Commission proposal on the VAT reduced rates. The EU Affairs Directorate is also responsible for the presentation of memoranda on EU Commission proposals at the Inter-Ministerial Committee for EU Affairs. Once approved by the Committee and endorsed by the Cabinet of Ministers, the Directorate transmits the approved memoranda to the House of Representatives for clearance by the Standing Committee on Foreign and European Affairs. The Standing Committee on Foreign and European Affairs is composed of members from both sides of the House of Representatives. A number of meetings were held with the Standing Committee in order to elaborate on the technical issues in hand. By the end of 2007, a total of 105 memoranda were prepared for presentation at the Inter-Ministerial Committee.

The Directorate continued to co-ordinate the drawing up of the briefing notes for the Prime Minister, the Parliamentary Secretary at the Ministry of Finance and Maltese delegations participating in the Economic and Financial Committee meetings. During 2007 and in view of Malta's changeover to the euro, Malta also became a member of the Eurogroup. This required that the Directorate co-ordinates the preparation of briefing notes for this meeting. The preparation of briefing notes requires close collaboration with line departments and ministries. However, in order to facilitate lobbying, the briefing notes include not only Malta's position, but also that of other Member States. The Directorate organises pre-ECOFIN briefing meetings, engaging all resident member state diplomats, in order to communicate Malta's position on the agenda items. The Directorate is also in contact with Maltese resident embassies established in the EU in order to obtain other Member States' positions on the agenda items that were going to be discussed during the meetings.

During 2007, the Directorate also continued to monitor the transposition of the EU regulations and directives into Malta law. Its role included organising meetings with stakeholders in order to ensure a correct transposition of the *acquis* and notifying the transposition to the EU Commission through the established official channels. The Directorate is also responsible for updating the EU Regulatory Database and regularly informs line departments of legislative requirements stemming from the EU legislation. As such, the Directorate is responsible for monitoring legislation from its inception (as a proposal) to its adoption as Maltese legislation.

Another function of the Directorate is the co-ordination, compilation and clearing of questionnaires prepared by the EU institutions. During 2007, the EU Directorate continued to address EU-related requests from both public and private organisations, both in Malta and abroad. Moreover, the Directorate continued offering support and advice to the Ministry of Finance on various issues pertaining to EU affairs.

DIANE SAMMUT  
*Director (EU Affairs)*

## Programme Implementation Directorate

The Programme Implementation Directorate is responsible for the management of the Ministry's Change Management Programme, including facilitating the implementation of the Ministry's endorsed policies, strategies and change management programmes and monitoring the implementation of the required programs and activities, including Customer Care initiatives and Green Initiatives, to ensure the efficient delivery of the Ministry Business Plan.

### Customer Care Queries

This Directorate handles the Customer Care issues that fall under the remit of the Ministry of Finance. Complaints are received both from the local general public and even from non-locals and these may also submit complaints, suggestions and queries through the Ministry's website, the Customer Care Local Councils Network, *servizz.gov*, in writing, by telephone or by calling personally at the Ministry. The following table reports on the number of cases which were received by this Department through the various channels available to the public.

Customer Care Issues - 2007								
	Customer Care Network		Website		Tel	Personal Calls	Letters	Total
	Clearance House	Local Councils	Local	Foreign				
<b>Totals</b>	<b>85</b>	<b>9</b>	<b>293</b>	<b>78</b>	<b>204</b>	<b>11</b>	<b>2</b>	<b>682</b>

### Green Initiatives

On 8 January 2007 this Directorate organised a half-day seminar at the Music Hall, St James Cavalier, Valletta on Green Initiatives. During this discussion group, each focal point within each department and entity falling under the Ministry of Finance's remit gave a presentation on the work being carried out in favour of green initiatives at their respective offices.

This Directorate invited speakers who work on green public procurement from the Contracts Division, speakers from the University of Malta addressed the seminar on alternative sources of energy for the office and speakers from the Ministry for Resources and Infrastructure spoke on the new regulations on the energy performance of buildings. The panel discussion that concluded this meeting raised several points on the relevance of green initiatives in all the Ministry's departments and entities.

The Ministry of Finance made a financial contribution towards the 34U Campaign to replace the trees which were previously vandalised in the limits of Torri l-Ahmar in Mellieha. In November 2007, several green focal points from the Ministry of Finance accompanied the Parliamentary Secretary in the Ministry of Finance and planted several trees in the site.

This Directorate continuously promoted waste recycling throughout the Ministry and its departments.

AUDREY-ANNE CALLUS RANDICH  
*Director (Programme Implementation)*