



MINISTRY FOR FINANCE
ANNUAL REPORT 2013

Corporate Services Directorate

The role of the Corporate Services Directorate is that of providing essential support services to the central Ministry and to its departments, entities and divisions.

The core functions are:

- Finance (accounts, procurement and asset management)
- Office Management
- Human Resources
- Registry
- Parliamentary Questions

FINANCE

During 2013, the Finance Section continued to provide operational support to Director Corporate Services on all matters related to finance administration concerning the Ministry of Finance, the Economy and Investment (MFEI) up to 8th March 2013 and to the Ministry for Finance (MFIN) thereafter.

The Finance section was responsible for the administration of funds provided under Recurrent Vote 37– MFIN. This section was also responsible for the management of funding for capital projects and collection of revenue included under the Financial Estimates of MFIN.

The Section was involved in the procurement of goods and services, from the initial stage of the raising of commitments up to the settlement of invoices within a reasonable period of time through the Departmental Accounting System. During 2013 the total number of transactions effected on the Departmental Accounting System was 6,316.

During last year, the Finance Section also managed requests submitted by public entities for the release of approved Capital and Recurrent budgetary subventions and other allocations. These entities included Malta Statistics Authority, Financial Intelligence Analysis Unit, and Financial Services Tribunal and the Public Contracts Review Board.

The Section was also involved in:

Providing assistance in the preparation of travel documents required by the Ministry's officials when travelling abroad on official business, including the issuing of travel advances to said officials;

The submission of financial statements including monthly re-assessment of Budgetary Estimates, monthly cash flow projections and quarterly financial statements on accruals basis.

The compilation of financial information related to the drafting of replies to Parliamentary Questions;

The coordination of replies by the Ministry and its Departments to several requests and queries by the National Audit Office and The Treasury Department;

The submission of quarterly statements to VAT Department with list of suppliers who failed to submit fiscal receipts for goods and services procured by the Ministry;

Assisting the National Lotteries Good Causes Advisory Board in the financial administration and operations of the Good Causes Fund including issuing of cheques to beneficiaries of the said fund. During 2013, 238 cheques were issued to various beneficiaries;

Supporting Director General (Budget Affairs) in the issuing of new Government Guarantees/ Letters of Comfort on domestic/foreign loans and other banking facilities granted to public entities, the renewal of old ones and the compilation of a quarterly report. During 2013, 4 new guarantees/letters of comfort were issued, whereas 9 existing ones were extended for a further period of one year;

Continued to maintain and update database on Government direct shareholding; and participated in weekly Departmental Contracts Committee Meetings.

HUMAN RESOURCES

As in previous years, this Section processed the recruitment, appointment, progression and promotion of personnel in general service and departmental grades throughout the whole Ministry. Three (3) Circulars were issued to fill nine (9) vacant positions of Assistant Director in Departments within the Ministry's portfolio. Public calls for applications filled various posts and contractual positions at middle and senior management level to enhance the Ministry's needs and operations. New contracts of engagements and renewals of contracts were drawn up as necessary for Ministry staff and the new Private Secretariat of the Minister for Finance.

During 2013, HR Section continued with the preparation and payment of the four-weekly salaries of staff at the Ministry, the Private Secretariat, as well as the Economic Policy Department and Lotto staff. Monitoring of the Personal Emoluments, particularly the allowances and overtime items, was maintained throughout the year.

REGISTRY

The Registry continued to provide the core service of recording and tracking all incoming correspondence with the following statistics:

Correspondence registered on DOCREG system	1,902
New MF files	660
New EU	128
Parliamentary Questions	216
Publication of MF Circulars	7
Publication of HR Circulars	3

Anthony Savona
Director Corporate Services

EU Affairs Directorate

BACKGROUND

The EU Affairs Directorate is responsible for the coordination of all EU-related issues falling within the remit of the Ministry for Finance. One of its main tasks is to coordinate the drawing up of a national position in preparation to meetings taking place within the EU institutions (the European Commission, the Council of the EU and the European Parliament, but also European Committees such as the Economic and Social Committee and the Committee of Regions). The Directorate's responsibilities include the dissemination of meeting agendas and documentation, coordination of attendance of officials at EU-related meetings and the drawing up and clearance of instruction notes used by the technical officials and attaches participating in the same meetings. Malta's position is drawn up in consultation with the technical experts from both the public and the private sector.

The Directorate provides support to the Ministry's line departments in areas relating to the European

Union. The EU Directorate is also responsible for the drafting of letters in reply to requests from the EU Commission, EU Pilots and infringements cases opened by the EU Commission against Malta and is also the contact point within the Ministry for the notification of Maltese legislation to the EU Commission.

PROGRESS ACHIEVED IN 2013

During 2013, the EU showed signs of economic recovery. Nevertheless, work to strengthen the financial services framework, mainly on the proposals for a Banking Recovery and Resolution Directive, the Single Supervisory Mechanism and the Single Resolution Mechanism, continued unabated. The EU Directorate coordinated the consultation process on all these legislative proposals. Moreover, the Directorate continued to provide support to the high-level officials attending the meetings taking place at the European level, such as the Economic and Financial Committee, the Eurogroup Working Group, the Eurogroup and the ECOFIN Council meetings. Apart from preparing the Council meeting files for the Maltese delegation, the EU Directorate organised briefings with resident EU embassies prior to every ECOFIN Council meeting. These briefings allow Member States to exchange information at an informal level with a view to reaching consensus on the various agenda items as early as possible.

The Directorate was also responsible for presenting the Government's draft position at the Inter-Ministerial Committee. In 2013, the EU Directorate presented more than 190 explanatory memoranda. The Directorate also assisted MEUSAC in setting up consultation meetings with the MEUSAC Core Group and its sub-committees.

Apart from preparing for Council meetings, the EU Affairs Directorate was also involved in the preparations leading to visits by foreign dignitaries. It was also responsible for the drawing up of briefing notes for the President's and the Prime Minister's meetings held in Malta and abroad.

Diane Muscat

Director EU Affairs Directorate

Programme Implementation Directorate

BACKGROUND

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 that include EU funded projects implemented by the Ministry's entities. The Directorate is also entrusted with the coordination of the appointments on Boards and Committees that fall under the Ministry's remit, Customer Care and Green Initiatives. The Conference Incentive Fund is also coordinated from within the Directorate.

EU FUNDED PROJECTS

During 2013, in line with its core responsibilities, the Directorate continued to undertake the following key tasks in relation to the coordination and monitoring of the implementation of the EU funded projects:

- overseeing the implementation of EU co-financed projects;
- verifying the eligibility of payment claims pertaining to EU co-financed projects and monitoring the disbursement of such funds;
- supporting and promoting liaison between project leaders and the relevant authorities.

The Programme Implementation Directorate acts as a liaison between project leaders, the Planning and Priorities Coordination Division within the Office of the Prime Minister and other stakeholders to ensure effective implementation of EU funded projects. It also assists other Divisions and Departments in exploring EU funding options for their projects and liaises between the Department of Contracts and other Ministries to ensure the timely processing of EU Funded Tenders.

The year under review ushered in a change in administration and this brought about several logistical issues. The main challenge presented to the Programme Implementation Directorate was the 'splitting up' of its remit since the projects that were previously overseen by this Directorate under the previous administration, now fell under the remit of different Ministries that include the Ministry for the Economy, Investment and Small Business, the Ministry for Energy and the Conservation of Water and the Ministry for Home Affairs and National Security.

A smooth transition was however ensured by continuing to monitor and follow the implementation of all the projects under the different Ministries, together with the new projects that were assigned to these Ministries. This up until when the relative headship positions in the different Ministries were filled.

Therefore during the year under review the Directorate continued to monitor several EU-funded projects funded under the 2007-2013 programming period that included the setting up of a life sciences centre and the upgrading and embellishment of industrial estates, that now fell under

the remit of the Ministry for the Economy, Investment and Small Business, and implemented by Malta Enterprise. Assistance was also afforded in the implementation of the aid schemes for industries managed by Malta Enterprise. During the period under review the Programme Implementation Directorate also continued to act as the secretariat of the JEREMIE Investment Board, up until when this remit was taken over by the Ministry for European Affairs and the Implementation of Electoral Manifesto. The last action registered in connection with this project, whilst it still fell under the joint remit of the Ministry of Finance and the Ministry for the Economy, Investment and Small Business, was the increase of a further €2 million in the JEREMIE allocation. This increase translated into a further €11 million worth of loans for SMEs.

Projects' progress was monitored via regular meetings with relative project leaders and coordinators together with participation in on the spot checks and site visits, where applicable. The Directorate also convened the Ministerial Project Steering Committee and actively participated in the monthly bilateral meetings chaired by the Parliamentary Secretary for the EU Presidency 2017 and EU Funds as well as in various Monitoring Committees called by the Managing Authority.

The projects, that were monitored whose implementation was entrusted to this Directorate and subsequently transferred to other Ministries, were as follows:

ERDF 001 – Upgrading and Embellishment of Industrial Parks

This project is being implemented by Malta Enterprise and the main objectives consist in the upgrading and embellishing of various industrial parks in Malta and Gozo. Three child care centres will be also be funded under this project. Interventions will be made in Bulebel, Hal Far, Mosta Technopark, Kordin and Xewkija. Child care centres will be built in Kordin, Xewkija and Mosta Technopark. After the change in administration this project was subsequently transferred under the remit of the Ministry for the Economy, Investment and Small Business.

ERDF 199 – Setting up of a Life Sciences Centre

The building of a Life Sciences Centre, that is located close to the Hospital and University will focus on life sciences and associated technologies and will incorporate laboratories and research facilities aimed at supporting knowledge-based companies. The centre will increase skills in the sector, generate indigenous investment and drive new FDI and RTD activity and will incubate new enterprises. After the change in administration this project was subsequently transferred under the remit of the Ministry for the Economy, Investment and Small Business.

Malta Enterprise Aid Schemes

Seven aid schemes with a total value of over €40 million falling under the responsibility of Malta Enterprise. After the change in administration these Aid Schemes were subsequently transferred under the remit of the Ministry for the Economy, Investment and Small Business.

ESF 2.186 – Re-Skilling of Workers for the Local Film Industry

This project is being implemented by the Malta Film Commission and the project aims to increase the adaptability and employability of individuals aged 16 years and over (with first preference given to 40-55 year olds) and contribute to the restructuring of the economy within the cultural and creative industry. After the change in administration this project was subsequently transferred under the remit of the Ministry for Home Affairs and National Security.

ERDF 304 – Use of Highly Polished Reclaimed Water in the Maltese Islands

This project is being implemented by the Water Services Corporation and aims at providing an alternative water resource to private groundwater abstraction. Three polishing plants will be installed at the present sewerage treatment plants and will further treat secondary treated sewage to very high quality standards thus making it suitable and safe for various non-potable purposes. After the change in administration this project was subsequently transferred under the remit of the Ministry for Energy and the Conservation of Water. This project is in line with the main strategic directions with regard to fresh water, as outlined in the National Strategy for Sustainable Development.

EUROPEAN ENERGY PROGRAMME FOR RECOVERY (EEPR)

Electricity interconnection Malta-Italy

The electricity interconnector between Malta and Sicily is being implemented by Enemalta and is part funded under the European Energy Programme for Recovery (EEPR). After the change in administration this project was subsequently transferred under the remit of the Ministry for Energy and the Conservation of Water.

Small isolated islands initiative (Kappara substation)

This project is also being implemented by Enemalta and will link the St Andrews Distribution Centre to the Kappara sub-station that will subsequently service the Interconnector between Malta and Sicily. After the change in administration this project was subsequently transferred under the remit of the Ministry for Energy and the Conservation of Water.

As from the second quarter of 2013, this Directorate also took over the monitoring of the following projects:

ERDF 288 - Promotion of Renewable Energy Sources in the Domestic Sector (2012)

This project is being implemented by the Malta Resources Authority and therefore falls under the remit of the Ministry for Energy and the Conservation of Water. It consists of a support scheme that provides financial support to cover part of the costs of PV systems installed for domestic use. The scheme is open to all energy consumers in the domestic sector and available funds will be allocated on a first come, first served basis. Such supports scheme is in line with one of the main strategic directions with regard to energy-saving and renewable resources, as outlined in the National Strategy for Sustainable Development since it promotes the introduction and use of renewable energy sources through a support mechanism.

ERDF 159 – eServices: Accessibility for All (eXS4ALL)

This project is being jointly implemented by the Ministry for the Economy, Investment and Small Business, the Ministry for Education and Employment and the Ministry for Home Affairs and National Security. The eXS4ALL project consists of an eID Solution, eForms and an eLearning Solution that will enable access to various eServices. The eID Solution will create a secure system enhancing accessibility to eServices for businesses and citizens, including services deployed through eForms and eLearning. The eForms Solution will offer rapid deployment of eServices. The eLearning Solution will deliver education-related eServices to students, parents, teachers and administrators.

ESF 2.72 - EPITOME

The year under review marked the last implementation phases of this project that was being implemented by the Malta Communications Authority that falls under the remit of the Ministry for the Economy, Investment and Small Business. The EPITOME project aimed at developing and delivering a training curriculum on ICT as an entrepreneurial tool. Besides enhancing ICT skills, the curriculum provided participants with a set of entrepreneurial-oriented skills with a view to improve the flexibility and competitiveness of the Maltese entrepreneur in an increasingly challenging globalised economic environment.

ESF 2.204 – NETWORKED: ICT competences for better employability and workforce adaptability

This project was approved for funding during the year under review and it is being implemented by the Malta Communications Authority that falls under the remit of the Ministry for the Economy, Investment and Small Business. The project aims at offering individuals aged 25 to 64 the first stepping stone into the world of ICT, providing an insight into how technology can positively impact their lives and contribute to better employment possibilities. The project includes a national awareness campaign and a basic training programme.

The year under review also marked the continuation of the work on the planning for the 2014-2020 programming period. In connection with this, the Programme Implementation Directorate continued with the coordination of the submissions of project proposals for this next programming period both for proposed projects that will fall under the Ministry for Finance's remit and also those that will fall under the remit of the Ministry for the Economy, Investment and Small Business. There was also ongoing collaboration with the Ministry for European Affairs and the Implementation of the Electoral Manifesto in connection with the drafting of the partnership agreement with the European Commission and the fulfilment of ex-ante conditionalities.

FREEDOM OF INFORMATION

The Programme Implementation Director was entrusted with the implementation of the provisions emanating from the Freedom of Information Act. During the year under review, several FOI requests were received and replies were duly issued within the set time frames.

CUSTOMER CARE

The Programme Implementation Directorate receives customer care queries through the Ministry's website, the Clearance House at the Office of the Prime Minister, telephone calls, letters and personal calls. No complaints were received from the Ombudsman's office during the period under review. Every effort is made to answer all customer care queries in a quick and efficient manner and during 2013 and the Directorate dealt with and satisfactorily resolved a number of complaints with the close collaboration of the various other contact points within the entities, departments and divisions falling under the Ministry's portfolio.

BOARDS AND COMMITTEES

The Programme Implementation Directorate coordinates the appointments of Boards and Committees that fall under this Ministry's portfolio. This work is carried out in coordination with the Minister's Private Secretariat, the Office of the Prime Minister and the Department of Information. During the year under review, the Programme Implementation Directorate

coordinated the appointments on the various boards or committees that fell under the previous Ministry of Finance, the Economy and Investment's remit and subsequently under the Ministry for Finance's remit. Following the change in administration, the Directorate ensured the smooth transition and handover of a substantial amount of Boards and Committees to other Ministries.

CONFERENCE INCENTIVE FUND

The Conference Incentive Fund was launched in mid-2009 and this initiative was coordinated and implemented by the Programme Implementation Directorate. This initiative assisted Departments, Ministries, Entities and NGOs in the bidding for, organising and hosting of international conferences in Malta. In the period under review 34 conferences were partially funded and around €200,000 was disbursed from this fund. These conferences brought over around 5260 delegates for a total of around 103 conference days. Commitments were also made to sponsor several conferences that will take place in 2014.

GREEN INITIATIVES

During the year under review the Ministry continued to work in collaboration with the office of the Assistant Director, Environmental Affairs within the Ministry for Sustainable Development, the Environment and Climate Change. Measures to safeguard the environment such as waste management and reduction of consumption of water and electricity, continued to be implemented. Constant contact was kept with the Departments, Divisions and Entities falling under the Ministry's remit, through the network of focal points on green issues.

Furthermore, it is to be pointed out that all tenders published in relation to the above mentioned EU funded projects followed the National Green Public Procurement Guidelines emanating from the Green Public Procurement National Action Plan that builds on Government's overarching vision for sustainable development as set out in the National Sustainable Development Strategy. To fulfil this obligation, constant contact and coordination was kept with the Green Public Procurement Office within the Ministry for Sustainable Development, the Environment and Climate Change.

REPRESENTATION ON BOARDS

The Programme Implementation Directorate, through its Director, participated in a number of boards during the first quarter of the year under review. These included the board of the Grand Harbour Regeneration Corporation, the Malta Trade Fairs Corporation Board, MIMCOL/MGI, Property Management Services, the Sanctions Monitoring Board and the Inter-Ministerial Commission for the European Capital of Culture in Malta - 2018.

IMPLEMENTATION OF SANCTIONS

The Director, Programme Implementation is a member of the Sanctions Monitoring Board that is set up under the Sanctions (Monitoring Board) Regulations (LN327/06) and is effectively involved in the monitoring of sanctions imposed both by the United Nations and by the European Union. The prevalent situation as regards sanctions in the year under review was that most of the Libya sanctions were being lifted and the focus was then shifted towards countries such as Iran, Syria and North Korea, amongst others.

Audrey-Anne Callus Randich

Director Programme Implementation

Policy Development Directorate

INTRODUCTION

During 2013, the Policy Development Directorate (PDD) continued to focus upon its core areas of responsibility in particular the development of policies, the coordination of the National Reform Programme (NRP) under the Europe 2020 strategy; coordinating the Euro Plus Pact, coordination of issues pertaining to the Single Market, to represent the Ministry on inter-ministerial committees and other bodies, as well as the provision of timely support and advice to the Permanent Secretary on any issue which is referred to it.

As of December 2013, the Directorate was amalgamated with the Programme Implementation Directorate within MFIN. As a result, the Directorate became responsible for the management of the Ministry's Change Management Programme, including facilitating the implementation of the Ministry's endorsed policies and strategies as well as monitoring the implementation of the required programs and activities that include EU funded projects implemented by the Ministry's entities. The Directorate is also entrusted with the coordination of the appointments on Boards and Committees that fall under the Ministry's remit, Customer Care, responding to Freedom of Information requests and Green Initiatives.

NATIONAL REFORM PROGRAMME UNDER THE EUROPE 2020 STRATEGY

The Directorate's main assignment for the year was the coordination of Malta's National Reform Programme for 2013 under the Europe 2020 Strategy for smart, sustainable and inclusive growth. This strategy is aimed at helping the EU come out stronger from the economic crisis by boosting competitiveness, delivering high levels of employment, productivity and social cohesion.

The Directorate submitted Malta's third NRP under the Europe 2020 strategy to the Commission in April. The National Reform Programme sets out Malta's agenda for structural reform and thus features measures to boost growth and jobs, aimed at achieving the Europe 2020 Strategy's ambitious targets. The NRP also includes the short-term commitments made under the Euro Plus Pact.

The measures laid out in the NRP are aimed at reaching the national Europe 2020 targets in the areas of employment, research & development, energy, education and poverty reduction, while also addressing the latest Country Specific Recommendations. Particular emphasis was laid on new measures intended to deliver higher levels of employment, increased productivity, improved education levels, social cohesion and further research and development.

The key measures intended to address the employment target included ETC's Active Youth for Employment Programme, new training programmes and other measures promote youth entrepreneurship, offer specialised training for disabled persons who need further pre-employment training and on-the-job training with a view of integrating them in employment and offer support for youth voluntary work.

Measures under the education target were intended to provide further opportunities to promote further specialisation at higher levels of education at a Masters level, additional financial assistance to youth NGOs and more training. An early school leaving strategy and a reform of the national curriculum framework were also proposed.

The main energy related measures included the plan to construct a new highly efficient generating plant and liquefied natural gas (LNG) infrastructure, while the new feed in tariffs for PVs not supported through other funding mechanisms were aimed to increase the amount of electricity derived from renewable sources by encouraging an increase in the take-up of PVs.

In order to promote social inclusion and reduce poverty the NRP featured measures such as the income tax deduction for fees paid in respect of residency services in respite homes, homes for disabled persons and schemes to support home adaptation works.

Some of the more important measures which can enhance Malta's potential output relate to research and development. Within this context, Government is preparing an innovation strategy for smart specialisation. The main objective of this strategy is to identify areas within the national economy with the greatest potential for innovation-based growth in order to direct funding and efforts towards building critical mass in these areas.

Measures aimed at enhancing competitiveness and boost economic growth were also put forward in the NRP. These included the schemes run by Malta Enterprise such as Microinvest.

The main Euro Plus Pact measures were the planned justice reform, further simplification of public procurement, an action plan for greening the economy, as well as a strategy and action plan for the promotion and support of the social enterprise sector.

Consultations on the NRP were held throughout the year. In fact the NRP for 2013 was issued in April, during a joint MEUSAC and MCESD meeting. A good number of meetings and briefing sessions were held with the various Ministries, entities and key stakeholders.

The Directorate also draws up instruction notes and policy papers on the Europe 2020 strategy and in this connection attends and coordinates meetings in both local and EU fora.

Throughout the year under review, the Directorate closely monitored the progress achieved on the various NRP and Euro Plus Pact measures with a view to ensure their timely implementation.

BUDGET DOCUMENT

In 2013, the Directorate was also actively engaged in the coordination of the Budget Document 2014. This document a first for Malta was published on 4th November 2014 along with the Budget 2014 Speech, the Budgetary Estimates 2014 and the Economic Survey 2013. This document gives an economic review and outlook, a fiscal review and outlook and a concise description of the main Budget 2014 measures. The Directorate was actively involved in the drawing up of the latter.

BETTER REGULATION

The Directorate is the Better Regulation Ministry Coordinator for MFIN. The role entails identifying opportunities for the reduction of administrative burdens, reporting progress on current Better Regulation initiatives taken within the Ministry and acting as a contact point on Better Regulation. Better Regulation remains a key priority for the public administration and

therefore the reduction and simplification of administrative burdens is an ongoing exercise intended to support businesses in their endeavours to grow and create jobs.

SINGLE MARKET

In 2013 the EU consolidated its efforts to ensure a better functioning single market. This included further discussions on the governance of the single market and the implementation of the SMA I and II. The focus during the first half of the year was mainly on the adoption of the 12 key proposals of the SMA II which were proposed by the commission in October 2012. The directorate followed the developments on the key actions of both acts (SMA I and II) and liaised continuously with the ministries responsible to keep abreast with the latest Malta's position on individual proposals (key actions).

In the course of the year the directorate drafted several positions on the single market, which were used in various Council/Commission meetings. Officials from the Directorate also participated in a number of meetings held by the Internal Market Advisory Committee, which tackled various Single Market issues, including the Governance of the Internal Market and the second issue of the annual Single Market Report. This report provides an analysis of progress made in removing remaining obstacles with a particular focus on Member States. Furthermore the report contributes to the overall priorities set in the Commission's Annual Growth Survey 2014, in the context of the European Semester.

SECTORAL SUB-COMMITTEE ON GROWTH AND COMPETITIVENESS

During the first quarter of 2013, the Directorate coordinated the work of the Sectoral Sub-Committee on Growth and Competitiveness which was set up to help identify Malta's priorities in view of the 2014-2020 EU programming period. The aim of this committee was to enable the key stakeholders across constituted bodies and civil society to provide their input in order to help identify Malta's funding priorities. The committee discussed a number of thematic objectives, including strengthening research, technological development and innovation, the shift towards a low carbon economy and enhancing the competitiveness of small and medium-sized enterprises.

TRAINING

This Directorate believes in the continuous development and skill enhancement of its personnel. To this end, PDD officers attended courses on various topics, which included principles of performance management, generating ideas for new projects, gender mainstreaming, Malta in the EU and Governance in the Public Service.

MEETINGS, SEMINARS AND CONFERENCES

During the year under review Staff members attended a number of seminars and conferences on a wide range of subjects, including on gender equality, the Europe 2020 Strategy, the single market, sustainable development and the 2014-2020 EU programming period. The Directorate also continued to keep abreast with developments on a national as well as on a European level in the areas falling under its responsibility.

OTHER ACTIVITIES

During the period in question the Directorate also coordinated the Ministry's position on the National Environment Policy, the Sustainable Development Strategy, the Strategic Plan for

Environment and Development and provided feedback on the implementation of those measures falling under the Ministry's remit.

Martin Spiteri

Director Policy Development

EU Paying Authority

During 2013 the Directorate continued to perform the role of Certifying Authority for:

- Structural and Cohesion Funds 2007-2013
- European Fisheries Fund (EFF) 2007-2013
- SOLID Funds 2007-2013
- EEA/Norway Financial Mechanism
- Swiss Bilateral Funds
- Own Resources
- Reimbursement of Travel Expenses for European Council and Commission Meetings

The following tables refer to the amounts certified and transferred to Government Revenue¹ during the year for all the funds mentioned above.

Table 1: Structural & Cohesion Funds 2007-2013

Fund	Certified during 2013	Certified and transferred to revenue during 2013
	€	€
OPI - ERDF	93,227,754.84	68,457,691.81
OPI – Cohesion Fund	45,785,785.41	44,547,889.23
OPII - ESF	25,636,395.87	20,710,766.30
Totals	164,649,936.12	133,716,347.34

NB: Amounts certified in December 2013 to be received from the EC in 2014

¹ Does not apply to SOLID Funds since it is the Managing Authority's not the Certifying Authority's function to transfer funds to Government Revenue.

Table 2: European Fisheries Fund (EFF) 2007-2013

Fund	Certified during 2013	Certified and transferred to revenue during 2013
	€	€
EFF	1,727,526.63	1,674,183.77

Table 3: SOLID Funds

Fund	Certified AP 2010
	€
External Borders Fund (EBF)	8,952,090.32
European Refugee Fund (ERF)	1,024,365.52
Return Fund (RF)	553,594.04
European Integration Fund (EIF)	85,848.77
Totals	10,615,898.65

Table 4: Norwegian & EEA Financial Mechanisms (NFM & EEA FM)

Fund	Certified during 2013	Certified and transferred to revenue during 2013
	€	€
NFM 2004-2009	2,155	21,265
EEA 2004-2009	2,155	2,155
NFM/EEA – TA 09-14	9,964	9,964
NFM 2009-2014	4,190	3,771
EEA 2009-2014	20,600	19,816
Totals	39,064	56,971

Table 5: Swiss - Maltese Cooperation Programme 2007-2017

Fund	Certified during 2013	Certified and transferred to revenue during 2013
	€	€
Swiss – Maltese Cooperation Programme 2007-2017	434,288.68	434,551.56

Table 6: The EU Paying Authority Directorate also acts as Payment Authority for Own Resources which constitute Malta's contribution towards the EU Budget. Table 6 below indicates the payment amounts of Own Resources **during 2013**

Payments to the EU during 2013	€
TOR	8,878,706.93
VAT-Based	9,852,566.42
GNI-Based	61,681,077.45
UK Correction	5,282,542.00
Reduction in favour of other Member States	431,282.00
Total	86,126,174.80

REIMBURSEMENT OF TRAVEL EXPENSES FOR EUROPEAN COUNCIL AND COMMISSION MEETINGS

The total of travel funds claimed relating to participation in EU Council and Commission Meetings and reimbursed by the two EU Institutions during 2013, amounted to **€ 1,407,862.52**. This included **€ 856,475.79** for Council Meetings and **€ 551,386.73** for Commission Meetings.

Joseph Sghendo

Director EU Paying Authority

Office of the CIO

INTRODUCTION

During 2013, the Office of the Chief Information Officer (OCIO) within the Ministry for Finance in liaison with key ICT personnel based within its Departments provided the required ICT management and support in terms of operations, projects, consultancy and governance. The OCIO was instrumental in leading and implementing a number of IT initiatives and ensure that these are in line with the overall Government ICT strategy. The following is an outline of the operations, projects and initiatives in which the OCIO was involved during the year under review.

USER AND DEPARTMENTAL SUPPORT

The OCIO provided general technical support to the Ministry and its users. Support calls varied in nature from the simple to the more complex. Support on workstations was provided by the leasing supplier as part of the Government leasing contract. The OCIO support provided consisted mainly in provision of minor ICT equipment, data transfers, general user support, video conferencing support, installation of non standard software, smart phone synchronisation, mapping of network drives, and troubleshooting related to printers and networks.

The OCIO also offered ICT services to a number of Departments within the Ministry related to diverse aspects of ICT ranging from Project Management, consultancy, advice and technical support. The following entities made use of such services: Office of the Permanent Secretary, Ministry Secretariat, Customs Department, Treasury Department, Economic Policy Department, Quality Assurance Unit and the Contracts Department.

REQUESTS FOR ICT SERVICES

The OCIO logged and/or approved requests for ICT services required by users across the Ministry and its Departments. All final approvals were granted only through the OCIO to ensure better governance and security when giving access to information systems while costs for services are also monitored and kept under control. The requests vary and include among others: provision of domain, email and Internet accounts, access to information systems, teleworking facilities, generic mail boxes, modification of mail quotas, access to shared folders and unlocking of network ports.

EXEMPTIONS AND WAIVERS

The OCIO received a number of ICT requests which due to GM ICT policies required a formal exemption from the MITA ICT Compliance Department in order to be implemented. The process for coordinating the submission and eventual processing of exemptions by MITA was fully coordinated by the ICT Governance function within the OCIO.

NETWORK STORAGE QUOTAS

The OCIO through its Governance function keeps tabs on the amount of network storage being utilised by users within the Ministry and its Departments. Network storage comes at a cost to the Ministry and it is important not to exceed the allocated quotas. Users with high storage requirements were approached following usage reports from MITA to archive old data onto DVD storage to free online disk space.

LOCAL AREA NETWORKS

During 2013 various network related tasks were carried out in various departments and these included:

- Lan at the Customs Gozo Yacht Marina
- LAN Extension at the Economic Policy Department
- LAN Extension at the Customs Department

Other network related works included:

- Local Area Network extensions
- Replacement of faulty network switches and/or reconfiguration
- Installation of new network and distribution switches
- New network points or their relocation following office moves
- Upgrading of network cabinets
- Re-patching of telephony and network points in network cabinets
- Redeployment of network equipment from one premises to another
- Installation of Uninterruptible Power Supplies in a number of network cabinets
- Replacement of network cabinet UPS batteries

PROCUREMENT, SUPPLIER AND CONTRACT MANAGEMENT

All ICT procurement for the Ministry and its Departments, except for leased personal computers and laptops was centralised within the OCIO. This mechanism ensured more control on ICT spending and while allowing the OCIO to monitor and ensure that suppliers delivered services/products in accordance to specifications, service agreements and/or contractual obligations. The OCIO also checked the legitimacy and accuracy of various invoices related to the procurement of ICT equipment prior to authorising payments.

The OCIO was also involved in managing suppliers and coordinating repairs on electronic equipment that needed to be carried out by third party suppliers. The OCIO prepared the equipment for pick up by the supplier, kept track of such equipment and ensured that the equipment was properly repaired and returned to its user/s

The formulation of a number of maintenance and support agreements related to hardware and/or Information Systems that are implemented within the Ministry or its Departments also fall within the remit of the OCIO.

TRANSFER AND STORAGE OF ICT ASSETS

The OCIO coordinates the transfer of ICT assets between Government Departments. This includes transfer of the equipment, compiling transfer of asset forms, updating of the inventories

and renaming and/or re-installation of the asset. This procedure ensured that the use of assets was optimised to the full without having assets lying idle.

ICT BUDGETING 2014

In July 2013, the budgeting process to submit the Operational (OPEX) and Capital (CAPEX) ICT budgetary requirements for the Ministry and its Departments for 2014 was commenced. A number of meetings with all relevant stakeholders including MITA project managers were organised in order to assess the ICT requirements for the coming year. The finalised ICT Budgeted requirements were forwarded to MITA by end August 2013.

WEBSITES

The OCIO was involved in works related to web support and development. Apart from keeping the Ministry's web portal updated, the OCIO assisted a number of Departments in launching their new website. A number of newly upgraded portals were launched in 2013:

- www.finance.gov.mt
- www.treasury.gov.mt
- www.customs.gov.mt
- www.vat.gov.mt
- <http://finance.intra.gov.mt> (Intranet)

The OCIO was directly or indirectly involved in the requirements gathering stage and coordination of the various stakeholders to ensure that the final result was of the required standard. The OCIO was also in charge of the contracting and budgeting aspects. Most of the new websites were based on Microsoft SharePoint.

The OCIO was also responsible for taking the necessary actions to address technical vulnerabilities discovered on the Departments' websites following web security audits carried out by MITA.

STUDENT PLACEMENT PROGRAMME

In the year under review, the OCIO and a number of Ministry Departments assisted MITA and Ministry for the Economy and Investment in the student placement initiative for 2013. A number of students following an IT Diploma at MCAST were sponsored and provided with a 12 week hands-on training experience in our offices. The students were mainly involved in the roll out of Microsoft Windows 8 operating system on workstations and assisting users to solve technical issues.

MIGRATION TO WINDOWS 7 AND MS OFFICE 2007

The year under review witnessed the roll-out of Windows 8 and upgrade to the MS Office suite to version 2007 on Government desktops. The project involved the upgrade of over one thousand two hundred PCs across the Ministry and its Departments. By the end of the year under review over 75% of the PCs had been upgraded. The migration also involved a lot of background work to test the compatibility of the various information systems within the Ministry and its Departments with the new operating system.

MINISTRY CHANGES AND MOVEMENT OF WORKSTATIONS AND USERS

Due to a change in Government administration and the setup of new Ministries, the OCIO was heavily involved in changes related to user accounts, movement of workstations, review of access to information systems, review of use of project shares, creation of new user's accounts and modifications of users' details.

MIGRATION OF WEBSITES FROM WEB FRAMEWORK 1.0 TO 2.0

MITA embarked on a project to upgrade their Web Framework environment to a platform with fresher technology. The OCIO informed all the business owners having applications hosted on the Government consolidated environment in view of the upcoming migration. Furthermore, the OCIO assisted the business owners as well as their software suppliers with planning and executing system migration from the current to the new environment which will be referred to Web Framework 2.0.

Within this reporting period, major efforts were related to communications to the various units within the Ministry and its Departments in order to transfer (or decommission) those web sites that are currently hosted on MITA's Web Framework 1.0 since such a framework will be decommissioned early next year. The options were to either conduct a technology refresh of the existing portal to be hosted on Web Framework 2.0 or transfer content to a Microsoft SharePoint Platform. In all twenty Websites and Services were affected by this migration.

SECURITY AND GOVERNANCE

From time to time MTCERT (Computer Emergency Response Team) at MITA informs the OCIO about PCs that are not behaving normally on the MAGNET. These include PCs that do not have the proper antivirus installed, PCs that are creating undue traffic on the network, PCs not logging correctly onto the Corp domain or cases where non compliant software has been installed. In all these cases, the OCIO through its Governance function investigates these instances and takes the appropriate line of action.

DIGITAL MALTA STRATEGY FEEDBACK

The OCIO assisted MITA in providing and collating feedback both from the Ministry and its Departments to the draft document Digital Malta National ICT Strategy 2014-2018. The feedback provided included also ICT initiatives which were planned for 2014. The document was circulated with all Ministry stakeholders following a series of consultation workshops organised by MITA in which the OCIO was also a participant.

ROLL OUT OF NEW STANDARDISED EMAIL SIGNATURE ACROSS THE PUBLIC SERVICE

The OCIO assisted MITA in rolling out the new standardised email signature devised by OPM to the users of the Ministry and its Departments. During this exercise all user details present within MITA's Task Management System (TMS), NT Accounts and Exchange Details were reviewed as well. Updates were also carried out to the Ministry's organisational structure and physical sites locations.

ENHANCEMENTS TO THE FINANCIAL DATA REPORTING SYSTEM

The templates of the Financial Data Reporting System were updated to be compatible also with Windows 8 and MS Office 2010. The new template was tested by the users at the Financial Management Monitoring Unit and deployed on the Ministry website. The new template supports all windows environments available on the clients' work stations i.e. XP, Windows 7, Windows 8, MS Office 2003 – 2010.

SEP (ANTIVIRUS) UPGRADE OF WINDOWS SERVERS

The OCIO assisted MITA to install or upgrade the Symantec Endpoint Protection (SEP) antivirus on both virtual and physical servers pertaining to the Ministry and its Departments. Upgrades were conducted among others on the Business Intelligence Reporting Framework Servers, Financial Data Reporting System virtual machines, Economic Policy Department's virtual machine, Customs servers and NSO servers.

ICT DEVELOPMENTS AT THE CUSTOMS DEPARTMENT

An ambitious project has been undertaken under the auspices of the OCIO, MITA and the Customs Department and is aimed at replacing the ageing core legacy modules (Import / Export) of the Customs Electronic System (CES) originally supplied by Steria AS. This project is in line with the direction outlined in the EU Commission's Multi-Annual Strategic Plan from 2013 to 2020.

Other developments that have been commenced this year at Customs include the:

- Upgrade of the Excise Movement and Control System and SEED
- Upgrade of the Accounting and Bonded Warehouse Systems

ICT SUPPORT FOR THE NATIONAL BUDGET 2014

The OCIO managed the Ministry's ICT requirements for the preparation of the National Budget 2014. The support commenced weeks prior to the budget as well as during Budget day itself. The main tasks included the coordination for the provision of dedicated technical support to the Ministry, the allocation of additional and standby hardware and real time updating of the Ministry's web portal with the Budget speech and associated publications.

NATIONAL STATISTICS OFFICE DEVELOPMENTS

The OCIO coordinated with MITA and allocated the necessary funding for IT developments at the NSO. During 2013 the following projects were delivered:

- Survey on Income and Living Conditions (SILC) 2013
- Labour Force Survey (LFS) 2013
- Structural Business Statistics 2011 – 2102
- *Business Register – Demography reports*

BUSINESS INTELLIGENCE REPORTING FRAMEWORK

In the year under review the Ministry's Business Reporting System was re-configured to maximise the server's efficiency and also address space issues. The software was also updated to the latest version to support as well the concurrent upgrading of the client work stations' operating systems to Windows 8 and Internet Explorer 10. Following the upgrade a series of training sessions were organised targeting key users within the Departments making use of this reporting framework.

Albert Vella

Chief Information Officer

Financial Policy and Management Division

FINANCIAL REPORTING AND CORPORATE FINANCE

The consolidation of policies, laws, regulations and standards continued during the course of 2013. In particular, the full transposition of the Late Payments Directive within Maltese Law, the implementation of SEPA within public entities and the pursuing of enhancing the uptake of electronic methods of payments. During 2013 FPMD also continued to participate in the Financial Management fora in preparation for the adoption of International Public Sector Accounting Standards (IPSAS).

One of the main objectives of this Division is that of modernising financial management across public administration, enabling Ministries, Departments and Extra-Budgetary Units to manage better their financial resources, become more accountable and to increase efficiency in the use of public assets. This necessitates the continuous liaison with line Ministries, Departments and Extra-Budgetary Units together with the National Audit Office (NAO), Treasury Department, Budgetary Affairs Division, the Internal Audit and Investigation Department (IAID) and the National Statistics Office (NSO) among others.

LATE PAYMENTS

Many payments in commercial transactions between economic operators or between economic operators and public authorities are made later than agreed in the contract or as laid down in the general commercial conditions. Although the goods are delivered or the services performed, many corresponding invoices are paid well after the deadline. Such late payment negatively affects liquidity and complicates the financial management of undertakings. It also affects their competitiveness and profitability when the creditor needs to obtain external financing because of late payment.

In this respect the full transposition of the recast Directive into Maltese law was to be effected by March 2013. During 2012 this division worked to transpose the directive within Maltese law. Such task was partially completed on 14th August 2012 with the issuance of Legal Notice 272. Following the March 2013 deadline the Commission came back with an EU Pilot whereby

additional clarifications were requested. Malta gave the necessary replies and following the Commission's approval a new Legal Notice was issued in January 2014 which ensured that Malta had fully transposed the Directive. During 2013 this division also continued to inform the various public sector stakeholders involved (namely Government departments, public entities and local councils) by updating the website put up on the subject (www.late-payment.gov.mt).

The division also sought to ensure that creditor levels of all public authorities are monitored on a regular basis. In this respect the creditor balances' were collected and analysed on a semi annual basis. The attention of those public authorities that were identified as the main 'culprits' was drawn. Moreover, during 2013 the division also participated in an expert group at European level to discuss outstanding issues with respect to this Directive.

ELECTRONIC PAYMENTS

Following various discussions with the Central Bank of Malta a decision has been taken to pursue the possibility of enhancing the uptake of electronic methods of payments. To this effect this division entered into discussions with a commercial bank to gain feedback on commissions paid by Government with respect to e-Government services using EPOS machines and cards. Currently the total payments received by Government from such services amount to approximately Eur 60.0m/annum, of which the majority relate to licences paid to Transport Malta.

Discussions also pursued with MITA that explained that from a technological point of view the current platform is robust and flexible enough to allow a greater uptake of services. The agency is positive that technology should not hinder other alternatives to card transactions, including bank transfers embedded in the e-Government services portal. It is believed that an array of payment modules, complimented by competitive packages and policy considerations, would entice a greater number of businesses and the general public to pay or settle dues online.

For this reason discussions were initiated with IRD (the biggest Government revenue generator) to see how Government could increase the settlement of income tax and social security dues through electronic means. Naturally, revenue from VAT would be another aspect to look into, however a stepped approach has been adopted. We recognise that the agreements with the banks may be restricting, at least partially, the departments' propensity to encourage a greater uptake of electronic payments. Such restrictions include higher costs compared to cheques and the offsetting of bank charges from revenue. In fact a capping is currently being applied to the limit of dues that may be settled using e-Government services. However the benefits associated with electronic payments, including direct debits, lower risks, higher audit trail etc. are to be given due consideration.

As regards the use of cards by Government officials a decision to start shifting to debit cards was taken and in this respect all parties agreed on a final procedure to be followed. A pilot test was completed successfully and at this stage discussions have been commenced with a commercial bank to finalise an effective and efficient operative framework.

SEPA IMPLEMENTATION COLLABORATION

- The Single Euro Payments Area (SEPA) is an initiative of the European banking industry that will make all electronic payments across the euro area – e.g. by credit card, debit card, bank transfer or direct debit – as easy as domestic payments within one country. The SEPA project is strongly supported by the European Commission and the European Central Bank. The [Payment Services Directive](#) provides the necessary legal framework for SEPA, as well as for better payments in all EU countries.

The Central Bank of Malta (CBM) has requested the assistance of the Ministry in order to push forward SEPA compliance within public entities. In order to complete this task, in 2013 the division:

- Participated in the National SEPA Committee meetings;
- Distributed material to public entities on the subject matter;
- Organised a seminar for public entities which included a session on this topic;
- Held one to one meeting with those entities that were identified as lagging behind; and
- Distributed a questionnaire prepared by CBM in respect to the level of implementation, and compiled a report with an analysis of the findings.

LOCAL COUNCILS

Following the establishment of new guidelines issued in 2012, during 2013 no new requests for bank loans was submitted. Notwithstanding this, the division kept a close working relationship with the Department for Local Government (DLG) whereby the use of Internet Banking was frequently discussed. These discussions were followed by a circular (Memo 15/2013) issued by DLG.

The division also considered the economic viability of two Public Private Partnership requests made by the Local Councils of Naxxar and Mġarr.

FIRST TIME BUYERS GRANT SCHEME REVAMPED – HOUSING AUTHORITY SCHEME

During 2013, this division with the collaboration of the Housing Authority, looked at the possibility of changing the current established conditions which regulate the grant given to assist owners in the construction and/or completion or rehabilitation of their first home with a view to making the application of such grant less burdensome on the applicant apart from lowering attached costs. The economic viability of the scheme itself is also being monitored. Discussions are still on-going and are expected to be finalised during 2014.

DUTY TRAVEL MANAGEMENT SYSTEM (DTMS)

The assistance of the Malta Information Technology Agency (MITA) was sought to identify a suitable solution for managing travel on official duty. The goal of such a system would be to replace the current paper-based system. This activity was consolidated way back in 2011 to the effect that a comprehensive document was drawn up detailing the processes and supporting policies as regulated by the provisions of Chapter 8 of the Public Service Management Code (PSMC). Such a solution would enable Government to better manage travel on official duty abroad, potentially centralising booking, etc. and reducing costs. During 2012 the document had been reviewed in collaboration with IMU and a Request for Information (RFI) document had been prepared. This RFI was issued to the general public (both locally and internationally) in the early months of 2013. Very encouraging feedback was obtained from local suppliers with various solutions being proposed. Following the RFI stage discussions with the CIO and MITA pursued with a proposal on the way forward by MITA being expected in the early months of 2014. Implementation of the solution is expected for 2015.

TRAVEL AGREEMENT WITH AIRMALTA

The division was entrusted with finalising a corporate travel agreement which came into effect from 1 November 2012. This agreement was based on a corporate offer by Air Malta p.l.c. (the Carrier) in relation to travel abroad on official duties. With the agreement the Carrier extended preferential conditions when Government purchases from the Carrier tickets at public fares for use by the individuals who are either:

- public employees who are travelling on Government related business/duties; or
- individuals who are not public employees and who are travelling on Government related business/duties.

During 2013 this division kept close liaison with Airmalta whereby developments were discussed. This division also acted as an intermediary between the airline and line Ministries in

order to resolve any operational issues. An impact analysis following the signing of the agreement was also carried out.

Additionally, this division collaborated with CDRT in order to organise a seminar on Travel Regulations during which the opportunity was taken to discuss the impact of this agreement on the everyday workflow of Government travel officials.

IPSAS SEMINAR / IPSAS IMPLEMENTATION – A) EU FUNDING & B) GAP ANALYSIS

International Public Sector Accounting Standards (IPSAS) are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. These standards are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). IPSAS aims to improve the quality of general purpose financial reporting by the public sector, leading to better informed assessments of the resource allocation decisions made by Governments, thereby increasing transparency and accountability.

The implementation of EPSAS (European accounting standards based on IPSAS) is being actively considered within the Government of Malta in line with the policy of adopting accrual accounting. In this respect during 2013 this division has closely co-operated with Treasury in order to organise a training seminar on behalf of CIPFA (The Chartered Institute of Public Finance & Accountancy). CIPFA was the entity selected to carry out a GAP analysis report. Gap analysis is a tool that helps organisations compare actual performance with potential performance. At its core are two questions: "Where are we?" and "Where do we want to be?" It mainly involves determining, documenting, and approving the variance between requirements and current capabilities. Such report was concluded in November 2013 and was presented to the Minister for Finance accordingly. This division participated in the process and also participated in a fact-finding event in London, organised by CIPFA, whereby discussions were held with our UK counterparts.

Moreover, this division was involved in the discussion which focused on the acquisition of IT software and hardware that are necessary for a shift to accruals accounting and in this respect sought the possibility of applying for EU funding. Such discussions remain on-going.

INVESTMENT FACILITY COMMITTEE

During 2013 FPMD continued representing Malta as member on the Investment Facility Committee (European Investment Bank). The Investment Facility (IF) is a revolving fund, i.e. loan amortizations will be re-invested in new operations.

The IF provides various forms of risk sharing financing instruments for investment projects in most sectors of the economy. This includes projects in the commercially run public sector and in the infrastructure sector which are key to the development of the private sector, as well as the financial sector. IF support is provided through:

- debt finance;
- guarantees;
- equity-type financing;
- acting as an investor in private equity funds .

All projects funded by the IF must be economically, financially, technically and environmentally viable.

FISCAL CONSOLIDATION EXERCISE 2012

Fiscal consolidation is a policy intended to reduce deficits and the accumulation of debt. For the last couple of years MFIN proposed the collection of data with respect to the following:

- Consultants (non-medical);
- Sick-leave;
- Overtime;
- Hiring of motor vehicles;
- Hospitality.

The aim is to continue collecting this data on a yearly basis. As years go by the compilation of this data becomes the basis for reliable trend analysis.

Like in the previous year various units within FPMD collected the data from the respective Ministries/Departments/Entities, while the analysis was carried out by both this division and the Permanent Secretary's Office.

FINANCIAL MARKETS

Throughout the year 2013, FPMD continued to consolidate and strengthen its financial services policy formulation capability. The year was characterised by major policy decisions in direct

response to the European sovereign crisis which has led to a high level of financial markets' turbulence and instability.

FPMD has provided continuous technical contributions and support to key financial policy developments and as in previous years, FPMD continued to represent the Ministry on various committees organised within the European Council and European Commission, including:

- The Financial Services Committee which assists the European Council to define the medium-and long-term strategy for financial services issues;
- The European Banking Committee (EBC) which assists the European Commission in providing advice on policy issues related to banking activities. In connection with this committee, during the year under review, financial services policy developments focused primarily on the Banking sector. The division contributed to several areas relating to the Banking Union, including: the Single Resolution Mechanism, the Single Supervisory Mechanism, the single Resolution Board, Backstop Measures and Burden Sharing. The division was also involved in other areas related to banking, such as: the regulation of remuneration practices as part of the CRD IV, Basel III and CRD IV developments, crowd funding, shadow banking, and deposit guarantee schemes;
- The European Securities Committee (ESC) which assists the European Commission in providing advice on policy issues in the securities field. In relation with this committee the division contributed to the amendment of The Financial Markets Act to enable the implementation in Malta of the EU wide European Market and Infrastructure Regulation (EMIR). The division was also involved in other areas relating to securities, that included proposals to replace the Market Abuse Directive (MAD) with a Regulation on Market Abuse (MAR), and a Directive on criminal sanctions for market abuse, stricter rules for credit rating agencies, and the new Accounting and Transparency Directives;
- The European Insurance and Occupational Pensions Committee (EIOPC) assists the European Commission in adopting and implementing measures for EU Directives and to act as an independent advisory group providing advice on legislative proposals and existing legislation governing insurance, reinsurance and occupational pensions. In the course of the year under review, the Directorate continued to be involved and to monitor any new proposals and developments that took place in the area of insurance. This includes the Solvency II directive that codifies and harmonises the EU insurance regulation and primarily this concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Solvency II is now scheduled to

apply as from 1st January 2016. This Directorate also followed the developments on the Omnibus II Directive which complements the Solvency II directive.

Members from the division are routinely requested to attend ad-hoc working groups at the request of one of the above committees. Such sub-committee working groups would generally have limited scope and would need to tackle specific technical issues with a view to identifying key issues and risks.

The division issues a financial services statistical report on a bi-annual basis highlighting the main economic indicators for 2013, focusing primarily on the financial services sector's contribution to Gross Domestic Product, employment, direct Investment in Malta and abroad, deposits and loans;

On a monthly basis, the division also produces a report that captures the recent international and local economic and financial market developments. The report focuses on the main economic indicators, commodity prices, equities, exchange rates and other important highlights of that particular month. The report also provides an update on the European Union's regulatory developments in the area of financial services.

GOVERNMENT TRANSPORT

During 2013, the Government Transport Unit consolidated the work that was initiated during the previous year. Regular meetings with different departments and entities were held to discuss emerging fleet management policies. In line with Government policy, this office encouraged public sector entities to procure rather than lease vehicles. The leasing of vehicles was only approved in certain circumstances due to economically justifiable reasons.

After the change in administration in March 2013 new Ministries/Departments were created in the Fleet Management System. In addition, some existing Departments were transferred under different Ministries. In the year under review, the remaining Government departments were included in the Fleet Management System (FMS). Moreover, by the end of the year (2013), the Unit introduced two additional public sector entities, including the Housing Authority and the Occupational Health and Safety Authority, in the Fleet Management System. The division is committed to ensure that in the coming years all public sector entities will start using the FMS.

In 2013, the Ministry for Finance issued MF Circular 6/2013. This circular titled 'Guidelines regarding the provision of official cars', outlines the guidelines for procuring and leasing of fully-expensed vehicles (from Scale 4 and analogous positions to Ministerial level). This circular, besides stipulating the price thresholds for all fully-expensed vehicles, specifies also the Euro

standard and the Co2 emissions for each category. The circular is in line with Government policy regarding green procurement. A policy regulating general-use vehicles was also prepared and is currently under review.

Moreover, in 2013, new developments and enhancements were implemented to render the FMS more user friendly, secure and to also improve monitoring by MFIN and by Ministries, Departments and public sector entities. This division together with MITA and iLab Malta launched the revamped Fleetweb. Initially, Fleetweb was used to issue fuel requisitions only, but developments were undertaken where the web application now features most of the functions of the client based application, the only exceptions being the fuel reconciliation and the reports section. It is planned that these features will also be added to the Fleetweb in the near future. It is anticipated that in the coming years the Fleetweb will take over the client based application. The Fleetweb will also facilitate the transition by public sector entities to the FMS as there is no need to install the client based FMS application.

The Ministry was represented in monthly Board meetings held at the National Commission Persons with Disability (KNPD) whose aim is to approve requests relating to the exemption of registration tax. The Board was also tasked with the updating of the current guidelines on Exemptions to be presented to the Minister responsible for Finance.

This office also continued with discussions to introduce a new policy aimed at streamlining the procedure to be adopted concerning claims related to accidents that involved Government owned vehicles which are exempt from insurance. It is aimed that a new agreement between the Ministry and the Protection and Compensation Fund (PCF) will be entered into in 2014. In this respect a policy circular would be also issued.

The division in conjunction with Transport Malta and the Ministry for Transport and Infrastructure initiated discussions on a pilot-project in connection with a centralised electronic Government Transport system utilising electric vehicles.

GRANTS

Two new grants were implemented in the course of 2013 namely, (i) the grant on the purchase of environment-friendly vehicles (scheme 3) and (ii) a once-only grant on the purchase of fitness equipment by persons.

A number of grants that were implemented in the course of 2012 namely, (i) the grant related to the assistance to Further and/or Higher Education Institutions related to the capital expenditure incurred in the extension of such Education Institutions, (ii) the grant related to the assistance to

Church and Independent Schools related to the capital expenditure incurred in their transition from primary to secondary school which was amended as to incorporate assistance to Independent Schools, and this with regards to the implementation of educational reforms for all children to succeed, (iii) the grant related to the restoration, conservation and maintenance of privately owned residential buildings within Urban Conservation Areas (UCAs) and Grade 1 and Grade 2 scheduled buildings, (iv) the grant related to the exemption from duty on documents on the transfer between heirs of scheduled Grade 1 and Grade 2 privately owned residential buildings and privately owned residential buildings within UCAs, (v) a tax concession scheme to stimulate investment in restoration and conservation of privately owned residential and commercial Grade 1 and Grade 2 scheduled buildings and buildings within UCAs for the purpose of selling or renting, (vi) a tax credit scheme that promotes the restoration, conservation and maintenance of Grade 1 and Grade 2 scheduled buildings and buildings within UCAs that are, or shall be used as commercial premises, were during 2013 still being administered by the Government.

Other grant schemes which were still being administered by Government include the marriage grant, the funeral grant, the ordination of priesthood grant, the grant on the purchase of musical instruments, the grant related to capital expenditure incurred by sports organisations, the grant related to the purchase of more environment friendly cars and the 20/20 Sport Training Leave Scheme for private sector employees which was extended to apply also for 2013. The total recurrent expenditure on such grants for the financial year 2013 amounted to around € 4.91 million.

B. TAX, PAY AND SOCIAL WELFARE POLICY DIRECTORATE

PAY AND CONDITIONS OF SERVICE

The Pay and Conditions of Service Policy Unit deals with requests related to conditions of service on a daily basis. Duties related to Conditions of Service that were carried out during 2013 involved the consideration of a wide range of allowances, requests for revision of salaries and other payments, and the establishment of eligibility criteria for recipients in the Public Service and Public Sector. In the case of the Public Sector, requests followed the annual Capacity Building meeting and this Unit worked closely with Budget Affairs to finalise and approve financial packages for new and replacement positions. Requests were always considered in the light of existing policies and regulations, including PSMC and the Manual of Allowances issued by PAHRO. Continuous liaison with PAHRO, Budget Affairs and PACBU formed an integral part of this process. Our objective is to always evaluate requests related to COS in a just manner, that reflects Government policy, and within a reasonable time.

The year under review saw the introduction of requests for benefits made on behalf of persons of trust engaged by Ministries. During the year, the Unit was increasingly called upon to assess the financial implications of any award, especially in the case of the establishment of new allowances and benefits, and to strive towards the Unit's recognition as a reference point for those seeking guidance on these matters.

BOARDS, COMMITTEES AND SIMILAR BODIES

As in previous years, the Unit considered requests for the set-up and remuneration of new boards on the basis of number of sittings, duties & responsibilities. It also evaluated requests, on an ad-hoc basis, for revision of remuneration resulting from additional duties or hours worked. These duties were carried out in conjunction with PAHRO and are on-going.

The Unit was also called upon to work closely with Cabinet Office to determine remuneration to Public Entities' Boards of Directors. This involved, first and foremost, research into the criteria to be adopted when classifying Public Entities into the respective categories.

In addition, an exercise was completed in order to determine whether the Boards and Committees and other similar bodies were being remunerated according to the approved rates by PAHRO and MFIN. This exercise was necessary in order to be able to cross check the rates prior to granting further increases when a request is made. This exercise also served as a background to collaboration between the Unit and Cabinet Office with the aim of maintaining updated records at both ends.

PENSIONS CLASSIFICATION BOARDS

During 2013, the Unit chaired a number of Pensions Classification Boards set up in accordance with the Pensions Ordinance (Cap 93), article 8. These involved extensive preliminary and follow-up work, and meetings were set up with PAHRO, the entities concerned and the Office of Ombudsman.

MINISTRY OF FOREIGN AFFAIRS (MFA) – MISSIONS ABROAD

Over the year 2013, members of the Unit were engaged in an inter-departmental committee set up to revise the system of Global Emoluments for Malta Based Officers (MBOs) serving in Maltese Missions abroad. The exercise, which has since been concluded and saw the introduction of a post adjustment allowance, included analysis and review of the system adopted by MFA a number of years ago.

During the past year, the Unit was also responsible for assessing requests for increase in salaries and other payments related to Locally Engaged Personnel (LEPs). The main tasks involved reviewing contracts, setting up eligibility criteria and liaising with MFA in order to ensure that up-to-date records are kept and the Conditions of Service are observed. The Unit's aim is to promote a measure of uniformity in all Missions.

Besides LEPs, the Unit assisted MFA in the interpretation and implementation of the Conditions of Service for MBOs, covering matters related to post adjustment allowance, health, travel, education and other benefits. The new Conditions of Service Manual is in the process of being updated by MFA in conjunction with this Unit and PAHRO, a task that is expected to be carried forward to 2014.

EXPERT GROUP ON SICK LEAVE

The Committee of Permanent Secretaries has identified sick leave as one area that deserves special attention due to escalating costs over the years. For this reason, an Expert Group was set up with representatives from PAHRO and MFIN in order to present a report on sick leave and its implications.

The Expert Group met on a regular basis during the year and a report is in the process of being compiled and will be finalised during 2014. Findings and recommendations will be presented in collaboration with PAHRO.

DAS/DAKAR

In order to enhance performance with respect to monitoring and advising on matters relating to allowances and other benefits, 2013 saw increased collaboration with Budget Affairs for the Unit to have access to records of expenditure through DAS. Discussions were also held with PAHRO (HR Systems and Data Management) in order to obtain access to the DAKAR Payroll. This would provide accurate and reliable data on benefits and allowances at micro-level. Access is expected to be finalised in the first months of 2014.

NATIONAL REFORM PROGRAMME

The Financial Policy and Management Division also prepares reports on implemented measures that are included in the National Reform Programme. These reports evaluate and monitor the progress and effectiveness of the measures and are aimed at determining the extent to which these are addressing the Country Specific Recommendations put forward by the European Commission. Measures implemented by FPMD during 2013 include: the on-going administration

of the motor vehicle registration tax and licence fees, which are very important and effective tools to encourage smaller and cleaner modes of transportation and thus the abatement of CO2 emissions; and also the extension of the scrappage scheme, aimed at promoting the purchase of new and less-polluting vehicles, whilst encouraging the disposal of older and environmentally harmful vehicles.

RE-REGISTRATION OF MOTOR VEHICLES

In 2012, CION (the Commission) put forward a “Proposal for a Regulation of the European Parliament and of the Council simplifying the transfer of motor vehicles registered in another Member State within the Single Market”, with the claimed aim to facilitate movement of labour by removing obstacles related to the registration of vehicles. Although this dossier does not fall within the taxation legislative measures discussed at council level (hence it is strictly speaking a tax issue in a non-tax dossier) the division’s input was regarded as essential to analyse the proposed legislations and compromise texts from a fiscal and economic point of view.

Work on this dossier included the preparation of Malta’s position for the plethora of documents associated with it (Instruction notes, Briefing notes etc.); corresponding with Malta’s Permanent Representation to the EU’s (PREU) diplomats in Brussels working on this matter, as well as with foreign colleagues from other Member States; and attending Council Meetings and Co-ordination Meetings with Member States, that were interested to form a lobby that included Malta’s interests.

ENERGY TAX DIRECTIVE

In 2013, FPMD actively participated in the Council Working Party meetings on the Commission proposal to revise Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, also referred as the Energy Tax Directive (ETD).

The proposed amendment is aimed at restructuring energy taxation such that it is better geared towards helping Member States reach policy objectives in the area of climate change set for 2020. Work in this area involved preparing Malta’s position and attending Council meetings as well as analysing the various policy documents put forward by the Irish and Lithuanian Presidencies, the Commission, other Member States and various other stakeholders accordingly, as well as holding the necessary consultations.

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

FATCA is a new reporting and withholding regime, enacted on the 18 March 2010. It is intended to prevent US investors from evading tax by investing through non-US entities. Compliance is enforced through a new 30% withholding tax on “withholdable payments” made to non-compliant non-US entities and withholding began phasing in on 1 January 2014. Notwithstanding payments on certain obligations outstanding as at 1 January 2013 (or, in some cases, a later date) may be eligible for grandfathering exception.

In collaboration with the Inland Revenue Department the division provided a presentation for a training session organised by KPMG to the Malta Bankers’ Association and continued to follow up with the Ministry for Foreign Affairs to organise the formal signature of the Agreement between the Government of Malta and that of the US.

ADMINISTRATIVE CO-ORDINATION

OECD COMPARATIVE INFORMATION SERIES (CIS) REPORT

Work in this field consisted of organising and co-ordinating meetings with the main revenue departments which submitted data, information and, in some instances their personal views regarding the compilation of the survey sent by the Organisation for Economic Co-operation and Development (OECD) pursuant Tax Administration 2012: Comparative Information on OECD and Other Advanced and Emerging Economies. Subsequently all the information was consolidated into a single document which was submitted to the OECD.

OTHER TAX-RELATED DOSSIERS

FPMD has contributed to Malta’s position in feedback to EU policy documents related to the field of taxation. It has also provided assistance to other departments with various response and guidance, when the latter were forming Malta’s position in reaction to policy issues/proposals put forward by the EU.

INTERNAL RESEARCH

A memo entitled ‘*The marginal cost of public funds in the EU: the case of labour versus green taxes*’, was prepared. This memo was based on the EU paper of the same title written by S. Barrios, J. Pycroft and B. Saveyn, which studies the economic costs associated with Government financing measures that fall in either labour taxation or environmental taxation categories. The paper also drew basic concepts and other knowledge from related literature by J. Stiglitz, University College London and the World Bank.

A memo entitled '*Room for fiscal manoeuvre- potential to increase consumption, property or environmental taxes*' was prepared to be used by the Policy Support Unit which outlined Malta's fiscal position in relation to various indirect taxes - the progress made so far and the potential for further improvement. Data was drawn from documents such as *Tax reform in the EU Member States* and *Taxation Trends* issued annually by the CION.

WORK ON BUDGET 2014 PROPOSALS

Motor cycles' Budget 2014 proposal

Data research and analysis was carried out on budget measures intended to incentivise the use of motor cycles through fiscal incentives (effectively a reduction of the registration tax by circa 25% for motorcycles with an engine capacity of over 250cc).

Electoral measure – optional 15% flat tax rate on income from the hire of residential properties in order to encourage compliance

The division worked closely with IRD and NSO to embark in the necessary research and draft a memo for the Minister for Finance which described the fiscal measure, quantified the impact on Government revenue, and proposed how the measure should be implemented, including legal provisions.

Electoral measure – Refund of VAT on Registration Tax paid on motor vehicles for personal use between 1st May 2004 and 2008.

The division worked closely with NSO, Transport Malta and the VAT Department in order to draft a memo for the Minister for Finance which described the recommendations with the options available for the Government to consider including a background of the case and impact on Government expenditure. The division also contributed to the drafting and implementation of the scheme that was published during this year.

OTHER AREAS

The division coordinated with CDRT the course for public officers entitled *Principles of Taxation* whose main aim was to give a practical insight on taxation for public officers who mainly work within policy and research functions within the Ministry for Finance.

EXEMPTION FROM THE PAYMENT OF REGISTRATION TAX

The division, through the Transfer of Residence Exemption Board, is also responsible for administering exemptions from registration tax related to the transfer of residence in terms of SL

368.02. During the year under review, over 234 applications were processed by the Transfer of Residence Exemptions board. The division was involved in the proposed changes to the Motor Vehicle Registration tax rules to amend rule 4(3)(e) of S.L. 368.01 to streamline the wording of S.L. 368.01 and Article 18 of Chapter 368 in consultation with the Ministry for Transport and Infrastructure.

In accordance with Part III Article 7(5) of the Sustainable Development Act, the Tax and Social Welfare Policy Unit has endeavoured to propagate policies that 'guard future generations'. Most notably, a tax reduction was granted to incentivise the use of motorcycles in order to reap environmental and reduced congestion benefits. Such policy is perfectly coherent with the fiscal shift driven by the Maltese government in recent years to reduce transport CO2 emissions and traffic congestion through favourable policies for smaller and cleaner motor vehicles.

C. POLICY SUPPORT UNIT

UTILITIES –WATER & ELECTRICITY

In the 2010 Budget, Government announced that it would undertake an exercise to calculate the carbon footprint of the departments and Government entities and introduce a system of incentives to reduce it.

Following the exercise carried out by FPMD to collect information about all property that is used by Ministries and Departments for administrative purposes, including details on water and electricity accounts, and also in view of the obligations emanating from the Energy Efficiency Directive, discussions continued with the Government Property Division (GPD) and the Ministry for Energy and the Conservation of Water (which after the change in administration was designated as the Ministry responsible for the implementation of such directive), to obtain updates on the work being done on the matter and provide assistance as required.

The division was also involved in assisting GPD to formulate a data sheet to be distributed to all Permanent Secretaries to provide details on all the property that fall under their direct responsibility, with the aim of having an updated property inventory database and to have a synopsis of the rent due from each and every property, amongst others.

MOBILE TELEPHONE SERVICES

During 2012, the Ministry continued in its process to try and consolidate the provision of mobile telephony for officials entitled to such benefit across Government. As a matter of fact, this

division requested an update on the total number of officials within each Ministry/Department making use of a mobile phone paid by Government.

The data forwarded by the Ministries and Departments was amalgamated. Following that, the main local mobile service providers were approached to propose offers which individual Ministries and Departments may be able to subscribe to. A letter circular on the subject has been drafted and is being currently reviewed.

LANDLINE TELEPHONY AND INTERNET SERVICES

During November 2013, the Ministry requested an update on the total number of public officials in headship positions Scale 1 to 4 (i.e. Permanent Secretaries, Director Generals, Directors and equivalent) within the various Ministries/departments/Divisions making use of landline telephone facilities and internet connectivity paid by Government together with the respective billing expenditure for the period 1 January to 30 June 2013.

The data forwarded was amalgamated. Given that the data provided was for a six months period, a number of calculations and adjustments had to be made in order to arrive at a yearly estimate.

FEASIBILITY OF INSURING AGAINST MEDICAL MALPRACTICE

During 2013, given that the claims the Government is facing at times amount to millions of Euros, FPMD continued its discussions with the Ministry for Health regarding the possibility to explore alternative models of cover to the current self insurance against medical liability model.

Furthermore, the Ministry continued to be engaged in evaluating and advising on cases where out-of-court settlements are involved.

OBESITY

A main commitment emanating from the Healthy Weight for Life 2012-2020 Strategy is that MFIN is required to analyse the impacts of subsidies on certain healthy foods and taxes on specific unhealthy food and drinks, particularly their effects on people's behaviour and income redistribution in order to determine their overall feasibility in Malta.

In view of this measure, during 2013, FPMD continued to follow up with the Ministry for Health on any developments with respect to the plan to conduct a proper survey with advice from the World Health Organisation. The aim of this survey is to collect the necessary food consumption data to be used as baseline data for many of the actions, including the ones that fall under the

direct responsibility of MFIN, outlined in the strategy. This issue will continue to be followed up in the coming year.

Eco-CONTRIBUTION

Eco-contribution represents a fairly significant source of revenue for Government. As a matter of fact, during the course of 2013, the division together with the Research Unit at the PS office embarked on an exercise to review the current eco-contribution system and to explore reform alternatives to the system in a manner that would address its current problems. This objective was also referred to in the Budget Speech 2014.

In order to identify the possible options, data on which the necessary computations were based, was obtained from the National Statistics Office (NSO), VAT Department, Budget Office, Customs Department and Commerce Division. Meetings were held with the Customs Department and MFIN Representative on the Eco-Contribution Approving Body to discuss certain policy options. The issue of sustainable waste management and the polluter pays principle have been given particular attention throughout the analysis, other than simply tackling the Eco-contribution reform from a purely fiscal perspective. Such an exercise is expected to be consolidated during 2014 after all the necessary consultations have taken place.

AUDIT REPORTS

During 2013, FPMD reviewed a number of audits carried out by the NAO and IAID. Follow-up checks were made by FPMD to verify whether the recommendations provided in these audits were being implemented.

NATIONAL WASTE MANAGEMENT STRATEGY AND ACTION PLAN

During 2013, the Ministry for Sustainable Development, the Environment and Climate Change (MSDEC) was engaged in reviewing the National Waste Management Strategy of 2010 and the National Waste Management Plan 2008-2012 with a view to prepare one document that sets the overall strategy to prevent or reduce the adverse impacts of the generation and management of waste and includes the relevant thematic management plans as required by the Waste Framework Directive. In order to ensure a holistic approach, a technical team made up of representatives from the Ministry for Finance (MFIN), the Ministry for the Energy and Conservation of Water (MECW), MEPA and MSDEC was tasked with this exercise. MFIN representation on the technical team was intended to identify and recommend market based instruments for waste management within the context of the waste management plan that is to be drafted. National Environment Policy measures related to market based instruments were

also being reflected and addressed through the work being carried out under the said National Waste Management plan.

EU COMMUNICATIONS, DIRECTIVES AND OTHER DOCUMENTS

The division also reviewed and advised with respect to the Malta position on a number of documents issued by the European Union institutions, mostly related to energy, the environment, resource efficiency and biodiversity. FPMD has also provided feedback on behalf of the Ministry on a number of proposed policies and action plans which were launched during the year 2013.

Furthermore, FPMD also co-ordinates and circulates other policy documents and questionnaires for feedback when a consolidated Ministry position is required.

During 2013, the division also contributed in formulating the Ministry's consolidated feedback in preparation of the meeting for the Sustainable Development Focal points with the Minister responsible for sustainable development. On the request of MSDEC, the division also provided comments and changes to a number of measures indicated in the National Environment Policy together with brief descriptions of current status of the measures as applicable.

FINANCIAL SERVICES COMMITTEE

As in previous years, FPMD continued to represent the Ministry at the Financial Services Committee which assists the European Council to define the medium and long term strategy for financial services issues. Before the meeting, the division is responsible for carrying out the necessary consultations and amalgamate the feedback received for a Government consolidated position. Following the meeting, the division is responsible for drafting and circulating the report outlining the points discussed.

RENTS PAID BY CLUBS

The division was member of a Committee, led by the Parliamentary Secretariat for Justice, on the rents paid by clubs. The Committee was set up to recommend an amendment to Article 1531J of the Civil Code which stipulates that property leased to clubs is to be regulated by the pre-1995 laws. Recently, the Constitutional Court of Malta ruled that a law safeguarding leases of clubs was in breach of a person's proprietary rights, thereby upholding a landlord's fundamental right to the enjoyment of his property.

This Committee was composed of representatives of the Parliamentary Secretariat for Justice, Ministry of Finance, Ministry for the Family and Social Solidarity, Attorney General's Office and

the Band Clubs Association. Various recommendations were submitted for consideration by Government.

Herald Bonnici

Director General (Financial Policy & Management)

Strategy and Support Services Directorate

BACKGROUND

As from the 1st December 2013 the previous Directorate General for Strategy & Operations Support was merged with the Directorate General for Support Services to officially form the new Directorate General for Strategy and Support Services. However work under the function of Support Services had already commenced as from April 2013.

The overall purpose of this Directorate General (Strategy and Support Services) is to provide support for the Ministry for Finance to maintain a dedicated capability for the planning and execution of long-term and strategic programmes, projects and initiatives 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 for Finance.

Another purpose for the Directorate General is to coordinate the activities amongst others, of the Corporate Services Directorate, the Policy Development and Programme Implementation Directorate, the EU Affairs Directorate, the EU Paying Authority, the IT Management and Support (IMO) and also the Librarian, to ensure the provision and enhancement of support services to the line Divisions and Departments in general and the Ministry in particular.

GOVERNMENT OBJECTIVES

Work on various initiatives and projects as directed for the implementation of MFIN reforms within the relevant departments and across the Public Service. This included ongoing work on the Amalgamation of the Revenue Departments, Accrual Accounting, Budget Measures including Arrears of Revenue, the new Corporate Financial Management System, Template for expenditure and implementation of the Electoral Manifesto, the Comprehensive Spending Review Exercise, maintaining of service standards, follow up action on the World Bank Doing Business Report Survey on Malta, the drafting of the Proposed Public Finance Management Act, the National Environment Policy Measures document and the Working Group on Green Jobs.

Followed up on an ongoing basis with MFIN entities to ensure their compliance with the Directives issued under the provisions of the Public Administration Act.

Kept abreast with developments on the CAF system across the Public Service and explored the possibility of the introduction of the CAF system within MFIN.

Followed up and coordinated an updated list of MFIN Departments and Entities under the new Ministry portfolio for uploading on the Government Portal ensuring the delivery of services through e-government.

INTERNATIONAL AFFAIRS

Prompt action taken related to resolutions and other requests from international banks and other financial institutions. Work included the preparation of completed voting forms signed by the Minister on various resolutions proposed by the European Investment Bank (EIB), the European Bank for Reconstruction & Development (EBRD), the International Bank for Reconstruction & Development (IBRD), the International Monetary Fund (IMF), the Multilateral Investment Guarantee Agency (MIGA) and other World Bank institutions.

All banking and international institutions informed on the appointment of the new Minister for Finance as the Governor for Malta in the various institutions.

Work carried out on Malta's Chairmanship of the EIB Board of Governors and Malta's Vice-Chairmanship of the EBRD. Advised Minister on the relevant procedures and processes. Facilitated the signing of minutes, appointment letters and votes by the Minister in his capacity as Chairman of the EIB Board of Governors.

Meeting arranged for the Finance Minister and Energy Minister with top EIB officials for the funding of the Gas Power Station in Malta.

Work related to the hosting of the Council of Europe Development Bank Annual Meeting in Malta in June 2013 together with an MFIN reception for all participants, including the participation and address by Prime Minister. Involved in various discussion with MFA, OPM and the Ambassador of Malta to the Council of Europe with regard to these events.

Accompanied Minister in talks with a high ranking delegation from the Council of Europe Development Bank, a related press conference and during the Minister's speech at the plenary session of the Council of Europe Development Bank Annual Meeting

Other advice given to the Minister included those related to Malta's obligations as a Member of the various institutions and on the appointment procedures for Malta's nominations on the ICISD panels.

Other work carried out related to EIB Loans for Malta in various Sectors, contributions by Malta to EIB's Share Capital, confirmations of share capital in the various institutions with the Treasury Department, the EBRD Constituency Meeting and the new Constituency Director, renewal of Board of Directors of EIB, IMF Fiscal Policy Equity and Long Term Growth in Developing Countries, IBRD Capital Stock Maintenance value, IMF Maintenance Value with CBM, the European Central Bank, the World Bank's Doing Business Project, Ukraine Nuclear Power Plant, EBRD proposal for geographic expansion including SEMED Countries, EIB regional ceilings of Mediterranean Countries versus the Eastern Neighbourhood Countries, MIGA Election of Directors, EIB Constituency Rotation, EBRD approval of new members, EIF Nominations, Updating of EIB Contact list, preparation of Governor's statement during EBRD Annual meeting, EIB Third Financial Protocol Cotonou Agreement, IMF's PRGT Subsidy Contribution and the FEMIP Trust Fund and Assembly of Donors.

Facilitated the work of various entities and Committees in conjunction with the Ministry's EU Affairs Directorate. Kept the Directorate abreast with the various issues at stake and provided feedback on Malta's position during various EU fora Feedback provided for ECOFIN, Working Party, Fiscalis Attaches and COREPER Meetings on EBRD, EIB and Fiscalis matters. This included the Directive of the European Parliament on the fight against fraud to the Union's financial interests by means of criminal law, feedback on Territorial Cooperation, Contributions to

the EU Police Mission in the Palestine Territories, EIB Youth employment, improving access to financing of SMEs, EU Own Resources, EU Structural Funds and travel reimbursements for participation in EU Meetings.

Followed up work carried out by the EU Paying Authority in the certification of EU Structural Funds and other Programmes & Initiatives, the managing of the Travel envelope and the transfer of the relevant funds to Maltese Government revenue. Ensured the processing of Malta's contributions to the EU Budget within stipulated deadlines. Followed up on updates to the Annual Implementation Report, the Practical Guide for Managing Authorities and kept abreast with communications in the EU Certifying Authority Network.

Work carried out as EU National Fiscalis Coordinator and Representative of Malta for the Fiscalis Programme 2013 & 2020. As Account Holder, managed the Malta Fiscalis Account held at CBM, regarding the transfer of funds from the EU to Government Revenue. Coordination and managing of Malta's participation in various activities offered by the Fiscalis Programme, such as seminars, exchanges, multi-lateral controls, committees and workshops which were attended by various officials across the MFIN Ministry.

GENERAL MANAGEMENT & OTHER OBJECTIVES

Provision of ongoing support and full collaboration to institutions of oversight such as Parliament, the Attorney General, the Public Accounts Committee, the Ombudsman, the Public Service Commission, the National Audit Office and the Internal Audit and Investigations Directorate. Support and information provided to the said institutions on reports, audits and investigations on various matters. Also liaison was carried out with the Attorney General with regard to the financial settlement of European Court of Human Rights and Constitutional cases. Also, proactively supported the Cabinet Office with respect to drafting of Cabinet Memos, the follow up of Cabinet decisions, the approval and submission of legal notices.

Provision of support and advice to the Permanent Secretary on various matters and initiatives, including the Ex-Malta Electricity Board employees case, Priorities & initiatives of MFIN Departments and entities, Financial plans of MFIN Departments and entities, Double Taxation Agreements, MEU Review Process of MFIN Departments, IAID Operational Plan-identifying high risk areas within MFIN Departments and Entities, MFIN Document Management System, PAC updates, Approvals for extension of time frame of decisions taken by PCR, Cola adjustments re. Tenders, Survey of R&D in the general Government Sector, European Public Sector Awards, Capacity Building Recruitment, restructuring of the Financial Intelligence Analysis Unit, tax treatment of Biodiesel. the approval of travel visits abroad, Use of Ex-Sea Malta Building, Use of VAT Lottery Building, Outcome of meetings of Social Inclusion Sectoral Sub-Committee, Bio Diesel Scheme for State Aid including De Minimis Aid, Maltco Restructuring-Amendment to National Concession Agreement, Palace of Thinking and a Dossier of MFIN's Priorities and Initiatives. This support and advice also included the drafting of memos on various subjects.

Also participated and acted on behalf of the Permanent Secretary/Government in various meetings and fora including, the Parliamentary Public Accounts Committee, the Parliamentary Social Affairs Committee, World Bank and EIB discussions, Projects Selection Appeals Board at OPM, Permanent Secretaries Forum Meeting and other meetings. Coordinated the participation of the Permanent Secretary in various meetings abroad.

Coordination with other Ministries, Departments or public entities on various issues. Maintained relations and worked at the highest levels with various stakeholders and institutions on broad business issues related to projects, research policies, legislation and queries. These included the Departments of VAT, Inland Revenue, Customs, Contracts, NSO, LGA, ARMS, MFA, Air Malta, Enemalta, PBS and various other Ministries and Entities. Work carried out on queries, Legal Notice Checklists and MFIN clearance provided on various matters. Review of various reports by other MFIN Department and entities.

OTHER ASSIGNMENTS

Work related to other various ad hoc assignments and tasks included the provision of marine engineering software, EPAS Membership, Charter of Shareholders, Gas Distribution re. GRTU, OHSa consultation on Work-related stress, Malta Freeport Quay extension, Amendments in Placements, EU e-Government benchmarking assessment of MFIN Website, Eco-Contribution Approving Body Issues, Delegation of Authority Spending limits, Review of Flexi-Time Policy, Accountancy Board Issues, NSO Sustainable Development Focal Point, Availability of Government Property, European Development Fund, Government Boards and Committees, Family Friendly Measures, PQs on various topics, Budget Office Grant to Sports Organisations, Public Service Pension Query, Survey on SMEs, WTO Payments, Tabling of Documents in Parliament, COSME Work Programme-Malta feedback on Financial Instruments, Finance Crime Forum, Auditing of Government-Controlled Companies, Budget Review, Generic MFIN email accounts, New Financial Travel Identification Form, OHSa Exhibition, Release of officials to work with Voluntary organizations, PCRB Hearings, Various Constitutional, Civil & Industrial Relations Court Cases, Premises following merger of Revenue Departments, Government Collective Agreement, the Financial Audit and Administration Act, the Freedom of Information Act, the Whistleblower Act and follow up work on visits by the Minister in various sections of MFIN Ministry.

Worked carried out under the Support Services Function included the authorization of travel visits abroad, the purchase of material for library facilities and the use of MFIN's visa card, follow up work on calls for various positions including Headship Positions, deployment of staff, General Service Grades Progression, EU posts secondments, liaison with PAHRO and Capacity Building Unit on vacancies, follow up maintenance and repairs in MFIN buildings, work on updated MFIN Organigram, advice on Per Diem allowances, work on new job descriptions, work on policy regarding accumulation of leave and study leave, follow up on disciplinary proceedings, approval of virements and various payments and coordinated the transfer of offices and provision of ICT Support to Line Departments. Also the Directorate General provided a Focal Point of Reference for the Minister's Secretariat on a number of technical and administrative matters and Customer Care queries.

The Directorate General also performed functions in various posts, roles and positions to carry out work in a number of specialized and technical areas.

The Directorate General was nominated by the Government of Malta as Malta's Alternate Member of the Board of Directors of the European Investment Bank. This nomination was proposed by the Minister for Finance, approved by Cabinet, Malta's EIB Constituency and also all the 28 EU Member States forming the EIB's Board of Governors. During the year participated in EIB Board of Directors Meetings, FEMIP & Assembly of Donors Committee Meetings, EIB Information Sessions and other EIB Seminars on various topics.

The Directorate General was nominated by the Minister for Finance and approved by the Minister for Education & Employment, as a Member of the Board of Directors of the

Foundation for Tomorrow's School. Attended monthly Board Meetings from July 2013 onwards and followed up on issues and matters related to finance and tender evaluations.

The Directorate General was also appointed by the Ministry for Health, on the Advisory Committee for Healthcare Benefits and by the Minister for Finance, on the Transfer of Residence Board for the exemption of car tax registration.

As Director Agent for Public Lotto, work included issuing of exemptions for duty on Lotteries, approval of tombolas and relevant reimbursements, staff issues at the Department of Public Lotto, liaison with the Lotteries and Gaming Authority on various matters, renting of Lotto booths, VAT Lottery investigation, Proposed changes in VAT Lottery Regulations, Seniority List of Lotto Receivers, Queries by foreigners on VAT Lottery, Container for VAT Receipts quotations, Lotto Stores and a VAT Lottery feature interview on TVM News.

As MFIN Contact on the Chinese Aid protocol, the Directorate General carried out work and provided support relating to various Aid provided under the said protocol, which included the refurbishment of the Chinese Garden in Santa Lucia, stage equipment to St. James Cavalier Creativity Centre, equipment to Heritage Malta and Aid to the Office of the President. In the process formed part of a Maltese Delegation in discussion talks with the Economic & Commercial Counsellor's Office of the Embassy of the People's Republic of China in Malta. Work consisted of the issuing of invitation and confirmation letters for visas of Chinese Employees working on the Garden Project. Also assisted the Santa Lucia Local Council on the said project, including continuous liaison with the Mayor and the Chinese team working on the project. Work also performed related to the organization of the kick off ceremony of works at the Chinese Garden.

Other positions occupied included MFIN Freedom of Information Validator, Chairman of the MFIN Working Group on Human Resources & Development Strategy, Government's Responsible Public Officer for legal and other matters related to Ex-Malta Dry Docks and Ex-Sea Malta, Member of the MFIN Financial Management Committee, Chairman and/or Member on various Selection Boards for various posts, Chairman and/or Member on various Evaluation and Adjudicating Committees, Contact Point on issues related to cooperation with Libya, the World Bank and the Central Bank of Malta.

During the year also participated in Seminars, Workshops, Training and Conferences provided by various entities on topics which included Leadership Trends and Implementation in the Public Service, Strategic Thinking, the Identification of the Impact of Adopting Accounting Standards in the Public Service, Energy Policy, Loan Financing for Youth and Education, Fiscalis Financing Unit, the Complete Use of Story in Business and Coordination Points of Community Programmes Implemented under Central Management.

Claude G Cuschieri

Director General, Strategy and Support Services

Department of Contracts

HUMAN RESOURCES

During 2013 an operations review of the Department of Contracts was carried out. Among other things this review recommended that the Department should immediately embark on the strengthening of the HR function in view of the present and forthcoming workload which is expected to increase considerably in relation to projects being financed through the new EU Funding Programme period 2014-2020.

While good progress was registered on a new senior and middle management structure at the Department, during 2013, there were several important developments in HR. Essentially, a new Director General was appointed and the new position of Director, Policy Development and Programme Implementation which emanated from the aforementioned operations review, was filled. On the other hand, a call to fill in the vacant position of Director, Operations, was issued during December 2013. Preparatory work, including liaison with the Public Administration HR Office, was carried out with the objective of issuing a call for the recruitment of other senior management positions during 2013. This has become increasingly important considering that out of three vacant positions of Assistant Directors, only one was filled.

In terms of recruitment of middle management ten Procurement Managers were recruited in 2013. These Procurement Managers are currently undergoing training and will eventually be deployed in various Government Ministries in an effort to increase expert knowledge of the subject of public procurement at source, that is, at the place where calls for tenders originate. In addition, the IT Unit's HR Capacity was increased with the recruitment of three Procurement Managers. The latter were very much needed in view of the continued expansion of e-procurement across Government.

Training of members of the Department's human resources was sustained as in previous years. Employees of the Department were encouraged by means of an internal circular to attend at least one training course organised by the Centre for Development, Research and Training (CDRT). In fact, most members of staff attended more than one training course during 2013, and these were not necessarily all directly related to their current duties so as to broaden their competence in other fields.

FAMILY-FRIENDLY MEASURES

The Department has continued to encourage the take up of all statutory family-friendly measures including reduced hours, teleworking, flexibility in hours of work, career break and also a choice for employees to a second timetable of working hours. All these measures are available to all members of staff, irrespective of gender.

STRUCTURAL AND MAINTENANCE WORKS

The refurbishment works on the newly acquired store at Pieta' were concluded early in 2013 and subsequently, following the publication of a call for tenders, the supply and installation of a heavy duty two-tier shelving system, inclusive of lighting was completed during the third quarter of 2013.

Furthermore, the final works to make the Department more accessible were carried out. These works consisted of the installation of a chair lift to make the older part of the department increasingly accessible in accordance with KNPD standards.

SUSTAINABLE DEVELOPMENT INITIATIVES

The Department continued to encourage policies to reduce, reuse and recycle the use of commonly used material such as paper. Besides, the Department has embarked on the Government initiative to carry out an Energy Performance Certification of the Department's Building, thus enabling better energy efficiency. The actual exercise will be carried out during 2014.

Furthermore, in accordance with Part III, Article 7(5) of the Sustainable Development Act this Department has cooperated with MSDEC on matters related to sustainable development whenever required to ensure that the Department of Contracts is in line with the current National Strategy for Sustainable Development. This Department has actively contributed by ensuring that all procurement requirements (particularly works) that are published by the Department of Contracts are scrutinised and cleared through the Green Public Procurement (GPP) Office at OPM in order to further achieve sustainable development during the eventual implementation of contracts. Tenders are not published without the necessary clearance from the GPP office. Moreover, this requirement is extended to departmental tenders across all Contracting Authorities. This is monitored at departmental level through the representatives of the Department of Contracts on the respective Departmental Contracts Committees in line ministries. Furthermore, all works tenders are to be accompanied by a specific form which was imposed on all works tenders through Contracts Circular 18/2008 that amongst other, requires that all MEPA permits are in place prior publication.

TRAINING FOR CONTRACTING AUTHORITIES, BENEFICIARIES AND ECONOMIC OPERATORS

Training, in collaboration with the Centre for Development, Research and Training, on 'National Procurement' focusing on local legislation i.e. Legal Notice 296 of 2010 relating to the Public Procurement Regulations as well as EU Directives 17 and 18 of 2004, was carried out by means of intensive six module seminars. Three courses were organised in 2013 with an attendance of 100 public officials. The training consisted of theoretical tutorials on the use of the regulations, the evaluation process, the appeal procedures available to economic operators and the correct use of specifications and terms of reference. Practical interactive sessions were organised during the seminar on the use of the specifically designed department of contracts tender documentation templates for works, services and supplies tenders.

'Procurement by Contracting Authorities' is a short two half day course organised for public employees responsible for procurement in their organisations and which is delivered by the

department under the auspices of the CDRT. One course was organised in 2013 with an attendance of 19 public officials.

As regards to the transition towards electronic procurement and in collaboration with the CDRT, the Department of Contracts maintained the delivery of training specifically on the use of the Electronic Public Procurement System (ePPS). This is the platform for electronic procurement in Malta and training was offered to experienced public employees who deal with public procurement in their respective departments and organizations. The training is spread over three half days and deals with the creation and set-up of an Open Tender Procedure (CFT workspace/workflow online/association of roles/Tender structure creation (import/export of structure), e-tender document and Notice publication/Completion of tender, clarification request, packing and uploading of tenders/ Opening, Evaluation and awarding of tenders). 241 public employees attended training during 2013.

Additionally, the Department of Contracts continued to deliver weekly hands-on training to Economic Operators in respect to the use of the e-procurement system. 310 Economic Operators attended for such workshops during 2013

PUBLIC PROCUREMENT REGULATIONS

Public procurement policy and practice are continually developing in the national as well as international sphere. In order to keep public procurement progressing on the same lines the department actively participates in meetings organized by the Commission's Advisory Committee on Public Contracts, the Working Group on e-Procurement and the Economic and Statistical Working Group. This facilitates the Department's contribution to the development of public procurement methodologies adopted in the EU and aides in advising government on proposed new legislation.

In 2013, considerable progress was made with regards to the finalisation of the new European Union Directives on public procurement. The Department also participated to all the meetings that have been organised by the Council and the Commission directed towards the finalisation of the European Union Directives on Public Procurement. It is envisaged that by early 2014 the final version of these Directives will be published on the Official Journal of the European Union. Once published it is the intention of the Department of Contracts to carry out consultations with various stake holders in order to ensure the most efficient transposition possible.

EUROPEAN UNION FUNDS

The Department is responsible for the administration of all tenders which are fully or partially funded through EU funds, EEA Funds, EQUAL Community Programmes, EAGGF, External Borders Funds, Norwegian Funds, European Refugee Funds, AEFRD and other projects that are partly or fully funded through Community Funds.

PRE-CONTRACTS

These units manage all pre contractual issues, such as vetting of tenders and the drafting and signing of contracts as well as offering support to the General Contracts Committee. During 2013 the Department of Contracts has further consolidated the Action taken in 2012 whereby the EU funded tenders and the locally funded tenders are all vetted by a single pool of procurement managers.

In order to avoid bottlenecks the Department of Contracts has established a new unit intended to cater for tenders of national priority. Through this 'EU and Special Projects Unit' it is estimated that around 200 million Euros worth of tenders were successfully published in a very short time span. Without the intervention of this unit the utilisation of these funds would have been jeopardised.

POST-CONTRACTS

Most of the work relating to post-contract matters in respect of requests by the Contracting Authorities for variations (financial), extensions to the period of execution and other amendments to the contracts such as changes to the payment terms. Invariably, these changes are referred to the General Contracts Committee for approval. The ongoing maintenance of bank guarantees, including tender guarantees, performance guarantees and retention guarantees is another area related to post-contracts matters.

Some disputes during contract implementation end up in conflict and one or both parties will refer their case to the Courts of Justice or to the Malta Arbitration Centre. With the ongoing support of the Office of the Attorney General, the Department of Contracts is represented during Court and/or Arbitration sittings.

ELECTRONIC PROCUREMENT

Following the introduction of its first electronic services in 2008 through the Department's website at www.contracts.gov.mt and following the official launch of an electronic procurement portal at www.etenders.gov.mt in June 2011, during 2012 and increasingly during 2013 the Department and particularly the IT Unit at the Department worked tirelessly in order to increase the take up of e-procurement across Government

In fact, as at end of 2013, 2564 e-tenders were published across Government and 1290 registered Economic Operators were registered to the system, 409 of these Economic Operators are non-Maltese.

The year 2013 proved to be an extremely challenging year for the Department of Contracts due to the fact that the deployment of the Electronic Procurement platform gained momentum. The vast majority of tenders published by the Department were issued through this platform. Furthermore, numerous contracting authorities have started using this platform even in respect to tenders which have an estimated value of less than 120,000 euro.

Even though the e-procurement system brought about greater overall efficiency, it has been noted that prospective bidders and government entities were still experiencing difficulties in adapting to this new medium of procurement. In order to address the various issues that

arose from time to time the Department of Contracts has enhanced the system to improve both interface and functionality.

For instance, further to being awarded a contract, non-e-ID organizations (such as JV/Consortia) were required to formalize their business relationship, resulting in them having to apply for the Organization eID. This would lead to a situation where the system would end up having two separate sets of data which refer to the same Economic Operator. This situation has been addressed by allowing the back end user, after carrying out the necessary verifications, to synchronize the data available.

Another important enhancement related to the authentication details of an eID user who is a member of staff of an Economic Operator (EO). These were visible to both colleagues and EO Administration user. The visibility of this information meant that certain personal information of the user might not have been adequately protected. This issue has been addressed by reducing the amount of details that are visible to all users. Furthermore certain fields have been locked, significantly reducing the extent to which personal information is visible to all EO users hence enhancing the protection of personal data of the user.

A major enhancement which sought to improve the user friendliness of the platform was the introduction of the copy and paste feature. The enhancement made it possible, for an Officer creating the tender structure, to copy and paste certain sections/subsections/criteria within the same workspace, thus avoiding duplication of tasks. This greatly simplified the creation of a tender structure where similar criteria were used, hence expediting the tender preparation process for contracting authorities

Another major enhancement introduced during 2013 was related to the possibility for the Economic Operators to view the file that they were attaching to the tender Structure. This meant that following the introduction of this enhancement, the Economic Operator is in a position to confirm that the file he would be uploading is the correct one. In addition to this, another extremely important enhancement ensured that bidders could not upload tender structures with missing mandatory files. Thanks to this enhancement bidders are now immediately notified by the system that their tender is not accepted and will be provided with reference to end-user instructions/manuals. This enhancement will also benefit the Contracting Authority as it will increase the number of admissible tenders as well as avoiding time-wasting disputes

GENERAL CONTRACTS COMMITTEE

The General Contracts Committee held regular sittings during 2013 in which 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. However, the main function of the Committee remained that to make recommendations for the award of contracts or the cancellation of calls for tenders.

The General Contracts Committee also continued to carry out its other main function, chiefly that to schedule tender offers in respect of tenders published by the Department of Contracts on a weekly basis.

STATISTICS

The Department collected all relevant statistical information related to public procurement for the year 2012 and submitted the data to the European Commission. The following table represents a summary of the statistical information submitted:

EU Statistical figures for 2012

	Services	Supplies	Works
Above EU Threshold	€23,358,000	€50,368,000	€32,926,000
Below EU Threshold	€30,851,000	€46,781,000	€79,702,000
Totals	€54,209,000	€97,149,000	€112,628,000
GRAND TOTAL			€263,986,000

Anthony Cachia

Director General Contracts

Commissioner for Revenue

The process for the amalgamation of all Revenue Departments is moving at a constant and steady pace and this with the main objective of having the Inland Revenue Department, the VAT Department and the Tax Compliance Unit merged for the benefit of all – the Customs Department will be integrated more gradually.

Integration would strengthen the revenue streams and consolidate the fiscal structure of Malta to increase sustainability, which is essential in today's rapidly changing economic scenarios.

OBJECTIVES

The main direction of this process is to arrive at the following desired aims and results, that is, to:

- Provide a platform for improved taxpayer services in line with the Taxpayers' Charter;
- Provide an information sharing platform that will enable the Commissioner for Revenue to become more efficient and effective in fighting and deterring tax evasions;
- Be functionally oriented rather than structured by Tax type;
- Be cost effective in the process of merging the Departments' functions;
- Be sensitive to the cultural diversity of the current organisations through the change management process;
- Initially assume that there will be only partial integration of the Customs department due to the different type of work it entails;
- Use the lessons learnt from merger initiatives in other countries.

INFORMATION TECHNOLOGY SYSTEMS

The implementation of information technology systems to support the integration and change management process is critical. Thus due consideration must be provided to ensure that the IT systems of the departments will eventually provide a true picture of the taxpayer across the two organisations. This is a challenge that will have to be overcome over a number of phases. Interoperability between VAT and Inland Revenue systems is in progress.

TOP MANAGEMENT STRUCTURE

Posts in the top structure have been filled with existing Directors General, Directors and Assistant Directors.

A number of new posts have been created while some posts need to be filled with qualified professionals (IT, Accountancy, HR, Law, Economics)

Senior Management officials within the Revenue Departments are continuously involved in the integration process.

CRITICAL FACTORS

During the process of the current integration, the Office of the Commissioner for Revenue is encountering some critical factors.

These include:

- Premises for the merged entity
- Staff needs

PREMISES FOR THE MERGED ENTITY

The current situation is that various Revenue departments are located in different buildings in different locations mainly, in Floriana and Valletta, with the exception of the VAT department which is situated in Birkirkara.

A preliminary exercise was conducted to estimate the approximate working floor area of all the existing facilities.

The premises of the new organisation is expected to:

- Accommodate all the integrated departments in one common physical location;
- Be centrally located and be easily accessible to all;
- Be able to offer all the necessary amenities such as customer care, back office, training centre, child care centre and adequate parking facilities for both staff and the general public.

STAFF NEEDS

Through the restructuring process the Government is aspiring to utilise the resources available in the Revenue departments with maximum efficiency. Once the departments are amalgamated the new entity will be able to use the information at its disposal more effectively and will be in a more favourable position to prevent tax evasion.

WAY FORWARD

Meetings with the Permanent Secretary (Ministry for Finance) and officials from the Ministry for Transport and Infrastructure, the Office of the Commissioner for Revenue and lately from the Grand Harbour Regeneration Company were held to discuss the proposed building project.

CONCLUSION

This ambitious venture should move forward as it would definitely result in a great leap forward in the work ambience and quality of services offered by the Revenue Departments for the benefits of both employees and customers.

Marvin Gaerty

Commissioner for Revenue

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 and possibly exceeded, in line with the Government's policy of ensuring sound public finance and with the minimum cost and burden to registered persons.

REVENUE AND EXPENDITURE

REVENUE

During 2013, gross revenue collected under the VAT Act 1998, the CET Act 1997 and the VAT Act 1994 was **€697,944,773** compared to **€630,844,423** in the previous year. Refund of excess credit paid out of revenue amounted to **€121,294,541** resulting in net revenue of **€604,921,833** compared to **€574,827,222** in the previous year. The relevant information is shown in the following table.

	VAT Act 1998 (€)	CET Act 1997 (€)	VAT Act 1994 (€)	Total (€)
Total Gross	726,205,832	5,871	4,671	726,216,374
Less Refunds	121,292,680	1,861	0	121,294,541
Total Net	604,913,152	4,010	4,671	604,921,833

ECO CONTRIBUTION

The VAT Department is the competent authority for the administration and collection of ECO Contribution. During 2013 the amount collected from this contribution was **€7,954,948**.

OUTSTANDING CREDITS AND DEBITS

As at the end of 2013, the Department had a net debit book balance on VAT (1998) of **€663,848,163** after deducting outstanding taxpayers' credit. The realistic net balance is **€58,407,402** after deducting estimated assessments and interest.

	VAT (1998) €	CET (1997) €	VAT (1994) €	Total €
Debit Balance	949,160,904	na	Na	949,160,904
Outstanding credits	61,116,803	na	Na	61,116,803
Net Balance	888,044,101	na	Na	888,044,101
Outstanding Accounts				
Accounts with a balance as at end December 2012	29,229	na	Na	29,229
Accounts with a balance as at end December 2010	27,098	na	Na	29,671

COST-EFFECTIVENESS

Total recurrent expenditure during 2013, excluding the Fiscal Receipt Lottery amounted to **€5,580,476**. Net revenue from VAT 1994, CET 1997 and VAT 1998 amounted to **€604,921,833**. Revenue from ECO Contribution was **€7,954,948**. Net total Revenue collected amounted to **€612,876,781**. The cost effectiveness rate for 2013 was that of **0.9c** compared to that of **1c** per Euro as that in 2012.

ANALYSIS AND CONTROL

The Analysis and Control Unit set up in 2009 in order to monitor the effectiveness of the operations at the Department has evaluated data submitted by registered persons, analysed credit control claims and results of investigations to upgrade parameters for the risk analysis system. The unit also assisted in the identification of cases for investigation by TCU and VAT Department and monitored and evaluated work performed. This year, the Unit has reviewed **23** investigations carried out during the previous months and referred **6** for further or corrective action.

COLLECTION OF TAX ARREARS

CIVIL COURT PROCEDURES

A total **3023** demand notices were issued to registered taxpayers with a vat balance due. It is to be remarked that due to the extension of the Remittance of Administrative Penalties and Interest

Scheme the issuing of demand notices was impaired in that prior to issuing a demand note verification was to be carried to establish whether the registered person had applied to benefit for the Remittance Scheme.

Further action in the Civil Court resulted in the filing of **60** judicial letters and notes of privileges as well as **27** garnishee orders and warrants of seizure. The arrears collected following these actions amounted to **€22,937,897**.

	Demand Notices	Judicial Letters & Notes of Privileges	Garnishee Orders & Warrants of Seizure	Civil Cases Settled	Tax Collected €
Total	3,023	60	27	9	22,937,897

OPERATIONS AND ENFORCEMENT

AUDIT INVESTIGATIONS

The number of audit investigations carried out by the Department during 2013 was **17** resulting in **14** provisional assessments of **€1,418,555**. There were **21** cases referred to the Tax Compliance Unit resulting in provisional assessments amounting to **€1,019,205** and final assessments of **€2,552,674**. The Department also carried out **12** ECO contribution investigation cases resulting in assessments of **€30,921**.

CREDIT CONTROLS

The Department concluded **99** credit controls resulting in assessments of **€926,199**.

VALIDATION OF VAT RETURNS, CORRECTION AND AUDIT TRAIL

The VAT returns are regularly validated for erroneous tax declarations. The following is a breakdown of the cases:

Type	Number of Cases Concluded
Validation	505
Correction	504
Audit trail	56

COMPLIANCE RATE

VAT returns continued to be issued regularly each month. The following table shows the returns issued and received during 2013. The overall compliance rate as on due date, expressed as the percentage of returns received over the number of returns issued, was **65.02%**, increasing to **83.45%** 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
Total	149,644	8,361	65.02	124,883	83.45

INSPECTIONS

During the year, despite a considerable shrinking of the VAT Inspectors' complement, the VAT Department carried out a number of field inspections consisting of spot-check inspections and surveillance visits. A number of cases resulted in reports which were referred for Court action.

Throughout the same year, the majority of inspectors were assigned work connected with administrative tax enforcement and review of tax assessments. Inspectors were regularly assigned duties to carry out inspection visits. There is **one** Revenue Security Corps member carrying out limited inspection duties and delivery of specific mail.

Following complaints by the business community, a task force consisting of VAT Inspectors, Customs Officers and the Police has been set up with the aim of carrying out surveillance on goods transported from nearby Sicily generally on board the catamaran service. Inspections were randomly held twice weekly on transporters of these goods and in a number of cases persons have been arraigned in court charged with criminal offences contemplated in the VAT Act.

OBJECTIONS

During 2013, a total of **518** objection letters concerning VAT issues and **35** objection letters concerning ECO Contribution were concluded. The number of outstanding objections at the end of the year was **2,301** for VAT and **202** for Eco Contribution.

LEGAL & ENFORCEMENT SECTION

VAT LEGISLATION

During 2013 a number of amendments were carried out in the Value Added Tax Act (Chapter 406) and in VAT Act Subsidiary Legislation. These were necessary to transpose provisions in

the EU VAT Directive, Council Directive 2006/112/EC; to implement Government's policies in line with the electoral manifesto or to enhance current legal provisions.

The amendments were carried out through the drafting of six legal notices, LN's 140, 141, 142, 240, 345 and 422; one amending act, Act XIV; and, Part XI of Act III (An Act to implement Budget Measures for the financial year 2013 and other administrative measures). Furthermore two other legal notices in connection with Vat appeals to the Administrative Review Tribunal, namely LN's 64 and 236, were drafted in terms of the Administrative Justice Act, Chapter 490.

LEGAL ENFORCEMENT

Legal action was taken against taxpayers wherever it resulted that the VAT legislation was being abused. As a result, **382** cases involving failure to issue fiscal receipts were brought before the Court, of which **17** were acquitted and **153** of them found guilty. The latter were together fined a total of **€135,896**.

Another **871** new cases involved failure to submit tax returns. As a result, **80** cases were together fined **€70,257** whilst **672** 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	€			No	€	
Total	382	153	135,896	17	871	80	70,257	672

APPEAL TO THE ADMINISTRATIVE REVIEW TRIBUNAL

During 2013, VAT representatives attended a total of **31** sittings of the Administrative Review Tribunal during which **769** cases were heard. The ART decided **10** appeals whilst **47** appeals were ceded by appellants. A total of **71** new appeals were lodged during 2013.

The Eco Contribution Appeals Board decided a total of **3** appeals whereas **2** new appeals were lodged during 2013.

TAXPAYERS' REGISTRY

During the year, **5,004** taxpayers were registered with the Department, bringing the total number of registered persons to **115,426**. The current active registered taxpayers is **51,028** of which

39,351 are in Register A, **10,596** are in Register B and **1,081** are in Register C. The number of outstanding applications for a VAT number as at the end of the year was **nil**. During the same year, **4,157** applications for de-registration were received. A total of **3,816** applications were processed completely.

OTHER MATTERS

MANUAL FISCAL RECEIPT BOOKLETS

The following data concerns fiscal receipt booklets.

Printed Booklets	5,461
Distributed Booklets	5,729
Returned Booklets	41,852

With effect March 2013, following a public tender, the printing, distribution and storage of fiscal receipt books was allocated to a private contractor. Under the terms of this tender the VAT Department retains control over the authorisation of orders placed with the contractor by taxpayers whilst the contractor is bound to furnish the VAT Department with records of fiscal receipt booklets orders and returns.

AMALGAMATION OF REVENUE DEPARTMENTS

The VAT Department is in the process of merging with the Inland Revenue Department and Customs Department under the direction of the Commissioner for Revenue. It is envisaged that the merger will strengthen revenue streams and consolidate the fiscal structure in order to increase sustainability as well as reducing administrative burdens. This process is moving at a constant and steady pace – posts in top management structure have been filled and other positions have been identified and created, interoperability of information technology systems is in progress and several meetings were regularly being held on updates and to discuss way forward. In addition a number of task forces have been set to deal with specific issues, for example ‘debt collection’ and ‘legal review’.

CUSTOMER SERVICE

The VAT Department’s commitment towards Customer Service continued throughout 2013. The Department has improved communication with registered persons by upgrading the Department’s website and publishing information for registered persons informing them of the latest updates. The Department continued with its extension of opening hours in summer for the benefit of its customers. The all day opening of customer care and cash office facility was extended also to the day immediately preceding the due date of vat returns.

E-GOVERNMENT

During the year, the Department continued to enhance its on-line services as part of the e-Government project.

UPDATING OF INTERNET WEBSITE

During 2013, the VAT Department's website was upgraded. 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, submission of VAT returns, submission of the recapitulative statement declaration, online requests for receipt books and online payment. The intranet site was also updated for the benefit of the VAT Department officials.

LEGAL COMMITTEE

The Legal Committee continued in its prime role to examine and analyse proposals tabled by the EU Commission with respect to amendments to the VAT Directive and Regulations. As part of this function the Committee drafts instructions notes to mirror Malta's position vis-a-vis the proposals, replies to questionnaires, prepares memos where required and makes representations with Inter-Ministerial Committee regarding these proposals. The legal committee is chaired 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, Fiscalis Committee, Advisory Committee on Own Resources and other meetings.

The VAT Department also participated in the Council Working Party on Tax Questions which discusses the technicalities of the proposed VAT Directives for approval by COREPER and ECOFIN.

OWN RESOURCES

As in previous years, the VAT Department collected the necessary data and contributed to the compilation of the VAT Statement on Own Resources in due time.

EU RELATED MATTERS

During 2013, 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. The Department has also made a number of consultation meetings with a number of stakeholders.

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. This year, several officials from the Department participated in seminars, workshops, work visits and other activities.

MANUALS AND PROCEDURES

The Department continued to update its manuals and procedure to guide the Department's officials in their work. These are aimed to secure accountability, to create more transparency and to ensure that rules are applied consistently across the whole Department.

IT SECURITY

The recommended measures by MITA to strengthen internal IT security controls were put in place after an exercise was carried out to audit the security features in the VAT system.

TRAINING

Training to staff was held both in-house and outside the Department.

REMITTANCE SCHEME FOR REDUCTION OF PENALTIES AND INTEREST

The Vat Department continued with the implementation of the remittance scheme for reduction of penalties and interest which was extended up to 30 November 2013.

Charles Vella

Director General VAT

Inland Revenue Department

OFFICE OF THE DIRECTOR GENERAL (INLAND REVENUE)

The projected strategic targets for the Inland Revenue Department for 2013 were attained. Throughout the year, the Department sought to consolidate its function as administrator of the Income Tax Acts and the Capital Transfer Duty Acts, whilst simultaneously ensuring the effective enforcement of collection of social security contributions under the direction of the Ministry for Finance.

During the year preparatory work on the merger of the Revenue Departments intensified and staff from the Inland Revenue Department were involved with their counterparts in the other Departments in various working groups aimed at facilitating the complex merger process.

REVENUE

Net revenue generated through income tax in 2013 amounted to €967.6 million, a good €101.7 million increase over the previous year. Gross revenue reached the one billion mark for the first time ever. Furthermore, the Inland Revenue Department also contributed towards the collection of €645.4 million in social security contributions, also registering an increase of €35.7 million over the previous year. The following table illustrates the Department's revenue from 2011 up to 2013 (figures are in millions):

	2011 (€ million)	2012 (€ million)	2013 (€ million)
Income Tax - Gross	850.7	937.5	1,042.3
Transfers to Refunds	74.6	71.6	74.7
Income Tax - Net	776.1	865.9	967.6
Social Security Contributions (including State Contribution)	585.5	609.7	645.4
Total	1,361.6	1,475.6	1,613.0

Table 1: Revenue Generated 2011-2013

Throughout 2013, the Department issued a total of 48,153 tax refunds amounting to €74,608,709 (excluding International Tax Unit).

The total recurrent expenditure for the year, including emoluments and other operating expenses stood at €6.9 million, including the expense of the Tax Compliance Unit being borne by the Department as from 2011. Hence, every €1 of income tax collected came at a cost of €0.00,7 (revised to €0.00,4 if Social Security Contributions are considered).

Income Tax Revenue

A more detailed breakdown of the above-stated revenue figures is presented in the ensuing table.

Income Tax Revenue	2011	2012	2013
Final Settlement System	322,423,678	354,736,774	381,378,393
Provisional Tax	252,790,066	277,666,534	304,044,299
International Tax Unit	140,000,000	166,641,036	211,742,764
Settlement Tax	23,782,482	22,220,693	26,634,838
Capital Gains Tax	68,845,421	65,985,089	67,146,645
15% Withholding Tax	42,901,908	50,283,922	51,401,029
Total Gross Revenue	850,743,555	937,534,048	1,042,347,967

Table 2: Income Tax Revenue Breakdown 2011-2013

Final Settlement System

During 2013, employers submitted a total of 11,689 Annual Reconciliation Statements (FS7) and 46,301 Payee Statements (FS3) in relation to 1998 to 2012. 10,466 of these FS7 submissions related to 2012. All of the submitted data was subsequently vetted, captured and reconciled by the Final Settlement System (FSS) Section. Moreover, the FSS Section registered 305 resident taxpayers during the finalisation process.

The section was also involved in an enforcement exercise throughout the year. As at the end of year the compliance rate stood at 92.5%.

The table below provides an overview of the FSS Section's other key performance indicators over a 3 year period.

Year	Electronic Lodgements (CD Filing)	FS7 Web Submissions	Electronic FS3
2013	118	1,220	268,547
2012	97	1,138	302,720
2011	131	1,232	257,576

Table 3: FSS Performance Indicators 2011-2013

During the year 13,137 electronic filing errors were solved and 11,041 adjustment forms were processed.

TAXPAYER INTERFACE

Taxpayer assistance is mainly provided through two sections, depending on the nature of assistance and contact required. The Taxpayer Service Centre handles face-to-face requests, whereas the Taxpayer Call Centre manages taxpayer queries through incoming telephone calls or by means of email. The main objective of the Inland Revenue Department's Call Centre is that of handling taxpayer queries, be it through incoming telephone calls or by means of email. Queries are raised by all categories of taxpayers, that is, individuals, companies, employers and expatriates.

Taxpayer Service Centre

The following are some key statistics relating to the level of activity registered by the Inland Revenue Department's Taxpayer Service Centre:

Year	Personal Encounters	Registration of New Taxpayers	Issued Income Tax Returns
2013	28,435	1,653	14,119
2012	36,131	1,028	15,118
2011	30,265	1,453	15,188

Table 4: Taxpayer Service Centre Statistics 2011-2013

Taxpayer Call Centre

As from 11th April, 2012, the Department's Call Centre services were outsourced to Centrecom Ltd., a company within the World Aviation Group, Luqa. The following statistics indicate the high level of activity and services rendered by the IRD Call Centre.

Year	Telephone Calls	Electronic Mail
2013	71,737	15,732
2012	65,422	16,417
2011	61,126	14,742

Table 5: Taxpayer Call Centre Statistics 2011-2013

Tax Returns and Non-Filers

During 2013 (for basis year 2012), the number of tax statements issued without the need for taxpayers to fill in and submit their annual tax return (non-filers) was 196,069 representing over 70% of taxpayers. On the other hand, the number of tax returns generated was of 83,887.

eBusiness Usage

The Inland Revenue Department continues to consider the gradual shift to eBusiness models of interfacing with taxpayers as a strategically important goal. The results below are testimony to this drive particularly in case of electronic payments which registered a 13% increase in the number of payments received and a 5% increase in the value of transactions affected the previous year. These results were obtained notwithstanding the increases registered during prior years.

Corporate Tax Return

Type of return	Y/A 2011 (Ratio)	Y/A 2012 (Ratio)	Y/A 2013 (Ratio)
Returns filled Electronically	16,715 (92%)	18,105 (94%)	18,904 (97%)
Returns filled Manually	1,535 (8%)	992 (6%)	501 (3%)

Table 6: Corporate Tax Returns 2011-2013

Individual Tax Return

Type of return	Y/A 2011 (Ratio)	Y/A 2012 (Ratio)	Y/A 2013 (Ratio)
Returns filled Electronically	706 (1%)	700 (1%)	699 (1%)

Returns filled Manually	59,472 (99%)	58,112 (99%)	62,830 (99%)
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Table 7: Individual Tax Return 2011-2013

Electronic Payments

	Government Payment Gateway		Internet Banking		Total Value
Year	Count	€	Count	€	€
2013	7,227	5,028,720	28,612	147,995,105	153,023,826
2012	6,781	4,670,487	24,984	141,034,001	145,704,488
2011	5,590	3,956,688	20,299	113,636,772	117,593,460

Table 8: Electronic Payments 2011-2013

AUDIT AND ENFORCEMENT

Audits and Investigations

Throughout 2012, the Tax Audit Section and the Tax Compliance Unit continued to strive to address tax evasion and to this effect audit officials and accountants were engaged on a wide spectrum of risk based investigations and limited scope / aspect audits.

The yield in revenue during 2013 through tax audits and investigations on Income Tax, Value Added Tax, ECO Tax and Duty on Documents resulted in assessments and adjustments that produced an increase in tax of €39,508,551 (including omission tax and interest in accordance with the Income Tax Acts).

Year	Increase in Tax (€)
2013	39,508,551
2012	32,493,561
2011	16,721,135

Table 9: Increase in Tax through Audit & Investigation 2011-2013

Enforcement Initiatives

The following table presents a summary of a number of key enforcement exercises carried out throughout 2013 by the IRD.

Enforcement Initiative	Count
Assessments	862
FSS / SSC Employers Default Notices	378
FSS / SSC Notices (Current Year FS5 Defaulters)	2,539
FS7 Defaulters Notice (Current Year)	5,919
Provisional Tax Enforcement	1,581
15-day Notice (Individual / Corporate)	567
Statement of Accounts	67
Judicial Letters	42

Table 10: 2013 Enforcement Initiatives

Mutual Recovery of Tax and Clearance Certificates

The IRD continued to take enforcement action and precautionary measures for the recovery of claims from other European Union member states as per directives 76/308EEC and 2001/44/EC. Out of the 67 cases at hand throughout 2013, 17 were new claims, 18 cases were finalised whilst another 49 are still pending at year end.

Other Enforcement Exercises

During 2013, 30 court cases relating to the recovery of tax and social security dues instituted against the Inland Revenue Department were pending before the Civil Courts, out of which 9 were new cases. 5 of these cases were concluded, whilst 25 cases are still pending. In total, 120 Court sittings were held.

Also during the year, court action was taken against employers who defaulted in sending their respective end-of-year documents and/or had outstanding FSS/SSC arrears. 49 sittings were held in which 1,028 employers were arraigned before the Criminal Court. The number of cases heard before the Criminal Court was 4,700. Many of these employers regularised their position by availing themselves of the repayment plans.

The number of court cases still pending before the Constitutional Court is 7, of which 4 were instituted during 2013.

TECHNICAL MATTERS

Legislation

Amendments to the Income Tax Acts and amendments as well as new enactments of subsidiary legislation under the Acts were made during 2013 the more noteworthy being:

- New incentive to encourage high net worth individuals to Malta: Global Residence Scheme;
- Incentives in the innovation and creativity sectors as well as an incentive to encourage repatriation of persons established in the field of excellence;;
- New or amended Double Tax Treaties with Saudi Arabia, Guernsey, Norway, Uruguay, Russia, Turkey, Luxembourg, Mexico, Singapore, Belgium, Israel, South Africa, Barbados, India and a Tax Information Exchange agreement with Bahamas, Bermuda and Macao;
- New rules enhancing exchange of information and co-operation with other tax jurisdictions;
- New incentives with respect to restoration of property in urban conservation areas;
- Various other budget measures including incentives for car parks, extension of capital gains option to 12 years, deduction in respect of fees paid in disability residence homes and a reduction of the 35% tax rate to 32% with a view to further reductions;

The full list of Acts and Legal Notices concerning income tax issued during the year is as follows:

Date	LN	Title
15/01/2013	LN23/2013	Donations (Creativity Trust) Rules
15/01/2013	LN25/2013	Double Taxation Relief (Taxes on Income) (Saudi Arabia) Order
15/01/2013	LN26/2013	Exchange of Information (Tax Matters) (Bahamas) Order
19/02/2013	LN67/2013	Income Tax (Philanthropic Work) Notice
08/03/2013	LN102/2013	Assistance to SME Undertakings (Amendment) Regs. [ME Act]
08/03/2013	LN104/2013	Rulings (Income Tax and Duty treatment of Mergers and Divisions)
08/03/2013	LN105/2013	Capital Gains (Amendment) Rules
08/03/2013	LN106/2013	Qualifying Employment in Innovation and Creativity (Personal Tax) Rules

08/03/2013	LN111/2013	Repatriation of Persons established in a Field of Excellence Rules
08/03/2013	LN117/2013	Double Taxation Relief (Taxes on Income) (Guernsey) Order
08/03/2013	LN118/2013	Double Taxation Relief (Taxes on Income) (Norway) Order
08/03/2013	LN119/2013	Double Taxation Relief (Taxes on Income) (Uruguay) Order
08/03/2013	LN120/2013	Exchange of Information (Tax Matters) (Bermuda) Order
17/05/2013	ACT III/2013	Budget Measures Implementation Act
31/05/2013	LN152/2013	Highly Qualified Persons (Amendment) Rules
18/06/2013	LN159/2013	Double Tax Relief (Taxes on Income) (Russia) Order
18/06/2013	LN160/2013	Double Tax Relief (Taxes on Income) (Turkey) Order
05/07/2013	LN167/2013	Global Residence Programme Rules
09/07/2013	LN176/2013	Deduction (Income from Employment) Rules
09/07/2013	LN177/2013	Double Tax Relief (Turkey) – Commencement Notice
09/07/2013	LN178/2013	High Net Worth Individuals – Non-EU (Amendment) Rules
09/07/2013	LN179/2013	European Union Directives (Amendment) Regulations
09/07/2013	LN180/2013	Joint Council of Europe/OECD Convention on Mutual Admin. Assistance in Tax Matters Order
02/08/2013	LN238/2013	Double Tax Relief (Taxes on Income) (Luxembourg) (Amendment) Order
02/08/2013	LN239/2013	Double Tax Relief (Taxes on Income) (Mexico) Order
30/08/2013	LN257/2013	Double Tax Relief (Taxes on Income) (Singapore) (Amendment) Order
13/09/2013	LN274/2013	Double Tax Relief (Taxes on Income) (Belgium) (Amendment) Order

13/09/2013	LN275/2013	Double Tax Relief (Taxes on Income) (Luxembourg) (Amendment) Order – Commencement Notice
20/09/2013	LN282/2013	Joint Council of Europe/OECD Convention on Mutual Admin. Assistance in Tax Matters Order – Commencement Notice
25/10/2013	LN343/2013	Double Tax Relief (Taxes on Income) (Israel) Order
01/11/2013	LN361/2013	Remission of Interest Rules
05/11/2013	Bil 26/2013	Bill – Budget Measures Implementation Act 2014
08/11/2013	LN392/2013	Double Tax Relief (Taxes on Income) (South Africa) (Amendment) Order
15/11/2013	LN398/2013	Income Tax Exemption (Philanthropic Work Notice) (No. 2)
20/12/2013	LN447/2013	Double Tax Relief (Taxes on Income) (Barbados) (Amendment) Order
20/12/2013	LN448/2013	Double Tax Relief (Taxes on Income) (India) Order
20/12/2013	LN449/2013	Exchange of Information (Tax Matters) (Macao) Order

Table 11: 2013 Act s and Legal Notices

Other Technical Matters

The Department's Technical section delivered support to the other divisions within the Department in the implementation of their processes by giving technical guidance to heads of sections and answering numerous technical queries made by staff. Continual support was given to the Taxpayer Service Section, Taxpayer Information and Call Centre and the Capital Gains Section.

The section is also the major contributor to the Department's Legal Committee. It prepares and circulates internal memos on technical developments. It also answers technical queries received from a variety of sources including the Ministry, tax practitioners, auditors, lawyers and the general public.

Liaison with International Tax Organisations was continued, as well as co-operation with foreign tax authorities requesting assistance under the Mutual Assistance procedures.

Volume 3 of the Board of Special Commissioners Decisions was prepared and is being finalised for publication. Numerous contributions were made to the Department's website, including those to the guidelines and clarifications issued by the Department.

All complaints received from the Ombudsman's Office during 2013 were dealt with and successfully concluded, except for 1 pending case. Apart from the organisations in the legal notices mentioned above, 5 other requests for exemption were granted.

APPEALS

Administrative Review Tribunal

In addition to the 124 cases pending at the beginning of the year, the Tribunal took cognizance of 2 new cases. During the year, 21 cases were disposed of, leaving 105 cases pending as at the end of the year. 18 ART sittings were held in 2013.

Court of Appeal

There were 3 cases being dealt with by the Court of Appeal at the beginning of the year, 1 was resolved and 1 new appeal was lodged to the Court, leaving 3 cases still unresolved as at the end of the year.

OTHER DEPARTMENTAL ACHIEVEMENTS

The modernisation process of its offices continued and the work upgrades at Block 5 have been finalised. The outstanding works are now the installation of new doors and maintenance work on windows at Block 1. The installation of photovoltaic panels on the remaining blocks has been put on hold as the Department is presently in a merger process with VAT and Customs and there are plans for the building of new premises to house the merged Revenue Authority. Late during 2013, twelve Gozitan officers were transferred to the VAT section of our Gozo branch and upgrade works are planned to better accommodate these workers and provide a better working environment. The planned work also include the modernisation of a lift so that it can accommodate persons with special needs.

INTERNATIONAL TAX UNIT

Double Taxation Agreements

During 2013, the Legal Notices in connection with the double taxation agreements (DTA) with Guernsey, Israel, Norway (new DTA to replace existing one), Saudi Arabia, Turkey and Uruguay and the Protocols amending the double taxation agreements with Luxembourg, Singapore and South Africa were published. A Legal Notice in connection with the Multilateral Convention on Mutual Administrative Assistance in Tax Matters was also published. Furthermore, double taxation agreements with India (new DTA to replace existing one), Liechtenstein, Russia and Ukraine and the Protocol amending the double taxation agreements with Barbados were concluded and signed. The double taxation agreements with Liechtenstein, Moldova and Curacao were negotiated and initialled. A first round of negotiations was also held with Vietnam.

Tax Information Exchange Agreements

The Tax Information Exchange Agreements with the Bahamas and Bermuda were published. Furthermore, Tax Information Exchange Agreements with the Cayman Islands and Macao were concluded and signed. The Tax Information Exchange Agreement with Kenya was negotiated

and initialled. An Intergovernmental Agreement with the United States of America for FATCA purposes was initialled and signed.

Revenue Collected through the International Tax Unit

During the year, €211,742,764 was transferred to revenue from tax paid by companies dealt with at ITU.

Other International Tax Unit Affairs

Members of the International Tax Unit attended 33 meetings in connection with the EU, 2 with the Organisation for Economic Cooperation and Development, 5 in connection with the Global Forum on Transparency and Exchange of Information on Tax Matters and 1 in connection with the International Tax Dialogue. Staff members of the ITU took part in work related to new legislation on international taxation. Throughout the year, staff members of the International Tax Unit were involved in further work related to the computerisation of the process of the New Tax Regime, in particular on the refund claim system.

CAPITAL TRANSFER DUTY DIVISION

Revenue Collected by the Capital Transfer Duty Division

The revenue collected through the Capital Transfer Duty Division in 2013 is shown in the table hereunder:

	2011 (€)	2012 (€)	2013 (€)
Death and Donation Duty	15,247	38,163	19,883
Duty on Documents and Transfers	82,250,749	83,680,521	82,462,362
Miscellaneous (Photocopies & Consul's Fees)	13,051	12,143	12,722
Fees on A.I.P. Permits	52,742	79,004	43,565
Interest on Pawning	26,470	19,560	7,427
Total	82,358,259	83,829,391	82,545,959

Table 12: Capital Transfer Duty Revenue 2011-2013

Duty on Documents

The data below shows the Capital Transfer Duty Division's involvement throughout 2013 as compared to the previous two years:

Year	Notarial Deeds Examined	Referred to CTD Engineers	Original Assessments Revised	Objections Filed	Revised Claims	Duty on Documents (€)
2013	12,250	3,544	1,946	785	252	82,462,362
2012	12,131	4,652	2,946	1,149	467	83,680,521
2011	12,828	5,616	3,552	1,247	757	82,250,749

Table 13: Duty on Documents Statistics 2011-2013

The total revenue collected from this source amounted to € 82,462,362 (Duty on Documents). Revenue under this source included also the duty collected in respect of share transfers, insurance policies, other duties payable on various documents, and revenue in respect of *causa mortis* transmissions.

33 refusals were issued in anticipation of appeals for the consideration of the Administrative Review Tribunal.

During the year 3,016 *causa mortis* declarations were filed, out of which 140 filed by notaries were referred to the Division's technical experts to verify the valuation of immovable properties declared therein. The amount of *causa mortis* declarations processed during 2013 was 2,187. The Division receives and investigates a number of deficient returns. In fact, during the period, 1,703 claims were issued and 52 revised assessments were raised. During this same period, 98 objections were filed by transferees against the said *causa mortis* claims, while 85 objections have been concluded. Appeals against eventual refusals will have to be finally considered by the aforementioned tribunal.

Death and Donation Duty

The number of returns of chargeable transmissions filed during the period was 17. All returns were duly processed and hence, no outstanding returns are pending at year end. Revenue collected, including arrears, totalled € 19,883. This legislation was repealed in December 2012.

Acquisition of Immovable Property by Non-Residents

In 2013, the Capital Transfer Duty Division received 286 applications and issued 209 permits.

Preliminary Agreements

The Division registered a total of 8,765 Promise of Sale Agreements in 2013. Of these, 710 were registered in Gozo.

Monte di Pietà

The Monte di Pietà, which is responsible for advancing money on pledges of precious metals, registered the following level of activity during 2013:

	2011	2012	2013
Pledges Accepted	969	637	308
Pledges Redeemed	2,393	1,024	562
Amount Loaned Out	€94,333	€57,073	€33,156
Amount Repaid	€238,181	€98,253	€58,384
Interest Received	€38,410	€15,731	€8,273

Table 14: Monte di Pietà Statistics 2011-2013

The number of pledges at hand as at year end 2013 stood at 3,463, against which a total of €332,250 had been advanced.

Assay and Valuations Office

The Assay and Valuations Office is responsible for the administration of the Goldsmiths and Silversmiths Act, which effectively regulates the local, single market and third country levels. In addition to the regular publication of gold and silver valuations in the Government Gazette, the Office conducted the following assay of articles and inspections:

	Gold	Silver	Total
Articles Received	1	292	293
Assays	214	38	252
Articles Weighed and Valued	213	10	223

Table 15: Assay and Valuation Office Statistics

Mario Borg

Director General Inland Revenue Department

Customs Department

ADMINISTRATION DIRECTORATE

MANAGEMENT

During the year under review, the Customs Department endeavored to fine tune its efforts in combining facilitation to trade with the appropriate enforcement measures in line with Malta's responsibilities as a Member of the European Union. Customs authorities are primarily responsible for the supervision of the Union's international trade thereby contributing to fair and open trade, for the implementation of the external aspects of the internal market and for the overall supply chain security.

Customs authorities therefore have in place measures aimed at protecting the financial interests of the Union and its Member States, ensuring the security and safety of the Union and its residents and the protection of the environment. This is achieved through close cooperation with other authorities and maintaining a proper balance between customs controls and facilitation of illegitimate trade.

ADMINISTRATION

FINANCE BRANCH

The total revenue generated by Customs activities in 2013 was €180,627,668 which constitutes an increase of €23,643,832 over the previous year. This increase is due to Enemalta settling part of its arrears owed to the department in the year 2012. The total amount of excise duties generated from the other excise goods (excluding petroleum) shows a slightly improved position of €795,900 over that of the year 2012. The total of €166,047,941 for all excise goods (including fuel) constituted 92% of all the revenue generated by the department. The figure of €12,346,064 was income from import duties. According to set obligations, 75% of the latter figure of import duties income were transferred to the EU, and the other 25% retained by Malta as administration fee. Other Customs incomes such as from licences, fines, fees, bunker taxes, store rent and sale of seized goods amounted to €2,233,663. A further amount of €72 million was collected by Customs as VAT on behalf of the VAT Department.

ACCOUNTS SECTION

During 2013, apart from the normal activities, resources were focused on improving the methods of revenue collection and addressing revenue arrears aspects and cases.

CUSTOMS DEBT UNIT AND CASH OFFICE

The Customs Debt Unit continued monitoring the Customs Electronic System, to effect refunds due to traders, monitoring the deferred payment facilities granted to certain importing companies and managing bank guarantees.

PROCUREMENT AND STORES UNIT

A total of 995 local purchase orders were committed during 2013. Two departmental tenders and numerous calls for quotations were issued, adjudicated and awarded. Uniform items were procured and distributed to entitled staff members including special uniforms and winter jackets for container-scanning and boat-crew personnel. Personal protective equipment and other health-and-safety related items were also procured.

EU PROCEDURES UNIT

The EU Procedures Unit has been in charge of processing and approving import declarations intended to benefit from agricultural quotas managed from the EU's DG Agri and first-come-first-served quotas from the EU's DG Taxud. The movement of certain agricultural goods was controlled under the transit procedure upon request of other EU Member States for these to benefit from the export refund system. Regular liaison was kept with customs laboratories of other Member States, especially Italy and Holland, in connection with the analysis of various commodities for their classification and application of the relative taxes.

EU PROGRAMMES UNIT

During 2013, the Customs Department was represented abroad in 183 meetings organised by the European Commission. During these meetings, a total of 229 participants took part.

Through the Customs 2013 programme, 21 officers from Malta took part in 11 working visits in various Member States, while another 11 participants from various Member States reciprocated and visited Malta Customs on 5 occasions. These exchanges are beneficial in establishing the best possible practices and modi operandi.

A Grant Agreement was signed in March 2013 by the Department and the EC, which enabled further funds to be provided to Malta under the Customs 2008-2013 Programme.

SECRETARIAT SECTION

The amounts of €242,767 in respect of rent and €16,227 regarding electricity bills were collected from 33 Bond Operators using bond stores at the Customs Groupage Terminal at Hal Far. The sum of €6,987 was collected as rent for 3 temporary bond stores at Luqa. The Section dealt with 832 new cases of incorrect declarations and settled 730 current cases. This resulted in the collection of the total amount of €607,370 in fines, duties and VAT. 55 requests for information by the Law Courts were processed. 18 legal cases regarding arrears of revenue to Customs were in progress. The Section's activities contributed to the total collection of €873,482 in rents, electricity bills, taxes, fines and certificates.

HUMAN RESOURCES UNIT

Staff appointments included: 2 Assistant Directors, 1 Senior Manager (IT), 21 Senior Inspectors of Customs of which 8 were further appointed to Managers, 12 Inspectors of Customs and 27 Customs Officers. Following the introduction of the Pension Reform, 6 employees opted to work until the age of 62.

Disciplinary action was taken in two cases of unauthorized absence from work, of which one led to a warning of dismissal. Following the delivery of a Court sentence, another employee was suspended for two days without pay and also given a warning of dismissal.

Additionally, two employees were medically boarded out. There was one case of injury on duty at the Freeport Terminal.

The number of people renewing the family-friendly measures from the previous year as well as those adopting them in 2013 amounted to forty-nine. These include fifteen who availed themselves of telework, fourteen who chose to work on reduced hours and six on a flexible time-schedule. Additionally, a number of employees took unpaid leave to try alternative employment while others chose to take responsibility leave and career breaks. As in previous years, the Department continued to offer its services to traders for longer hours in the summer months with some employees opting to work on a flexible schedule during the summer months only.

Employees continued to follow courses at the University of Malta. Four employees became entitled to a qualification allowance bringing the total number of employees receiving this allowance to thirty-one. A number of employees also attended other training programmes related to equality in the workplace and to the adoption of new IT systems.

LEGAL OFFICE

This section compiled 39 Letters to Prosecute and 74 Seizure Notes.

As regards representations in Court, this Unit dealt with 71 civil cases (253 civil court sittings) and 169 criminal cases (584 criminal court sittings). Personnel from this section, apart from following up all cases, assisted the Attorney General and the Prosecution during above-mentioned civil and criminal cases respectively.

33 Criminal cases were decided (2 of which appealed); fines imposed in the 31 criminal cases amounted to €94,336, part of which was civil debt payable to Customs. 8 out of the 33 criminal cases, apart from breaches of Customs Laws were also found guilty for breaching other Laws.

Fines imposed in relation to these other laws amounted to €25,950. 9 out of the 31 Criminal Cases were given a suspended sentence

The total amount of €30,922 was pronounced as Civil Debt due and payable to Customs by the criminal court in 11 out of the 31 Criminal Case,. €21,186 of this Civil Debt was recovered by Customs directly or through the court. The amount of €9,735 which is to be recovered is considered as Arrears for Revenue.

The amount of €8,851 due as Civil Debt to Customs by way of judgment was also recovered in relation to five other criminal cases decided in 2009, 2012 & 2013. The total Civil Debt due to Customs recovered by way of judgment is €30,037. €38,038 was collected as fines from 79 out of court settlement agreements.

TRAINING UNIT

During 2013, a total of 39 in-house courses for staff and economic operators were delivered. A total of 814 participants attended for these courses which included 187 sessions and 429¼ hours of training. The majority of this training consisted in IT Training ex. Entry/Exit Summary Declaration, CES Import, e-Forms EFG, Radiation Awareness, Flegt (Forest Law Enforcement Governance Trade), SAP (Business Objects), Windows 8, MCCA (Malta Competition & Consumer Affairs Authority), GSAT (General Safety Awareness Training). There were 8 training courses organised by other entities for Customs personnel which were attended by 186 participants. Some of the courses covered Radiation Source Recovery, Basic First Aid, Gulf Community Countries Study Visit (re-CIT) and Commodity Identification Training.

There were 4 courses which were organised through CDRT and which were attended by 78 Customs personnel on Strategy Development, ESF 4.100 Teambuildinga and Windows 8.

HEALTH AND SAFETY UNIT

Customs implemented several initiatives and measures regarding Health and Safety during the year 2013. Several inspections were made and risk assessments carried out accordingly.

Several H&S related training courses were organised and delivered to Customs Personnel, including on: first-aid, radiation protection, H&S risk assessments, H&S workers representatives and Fire wardens' course. Held seven meetings for the H&S Representatives Committee. Testing and engineering certification and servicing of lifts and hoists at Customs premises were performed as required by law. Several architect inspections were commissioned and building repairs undertaken in various Customs premises.

During this year the Unit issued three stop notices, one after an accident at Malta Freeport gate, a near miss accident at the carpentry section and after a truck crushed into the Department's Mobile office at Laboratory wharf. In all three instances corrective action was immediately taken. The annual common seasonal influenza immunization to all Customs staff was carried out. The Unit received 48 H&S related reports and by year's end rectified 41. Training for the handling of radiation equipment was provided. Carried out training on X-ray machinery, Radiation awareness and drafted the standard operation procedure for the safe opening of containers.

CUSTOMS SPORTS BOARD

The Customs Sports Board participated in the sports activities held by the Malta Employees Sports Association (MESA) namely football, snooker and pool, the President's marathon and other fund raising activities. A friendly football match was organised between Malta Customs and Bologna Customs. As an Executive member in the European Customs Sports Association (ECSA), participated in two related Committee meetings and also hosted the ECSA's AGM in Malta. Attended meetings related to the promotion of the *On the Move* health campaign for a better and healthier lifestyle through sports.

EXCISE AND SYSTEMS DIRECTORATE

The objectives of the Directorate's business are fourfold:

- i. to provide for an adequate excise control mechanism,
- ii. ascertain that all excise duty is collected in time,
- iii. attest to an appropriate warehousing regime, and
- iv. furnish a proper and robust IT system to cater for the Department's extensive business.

2013 – AN UNPRECEDENTED YEAR

During 2013 this Directorate, which is responsible for the greater part of the indirect taxation regime of Malta, encompassed an unprecedented challenge of two Financial Budgets – one in April and another one in November – and in both occasions there was a change in excise rates.

Another unprecedented issue throughout 2013 was the political situation in Libya. The illicit traffic of fuel from certain parts of Libya was, and still is, a very hot issue. Therefore, on the one hand this Directorate had to ensure that no difficulties are created to market operators, but on the other hand it is duty bound to protect our country's reputation.

Total Revenue collected by the Directorate

The business of this Directorate generated the following revenue throughout 2013:

Table 1 – Total Revenue collected by the Directorate		
Item	2012	2013
Excise on Machine Made Cigarettes	€71,612,711	€69,348,580
Excise on Beer	€2,287,813	€2,299,593
Excise on Spirits	€9,482,637	€11,046,150

Excise on Petroleum	€45,573,963	€71,368,710
Excise on Tobacco	€3,704,207	€3,067,694
Excise on Mobile Telephony Service	€2,864,207	€3,497,077
Excise on Electricity	€729,605	€1,306,591
Excise on Cement	€3,202,151	€4,113,546
Total Excise	139,457,294	166,047,941
Bunkering Tax	€455,310	€726,813
Total Bunkers Tax	€455,310	€726,813
Import Duty / Customs Warehousing	€1,129,744	€899,944
Import Duty on Excise Goods	Not available	€39,646
Import Duty from Auctions	€1,970	€105
Total Import Duty	€1,131,714	€939,645
VAT / Customs Warehousing	€2,292,095	€2,421,606
VAT on Excise Goods	Not available	€40,369,883
VAT from Auctions	€6,186	€107,443
Total VAT	€2,298,281	€42,898,932
Proceeds from Auctions	€32,401	€62,754
Total proceeds from Auctions	€32,401	€62,754
Rent & Licenses & Sale of Stamps	€15,778	€177,621
Total income from Rent & Licenses	€15,778	€177,621
Grand Total of Revenue	€143,390,778	€210,853,706

Table 1 – Total Revenue collected by the Directorate

Excise Liaison Office

The Excise Liaison Office liaises with its counterparts in all Member States; it is also responsible for the National Project Plan and the Monthly Development Plans. Throughout 2013 our Excise Liaison Officer constantly monitored the EMCS and assisted all excise sections as required by maintaining the Community's System for Exchange of Excise Data (SEED), the Early Warning System for Excise (EWSE), the Movement Verification System (MVS), and the ELO (Excise Liaison Office).

Excise Section

This section controls local producers, traders and service providers. Hence it controls authorized tax warehouse keepers who produce alcohol or tobacco products, excise warehouse keepers who sell duty-free goods to passengers for non-EU countries and traders that are not tax warehouse keepers. It is also responsible for the issue of excise control stamps to importers and manufacturers as well as for payments of excise duty on mobile telephony services. This section also collects annual license fees from keepers/users of water stills and condensers and from blenders/manufacturers of spirits. All excise movements under duty suspension are monitored via the Excise Movement Control System (EMCS) or the manual internal administrative accompanying document (IAAD).

Annual activity

In the below tables some statistics are illustrated:

Local registered producers of Alcoholic Beverages

Table 2 – Local registered producers of Alcoholic Beverages/ Wine Producers		
Activity	2012	2013
Number of approved producers of alcoholic beverages	7	9
Number of approved wine producers	3	4

Local registered producers of Tobacco Products

Table 3 – Local registered producers of Tobacco products		
Activity	2012	2013
Number of approved producers of tobacco products	3	3

Local registered Breweries

Table 4 – Local registered Breweries		
Activity	2012	2013
Number of registered breweries	1	1

Duty Free Supplies & Tax Free outlets

Table 5 – Duty Free Supplies & Tax Free outlets		
Activity	2012	2013
Number of outlets	6	6

Mobile Telephony Operators

Table 6 – Mobile Telephony Operators		
Activity	2012	2013
Number of operators	5	5

Authorised Tax Warehouse Keepers of Ethanol/ Hydrocarbons

Table 7 – Authorised Tax Warehouse Keepers of Ethanol/ Hydrocarbons		
Activity	2012	2013
Number of operators	4	4

New Excise Registered Consignees

Table 8 – New Excise Registered Consignees		
Activity	2012	2013
Number of new consignees	29	18

Total Number of Excise Registered Consignees

Table 9 – Total Number of Excise Registered Consignees		
Activity	2012	2013
Number of consignees	149	154

Revenue collected

Table 10 – Revenue collected				
Item	Excise	Duty	VAT	Others
Machine Made Cigarettes	€57,597,400	€0	€12,496,174	n/a
Beer	€1,142,594	€0	€5,419	n/a
Spirits	€998,318	€0	€275,174	n/a
Wine	€0	€0	€58,000	n/a
Other Manufactured Tobacco	€1,039,547	€672	€245,153	n/a
Mobile Telephony Service	€3,497,077	€0	€0	n/a
Sale of cigarette stamps	n/a	n/a	n/a	€172,935
Licences	n/a	n/a	n/a	€477
Total	€64,274,936	€672	€13,079,920	€173,412

Tax Warehousing Unit

This main purpose of the Tax Warehousing Unit is to monitor and control excise goods under duty suspension in private and public licensed tax warehouses as approved by the Customs Department, as regards to imports, exports, sales and internal transfers where alcohol and tobacco products are traded.

The unit's activity throughout 2013 is illustrated in the below tables:

New Approved Warehouses

Table 11 – New Approved Warehouses		
Activity	2012	2013
Number of new approved public warehouse keepers	0	2
Number of new approved private warehouse keepers	0	0

Total Number of Approved Tax Warehouses

Table 12 – Total Number of Approved Warehouses		
Activity	2012	2013
Number of approved public warehouse keepers	41	23
Number of approved private warehouse keepers	26	0

Fuel Section

The main task of the Fuel Section is to control and monitor all Tax Registered Warehouses, eighteen in all, who are authorised to operate in the local fuel sector. It is engaged in the following activities; import/ export of various types of fuel, bunkering services to vessels, sales of fuel in the local market, and ship to ship operations from oil tankers and other carriers. Monitoring involves physical checks, satellite tracking as well as recording of the quantities of fuels imported, blended or moved.

Statistical data of all fuel movements is forwarded to Malta resources authority on a monthly basis.

Statistics for 2013 are as follows:

Amounts of fuel imported during 2013

Table 13 – Fuel imported in 2013	
Type	Metric Tons
Fuel Oil for power generation	441,648
Gasoil for power generation	44,339
EN 590	102,458

Unleaded petrol	73,096
Fuel Oil (mostly for bunkering)	959,442
Gasoil	71,197
Gasoil for bunkering	209,991
Biodiesel	2,736
Jet A1	96,055
Avgas	45
LPG	21,878

Total Number of Approved Tax Warehouses

Table 14 – Total Number of Approved Tax Warehouse Keepers		
Activity	2012	2013
Number of approved Tax warehouses	16	18

Total Number of Outdoor Control Operations

Table 15 – Total number of outdoor control operations		
Activity	2012	2013
Controls	4642	4240

Revenue collected

Excise Duty collected during 2013 amounted to €71,368,710. It is pertinent to note that for 2013 and part of 2012 no revenue was collected from Enemalta Corporation. As a matter of fact, total amount due from Enemalta Corporation reached the sum of €101,017,676 of which €22,993,245 were accumulated in 2012 (Sep - Dec) and €78,024,431 accrued as end December 2013.

Moreover, arrears of revenue from other tax warehouse keepers amounted to €3,420,000. Meanwhile, this Section deals also with the processing of excise duty refunds. During 2013 a total amount of €5,035,000 was refunded to the maritime industry and a total amount of €65,000 was refunded to the Embassies.

Heating Fuel Section

The main function of this section is to monitor and control issues of heating gas oil with 0.1% sulphur content. This is a rebated product and it is distributed solely for heating purposes and used by an extensive number of users such as hotels, bakeries, farms, garages and several other private and governmental entities. It is also used for domestic heating in a number of households.

Additionally, this section procures, attends and controls the supply of all duty-free gas oil issues, for fishing, towing and work vessels during the months of the blue fin tuna season by assisting all the participating parties, in liaison with the Customs Seaport Office, and submitting all relevant reports to Director Excise and Systems.

In the first quarter of 2013 the section managed to identify some abusers which are being investigated. However, in April, the only remaining Officer attached to the section retired from the service due to health issues and for the other three quarters of the year the section was inoperative. Lately, two new Officers were identified in order to revive the section.

Newport Bonded Stores

This Unit is responsible for monitoring of non-EU warehoused goods subject to Import Duty and/or VAT and their eventual release/export from approved customs public and private warehouses.

The unit's activity throughout 2013 is illustrated in the below tables:

New Approved Warehouses

Table 16 – New Approved Warehouses		
Activity	2012	2013
Number of new approved warehouses	1	0

Warehoused Goods

Table 17 - Warehousing		
Activity	2012	2013
Containers	292	205
New Non-EU vehicles	1892 w/housed; released all	1515 w/housed; 1609 released
New Non-EU motor cycles	291 w/housed; 265	178 w/housed; 170

	released	released
Second hand Non-EU vehicles	0 w/housed;5 released	6 w/housed; 10 released
Outboard motors	0 w/housed; 85 released	0 w/housed; 3 released
Generators	0 w/housed; 27 released	0 w/housed; 5 released
Safe custody lots	1	1

Revenue Collected

Table 18 – Revenue collected during 2013					
Activity	Import Duty	VAT	Excise	Rent	Other proceeds
Tobacco	€1,239	€7,361	n/a	€168	n/a
New Non-EU vehicles	€711,137	€2,223,723	n/a	n/a	n/a
New Non-EU motor cycles	€14,155	€49,875	n/a	n/a	n/a
Second hand Non-EU vehicles	€13,865	€15,862	n/a	n/a	n/a
Outboard motors	€377	€1,681	n/a	n/a	n/a
Generators	€228	€1,553	n/a	n/a	n/a
Auctions	€105	€107,443	€534,042	n/a	€62,754
Importers' Store Rent	n/a	n/a	n/a	€4,041	n/a
Total	€741,106	€1,407,498	€534,042	€4,209	€62,754

During 2013, two auctions were held of which one exclusively involved cigarettes while the other entailed several general commodities.

Transit and Free Zone Office

This Office has a dual role; one relates to transit movements and the other focuses on the free zone concept.

In its role of Central Transit Office, this Office monitors all transit movements through the NCTS computerised system and liaises with other Customs Authorities in the EU/EFTA countries. It also instructs staff and traders about the correct implementation of transit and status legislation, performs post-clearance audit of status documents, and processes requests for Authorised Regular Shipping Services and Level 2 Simplifications for air/sea cargo movements. As the designated Competent Authority for Enquiry and Recovery, it initiates and responds to enquiries and takes the final decisions about recovery of Customs dues.

In the Free Zone, this Office is responsible for ensuring that legal and procedural obligations are observed by both the Customs staff and the Free Warehouse operators within the Distripark, as well as Medserv. Stock Audits, both documentary and physical, also fall within its brief.

Transit office

In 2013, 129 transit movements were opened from Malta as country of departure while 118 messages were received which settled movements initiated locally. As country of destination 2024 transit movements were received and closed 1941 movements as country of destination.

Malta initiated 7 enquiries through the computerised transit system (NCTS) and received 619 incoming enquiries. The figures quoted are more or less in line with the figures of 2012.

17 TC21/21A requests for Post-Clearance Verification of status documents were sent, while 2 incoming requests were processed.

The national transit installation – NCTS-MCC – was further upgraded during 2013 under the collaborative contract comprising the customs administrations of Malta, Ireland, Sweden and The Netherlands. This contract expires in 2014 and a new call for tenders to support the system for a further three years will be issued. A totally new Transit/ Export system is envisaged to be in deployment in three to four years time. This Office is working closely with the Computer Section in this matter.

System operation and functionality was reviewed during various meetings of the Electronic Customs Group (ECG) of the European Commission, attended by a member of this Office. System stability and availability remained well within Community targets.

One member of this Office also attended meetings in Brussels re: the proposed E-Manifest. These meetings are co-sponsored by DG-TAXUID and DG-Move

Free Zone

Due shortage of staff, only sporadic documentary controls were conducted. No physical stock audits within the Distripark were executed.

Computer Section

Members of the Computer Section are kept updated with the discussions, preparations and developments of IT projects pertaining to the EU Multi-Annual Strategic Programme and continuously support both traders and Customs personnel in the use of the IT systems.

Moreover, the participation of Computer Section personnel in seminars, meetings and training courses abroad held by the European Commission is essential for the smooth implementation of upgrades and new IT Systems.

This Section continued with the replacement process of the existing Import and Export Systems with a new software application based and developed on MITA's standards, while taking into account the European Commission proposed new IT approach. This process provides an opportunity to streamline the import and export customs procedures and business processes, with the business process models that are currently being discussed in the Modernised Customs Code Implementing Provisions (MCCIP).

IT Centre

The main function of the IT Centre is to deal with all IT related hardware and network issues, software installations and provide all general support to all staff across the Department.

Two were the major issues in 2013:

- i. the replacements and installations of various computer hardware such as printers, scanners and UPS batteries, installations and upgrades of various applications used by the Department such as CES, ECN+and MCC and provision of support regarding Local Area Network connectivity and extensions, and
- ii. the initiation of the change-over to Windows 8.

The IT Centre also liaises regularly with various entities such as MITA and IMU in dealing with several IT related issues.

Compliance

The Compliance Directorate is responsible for the supervision of import and export activities taking place in and out of the EU Customs territory. These activities are regulated by the Customs Code, Council Regulation (EEC) No 2913/92 and its Implementing Provisions Commission Regulation (EEC) No 2454/93 Officers in this directorate have to ensure that both fiscal and non-fiscal measures of EU legislation are being adhered to when goods are customs cleared at the border. Fiscal measures include the collection of the appropriate duties and VAT on the products declared for free circulation. The non-fiscal measures include protection of citizens from unsafe goods, health and environment. Several consumer products are regulated by other EU regulations which are administered by other Government agencies and departments. This entails continuous consultation with the Veterinary Services, Environmental Health, Plant Health, CITES, OHSAs and MCCAAs. The Compliance directorate is committed to ensure trade facilitation and no stone remains unturned to explore new facilitations to local industry and to economic operators.

- In 2013 a Memorandum of Understanding was signed with an Express Freight operator to run a Customs place of Temporary Storage outside the normal port areas which are supervised by Customs on a 24x7 basis. Due to the increase of transshipment of vehicles from mainland Europe to North Africa, Valletta Gateway Terminals were also granted the facility to operate a place of Temporary Storage outside the normal designated Customs

areas. In both cases a security was raised in favour of the Director General Customs to cover any potential loss of revenue.

- The initiative taken by the directorate to reduce the amount of physical controls continued throughout this year. Several commodities which offer lower risks are being controlled by a simple documentary check. This initiative translates into less handling costs and loss of time to economic operators. This is in line with the Better Regulation initiatives taken by the Department to reduce red tape and financial burden to economic operators. These initiatives were possible through more efficient and effective risk management techniques.
- Throughout the year several meetings were held with all stakeholders involved in the supply chain including the Malta Chamber of Commerce, Enterprise and Industry, Malta Enterprise and the General Retailers and Traders Union, Shipping agents and the association of Groupage Operators. The directorate conducted discussions with the Norwegian suppliers of the inter connector cable between Malta and Sicily on the logistical requirements of the company and Customs clearance of the necessary equipment. Special arrangements were made to ensure that all equipment for the laying of the cable was released immediately upon arrival.
- Customs staff at Maltapost worked relentlessly to cope with the increased demand of e-commerce. The final phase of the restructuring at Maltapost has now been completed and with the cooperation of both sides queues have been eliminated. Most of the parcels are now being delivered directly by Maltapost staff that are also collecting taxes due from their clients.

The implementation of the AEO (Authorised Economic Operator) programme continued throughout 2013. Two comprehensive audits were conducted to holders of AEO certification. The aim of these audit visits is to ensure that certificate holders maintain the same high level of security and compliance as when they were granted the AEO status.

LANDING AND RELEASING BRANCH

The Landing & Releasing branch in the Customs Department comprises the following out-stations: Deep Water Quay, Examination Shed, Courier Office, Airfreight Section, Malta Freeport, Hal-Far Groupage Complex, Laboratory Wharf (including Palumbo Shipyards and ex Malta Shipbuilding), Parcel Post Office and Weighers' Office.

Deep Water Quay

During 2013 a total of 101 vessels discharged and/or loaded the following cargo:

Discharged	Loaded
3,366 full load containers (3,225 EU, 141 non-EU)	444 containers community status
59,458 mt tons conventional cargo (39,960 tons EU,	

19,498 tons non-EU)	
83 new vehicles (EU)	11 vehicles
158 used vehicles (156 EU and 2 non-EU)	

During the summer period a vessel operated by Gollcher Company Ltd operated a ferry service between Malta, Salerno and Augusta. The sailing vessel Audacia operated three times a week carrying passengers and cargo.

For the second year running this customs area continued to experience a reduction in container activity but registered a substantial increase in conventional cargo.

Customs Express Freight Office

Formerly known as the Courier Section, this office continued to register a significant growth in volumes of express freight consignments. Buying over the internet continued to show a steady increase in the volume of goods imported by this method of shipment. The huge workload in this section is reflected by an increase of 8% in total revenue collected over 2012. The overall traffic of goods imported through courier amounted to over 490,000 cartons and bags of which 3,500 cartons and 2,575 bags were subject to scanning. This office was also responsible for the clearance of over 7,000 export declarations.

REVENUE COLLECTED

	Customs Duty	VAT	Fines	Total
Declarations	479,421	3,563,617	NIL	4,043,038
Post Entries	5,886	14,787	20,827	41,500
Total	€485,307	€3,578,404	€20,827	€4,084,538

Airfreight Section

This section is responsible for the Customs areas of Temporary Storage operated by Air Malta Cargo Systems and Globeground Ltd. Efficiency in cargo clearance in this section is crucial due to the sensitivity of the products. Imports by air cargo include highly perishable items, live animals, aircraft parts for the aircraft maintenance industry, electronic components and other delicate raw materials for use in local manufacture. Over 6,200 cargo manifests were presented to Customs an increase of 182 manifest over last year. A total of 10,300 declarations were processed in this section of which 997 were selected for physical control. Compared to last year,

taxes collected in this section experienced a slight decrease in VAT (8%) and (6%) in duty. Throughout the year, the Section continued to liaise with the Customs Intelligence Section and the Enforcement Unit in respect of certain importations targeted for special inspections due to possible infringements in IPR Regulations, false declarations or concealment of goods.

REVENUE COLLECTED

Duty	VAT	Excise Duty	Post Entries, and Fines	Total
€624,384	€3,308,549	€24,400	€42,874	€4,000,207

Malta Freeport (local imports)

The main responsibility of this Section is to ensure that all units that exit and enter the Free Zone area are accounted for and covered by the relevant Customs documentation and authorised gate passes.

- Officers in this section carried out 2,821 vessel *pratiques* of which 1,846 were on vessels coming from third countries;
- A total of 34,022 containers were dispatched for local consumption, of which 13,851 were non Community goods and were released for free circulation. Another 49 Units were dispatched for transshipment.
- Exports effected through the MCC or the ECN modules amounted to 6,363

Hal Far Groupage Complex

The main activities in this complex include the temporary storage and release for free circulation of groupage cargo. Warehouse operators are represented by the Association of Bond Operators. Regular meetings are held with Customs administration on best practices for the smooth clearance of goods unloaded in this Customs area. A total of 5,857 units entered the complex of which 1,469 were of non-EU origin. Random checks were carried out on EU containers and 3,136 containers were scanned. Over 1,000 Transit movements were settled electronically in the EU NCTS system. Rent charges for cargo which overstayed in the Government warehouses amounted to €30,874. This year part of the office space in the administration block was converted in two training rooms to cater for in-house training courses.

TOTAL REVENUE (including additional revenue)

Customs Duty	V A T	Fines	Total
€2,985,458	€7,626,566	€17,219	€10,629,243

Container Examination Shed

The Examination Shed is housed in one of the warehouses in the Hal-Far Complex.

During the year under review 2,767 full load containers from third countries were selected for control, examined and released for free circulation as follows

- 630 containers/trailers were examined at General Examination Shed
- 715 containers/trailers were examined at importer's premises
- 1,422 units were 'documentary checked'
- 87 Post Entries were raised

The NUCTECH scanner stationed at Hal-Far was instrumental in facilitating the clearance of containers which were not subject to physical control. Various infringements were identified at time of release which yielded an extra **€93,613** in Customs Duty, VAT, Anti-dumping Duty. The amount of **€160,435** was collected as 'Fines' for non-compliance.

Laboratory Wharf

This Section is responsible for the supervision of goods landed/loaded at Laboratory Wharf, Coal Wharf, the Grain Silo, Palumbo Shipyards and part of the ex Marsa Shipbuilding.

A total of 556 vessels landed goods at this station and the following operations were recorded:

Discharges	Loading
14,724 containers of which 624 were non-EU	4,883 containers of which 152 exports to third countries
6,367 new and 3,788 used vehicles	new and used vehicles
303,000 m/tons bulk cargo	29,000m/tons Scrap metal, Glass for recycling 2,192 tons
180,628 m/tons Cereals	68,402m/tons Cereals
Goods in Transit: 105 units, 11,000 vehicles, 529 trucks and 51 pcs machinery	

This section is also responsible for the collection of Excise duty on cement which this year amounted to €4,191,722.

Parcel Post Office

Through an agreement with Maltapost new work practices have been introduced in this office to cater for the continuous increase of goods purchased over the internet. Taxes are now collected by Maltapost on behalf of Customs and parcels are being delivered directly to the consignee`s home. Over 20,000 parcels were examined while 26,000 parcels were scanned by office staff and members of the Enforcement Unit. The use of scanning technology was crucial to ensure faster controls and release of parcels.

This year, on two occasions, a surprise joint operation was conducted with the Enforcement Unit to target all incoming non-EU parcels on a particular day.

REVENUE COLLECTED

Parcel Post Office	Duty	VAT	Excise	Fines	TOTAL
Gozo Branches& EMS	€74,941	€617,200	€390	€4,311	€698,842

Customs Weighing Section

Customs Weighers are responsible for confirming declared weights on products which are subject to a specific duty rate according to the Common Customs Tariff of the EU. Currently, the section is managed by a Senior Customs Weigher with the assistance of two senior clerks who have been trained to operate different types of weighing scales according to the products being imported.

Proceeds from weighing fees amounted to €1,002.

PROCESSING SERVICES BRANCH

This branch includes the post Verification Unit, Valuation Section, Binding Tariff Information Unit and Customs Laboratory, Customs Economic Procedures Unit and Binding Origin Information Unit, Customer Services and Risk Management Unit

Verification Unit

The main objective of this Unit is to scrutinize *a posteriori* declarations which were not selected for physical control. In view of the initiative taken by this directorate to reduce physical controls and replace by documentary checks, the role of this section has become critical for a more efficient and effective control of goods released for free circulation. Declarations are selected for verification through an automated random process based on the risk factor of each declaration. Although this section experienced a shortage of staff, the checking officers managed to scrutinize over 13,700 declarations and recovered €105,322 in

extra taxes mainly due to incorrect classifications and incorrect values. Most of the work in this section is carried out by officers on Teleworking and reduced hours. Certain infringements noted during checking are forwarded to the Post Clearance Audit for further investigations.

Valuation Section

The valuation office supports various offices in the Customs department with regards to the customs value of goods imported from third countries. Officials from this Unit participated in the Valuation Customs Code Committee meetings organized by the Commission... The Valuation Office assists the Enforcement directorate in court cases where the value of the goods has to be determined. During 2013 this office inspected over 2,000 used vehicles and prepared valuations for 55 court cases and 108 valuations which were settled by the Enforcement Unit Extra taxes collected through revised values amounted to € 26,000

Binding Tariff Information Unit and Customs Laboratory

The main activity of the Binding Tariff Information Unit (BTIU) is the classification of goods. Information on classification matters is requested by Traders, Customs Clearance Agents and releasing officers at time of release or during post verification of customs declarations. Samples are also often referred to this section for further analysis and guidance. There is a consultation process with other Member States to ensure a quick response to economic operators and to ensure uniform application of classification. During 2013 the Unit received 115 new BTI applications. Ninety of these applications were decided and BTIs were issued accordingly. Twenty-five BTI applications were still pending due to a dispute on the classification of "orthopedic" products.

Internal communications were issued to staff concerning uniform application of the Combined Nomenclature and EU classification decisions on various products. These decisions are first discussed and voted on during meetings of the Customs Code Committee in Brussels and then issued in the Official Journal of the European Union as Regulations and Notices.

The Customs Laboratory carries out analysis on fuel samples and other materials/products. The Senior Customs Analyst assists and advises BTIU officials in the classification of food and chemical products which are submitted for classification. This year, the Excise Control unit submitted over 340 gasoil samples to determine the presence of solvent yellow, 1000 for national marker and 509 for both. Other tests included fake alcohol drinks, blanched peanuts ceramics, food snacks and footwear. The customs analyst attended regular Commission meetings on classification of chemicals, textiles and agricultural products.

Customs Economic Procedures Unit

The Customs Economic Procedures Unit (CEPU) is responsible for the implementation of Customs procedures with economic impact. These EU procedures are designed to assist local manufacturers to import raw material with suspension of duties on imports which are entitled to duty drawbacks once the goods are exported from Malta to third countries. This preferential treatment is granted by an authorisation issued by CEPU.

In 2013 this office was subject to an audit by officials from DG Budget on the End-Use procedure which mainly deals with the suspension of duties on importation of goods for aircraft and vessels. From the preliminary report forwarded, no serious deviations were noted during their inspection.

This year, 575 authorisations were issued to export oriented economic operators for duty suspension. The Unit also issues preference certificates to local exporters and T2L certificates for goods which are in free circulation and are dispatched to other EU countries. In all, the Unit processed 1,290 claims for refund of duty under the Drawback system, 2,415 T2L certificates, 122 T1 movements and 629 preference certificates. Officers in this unit supervise export operations when export declarations are selected for control by the automated export system.

CEPU is also responsible for the administration of burdnara licenses. Revenue collected through license renewal amounted to €2,445.

Binding Origin Information Unit

This year the Unit has forwarded 16 movement certificates to third countries for verification and two replacement certificates were sent to Slovenia.

Three non-preferential *Certificates of Origin* were sent to China and the UAE for verification. These non-preferential certificates of origin covered the importation of goods subject to anti-dumping duties.

Following a reply received from China, it was established that at time of importation, the invoice presented was undervalued by more than €7,086.

Two other replies were received from China. These were in respect to requests forwarded during the previous year and even in these cases it resulted that though the four Certificates of Origin were correct, the relative invoices were undervalued by €104,335.

A reply received from Norway stated that part of the consignment covered by a EUR 1 included bolts which were of Chinese origin and therefore subject to anti-dumping duty amounting to €1,454.

During this year the Unit answered two requests for verification received from Croatia and Israel. In the case of Croatia, the Unit confirmed the authenticity and correctness of the EUR 1 whereas the Invoice Declaration submitted by the Israeli authorities could not be confirmed because it was issued by an approved exporter in Germany.

Customer Services

This office deals with queries from the general public and inputs manual declarations presented by traders in the Customs Electronic System (CES). Officers in this Unit also assist clearing agents and private individuals in interpreting Customs rules and EU regulations. The Customer Service Unit processes import declarations presented by persons eligible for the suspension of import taxes as provided for by EU Regulation 1186/09 on duty reliefs. Transhipments and shipping bills as well as requests for refund of duties are also processed in this section. Containers selected for control are registered for inspection in this office prior to detailing releasing officers for control. Court Garnishee Orders and Counter Warrants are presented at

this Unit for updating the Customs Electronic System. This section is also responsible for the data inputting of 'intrastat' forms, registers new importers and administers the user accounts of the CES.

Statistics for 2013

1	Applications for duty free imports of Personal Effects.	300
2	Manual import /export declarations inputted by Data Entry Operators.	3,130
3	Claims for refunds on preference certificates (ATR - GSP - EUR 1 ...)	105
4	Claims for refunds of deposits paid on importation of personal effects.	158
5	Inputting of "Intrastat" Forms for intra community supplies.	37,801
6	Transshipments bills which were registered checked and authorised.	470
7	Duty free vehicles imported by persons with a disability and Diplomatic missions	27
8	VAT Registrations of new economic operators in CES	662
9	Registration of Court Garnishee Orders and keeping updated records of same.	273
10	Importation of Pleasure Craft by the Vat Deferment Procedure	51
11	Replies to mails requesting classification of products, duty rates, duty reliefs and general information on customs procedures	1,853

The Unit dealt with over 1,680 customs files mostly requests for refund of duties on presentation of preference certificates, overpaid duties due to incorrect classification and refunds of deposits on importation of personal effects. Sale of customs forms amounted to €7,554.

Risk Management Unit

Risk Management is at the core of all activities in the Customs department. It is the most important tool to meet our objectives of trade facilitation and effective controls. Effective risk management in the movement of goods through the international supply chain is critical for security and safety and essential to facilitate legitimate trade and protecting the financial and economic interest of the EU and its Member States. This Unit is mainly responsible for the administration of the risk analysis system in creating of specific risk profiles (selection process/knowledge based), setting of the risk parameters (screening process/knowledge based), and adjustment of result tables (adjusting of the threshold risk values) and setting of the random sampling. Risk profiles inserted in the automated import system are compiled through exchange of information both from national and international sources namely; European Antifraud (OLAF) – Mutual Assistance Alerts (AM), Risk Management (DG TAXUD) – Risk Information Form (RIF) and Alerts issued by Central Intelligence Services (CIS).

Management of Risk Profiles in 2012

Risk	
The number of new risk profiles created in the system	169
The number of risk profiles which were updated or re-activated	300
New risk profiles in the Export System	82
Risk profiles which were updated in the Export System	62

Risk Evaluation

Risk Evaluation	
Risk Information Forms (RIF)	816
Mutual Assistance Alerts (AM)	40
Intelligence Alerts (CIS)	13
Other Alerts (MAB)	99
Rejection alerts from foreign Customs Agencies	103

The surveillance of the Import Module in the Customs Electronic System (CES) is performed by two officers of whom one is on teleworking. These officers monitor all import declarations in the two hour time-out. There is an effective communication network between Risk Management and other key sections within the department such as Intelligence Unit (CIS) and Post Clearance Audit (PCA). The Risk Management Unit also offers a supporting role to the Authorised Economic Operator Committee in audit visits (Security & Compliance) and monitoring inspections on AEO certified traders. The department gives all its support to officers who are willing to improve their knowledge in risk based approaches and encourages training in risk management.

ENFORCEMENT

INVESTIGATION AND INTELLIGENCE BRANCH

Head Investigations Office

The head office coordinated the local, EU and international administrative and operational activities concerning anti-fraud matters and illicit drug trafficking. Meetings abroad were regularly attended and contributed to the EU Customs Cooperation Working Party (CCWP) and Mutual Assistance Committee (MAC). The CCWP is the coordinating group within the European Council's structure tasked with initiatives in the areas of Customs cooperation. In this regard, several joint operations were organised involving Customs organisations within the member states and in other operations organised by the WCO.

Operations included, DEMETER3, PANGAEA VI, GRYPHON (6months) and WAREHOUSE. These operations targeted illegal shipments of hazardous wastes, counterfeit medicines, excise fraud, cigarettes and items related to cigarettes manufacturing. Obligations concerning Mutual Administrative Assistance Reg. (EC) 515/97, other EU and international conventions regarding dissemination of information were fulfilled through OLAF and WCO databases and communications networks. The use of these facilities helped to further integrate Malta Customs in the field of information sharing both within EU and with third countries' Customs services.

Non-Proliferation Unit

During 2013, the Non Proliferation Unit carried out 120 in-depth documentary checks on containerised consignments for export and in transshipment. 61 containers were scanned and 46 were physically inspected. 30 units were withheld since contents within were found to be subject to the provisions outlined in the export control regulations. 14 documentary checks were held on airfreight and courier consignments with 6 being physically inspected.

All withheld consignments were referred to the Director Trade within the Commerce Division for issuing an export authorisation prior to onward shipping. Six other consignments are still being evaluated by the Director trade while the rest of the consignments were granted an export authorisation and thus released for onward shipping. Another 6 in-depth documentary checks were held on local exports.

The NPU continued with its Industry Outreach programme with several meetings being held with different stakeholders. The Unit also carried a session of Commodity Identification Training to Customs personnel in conjunction with the US Department of State. In view of the development of the situation in Syria, the NPU specifically vetted all cargo destined to this country. This was done in order to ensure compliance with the EU restrictive measures imposed on this country. A total of 49 vessels loads were scrutinised prior to being cleared (sanctions – wise) for onward shipping to Syria – twelve consignments were withheld for further verification however these were later released for onward shipping.

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

PCA/EPEU personnel carried out 220 visits to premises of traders. These led to the raising of 42 post-entries and the sum of €82,635 was collected in duties and other taxes.

Container Monitoring Unit (CMU)

Between January and December 2013, 1,792 vessels discharged a total of 812,555 containers for transshipment, of which 230,178 were empty, at the Malta Freeport. Through risk analysis the Container Monitoring Unit selected 8,045 (1.4%) units for scanning. 7,994 transshipment containers were scanned, of which, 792 were furthermore physically examined, resulting into the seizure of the contents of 35 Containers. 4,091 domestic containers were also scanned.

The above records show that during 2013, there was a considerable increase in the total number of container vessels (359 more than 2012) calling at Malta Freeport. Our records also show that the number of transshipment containers landed increased by 45,680 when compared to year ending December 2012. These figures eventually increased the number of units scanned by 389 containers in relation to 2012.

During December 2013, the five sets of Radiation Portal Monitors recorded 14,162 occupancies. These resulted in 401 alarms (2.8%), all of which were scrutinized against manifests and other documentation.

Hal-Far Complex Security (H.F.C.S.)

This Unit tallied 3 containers and carried out over 1,867 searches targeting IPR infringements, CE markings and Excise controls, on vehicles leaving the Customs Hal-Far Groupage complex. It also performed daily counter checking and verification of container units dispatched from other stations such as Deep Water Quay, Laboratory Wharf and Malta Freeport Terminal.

Enforcement Unit

The unit targeted 7,311 flights and conducted 2 aircraft searches. The unit effected 11 drug seizures, of which 1 seizure resulted from luggage searches, 4 seizures resulted from swallowers/stuffers, 5 seizures took place at the Parcel Post Office and 1 vehicle. Drugs seized included: 2.657kgs cocaine, 60gms herbal cannabis, 28.52gms cannabis buds, 1gm cannabis, 20,000 ecstasy pills and 5gm mephedrone. The unit also seized quantities of water pipe tobacco, hand rolling tobacco, smokeless tobacco (snus), cigars and 77 suitcases stuffed with khat. Controls at the airport also resulted in the seizure of 1,338,120 cigarettes and a number of bird skins subject to CITES regulations. 2,072 cash control checks yielded 1 positive result, and a total of €20,205 was withheld. A fine for €5,605 was also imposed. Enforcement staff responded to 53 alerts raised by the radiation portals at the Airfreight sheds. 39 surveillance visits at open-air markets and 584 searches commercial outlets for illegal excise goods gave 27 positive results leading to the seizure of a further 1,466,257 cigarettes and 1,893 alcoholic beverages. 10 vehicles were withheld pending investigations. 54 searches on vessels and yachts yielded 4 positive results, involving the seizure of 390,000 contraband cigarettes and 1,367 alcoholic beverages. 4 vessels were also withheld pending further investigations.

The fight against the illegal importation of fuel continued, 123 fuel samples were taken from various service stations, tanks or reservoirs in private yards for analysis, whereas 33 field tests for national marker were carried out on vehicles or heavy equipment. A total of 61,540 lts of fuel were withheld.

211 container/trailer searches, in collaboration with various sections of the Department, yielded 5 positive results, comprising the seizure of 25,560,000 cigarettes (transit), 388 cartons cigarette filters (transit) and 678 cartons alloy wheels and accessories. The unit also supervised the destruction of illegally imported cigarettes and tobacco. 3 vehicles were surrendered to Customs. €17,464 was collected as dues from various importers, as well as a further €81,515 from duties and VAT. Proceeds from vehicle auction sales amounted to €39,280. 59 inspections were held jointly with the VAT Department. 682 containers were inspected for IPR infringements, of which 34 transshipment containers were withheld by the IPR Unit pending investigations, resulting into 27 positive cases. 136 IPR cases were registered, with 29 leading to legal action and another 80 cases were settled out of court. 909,205 counterfeit items in transit and 1,548 counterfeit items intended for the domestic market were detained. Detained items included play station controls, sport shoes, cigarettes, hair dye, alcoholic beverages, ink cartridges, shampoo, mobile phone accessories, summer sandals, wrist watches and ED tablets. The unit participated in various Joint Customs Operations (JCOs) organised by the European Council and the World Customs Organisation.

Customs Intelligence Services (CIS)

During 2013, the CIS continued with its task of vetting sea and air manifests for passengers and cargo in connection with the evasion of Customs, Excise and Anti-Dumping duties and VAT. Fraud, contraband in general, illegal export or import of cash, counterfeit and rejected goods and particularly the interdiction of narcotic drugs and fake medicine were also tackled by this section. The section issued a total of 340 passenger and 105 cargo alerts. From all alerts issued, 31 'passenger' and 72 'cargo' resulted positive. 808 RIF alerts were received from and/or forwarded to other EU Member States. The CIS supported other customs units during several EU wide Joint Customs Operations. CIS staff participated and contributed in various meetings both locally and abroad, particularly in areas related to general customs legislation, cash controls, AEO and Commission Regulation (EC) 1875/2006. Emerging threats and new modus operandi were also continuously monitored to formulate appropriate counter-measures.

Frontier Control

The main functions of this branch include the inward and outward clearance of sea vessels, pleasure craft, aircraft and passengers and control of conveyances carried out to ships outside harbours. The censorship section is responsible for the vetting of video tapes, DVDs, and other recorded media. Another responsibility pertaining to this section is that of watching over and escorting of duty free goods or other material not in free circulation. Several patrols are held on land and sea in customs areas. At the airport, besides the clearance of arriving passengers, personnel supervise the landing and loading of all cargo imported or exported by air, the release of accompanied commercial goods, inspection and export certification of accompanied goods subject to VAT refunds and the collection of Customs, and Excise Duties, and VAT, special attention being paid to preventing imports of restricted and prohibited goods, including flora and fauna.

Yacht Marinas

In 2013, there were 1007 arrivals/departures of pleasure craft from and to EU Member States, and a total of 226 movements to/from non-EU member states requiring Customs services. The statistics for the Gozo marina were 337 and 34 respectively.

Customs Baggage Room (Seaport)

This Section operates on a 24x7 basis. During the year under review, a total of 6,269 commercial vessels called at Malta, 3,983 of which from non-EU countries, while a total of 6,275 vessels were cleared outwards. These figures relate to vessels entering all Maltese ports namely, Grand Harbour, Marsamxett, Marsaxlokk and Mgarr, Gozo where 17 vessels berthed. Passengers arriving at the seaport were 149,335 whilst 145,251 departed. Cruise liners brought 416,280 other passengers. Accompanied vehicles arriving in Malta totalled 24,237, while departures totalled 21,468. The section processed 1,366 Trans-shipment Shipping Bills, 97 export documents, 1,745 duty-free authorizations and 4,763 fuel stores authorizations. The number of conveyances requested was 848. Currency spot checks on incoming and outgoing passengers were carried out, as well as searches at the entry and exit gates to/from various Customs areas.

Airport

A total of 4,218 aircraft arriving in Malta from non-EU in 2013. €56,906 were collected in Customs and Excise duties, VAT and fines (the latter on dutiable goods undeclared by passengers passing through the Green Channel). Freight landed at the airport amounted to 4,507,264 kg, whilst 3,392,353 kg were exported. Passenger arrivals from non-EU countries amounted to 253,670, of whom 3,719 were in transit, whereas 241,046 passengers, of whom 3,270 were in transit, departed from Malta. Currency control checks carried out on incoming and outgoing passengers totalled 140, while there were 6,155 currency declarations made by arriving and departing passengers. There were 23 seizures of meat or meat products, amounting to 170.45 kg, all of which were destroyed by incineration. The number of accompanied pets imported was of 895.

During 2013 a total of 6,926 VAT reclaims were registered and 66 radiation alerts were handled. The section operated on a 24x7 basis.

Prohibitions and Restrictions

A total of 1,614 recorded media were vetted. Taxes collected through this function amounted to €5,229. A total of 158,600 cigarettes and 180.05 kgs of *shisha* tobacco were destroyed.

Detail Section

This Section operates on a 24x7 basis, its primary function being to deploy Customs officials, particularly Senior Customs Assistants, to the various Customs stations or gates. Weekly rosters

of duties of Customs Class personnel were prepared and distributed to all Section Heads and the customs management team. The section also helped process requests and queries from traders and/or their representatives in connection with attendances rendered by Customs officials. Other functions included the checking and recording of staff attendances. Vacation and sick leave management was carried out in close liaison with the Customs Personnel Section.

Joseph P. Brincat

Director General Customs

Treasury Department

The mission statement of the Treasury department is *'to maintain an effective accounting methodology and relevant accounting systems across Government departments; monitor and effect disbursements on behalf of line Ministries and departments, oversee Government's cash flow position; and raise the necessary finances to service the Government's obligations and commitments'*.

2013 saw a number of changes in the Treasury Department's administrative structure. In September 2013, an ICT and Business Development Unit (reporting directly to the Accountant General) was established. The Unit was immediately engaged in the planning phases of various projects. It also served as first line of ICT support to the Directorates.

In view of the ever increasing importance of EU Funds and underlying operations, the EU Funds Management Unit of the Treasury was divorced from the Government Accounts Directorate. An appropriate structure similar to other Government organisations dealing with EU funds was developed and vacant positions duly filled.

Government Accounts Directorate

Consolidated Accounts Unit

During the year 2013 the Consolidated Accounts Unit processed the under-mentioned local payments.

Batches	Cheques	Value (€)
20,250	142,436	263,766,223
Consisting of:		
DAS (printed in Malta)	130,060	253,758,565
DAS (printed in Gozo)	12,376	10,007,658

Reports

Apart from the day to day duties, this Unit performed other duties namely: the issue of ad hoc reports for the Ministry for Finance, the National Office of Statistics and the Central Bank of Malta.

Besides, other reports required by the Law were presented by this Section in due time. These reports included the quarterly statement of the Consolidated Fund Account (as compared with the corresponding quarter of the immediately preceding financial year), Annual Financial Statements in terms of Section 65 of the Financial Administration and Audit Act, and the Annual Financial Accounts in terms of Section 67 of the same Act.

Cash Office

As in previous years the bank reconciliation of the Public Account was undertaken by the Cash Office. Liaison and coordination with MITA and departments was maintained to ensure that the process progressed smoothly. During this year, this section together with MITA has completed a number of testing on the new version of the Bank Reconciliation System prior to it being launched onto the LIVE environment. Other testing was done with regards to the migration of the system onto Windows 8.

During the first months of the year, this section continued with the gathering of balances of bank accounts held by Ministries/Departments at the Central Bank of Malta and local commercial banks as at the end of the previous year. As in previous year, this year's data has been reported in the 'Financial Report 2012'.

Ongoing meetings were held throughout the year with CBM, MITA and various departments (most notably Social Security, Ministry for Education, Public Debt Management and Payroll Governance Unit), for the transition of direct credit payments to SEPA payments. These were successfully migrated in 2013 except for the Public Debt Stock payments which will be migrated during early 2014.

A total of 750 stop payments and 531 Garnishee Orders were handled during 2013.

Bank Transactions Unit

The Bank Transactions Unit is responsible for effecting overseas and local payments. The following table illustrates the number of transactions effected by the Unit during 2013.

Transaction Type	Number
Travel	5,970
Other	12,498

Verifications Unit

The main objective of the Verifications Unit is to carry out the verification of payments being processed and other payments already processed and paid by the Government Departments, as defined in Legal Notice 185 of 2007, amending the General Financial Regulations. The general responsibilities of this unit are to:

- verify that the incidence of charge is correct;

- verify that the payment will not cause an excess on the provision authorised for the service;
- verify that adequate information has been given on the voucher on the nature of the services rendered or the supplies delivered;
- verify that the certificate has been signed by the proper officer.

The aim of this process is to ensure proper spending of public funds and that all payments are effected according to standing financial regulations.

Batches of Payment Vouchers for Verification

During the year under review, the unit witnessed a mass turnover of staff movements which effected performance; at times manning levels were reduced to a single verification officer part time, as the same officer performed multi tasks within the Treasury. Nevertheless, during the year under review authorised officers within this section carried out verifications as follows:

Total verified batches for 2012: 153

Total verified batches for 2013: 183

A report in respect of the verifications carried out is prepared on a quarterly basis.

Identified Weaknesses

During the verification process a number of weakness were encountered and addressed, which included amongst others:

- a) Lack of VAT receipts from suppliers;
- b) Payment vouchers with incorrect invoice numbers;
- c) Payment vouchers without authorised signatories;
- d) Incorrect incidence of charge;
- e) Telephone bills unsupported by itemised lists;
- f) Backdated invoices;
- g) Non- indication of payment vouchers falling under factoring agreements;
- h) Provision of fuel requisition supported by copies of issue notes instead of originals.

Whenever high risk items were identified, the NAO and the Budget office were duly informed for their further considerations.

Travel

Verifications of post travel documentation on visits abroad are also undertaken by the Verifications Unit.

During 2013 checking of pre travel and post travel documentation was carried out and departments instructed, wherever omissions were noted, to abide by established procedures. A system of close coordination recently introduced between the Treasury and the Ministry for Finance has strengthened an already established process so that departments strictly follow the regulations.

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. It continuously monitors the data submitted by the departments; any irregularities identified by this unit are immediately put forward to the officers concerned requesting clarifications and, if need be, a resubmissions of returns is requested.

This unit also ensures that ministries and departments submit the end-of year accruals forecasts on a quarterly basis.

This Unit provides continuous support (both via e-mail and phone calls) to officers compiling the accrual accounting data. A number of one-to-one meetings with departments are held in order to clarify queries raised by departments and to ensure that they are submitting relevant and reliable accrual accounting information. The integrity of accrual accounting data is of utmost importance as it is the basis for the compilation of quarterly finance statistics submitted to Eurostat and Malta's 'Excessive Deficit Procedure' Notification.

This Unit also issues circulars to departments providing guidance on the compilation of the accrual accounting templates. Officers encountering difficulties when applying the procedures outlined in these circulars also hold meetings with the Unit to be able to clarify their issues and receive further guidance.

This Unit is also involved in the collation of the yearly End of Year Statement of Account Stores Written off And Cash Losses Return and the End of Year Statements of Account Arrears of Revenue Return from ministries and departments. First-level checking on these returns is performed prior to onward transmission to the Auditor General.

This Unit is also responsible for the accounting and monitoring of Direct and Indirect Investments, Loan Receivables and Trust Funds. Following receipt of relevant information from the responsible authorities, Treasury records the relevant transactions in the Government Accounting System (DAS) using the historical cost basis for unquoted investments or fair value for quoted investments. The ultimate aim is to report the financial assets position in the Financial Report (Cash Based).

Implementation of International Public Sector Accounting Standards (IPSAS)

Following the setting up of an IPSAS Committee in 2012, the road to IPSAS took a significant step forward in 2013.

In April 2013, two workshops (IPSAS: the Identification of the Impact of Adopting Accounting Standards and IPSAS: Accounting Standards and Project Planning) were organised by the Accounting Methodology and Compliance Unit and the Financial Policy and Management Division. These workshops were conducted by a professional team from the Chartered Institute of Public Finance and Accounting (CIPFA). CIPFA is the only professional accountancy body exclusively dedicated to public finance in the world. These workshops explored the impact that accrual accounting would have on the public sector and identified the key issues that this sector would need to address.

Following these workshops, a data gathering exercise was conducted in June 2013 by CIPFA, together with the Accounting Methodology and Compliance Unit. During this exercise, the CIPFA team held discussions with approximately 100 officials from across government. The purpose of this exercise was to identify gaps in accounting practices and information; this gap analysis would form the basis of a scoping study report.

In November 2013, the report 'Transition to Accrual Accounting: Scoping Study' was presented to the Minister for Finance by Ian Carruthers, Policy and Technical Director of CIPFA and member on the International Public Sector Accounting Standards Board (IPSASB),

In 2013, officials from the Accounting Methodology and Compliance Unit and the Financial Policy and Management Division had the opportunity to attend public sector conferences organised by CIPFA in the UK, and discussed the UK accruals-transition experience with key officials from the UK public sector including the National Audit Office, HM Treasury, the Department for Work and Pensions, the Department of Health, the Department for Transport and the Home Office. Discussions were also held with the CIPFA Education and Training President at the CIPFA offices in London.

The European Public Sector Accounting Standards (EPSAS)

A report released on 6 March 2013, 'Towards implementing harmonised public sector accounting standards in Member States' by the European Commission to the Council and the European Parliament, concluded that IPSAS "in their current state, cannot easily be implemented in EU Member States" and on the other hand "the IPSAS standards represent an indisputable reference for potential EU harmonised public sector accounts". The report proposed the establishment of a set of European Public Sector Accounting Standards (EPSAS).

The Government of Malta fully supports the introduction of EPSAS, and the introduction of IPSAS will serve as a proxy for future EPSAS requirements.

The Treasury is actively involved on the task forces purposely set up to implement EPSAS. In October 2013, the Accountant General attended the first meeting of the European Public Sector Accounting Standards (EPSAS) Governance Task Force. Officials from the Accounting Methodology and Compliance Unit should be involved in similar EPSAS task forces and working groups in 2014.

Procurement of a Corporate Financial Management Solution (CFMS) for Government

As highlighted on the above-mentioned CIPFA report, the implementation of CFMS will be crucial for the implementation of IPSAS. CFMS will provide the standard accounting functionality necessary to implement IPSAS-based accounts and will bring efficiency and operational benefits.

In 2013 work on the tender for the procurement of a Corporate Financial Management Solution was finalised and the tender was published in January 2014.

EU Funds management

Following a capacity building exercise in 2012, the EU Funds Management Unit underwent further restructuring becoming one of the pillars of the Treasury Department. The EU Funds Management of the Treasury will reach its full staff complement in the third quarter of 2014.

The role of the EU Funds Management (EUFM) is to ensure the efficient management and control of EU co-financed projects' portfolios. During the period under review the EU funds overseen by the EUFM included:

- ERDF, ESF and Cohesion Fund under Cohesion Policy 2007-2013;
- General Programme Solidarity and Management of Migration Flows 2007-2013;
- European Fisheries Fund 2007-2013;
- EEA and Norwegian Financial Mechanism 2009-2014;
- Swiss-Maltese Co-operation Programme

During 2013, in line with its core responsibilities, the EUFM undertook the following key tasks in relation to the coordination and implementation of EU co-financed projects:

- provided guidance and information on financial practices to Government Ministries, Agencies and Project Beneficiaries
- performed subsidiary controls on payment claims to ensure financial compliance and eligibility of expenditure claims in relation to EU co-financed projects, and executed payments;
- assisted Project Beneficiaries throughout the implementation of EU co-financed projects.

The table below represents total payments disbursed during 2013 by the EUFM.

Fund	Value (€)
Cohesion Policy 2007-2013	165,571,220
SOLID Funds	9,518,246
European Fisheries Fund	2,436,759

EEA & Norwegian FM	70,853
Swiss-Maltese Co-operation Programme	1,680,922
Total	179,278,000

Debt management Directorate

The Debt Management Directorate (DMD) was established within the Treasury department in December 2006 with responsibilities for debt and cash management for the central government and for providing specified funding requirements as authorised by Parliament.

The principal objective of the Directorate in its debt and cash management activities is to raise funds as well as carry out other financial transactions in such a way as to ensure that:

- The central government borrowing programme (short- and long-term) is financed prudently and cost effectively consistent with an acceptable level of risk;
- The annual debt servicing costs are met at the lowest possible cost;
- The development of the domestic financial markets is given the necessary support; and
- The liquidity of government funds is adequate to meet government's payment obligations as and when they fall due.

I. Organisation and resources

The DMD is organized along functional lines under three main areas: a Front, Middle and Back Office to ensure a clear division of responsibilities according to international best practices.

The Front office co-ordinates and handles all the needs of the Directorate and its clients with respect to issuance of Government securities; the Middle office undertakes market research and risk analysis activities; whilst the Back office is responsible for the servicing, settlements and accounting of central government's debt and cash management transactions.

II. Legal framework for borrowing

The statutory basis for central government borrowing is set out under the following primary and subsidiary legislation:

- Malta Treasury Bills Act, Cap.133 (*relating to the issue of short-term borrowing up to 12 months maximum maturity*). The maximum amount of outstanding Treasury bills is established by Parliamentary Resolution. In 2002, the maximum amount was set at €698.8 million;
- Malta Treasury Bills (Dematerialisation) Regulations, 2007;

- Local Loans (Registered Stock and Securities) Ordinance, Cap.161 (*relating to terms and conditions applicable to loans authorised to be raised locally by the issue of stock in Malta*);
- Local Loans (Registered Stock) Regulations, S.L.161.01;
- Development Loan Act, Cap.229 (*in respect of bilateral loans raised outside Malta*);
- Government Borrowing and Granting of Loans to the Hellenic Republic Act, 2010 (Act III of 2010);

An annual budget law that authorises the Minister of Finance to raise loans on behalf of the government for an established amount during the financial year by the issuing of securities and provides also the main purposes for which government can apply such borrowing.

Financing Instruments and Operations used in Debt and Cash management

Until now, the Government's policy to meet its financing needs has been that of relying almost exclusively on issuing euro-denominated financing instruments in the domestic market rather than raising funds on the international financial markets.

During 2013, as in previous years, the main financing instruments used to finance the central government funding requirements were Treasury bills (T-bills), being of maturity of 12 months or less, and Malta Government Stocks (MGSs).

The Treasury carried out its **cash management operations** by conducting regular public auctions of Treasury bills (T-bills) on a weekly basis. While T-bills are primarily issued to cover for temporary liquidity needs arising due to timing mismatches between revenue and expenditure flows, at the same time, such issuances maintain activity in the domestic Treasury bills market. T-bills issued to investors through such auctions are listed and traded on the Malta Stock Exchange.

The conventional fixed-rate MGS remained the Treasury's primary financial instrument by which it funded the **long-term borrowing** programme for 2013. The fixed-rate MGS issues were offered in the 6-year and 19-year parts of the curve. Alongside-fixed rate MGSs, Treasury continued to offer Floating-Rate MGSs (FRNs) linked to the six-month Euribor through the auction system. All MGSs are listed and traded on the Malta Stock Exchange.

In December the Treasury implemented successfully the third and last phase of the three-year **Malta Government Stock Switch Auctions Programme** launched in November 2011.

Malta Government Stock Financing Operations in 2013

During 2013 the Debt Management Directorate implemented successfully its funding programme announced at the beginning of the year amid high levels of uncertainty which have characterised sovereign debt markets for most of the last four years.

In terms of '*The Budget Measures Implementation Act*' (Act No III of 2013), the total amount of MGS issuances for 2013 was set not to exceed €650 million.

The funding programme was mainly applied for the purpose of financing:

- the redemption of MGSs amounting to €370.3 million;
- an estimated budget deficit of €163.8 million;
- Malta's share in the ESM capitalisation - €23.4 million;
- A scheduled capital injection of €40 million (2nd Tranche) in the national airline in terms of its restructuring programme; and
- Changes in Central Government's debt portfolio, in line with Government's debt management policies.

I. Issuance Strategy

Similar to the previous year, Treasury adopted a front loaded issuance programme whereby 57% of the MGS issuance programme for the year was covered by the end of June. The programme consisted of four issuances of Malta Government Stocks held in March, May, September and November, raising a total sum of €629.3 million. Details can be found in Table 1.

In line with the Indicative Issuance Calendar published on 28th January 2013, the issuance strategy focused mainly on fixed-rate, euro-denominated stocks with maturity horizons reaching both the short- and long-term. In this regard, the Treasury issued three new fixed-rate MGSs in the 6-, 15- and 19-year maturity buckets. The selection of MGSs was intended to satisfy the investment needs of the banking sector, insurance companies, fund managers and domestic retail investors. The three new fixed rate MGSs issued during 2013 were:

- 3.00% MGS 2019 (III);
- 4.50% MGS 2028 (II); and
- 4.65% MGS 2032 (I).

Moreover, the Directorate continued to support the development of the domestic debt market by promoting diversification of securities offered on the domestic capital market. In this regard, two new floating-rate stocks (FRNs) linked to the 6-month Euribor, primarily intended for institutional investors, were issued during the month of September. The ratio of total outstanding floating-rate notes to the total portfolio of outstanding MGS decreased slightly, from 4.6% in 2012 to 4.1% in 2013.

Table 1 – MGS Issuances in 2013

Issuance month	Short-Term	Long-Term	FRN	Total	Bid-to-Cover
March	44.6	155.1	-	199.6	2.44
May	38.4	131.6	-	170.0	2.83
September	-	-	79.7	79.7	2.16
November	39.5	140.5	-	179.9	1.91

TOTAL	122.5	427.1	79.7	629.3	2.34
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Source: Debt Management Directorate (DMD) internal records. Figures may not add up due to rounding.

Demand for government paper by institutional investors and members of the public was strong for each of the four MGS issues held. Altogether, the average bid-to-cover ratio for 2013 was 2.34 compared to a ratio of 1.83 in 2012.

In line with Government's allocation policy, subscriptions by members of the public (offered at a fixed pre-offer price) were given preference over bids tendered by institutional investors during the competitive, multiple-price sealed-bid auctions. In all cases this policy has crowded out allocation for institutional investors, with the result that the demand for MGS by institutional investors could not be met in full.

In addition to the above issuances, an MGS amounting to €2.4 million was issued in November 2013 in partial settlement of transfer of ex-Church property to the government according to the Holy See and Malta Government Agreement of 1991.

Table 2 illustrates the ratio allotted by auction to total applications accepted, and the ratio of bids accepted against bids received.

Table 2 – Demand vs. Allotment of Bids by institutional investors

Issuance	Security Issued	Total Allotment <i>€ millions</i>	Allotted by Auction <i>€ millions</i>	% of Total Allotment	% of bids accepted/all bids received
Mar	3% MGS 2019 (III)	44.6	31.8	71.3%	31%
	4.5% MGS 2028 (II)	155.1	44.0	28.4%	68%
	Total	199.6	75.8	37.9%	45%
May	3% MGS 2019 (III)	38.4	20.5	53.4%	18%
	4.5% MGS 2028 (II)	131.6	0.5	0.4%	3%
	Total	170.0	21.0	12.4%	16%
Sep	FRN MGS 2018 (VI)	39.0	39.0	100.0%	77%
	FRN MGS 2019 (IV)	40.8	40.8	100.0%	71%
	Total	79.7	79.7	100.0%	74%

Nov	3% MGS 2019 (III)	39.5	24.5	62.0%	24%
	4.65% MGS 2032 (I)	140.5	5.5	3.9%	8%
	Total	180.0	30.0	16.7%	18%

Source: DMD internal records. Figures may not add up due to rounding.

II. Bond Switch Operation

In November 2011 the directorate launched a voluntary MGS Switch Auction Programme to be conducted over a three-year period (2011–2013). The programme formed part of its wider debt and risk management strategy and its aims were to lengthen and smoothen the MGS portfolio interest and redemption profile whilst also, to some extent, provide institutional investors with an opportunity to diversify the asset maturity structure of their fixed-income portfolios. Prior to the launch of this programme, consultations were held with the main market players and stakeholders.

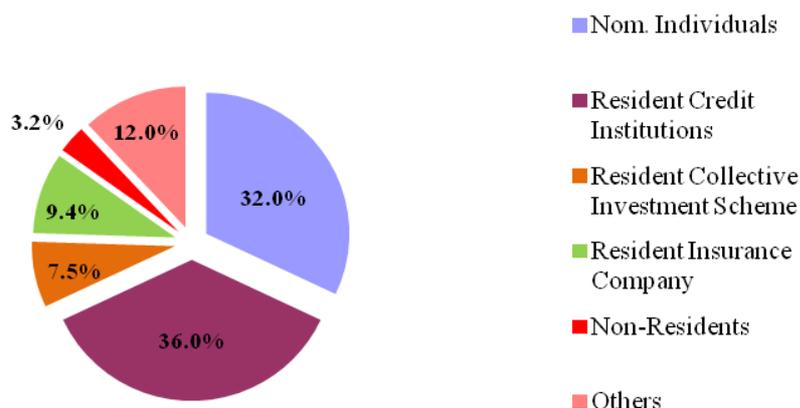
After the successful conclusion of the first two operations, the final stage of the programme was conducted in December 2013. Through this bond exchange operation, the level of MGS maturing in 2014 was reduced from €511.3 million to €361.3 million. A nominal amount of €150 million of the 5.1% MGS 2014 (III) (the ‘source stock’) was exchanged for a total nominal value of €147.8 million, distributed across two new MGSs (the ‘destination stocks’): €83.7 million were allotted in the 3.2% MGS 2019 (V) and €64 million were issued in the 3.35% MGS 2020 (IV). The voluntary participation in this market operation was conducted by auction on a bid price basis.

Such market operation had a positive effect on the debt-to-GDP ratio and also avoided any negative effects on the budget deficit.

III. MGS Holder Distribution by investor type

Chart 1 below depicts a classification of the various types of investors of outstanding MGS as at the end of 2013. Following the trend in preceding years, the two most significant holders of MGS are *resident credit institutions* and *resident nominal individuals*, with 36% and 32% respectively. *Resident insurance companies* held almost 10% of all outstanding MGSs on the market, whilst 7.5% of the total was held by resident collective investment schemes. The level of *non-resident* holdings did not change when compared to the previous year, and remained stable at 3%. Holdings by other investors, principally resident entities not falling under the main categories, including non-profit entities, local councils and public non-market units collectively amounted to 12%.

Chart 1 – MGS Holder Distribution as at 31st December 2013



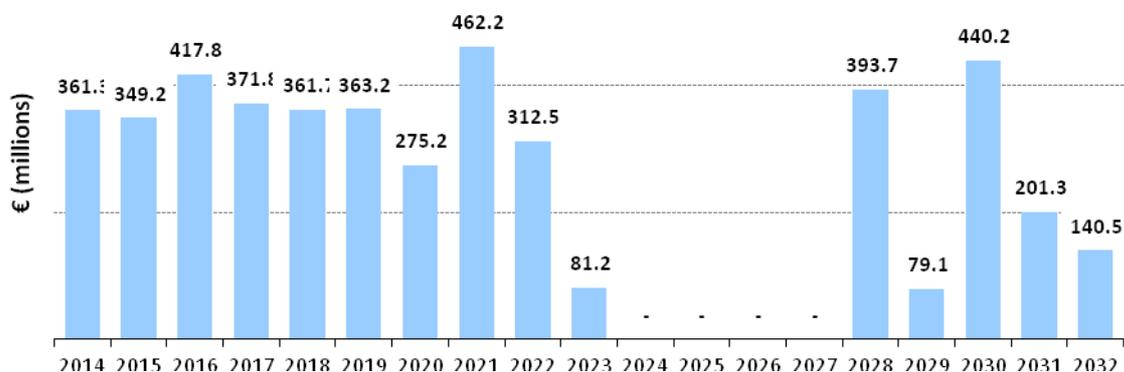
Source: DMD internal records

IV. Maturity Profile

The outstanding nominal value of MGS as at 31st December 2013 reached € 4,610.9 million. Chart 2 illustrates the distribution of outstanding MGSs by year of maturity.

As a result of the measures taken by the directorate to achieve its strategic objectives, and in particular through the implementation of the 3-year MGS Switch Auction Programme, both the skewness of the MGS maturity profile and the weighted average maturity (WAM) of the MGS portfolio continued to improve during 2013. The skewness for the 4-year period from 2014 to 2017 was lowered to 33% compared to 38% for the period 2013-2016, while the WAM reached 7.9 years when compared to 7.3 years at the end of 2012.

Chart 2 - Outstanding MGS Profile as at 31 December 2013

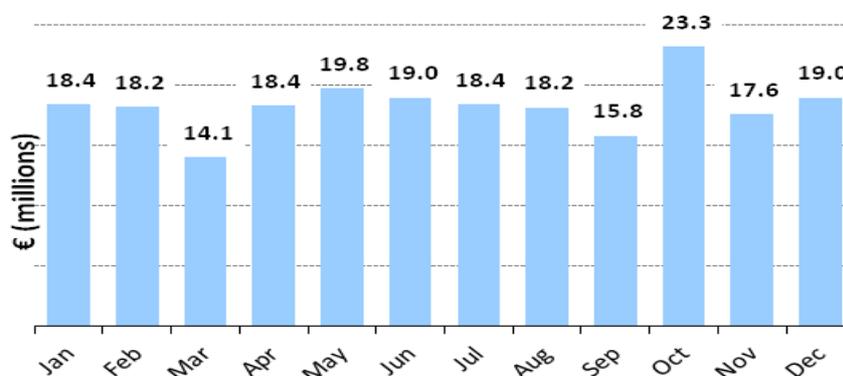


Source: DMD internal records

V. Cost of Borrowing

During 2013 total MGS interest payments amounted to €220.3 million. These semi-annual coupon interest payments were spread throughout the year as illustrated in Chart 3.

Chart 3 - Distribution of Monthly MGS Interest Payments - 2013



Source: DMD internal records

In the 12 months ending 31 December 2013, the year-on-year increase in total MGS interest payments amounted to only 1.7%, compared to a 6% increase in the outstanding MGS portfolio. The weighted-average coupon (WAC) of the entire MGS portfolio at the end of 2013 - excluding interest rates on FRNs - was recorded at 4.93%, compared to 5.13% in 2012. This reduction in the WAC is the result of an overall lower rate of borrowing locked in newly-issued fixed-rate debt, reflected in lower yields in the secondary market for MGS.

Treasury Bills

Over the past few years, the debt management directorate's policy has been to change the composition of debt away from short-term instruments in the form of Treasury Bills and in favour of more medium-to- long term securities (MGSs). This trend has not materialized to the full in 2013, as for the first time in recent years the closing balance of outstanding Treasury Bills registered an increase of €94 million over the closing balance of the previous year, reaching €248.1 million. Most of this increase is reflected in a larger cash balance held in the Government's account and lower MGS issuance than originally planned.

I. Issuance Strategy

Total offers of T-bills accepted and redeemed by the Treasury during 2013 with respect to each tenor are presented in Table 3. The issuance strategy was mainly focused towards the issuance of the benchmark 91-day Treasury-Bill taking up 53% of total issuance, followed by the 182-day maturity making up 23% of all T-bills issued. This reflected a return to a recent pattern, interrupted only in 2012 (where 28-day T-bills were the second most offered maturity). Reliance

on longer dated maturities increased the weighted-average maturity (WAM) of T-bills issued by 13 days (115 days in 2013 against 102 days a year earlier).

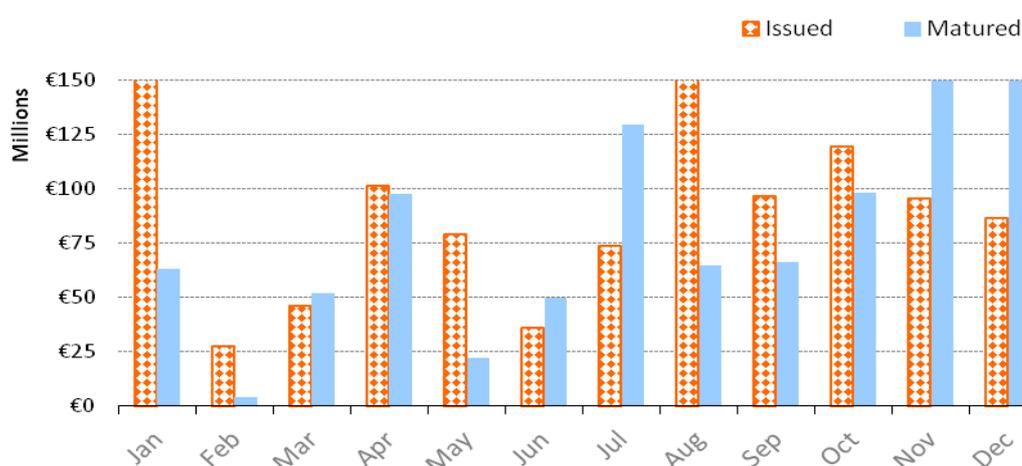
Table 3 - T-Bills issued & redeemed by tenor in 2013

Tenor (days)	Issued (€ million)	% of Total	Redeemed (€ million)	% of Total
28	187.0	17%	187.0	18%
91	592.1	53%	558.0	54%
182	257.8	23%	241.0	23%
273	85.0	8%	32.4	3%
364	0.0	0%	9.5	1%
Total	1,121.8	100%	1,027.9	100%

Source: DMD internal records. Figures may not add up due to rounding.

Chart 4 depicts the 2013 issuances and redemption of T-Bills on a monthly basis. The first three quarters of the year saw an increase of €268.5 million in the outstanding balance, which was partially reduced (by 65%) in the last quarter of the year leaving an outstanding balance of €248.1 million. Auctions are regularly oversubscribed by the various participants.

Chart 4 - T-Bills issued and redeemed per month in 2013

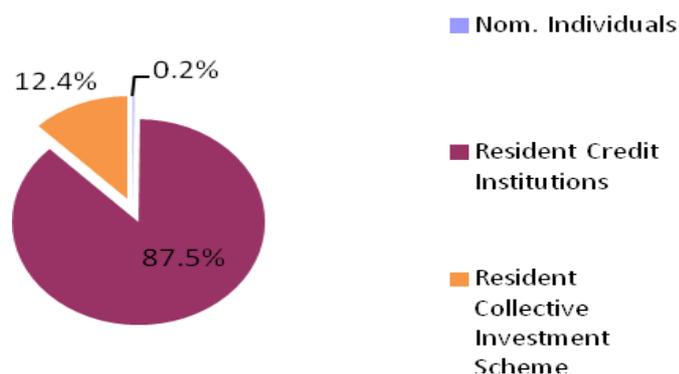


Source: DMD internal records

II. Treasury Bill Holder Distribution by investor type

The distribution of T-bills among investors is shown in Chart 5. The overwhelming majority of bills is held by *resident credit institutions*, with almost 88% of all outstanding T-bills. *Resident collective investment schemes* held the remaining 12%, and a small portion (<1%) were held by *domestic individuals*. No T-bills were held by non-resident investors.

Chart 5 – Treasury Bills Holder Distribution as at 31st December 2013



Source:
internal records

DMD

III. Redemption Profile

By the end of December 2013, the nominal value of outstanding T-bills stood at €248.1 million. Chart 6 shows how this balance will be redeemed throughout 2014.

Chart 6 - Outstanding Treasury Bills as at end 2013



Source: DMD internal records

IV. Yields & cost of borrowing

The low interest rate environment experienced in 2012 persisted in 2013. Domestic money market rates hovered above Euribor rates with a downward trend whilst the latter remained quite stable throughout the whole year. This led to a continuous tightening of the spread between the local money market rate and the respective Euribor rate.

Chart 7 shows the weighted average 3-month rate on accepted bids against the 3-month Euribor for 2013. The benchmark 3-month T-bill rate registered a cumulative 40 basis-point decrease whereas the equivalent tenor Euribor remained close to the 0.2% level, somewhat edging up in the last weeks of the year.

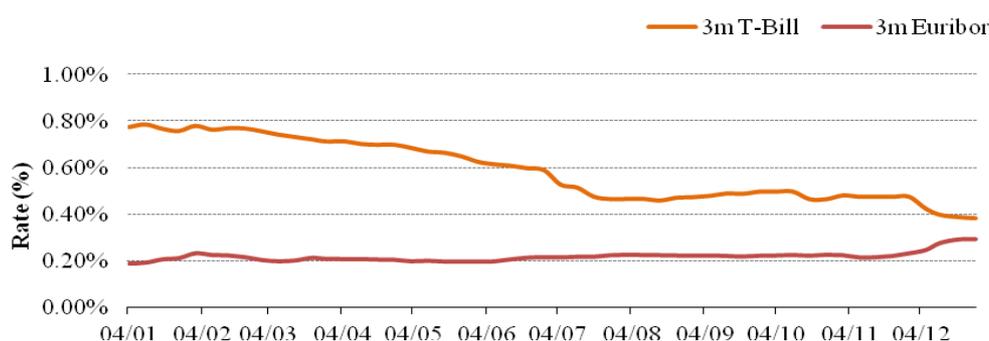


Chart 7 – 3-month Euribor vs. Accepted 3-month T-bill rates

Source: DMD internal records; European Banking Federation (www.euribor-ebf.eu)

The servicing cost on new T-bills issued in 2013, including those still to be redeemed during 2014, reached €2.4 million compared to €2.7 million for 2012. On a purely cash basis, the servicing cost incurred on maturing T-bills during 2013 reached €2.6 million compared to €3.5 million in 2012.

Both the volume and average term-to-maturity of T-bills issued in 2013 were higher than 2012 levels (€1,121.8 million vs. €845.2 million; 115 days vs. 102 days respectively). Still, the total cost of borrowing for 2013 fell by €1.1 million, mostly due to the increased downward pressure experienced by benchmark short-term interest rates, especially during the second half of the year. The entire portfolio weighted average yield on accepted bids as at end 2013 stood at 0.663%, or 44.5 basis points lower than the corresponding weighted-average yield for 2012 (1.108%). Table 4 below shows the maximum and minimum accepted rates together with the weighted average rate for each tenor.

Table 4 - T-Bills borrowing rates in 2013 (Issues)

Tenor	Max	Date	Min	Date	WAY
1 month	0.536%	01-Nov-2013	0.390%	29-Nov-2013	0.446%
3 months	0.786%	11-Jan-2013	0.385%	27-Dec-2013	0.583%
6 months	0.945%	04-Jan-2013	0.436%	20-Dec-2013	0.787%

Source: DMD internal records.

Developments in the Primary & Secondary MGS Markets during 2013

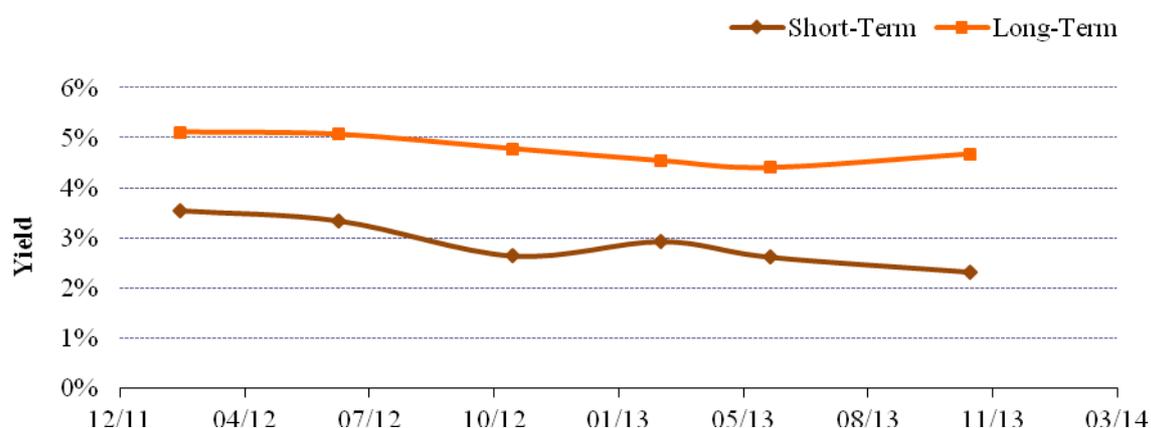
The heightened volatility that characterised international sovereign debt markets for the past four years, caused by a variety of factors including speculation on a possible Greek exit from the euro, contagion risks for other euro members, insufficient growth, recessions and high unemployment, started showing signs of abating in the second half of 2012, when ECB President Mario Draghi pledged to “do whatever it takes” to save the euro, and resulted in a relatively calm 2013. Differentials between most euro-area peripheral states’ (Italy, Spain, Ireland and Portugal) secondary market bond yields and benchmark German Bunds fell significantly.

The improvement in investor confidence spilled over also into the domestic capital market and had a positive effect on Malta Government Stocks. Yield spreads over the benchmark Bund shrank and provided the directorate with opportunities to borrow on the primary market at record low interest rates.

I. Primary Market

Chart 8 illustrates the short-term and long-term ISMA yields conceded to retail investors, for all primary market issuances offered during the past two years ending December 2013. The long-term yield fell throughout the year, reaching its lowest point in May 2013. The November 2013 issue recorded a reversal in this trend, mostly due to the fact that a new longer-dated MGS was issued (2032 in November vs. 2028 in May). Also short-term yields kept a generally downward trajectory, and remained under the 3% mark throughout the whole 2-year period, with the November 2013 short-term issuance reaching 2.327%.

Chart 8 – Medium- & Long-Term Primary Market MGS Yields (Retail) Dec 2011- Dec 2013



Source: DMD internal records.

Table 5 shows how the improving general market sentiment throughout the year has benefitted the local primary bond market. Both short- and long-term MGSs experienced significantly diminishing yield spreads over the Bund. As illustrated in the table below, the short-term spread decreased by 129 basis points from the June 2012 high. The spread between long-term MGSs and similar Bunds shrank by 76 basis points over the same period.

Table 5 – Primary Market MGS Yield Spreads Over Bund in 2012-2013 (basis points)

Year	Issuance	Short term		Long term	
		Retail	Auction	Retail	Auction
2012	Feb	+256bps	+252bps	+252bps	+256bps
	Jun	+270bps	+269bps	+296bps	+290bps
	Nov	+209bps	+214bps	+269bps	+276bps
2013	Mar	+201bps	+218bps	+242bps	+252bps
	May	+197bps	+180bps	+247bps	+235bps
	Nov	+141bps	+144bps	+220bps	+212bps

Source: DMD internal records; Deutsche Bundesbank (www.bundesbank.de).

II. Secondary Market

Table 6 illustrates how benchmark secondary market MGS yields fluctuated throughout 2013. Figures refer to ISMA yields, sampled at regular intervals during the year resulting from closing

bid prices at which the Central Bank of Malta Stockbroker actually traded or would have been prepared to buy on the dealing date.

Table 6 – Benchmark secondary market MGS Yields in 2013

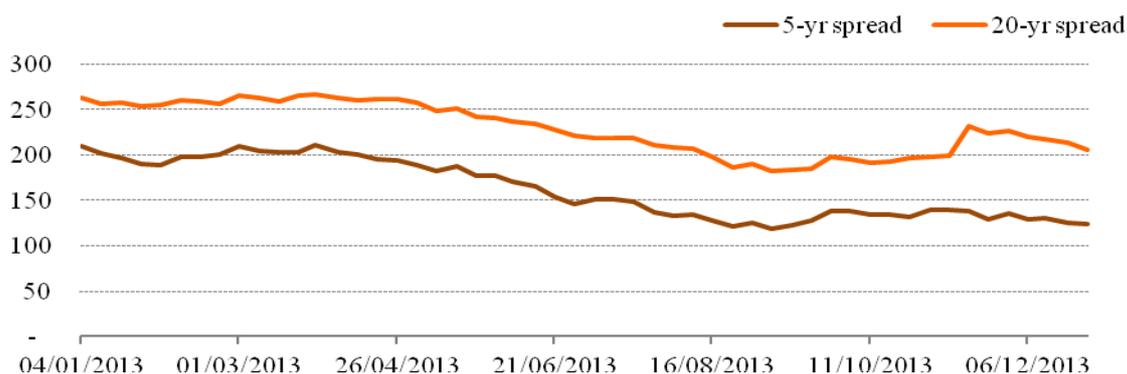
Term	Lowest	Highest	Average
2-year	0.715%	1.389%	0.982%
5-year	1.933%	2.602%	2.203%
10-year	3.128%	3.810%	3.382%
20-year	4.430%	4.890%	4.641%

Source: Central Bank of Malta (www.centralbankmalta.org).

Chart 9 illustrates how secondary market 5-year and 20-year MGS yield spreads over equivalent maturity Bunds fluctuated throughout the year. The 5-year spread was fairly constant during the first quarter of 2013 (at around 200 basis points), slid steadily in quarters two and three, reached a low of 119 basis points towards the end of August, and stabilised along the 130 basis point level thereafter.

The 20-year spread followed a similar path, with a dip occurring later (end quarter 2), bottomed out at 183 basis points (end quarter 3), and then stabilised around 200 basis points. The spread peaked again at 232 basis points in mid-November, partly due to the issuance of a new longer maturity benchmark MGS. It approached once again the 200 basis points level by the end of the year.

Chart 9 – 5yr & 20yr MGS vs. Bund Spreads in 2013 (basis points)



Source: DMD internal records; Financial Times (www.ft.com); Bloomberg (www.bloomberg.com).

Foreign Loans

Bilateral loans with foreign entities are specifically undertaken to finance large capital projects. Nearly €11 million was repaid in 2013 according to the established repayment schedules, resulting in an end-of year outstanding balance of almost €51 million.

Interest costs incurred during 2013 to service these loans amounted to €2.8 million. The majority of Government's bilateral loan agreements are denominated in euro as shown in Table 7, hence making any exchange rate risk insignificant.

Table 7 – Outstanding Foreign debt and distribution by currency as at end 2013

	Euro	GBP	JPY	USD	CAD	Total
Amount (€ millions)	50.4	-	-	0.4	0.2	51.0
% of outstanding balance	98.96%	0.00%	0.00%	0.69%	0.35%	100.00%
<i>Exchange rates as at 31/12/2013.</i>						

Source: DMD internal records; Central Bank of Malta (www.centralbankmalta.org)

The Introduction of Collective Action Clauses in newly issued MGS

As from 1st January 2013, in accordance with Paragraph 3 of Article 12 of The Treaty establishing the European Stability Mechanism (ESM) Treaty – endorsed on 2nd February 2012 by all 17 euro area Member States – it has become mandatory on such Member States to incorporate the Model Collective Action Clauses (CACs) in all *new* Euro Area government securities with maturity above one year.

The objective of CACs is to facilitate agreement between the sovereign and its private-sector creditors to the possible modification of euro area government debt securities that contain a standardised CAC, such that they allow a majority of bondholders to re-contract sovereign debt without a minority of stockholders obstructing the process. The standardized European model CACs can be found on the EFC's website.

CACs Implementation – Malta Government Stocks

The harmonised model CACs were introduced on all *new* Malta Government Stocks (maturity of more than one year) with effect from 1st January 2013. The CACs will be contractually included in the terms and conditions of the MGS Offering document/ Prospectus. The full text of the Model CACs can be accessed on the Treasury website (www.treasury.gov.mt) under the section reserved for the Debt Management Directorate.

The introduction of the Model CACs will not affect any Malta Government stocks (MGS) issued prior to 1st January 2013.

The EU Emissions Trading System (EU ETS)

The EU Emission Trading System is a major pillar of the European Union's strategy aiming to reduce emissions of anthropogenic greenhouse gasses, which are considered to be the main cause of climate change. The scheme operates in the 28 EU member states (including Croatia after becoming a full member of the EU). Three non-EU member countries, Iceland, Liechtenstein and Norway also participate in the scheme.

In terms of Legal Notice 402/2012, the Debt Management Directorate within the Treasury has been appointed by the Government of Malta to auction aviation allowances under the EU Emissions Trading System on its behalf. The relevant legal provisions in respect of general allowances (stationary installations) will be provided for in a separate legislation to be published soon.

The majority of participating governments, including Malta, use a common 'platform' for these auctions. In November 2012, the Debt Management Directorate has been admitted for participation as auctioneer for Primary Auctions of general EU Emission Allowances (EUAs) on the European Commodity Clearing (ECC) platform. Trading is conducted on the European Energy Exchange (EEX), whilst trades are cleared and settled through ECC - the exchange's clearing house.

In 2013, 142 EUA auctions were held (usually on Monday, Tuesday and Thursday of every week), with Malta's allocation for the year set at 1,009,500 allowances. Malta's 2013 share of revenue generated from such auctions amounted to €4.5 million.

Relations with other institutions

I. International Monetary Fund

The Directorate gave its input towards the Article IV consultation process carried out by the International Monetary Fund's (IMF) mission which visited Malta in January 2012. Jointly with officials from Central Bank of Malta officials from the Directorate participated in one of the meetings during which issues related to Debt Management and Central Government Debt were discussed.

II. DG ECFIN and Credit Rating Agencies

Jointly with officials from the Budget Office and the Economic Planning Division, the Directorate participated in two meetings held in April and October with officials from DG ECFIN in connection with the preparation of Spring and Autumn forecasts publications. During these meetings reviews and outlooks related to Central Government Debt and Debt Management were discussed.

The Directorate presented reports related to Central Government Debt to the Credit Rating Agencies during their official visits in Malta.

III. EFC sub-committee on EU Sovereign Debt Markets (ESDM)

The DMD continued to participate in the meetings of the Economic and Financial Committee (EFC) Sub-committee on EU *Sovereign Debt Markets* (ESDM) in Brussels. The main objectives of the sub-committee include discussions on issues related to the efficient functioning of the EU's primary and secondary government debt markets as well as contribute to the preparation of EFC common positions on issues which significantly impact the sovereign debt markets.

During the course of the year 2012, the Debt Management Directorate jointly with officials from CBM participated in three meetings. The key areas of work focused on discussions on the market functioning, the development of the euro area model of Collective Action Clauses as well as formulating plans for monitoring their implementation with effect from 1st January 2013. Moreover, the sub-committee also discussed potential impact on sovereign debt markets emanating from on-going regulatory measures and policy decisions in particular the draft MIFID review proposal.

IV. Central Bank of Malta

The Directorate regularly held meetings with officials of the Central Bank of Malta (CBM) to discuss matters pertinent to Government securities and market functioning. CBM assisted the Directorate in researching bond prices and yields in the secondary market, as well as offered advice during the pricing process of primary market MGS issuances.

During 2013 the Directorate participated in two meetings of the Financial Markets Committee (FMC) - a forum chaired and organised by CBM which gathers all credit institutions operating in Malta - during which it delivered presentations related to the performance of primary market issuances of government securities.

V. Other Institutions

During the course of the year, staff from the Directorate together with officials from the Central Bank of Malta participated in a meeting with foreign banking institutions who had shown interest in the domestic market of Malta Government Stocks.

Staff Training and Development

The Directorate is committed to invest in the training and professional development of its human resources, both through in-house programmes and also through external courses organised by local and foreign organisations. During 2012 opportunities were offered to directorate staff to attend training courses, seminars and annual conferences organised by local institutions. These included:

- An introductory approach to Data Analysis, organised by CDRT in collaboration with Malta Business School;
- Interpreting And Using Evidence, organised by CDRT in collaboration with Malta Business School;
- Training to Middle Management on Psychosocial and Disability Issues at Work.

Support Services

As in previous years, the Directorate's front office continued to offer guidance and the necessary services to the heirs of deceased MGS holders so that the heirs can have any inherited government stocks transferred in their name through a *Causa Mortis* procedure initiated through the heirs' own legal adviser.

In 2013 the Directorate received 346 new *Causa Mortis* claims, representing an 8.5% reduction in new claims compared to the previous year. During the course of the same year the directorate resolved 320 cases, 216 of which were new claims submitted in 2013 whilst the remaining 104 cases related to claims opened in previous years.

Online Services

During 2013 the Debt Management Directorate continued to make use of the Treasury's website to increase the data available to stakeholders and market participants such that it better meets the needs of its clients in a faster and more efficient manner. The information/forms uploaded on the website include:

- The yearly indicative issuance calendar of Government Securities.
- Monthly issuance calendar for Treasury bills;
- Treasury bills auction tender forms;
- The publication of weekly Treasury bills auction results;
- Weekly Treasury bills' auction bid analysis report;
- Malta Government Stocks auction results;
- Investors base of Malta Government Securities;
- The outstanding MGS portfolio;
- The latest credit ratings for Malta government debt;
- The full text of the Model Collective Action Clauses (CACs);
- Concise guidelines intended for the heirs of deceased stockholders with respect to '*Causa mortis*' claims;
- Various other occasional reports, both of a technical and an informative nature.

Treasury ICT and Business Development Unit

This unit was set up at the Treasury on the 24 September 2013 to provide continuous ICT support to the Treasury's personnel on the department's systems, liaise with the Office of the Chief Information Officer (OCIO) and MITA for the procurement and troubleshooting of ICT related resources and services and to provide Treasury with the necessary expertise that will enable it to undertake the planned ICT projects.

During 2013 tasks performed by the Unit included:

- The compilation of a formal hardware and software inventory;
- Analysis of users' access rights to the Treasury Office Automation (OA) project folders to ensure that only the authorised users have access to these folders.

- Procurement of a Network Attached Storage (NAS) drive to host all users' backups daily performed automatically. The NAS drive also hosts the backups of some of the Treasury's systems.
- Migration of PCs to Microsoft Windows 8 which were still running on MS Windows XP operating system.
- Performed additional setup and testing on the SePG SWIFT servers in liaison with MITA to prepare for the implementation of the SWIFT connectivity system.

Noel Camilleri

Director General Treasury Department

Economic Policy Department

BACKGROUND

The Economic Policy Department (EPD) provides Government with expert advice and assistance in the formulation of economic policy and the management of economic activity, with the aim of attaining the Government's overall objectives of economic growth and development, high employment and low inflation. Attention is devoted towards the achievement of a stable macroeconomic framework, also by attaining an appropriate fiscal policy. Furthermore, the EPD assists in the formulation of policy in areas which are crucial to Malta's economic development including sustainable growth, productivity and competitiveness, financial stability, labour market, investment, tourism, education, creativity, innovation and the environment. Within this context, the EPD provides the 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 Economic Policy Department is composed of three directorates. The Economic Strategy Directorate is primarily responsible for short-term economic forecasting, fiscal policy and fiscal governance frameworks, EU Budgetary Affairs and Financial Stability. The Directorate gives policy advice and recommendations based primarily on technical economic analyses, research and modelling.

The functions of the Structural Economic Research Directorate involve the development and updating of the economic models within the Economic Policy Department in line with the needs of the Ministry for Finance and the support provided to other Ministries within Government on policy issues of a structural economic nature. In addition, the Directorate promotes the research function across the organisation.

Through the International Economic Relations Directorate, the Department provides technical advice and assistance to the Government on international economic/trade issues. Through its participation in Commission Working Parties and Trade Policy Committee formations, the Department monitors and advises on the economic/financial impact of issues and strategies concerning the EU's Common Commercial Policy. Furthermore, the Department 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 EPD 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.

Representation on the Malta Council for Economic and Social Development (MCESD)

The Economic Policy Department is represented in the Malta Council for Economic and Social Development and during 2013 it continued to participate actively in its proceedings, providing technical analysis and helping Government to adopt positions on issues which are discussed in the Council. Furthermore, as in previous years, the EPD computed and presented the relevant cost-of-living adjustment for 2013 as stipulated in the Incomes Policy Agreement of 1990.

International Institutions

The Department 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 Department contributed in 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 by Government, the Department 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. Furthermore, during 2013, the Department also contributed to discussions on the state of the Maltese economy and the conduct of economic and financial policy in Malta during the course of the regular Article IV Mission by the International Monetary Fund.

Research and Publications

The professional staff at the Department carries out research work on various economic, fiscal, and financial topics. The Department published the Economic Review in April 2013 and the Economic Survey in November 2013. These documents, which were presented to the House of Representatives at the beginning of discussions on Government's budgetary estimates, provide a comprehensive analysis of Malta's recent economic performance and emerging economic trends, as well as an overview of international economic developments.

During 2013 the Department carried out research tasks in connection to the Country Specific Recommendations – namely the strengthening of fiscal institutions in Malta through the Fiscal Responsibility Act, pensions, corporate financing and taxation and financial stability. Moreover the Department has carried out research in connection to various areas of the economy including industrial competitiveness, Okun's Law and the economic implications of exchange rate fluctuations. The Department also carried out long-term projections of energy demand and the employment rate in the context of the EU 2020 Strategy.

The Department has also participated in discussion with the Central Bank of Malta and the National Statistics Office on the coordination of economic policy with the aim of securing an appropriate environment for economic growth. The Department regularly collaborates with the Central Bank of Malta in areas of mutual interest, as well as to discuss local economic developments and prospects. Furthermore, the Department continued to engage with similar organisations abroad.

Budgetary Process

The Department participates in the budgetary process by providing information on the domestic and international economic situation, the macroeconomic outlook and the EU's fiscal surveillance process. This information provides an important input in the budgetary process ensuring that the fiscal policy stance is appropriate to the macroeconomic conditions and targets and also in compliance with EU fiscal requirements.

During 2013, the EPD participated in the preparation of the Pre-Budget Document 2014, providing technical input ranging from the analysis of fiscal conditions and macroeconomic

imbalances in preparation to the new Excessive Imbalance Procedure to analyses and recommendations on human resource development and economic growth strategy.

Throughout the year, the Department also provided an important input to the analysis of the fiscal situation and projections within the context of the EU's fiscal surveillance mechanism and the obligations of the Stability and Growth Pact. These included the publication of the Stability Programme in April, the Report on Effective Action, the Draft Budgetary Plan and the Economic Partnership Programme in October.

In 2013 the Department was also entrusted with the formulation of monthly fiscal targets based on the annual projections. The annual fiscal targets were converted monthly after a statistical evaluation of seasonal factors based on X11 method. This allowed the production of a monthly report of government finances evaluating the variance of the monthly fiscal outcome against targets.

As part of the move towards a top-down budgeting approach, the Department also assisted in the preparation of multi-annual budgetary targets and the setting up of spending ceilings.

EU Economic and Fiscal Policy Coordination

The EPD continued to participate actively in the EU's economic policy coordination processes. In particular, the Department participated in the Economic and Financial Committee (Alternates) and the Economic Policy Committee, including the Eurogroup composition of the respective committees. In addition, the Department also provided support for the preparations of the Economic and Financial Committee meetings.

The EPD is also engaged in the preparation of briefings for the ECOFIN and Eurogroup meetings as well as for meetings of other Council formations and for the European Council meetings. In this context, it is noteworthy that during 2013 the Department provided feedback towards and within various Committee formations contributing towards improving economic governance and tackling the economic and financial crisis, at an EU level, and more importantly, at a euro area level. The Department contributed towards these goals within the tight framework inherent in the European Semester which is a six-month period every year during which the Member States' budgetary and structural policies are reviewed to detect in advance any emerging imbalances which could jeopardise the functioning of the EU and the Euro area in particular. Moreover, the EPD provided feedback during the consultation process regarding the Commission's legislative proposals to strengthen economic governance, including the discussions related to the pillars of the Banking Union. Finally, the Department also provided feedback on a number of reports drawn up by various EU Committees having Maltese representation as well as the EU Parliament. This Department provides such feedback from an economic perspective in line with Malta's position taken in the various EU Committee meetings and Council formations mentioned earlier.

During 2013, the Department continued to provide information on the domestic economic situation and on the economic policies and measures that are being pursued by Government to the EU and other relevant parties. In particular, the Department coordinates closely with Commission officials from DG ECFIN and provides the requested information in connection with the EU's fiscal and economic surveillance process. Bilateral meetings were held both in Malta as well as in Brussels with Commission officials from DG ECFIN on the fiscal situation, on economic forecasts and on the implementation of CSRs and progress with respect to the targets under the EU2020 strategy.

In addition, as part of the macroeconomic imbalances procedure, the European Commission carried out an Indepth Review in 2013 which concluded that Malta is experiencing macroeconomic imbalances, which deserve monitoring and policy action, in particular highlighting the long-term sustainability of the public finances warrants attention, the large financial sector, and the strong link between the domestically-oriented banks and the property market. Together with the Central Bank of Malta, the Malta Financial Services Authority, the National Statistics Office and other representatives of the Ministry for Finance, the EPD actively participated in initial technical discussions with the European Commission and the ECB and which were followed up with a mission held in January 2014 with the eventual publication of the Report in March 2013 concluding that the macroeconomic challenges in Malta no longer constitutes substantial macroeconomic risks and were thereby no longer identified as imbalances in the sense of the Macroeconomic Imbalances Procedure.

Due to the unfolding of the most extensive financial and economic crisis since the Great Depression, financial stability issues have increasingly featured in the EU economic policy coordination framework. This necessitated the strengthening of the required institutional capacity and knowledge of the Department in this area. This helped the EPD to participate effectively in discussions conducted within the EU economic policy coordination processes relating to financial stability, particularly the Single Supervisory Mechanism and the Single Resolution Mechanisms as two major pillars of the banking union.

National Econometric Modelling

The Department 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 2013, the Department consolidated its work related to strengthening its econometric modelling capability following the significant overhaul of the short-term model (STEMM) that was carried out in 2012. The reviewed model was subsequently 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 whilst the process of consultation with constituted bodies and major stakeholders in the economy was widened and strengthened through structured presentations and interviews. Such forecasts were used by the Ministry for the preparation of the Budget. Forecasts were also submitted for endorsement to the Audit Office for the first time, in line with the new EU requirements. The audit concluded that the economic projections were plausible and based on realistic assumptions and a sound methodology. In addition work on the estimation of past forecast errors was undertaken.

The second disaggregated model (SAMM) 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.

Financial Stability

During 2013, the EPD was actively involved in issues relating to financial stability. In particular, the EPD actively contributed to technical discussions with the research unit at the Office of the

Permanent Secretary, as well as in discussions taking place in international fora, in particular with respect to the Economic and Financial Committee (EFC), the Eurogroup (EG) and Eurogroup Working Group (EWG), the Task Force on Coordinated Action (TFCA), as well as the Financial Services Committee (FSC). Ongoing work and technical discussion included the support of programme countries, the functioning of the European Stability Mechanism (ESM) and its use for direct recapitalization of banks, the Single Supervisory Mechanism, as well as work leading to the setting up of a European Banking Union.

Additionally, the EPD has also been actively involved in technical discussions and work relating to the European Commission proposal for a Bank Recovery and Resolution Directive with the aim of transposing such a Directive to national law. In this regard, the EPD has actively taken part in the local Joint Task Force on Bank Resolution (JTFBR) in collaboration with the Malta Financial Services Authority (MFSA), the Central Bank of Malta (CBM), as well as the office of the Attorney General.

The EPD continued its work in monitoring and assessing developments in economic and financial conditions. In particular, this included research and regular monitoring with respect to international sovereign debt markets, the EU's and the local legislative frameworks related to financial stability and the financial sector in general, studies and reports conducted by other institutions on financial stability issues, as well as developments in the local financial sector.

EU Budget

The EPD was represented in the Malta Group on Financial Perspectives and provided regular feedback, including briefing notes and technical papers in relation to the EU Budget issues, specifically on its financial aspects. The Department's representatives participated in the meetings of the Core Group on the Review and Modernisation of the EU Budget which was set up with the aim to draw up and continuously update the Malta Position on the new EU Budget framework. The representatives drew up and presented policy papers to this Core Group in relation to the EU Budget Reform.

Prior to the start of the negotiations on the new Multi Annual Financial Framework, the Department developed a model forecasting EU Budget receipts and payments for the next financial framework. EPD representatives also participate in the Friends of Presidency Group meetings and Own Resource Working Party Group meetings at EU level in relation to the EU budget. Since the start of the negotiations on the Financial Perspectives for 2014-2020, representatives of the Department, in collaboration with the EU Budget Directorate and the EU Affairs Directorate within the Ministry of Finance the Economy and Investment, the EU Secretariat at the Office of the Prime Minister and the Permanent Representation in Brussels, coordinated the technical response supporting Malta's negotiating stance with the European Commission and the European Council.

EPD technical advice was consulted during the whole negotiation process of the EU budget 2014-2020. This included an officer of EPD based temporarily in Brussels for the purpose of ensuring the computation of figures as well as any other requested advice during the negotiations. The work culminated in the February EC Conclusion when the budget negotiations at Council level were concluded, later followed by the negotiations with the European Parliament.

European Semester

In view of the new European Semester and the EU2020 strategy the Department was actively involved in joint EFCA/EPC/EMCO discussions and deliberations on the Council Specific

Recommendations to Malta, particularly in the area of pension reform, on budgetary objectives and the compliance with SGP requirements, the strengthening of budgetary frameworks and financial stability related recommendations.

The EPD also participated in a number of working groups attached to the EPC. In particular, the Department is actively involved in the Working Group on Ageing Populations (AWG) which examines the economic and budgetary consequences of ageing. Moreover, it also participates in other working groups of the EPC, namely the Output Gaps Working Group, the Joint EFC-EPC Working Group on the Economic and Financial Aspects of Climate Change and the Lisbon Methodology Working Group (LIME).

During the year the Department was very active in LIME and the Output Gap Working Group, in light of ongoing methodological improvements relative to the assessment of structural reforms in LIME as well the discussions on the improvements in the methodology underpinning the estimation of Potential Output and the extension of the estimate over the T+5 and T+10 period.

In 2013, the Department was also actively engaged in the technical economic analysis related to the EU2020 strategy and the National Reform Programme (NRP) co-ordinated by the Policy Development Directorate (PDD) with the line ministries. The EPD assisted the PDD to ensure proper coordination between the thematic aspects of the draft NRP and the macroeconomic aspects. This Department also assisted various line ministries, departments and entities in order to formulate structural economic policy recommendations to be included in the NRP and provided technical assistance in order to ensure that the fiscal and economic impact of policy recommendations included in the NRP were quantified.

Pension Modelling

During 2013, the EPD has continued to provide technical input to the newly-appointed Pensions Strategy Group with regards to modelling work on pensions in Malta and assisted in the exploration of pension reform options for Malta. The EPD was also active in a working group set up to make recommendations with respect to the introduction of tax incentives to stimulate the take up of voluntary third pillar pension products as announced in the Budget for 2014.

The Department also provided technical assistance to the Ministry for the Family and Social Solidarity in relation to the estimation of the updates of the Theoretical Pension Replacement Rates for Malta as well as other issues related to pensions policy, emanating from the committees under the EPSCO formation.

Euromod

During 2013, Essex University has entered into further contractual agreements with the Department in order to assist in the modelling of Malta's tax and benefit system. In 2013, the EPD deepened its engagement on EUROMOD, the tax-benefit micro-simulation model, in order to increase the familiarity with the model and expand opportunities to use it for the local interests and purposes. The key objective of this work was of updating the EUROMOD model, to cover recent policy systems, upgrade EUROMOD to operate using EU-SILC data as the basis of the input database and also the finalisation of the Country Report. During 2013, the EPD continued to fully cooperate with Essex University with the assistance of the Social Security Department, the National Statistics Office and the Inland Revenue Department.

A EUROMOD Training Seminar organised by the EPD in collaboration with the University of Essex was held at the CDRT premises on 19 and 20 August 2013. Moreover, two officers attended workshops on EUROMOD in October and November 2013, during which the modellers provided a review on the progress so far and a discussion on the future of EUROMOD as well as the potential for other joint initiatives. The model is a useful tool which the Government of Malta can employ for simulating various tax and benefit proposals, highlighting the impact on households and individuals at different income groups. EUROMOD could also be used to assess the effectiveness of competing measures aimed towards the same policy outcome.

Structural Economic Modelling

During 2013, the Department has continued to review the QUEST III model. Particularly, staff at EPD continued to focus on the mathematical setup of the model and familiarized themselves with modelling and coding issues using both DYNARE and MATLAB software tools. A meeting with experts on QUEST from the European Commission was held with the aim of furthering staff knowledge of the model. Subsequently, members of staff have modelled a number of scenarios outlining the economic impact of structural reforms, in preparation for the 2014 NRP.

Common Commercial Policy

The Department participated, monitored and continuously analysed the developments on the EU's *Common Commercial Policy* taking place within the framework of the Trade Policy Committee to ensure that Malta's interests are fully represented in the field of international trade and investment policy.

Trade Policy Committee

The Trade Policy Committee is a trade co-ordination and advisory committee to the European Union concerning all aspects of trade policy.

During 2013 the Department participated actively in various formations of this Committee including the Full Members, the Services and Investment Committee, the Committee on anti-dumping/anti-subsidy, the General System of Preferences Committee and the Steel, Textiles and Other Industrial Sectors Committee. The Department also followed other specific committees including the Trade Policy Committee Deputies and ad hoc Trade Policy Committee experts meetings. The Department consulted with Ministries and other government entities as well as the wider civil society to formulate Malta's positions on topics concerning international commercial policy.

Trade Policy Committee Titulaire

The Committee discussed the multilateral and bilateral aspects of international trade relations. The Department participated actively in this Committee that continued to discuss developments and coordinate positions with respect to the negotiations in the WTO Bali package, bilateral negotiations including: EU-US Transatlantic Trade and Investment Partnership, EU-Japan Free Trade Agreement, Southern Mediterranean and Eastern Partnership Deep and Comprehensive Free Trade Agreements, EU-India Free Trade Agreement and EU-Canada Free Trade Agreement.

Market Access Advisory Committee

The Department followed issues on market access within the European Union's Market Access Strategy. The Market Access Advisory Committee meetings are held on a regular basis to ensure that EU companies, in particular small and medium sized enterprises, do not suffer from trade barriers that are imposed when exporting goods and services to third countries and that trade remains open and fair with economic partners.

Trade Policy Committee Services and Investment

The Department actively participated in the Committee and continued to analyse various aspects related to the liberalisation of international trade in services and also issues related to foreign investment. This includes discussions on a potential plurilateral initiative by a number of WTO members and specific discussions related to investment protection in trade agreements.

The Committee discussed the negotiating offers in services and investment with Canada, Japan, Mercusor, Morocco, Thailand and Vietnam amongst others. Moreover, the Committee also discussed issues on a multilateral level related to GATS EU25 consolidation process and negotiations in United Nations Commission on International Trade Law. On a plurilateral level, the Committee discussed a mandate for plurilateral negotiations of a services agreement, the Trade in Services Agreement, which commenced in the first half of 2013. Intensive discussions were also held on the Regulation on Financial Responsibility in Investor State Dispute Settlement cases. During this process various government entities were consulted to coordinate the Maltese position.

Generalised System of Preferences (GSP) Working Party

In 2013, the Department continued to follow the discussion on the new GSP Regulation and assessing the applications by developing countries to the GSP+ within the Commission and Council working groups. The GSP+ offers additional trade incentives to Developing Countries already benefitting from GSP to implement core international conventions on human and labour rights, sustainable development and good governance. In this regard, the Department has given its feedback on all of the applications.

Working Party for Trade Questions

During 2013, the Department continue to follow the developments in the Working Party for Trade Questions and provide the Maltese position on the proposals that have been discussed. Discussions include the enforcement regulation on the EU rights in the area of trade, the modernisation of the Trade Defence Instruments and the International Procurement Instrument. Furthermore, during these committees a number of trade defence rulings were discussed and assessed for further action by the Council.

Trade Defence Instruments Committee

As of December 2013 the European Union had 86 anti-dumping, 12 anti-subsidy measures in force while 41 investigations were still being conducted. The Department continued to closely follow developments on issues related to Trade Defence Instruments. The Department also formulated Malta's positions on these measures and participated actively in the meetings. Advice was provided on a number of trade defence issues, this being based primarily on an economic analysis whilst taking into consideration the European Commission's investigation findings and the objectives, interests and priorities of the various government entities and stakeholders.

Multilateral Trade Relations

In 2013, the Department continued to monitor and provide its input in the discussions of the negotiations within the WTO. The first half of 2013 was characterised by the election process of the Director General of the WTO, in which the Department coordinated the Malta position in this selection process. The ninth Ministerial Conference which took place in December 2013 in Bali, Indonesia. The Bali package contains an agreement on trade facilitation and a series of decisions on trade in agriculture and development. Furthermore, the Department continued to follow developments on the EU's dispute settlement cases within the WTO.

Bilateral Trade Relations

In the area of bilateral and regional trade relations, the Department consulted and co-ordinated with the competent authorities to be in a position to formulate a policy on a number of bilateral commercial agreements that the Commission is negotiating with third countries. These include:

EU–Southern Mediterranean: Deep and Comprehensive Free Trade Areas (DCFTAs)

The Department followed the negotiations of a Deep and Comprehensive Free Trade Agreement between the EU and Morocco which were officially launched on 1st March 2013. Two rounds of negotiations have taken place so far. Commencement of negotiations with Tunisia, Jordan and Egypt could also follow depending on the results of the ongoing exploratory sessions. The purpose of the DCFTAs is to build on the present Association Agreements and to bring these four Mediterranean partners progressively closer to the EU single market.

EU –Eastern Partner countries: DCFTAs with Georgia, Moldova, Ukraine and Armenia

During 2013 EU-DCFTA negotiations were concluded with Georgia, Armenia, Moldova and Ukraine. The DCFTAs are intended to boost economic growth and investment with the Eastern European partners. The negotiations addressed a broad range of trade and economic issues so as to achieve a closer economic integration with the EU. These free trade areas will be part of the Association Agreement being negotiated under the framework of the Eastern Partnership and the European Neighbourhood Policy. On 29 November 2013, the EU initialled the Association Agreement with Georgia and Moldova which include provisions establishing the DCFTA. With regards to Armenia, scope for future cooperation is being assessed following Armenia's declaration on joining the Customs Union of Russia, Belarus and Kazakhstan. The signing of the Agreement with Ukraine has been suspended

due to the unilateral decision taken by the latter in the wake of the third Eastern Partnership Summit. This Department in cooperation with other Government Departments has followed closely the latest developments.

EU-ASEAN

The Department kept on monitoring closely developments in the negotiations of Deep and Comprehensive Free Trade Agreements with countries of the Association of Southeast Asian Nations (ASEAN). In December 2012 the EU concluded negotiations with Singapore and presently it is negotiating with Malaysia, Thailand and Vietnam.

EU-Canada Comprehensive Economic and Trade Agreement (CETA)

In October 2013, a political agreement was reached on a Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada. The Department has been actively involved in the technical and economic aspects of these negotiations that were launched in Prague on the 6th May 2009. Negotiations during 2013 were characterised by various exchanges between the EU and Canada focusing on various aspects of trade in goods and services, and investment. Key areas such as trade in services and investment have also been discussed and this Department has been responsible for analysing key offensive and defensive sectors with respect to Canada.

EU-China

The Department continued to follow and review the ongoing developments between the European Commission and the Chinese Government in the High Level Economic and Trade Dialogue notably the macroeconomic challenges facing the international economy, future sources of economic growth, industrial policy, customs cooperation and trade and investment issues. The negotiating directives approved by the EU Trade Council in October 2013 granted authorisation to the EU Commission to negotiate with China in terms of investment protection and market access for investors. During the EU-China Summit held in Beijing in November 2013, the bilateral parties officially launched negotiations for an EU-China Investment Agreement that would give a new impetus to bilateral relations. The Department has also analysed the text of EU-China Investment Agreement and provided Malta's positions where necessary, particularly in the areas of investment protection and investor-to-state dispute settlement.

EU-Japan

The Department followed the start of the negotiations of a Free Trade Agreement between the European Union and Japan. The agreement is being negotiated within the mandate framework as approved by the EU Council covering various economic sectors. Priority in the negotiations is being given to the elimination of non-tariff barriers to trade on the Japanese market, as well as access to Japan's public procurement market, reciprocal liberalisation of trade in goods and

services, investment and regulatory cooperation on trade related issues. Negotiations intensified during 2013 with successive negotiation rounds in the months of April, July and October of 2013.

EU-Africa, Caribbean, Pacific (ACP): Economic Partnership Agreements (EPAs)

The Department followed the developments in the negotiations of the Economic Partnership Agreements with Africa, Caribbean and Pacific countries. During 2013 the Department also gave its recommendations to have the interim Economic Partnership Agreement with Cameroon ratified. Negotiations with other ACP members are still ongoing.

EU-US

The European Commission was given the go ahead by Member States to initiate negotiations for a Trans-Atlantic Trade and Investment Partnership (TTIP) with the US on 14 June 2013. This decision was based on the findings of the EU-US High Level Working Group's report whereby it recommended the opening of such negotiations in order to bolster economic growth and employment. The three major pillars that make up these negotiations are market access, regulatory issues and non-tariff barriers and rules, principles and new modes of cooperation to address shared global trade challenges and opportunities. Four rounds of negotiations have been completed so far with the most recent one being held in March. The Department devoted particular attention to these negotiations given the magnitude of economic gains that is at stake.

EU-Colombia and Peru and Central America

The Department observed closely the developments which were unfolding in the negotiations for a Free Trade Agreement between the EU and Colombia and Peru as well as that of an Association Agreement with other Central American countries such as Panama, Guatemala, Costa Rica, El Salvador, Honduras and Nicaragua. The Department gave its recommendations to ratify the provisional application of the EU with Colombia and Peru agreement and the trade agreement between the EU and Honduras, Nicaragua, Panama, Costa Rica and El Salvador. The actual entries into force of the Agreements are still awaiting national ratification from various EU Member States.

Other ongoing trade negotiations

The Department has maintained the same approach as in previous years, that is to support the Commission in its negotiations with respect to trade negotiations with third countries, including those in the MERCUSOR and the GCC region. These negotiations cover an extensive list of trade related areas such as the liberalisation in services and establishment, goods, non-tariff barriers to trade, government procurement, Geographical Indications and intellectual property rights, amongst other economic sectors.

International Investment Policy

Within the framework of the EU's competence in international investment policy, no negotiations have been held bilaterally with third countries.

The Department continued to monitor developments and actively participated in discussions on the draft *“Investor - State dispute Settlement - Financial Liability of the European Union”* and ongoing amendments to the draft text legislation *“UNCITRAL – Transparency in Investor-State Arbitration”*.

Consultations

Besides consulting the various pertinent public and private authorities with respect to specific trade policy issues, the Department has organised information meetings on a periodical basis with a number of stakeholders in order to disseminate information and consult stakeholders on international trade issues.

Advisory Services

The Department continued to provide its services to a number of government entities particularly through the preparation of information briefings and technical advice on Malta's position with respect to issues pertaining to international trade and investment policy. Research and analysis on international trade and economic issues were also carried out to respond to *ad hoc* requests by various government entities.

Sustainable Development

The Economic Policy Department takes into consideration the concept of sustainable development as outlined in the 1987 Brundtland Report entitled *Our Common Future* and in consequent UN Conferences on sustainable development in its functions. In its advice on economic matters the Economic Policy Department encourages sustainable economic policies. In particular its advice on macroeconomic imbalances, structural policies in the product and labour market, fiscal institutions and frameworks, financial stability, fiscal policy, ageing, social conditions, taxation and trade always target sustainable economic growth. The overview of the tasks carried out in 2013 as documented in this Report is a clear testimony to the importance which the department gives to sustainable economic development. It is also held that this Department contributes actively, through its efforts and initiatives, which in many cases are of a horizontal nature characterised by consultations and collaboration with other Ministries, constituted bodies and organizations, towards the implementation of the National Strategy for Sustainable Development.

Iman Schembri
Director General

EU Budget Directorate

Background

The main responsibility of the EU Budget Directorate is to ensure that matters related to the European Union Budget are monitored and dealt with effectively so that Malta's interests are fully safeguarded. The Budget of the EU now stands at about €136 billion annually and amounts to 1% of the EU's GNI (Gross National Income). Yet, by focusing on a number of priorities, through several funds and programmes, it makes a real impact on the quality of life of Maltese and European citizens.

EU 2014-2020 Multi-Annual Financial Framework

The EU Budget Directorate assisted in the preparation of the national position and supported negotiations on the EU seven-year Multi-Annual Financial Framework (MFF), with the ultimate objective of obtaining the best allocation and the most favourable budgetary balance possible for Malta.

The framework sets annual ceilings for EU expenditure for a seven-year period. It ensures financial stability and allows the Union to carry out common policies over a period that is long enough to make them effective.

The 2014-2020 MFF negotiations which had started in 2011 culminated in early 2013 at the February European Council. During the first weeks of 2013, the EU Budget Directorate continued to participate in the regular meetings of the national Financial Perspectives Committee together with other officials within MFIN, namely the Permanent Secretary, officials from the Economic Policy Department, and the EU Affairs Directorate.

During the above mentioned European Council, the Directorate assisted in the financial analysis of the successive final proposals presented by the European Council President Herman Van Rompuy. The final conclusions maintained the original specific top-up for Malta of €200 million (at 2011 prices) in Cohesion Policy funding, to address Malta's request to continue to be treated as a less developed (Objective 1) region in terms of funding. In addition, Malta also obtained another additional special allocation of €32 million (at 2011 prices) for Rural Development.

After the successful closure of the February 2013 European Council, the Directorate provided Malta's position during the Council negotiations with the European Parliament (EP) on the translation of the Council Conclusions into a Council Regulation². These negotiations between the Council and the EP were mainly held during the period April to June 2013. Prior to the monthly General Affairs Council held during this period, an officer from the Directorate briefed the EU Ambassadors about Malta's position. During these negotiations between the EU Institutions, the EU Budget Directorate had to ensure that the February 2013 Council Conclusions are preserved as much as possible, and that Malta's total allocation would not be

² According to the Lisbon Treaty, the MFF Regulation requires the consent of the European Parliament, prior to unanimous adoption by the Council.

adversely affected. Since the EP insisted on a mid-term general revision of 2014-2020 by the end of 2016, Malta had to ensure, in particular, that pre-allocated national envelopes are not reduced through such a revision. A safeguard provision was eventually included in the final version of the 2014-2020 MFF Council Regulation of 2 December 2013, following Malta's and other Member States' arguments. Other flexibilities that were introduced in addition to the February 2013 European Council Conclusions, such as (a) global margin for payments; (b) specific flexibility to tackle youth unemployment and research; (c) global margin for commitments for growth and employment; (d) voluntary increase to the aid for the most deprived, will have either a positive or at worst a neutral direct effect on Malta. This MFF Regulation enables the European Union to spend up to €960 billion in commitments and €908 billion in payments over the next seven years (both amounts at 2011 prices).

The Directorate also provided Malta's position on the 2014-2020 Interinstitutional Agreement (IIA) between the EP, the Council and the CION on (a) MFF and special instruments (b) provisions related to budgetary discipline, cooperation and sound financial management and (c) joint declarations of the Institutions related to, *inter alia*, improving effectiveness of public spending and post 2020 Own Resources.

In view of the latter joint declaration, towards the end of 2013, a specific High level Group was set up in order to undertake a general review of the Own Resources system for post 2020, guided by the overall objectives of simplicity, transparency, equity and democratic accountability.

The EU Budget Directorate provided Malta's position and line to take for the Committee of Permanent Representatives with respect to the composition of this Group. The Directorate maintained that the Council nominees have to respect the different sensitivities and views of the Member States with respect to Own Resources.

2014-2020 Funds and Programmes

The part of the February 2013 Council Agreement related to the financial aspects of about 70 different Funds and Programmes provided the Council guidance for finalising the legislative work in co-decision with the European Parliament. A substantial number of these sector-specific acts were formally adopted towards the end of 2013, whilst on other acts the negotiations between the Council and the European Parliament have either been concluded in early 2014 or are in the process of being finalised.

Thus, during 2013, the EU Budget Directorate provided continuous feedback and appropriate recommendations on various financial issues emanating from these sector-specific acts. The Directorate's recommendations were presented in the Council Working Parties and in the Committee of Permanent Representatives meetings, with the ultimate objective to safeguard Malta's interests. The following provide some examples for a number of funds and programmes:

- Cohesion Policy Funds:
 - alignment of Common Provisions Regulation to the February 2013 Council Conclusions, (the Directorate insisted that such Council Conclusions are generally binding, except where otherwise agreed in the June 2013 Council Conclusions);
 - inclusion of earlier reference years for mid-term Cohesion Fund eligibility review in order to have better predictability.
- European Social Fund (ESF): simulations to assist in substantiating Malta's arguments in favour of a minimum top-up related to employment rate so as to allow Malta to have more flexibility in the use of Structural Funds;

- Fund for the European Aid to the Most Deprived (FEAD): suggestion for the introduction of a minimum allocation to be transferred from the Structural Funds so as to make the management of the Operational Programme viable;
- Youth Employment Initiative: support to front-loading and extension of eligibility in the spirit of solidarity with other Member States;
- Connecting Europe Facility: arguments for a reduction in the Commission's technical assistance to increase the funds available for Member States' projects, extension of VAT eligibility, flexibility mechanism and higher co-financing rates for the most crucial sectors;
- Common Agricultural Policy Funds: support for shifting of resources between Rural Development and direct payments;
- Migration and Security Funds: support for the increase in the Union contribution rate in duly justified cases, decommitment and pre-financing arrangements, and eligibility of non-recoverable VAT as well as assessment of provisions for distributing the amounts earmarked for the mid-term review;
 - *Asylum and Migration Fund*: assessment of the distribution of proposed cuts to Member States' basic allocations and other components such as funds for relocations, as part of a compromise position with the EP and presentation of a case for Malta's allocation to increase and converge with the 2007-2013 Refugee, Return and Integration Funds; these suggestions, backed by appropriate calculations, such as comparisons to all Member States' allocations, led to an additional special allocation of €5 million for Malta, which was obtained in early 2014;
 - *Internal Security Fund – Police*: assessment and eventual opposition to proposals from a number of Member States to change the distribution key for national allocations that would have had a negative effect on Malta's share;
 - *Internal Security Fund – Borders*: proposal for a different reference period that was more representative of Malta's migration pressures, and presentation of a case for Malta's allocation to increase in view of Malta's insularity and disproportional migration challenges; eventually in early 2014 Malta secured an additional special allocation of €10 million under this Fund.
- EU Solidarity Fund: Proposed the widening of the eligibility conditions to recognise the challenges posed by the situation of islands Member States;
- European Globalization Adjustment Fund: recommendation in favour of specific eligible actions and funding, as well as alignment of eligible regions' definition with the February 2013 Council Conclusions.

During 2013, the Directorate also assisted the Ministry for European Affairs and Implementation of the Manifesto in the financial programming of the 2014-2020 Partnership Agreement, by calculating minimum shares and minimum allocations to the various Cohesion Policy thematic objectives, such as environment

2014-2020 Own Resources

The EU Own resources are mainly derived from import duties (commonly known as Traditional Own Resources), VAT and GNI. The part of the February 2013 Council Conclusions relating to Own Resources are also being translated into legislative acts. The main act, the Own Resources Decision, has to be adopted by the Council unanimously after having consulted the European Parliament. It has also to be approved by the Member States in accordance with their constitutional requirements. Since this process takes some time, the Decision is expected to enter into force retroactively. The other legislative acts on the revenue side of the EU budget are an Implementing Regulation and a Regulation making available the different own resources.

Apart from the provision of Malta's position on the above-mentioned regulations and participation in the Council's Working Party, whereby they were discussed, during 2013, the Directorate provided feedback on a number of related fiches, such as:

- The definition of the statistical base for the GNI-based own resource and the transition to European System of Accounts (ESA) 2010;
- The envisaged changes to the Commission working document on the calculation, financing, payment and entry in the budget of the correction of budgetary imbalances in favour of the United Kingdom;
- The need of a potential increase of the possibility of bringing forward additional twelfths own resources from Member States.

EU Annual Budgets

2014 EU Budget

Based on the 2014-2020 financial framework and Budget Guidelines, as adopted by the Council in the beginning of 2013, the European Commission presented the 2014 draft budget to the Council and Parliament towards the beginning of July 2013. This draft budget, which was presented in the context of continued challenging economic circumstances for the European Union, was based on the estimates of all EU institutions and included figures by budget line segregated according to the different 33 policy areas.

Between July and November 2013, the EU Budget Directorate provided continuous updates to Malta's position during the successive stages of the lengthy procedure which led to the Council's adoption of the EU 2014 Budget, in order to ensure, in particular, that throughout 2014 there will be sufficient appropriations for Cohesion Policy projects' reimbursements. Thus, in the course of the Council negotiations, during which several draft compromise proposals were presented, Malta worked constructively so that the Lithuanian Presidency finally attained a deal on the draft budget with a qualified majority support. Subsequently, the Council's adopted position was passed to the European Parliament in mid-July 2013 in line with the Treaty on the Functioning of the EU.

Since the European Parliament had a divergent position from the Council, a Conciliation Committee was set up. During the conciliation period, a representative of the Directorate attended the ECOFIN (Budget) Council, which was held on 11 November 2013. A package deal comprising the 2014 EU Budget and the financing of €400.5 million to remediate flood and drought damages in four Member States, was finally agreed by the Council and the European

Parliament in the early hours of 12 November 2013. For 2014, overall payments appropriations have been set at €136 billion, including €51 billion for Cohesion Policy.

2013 EU Budget

During 2013, the Commission proposed 9 amendments to the 2013 budget (as had been adopted in 2012) due to the accession of Croatia, shortfall of payments' appropriations and unavoidable and unforeseen circumstances such as the mobilisation of the EU Solidarity Fund. For each of the amending budgets, the EU Budget Directorate established the financial repercussions on the national budget and provided Malta's position accordingly.

During the year under review, the EU Budget Directorate also provided feedback on the following budgetary transfers:

- 34 transfers carried out by the Commission in accordance with the Financial Regulation;
- 10 transfer requests to mobilise the European Globalization Fund to provide support for redundant workers in Member States, as a result of major structural changes in world trade patterns;
- Transfers carried out by the other EU Institutions such as the Court of Auditors and the Court of Justice.

The transfers were presented and voted upon in the Council's Budget Committee which is normally held twice a week and in the weekly meetings of the Committee of Permanent Representatives.

Malta's contributions to and from the EU Budget

During 2013, close relations were maintained with the revenue management services of the EU Commission and also with national stakeholders regarding the payment and financial management of Own Resources and the submission of related annual statements to the Commission.

In July 2013 the Directorate compiled the 2012 VAT Statement on the basis of information submitted by the VAT Department and the National Statistics Office (NSO). This statement incorporated the intermediate VAT base (calculated on the weighted average rate) and various compensations in accordance with the EU VAT Directive.

Representatives of the EU Budget Directorate attended two meetings of the EU Advisory Committee on Own Resources (ACOR). During the first ACOR meeting, the revised own resources forecasts for the 2013 and 2014 budgets were examined, taking into consideration the VAT and GNI updated forecasts compiled by the Commission and the Member States. During the second ACOR meeting, the Commission presented the reports of the inspections covering the VAT statements for the preceding years along with draft documents on increased cost efficiency in the management and control of VAT Own Resources.

In the context of the tight EU budgetary situation towards the end of 2013 and the commensurate EU Budget Forecast Alert Notes, the Directorate carried out an analysis of the pending payment claims submitted by Malta and advised on the position to be adopted during the negotiations leading to the adoption of a number of 2013 amending budgets, which increased the available payment appropriations to a level very close to the MFF budget ceiling.

Service on Committees

A representative of the Directorate was appointed member of the national Projects' Selection Committee for the 2007-2013 European Fisheries Fund and on the Working Group for the Fund for the European Aid to the Most Deprived set up by the Ministry for the Family and Social Solidarity (MFSS).

During the year representatives of the Directorate participated in other meetings held in Brussels, namely:

- The Council's Budget Committee (occasionally);
- The EU Commission's Regulatory Committee for Executive Agencies, which was asked to give its opinion on the extension of the mandates of Executive Agencies;
- The expert group on the delegated acts of the new Financial Regulation concerning Decentralised Agencies and Public Private Partnerships.

Feedback on other EU documents

During the year, the Directorate provided feedback on various EU Communications and legislations for eventual inclusion in Instruction and Briefing Notes, such as:

- The report of the Court of Auditors for the 2012 financial year, in particular regarding EU Revenue and administrative expenditure, as well as other special reports issued by the Court in 2013;
- The proposal for amending the 2007-2013 Cohesion Policy Regulation as regards the decommitment rules and the financial management for certain Member States threatened with serious financial difficulties;
- Annual adjustment of salaries and pensions, proposal on the remuneration of staff in third countries and revised draft mandate for the Working Party on Staff Regulations on the Proposal for a Regulation of the EP and of the Council amending the Staff Regulations of Officials and the Conditions of Employment of Other Servants of the EU;
- Proposals to grant Macro-financial assistance in the form of a loan to Tunisia and Jordan and EU guarantee for financial operations by the European Investment Bank supporting investment projects outside of the EU (given that financing decisions to third countries also carry political considerations, emphasis was made on safeguarding Malta's interests in the Mediterranean region during the allocation of the ceilings for guaranteed amounts to the different regions).

Robert Camilleri
Director (EU Budget)

Research Unit Office of the Permanent Secretary

MISSION STATEMENT

“The Research Unit is committed to support the Permanent Secretary by acting as the assigned Research Unit for the Ministry For Finance. This is done throughout the generation of theoretically and empirically sound analysis of research papers, for subject issues including but not limited to, macroeconomic policy making and financial issues as technical input into the Government’s policy formation.”

BACKGROUND

The research function within the Permanent Secretary’s Office was set up in 2010 but was only established as a formal Research Unit once a Director was appointed to head the Unit in May 2013. Since then the Research Unit has been consolidated with a staff complement of 10 employees. The Unit is divided into two sections: EU / International section and Local section.

The Research Unit undertakes specific research to support policy advice for the Permanent Secretary on any issue deemed relevant to the conduct of economic, financial and budgetary policy formation in Malta, as emanating from high-level discussions and decisions at domestic and supranational level.

The Unit’s principal responsibility is to produce theoretically and empirically validated analyses of, and research papers on, macroeconomic policy making issues, and to formulate policy dossiers, options and recommendations in defined areas related to the economic, financial and budgetary sectors, as directed by the Permanent Secretary.

The onset of the economic and financial crisis, particularly in the euro-area, has triggered an urgent need to improve the governance structure of the EU in conjunction with radical changes in the regulation and supervision of national systems. This has created mounting working pressure on the administration of the Ministry for Finance (MFIN) in order to respond in a timely manner and adjust itself to such new circumstances. In view of this, the Research Unit supports the Permanent Secretary with these new requirements that pose administrative burdens for the Ministry.

EU AND INTERNATIONAL SECTION

- Attending meetings abroad

Members of this section attends technical and policy-oriented meetings including the participation of conference calls, for the Task Force for Coordinated Action (TFCA), the

International Monetary Fund and related issues (SCIMF) and the Sub-Committee on Statistics (SCS). These sub-committees, along with other sub-committees, feed into higher level policy-oriented meetings i.e. the Eurogroup Working Group (EWG) and the Economic and Financial Committee (EFC) as well as the European Financial Stability Mechanism (EFSF) Board of Directors and European Stability Mechanism (ESM) Board of Directors. These meetings are held in preparation for the Eurogroup, the ECOFIN Council, the EFSF Board of Governors and ESM Board of Governors. The Unit researched and prepared the Maltese position for some of the above-mentioned committees. The Unit also participated in the High-Level Task Force for Greece which has been in discussion with the European Commission in areas where Malta can provide technical assistance to Greece. The area of e-governance has been identified as a possible area where technical assistance could be provided and internal discussions are now being held to determine whether Maltese officials could form part of the Task Force assisting the Greek Government, under the stewardship of the European Commission.

The section continuously supports the Permanent Secretary, in view of his role as Chairman of the Sub-Committee on Statistics, since the last quarter of 2013. The Unit organised preparatory meetings and a member assists the Permanent Secretary in his capacity as Chairman.

- The Unit ensured that the Ministry submits timely responses to *ad hoc* requests made by the Council Secretariat to the Office of the Permanent Secretary

- Monitors Malta's exposure to the euro-zone crisis

The Unit continued to monitor Malta's commitments and exposures with regards to the euro-zone sovereign debt/financial crisis. This is done by keeping updated information on Malta's exposures on a quarterly basis.

- GAP Analysis – The Unit was entrusted to monitor benchmarking reports that are issued yearly that rank countries according to their performance in various areas or issue recommendations. Amongst the reports monitored and which feature in the Gap Analysis exercise are the 'Doing Business Report', the monitoring of 'Country-Specific-Recommendations' (CSRs), recommendations being issued by IMF and reports issued by the Credit rating agencies.

- Economic Governance
 - Coordinating the European Semester – As part of the European Semester that started back in 2011, Member States had to align their national calendar in the coordination of strategic documents that feed into the European Semester. In this regard, the section prepared a coordination plan for the national semester in order to ensure that all documents prepared by various stakeholders within MFIN are submitted to the Commission in a coherent and timely manner.

 - The Research Unit participates actively in the monitoring of the Alert Mechanism Report (AMR) which is issued by the Commission on a yearly basis with the aim to identify and address imbalances that hinder the smooth functioning of the EU economies and may jeopardise the proper functioning of

the Economic and Monetary Union. The Unit coordinates meetings with stakeholders at national level related to the AMR.

- The Unit was also involved in the coordination of the Commission's visits to the Ministry for Finance as part of the European Semester.

LOCAL SECTION

Since the setting up of the Local Section within the Research Unit, the Permanent Secretary deemed that this section could play a key role in the coordination of research work for the National Budget. Furthermore, the Local Section is serving as the Permanent Secretary's supporting arm for policy formulation and reviewing of key national policies, along with direct participation on boards/committees convened by Departments within the Ministry for Finance or other line Ministries.

Research on best practices in other member states is regularly undertaken by this section to determine ways of adapting any of these practices for the Maltese context. This section has provided its input to policy measures related to job creation and other policy areas. Additionally, the section coordinated the submissions of budgetary measures from line Ministries and other stakeholders in order to ensure a smooth preparatory work for the budget.

The section has also partnered with a local NGO in managing a project called GRASP to incentivise and promote online green public procurement.

The local section has coordinated the eco contribution reform to ensure sustainable waste management and a level playing field in the market. Moreover, the local section represents the Ministry for Finance on the Green Economy core group, the Strategic Health Reform Committee and also coordinates the Financial Management Committee.

This section regularly kept the Permanent Secretary abreast of key economic indicators including *inter alia* unemployment trends, oil prices and inflation.

Ivan Carl Saliba

Director Research Unit