

9 April, 2018

Permanent Secretaries
Directors General
Directors

BUDGETARY MONITORING

Within the context of circulars already issued in respect of the subjects dealt with hereunder, it is considered opportune to impress, once more, the significance of financial and budgetary monitoring as a key function in adhering to the provisions of financial legislation and in ensuring that financial management is carried out in a proper and sustainable manner.

1. MONTHLY MONITORING OF REVENUE AND EXPENDITURE

- 1.1** The ongoing monitoring of budgetary and financial performance by each Ministry, Department and Government Entity represents a fundamental requirement for maintaining control and ensuring that available funds voted annually in the Financial Estimates are used in an efficient and effective manner.
- 1.2** For this purpose, on a monthly basis and following the month-end process carried out by the Treasury, Ministries and Departments are reminded to submit, to this Ministry, the revenue, recurrent and capital expenditure reports on the revised estimates, by the 15th day of each month. The templates may be accessed through: <http://mfin.gov.mt/en/The-Ministry/Departments-Directorates-Units/Budget-Affairs/Pages/default.aspx>. Such reports do not only serve as a basis for this Ministry to provide advice on the ongoing fiscal position of Government as the year unfolds, but should be looked upon as an indispensable tool which enables line ministries to manage the allocated budgets and facilitate the resolution of budgetary issues that arise during the year without undue delay.

2. VIREMENTS UNDER RECURRENT AND CAPITAL VOTES

- 2.1** It is not an uncommon occurrence for ministries and departments to resort to the Ministry for Finance with requests for supplementary funding during the year. First and foremost, in terms of fiscal legislation and for sound and sustainable budget management purposes, ministries and departments are reminded of their legal obligations to contain expenditure within the budget approved by Parliament in the annual Estimates. Hence, apart from being a requirement at law, it is one of your Ministries' functions to meet any shortfalls arising during the year, through virements

and transfers of funds in the first instance. Ministries are therefore enjoined to adopt a level of flexibility in such cases, after seeking this Ministry's approval for virement where applicable, instead of resorting to requests for additional funds. The amount of funds featuring in the Supplementary Estimates, at total vote level, which remain unspent each year provides sufficient evidence of the fact that closer monitoring by Ministries is called for.

- 2.2** It is evident that, in the main part, budgetary requests for funds are being made in the absence of any prior effort, by the Ministry involved, to explore the possibility of effecting such virements to make good for the expected shortfalls. Furthermore, each line item is looked upon as a budget with its own standing, not as an allocation forming part of a recurrent or capital vote which each line Ministry is to manage and to which it may apply an element of flexibility allowed at law. You are reminded that each budgetary request submitted to the Ministry for Finance requires that an assessment process is undertaken through various levels, to ensure that the provisions of the Fiscal Responsibility Act are adhered to. No Ministry or Department should thus expect that a reply to a request is issued by this Ministry before the requirements of such process, including seeking of clarifications necessary, would have been adequately satisfied.
- 2.3** Ministries and Departments are reminded that it is not lawful to request virements on a temporary basis, with the knowledge that the funds so transferred will need to be replenished eventually during the year. Neither are virements to be requested from items which have been provided to effect payments to other departments or entities within the public sector.
- 2.4** It is of prime importance that justifications are presented whenever requests for approval of virements are submitted. No requests need to be addressed to this Ministry where horizontal transfers of funds are involved, i.e. within the same line item but from one cost centre to another. In this respect, before resorting to virements between items, Ministries and Departments should seek to utilise funds under the same line item, following consultations between Heads of Departments operating the various Cost Centres.
- 2.5** Permanent Secretaries in each respective Ministry may approve virements cumulatively not exceeding EUR 50,000 in one year to or from any one expenditure item, within the recurrent vote category for *Operational and Maintenance Expenses* (excluding from the *Utilities* and *Rent* items). A list of the virements so approved should continue to be included in the monthly revised estimates submission made to this Ministry. Virements cumulatively exceeding EUR 50,000 within this category, virements within the categories for *Personal Emoluments*, *Programmes and Initiatives* and *Contributions to Government Entities*, virements between different categories and virements within the capital vote, shall continue to require approval from the Ministry for Finance. Towards the end of the year, Ministries and Departments are encouraged to refrain from presenting requests for virements in a piece-meal manner or to enter into end-of-year commitments for the sake of utilising unspent funds on procurement which was not originally planned.

3. COMMITMENT FORMS

- 3.1** Tenders issued in one year, could give rise to substantial commitments on the budgetary allocations for subsequent years, especially in the case of capital expenditure. This has

occasionally given rise to situations where insufficient uncommitted funds are available under a Capital Vote to meet the cost of additional works and contracts and, therefore, to an unexpected demand for an increase in budgetary funds.

- 3.2 To enable closer monitoring whilst simplifying further the drawing up of the Tender Commitment Forms which are submitted to this Ministry for budgetary clearance, the existing B2 and B3 forms have been replaced by one single form, which is being uploaded onto this Ministry's website.

4. REVENUE

- 4.1 In terms of Article 29 of the Fiscal Responsibility Act, the Ministry for Finance is publishing in the Financial Estimates, an appendix representing the estimated quarterly targets for revenue collection in respect of each revenue source and another appendix detailing the estimated quarterly targets for the recovery of revenue arrears. It is the responsibility of all Ministries and Departments to ensure that revenue targets are achieved, by taking necessary action to collect outstanding arrears of revenue.

5. RELEASE OF TRANCHES AND THE FINANCIAL DATA REPORTING SYTEM

- 5.1 As explained in MF Circular 2/2010, given that various departments and entities within this Ministry make use of the same data, although for different purposes, it was considered opportune to introduce the Financial Data Reporting System (FDRS), through which the submission of income and expenditure together with balance sheet data, is made on a monthly and quarterly basis respectively, by Government Entities.
- 5.2 To reduce the administrative burden upon Government Entities and their respective line Ministries, the frequency with which submissions are to be made is hereby being lowered and shall apply as follows. Government Entities in receipt of an annual subvention from Government of EUR 300,000 or below are to update their FDRS two (2) times per year (income statement and balance sheet), whilst requests for the release of funds are to be submitted to this Ministry twice per year, instead of quarterly. Government Entities in receipt of an annual subvention from Government of between EUR 301,000 and EUR 800,000 are to update their FDRS four (4) times per year (income statement) and two (2) times per year (balance sheet), whilst requests for the release of funds are to be submitted to this Ministry twice per year, instead of quarterly. The provisions of past circulars on the FDRS and the release of tranches shall invariably continue to apply in respect of all other entities.
- 5.3 You are reminded that the withholding of tranches due to the entity concerned until such returns are compiled, apart from the standard cash position statement and other financial statements applicable, may need to be considered, in the event of default in the submission of returns. It is the function of Permanent Secretaries within each Ministry to follow-up and ensure compliance by Government Entities within their respective portfolio, with these provisions.
- 5.4 Ministries are to ensure that all budget related requests emanating from Government Entities are passed through the Ministry, which is in turn to submit its recommendations thereon.

6. SETTING UP OF PUBLIC COMPANIES / ENTITIES

- 6.1** Permanent Secretaries are to ensure that, prior to setting up a government entity of any form, the Ministry for Finance shall be consulted for budgetary and financial purposes. The Ministry for Finance shall be consulted in order to obtain approval for the allocation of funds to incorporate such agency, in line with the procedure described in the Public Administration Act.
- 6.2** Furthermore, in terms of the Fiscal Responsibility Act, each entity shall prepare and submit to the Ministry for Finance a three-year rolling Business and Financial Plan as prescribed, from time to time, by the Minister for Finance, based on the most recently announced Medium Term Fiscal Strategy.

7. BANK ACCOUNTS AND BELOW-THE-LINE ACCOUNTS

- 7.1** Through MFIN Circular No 4/2016, it was pointed out that this Ministry is regularly in receipt of requests from ministries and departments to open Below-the-Line Accounts and Bank Accounts to be used for specific purposes, within the parameters of the pertinent legislative framework. Given the experience gained since then, it is appropriate to remind Ministries that, as a rule, revenues of Government are to be invariably deposited under the respective Revenue item in the Consolidated Fund and it is only in exceptional and duly justified cases that consideration may be given towards a departure from such treatment. Furthermore, for enhanced control purposes and to reduce or contain the increase in the number of accounts opened and lessen the risks of fragmentation, each request to open a new account is, up to the extent possible, to be accompanied by reference to at least one existing account which can be closed off, with correct treatment being applied to any deposits held therein. Additionally, account balances should be reviewed and, where necessary, reconciled regularly whilst efforts are to be made not to keep surplus balances in such accounts. Although, the circular specified that should the request originate from a Directorate or other unit within a ministry, analysis of existing accounts should not be limited solely to the accounts under that Directorate or unit, but should extend to all the accounts under the same Ministry's dataset, this provision is not being followed and Ministries are limiting themselves to look into the possible closure of accounts only within the Directorate from where the request originates.
- 7.2** You are reminded that, as specified in the circular, by the last working day of April 2018 (and each subsequent year), each Ministry is to submit to this Ministry, copied to the Treasury, a list of existing Below-the-Line Accounts and Bank Accounts which can be closed off, with priority being given to those accounts which are either dormant or where their tenure is not justified by the level of activity registered.

Permanent Secretaries are to bring this circular to the attention of all officers in Departments and Entities under the Ministry's portfolio, and ensure compliance therewith.

A Camilleri

Permanent Secretary (Budget and Finance)