

GOUVERNEMENT DE LA REPUBLIQUE DE
VANUATU
MINISTRE DES FINANCES ET DE LA
GESTION ÉCONOMIQUE
(MFGÉ)

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GOVERNMENT OF THE REPUBLIC OF
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MINISTRY OF FINANCE AND ECONOMIC
MANAGEMENT
(MFEM)

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30th April, 2012

**TO: ALL HON. MINISTERS
ALL DIRECTORS GENERAL
ALL DIRECTORS OF DEPARTMENT
ALL HEADS OF CONSTITUTIONAL BODIES
ALL HEADS OF GRANT BODIES**

SUBJECT: FINANCIAL CIRCULAR NUMBER 5 of 2012

Please find attached the Financial Circular containing the base budget ceilings for 2013. These have been established by the Ministerial Budget Committee and subsequently endorsed by the Council of Ministers as of 25th of April, 2012.

Related guidelines to assist line agencies in the preparation and submission of their budgets are also attached, including a revised budget timetable.

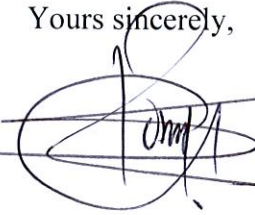
As specified in the guidelines, all Director Generals must consult with their respective Ministers in order to ensure that the budget allocations and programs are aligned with the Government policies as outlined in the 2013 Budget Policy Statement.

It is equally vital to note that all line agencies' existing recurrent and capital costs should continue to be funded from within the ceilings set by the MBC.

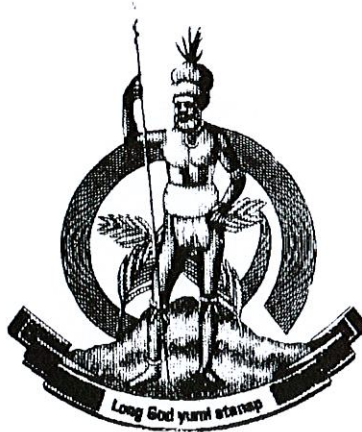
The Budget submission demands a collaborative effort across all management levels of the Ministries. It is essential that bids for additional resources are backed by evidence – both to identify the need for public monies to be committed and to clearly demonstrate the expected benefits of New Policy Proposals (NPPs) to the people of Vanuatu.

Finally, please note that Vanuatu Budget Management System (VBMS) is now open for budget entry, all budget submissions must be submitted via the VBMS by the due date which is **Friday 18th of May, 2012**. This will allow sufficient time for analyses to be carried out by the Ministry of Finance and Economic Management.

Yours sincerely,


Tony Amos Sewen
Acting Director of Finance and Treasury





Financial Circular 5/2012

Budget 2013

Line Agency Ceilings and Guidelines for Submissions

30th April, 2012

Annex 1 – 2013 Ministry Budget Ceilings

The following are the 2013 Indicative Ministry Ceilings.

	2013 Indicative Budget	%
<i>President of the Republic</i>	40,237,809	4
<i>Parliament</i>	505,767,356	45
<i>Office of the Ombudsman</i>	40,972,648	4
<i>Malvatumauri</i>	30,735,289	3
<i>National Audit Office</i>	32,565,534	3
<i>State Law Office</i>	92,199,461	8
<i>Public Prosecutor</i>	37,451,532	3
<i>Public Solicitor</i>	47,236,950	4
<i>Judiciary</i>	185,905,746	17
<i>Public Service Commission</i>	96,606,254	9
<i>Citizenship Office</i>	4,057,324	0
<i>Judicial Service Commission</i>	889,186	0
Constitutional Agencies	1,114,625,089	6
Prime Ministers Ministry	370,148,210	2
Ministry of Education	3,946,025,195	21
Ministry of Internal Affairs	1,336,450,641	7
Ministry of Finance and Economic Management*	7,672,920,466	40
Ministry of Trade, Commerce, Industry & Tourism	171,331,507	1
Ministry of Health	1,541,839,563	8
Ministry of Agriculture, Quarantine, Forestry & Fisheries	428,026,400	2
Ministry of Lands, Geology & Mines	283,082,048	1
Ministry of Infrastructure & Public Utilities	1,391,863,930	7
Ministry of Foreign Affairs	308,264,861	2

Ministry of Cooperatives and Ni-Vanuatu Business Development Services	96,539,137	1
Ministry Of Youth Development & Training	145,685,080	1
Ministry Of Justice And Community Services	304,666,596	2
Total For All Government	19,111,468,723	100

* MFEM appropriation includes all grants, debt obligations and other central payments.

Grant Bodies Ceilings for 2013 Budget

Agency	Budget
<i>Chamber of Commerce</i>	<i>30,000,000</i>
<i>VTO</i>	<i>139,989,780</i>
<i>VARTC</i>	<i>35,692,438</i>
<i>Vanuatu Cultural Centre</i>	<i>26,291,633</i>
<i>Vanuatu Agriculture College</i>	<i>82,800,392</i>
<i>Vanuatu Maritime College</i>	<i>41,255,243</i>
<i>Vanuatu Broadcasting and Television (VBTC)</i>	<i>60,193,317</i>
<i>Vanuatu Investment Promotion Authority (VIPA)</i>	<i>38,668,264</i>
<i>Utilities Regulatory Authority (URA)</i>	<i>20,226,099</i>
Total	475,117,166

Annex 2 – 2013 BUDGET GUIDELINES

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Purpose

The purpose of this circular is to provide indicative budget ceilings for each ministry, and to assist all ministries with the preparation of their budget submissions for 2013.

Introduction Arrangements for the preparation and consideration of submissions for the 2012 Budget differ from those of past years.

For the 2013 Budget:

- The funds that are allocated towards NPP are very much limited. Agencies that have any NPPs to submit must ensure that it is well detailed and must be inline with the Government Policy as outlined in the 2013 Budget Policy Statement.
- Donor NPPs must be entered together with recurrent budget.
- Ministries are to lodge submissions for the entire ministry that have been approved by the Minister by no later than 18th May, 2012. Failure to submit recurrent budget by the due date, will result in the Department of Finance & Treasury to roll-over 2012 (excluding 2012 one-off NPP's) budget, including a penalty of **5% budget reduction**. In addition a note will be sent to the Public Service Commission informing them of this failure in performance.
- Ministers will present their submissions to the Ministerial Budget Committee. They will be accompanied by the Director-General and other relevant officials, such as department heads.
- Presentations of the 2013 budget to MBC will focus mainly on any new NPPs, that is submitted, and only those that have been submitted via VBMS, any NPP on the floor of MBC will be rejected. Given the time constraint and urgency of having the budget appropriated by August, MBC is likely to have only a week of budget presentations.

This circular provides guidance on how to prepare Budget submissions. Budget Environment in 2013 and the setting of Budget ceilings As in the past, the 2013 Budget will be designed using an overall 'macroeconomic framework'. This means that before ministries receive their ceilings, the MBC / DCO will have to decide on the total level of expenditure of Government. This figure will depend on how much revenue is expected in 2013 and also on how much debt the Government has to repay in 2013. The revenue estimates, at this stage, assume that there will be no change in the rates of taxation.

In order to prevent the Government from running out of cash it is important that good revenue estimates are made and that the total of all departmental expenditures is less than this figure. This has sometimes not been the case, and appropriations have had to be artificially reduced through the slow release of warrants. It is the Government's intention to introduce a Budget that ensures that revenues equal or exceed expenditures (including loan repayment commitments), while affording some flexibility to address changing priorities.

This means that, for 2013 ministries will be required to bring forward submissions where the recurrent Budgets do not exceed very strict 'Budget ceilings' that have been approved by the MBC / DCO. These ceilings are based on the overall 'macroeconomic framework' as described above.

Ministries who insist to bring forward proposals for expenditure in excess of these ceilings **for urgent and unavoidable policy priorities** need to be clearly identified and be accompanied with very strong justification. It is critical that the total cost of such new policy proposals must **not exceed 5% of a ministry's approved Budget ceiling**. As this will help the MBC to decide on how its changing priorities can be accommodated within its capacity of collections in 2013.

The ceilings have been calculated as follows:

- a) Budget 2012 appropriations have been used as a base.
- b) All one year New Policy Proposals (NPPs) have been subtracted from these appropriations
- c) The removal of copra and kava subsidy was netted out.
- d) Funding for the national elections and the hosting of the ACP conference has been removed as this was a one-off event; exclusion of the MP gratuity for 2012 was also netted out.
- e) The Government contribution for school grants has been netted in, as per the arrangement between donor.
- f) The contribution towards the redevelopment of the VCH has been included.
- g) Budgets have been transferred between provisions to reflect policy decisions already taken by the Government.
- h) Funding provided to ministries as government contributions toward development projects in 2013 have been deducted. These do not have a recurrent budget impact.

The 2013 Budget ceilings for each ministry are detailed in Attachment A.

The ultimate allocation of resources is based on the Government priorities as defined by the Government in the Budget Policy Statement. This means that, although every effort will be made not to reduce ceilings that have been set, resources may be reallocated to reflect other priority areas in the light of the MBC's Budget considerations.

Revised Budget Presentation

In the past the recurrent budget was presented separately to the development budget. However, from 2010 the Government decided that the two should be presented and deliberated on by the MBC **AT THE SAME TIME**. This is why when MBC decides on each Ministries recurrent budget for 2013 it also decides on the approved list of projects.

Therefore, projects which have not been entered into VBMS at the time of budget submission will not be considered by MBC. Presenting the two components of the national budget together ensures that funding (whether from the recurrent or donors) is used effectively to pursue and achieve national policy goals and objectives.

This should also avoid duplications of programs/activities and resources to meet sectoral needs. With the integration of the recurrent and donor budget, the Government can effectively monitor and all its national aid funded developments and their implication on recurrent expenditure annually.

Structure of Budget Submissions

The structure of the 2013 Budget submissions will be as follows:

Main Body of the Submission

The main body of the Submission will identify the following:

Policy issues and challenges	There should be a brief (around 2 pages) discussion of the policy issues and challenges in the ministry.
Approach taken to address these issues and challenges	The Minister's submission should identify what steps the ministry is taking to address these policy issues and challenges. This should link with the revised program structures and should form key elements in ministries corporate plans.
	Efficiencies that the ministry has identified and how resources have been reallocated to best achieve policy and service outcomes should also be discussed. Where new policy proposals are being brought forward for expenditure above the ceilings, these should also be briefly justified.
Recommendations	Recommendations that the Minister wishes the MBC to approve should be included.
Minister's Signature	The Minister should sign and date the submission.

Attachments – Most of these can be attained from the VBMS.

Attachment 1: Introduction to Ministry	<p>This attachment should concisely say:</p> <ul style="list-style-type: none"> ▪ What the ministry does (no more than a paragraph). ▪ What the ministry's current organisational structure (or proposed organisational structure) is. ▪ Where departments within the ministry operate from (eg. Department X has two offices located in Port Vila and Luganville). ▪ How many people are employed by the ministry (by department at the time of budget preparation). ▪ What the ministry's final actual 2012 budget allocation was and what budget ceiling has been provided for 2013. ▪ Ratio of salary and wages costs to overheads. ▪ The percentage of the budget allocated to capital expenditure.
Attachment 2: Budget Narratives	<p>The narratives are the descriptions of the programs and activities that will be included in the Budget documentation. They are not designed as program justification – the separate Program Justification Form section of the submission is provided for this purpose.</p> <p>The narrative should be consistent with the three year draft Corporate Plans of ministries, in that priority objectives have a financial cost that should be reflected in the narrative. These plans will give the MBC valuable insight into how the ministries intend to make use of their funds in the future.</p>
	<p>It is important to make the narrative as concise as possible and the expectation is that, apart from very large departments (<i>Health, Education, Police, Public Works</i>), the narrative should be no longer than 2 pages.</p>
Attachment 3: Program Justification	<p>A summary of the Program Justification is mainly to indicate the cost and benefit of each program undertaken by departments. This will assist Treasury and the MBC to appraise services and consider allocation of funding. It is the</p>

	<p>document that explains the basis of your new program structure.</p> <p>The Program Justification should clearly indicate:</p> <ul style="list-style-type: none"> ▪ The <u>priority of the Program</u> (Programs should be ranked in order of importance, 1 being the most important). ▪ The <u>number of people who receive a benefit</u> from the program (if numbers are not available, groups may be used). ▪ The <u>estimated cost in 2013 and importance</u> (ranked in the Program) of each Activity in the Program. ▪ How the service (Activity) is provided to those people who benefit from it. ▪ What other ways are there that the service can be provided. ▪ What would be the result (effect) if the service were no longer to be provided. ▪ Any other supportive information that should be considered associated with your proposed budget distribution.
Attachment 4: Within-Ceiling Budget Estimates	<p>This Attachment should provide a table showing estimates of expenditure for each ministry by program that <u>meet the Budget ceilings approved by the MBC</u>. This will indicate how the ministry will allocate its funds to meet the Budget ceilings.</p> <p>Submissions that do not comply with this requirement will be returned to ministries for reworking and resubmission.</p>
Attachment 5: New Policy Proposals <i>(if required)</i>	<p>Where a ministry wishes to propose expenditure to meet a policy or service delivery priority that cannot be met from within the Budget ceiling, these can be submitted for consideration by the MBC as 'New Policy Proposals'. The format of these new policy proposals is in the VBMS.</p> <p>Any new policy proposals should be rigorously justified in terms of its policy priority, its essentiality and the costs involved.</p> <p>New policy proposals can also be included where they do not involve additional expenditure, but there are significant</p>

cost implications (e.g. savings from rationalising a program and where there might be political sensitivities that require the consideration of the MBC and ultimately the Council of Ministers).

In some cases, ministers may be prepared to support additional expenditure in 2013, provided that it is clear that savings will result in later years (eg closing an Activity and meeting the cost of staff redundancies in 2013, with consequential savings in later years).

New policy proposals should be consistent with the Government's Medium-Term Development Framework.

New proposals should be discussed with Treasury and the accuracy of the proposed costs should be agreed before they are included in the submission. It is essential to avoid bringing in any NPP to MBC without prior analysis from Treasury.

Preparing 2013 Financial Estimates

Ministries will have access to enter 2013 Budget estimates directly into the new financial computer system (VBMS). Workshops have been arranged to teach the Budget officers/accountants or the 'Budget Contact Person' on how to enter their 2012 Budget estimates into the VBMS. Should you require any assistance please contact FMIS or Treasury for assistance.

The estimates entered into the financial system will be limited to the ministry's ceiling. A signed (by the Director-General) and dated print-out¹ of the estimates from the financial system should be included with the budget narrative submitted to Treasury. **Estimates submitted from any source other than the financial system will not be accepted.**

Estimates for revenue must also be entered. Please try and ensure realistic revenue estimates.

NOTE: WHEN ENTERING YOUR MINISTRY'S BUDGET BE SURE TO MAKE A PRINTOUT OF THE FINAL VERSION.

Ministries are also required to prepare budgets for ALL development projects. New projects for 2013 as Donor NPP and Ongoing Donor NPP projects will need to be budgeted and entered into the VBMS.

¹ With a copy of the print-out retained by your ministry.

NOTE: It is critical that all projects be entered into the VBMS, failure to do so will result in MBC not considering or approving the funds in time for Parliament appropriation. It is also compulsory that a Hard Copy of all the projects be submitted to Aid Coordination at the Prime Ministers Office.

Grant Bodies

Grant bodies will be required to provide detail program estimates as to how they will utilise their funds in 2013.

This is important to make sure that there is transparency and accountability in the expenditure of public funds. This will also help the MBC/DCO in making better decisions to allocate funds more effectively. It is important that ministries responsible for all grant bodies make the necessary steps to make sure that the relevant bodies are aware of this obligation.

This includes the VTO, VBTC, VIPA, Chamber of Commerce, Maritime College, VARTC, Vanuatu Agriculture College, and the Vanuatu National Cultural Centre.

NOTE : GRANT BODIES THAT FAIL TO MAKE A SUBMISSION TO TREASURY / MBC AS TO HOW THEY INTEND TO USE THEIR BUDGET IN 2012 MAY HAVE THEIR GRANT REDUCED.

Preparing Your Ministry's Budget Submission

Preparing the budget for the ministry requires leadership, co-ordination and a team effort. It is not something that can, or should, be given to the Accountant, Office Manager or any other individual to prepare. Please let ownership of the process be shared by all senior managers in your organisation.

Ultimately, unlike in previous years, it will be the Minister's submission, and the Minister will be primarily responsible for arguing its merits at the MBC. It is essential therefore that the Minister takes a close interest in the preparation of the submission and in the setting of the priorities that are proposed.

The Minister will be expected to sign the submission. Difficult decisions might need to be made about the allocation of resources to meet the tight Budget ceilings. This may mean that ministries will have to streamline some parts of their operations by changing the way things are done and, in many cases, reducing staff. The expenditure analysts in Treasury may be able to advise ministries on opportunities for savings that they can pursue.

Checklist of Information to be Submitted

For ongoing or expanded services,

- a Budget submission, signed by the Minister that is prepared along the lines set above
- all relevant fields in the VBMS correctly filled out and printed out in hard copy attached to the budget submission and,

As soon as possible,

- Discuss your Ministry's proposed new Program and Activity structure with Treasury and agree on narratives and performance criteria;
- Review your ministry's business activities and consider where savings might be able to be achieved; and
- Advise grant bodies that fall within your ministry's overview of the requirement to provide Budget submissions to Treasury

For **New Donor Projects** (Donor NPP) :

- Budget narrative (brief but including the project number, name and donor funding source as a minimum)
- Print out the VBMS summary report of these project

For **Ongoing Donor Projects** (Donor NPP):

- Budget narrative (brief but including the project number, name and donor funding source as a minimum)
- Print out the VBMS summary report of these project

Attachment A: 2013 Budget ceiling

	2012 Original Appropriation	Less one-offs	Transferred departments	School grants & VCH contribution	Loan drawdown & debt principle	Change in interest payments	2013 Indicative Budget	%
President of the Republic	40,237,809	0	0	0	0	0	40,237,809	4
Parliament	791,767,616	-286,000,260	0	0	0	0	505,767,356	45
Office of the Ombudsman	40,972,648	0	0	0	0	0	40,972,648	4
Malvatumauri	30,735,289	0	0	0	0	0	30,735,289	3
National Audit Office	32,565,534	0	0	0	0	0	32,565,534	3
State Law Office	92,199,461	0	0	0	0	0	92,199,461	8
Public Prosecutor	37,451,532	0	0	0	0	0	37,451,532	3
Public Solicitor	47,236,950	0	0	0	0	0	47,236,950	4
Judiciary	185,905,746	0	0	0	0	0	185,905,746	17
Public Service Commission	96,606,254	0	0	0	0	0	96,606,254	9
Citizenship Office	4,057,324	0	0	0	0	0	4,057,324	0
Judicial Service Commission	889,186	0	0	0	0	0	889,186	0
Constitutional Agencies	1,400,625,349	-286,000,260	0	0	0	0	1,114,625,089	6
Prime Ministers Ministry	214,897,917	-10,000,000	165,250,293	0	0	0	370,148,210	2
Ministry of Education	3,904,962,695	0	0	41,062,500	0	0	3,946,025,195	21
Ministry of Internal Affairs	1,517,035,543	-180,584,902	0	0	0	0	1,336,450,641	7
Ministry of Finance and Economic Management*	4,122,540,612	-311,510,220	-165,250,293	0	3,961,557,000	65,583,367	7,672,920,466	40
Ministry of Trade, Commerce, Industry & Tourism	371,331,507	-200,000,000	0	0	0	0	171,331,507	1

Ministry of Health	1,534,639,563	0	0	0	7,200,000	0	0	1,541,839,563	8
Ministry of Agriculture, Quarantine, Forestry & Fisheries	428,026,400	0	0	0	0	0	0	428,026,400	2
Ministry of Lands, Geology & Mines	283,082,048	0	0	0	0	0	0	283,082,048	1
Ministry of Infrastructure & Public Utilities	1,391,863,930	0	0	0	0	0	0	1,391,863,930	7
Ministry of Foreign Affairs	308,264,861	0	0	0	0	0	0	308,264,861	2
Ministry of Cooperatives and Ni-Vanuatu Business Development Services	96,539,137	0	0	0	0	0	0	96,539,137	1
Ministry Of Youth Development & Training	145,685,080	0	0	0	0	0	0	145,685,080	1
Ministry Of Justice And Community Services	460,226,824	-155,560,228	0	0	0	0	0	304,666,596	2
Total For All Government	16,179,721,466	-1,143,655,610	0	0	48,262,500	3,961,557,000	65,583,367	19,111,468,723	100

* MFEM appropriation includes all grants and debt obligations

Annex 3 – 3rd Revised Budget Cycle / Timetable for Preparation of the 2013 Budget

Date	Activity	Responsible Agencies
20 th February – 6 th March	MFEM to meet with PMO to discuss policy priorities.	DOFT & <u>DSPPAC</u>
12th March – 12th May	Pre-Election Economic and Fiscal Update (preparations while waiting for official gazette)	DOFT
19 th – 28 th March	Submit budget policy priorities to DCO for information.	<u>DSPPAC</u> & PMO
19 th – 28 th March	Submit budget policy priorities to COM for approval. Inform Ministries to start amending their narratives in line with Government priorities.	<u>DSPPAC</u> PMO
21st March – 30th March	Budget Policy Statement to be submitted to Minister and DG MFEM followed by its Publication.	DOFT

Date	Activity	Responsible Agencies
18 th May – 1 st June	Reviews budget submissions, narratives and NPP's. Narratives sent to language service for translation.	DOFT PMO officers to provide their analysis on each sectors Output. PMO
4 th June – 8 th June	Ministers present Ministry budgets to MBC MBC approval of draft Project proposal and 1. NPP database updated: new approved programs added, programs not funded for two years deleted	All agencies, MBC, and Aid Coordination Unit
13 th June - 18 th June	MBC considers final draft of budget estimates. DOFT to Draft COM Paper	<u>DOFT</u> & MBC
18 th June – 22 nd June	Draft final budget papers sent to DCO for information Final Budget forwarded to COM. Appropriation Bill prepared by SLO	COM, DCO, <u>DOFT</u> , SLO
22 nd June – 13 th July	Final budget books prepared, translated and printed in French and English.	DOFT, Language Services
30 th July	Half Year Economic and Fiscal Update Published	DOFT
31 st July	2013 Appropriation Bill distributed to MPs	Clerk of Parliament