

GOUVERNEMENT DE LA REPUBLIQUE DE
VANUATU
MINISTÈRE 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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8 July 2013

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

SUBJECT: FINANCIAL CIRCULAR NUMBER 6 of 2013

Please find attached the Financial Circular containing the base budget ceilings for 2014. These have been established by the Ministerial Budget Committee and subsequently endorsed by the Council of Ministers as of 27th June, 2013.

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 2014 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.

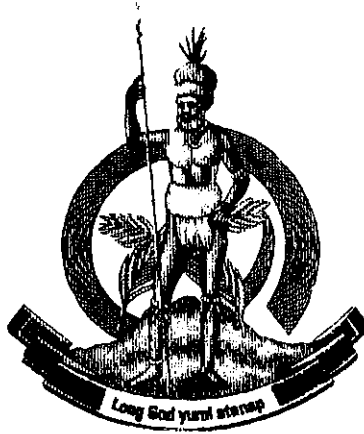
The Budget submission demands a collaborative effort across all management levels of the Ministries. It is essential that bids for additional resources are backed by evidence – both to identify the need for public monies to be committed and to clearly demonstrate the expected benefits of New Policy Proposals (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 26th of July, 2013**. 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 6/2013

Budget 2014

Line Agency Ceilings and Guidelines for Submissions

8 July 2013

Annex 1 – 2014 Ministry Budget Ceilings

The following are the 2014 Indicative Ministry Ceilings.

	2014 Indicative Budget
<i>President</i>	40,237,809
<i>Parliament</i>	519,341,956
<i>Office of the Ombudsman</i>	36,972,648
<i>Malvatumauri</i>	30,735,289
<i>National Audit Office</i>	32,565,534
<i>State Law Office</i>	92,199,461
<i>Public Prosecutor</i>	37,451,532
<i>Public Solicitor</i>	47,236,950
<i>Judiciary</i>	185,905,746
<i>Public Service Commission</i>	96,606,249
<i>Citizenship Commission</i>	4,057,324
<i>Judicial Service Commission</i>	889,186
Constitutional Agencies	1,124,199,684
Prime Ministers Ministry	1,256,170,206
Ministry of Agriculture, Livestock, Forestry, Fisheries & Biosecurity	442,058,749
Ministry of Tourism, Trade, Commerce & Ni-Vanuatu Business	327,429,000
Ministry of Education	4,038,353,286
Ministry of Finance and Economic Management*	4,333,179,669
Ministry of Foreign Affairs & External Trade	337,674,820
Ministry of Health	1,635,539,563
Ministry of Infrastructure & Public Utilities	1,294,350,271
Ministry of Internal Affairs	579,993,249
Ministry of Lands, Environment, Mines & Mineral Resources	220,582,866
Ministry Of Justice & Social Welfare	325,506,036

Ministry of Cooperatives and Ni-Vanuatu Business	0
Ministry of Civil Aviation, Meteorology & Postal Services	0
Ministry of Youth Development, Training & Sports	145,685,080
Ministry of Climate Change Adaptation, Geo-hazards, Meteorology & Energy	238,542,430
Total For All Government	16,299,264,909

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

Grant Bodies Ceilings for 2014 Budget

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

Annex 2 – 2014 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 2014.

Introduction Arrangements for the reparation and consideration of submissions for the 2014 Budget differ from those of past years.

For the 2014 Budget:

- The funds that are allocated towards NPPs are very much limited. Agencies that have any NPPs to submit must ensure that they are well detailed and must be inline with Government Policy as outlined in the 2014 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 26th July, 2013. Failure to submit recurrent budget by the due date, will result in the Department of Finance & Treasury to roll-over your 2014 (excluding 2013 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.

As in the past, the 2014 Budget is being designed using a 'macroeconomic framework'. This means that before Ministries receive their ceilings, the MBC and COM must decide on the total level of expenditure of Government. This figure will depend on how much revenue is expected in 2014 and also on how much debt the Government has to repay in 2014. The revenue estimates, at this stage, assume that there will be no change in the rates of taxation but do depend on the expected growth in the economy in 2014.

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 2014 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 and COM. These ceilings are based on the overall 'macroeconomic framework' as described above.

Ministries who wish to bring forward proposals for expenditure in excess of these ceilings for **urgent and unavoidable policy priorities** need to have these clearly identified and be accompanied with very strong justifications. 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 2014.

The ceilings have been calculated as follows:

- a) Budget 2013 appropriations have been used as a base.
- b) All one-off funded activities for 2013 have been netted out including the Malvatumauri, Provincial, Municipal and Tanna elections as well as an outstanding bill to the WTO;
- c) Government contributions to the Vila Central Hospital, National Convention Centre, TVET tourism and Port Vila Beautification projects have also been subtracted.
- d) The Government has commitments with donors to giving more funding for primary school grants, drugs, road maintenance-these have been factored in to the ceilings.
- e) Agreed Government contributions to the National Archives and Vila Central Hospital projects have also been included in the ceilings.
- f) The Ministry of Finance and Economic Management's ceiling has been altered to reflect the Government's domestic and external debt servicing obligations.
- g) Budgets for ten Departments have been transferred between Ministries to reflect policy decisions already taken by the Government.
 - I. Civil Aviation Authority – Civil Aviation to Infrastructure
 - II. Vanuatu Meteorological Services – Civil Aviation to Climate Change
 - III. Ni-Vanuatu Business Development – Ni-Vanuatu Business to Trade
 - IV. Department of Youth and Sport – Education to Youth and Sport
 - V. Police - Internal Affairs to Prime Minister
 - VI. National Archives (grant body) – Internal Affairs to Finance
 - VII. National Disaster Management Office – Internal Affairs to Climate Change
 - VIII. Department of Energy – Lands to Climate Change
 - IX. Department of Environment – Lands to Climate Change
 - X. Department of External Trade – Trade to Foreign Affairs
- h) In addition, the Government decided that budget be transferred between the Ministry of Lands and Ministry of Justice as well as the Ombudsman and the Ministry of Finance.

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 2014 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

This attachment should concisely say:

- 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 2013 budget allocation was and what budget ceiling has been provided for 2014.
- Ratio of salary and wages costs to overheads.
- The percentage of the budget allocated to capital expenditure.

Attachment 2: Budget Narratives

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.

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.

It is important to make the narrative as concise as possible and the expectation is that, apart from very large departments (*Health, Education, Police, Public Works*), the narrative should be no longer than 2 pages.

Attachment 3: Program Justification

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 document that explains the basis of your **new program structure**.

The Program Justification should clearly indicate:

- The priority of the Program (Programs should be ranked in order of importance, 1 being the most important).
- The number of people who receive a benefit from the program (if numbers are not available, groups may be used).
- The estimated cost in 2014 and importance (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

This Attachment should provide a table showing estimates of expenditure for each ministry by program that meet the Budget ceilings approved by the MBC. This will indicate how the ministry will allocate its funds to meet the Budget ceilings.

Submissions that do not comply with this requirement will be returned to ministries for reworking and resubmission.

Attachment 5: New Policy Proposals (if required)

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.

Any new policy proposals should be rigorously justified in terms of its policy priority, its essentiality and the costs involved.

New policy proposals can also be included where they do not involve additional expenditure, but there are significant 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 2014, 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 2014 Financial Estimates

Ministries will have access to enter 2014 Budget estimates directly into the new financial computer system (VBMS). Workshops were conducted in late April to teach the Budget officers/accountants or the 'Budget Contact Person' on how to enter their 2014 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 2014 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 2014.

This is important to make sure that there is transparency and accountability in the expenditure of public funds. This will also help the MBC/COM 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 URA, VTO, VBTC, VIPA, Chamber of Commerce, Maritime College, VARTC, Vanuatu Agriculture College, Vanuatu National Archives 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 2014 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

Annex A – 3rd Revised Budget Cycle / Timetable for Preparation of the 2014 Budget

Date	Activity	Responsible Agencies
25 th March – 28 th March	MFEM to meet with PMO to discuss policy priorities.	DOFT & <u>DSPPAC</u>
2 th – 5 th April	DSPPAC to start consultations with line ministries regarding 2014 budget policy priorities.	<u>DSPPAC</u> & PMO
8 th – 12 th April	<p>Submit budget policy priorities to DCO for information.</p> <p>Submit budget policy priorities to COM for approval.</p> <p>Inform Ministries to start amending their program and activity</p> <p>Inform Ministries to start amending their narratives in line with Government priorities.</p>	<u>DSPPAC</u>
12 th April	<p>Fiscal aggregates and macroeconomic framework developed by MFEM in consultation with RBV & NSO:</p> <ul style="list-style-type: none"> ➤ Draft overall expenditure envelope (for whole of Government) established ➤ fiscal priorities established 	DOFT, NSO, RBV and DSPPAC
15 th – 19 th April	Budget Training	<u>DOFT</u>
29 th April	Q1 Expenditure Report	DOFT

Date	Activity	Responsible Agencies
29 th April	Donor consultations (Policy priorities).	MOFA to organize the meeting. MOFA, PMO and Aid Management to organize presentations along with MFEM.
3rd – 7th June	Budget Policy Statement to be submitted to Minister and DG MFEM followed by its Publication.	DOFT
10 th to 14 th June	2014 Ministry ceilings screened by MBC	DOFT & MBC
17 th to 21 st June	2014 Ministry ceilings approved by COM. DCO information paper should be submitted at the same time <i>After approval by COM the ceilings are distributed to every Ministry and Department along with the Budget Guidelines</i>	DCO, <u>COM</u> & PMO <u>DOFT</u>
	<i>Ceilings will be set at the Ministry level only.</i>	
1 st July	Open VBMS and preparations of Budget to line agencies for Budget 2014 entries.	DOFT
26 th July	Ministers/DGs submit 2014 budget submissions to DOFT.	DOFT to lock-down VBMS for all Ministries.
31 st July	DG MFEM presents Expenditure Report Regulation 2.1 to PSC	DOFT
31st July	Half Year Economic and Fiscal Update Published	DOFT
31 st July	Q2 Expenditure Report	DOFT

Date	Activity	Responsible Agencies
29 th July – 30 th August	Reviews budget submissions and NPP's.	DOFT PMO officers to attend bilateral meetings.
26 th July – 30 th August	Review and finalization of Narratives Narratives sent to language service for translation	DSPPAC
2 nd September – 13 th September	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
16 th - 20 th September	Donor consultations to agree final numbers for VBMS	MOFA to organize the meeting. MOFA, PMO and Aid Management to organize presentations along with MFEM.
23 rd – 27 th September	MBC considers final draft of budget estimates. DOFT to Draft COM Paper	DOFT & MBC
23 rd – 27 th September	Draft final budget papers sent to DCO for information Final Budget forwarded to COM. Appropriation Bill prepared by SLO	COM, DCO, DOFT, SLO
7 th October	Appropriation Bill distributed to MP's	Clerk of Parliament
14 th October – 1 st November	Final budget books prepared in French and English.	DOFT, Language Services
18 th - 22 th November	Distribution of 2014 Budget Books to MP's	DOFT and Parliament