

MF 500/2016

MFIN Circular No 1/2015

MINISTRY FOR FINANCE
South Street
Valletta VLT 2000

26 February, 2015

Permanent Secretaries
Directors General
Directors
Heads of Public Sector Entities

2016 - 2018 BUSINESS AND FINANCIAL PLANS

The Fiscal Responsibility Act, which has been approved by Parliament in 2014, represents a further stage to the developments which have occurred in the public finance sector over the past years and which are now embodied in this legislation. The Act goes on to set the framework within which the sector shall be managed, and against which performance shall be effectively assessed, laying down responsibilities on the public sector in its entirety.

One of the requirements brought to bear in terms of the Act, specifically through Article 14, refers to the Business and Financial Planning process, whereby each Ministry, Department and Public Sector Entity shall prepare a three-year rolling Business and Financial Plan. In similar manner to the financial planning circulars issued in the recent years, such plans are to be based on the most recently announced medium term fiscal strategy.

As was the case in the Financial Estimates for 2014, dedicated statements showing the three-year revenue and expenditure projections for 2015 - 2017, at Ministry level, have been integrated in the 2015 Financial Estimates publication. These projections are to serve as the parameters within which the business and financial planning exercise for 2016 and the years that follow, is to be undertaken.

It is noted that when the Financial Plans for 2015 were submitted, the requirement for conformity with these parameters was not followed across the board. You are thus reminded that this time round, the requirement is backed by strength of legislative provisions emerging from the Fiscal Responsibility Act.

Ministries are therefore asked to look specifically into the **published projections for 2016 and 2017** (further details below) for the purposes of this circular, ensuring that in the Business and Financial plans to be submitted, **revenue does not fall below, and expenditure does not exceed**, the published projections on a Ministry basis.

Templates

The templates comprising the 2016 - 2018 Business and Financial Plans submissions, followed by notes pertaining to each, are shown hereunder, accompanied by reference to the respective pages of the 2015 Financial Estimates which are applicable:-

- Annex 1: Fiscal Ceilings
- Annex 2: Objectives
- Annex 3: Revenue (Ministries & Departments)
- Annex 4, 4(a) & 4(b): Recurrent Expenditure (Ministries & Departments)
- Annex 5: Public Sector Entities (Revenue & Expenditure)
- Annex 6: Capital Expenditure (Ministries & Departments)
- Annex 7: Proposal for a Budgetary Measure
- Annex 8 & 8(a): Human Resources Requirements (Ministries & Departments)

Fiscal Ceilings - Annex 1

The fiscal ceilings comprise the parameters within which the Business and Financial Plans are to be compiled. Further reference to this data may be found in the explanations below.

Objectives - Annex 2

One of the essential components of a Business and Financial Plan concerns the objectives of the Ministry, Department or Government Entity, as a means of attaining the organisation's goals. The objectives serve as a tool for creating policy, evaluating performance and driving all planning and strategic activities.

For simplification purposes, your Ministry may wish to indicate **only those new planned objectives which have not emerged from past budget processes**, particularly the 2015 budget. The objectives of the Ministry, its line Departments and Public Sector Entities are to be incorporated under one Annex for each Ministry.

Revenue - Annex 3

Estimates of the revenue expected to be received in 2016 - 2018 under the already existing items are to be provided, granting due consideration to efficiencies with respect to each revenue source. Although the revenue targets for 2016 and 2017 published on Page 15 of the 2015 Financial Estimates (also found at Annex 1 of this Circular) are to be used as a guideline **by way of minimum target levels**, any potential room for enhancement which may be realised through revenue collection efficiencies and which are expected to result in revenues exceeding these targets, is to be reflected accordingly. In this case, the projections shown against each Ministry found on Page 15 **exclude** EU Funding, which is shown separately. This EU funding element will be incorporated at a later stage during the budget process.

You are reminded that the collection of revenue arrears should continue to form an integral part of the departments' budgetary performance, now even moreso due to the provisions of the Fiscal Responsibility Act.

Recurrent Expenditure (Ministries and Departments) - Annex 4, 4(a) and 4(b)

The Recurrent vote totals for 2016 and 2017 found on page 25 of the 2015 Financial Estimates (also found at Annex 1 of this Circular) are to be considered as the **spending ceilings** within which the Recurrent Expenditure Financial Plans are to be compiled. Each Ministry should enter into discussion with the Departments and Public Sector Entities falling under its portfolio, in order **to apportion each Ministry's spending total amongst the respective Recurrent Votes and subsequently under each line item without exceeding the mentioned spending totals.** This discussion represents a crucial stage of the process, in order to ensure its conformity within the medium term fiscal plan.

Ministries and Departments are asked to ensure that non-discretionary spending is provided for in the first instance, when effecting apportionment of the line items. Furthermore, any proponents of initiatives and measures that involve increased expenditures, whilst respecting the parameters set throughout the spending ceilings, are to be accompanied by a description of the proposed initiatives, its objectives, outcomes and impact, together with other information required in terms of Article 18 of the Fiscal Responsibility Act.

Public Sector Entities - Annex 5

The template at Annex 5 is to be filled in by the entities falling within each Ministry's portfolio, **following** discussion and consultation with the respective line Ministry for apportionment of line item allocations within the Recurrent Vote spending ceiling, as indicated above. The Business and Financial Plans of each Entity are to be compiled within the budget allocated, following discussion with the line Ministry.

Capital Expenditure - Annex 6

The Capital Vote totals for 2016 and 2017 found on page 27 of the Financial Estimates (also found at Annex 1 of this Circular) are to be considered as the **spending ceilings** within which the Capital Expenditure Financial Plans are to be drawn up. As was the case for Recurrent Expenditure, each Ministry is to enter into discussion with the Departments and Public Sector Entities represented through the respective items within its Capital Vote, in order to apportion the global sum allocation amongst the said items. In this case, the allocations against each Ministry shown on Page 27 **exclude** EU Funding and the corresponding Malta Funding components which are shown separately and will be treated accordingly at a later stage during the budget process.

Ministries and Department are asked to ensure that non-discretionary spending is provided for in the first instance, when effecting apportionment of the line items.

As regards the ICT budget, Ministries are to assume that the allocation for 2016 - 2018 will be equivalent to the 2015 budget. The allocations shall however be subject to further discussion at a horizontal level, as has been practice in the recent years, taking into consideration also the capital nature of this expenditure where applicable.

Budget Measures - Annex 7

This Annex is to include details on planned measures for the 2016 budget. Early identification of planned initiatives to be embarked upon in line with Government's programme, shall facilitate the timely identification of resources which are to be dedicated towards their implementation.

Human Resources Requirements (Ministries and Departments only) - Annexes 8 and 8(a)

The Business and Financial Planning exercise includes a holistic review of the human resources requirements in the Public Service for the upcoming three-year period, aimed at sustaining HR planning capabilities and assisting in the identification of recruitment priorities with a view towards securing transparency, certainty and predictability in resourcing levels, supporting the reorganisation of operations as well as identifying gaps which could potentially be addressed through the rationalisation of human resources. Permanent Secretaries are reminded of their obligation to ensure that prior to submitting their Ministry's / Departments' HR Plans, requirements have been adequately evaluated and prioritised, and that internal consolidation and rationalisation processes have been fully explored. As experience has repeatedly shown, a well-devised HR Plan does not only minimise time consumption on discussion and evaluation, but fosters a proactive approach towards HR planning for the avoidance of short-term solutions.

It is to be ensured that the cost of all HR plans to be submitted is contained within the Recurrent Expenditure spending ceilings referred to on page 25 of the 2015 Financial Estimates (also found at Annex 1 of this Circular).

In the formulation of the HR plans, Ministries are required to take into account such factors as current staff complements, retirements, progressions and / or promotion exercises emanating from the provision of the relative classification agreements, redeployment of IPSL personnel where applicable, as well as policy developments - and obligations arising therefrom - necessitating the creation of new services and corresponding HR structures. As in previous years and with the exception of sensitive areas as established by Government from time to time, Permanent Secretaries should, as far as practical, attempt to fill **only one vacancy for every two consequential vacancies** created through retirements, promotions and / or resignations. Annex 8, which is self explanatory, has been prepared to this effect, and each Ministry is to send its HR Plan, together with the Plans of its Departments, through separate submissions for each of the years 2016 - 2018 respectively. A complementary Annex 8(a) also needs to be submitted when Assistant Directorships and other positions on a definite contract are being created, re-designated and / or abolished.

By not later than **Monday, 30 March 2015**, duly filled in templates in respect of each Ministry are to be sent as follows:-

- i. Annexes 1 - 7: to the Ministry for Finance on e-mail address budgetaffairs.mfin@gov.mt
- ii. Annex 8 and 8(a): in hard copy, to DG (PAHRO), 3 Castille Place, Valletta. Soft copies are also to be sent on e-mail address DG Public Admin HR Office at OPM copied to the Ministry for Finance on budgetaffairs.mfin@gov.mt

It is intended to follow up the receipt of the submissions through bi-lateral meetings at Permanent Secretary level. Further information on the dates of the meetings will be communicated in due course.

Mario Cutajar
Principal Permanent Secretary

Alfred Camilleri
Permanent Secretary

Encl.: Annexes 1 - 8