Version 1

2014

Tuvalu Government Budget Manual

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

PLANNING AND BUDGET DEPARTMENT

TABLE OF CONTENTS

OBJECTIVE OF THE BUDGET MANUAL

This manual has been prepared as a guide to the National Budget process. The manual is designed to be read in conjunction with the Financial Instructions issued by the Minister for Finance and Economic Development and the National Budget Memorandums issued by the Ministry of Finance and Economic Development.

The manual provides information on the policy framework that underpins Budget formulation, the legislative framework governing the use of public funds, budget submission preparation, policy formulation and assessment processes, and the ongoing budget management and monitoring cycles.

BUDGET OVERVIEW

A budget is a powerful tool for allocating limited resources among competing priorities within the community. The Budget is the Government's money plan for a year. It shows how much money the Government expects to receive in the year (and from where) and how it intends to spend that money. The formulation and implementation of the National Budget is very important to our social and economic development.

The preparation of a Budget, whether it be the smallest household or a large Government budget, requires decisions to be made on how to make the best use of the available money. There will never be enough money to do everything we would like. This means that in putting together the Budget, the Government needs to decide which programs and projects can be funded and which cannot. This requires tough choices to be made in the national interest. For example, do we budget money to buy a Ministry a new vehicle or do we budget for 300 children to get an education for the year– there may be reasons that the new vehicle is a valid choice, but the opportunity cost (opportunity cost measures what we have to give up in order to have the thing we want) is high.

WHAT GUIDES BUDGET DECISIONS

In setting the Budget for any year, there are a number of key documents that the Government uses to guide decision making.

The Governments Medium Term Fiscal Framework (MTFF) is a set of integrated medium-term macroeconomic fiscal targets and projections that help Cabinet make decisions on how much in any given year, the Government can commit to spending and what effect those decisions will have on budget balances into the future. The MTFF is an essential tool that is used by Cabinet to set the budget ceiling for the upcoming year.

When making decisions on spending priority areas, Cabinet is guided by a number of policy documents. The *Te Kakeega II (TKII)* is the National Strategy for Sustainable Development and sets out the eight agreed development priority areas that will be the focus for the period 2005 to 2015, namely; good governance; macroeconomic growth and stability; social development; outer island and Falekaupule development; employment and private sector development; human resource development; natural resources; and infrastructure and support services. The development priority areas each have a vital role to play to attain our vision for sustainable development and are aligned with the United Nations Millennium Development Goals for Tuvalu.

The Policy Reform Matrix and Government Roadmap are also key documents which detail Governments plans with respect to meeting the TKII priorities. Ministries also prepare corporate plans, which provide greater detail on how the activities that they undertake contribute to achieving the broader policy priorities of Government.

In formulating Budget submissions, it is important that Ministries clearly set out the linkages between the funding request and these key policy documents and their corporate plan.

BUDGET ROLES AND RESPONSIBILITIES

The Minister for Finance and Economic Development (the Minister) has overall responsibility for preparing the Budget and presenting it to the Cabinet and Parliament for their consideration and approval.

The Constitution requires a Budget to be presented and the appropriation bill passed by the end of the financial year. In the event that the Appropriation Bill is not enacted by the new financial year, there are special provisions within the *Public Finance Act* that allow funding to made available for up to 4 months into the new financial year.

The Planning and Budget Department, within the Ministry of Finance and Economic Development, has primary responsibility for developing the Budget for presentation to the Development Co-ordination Committee (DCC) and Cabinet. This includes: scrutinizing Ministry submissions; advising on expenditure priorities; negotiating with development partners for funding support; and providing advice on the fiscal outlook, revenue forecasts and expenditure trends and undertaking regular reviews of this information throughout the year as economic and development priorities change.

Ministries are responsible for preparing their budget submissions and ensuing that they link both with the broader national policy priorities, such as TKII and the corporate plans of their

Ministry. Throughout the year, Ministries are required to actively monitor their budget to ensure that program objectives are being delivered.

The Budget passes through a number of officials level committee's before being presented to Cabinet. This includes the Macroeconomic Policy Committee – who advise on the economic parameters for the MTFF, the Revenue and Expenditure Committee – who review the historical trends in revenue and expenditure and advises on the appropriateness of the projections for the forward years; and the Development Co-ordination Committee who review all submissions and supporting analysis that underpins the budget formulation.

Budget Roles and Responsibilities

Ministries

- Ensure their Department maintains Budget discipline
- rPovide their Minister, the Minister for Finance and Economic Development and Cabinet with early advice on emerging Budget issues
- Provide regular and timely advice to Budget and Planning Department to enable effective monitoring of the individual Ministry and whole of Government Budget situation
- Ensure that corporate planning has regard to Budget, Government policy priorities and and the Medium Term Fiscal Framework
- Provide information required for the development of the Budget and analysis of departmental activities in a timely manner

Department of Planning and Budget

- Co-ordinate the Budget development and management processes
- Scrutinise Ministry Buget submissions and provide advice to DCC and Cabinet on proposals and the composition of the Budget
- Actively monitor the progress of the current Budget
- Provide the Minister for Finance and Economic Development, DCC and Cabinet with regular and ad hoc reports on the state of the Budget, emerging issues and options for addressing emerging issues
- Overall responsibility for managing reporting and funding requests with development partners
- Undertake economic research

Development Co-ordination Committee

- Scrutinize submissions provided by Ministries
- Provide recommendaitons to Cabinet on budget funding priorities and composition of the Budget

Cabinet

- Reviews and agrees MTFF based on advice from PBD and DCC
- Sets Budget Ceilings based on MTFF and advice from PBD and DCC
- Final decision making body (prior to Parliament) on the composition of the Budget

Minister for Finance and Economic Development

- Overall responsibility for the preparation and presentation of the Budget to Parliament
- Ensure a whole-of-Government awareness of the Budget situation and to maintain Budget discipline across Government
- Discharge the statutory responsibilities provided under the Constitution and *Public Finance Act*

FORMAT OF THE BUDGET PAPERS

The format for the Budget Papers is not prescribed by law and in accordance with the *Public Finance Act* can be prepared in 'such form as the Minister may determine or as Parliament may direct'. The only legislative requirement is that the total appropriation be broken down by expenditure head (a head is generally a department within a Ministry) and include a description of the ambit of the head and identify the responsible accounting officer (generally the Secretary of the relevant Ministry). Further, estimates of statutory expenditure must reference the law authorizing the expenditure.

The National Budget is prepared on a program basis, focusing on what the expected results will be of expenditure heads services and activities (sub programs), rather than the traditional line-item approach to budgeting.

Program budgeting enables Government to be more focused on the linking of Government policy objectives to funding decisions. Transparency in the use of Government funds is also enhanced through program budgeting as it provides an easy way for the users of budget information to understand the purpose and benefits of the activities that Government is funding.

The budget papers are currently presented in two volumes and include the MTFF, summary of government revenues and expenditures, Ministry program estimates and program descriptions and objectives.

HOW THE BUDGET IS FUNDED

Governments raise revenue through a number of sources, including taxation revenues, non-tax revenues, support provided by development partners and when necessary, borrowings.

The main source of the revenue raised by the Tuvalu Government is from non-tax revenue. Non-tax revenues include dividends from public enterprises and various fees and charges such as fishing licences, fees from the .tv agreement, vessel registrations, maritime services, stevedoring and wharfage fees. Interest revenue is also generated on the funds held in the Consolidated Fund.

Government also receives revenues from taxation levied on personal income, taxes on company profits, consumption tax applied to certain goods such as alcohol and cigarettes and taxes levied on goods imported into the country.

Development partners have historically provided strong support to Tuvalu. Funding is provided for a variety of purposes including general budget support which can be used for expenditure on our major development priorities and direct funding (also referred to as external budget support) for large projects, such as infrastructure.

Another important revenue source is distributions received from the Tuvalu Trust Fund (TTF). The TTF is a sovereign wealth fund that was established in 1987. Increases in the market value of the fund are distributed to the Consolidated Investment Fund (CIF) and can be drawn on to meet general budget expenditure. The CIF forms part of the Consolidated Fund and therefore cannot be accessed without an appropriation act. In accordance with the *Tuvalu Trust Fund Act,* distributions are made automatically to the CIF when the market value of the fund exceeds the maintained value of the fund in any gives Acn year (maintained value is the total capital contributions to the TTF adjusted annually for Consumer Price Index).

A final funding source is Government borrowings. Strict rules under the *Public Finance Act* and *Government Borrowing and Guarantee Act*, combined with fiscal targets and the Government Debt Management Policy govern all borrowing activities and to the extent possible, any form of government borrowing is discouraged as this ties up future budgets in increased interest payments and debt servicing.

TYPES OF BUDGETEXPENDITURE

There are three main categories of expenditure that are drawn from the Consolidated Fund.

Recurrent expenditure is the core budget expenditure of the Government. While funding is appropriated on an annual basis for this expenditure, there is the expectation that funding is required for these items going forward (recurrent in nature) and as such, they form part of the government's expenditure projections within the medium term fiscal framework.

Special Development Expenditure (SDE) items are appropriated annually from the Consolidated Fund and are not considered part of the core budget. Unlike recurrent expenditure, there is no commitment to a continuation of spending of these items. Examples of SDE include short term projects and infrastructure expenditures, often these projects are co-funded with donors.

The final type of budget expenditure is ***statutory expenditure***. Payments of this nature, whilst recurrent in nature, are drawn from the Consolidated Fund under authority of their own legislation and therefore are not required to be included in an Appropriation Act. As mentioned earlier, details of all statutory expenditure and reference to the law authorising the withdrawal from the Consolidated Fund must be presented in the Budget.

The Government also makes payments from non-Consolidated Fund sources. The major source is the Development Fund, which holds the external budget funding provided by development partners for special development projects. The Development Fund does not form part of the Consolidated Fund but its use is regulated by the *Public Finance Act*.

LEGAL FRAMEWORK

The legal framework for government and public financial management can be found in the Constitution and the *Public Finance Act*.

THE CONSTITUTION

The Constitution creates a regime for Parliament to control the raising and spending of money by the Government. Under section 165 of the Constitution, a National Budget must be prepared and tabled in Parliament annually, prior to the commencement of the new financial year (1 January).

The Constitution also creates the Consolidated Fund where, in the absence of legislation to the contrary, all funds received by government must be deposited and drawn from.

Funds cannot be withdrawn from the Consolidated Fund for spending unless approved by Parliament. Each year, Parliament votes on whether to approve the expenditure presented by the Minister in the National Budget. The expenditure is tabled in Parliament as an Appropriation Bill. Once passed, the Bill becomes an Act and the Minister is permitted to issue a warrant to enable funds, to the limit approved within the Act, to be drawn from the Consolidated Fund.

The Consolidated Fund also includes the Consolidated Investment Fund (CIF) where distributions from the Tuvalu Trust Fund are held. The CIF funds are kept separate from the Consolidated Fund for transparency purposes, but form part of the funding available for budget expenditure, and therefore can be drawn on through the Appropriation Act.

Statutory payments are not required to be included in the Appropriation Act each year, as they have already be voted on and approved by Parliament. Statutory payments are identified in section 169 of the Constitution and relate to expenditure for certain positions, namely the salaries and allowances of the Governor-General, Speaker, Prime Minister and other Ministers, other members of Parliament, Judges of the High Court, Attorney- General, Auditor General, Commissioner of Police and members of the Public Service Commission.

Appropriation Acts only provide drawing rights on the Consolidated Fund for a set period (generally one financial year). If the funds remain unspent at the end of the period, the funding 'lapses' and is no longer available for that purpose and a new Appropriation Act is required to access the funds.

The Planning and Budget Department works closely with the Office of the Attorney-General who prepares the Appropriation Bills for presentation to Parliament.

PUBLIC FINANCE ACT

The *Public Finance Act* (the 'Act') is the enabling legislation that prescribes the powers and duties of the Minister in respect to the administration of public funds. The Act covers all aspects of public financial management, including budget, appropriation rules, accounting and audit requirements, and places strict reporting and acquittal requirements on the Minister with respect to the use of the funds held in the Consolidated Fund.

Importantly, the Act also provides the Minister with administrative powers to ensure funding is available in the event that an Appropriation Act is not in place at the commencement of the financial year, and the ability to issue warrants over and above the Appropriation Act to meet urgent and unforseen expenditure throughout the year. Strict reporting requirements and limits on the extent of funding that can be provided under these mechanisms exist, however this power is important, as it ensures that there is always continuity of funding to meet the costs of essential public services.

The Act also establishes a separate Development Fund for capital projects. The Development Fund does not form part of the Consolidated Fund, and therefore expenditure from the Development Fund is not included in the Appropriation Act. The Act does require that all expenditure from the Fund be approved by Parliament. Generally, the Development Fund holds funding for capital projects that are partially or fully funded by our development partners.

The Act also prescribes that annual accounts detailing the financial position of Tuvalu be prepared within 6 months of the end of each financial year and submitted to the Auditor General by the Minister. From a budget perspective, the annual accounts include a comparative statement of actual and estimated revenue and expenditure by sub-head and a statement of unauthorised expenditure by sub-head and item, which identifies any withdrawals from the Consolidated Fund that were not authorised by an Act. The audited accounts must then be presented to Parliament within 9 months of the end of the financial year.

Comprehensive Financial Instructions have also been issued by the Minister in accordance with section 5 of the Act, which provide administrative guidance to accounting officers on the day to day management of public funds.

OTHER LEGISLATION

There are a number of other pieces of legislation that control public financial management, which include legislation that creates statutory obligations and legislation quarantining funds for a specific purpose (special funds). As expenditure from these sources is governed by their own legislation, they are not required to be included in the annual Appropriation Act.

The *Public Procurement Act* (PP Act) provides the executive power for the Minister to set regulations for Government procurement. Government procurement is defined under the PP Act as the 'acquisition of goods, works and non-consulting services and the recruitment of consulting services' from public funds. The PP Act seeks to regulate public procurement in order to maximize economy and efficiency; achieve transparency in procurement proceedings; promote competition among suppliers, contractors, consultants and non-consulting service providers; provide for fair, equal and equitable treatment of all suppliers, contractors, consultants and non-consulting service providers seeking to obtain contracts with the Government; and promote public confidence in the integrity and fairness of procurement proceedings.

The regulations to the PP Act define the differing procurement processes that need to be followed depending on the size (cost) of the procurement. In addition, the PP Act places obligations on Ministries which include the preparation of annual procurement plans. A Central Procurement Unit has been set up within the Ministry for Finance and Economic Development to manage the ongoing policy development and administer the requirements under the PP Act.

Another important piece of legislation governing the use of public funds is the *Public Enterprises (Performance and Accountability) Act* (PE Act), which regulates the corporatisation of government services. A number of government services have been corporatized including the Tuvalu Electricity Corporation, National Bank of Tuvalu, Tuvalu Telecommunication Corporation, Development Bank of Tuvalu and Tuvalu Postal and Travel Limited. Under the PE Act, Government can direct these enterprises to provide services to the community. To ensure that the provision of these services does not impede on the overall profitability of the entity, Government provides funding through the Budget in the form of a Community Service Obligations payments to the Public Enterprises. These payments are made from the Consolidated Fund and are considered as part of the budget deliberations and included in the annual Appropriation Act.

THE BUDGET PROCESS

The Planning and Budget Department within the Ministry for Finance and Economic Development has responsibility for overall co-ordination of the Budget process.

The annual Budget process is a continuous cycle which can be separated into three main elements: priority setting, decision making and ongoing management and reporting.

Budget Process Cycle

BUDGET PRIORITY SETTING

Before making resource allocation decisions (considering Budget submissions), Government must have a firm idea of the resources that are available. Therefore, the budget formulation process starts with economic analysis and prediction of government revenue. The MTFF is the tool that integrates this analysis into a usable projection of current and future resourcing requirements.

An effective budget pursues three (partially competing) objectives: maintaining fiscal discipline, allocating resources in accordance with policy priorities and efficiently delivering services, or 'value for money'.

REVIEW OF THE MEDIUM TERM FISCAL FRAMEWORK

The MTFF is used to project realistic estimates of revenue and recurrent expenditure through the use of macroeconomic parameters and trend analysis. The MTFF also integrates fiscal ratios to provide targets that guide expenditure decisions and encourages fiscal discipline in the decision making process.

Each year, just prior to the commencement of the Budget deliberations, the MTFF is reviewed and rolled forward a year. The MTFF covers the current budget year and two forward years.

In reviewing the MTFF, economic parameters are updated to reflect the most current macroeconomic factors. Advice is provided by both the Macroeconomic Policy Committee, and Revenue and Expenditure Committee on the appropriateness of the underlying macroeconomic assumptions and accounting trend data.

Some of the indexes used in preparing the MTFF include:

- *Annual Inflation* – this parameter measures the cost of living pressures in the economy. Goods and services that the Government purchase are indexed for inflation which is adjusted by an efficiency parameter to ensure that Ministries continue to strive for value for money in government service delivery.
- *Population growth* - movements in the population affect the demand for government services. This parameter is primarily used to project movements in demand for government services and the staffing levels that will be required to deliver those services.
- *Public Service salary increments* measure the wages pressure from proposed increases in public service salaries. This is particularly useful planning tool when combined with the population growth parameter for determining the salary costs for government service delivery.
- *AUD/USD exchange rates* measures projected movements in the US Dollar against our currency. Exchange rate fluctuations impact on the value of revenue received in foreign currencies, most notably fishing licence revenues, .tv revenue and payments received from some of our major development partners.
- *Tax rate changes* – proposed movements in the rate of taxes such as the Tuvalu Consumption Tax and excise duties will affect the projected tax revenue base of government. It is therefore important that the impacts of these changes are included in the MTFF.

In addition to the economic parameters, Government has set fiscal ratios (targets) which guide expenditure decisions within the framework. The 2012 – 2016 MTFF includes set targets for revenue, expenditure and public debt measured as a percentage of Gross Domestic Product. There are also targets that measure the extent of budget expenditure that is committed to wages and salaries and the two major expenditure programs - the Tuvalu

Medical Treatment Scheme and Tuvalu Overseas Scholarship Scheme as a percentage of domestic revenue. The final fiscal target measures the core budget balance as a percentage of domestic revenue.

The proposed MTFF is presented to the DCC for review and then recommendations are made to Cabinet seeking approval of the MTFF and expenditure ceiling for the upcoming Budget.

BUDGET SUBMISSIONS AND DECISION MAKING

The Planning and Budget Department issue National Budget Memorandums to guide Ministries through the annual budget process. The memorandums include important information on submission timeframes, formal advice on movements in the proposed budget ceiling for the next financial year, advice on individual ceilings for budget heads, the budget preparation timetable and meeting schedules for consideration of submissions.

Whilst the timetable is set annually, a broad outline of the budget process is as follows:

Early July	Budget submission template circulated to Ministries
Late July/Early August:	Medium Term Fiscal Framework and Budget Ceilings set by Cabinet
Mid August	Budget Guidelines issued to Ministries along with individual budget ceilings
Late August	Budget Submissions due to be submitted
Early Sept	Budget Rounds
Late Sept	Budget considered by DCC
Mid Oct	Cabinet consideration of Budget
Late Oct	Budget and Appropriation Bill submitted to Parliament
Mid November to early December	Parliament debate the Budget

PREPARING A BUDGET SUBMISSION

The budget submission template is circulated in early July each year. The template includes a number of formsfor completion by Ministries that provide summary detail on program objectives and planned outcomes, historical program performance, currentprogram funding and future funding requirements.

Ministries should be mindful that the information presented in the Budget Submission will be used as the basis for decisions about expenditure prioritisation. Government has limited funding available to meet policy priorities, therefore effective resource allocation is informedbygoodinformation on program effeciency (value for money) and effectiveness (results).

In preparing a budget submission there are a number of key things that Ministries should consider:

1. Revenue Estimates
2. Core Budget Funding
3. Requests for additional funding for new program support

REVENUE ESTIMATES

Accurate revenue estimates are essential to ensure that the medium term fiscal framework correctly reflects the resources available to support policy priorities. Over (or under) stating revenue negatively impacts on the ability of the Government to makefiscally sustainable decisions on how best to prioritise government spending to ensure that the needs of the community of met.

The Revenue and Expenditure Review Committee has been established to consider the appropriateness of both expenditure and revenue projections and provides integral advice to Government on the availaibility of funding to support budget expenditure for both the upcoming and future years.

Ministries are encouraged to discuss with Planning and Budget Department any factors that they are aware of that may impact on future revenue recoveries. This includes any planned changes to excise or taxation rates, changes to revenues that may arrise from increased or decreased economic activities of major comercial enterprises (which will affect the levels of taxation receipts), treaty negotiations that may open up new opportunities for licencing, import duties or steeverdooring fees, or new fees and charges that may generate new income for Government.

REVIEW OF CORE BUDGET REQUIREMENTS

In preparing a Budget Submission, it is important that Ministries reviewhistorical expenditure trends (including virements and supplementary funding), performance data and corporate plans to ensure that existing programs are achieving value for money in the delivery of planned outcomes and that the programs remain aligned with the policy objectives of Government.

In considering the individual program performance, Ministries should consider whether the program succeeded in meeting the planned outcomes for the year; whether the program expenditure matched the proposed budget; and whether the planned activities were appropriately targeted to best meet the program objectives.

Submissions that include requests for changes from current core program budget estimates should fully justify why the additional funding is required, identify any funding that can be redirected from underspending/under performing programs and provide a full explanation as to how new expenditure will assist the program in better meeting the TKII priorities.

Submissions are scrutinized by the Planning and Budget Department with the information gained forming the basis of recommendaitons made to DCC and eventually Cabinet on the composition of the new Budget.

REQUESTS FOR NEW POLICY FUNDING

New policy proposal's are an important element of any Budget process and are the mechanism by which governments translate their policy priorities into programs and actions to deliver 'outcomes' to the community.

New policy can take a range of different forms, including new regulation – such as through the introduction of certain licensing requirements or taxation; as well as the delivery of direct programs to the community such as education services or health care services.

It is crucial that policy decisions are based on sound evidence. Good quality policy-making depends on high quality information, derived from a variety of sources - expert knowledge; existing national and international research; statistics; stakeholder consultation; evaluation of previous policies/programs and new research, if appropriate.

It is also helpful to use international comparisons as part of the wider evidence base. There are countries and regions elsewhere from which to learn: for example, regions which have successfully addressed similar social or economic issues, or which have geographical similarities to Tuvalu. International and inter-regional comparisons are also important for benchmarking Tuvalu's performance.

Having weighed up the available evidence, it should be possible to start developing a broad outline of what policy interventions, if any, might be appropriate to address the issues being dealt with. Where possible, a range of options should be developed, including costing and management of risk.

At a minimum, when developing new policy, the following should be addressed:

Establish the policy need	Identify target populations, quantify problems/ demands to be addressed, show how policy intervention will contribute to strategic aims.
Define the policy objectives	Objectives need to be defined broadly enough to enable a range of policy options to be identified.
Identify and describe the policy options	Options should include a status quo or do minimum baseline option and a suitably wide range of alternative policy options for consideration.
Detail the funding implications	In considering funding implications it is important to include the relative priorities for funding for different components which could be taken forward in advance of others.
Summarize the findings and recommend the preferred policy option	Comparing the relative merits of each option in turn is important for decision makers to enable them to assess the merits of the policy.
Make recommendations for managing, monitoring and evaluating the policy	Measurable targets should be developed, to provide for detailed appraisal and subsequent measurement of the policy's success.

Ministries are reminded that the more thoroughly the new program proposal is explained, the more easily the merits can be considered in the context of both the policy priorities of government and budget funding constraints.

WORKING OUT THE COST OF NEW POLICY

Determining the financial impact of a new policy proposal is very important. The cost of a new policy includes both the direct program costs, and also the flow on impact on other existing programs that may be affected by the implementation of the proposal.

The first step in any costing exercise is to identify the objectives of the program, good orservice to be costed. For example, a childhood immunisation awareness campaign has as its objective of an increased awareness in the general populationof the existence of childhood communicable disease prevention, what immunisations are available and how to access immunisations.

The second step is to think about the possible methods of delivery that could achieve thisobjective. For example, in looking at the costs of providing an awarenesscampaign, consideration might be given to delivering the service through: postersdistributed to businesses or schools; media notices and advertisements (tv, radio or print); utilizing church groups and other nongovernmentorganizations; or through acombination of the above.At the outset, a program officer will need to judge whichoptions are feasible. This step should always include an option to 'do nothing', or deliverthe service as it is currently delivered. This provides a benchmark against which all otheroptions can be assessed in terms of the net economic worth they provide to the community.

Officers should be looking for the most cost effective method of delivery that meets theobjectives of the program – for example, a TV advertisement will be expensive and may only beeffective in reaching a limited number of people, where a radio advertisement in conjunction withposters and efforts by church groups may reach a much larger population for the same orlesser cost.

The third step will be to identify any constraints that will limit the available methods,including available funding, existing policy, legislative problems or other legal issues,infrastructure, cultural constraints or development partner imposed constraints (whether for this programor for another program that this proposal could impact on).

The last step is to identify the key stages in delivering the program and to specify thequality and/or quantity of the item(s) to be costed in each stage. This step should beundertaken with a number of principles in mind:

- the level and quality of service should be consistent with policies outlined insubmissions to be provided to Cabinet or decisions approved by Cabinet. Any significantvariance to the proposal approved by Cabient indicates that the costed policy is not the same as that proposed for consideration by Government;
- where the level and quality of service is not readily identified from policydocuments, the standard of service to be costed should be realistic and adequate,rather than tending towards a "gold plated" option (that is, it should be fit forpurpose).

Consideration will also need to be given to any flow on effects to other activities (e.g. apublic awareness campaign for childhood immunisation should result in an increasednumber of vaccinations being given).

Once this process has been completed, you will need to then work out the cost of theidentified components.

A checklist of costs that would generally be incurred for a new program would include:

Staffing costs	This includes the normal salaries and wages plus direct labour costs for those staff such as allowances, overtime and provident fund payments.
Materials and services consumed by the program	This includes printing, travel, stationery, consultancies, vehicles.
Resource costs	Items such as computers and office accommodation costs (including rent, repairs and maintenance, cleaning and utility charges).
Share of indirect materials and services	If the program is to be using existing office resources, a share of this should be allocatd to the new program. This includes minor stores, communications (telephone, email, internet), incidentals, office machines and stationery, advertising, insurance, and freight
Capital costs (including ongoing maintenance)	It is important to include any ongoing recurrent costs arising from the capital expenditure, such as repairs and maintenance costs.

It is important that indirect costs and flow on costs are identified to ensure thatproposals can be properly evaluated and implemented. For example, if a major capitalpurchase is proposed, what are the associated costs of running the capital asset (this couldbe additional staff, utilities, fuel, maintenance).Where this isn't done the risk that aMinistry cannot implement its programs increases – forexample, if 10 additional staff are recruited but they don't have a desk or a computer, or ifincreases in utilities aren't taken into account, then the Ministry won't have sufficientresources for the new staff to undertake any work. It is better to have 5 additional staffwith full resources for them to do their work than 10 additional staff with no resources.

DEVELOPING KEY PERFORMANCE TARGETS FOR NEW POLICY

Key performance targets provide the measurement tool for determining how well a new policy program is meeting the objectives for which it was set up and whether the program is a cost effective way of meeting the government's policy objectives.

Performance information will be used by:

- the public: to hold government to account as to whether they are living up to their commitments;
- the government: to identify potential opportunities for continuing or ending a program; and
- interested parties: to identify potential opportunities for program improvement or modification

In developing performance targets, Ministries should ensure that there is a clear link between the problem the program seeks to address, the program activities and the intended result. The target should be measurable over time and show how the activities have contributed to changes in quantity, quality, and/or efficiency of services.

Quantity Targets

- Number of vaccinations provided per year
- Number of training programs delivered during the year
- Percentage of school age children attending school regularly

Quality Targets

- Average waiting time of a hospital patient between arrival and treatment
- Percentage of students acheiving a pass mark in high school
- Percentage of search and rescue missions that are successful

Efficiency Targets

- Cost per vaccination (including delivery)
- Cost per court case determined
- Cost per visa application processed

In creating performance indicators it is important that Ministries are mindful of the measurablitily of the indicator. To be meaniful, the indicator must be able to be meaured over time to show the impact of the program.

ASSESSMENT OF BUDGET SUBMISSIONS

Budget submissions are submitted to the Planning and Budget Department for analysis and review, generally in late August.

During this initial review phase, analysis of the historical budget performance of each program is undertaken and expenditure prioritised to ensure that funding is allocated to the sectors and programs which are most effective in meeting the needs of the community and the policy priorities of government. Programs which are under performing or where policy priority is low are identified through this process.

Submissions that include requests for Special Development Expenditure are referred to the Planning Unit for analysis and prioritisation.

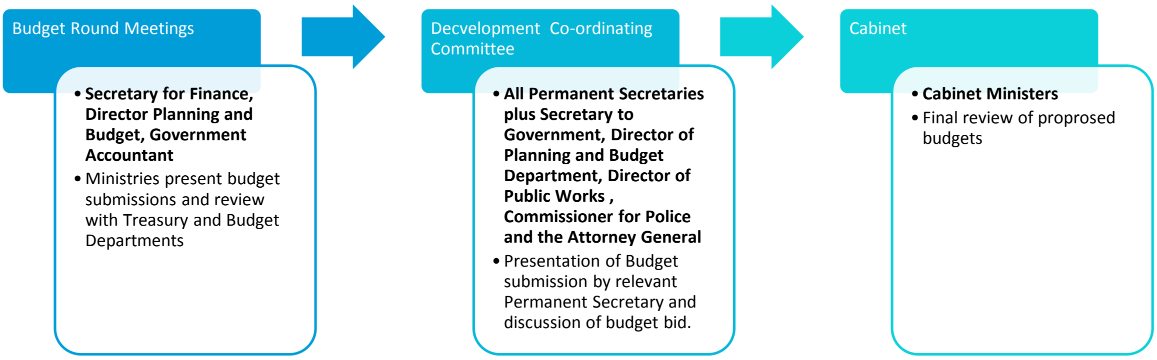
Ministries will be requested to attend Budget Round meetings with the Treasury and Budget and Planning Departments in early September. Prior to the budget round meetings, a review of personal emoluments is undertaken by Planning and Budget Department and the Personel and Training Department to confirm the approved establishment for each Ministry and identify positions that redundant or that should not be funded. Information gained from this exercise feeds into the budget deliberations.

The Budget Round meetings are an opportunity to discuss the budget submissions and provide further information to clarify the policy merits and/or funding requirements of budget requests.

At the conclusion of the Budget Round meetings, a report is submited by the Planning and Budget Departmentto theDevelopment Coordination Committee (DCC) on the outcome of the Budget Round meeting. This committee comprises all Permanent Secretraties, Secretary to Government, Director Planning and Budget, Director of Public Works, Commissioner for Police and the Attorney General. It is chaired by the Secretary to Government. This committee further considers the budget submissions in the context of the recommendations made by the Planning and Budget Department as to availability of funding and relevant prioritisation of expenditure against program performance and government policy priorities. Decisions about funding for specific Ministries and programs, and in particular decision on requests for additional resources are informed by reliable information on how effectively the Ministry has used funding it has received in the past budget. This ensures that funding is redirected from programs that are ineffective or that have outlived their usefulness.

The budget formulation process concludes with recommendations on the composition of the Budget from the DCC meeting being referred to Cabinet for consideration.

Process for consideration of Budget Submissions



It is in a Ministry's best interests to provide budget submissions by the due date with a properly completed attachments and supporting information. This allows Planning and Budget Department sufficient time to properly consider submissions on their merits and obtain any further information required to enable views to be properly informed (which may impact on recommendations) and improves the budget process.

PROCESS FOR PUBLIC ENTERPRISES

The prioritisation of funding for community service obligations (CSO) are also considered during the budget process, and is governed by the *Public Enterprises (Performance and Accountability) Act*(PE Act).

CSO obligations are managed by the Public Enterprises Review and Monitoring Unit (PERMU) in the Ministry for Finance and Economic Development. A separate memorandum is issued in early June by the PERMU to all Public Enterprises with instructions for the upcoming budget process.

Applications for CSO funding are required to follow the format prescribed in Schedule 2.1 of the PE Act, and address the following:

- The scope of the CSO;
- The legislative authority under which the CSO is being provided;
- Any other Government objective being pursued that is not covered in the Act ;
- The past or intended results of the CSO – in particular, Beneficiaries and benefits from providing the CSO; Activity or program of the PE that would be affected in the performance of the CSO; and Effect on the PE of providing the CSO.
- Total cost of delivering the CSO;
- Details of any revenue associated with the CSO;
- Performance measures for delivering the CSO.

All bids for continuation of funding are evaluated initially by the by the PERMU, before proceeding through the normal budget review process.

PARLIAMENT CONSIDERATION OF THE BUDGET

After Cabinet has approved the proposed Budget for the upcoming year, the Budget papers and Appropriation Bill are prepared and considered at the next sitting of Parliament.

The Bill is prepared by the Office of the Attorney-General and contains the approved budget funding for each Budge Head. Under the Parliamentary rules, the Appropriation Bill is gazetted 14 days before presentation to Parliament, and the Budget Papers and Appropriation Bill submited to the Clerk to Parliament within 12 days of Parliament sitting. The Budget speech is required to be circulated 24 hours before the sitting.

During the Budget session of Parliament, the Appropriation Bill is introduced by the Minister following which it debatedby the members. At the conclusion of the debate, members vote on whether to pass the Bill. Once passed, the Bill becomes an Act and warrants can legally beissued by the Minister to draw funds from the Consolidated Fund.

DISCUSSIONS WITH DEVELOPMENT PARTNERS

Funding support from our development partners enables us to undertake additional priority projects that have been unable to be funded from within the core budget.

The Aid Coordination Unit within the Budget and Planning Department is responsible for sourcing funding for projects that have been approved within the Budget for external budget assistance.

Negotiations with development partners is ongoing throughout the year, and may result in general budget support being provided, funding being provided in full, or for partial funding of specific government priority projects identified in the Policy Reform Matrix.

Projects that have been identified through the budget process as supporting policy priority areas but for which no core budget support was available, will be matched, where possible, with assistance from development partners.

The Aid Coordination Unit, manages all development partner reporting and aquittal requirements as to how project funds have been utilised.

ONGOINGBUDGET MANAGEMENT AND REPORTING

Budget formulation needs to be aligned with budget execution which is the way in which spending is managed and in-year budget changes are enabled.

Before funding can be accessed, a general warrant must be issued by the Minister authorizing the withdrawal of appropriated funds from the Consolidated Fund. Accounting warrants are issued quarterly by the Secretary for Finance and Economic Development, in accordance with cash plans prepared by Ministries.

BUDGET MONITORING

The budget is monitored closely throughout the year by the Planning and Budget Department to ensure that revenue recoveries are on track and expenditure is being spent as planned.

Ministries are provided with monthly revenue and expenditure reports by Treasury, which enable them to closely monitor spending and budget availability. Monitoring the budget on a monthly basis ensures that remedial action can be taken quickly should it become apparent that demand for services has increased, or in cases where programs are being underutilised.

Ministry high executive offices and executive offices receive refresher training at the commencement of each financial year covering vote book maintenance, budget monitoring and administration procedures. Comprehensive instructions on the management of vote books are contained in the Financial Instructions.

As well as internal monitoring, Cabinet is provided with quarterly fiscal updates that provide a high level overview of budget performance across the entire government. The reports summarise year to date fiscal performance; highlight key revenue items and significant expenditure items incurred during the relevant quarter; provide projections for the budget outcome for the remainder of the year; and highlight any implications for the medium term through the Medium Term Fiscal Framework.

Cabinet is also provided with quarterly debt management reports which detail movements in public debt levels.

CHANGES TO THE BUDGET DURING THE YEAR

The Appropriation Act allocates a set amount of funding to each Department (budget head) for the delivery of government endorsed programs. In managing the budget during the year, it is important that Ministries do not commit to expenditure greater than what has been authorised in the Appropriation Act. Committing to unauthorised expenditure is bad financial management and illegal.

Accounting warrants are issued quarterly to Ministries for each budget head, allowing them to authorise expenditure to the extent of the warrant. The balance of the appropriated funds is 'reserved' by the Secretary for Finance and Economic Development and is released under later warrants. Accounting Warrants are a mechanism for cash flow management and enable a greater level of predictability over the outflows from the Consolidated Fund. The Financial Instructions provide authority for the Secretary to de-reserve funds on application from Ministries to enable expenditure to be met in cases where there is insufficient funds remaining to meet the expenditure under an existing accounting warrant. This option is only available if there are sufficient appropriated funds remaining unspent against the subhead.

In cases where the appropriation for the subhead has been exhausted, the *Public Finance Act* does provide a level of administrative flexibility to the Minister to issue a virement warrant authorising funding reallocations within individual budget heads. It is important to note that the reallocation can only be within the same budget head, transfers between heads are not permitted, as the Minister only has legal authorisation (under the Appropriation Act) to issue warrants to a specified level for each head. Also, a virement warrant does not create extra appropriation, so a matching reduction within an expenditure line in the budget head must be identified.

When applying to vire funds, it is also important to note that is only permissible to transfer funding between 'non control' items. Control items include all Personal Emolument votes, such as Salaries, Allowances and Provident Fund contributions, special development funding and other items as notified by the Secretary for Finance and Economic Development from time to time.

The *Public Finance Act* also provides the Minister with authority to issue warrants to meet urgent and unforseen expenditure in excess of the Appropriation Act in circumstances where no reallocation of funds within the sub head is possible. Supplementary funding is only available as a last resort. The Financial Instructions provide that funding will only be approved in circumstances where the following three criteria are met: failure to approve the funds would be detrimental to interest of the government or the public; deferment of the additional funds until the next Estimate of Expenditure (Budget round) would be detrimental to the interest of the government or the public; and where it would be fair and reasonable to believe that the need for additional funds would not have been foreseen at the time of the preparation of the current year's Estimates of Expenditure. When requesting supplementary funding, Ministries should provide full explanations as to how the funding request meets these criteria.

Warrants issued under this provision are limited to $750,000 in aggregate. The Act requires that all funding authorised by the warrants are included in a Supplementary Bill for appropriation at the next Parliament sitting.

Ministries who are having difficulty in meeting expenditure are encouraged to contact the Planning and Budget Department as soon as they become aware of the funding pressure.

NEW POLICY DECISIONS DURING THE YEAR

Although Cabinet may approve additional funding for new policy, it may not be in Planning and Budget Department's ability to provide any additional funding. The Minister is constrained by the requirements of the Constitution and the *Public Finances Act* to only approve the withdrawal of funds from the Consolidated Fund for expenditure that has been passed by Parliament in an Appropriation Act.

Before seeking additional funding for new policy outside the Budget process, Ministries should ensure that they have sufficient funding available to meet the additional expenditure through virement within the relevant budget head. Supplementary Appropriation is only available for urgent and unforseen expenditure and access is constrained by the Financial Instructions and *Public Finance Act*.

Ministries should consult with Planning and Budget Department on budget impacts and the availability of funds before lodging Cabinet submissions that have financial impacts. Administratively, working with Planning and Budget Department will limit the risk that a Ministry will have policy approval but no additional funding or that the full cost impact of the policy decision has not been properly considered.

KEY TERMS

The following is a list of key terms that you may hear during the Budget process.

Term	Definition
Appropriation Act	Legislation that authorises the spending of funds from the Consolidated Fund.
Budget Ceilings	Sustainable expenditure limits as determined by the MTFF and approved by Cabinet.
Budget Round meetings	Meeting held between Ministries and Planning and Budget, and Treasury Departments to discuss budget submissions.
Community Service Obligations (CSO)	Public Enterprises may be directed by government to provide specific services to the community. To ensure that the costs associated with meeting these obligations do not affect the profitability of the Public Enterprise, government provides funding support in the form of a CSO payment.
Consolidated Investment Fund (CIF)	Part of the Consolidated Fund where distributions from the Tuvaluan Trust Fund are quarantined. The CIF funds are kept separate from the Consolidated Fund for transparency purposes, but form part of the funding available for budget expenditure, and therefore can be drawn on through the Appropriation Act.
Core Budget Team (CBT)	Secretary for Finance and Economic Development, Assistant Secretary's and officers within the Budget and Planning Department who manage the Budget.
Development Coordination Committee (DCC)	Committee comprising all permanent secretaries, Secretary for Government, Director of Planning and Budget Department, Director of Public Works, Commissioner for Police and Attorney-General.
External Budget (XB)	Funding provided by development partners for specific projects.
Financial Year	Period commencing 1 January and ending 31 December
Lapsing	Refers to the length of the drawing rights created under an Appropriation Act. If the funds are not used during the period of the Act(generally the financial year), the funding is no longer legally able to be spent and reverts to the Consolidated Fund to be re-appropriated for another purpose.

Term	Definition
Medium Term Fiscal Framework (MTFF)	A set of integrated medium-term macroeconomic and fiscal targets and projections that helps Cabinet make decisions on how much in any given year, the Government can commit to spending and what effect those decisions will have on budget balances into the future. The MTFF is an essential tool that is used by Cabinet to set the budget ceiling for the upcoming year.
National Budget Memorandums	Guidance notes issued by the Ministry of Finance and Economic Development, which provide instructions for the upcoming Budget process.
Public Enterprises (PE)	Government services that have been corporatized under the *Public Enterprises Act*
Public Finance Act	Enabling legislation that governs the use of public funds.
Recurrent expenditure	All non-project expenditure of government. Also referred to as Core Budget Expenditure.
Reservation/De-Reservation	Appropriation is released quarterly to Ministries in the form of an accounting warrant. Funds that are not yet released are reserved by the Secretary for Finance and Economic Development for release at a later time. Ministries can apply to the Secretary for a de-reservation to release funds early in certain circumstances.
Revenue and Expenditure Review Committee (RERC)	Officer level committee comprising Treasury, Customs, Inland Revenue and Budget and Planning that reviews and provides advice on revenue and expenditure trends and future projections.
Special Development Expenses (SDE)	Short term projects and infrastructure expenditure, often these projects are co-funded with donors. Funding is appropriated annually from the Consolidated Fund and are not considered part of the core budget. Unlike recurrent expenditure, there is no commitment to a continuation of spending of these items.
Te Kakeega II	National Sustainable Development policy document covering the period 2005 – 2015.
Tuvaluan Trust Fund (TTF)	The TTF is a sovereign wealth fund that was established in 1987. Increases in the market value of the fund are distributed to the Consolidated Investment Fund (CIF) and can be drawn on to meet general budget expenditure.
Virement	Transfer of funds within a Budget head.

GOVERNMENT OF TUVALU – MINISTRY STRUCTURE

A. Office of the Governor General

B. Office of the Prime Minister

- **Headquarters**
- Personnel and Training
- Tuvalu Media
- Women's Development
- Immigration

C. Legal Services

- Office of the Attorney General
- Peoples Lawyer
- Office of the Ombudsman Commission

D. Parliament

E. Office of the Auditor General

F. Ministry of Finance

- **Headquarters**
- Planning and Budget
- Statistics
- Customs
- Treasury
- Inland Revenue
- Public Enterprise Monitoring Unit
- Industries

G. Ministry of Public Utilities

- Headquarters
- Energy
- Public Works

H. Ministry of Health

- **Headquarters**
- Health Administration
- Curative
- Primary and Preventative Health Services

I. Ministry of Natural Resourses

- **Headquarters**
- Agriculture
- Fisheries
- Lands and Survey

J. Minstry of Home Affairs

- **Headquarters**
- Rurual Development
- Community Affairs
- Culture Department
- Solid Waste Agency of Tuvalu

K. Police and Prison Service

L. Ministry of Transport and Communications

- **Headquarters**
- Marine
- Aviation
- ICT
- Meteorological

M. Ministry of Education and Youth Affairs

- **Headquarters**
- Education
- Primary Education
- Secondary Education
- Library
- Sports
- Preservice Training
- Youth
- Early Childhood Care and Education

N. Judiciary

O. Ministry Foreign Affairs, Environment, Trade, Labour and Tourism

- **Headquarters**
- Foreign Affairs
- Missions - Suva, New York, Brussels, Auckland, Taipei
- Environment
- Trade
- Tourism
- Labour

Public Enterprises

- Development Bank of Tuvalu
- National Bank of Tuvalu
- Tuvalu Electricity Corporation
- Tuvalu Telecommunication Corporation
- Vaiaku Lagi Hotel
- Tuvalu Post and Travel Limited