

Financial Instruction 2: Budget

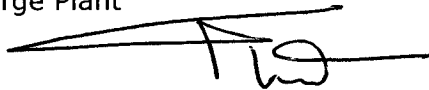
Format No.:1

Title of Document (To be amended): Financial Instructions 2: Budget					
Reference No. of Document:FI2 Budget 20180123.doc					
Issue No.				Format No	
1				1	
Rev. 01	Date	Rev.02	Date	Rev.03	Date

Purpose to Change Document

Proposed Change:


Submitted By: George Plant



Date: 15 October 2018

Designation: Deputy Secretary (Treasury)

Signature:

Approved / Non-Approved	Reason if not Approved
Approved By: Martin Hunt	
Designation: Secretary for Finance	

New Issue No.



Republic of Nauru

Financial Instructions

Budget

February 2018

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ABBREVIATIONS

AOP	Annual Operating Plans
APP	Annual Procurement Plans
BOs	Budget officers
BoP	Balance of Payments
CA	Chief Accountant
COFOG	Classification of Functions of Government
CPI	Consumer Price Index
CSD	Chief Secretary Department
DoBD	Director of Budget and Debt
DoF	Department of Finance
DoP	Director of Payments
FMIS	Financial Management Information Systems
FMM	Fiscal Management Model
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoN	Government of Nauru
HoD	Head of Department
ISHT	Inter Sub-Head budget transfer
MSA	Management Systems Accountant
NSDS	National Sustainable Development Strategy
PAD	Planning and Aid Division (DoF)
SOE	State-owned enterprise

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NATIONAL BUDGET PROCESS

Overview

- 2.1. The Annual Budget is the Government's most important instrument to provide its overall plans and directions for the socio-economic development of the country. The annual budget is often viewed both as a statement of government's economic policy and political philosophy, and as an instrument for achieving various economic and social objectives.
- 2.2. The Annual Budget is intended to provide an overview of all the activities of Government to be delivered by the Government within the overall macro-economic framework during the fiscal year. The national budget is thus the fundamental indicator of what government proposes to do and what objectives it pursues. It presents the government's financial plans for an upcoming period and is a statement of the fiscal priorities of the nation. It can be viewed as a way of determining how the government seeks to fulfil the national goals for the country, and as a document setting out the national outcomes for which the Government is accountable.
- 2.3. The budgetary process is also an important part of the governance framework – it is designed to ensure that there is planning, control, transparency and accountability throughout of government, thus the budget is an instrument for scheduling and controlling government activities, through resourcing government plans, and targets to be achieved, but it also and provides a means of evaluation.
- 2.4. Importantly, the budget should also reflect the needs of the people of the country, as expressed through their representatives in the Parliament. It is on this basis that the Government submits the annual budget proposals to the Parliament for debate and final approval.
- 2.5. Once approved by Parliament it becomes law for the period it covers. It is therefore a legislated final plan that can only be changed by Parliament.
- 2.6. The Department of Finance is the principal financial adviser to the government. It has a crucial role in the supervision of the preparation of official estimation of expenditures and revenue. Other duties include;
 - Developing projections of expenditures, revenue and projects
 - Prepare the annual budget estimates to the cabinet for approval
 - Fulfil internal and external budgeting processes
 - Provide budget training and assistance to all Departments
 - Review project requests and monitor projects donor budget
 - Provide budget quarterly reports and annual budget reports
 - Link the budget with the NSDS
- 2.7. The standard budget structure is separated into two components which are recurrent (operating budget and revenue) and capital.
 - A recurrent operating budget consists of regular revenues and ongoing expenses. It is used to account for expenses that occur monthly or annually.
 - A capital budget consists of non-recurring revenues and expenses.
 - Budget Savings refers to identifying possible savings from the recurrent budget to pay new capital items or other expenditure activities.
 - Debt Management is an on-going solvency policy of the government to meet its financial obligations.
- 2.8. To formulate recurrent and capital estimates the Department of Finance follows the baseline and any fiscal policies of the Government. The baseline for expenditures is derived from the current year operational spending of Departments, supplementary budget appropriations and any new approved policies and activities to be added or subtracted from the non-salary and salaries proposed expenditures. The baseline for revenue stem from the current

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revenue collection outcomes and any new revenue policies that were approved by the cabinet. The baseline for projects is established and implemented through the Planning Aid Division (PAD) to map out essential parameters and policies regarding funding of on-going projects and new projects.

Budget Processes and Instructions

- 2.9. The detailed form of Revenue, Expenditure and Capital Estimates **will** be determined by the Finance Secretary within the directions given by the Minister of Finance. Guidelines for preparation of budget data, issued by the Director of Budget, Ministry of Finance, **must** be followed by all departments and agencies.
- 2.10. The Annual Budget Estimates are prepared for each head of account (Departments or Cost Centres) which, in turn, is further divided into sub-heads (Departmental divisions/sub-divisions and projects) and at the lowest level natural accounts. The accounting classification is shown below

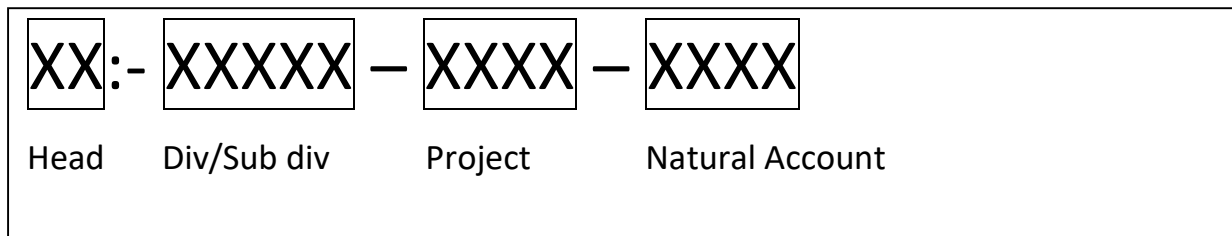


FIGURE 1 15-CHARACTER ACCOUNT CODE CLASSIFICATION

- 2.11. Formulation of budget estimates commences with a review of the macro-economic environment in which the budget will be cast.

Macroeconomic Review

- 2.12. At the beginning of the Budget preparation cycle, the Treasury undertakes macroeconomic modelling and forecasting over the medium term, using the ADB Fiscal Management Model (FMM). The model uses the latest Macro-economic information (GDP, CPI, BoP) available and assumptions are stated for these in the future to produce forward estimates of Government revenue and expenditures.
- 2.13. The model produces, at a high level, an indication of the extent to which fiscal space is available for allocation in future years. From the 2018-19 budget year the Government has adopted three fiscal responsibility ratios to further guide budget preparation. These are: -
- Budget balance to GDP cannot be negative (i.e. the cash budget excluding below-the-line items cannot be negative)
 - Taxation revenue to GDP will not exceed 25%
 - Personnel costs-to-current expenditure will not exceed 30%
- 2.14. The FMM also allows calculation of the forecast outturn of the current year budget and indicates current year compliance with the Government's adopted fiscal responsibility ratios.
- 2.15. After aggregate figures are available Treasury produces indicative ceilings. Normally sectoral resource allocation should be based on overall national strategy, sector strategies and policy priorities determined by Cabinet. However, in Nauru the resource allocation process is primarily based on projections from historical trend analysis and is departmentally rather than sectoral based. Since the 2017-18 budget capital and recurrent operating budgets

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are identified in the budget, after consideration of the macroeconomic and fiscal modelling, and the factors and constraints noted above, Treasury formulates a proposal for high-level departmental allocation of the available resources as recurrent operating budget ceilings for departments.

Budget Strategy Paper

- 2.16. Treasury produces a Budget Strategy Paper which states the Treasury macro-economic assumptions for the medium term and a discussion of the major areas of revenue and forthcoming expenditure according to any Government policy. The Budget Strategy Paper is normally prepared in October based on the first quarter budget performance for the current year and discussions with the major revenue and expenditure departments.
- 2.17. The Budget Strategy Paper includes the operating budget resource ceiling allocation proposal which is discussed and agreed by the Finance Minister. When the Treasury finalizes the Budget Strategy Paper, the strategy along with a draft of the first Budget Circular is presented to cabinet for approval. The Budget Circular contains the departmental budget ceilings for the following year and based on Government's policy for the two outer years (i.e. the next year +1; the next year +2). Whilst the following year ceiling is binding on the departmental budget preparation the ceilings in the outer years are provided for guidance on indicative resourcing levels based on current policy. The Budget Circular is released when approved by cabinet and as early as possible in the budget cycle.

Budget Circular

- 2.18. Each year at the beginning of the budget preparation cycle after Cabinet approval of the Budget Strategy Paper, DoF **will** issue a formal Budget Circular to all departments, in accordance with the normal budget calendar which provides a timeline of consultation and delivery of departmental budget submissions consistent with the circular requirements.
- 2.19. The Budget Circular also contains the departmental instructions for budget preparation, the required templates and the operating budget ceilings that have been approved by cabinet. It is important to note that the operating budget ceilings are provided to departments/agencies as an aggregate total of expenditure. Departments/Agencies then allocate the aggregate amounts down to the Natural Account level at division and sub-division level. During the budget discussions the departments **will** be required to justify their proposed allocations, particularly in areas where the recurrent nature of the expenditure (such as salaries) is fixed.
- 2.20. The Budget Division will distribute the Budget Circular along with budget templates to Departments and Agencies. The Budget Division will also load the approved budget ceilings into the Budget module of the FMIS to allow departments to commence preparing their estimates.
- 2.21. The Department of Finance will include in the Budget Circular a list of Budget Support Officers who have been allocated to work closely with Budget Officers (BOs) of Departments throughout the budget process. In the second week of February the Department of Finance will commence budget training to facilitate the budget process to Department. This training focuses on briefing Department and Agency representatives about the budget templates and to demonstrate how to use the Budget module of the FMIS.
- 2.22. It is **mandatory** for all budget officers and **optional** for head of departments to attend the budget training. The Department of Finance will carry out comprehensive budget training and offer budget support to all Departments.
- 2.23. Budget officers in Departments/Agencies **must** liaise with their allocated Budget Support Officers in the Department of Finance. The responsible Budget Support Officer will expedite and facilitate the budget implementation process because they are well versed with the FMIS and the Government Budget process. Furthermore, their main duties are:
 - Assist budget officers in Departments and Agencies
 - Deal with budget enquires.
 - Upload budget estimates on the FMIS.

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- Provide FMIS Budget Module support to Departments and Agencies.
- Review budget templates and estimates uploaded onto the FMIS.
- Follow up outstanding budget issues from Departments/Agencies.
- Compile a budget file for each of the Departments/Agencies they are responsible for in the budget preparation. The file should detail the departmental discussions and the decided outcomes associated with the Department/Agency submission.
- Contact Budget Officers and Head of Departments for meetings and budget training sessions.

2.24. The budget development process is driven by the budget development calendar and begins shortly after the start of the new fiscal year.

Budget Activities Cycle	Timeframe	Deadline	Responsible Officers
1. Preparation of Budget Strategy Paper & Budget Circular 1	October	Early December	Deputy Secretary Treasury
2. Mid-year review reports	December	late January	Director Budget division
3. Budget Mid-Year review	2 nd week of January	End of February	Committee
4. Department of Finance setup Budget policies, templates and FMIS process	3 rd week of January	End January	CA/MSA
5. Budget Ceilings loaded into FMIS & schedule for department access released	1 st week of February	End of 4 th Week	BO/MSA
6. Budget Training	2 nd week of February	End February	MSA /CA/ and BO
7. Budget FMIS uploading	3 rd week of Feb to the 1 st week of April	End of 1 st week of April	CA/MSA /BO
8. Budget review and assessment of FMIS estimates.	2 nd week of April	End of 2 nd week	CA/MSA /BO/DoBD
9. Budget Narrative (APP, NPP and Operational Plans)	2 nd week of April	End of 2 nd Week	CMA/BO
10. Budget Screening	3 rd week of April	End of 3 rd Week	CA/MSA /BO/Deputy Secretary & DoBD
11. Final Budget Adjustments from line ministries and state-owned enterprises	4 th week of April	End of 4 th Week	CA/MSA /DoBD & Deputy Secretary
12. Final and prepare Budget figures and estimates for	1 st week of May	2 nd week of May	CA/MSA /BO/

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Budget Activities Cycle	Timeframe	Deadline	Responsible Officers
Minister of Finance briefing.			
13. Final Budget adjustments and amendments	^d Week of May up to 1 st week of June	End of 1 st week of June	CA/MSA /BO/
14. Annual Budget estimates for the Parliament meeting	2 nd Week of June	End of 2 nd week of June	CA/DOB & DepSec
15. Annual Budget Approval and final checking.	3 rd Week of June	End of 4 th week of June	Deputy Secretary & DoBD

Preparation of the Budget Estimates

- 2.25. It is the **responsibility of each HoD** to prepare a realistic estimate of revenue and expenditure at the level of natural account and classified by Head and Sub-head, which would form part of the Annual Budget. The budget estimates so prepared for a particular financial year by each HoD **shall** be submitted to the Ministry of Finance, for consideration, adjustment associated with budget discussion outcomes, approval by Cabinet, and subsequently by Parliament.
- 2.26. Departmental preparation of budget estimates involves a close review of the existing programs, projects and activities requiring elimination, modification or continuation in their present form. This review is supported by the study of expenditure and revenue-trends in the past and those in the current financial year, together with estimates for the future years, based on policies and economic data.
- 2.27. Each department will complete its own review and compilation of estimates, but these are often partly completed using figures provided by the Treasury and issued to departments showing the head and the sub-head numbers and figures of authorized expenditure for the current year as shown in the year-to-date actual revenues and expenditure figures. If departments do not have figures for the current year they must contact Treasury to obtain them.
- 2.28. Departments will take the actual figures for the current financial year at the time of preparing the estimates and relate these figures with their current budget (i.e. inclusive of any Supplementary Appropriation and ISHT's) considering the expected recurrent expenditure for the rest of the year. To this estimate add any proposed non-recurrent expenditure due and any other commitments for the remaining period to arrive at the forecast of total current year expenditure for the full year.
- 2.29. When preparing the estimates, it should be possible to ascertain (based on status reports and updated cash flow forecasts) the amount and the number of orders remaining unfilled or unpaid to end of the financial year. The exercise will involve an analysis of orders placed and not yet delivered, especially in respect of stores, special projects, capital purchases and similar expenditures. Authority to spend money under an Appropriation Act lapses at the end of June and the department has, therefore, to include in its estimates, a suitable provision to meet such expenditure in the forthcoming budget year.
- 2.30. Based on the forecast estimates for the current year and proposed changes in recurrent activities in the coming year the department will prepare a draft operating budget for the forthcoming year containing estimates of revenue and expenditure along with the basis on which the estimate has been made. The draft operating budget **cannot** exceed the budget ceiling provided in the Budget Circular issued by Finance. Any proposals that cannot be accommodated within the budget ceiling **will** be presented separately as part of second-round submissions by departments.

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- 2.31. When preparing the estimates, the expenditure analysis under each Head/Division/Sub-Division at the level of natural account should also be furnished to provide explanations of individual items of significance. The estimates of expenditures on goods and services will need to be supported by an Annual Procurement Plan (APP). Any major variation in the estimates with reference to the past actuals should be supported by valid explanations/reasons.
- 2.32. Departments are required to prepare budget estimates for revenue, expenditure, capital and special projects. As follows: -
- 2.32.1. The Revenue budget estimates are derived from the actual and year to date collection of the current year, sometimes forecast to year end. Also included are any new revenue strategies that were approved by the cabinet and that are intended to be introduced in the coming year. Revenue estimates are provided to Treasury by the department responsible for the collection. Treasury requires the basis of the estimate and reviews the figures provided. Upon review, it may recommend another figure be adopted by Cabinet and will provide reasons for this.
- 2.32.2. The Expenditure budget is based on the draft operating budget baselines budgets loaded onto the FMIS by departments and modified during the budget rounds. These are setup by the Department of Finance.
- 2.32.3. Capital estimates are for new office equipment, computer, laptops, vehicles, servers, printers and others office related goods. HoDs **must** to seek approval from their respective Ministers for new capital items to be included in their budget submissions. These will often be considered separately from the ordinary operating budget in the Budget rounds. Departments are required to provide individual justification for capital item requests and reflect these in their draft APP. It is **compulsory** for Departments and Agencies to submit a stolen or missing item report if they are seeking to replace stolen items
- 2.32.4. Projects are new development activities that have a defined objective a specified period of implementation and are not recurrent in nature. They are most often funded by donors but can be funded by the GoN budget and should be separated from the operating expenditure budget. Therefore, the Departments must meet minimum requirements and provide sufficient supporting documents to support a new proposal.
- 2.33. New salary rates **must** be approved by the Chief Secretariat Department. Therefore, an approval document or evidence of approval from the Chief Secretariat Department (CSD) to confirm either newly approved positions or the increase of a salary rate(s) **must** be presented as supporting documentation by HoD's in budget submissions. In addition, HoD's **must** seek Cabinet's approval for special rates or salaries for new expatriates or short-term consultancy to be recruited in the new financial year. Departments/Agencies are required to submit the copy of the signed employment contract for both new expatriates and those whose contracts have been renewed.
- 2.34. Each department **must** obtain of its HoD approval of its annual estimates (draft operating budget and second round submissions), and following that, approval of the responsible Minister.
- 2.35. Department Budget breakdown by sub divisions enables Departments to budget specific revenue and expenditure costs according to sub divisions. Sub-divisions may be sections of a department or specific expenditure sections such as schools; health facilities etc. Departments and individual spending units can then provide devolved control of funds to be spent within their respective areas during budget execution.
- 2.36. The Chief Accountant **will** provide an updated list of all-natural accounts for Departments/Agencies to use for their annual estimates. An overriding objective is to minimize the number of natural accounts to ensure that there is only one appropriate account code for any transaction and that the use of all account codes is clear and easily understood by all finance officers. Treasury will control expenditure using the permitted transactions under each natural account code. Departments **cannot** create, alter the use of or override the use of the natural account.
- 2.37. A Budget Officer **must** seek approval from the Chief Accountant, and through the Deputy Secretary for Treasury from the Secretary of Finance for a new natural account code .Any request for a new natural account can **only** be approved after careful consideration of the ability to achieve the departmental request using other budget structure methods (such as division or sub-divisions or projects) and the use of existing natural accounts. Natural

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Account codes consistent with GFS 2014 classification of accounts can only be created. If approved any new account can only be setup by the CA or MSA.

- 2.38. The Deputy Secretary PAD is responsible for distribution of updated balances of donor funded projects to Departments. PAD **will** liaise with Departments regarding the formal process and procedures to follow to request donor funded projects. If a donor funded project is approved PAD **will** provide a unique project number for its entry into the FMIS along with a project budget detailed to the level of natural account. These details will be provided to the Budget Division for loading into the FMIS. Until loaded into the FMIS no expenditure will be allowed against project budgets.
- 2.39. Preparation of budget estimates consists of. completing the manual templates, supplied by Treasury and inputting estimates into the computerized Budget Module on the FMIS. It is the responsibility of the Department of Finance to provide technical support regarding the FMIS system. The following templates (PART A1 & A2) are the budget forms that are distributed to Departments. PART B is the budget module of the FMIS.
- 2.39.1. **Part A1: Annual Procurement Plan and New Proposal Plan**; This template is a spread sheet whereby each Department/Agency clearly lays out its draft procurement plan for the new financial year along with any new proposals that are to be considered in second-round submissions.
- 2.39.2. **Part A2: Annual Operational Plan (AOP) Mission, Vision, Values, Key Activities, Strategies and Outcomes**; This template consists of the core functions and strategic goals of Departments. The strategies should link to achieve the NSDS goals. The Part A2 or budget narrative is reviewed and monitored by the PAD Team. The PAD team shall provide training and support for Departments in completing Part A2.
- 2.39.3. **Part B: FMIS**; The computerized Budget Module on the FMIS is monitored by the Budget Division and the MSA. The MSA will create FMIS login details and setup a proper schedule for each Department/Agency to load their budget estimates directly into the Budget Module. The format of the FMIS budget module is that current year financial information and proposed allocations for the following financial year are presented in the following columns: -
- Approved Original Budget
 - Supplementary Budget
 - Inter sub heads transfer
 - Total Budget
 - Actuals
 - Commitments
 - Forecasting spending and revenue collection
 - Available balance
 - Department of Finance Recommendations (ceilings)
 - Departments new estimates
 - Justifications
 - Cabinet's Approval
- 2.40. For those overseas offices using currency other than Australian dollars department BO's **must** prepare their budgets in local currencies. The expenditure would be converted into Australian dollars at a rate to be fixed by Treasury at the time of finalization of budget estimates, which would be advised to each office. This rate will be applied throughout the budget year and variances will be absorbed under the Head of- Finance. In case salaries are fixed in Australian dollars, this fact should be mentioned in the working papers.
- 2.41. HoD's **must** ensure that full justification is given for each capital expenditure item in the working papers. Budget provision for new buildings will be made by the department concerned, but estimates should be prepared in consultation with the Department of Infrastructure Development.

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- 2.42. Each department will need to obtain of its HoD approval of its annual estimates (draft operating budget and second round submissions), and following that, approval of the responsible Minister. The HoD **must** submit the estimates, with all working details to Treasury.
- 2.43. The Management Systems Accountant is the focal person to deal with preparation and setting up of the Budget module for uploading new estimates from Departments. The MSA has assigned FMIS login access for each Department and Agency. The Budget Division has organized a specific schedule for each Department and Agency to upload their budget on the FMIS.
- 2.44. Alternatively, the Departments/Agencies can take their budget spread sheets to their assigned support budget officer at the Department of Finance for uploading. However, the Department of Finance is strongly encouraging Budget Officers of Departments and Agencies to enter their own estimates on the FMIS.
- 2.45. Treasury will consolidate all departmental estimates to enable the Cabinet to have a comprehensive view of the expenditure and revenue estimates for the Government. The Secretary for Finance will also submit the draft appropriation bill for the budget year to the Cabinet for approval and thereafter for final submission to Parliament by the Minister for Finance.

Review and Compilation of Estimates

- 2.46. The budget estimates working papers are important basic documents which are intended to:
 - Include the detailed calculations of expenditure and revenue;
 - serve as source information for incurring of expenditure during the budget year; and
 - act as control tool for checking the actual expenditure and periodical reviews for formulation of proposals for inter-sub-head transfers and supplementary budget estimates.
- 2.47. The process of Budget analysis is concerned with analysing the Departmental or Agency estimates against current budget figures and current budget utilization ratios. The analysis should determine the total current savings and budget variances for each Department or Agency. Budget utilization ratio is the percentage of year to date spending divided by the currently revised budget using the following formula:
$$= ((YTD\ actual\ I+ YTD\ Commitments)\div Revised\ Budget)\times 100$$
- 2.48. DoF Budget Officers should make recommendations based on the budget utilization percentage. If the budget activity is underutilized, then that budget activity should be maintained at its current budget base or decreased depending on the utilization percentage. Budget Officers can recommend using operational budget savings to fund other requirements such purchase of equipment, capital items and stationeries, providing the operational budget ceiling is not exceeded. This can be done before Departments/Agencies finalize their budget estimates for the next financial year.
- 2.49. DoF Budget Officers **must** also carefully examine requests for new capital items proposed by Departments/Agencies for the next financial year. They **must** also validate the need for these items and make sure that these items have been properly justified. This applies to all capital items such as cars, laptops, computers, printers, servers, scanners, regardless as to whether the Department/Agency intends to fund the purchase through savings in their operational budget or through a new proposal request.
- 2.50. For the new and current vacant positions, HoD's **must** submit their organizational structure with an annual plan to demonstrate the timeframe for recruiting new staff. For salary increase or new rates, Departments/Agencies **must** include both the existing rates and the new proposed rates. New salaries and wages rates are only approved rates by the Chief Secretariat or a cabinet directive. Proposed increases, without supporting Chief Secretariat or Cabinet approval are not to be included in budget submissions.

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- 2.51. After Treasury examines these proposals it will conduct a first round of discussions with departments to agree and finalize the budget proposals. These agreed positions are recorded in another snapshot in the Budget module. The Budget module maintains multiple “snapshots” of the budget proposals from Treasury and departments at different stages during the preparation cycle. The revised estimates will be examined by the Minister for Finance before seeking Cabinet approval.
- 2.52. After meeting with Departments and Agencies, DoF Budget Officers **will** update budget estimates and justifications on the FMIS. They **will** also circulate a final copy to Head of Departments and their respective Budget Officers for their information and records before the budget second round with the Minister of Finance.
- 2.53. The Budget Division of the Department of Finance will meet with the Secretary of Finance, Deputy Secretary for Treasury, Chief Accountant and Deputy of Secretary for PAD to discuss all budget submissions from the Departments/Agencies.
- 2.54. After this meeting, Budget Officers **will** update the budget figures on FMIS to include modifications based on the results from the meeting.

Budget Hearings and Second Round Submissions

- 2.55. Departments are required as part of their budget submissions to prepare New Proposal Plans (NPP’s) for any proposed activities that are new or require funding above the operational budget ceilings provided in the budget circular. This includes proposals for capital expenditure items.
- 2.56. Department BO’s **must** ensure NPP’s are submitted in the correct format to PAD. PAD will review and provide comments as to the likelihood of the proposal attracting donor funding. If it is proposed for GoN funding PAD will refer the proposal to Treasury for comment. The proposal along with Finance comments **will** be provided by the department to their portfolio Minister for approval. Before inclusion in the Budget or Development Fund budget the NPP **must** also be approved by the Secretary of Finance and Minister for Finance.
- 2.57. The final second round of discussions is conducted over a two-week period between departments and the Finance Minister and Finance Secretary. The agreed positions are recorded directly as the “Cabinet Decision” column in the Budget Module, as an outcome of the discussions. The Budget Division should circulate the second-round meeting schedule to inform Departments and Agencies of their assigned dates to meet with the Minister of Finance for an opportunity to defend their new estimates for the next financial year.
- 2.58. At the end of the budget formulation process the Departments/Agency BO’s **must** keep a budget file for future references. This can be cross-checked with the file compiled by their respective Budget officer in Finance.
- 2.59. The Budget Officers of the Department of Finance are responsible to make Budget Analysis copies for the Master File and each of them should attend with their allocated Department/Agency when it is their appointment to present their budget to the Minister of Finance.
- 2.60. The final round resourcing agreements are submitted to Cabinet and Caucus and agreed in a one-day session. The budget module is updated with any final changes required by Cabinet. An updated view of the results of the final Cabinet budget decision-making is compiled.

Budget Finalisation

- 2.61. This is the final part of the Budget Preparation Process and it is performed by the Department of Finance. The Budget Officers of the Department of Finance shall scrutinize each budget estimates that were submitted by Departments/Agencies in accordance with the Budget Circular and any policies introduced by the Department of Finance.
- 2.62. Budget Officers within finance will undertake an FMIS assessment in which identification of discrepancies and inspecting whether the departments have conformed to GoN budget policies. Any discrepancy or error identified will be referred to the respective Departments or Agency by the Department of Finance Budget Officer for an

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explanation or adjustment. Explanations re to be noted as comments in the FMIS budget module by the DoF Budget officer, so that any changes can be reference later.

- 2.63. The Director of the Budget Division of the Department of Finance **must** conduct the final checking of budget estimates uploaded on the FMIS and compile two master files and twelve budget papers for the cabinet budget meeting.
- 2.64. Cabinet Budget Meeting discusses new requests and other new budget lines to be included in the fiscal year budget. When cabinet endorses all the new requests, the Budget team can then proceed to enter and update the FMIS. Budget Officers are encouraged to attend this meeting, so they can take note of new budget decisions from the Cabinet for the budget of Departments or Agencies for the new fiscal year.

Preparation of Budget Documents

- 2.65. The Annual Budget documents comprise two books: Budget Paper 1 and Budget Paper 2.
- 2.66. Budget Paper 1 provides an overview of the macroeconomic context and outlook, together with the Government's overall fiscal strategy, and a brief overview of budget priorities and new revenue and expenditure measures
- 2.67. The annual departmental budget set out in Budget Paper 1 is the complete set of estimates for the operations of the Treasury Fund only. The estimates and operations of the Special Funds, including the Trust Fund and the Development Fund are not included in Budget Paper 1.
- 2.68. Budget Paper 1 details the appropriations by Head and Sub-head down to the level of Natural Account code. It therefore represents the budget control level exerted by Treasury through the implementation year. Variations to the level of control at the level of Natural Account can only be made through Inter-Sub-Head-Transfers (ISHT) within a budget by approved by Cabinet or between budget heads by Parliament and Supplementary Appropriation.
- 2.69. Budget Paper 2 provides the country's economic outlook, and an analysis of the national accounts, GDP, currency movements, inflation, balance of payments, CPI, balance of trade, labour force and unemployment.
- 2.70. Budget Paper 2 also provides a broad overview of current and future operations and finances of the Government's SOEs. This should include an overview of strategies, operations and finances, together with economic and business outlook and commensurate funding requirements, and profitability and dividend forecasts. Within Budget Paper 2 there is also an analysis of progress achieved within each sector against the National Sustainable Development Strategy (NSDS), together with strategies and work plans going forward.
- 2.71. As described in 2.67 the GoN Budget is presented and controlled by administrative classification¹. Presentation by economic classification, consistent with GFS and functional classification (COFOG) will occur in the future.
- 2.72. All changes as a result from the final budget meeting between the Senior Officials and the Budget Officers will be made before printing of the Budget Books.
- 2.73. Twenty-two (22) copies of the Budget Books for the parliamentary session and ten (10) additional copies for reserve will be printed. This task **will** be led by the Budget Division Director with the assistance of the Budget Officers.

Loading of the Budget

- 2.74. The MSA is the main person to perform the uploading of approved budget estimates for the new fiscal year.
- 2.75. These new budget figures should be available in the first week of July and Departments and Agencies can use them to formulate their budget Cash Flow Plan.
- 2.76. Once the MSA confirms the availability of new budget figures on the FMIS, the Budget Division Team can start organizing the Post Budget Meeting with the Departments and Agencies.

¹ consistent with s.5 of the Act

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2.77. The purpose of this meeting is for the Department of Finance to introduce to Departments/Agencies their approved budget figures and budget policies by the cabinet. The Department of Finance will use this opportunity to announce its anticipated training programs and future developments on the Budget Process and the FMIS to assist Departments/Agencies by building capacities of their staff and promoting better networking between parties involved in the Budget Process.

2.78. The Post Budget Meeting agenda involves four main objectives:

- Approved Budget estimates: A detailed table to show approved revenue and expenditure figures. In addition, a brief analysis to highlight the budget trends from prior years.
- Refresher Training on Budget Cash Flow Plan: The Budget Officers should conduct the refresher training on the Budget Cash Flow Plan.
- FMIS new developments and updates: The MSA should present on new and future developments of the FMIS system.
- Feedback from Departments and Agencies regarding the general services offered by the Department of Finance: This is the opportunity for the Departments/Agencies to disclose their comments, criticisms or advices to improve or upgrade the services provided by the Department of Finance during the previous fiscal year.

Budget Implementation

2.79. The Department of Finance remains as the main organization to monitor the budget implementation process. The execution of government budget policies, procedures and processes consistent with the approved budget **are** the duties of Head of Departments and Budget Officers at Departments/Agencies.

2.80. When the budget has been approved by Parliament HoD's **must** monitor the total expenditure and revenue of the department and ensure that the expenditure approved by Parliament is not exceeded and the estimated revenue is achieved.

2.81. The Department of Finance will disseminate approved budget Appropriation tables to Departments and Agencies. The appropriation provided will be the same as the Approved Budget amount on the FMIS for the head.

- By Head (Department/Agency) Budget Table: This is the summary of approved revenue and expenditures budget figures.
- By natural accounts breakdown

2.82. During the implementation of the budget Departments should provide coherent justifications for each budget provision. HoD's **must** justify to finance if the proposed expenditure is likely to be greater than the approved budget. HoD's must also notify finance of any revenue decreases and provide substantiation of anticipated increases during the year.

2.83. For activities that are funded by project donors, the Departments HoD's must consult with the PAD for approval of any proposed changes to spending and obtain written agreement from the donors before any spending changes occur.

Quarterly Reporting

2.84. The Department of Finance will prepare quarterly budget execution reports and circulate these to Departments/Agencies and published them on the Ministry of Finance website. However, individual Head-based weekly and monthly budget reports will be available on the FMIS for use by Departments and Agencies.

Mid-Year Review

2.85. The purpose of the mid-year review is to assess budget performances of Departments/Agencies for the first six months of the current year budget. The outcomes of the review will be used by the Department of Finance to

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update forecasts of budget outturn and recommend to Government any adjustments to budget policies, strategies and process for the current and next fiscal year. The Mid-year review normally commences in late January or early February.

2.86. A Mid-Year review committee is established to analyse the financial data and prepare a report for the Minister of Finance and Cabinet. The report is published on the Ministry of Finance website.

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|---|--|
| • Secretary of Finance | Chairman |
| • Deputy Secretary of Finance | Budget adviser |
| • Economic Adviser | Economy adviser |
| • Chief Accountant | Department of Finance Operation report |
| • Director of Budget and Debt | Budget report (Six months) |
| • Director of Payment and Processing | Payments and Actual reports |
| • Planning Aid Division representative | Projects report |
| • Chief Secretary Office representative | Human resource report |

2.87. To achieve mid-year review objectives, the following reports are developed by the Budget Section and should be presented to the review committee for discussion and decision

• July-Dec Budget report	• MSA
• Updated Projects report	• PAD
• Revenue report	• DoBD & MSA
• Procurement report	• DoP
• FMIS system report	• MSA
• Payment report	• DoP
• Human resource report	• Chief Sec
• Possible savings report	• MSA
• Supplementary Budget	• MSA & DoBD

Ministerial directions to limit the expenditure

2.88. The Minister of Finance and portfolio Ministers can limit expenditure of approved appropriation by written instrument². A ministerial direction to restrict departmental spending must be given in writing. A copy of every direction made by a responsible Minister **must** be delivered to the Auditor General by the Head of the Department of the responsible Minister within seven days of the giving of the direction. The power to restrict departmental spending is qualified to the extent that it does not apply to the Government's liabilities arising under the law or legal contracts.

2.89. The Finance Ministry may issue warrants to departments during the year to restrict commitments and spending during periods when liquidity is low. The purpose of the warrant is to place monetary restrictions on departments or programs or classes of expenditure for specified periods, notwithstanding the full availability of Parliamentary appropriations.

Lapsing and Rollover of Unused Appropriations

2.90. All annual departmental appropriations which are unused at the end of June each year will lapse and not be available for spending by departments in future years. Unused annual appropriations cannot be rolled over from

² s. 12 of the Act

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one year to the next to pay for commitments and liabilities outstanding at year end. Any supplier commitments and liabilities outstanding at year end should be included in the budget estimates for the following year.

- 2.91. The annual lapsing of appropriations applies to departmental programs and activities administered under the Treasury Fund. The lapsing rule does not apply to special funds and special accounts which stand outside the Treasury Fund. At year-end unused funds of the special funds and special accounts, for example the Development Fund and the Trust Fund, will continue and will be available to be spent in future years.

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Budget Changes

Overview

2.92. After the annual Budget estimates have been passed by the Parliament, there are three mechanisms available to adjust departmental budgets through the year. These are:

- Virements (ISHT) transfers or reallocation of budgets between different Natural accounts within the same budget head
- Supplementary appropriations
- Use of the Contingency Reserve

These are discussed in this section.

Inter-Sub-Head-Transfers (ISHT)

2.93. Transfer of budget appropriations (virement) between budget Heads (Departments/Agencies) can only be done with Parliament's approval, through the supplementary appropriations process. Transfers of appropriations at the sub-head (natural account) level can only be done with Cabinet approval.

2.94. Departments HoD's **are** required to prepare "Request for additional funding through supplementary appropriation or inter sub-head transfer (ISHT)" form from Treasury. They **must** set out their current appropriation usage and balances and projected funding needs for the remainder of the year, together with a well-considered rationale for the need to transfer appropriations to meet their program delivery objectives. The submission form **must** be signed by the Head of Department and provided to the appropriate Budget officer within Finance.

2.95. The requests will be assessed within Treasury and the assessment considered in the first instance by the Chief Accountant/Budget Director. If the submission is agreed, it will be forwarded to the Finance Secretary for approval and notification of the HoD to prepare the required Cabinet Submission HoD's **must** include in the submission the Finance assessment of the request.

2.96. Cabinet will consider the request and if approved authorise the Minister to direct in writing to Treasury that the transfer be madeⁱ. The Director of the Budget Division **will** ensure that the changes are made on the FMIS and following this the department will be able to access the transferred funds.

2.97. The Minister will provide copies of all directions associated with ISHT's to the Parliament at the next sitting and no later than three sitting days after the direction was given.ⁱⁱ

2.98. HoD's **must** obtain approval through the ISHT or Supplementary Appropriation process **before** committing expenditure to new sub-divisions or subdivisions that would become deficient following the commitment.

2.99. Proposals for budget virement at the head (Department/Agencies) level requires Parliamentary approval through the supplementary appropriations process discussed below.

Supplementary Appropriation

2.100. Supplementary appropriations are required when the Government needs to respond to changing circumstances and events that emerge during the year. The Government does have a contingency reserve which is designed to provide funding for unavoidable and unforeseeable events where funding is not available. It does not allow its use to cater for the increase in the price of goods or services or salaries increase or any similar event³.(See 2.108)

³ As defined in s. 2 of the Act

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- 2.101. The Government tries to minimize the number of Supplementary Appropriations during the year. Some of these supplementary appropriations are required to deal with virement requests; others were required to respond to emerging conditions or changes in Government policy; while others are required to seek funding allocation and spending authority in relation to revenue windfalls.
- 2.102. The objective is to work towards a single Supplementary Appropriation each year following the mid-year budget review.
- 2.103. As for Virements the process of requesting Supplementary Appropriation commences with departments and agencies completing the “Request for additional funding through supplementary appropriation or inter sub-head transfer (ISHT)” form available from Finance. In that form, they will provide details of the request for additional appropriation and why the request cannot be funded through internal ISHT. The form **must** be signed by the HoD and submitted to the appropriate budget officer within Finance who will undertake assessment of the request and provide the assessment to the Chief Accountant and Director of Budget.
- 2.104. The Chief Accountant and Director of Budget will consider the request and assessment and provide a recommendation through the Deputy Secretary for Treasury to the Secretary of Finance. If the Secretary of Finance approves the request he will advise the HoD that a Cabinet Submission will be prepared including the supplementary appropriation request.
- 2.105. The Secretary of Finance will compile any approved Supplementary Appropriation requests and forward to the Minister for approval. For those approved requests the Secretary for Finance will discuss with the Minister a date of a suitable budget sitting wherein the Supplementary Appropriation will be tabled.
- 2.106. The approved Supplementary Appropriation requests will be provided to the Deputy Secretary for Finance, Chief Account or Director of Budget to compile the following required documents: -
- Supplementary Estimates of Revenue and Expenditure -providing the details of any proposed revenue or expenditure changes at the level of Head and Natural account along with the proposed purpose of the changes.
 - Supplementary Appropriation Bill -which provides amended Schedules for Revenue and Expenditure at the level of Budget head from the proposed Supplementary
 - Draft of the Minister’s Second Reading Speech to introduce the Supplementary Appropriation into the parliament and providing details of the proposed revenue and expenditure changes
 - Cabinet Submission – detailing the Revenue and Expenditure changes along with the overall impact of the changes on the budget balance and recommendations to Cabinet for the Supplementary Appropriation.
- 2.107. The enactment by Parliament of any Supplementary Appropriation Act shall constitute the approval of Parliament of the supplementary estimates, together with the amendments of any, which were laid before Parliament at the same time.

Unforeseen Contingencies

- 2.108. A modest Contingency Reserve (CR) is allocated to DoF under Head 16 (Finance other Payments) in the annual Budget. The CR is to be used to fund requirements that are urgent, unavoidable and could not be foreseen at the time of the annual budget preparation. It cannot not be used simply to compensate for poor planning and budgeting by departments.
- 2.109. Discretion to use the Contingency Reserve lies with the Minister for Finance. HoD’s of departments and agencies with urgent funding requests **must** initially contact the Secretary for Finance providing a written submission setting out the amount of funding required, the purpose of the funding requirement, the current budget, level of program spending and available appropriations in the required area, together with an explanation of why the funding is urgently required, why other sources of funding are not available (e.g. through virement) and in what circumstances the need for funding was unforeseen at the time of budget preparation.

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- 2.110. The submission **must** be signed by the Head of Department. The submission will be initially considered by the Director of Budget/Chief Accountant and assessment of all options undertaken. The assessment will be forwarded to the Finance Secretary for approval. Following approval by the Finance Secretary, the submission will go to the Minister for approval.
- 2.111. Upon the utilisation of the CR at the next sitting of Parliament the Minister for Finance should table a report on the usage of the Contingency Reserve, for information of Parliamentary members.
- 2.112. Amounts disbursed from the CR should be replenished by any supplementary appropriations passed during the year. Amounts spent from the CR are initially charged against the CR vote within DoF. However, if a supplementary appropriations process is subsequently proposed, then the supplementary appropriations can be used to reallocate the spending against the relevant vote of the responsible department and replenish the balance of the CR.
- 2.113. At the end of the year, a final annual report on the use of the Contingency reserve must be tabled in Parliament. The report will show all usage of the Contingency Reserve during the year, including amounts remaining as a final charge against the Reserve.

Penalties

- 2.114. Compliance with these instructions is required by all employees of the Government. Non-compliance with the following instructions will be regarded as misconduct under the **Public Service (Disciplinary Procedures) Regulations 2016**.

MISCONDUCT	SERIOUS MISCONDUCT
Instructions No:	Instructions No.
2.9; 2.18; 2.19; 2.22; 2.23; 2.30; 2.32.3; 2.33; 2.34; 2.36; 2.37; 2.38; 2.40; 2.41; 2.42; 2.49; 2.50; 2.52; 2.54; 2.56; 2.59; 2.63; 2.73; 2.88; 2.94; 2.95; 2.103; 2.109; 2.110	2.25; 2.79; 2.80; 2.82; 2.83; 2.98

ⁱ s. 8(5) of the Act

ⁱⁱ s. 8(7) of the Act