

Guidelines on the implementation of Article 51 and 53 of the Organic Law on State Finances and Property – Reallocation of Funds

1. Introduction

The Organic Law on State Finances and Property n° 37/2006 of 12/09/2006 published in the Official Gazette on September 12th, 2006 provides in its article 51 guidelines for the reallocation of expenditures during budget execution. This article is further complemented by article 19 of the Financial Regulations published in the Official Gazette on 15th February 2007 and article 14 of the Law N° 15/2009 of 30/06/2009 determining the State Finances for Fiscal Year 2009/2010.

The objective of these guidelines is to give clarification on both articles in view of the 2009/10 budget format and to provide a uniform approach towards the implementation of article 51 and 53 of the organic law on State Finances and Property. These guidelines are essential in order to ensure that the budget is executed along the lines in which it was voted by Parliament. It is also important that these guidelines give some flexibility for implementation of the budget as intended in the new budget format while keeping the spirit of the Law unchanged.

2. Definitions

For the purpose of implementing these guidelines, the meaning of the following terms is as follows:

(a) **Broad categories of expenditure or major categories of expenditure:**

This refers to the nature of expenditure at the highest level of consolidation. The broad categories of expenditure are:

- i. Salaries;
- ii. Goods and services;
- iii. Exceptional expenditure;
- iv. Interest payment;
- v. Arrears;
- vi. Net lending;
- vii. Repayment of principal on debt;
- viii. Subsidies and current transfers;
- ix. Domestic development expenditures.

(b) **Budget Agency:** Refers to a State organ which is entitled to budget in the annual State Finance law.

- (c) **Projects under Domestic Development Budget:** Refers to the budget appropriated to the projects domestically financed as specified in Annex II.2 of the Law Determining the State Finances for Fiscal Year 2009/2010.
- (d) **Budget Items:** These refer to the economic inputs that make up a broad category of expenditure, a programme, a sub-programme and an article. Examples include fuel, stationeries, office equipments, lump sum, domestic perdiems, uniforms and so forth.
- (e) **Institutional Budget:** This refers to the budget appropriated to a state organ within the annual State finance law.
- (f) **Budget line:** This refers to the lowest level of classification of the budget as approved in the annual State Finance Law. The lowest level of classification of the budget for the purpose of these guidelines and for the 2009/10 Budget is an article, while for the 2009 Mini Budget it was a sub-programme. Examples of articles include acquisition of tangible fixed assets, office supplies, water and energy, transport and travel, communication costs and so forth.
- (g) **Priority and non-priority programmes:** Priority programmes are distinct programmes in the budget that are earmarked to have strong impact on poverty reduction. If a programme of the budget is not a priority programme then it is a non-priority programme.

3. Application of the guidelines

Every beginning of the year, the Minister of Finance and Economic Planning issues formal instructions as well as authority to Chief Budget Managers to execute the approved budget for that year. These instructions allow implementing reallocation of funds from some items of the recurrent budget to other items of the same category as long as the cumulative amount reallocated does not exceed the limits stated by the law.

It is allowed to reallocate funds from one budget item to another budget item within the same budget line or to a different budget line as long as it is in the same major/broad category of expenditure and respects the prescribed threshold.

The reallocation of funds from one budget item to another within the same budget line or between different budget lines of the same broad category of expenditure can be done as many times as necessary during the course of executing the budget. However, the cumulative amount reallocated from one budget line within a given sub-programme should not exceed 20% during any one fiscal year. Nevertheless, the lesser the amount reallocated from a budget line and less frequent reallocations are made within a budget, the more the credibility of the budget.

The reallocation of funds between different budget lines of the same project under Domestic Development Budget can be done as many times as necessary during the course of executing the budget without restriction.

Any other reallocations that are contrary to the above are only granted through a formal permission as described below under exceptions.

4. Exceptions

a. Central Government:

- i. Reallocation in excess of 20% on any budget line is only granted by the express permission of the Minister of Finance and Economic Planning and is communicated in writing.
- ii. Reallocation between priority and non priority programmes of a budget agency is granted by the Minister of Finance and Economic Planning through a formal communication.
- iii. Reallocation between broad categories of expenditure is granted by the Minister of Finance and Economic Planning through a formal communication after approval of the Cabinet and the Parliament.
- iv. Reallocation of funds from one budget agency to another is granted by the Minister of Finance and Economic Planning through a formal communication after approval of the Cabinet and the Parliament.
- v. Reallocation of funds from wages and salaries budget lines to any other budget line is granted by the Minister of Finance and Economic Planning through a formal communication after approval of the Cabinet and the Parliament.

A request to reallocate funds for exceptional cases mentioned above is addressed to the Minister of Finance and Economic Planning duly motivating the need for reallocation. The Chief Budget Manager of the budget agency requesting for reallocation of funds may be summoned to defend the request by the Cabinet. However, the request for reallocation submitted by a budget agency is presented to the Cabinet and Parliament by the Minister of Finance and Economic Planning. The format for requesting the reallocation of funds is attached for reference.

b. Local Government:

- i. Reallocation in excess of 20% on any budget line is granted by the District Local Council upon the request of the District Chief Budget Manager through the District Executive Committee.
- ii. Reallocation between broad categories of expenditures is granted by the District Local Council upon the request by the District Chief Budget Manager through the District Executive Committee.

- iii. Reallocations of funds from wages and salaries and allowances to any other broad category of expenditure are only allowed upon the approval of the Local Government Council.
- iv. Budget reallocation between budget lines from Earmarked funded programs of not more than 20% shall be sought through a written request to the earmarking Ministry with a copy to the Ministry of Finance and Economic Planning. The list of earmarked programmes for the 2009/10 budget is attached for reference.
- v. Budget reallocation between budget lines from the Earmarked funded programs of more than 20% shall be requested by the Local Government Council through a written request to the Minister of Finance and Economic Planning. The request should be copied to the earmarking Ministry and the Ministry in charge of Local Administration.

The format for requesting the reallocation of funds is similar for both Central Government and Local Government. All requests for budget reallocation should be made in a format that is consistent with the template provided. No request for budget reallocation shall be considered if this requirement is violated.

5. Reporting requirements

The Chief Budget Managers are responsible for informing the Minister of Finance and Economic Planning in writing of all reallocations, giving justifications for the reallocations every month. The format of the report on reallocations is attached for reference.

The Minister of Finance and Economic Planning has the responsibility to report to the Parliament all reallocations in excess of 20% of the budget line as well as all other exceptional reallocations implemented within a fiscal year.