



Government of the Kingdom of Tonga

Monthly Financial Report – JULY 2011

This Monthly Finance Report provides a useful introduction and overview of the Government of Tonga's budget performance during **July 2011** - the first month of the financial year 2011/12. This is part of the Ministry of Finance and National Planning's (MOFNP) effort to improve transparency of budget execution and to promote good governance by active and even-handed engagement with relevant budget stakeholders, especially Hon. Cabinet Ministers. A series of monthly and quarterly reports will be produced during the year.

This report details:

- Financial results for the month of July 2011/12;
- Comments on fiscal performance; use of the contingency fund and unbudgeted requests.

Overall, the month of July 2011/12 saw an **operating budget deficit** of **\$0.6m**. This was funded from cash reserves. Additionally, July figures reflected an improvement on the forecast outturn for the month. It should be noted that forecasts were slow to be provided by the ministries, however, with continued consultations with line ministries, a realistic forecast for revenue and expenditure was available for the July report. With the forecasts now provided, MOFNP is in a better position to monitor the budget performance more effectively.

The high level of **unbudgeted expenditure** request in **July** reached **\$2.5m**, including \$1.7m remaining balance for airport land lease amongst other unbudgeted items approved by Cabinet, only a month after the budget estimate was approved by Parliament. This is a matter of serious concern for the unbudgeted request to reach \$2.5m in July compared to the available funds of \$3.2m in the contingency fund. Should the contingency fund be utilised for the unbudgeted, the remaining balance of \$0.7m may not be sufficient for any unforeseen expenses that may occur in the remaining 11 months. The unbudgeted expenditure already requested accounts for nearly 80% of the contingency fund in just the first month of the financial year. If all these requests are met then we have very limited margin of error so it is essential that such unbudgeted expenditure is brought under control immediately. Due to financial constraints, line ministries are requested to fund their unbudgeted requests within their respective votes. MOFNP will further review line ministries budget performance on a regular basis to ensure all commitments are met.

There has been considerable volatility in the international financial markets in recent weeks, driven by fresh investor concerns about economic conditions in the USA and Europe. Consequently the outlook beyond July appears unfavourable as the budget position projects a further deficit for August. This will be largely driven by a major scheduled debt payment on top of parallel expenditure patterns for July. This will further erode the financial reserves of the government.

As part of the effort to improve the credibility of the budget, the MOFNP has elevated the control over budgetary transactions from activity to sub-program level. This is to give more autonomy to ministry-level financial managers to effectively manage resources utilization under activities presented in the ministries' Annual Management Plans. Ministries are required to seek pre-approval from the Ministry of Finance for fund transfers if expenditure exceeds the sub-program levels.

The MOFNP will continue to utilize all available platforms in order to secure the interests of the country and to mitigate any budgetary and economic impact of a global double-dip recession through carefully implementing stringent fiscal measures.

Malo 'Aupito

Hon. Sunia M Fili

Minister for Finance and National Planning



1. BUDGET HIGHLIGHTS

- ❖ Uncertainty with the global economy continues to undermine the growth impetus of the Tongan economy.
- ❖ The **budget performance** for the month of **July 2011** produced a **budget deficit of \$0.6m** compared to a deficit of \$1.1m in July 2010. The \$0.6m budget deficit was funded from the government cash reserve account.
- ❖ **Revenue of \$11.2m** was collected, exceeding the target of \$10.3m. This was mainly driven from taxes received from increased volume of imports in commercial goods, fuel and tobacco. Revenue for the same period last year was \$11m mainly from consumption tax from imported goods and excise tax;
- ❖ **Expenditure** payments reached **\$11.8m** in July, maintaining the target of \$11.8m. High expenditure was mainly driven from high salaries and pension payment compared to the target. Expenditure for the same period last year was \$12.1m which was mainly driven from increased salaries and maintenance & operations;
- ❖ A significant issue is the **high level of unbudgeted requests** received in July to the tune of **\$2.5m**, including \$1.7m as remaining balance for the airport land lease amongst other unbudgeted expenses. Majority of the unbudgeted requests was approved by Cabinet, a month after the budget estimate was approved by parliament. (*Details shown in Table 6*).

2. OVERALL BUDGET VARIANCE BETWEEN TARGET AND ACTUAL PERFORMANCE

Table 1: Variance between Target and Actual (\$million)

INDICATORS	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to 31 July 2011	Year-To-Date for the 1 month to 31 July 2011	Variance (Target-in-year-Actual)	Year-To-Date for the 1 month to 31 July 2010
TOTAL REVENUE	171	10.3	11.2	0.9	11.0
TOTAL EXPENDITURE	171	11.8	11.8	0.0	12.1
SURPLUS/DEFICIT	0.0	-1.5	-0.6	0.9	-1.1

Table 1 above shows total revenue of \$11.2 for July achieving and exceeding the expected target of \$10.3m. Taxes on goods and services and excise taxes were the key contributors to the upsurge in the government revenues. This was partly offset by income taxes performing below target. Total expenditure of \$11.8m was recorded for July maintaining the expected target of \$11.8m. Cost of established staffs was the key driver for the high spending in July. This was due to new appointments and promotions of teachers to fulfil the teachers' deficit identified as a result of the voluntary redundancy exercise in 2006. This is critical to the state of play of this year's budget as this expense will be carried by the ministry until the end of the financial year.

3. GOVERNMENT REVENUE*Table 2: Revenue by Standard Group*

	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to 31 July 2011	Year-To-Date for the 1 month to 31 July 2011	Variance (Target - in-Year Actual)	Performance for July 2011/2012	Year-To-Date for the 1 month to 31 July 2010
	\$	\$	\$	\$	%	\$
REVENUE						
Income Tax	21,210,000	1,484,500	1,395,208	(89,292)	94	1,904,248.20
Trade Taxes	12,520,000	1,104,771	958,992	(145,779)	87	1,275,465.54
Taxes on Goods & Services	49,425,000	4,126,175	4,307,420	181,245	104	-
Excise Tax	26,510,000	1,937,163	2,598,884	661,721	134	4,195,831.08
Fees & Licences	20,488,648	1,292,596	1,305,985	13,389	101	1,418,625.16
Entrepreneurial & Property Inc	8,610,318	118,488	382,088	263,600	322	-
Miscellaneous Revenue	505,000	1,667	13,071	11,404	784	384,462.69
Capital & Other Transfers	3,697,682	250,296	250,296	(0)	100	1,825,157.63
Budget Support	27,925,000	-	-	-	-	-
Total Revenue	170,891,648	10,315,656	11,211,944	896,288	109	11,003,790

3.1 KEY INDICATOR VARIANCES (REVENUE) FOR THE ONE MONTH TO 31 JULY 2011

Key Indicator	Variance	Key Drivers
Income Tax & Trade Taxes	\$0.2 million (lower than forecast)	<ul style="list-style-type: none"> Slow in submission of Income Tax returns from businesses for 2010/2011 and under collection of trade taxes.
Excise Tax	\$0.7 million (higher than forecast)	<ul style="list-style-type: none"> Forecast for excise tax was understated
Consumption Tax	\$0.2 million (higher than forecast)	<ul style="list-style-type: none"> Increase in the level of compliance on lodgement of CT returns to the Revenue Services Department and subsequent payments of CT dues.
Entrepreneurial & Property Tax	\$0.2 million (higher than forecast)	<ul style="list-style-type: none"> Early arrival of Forum Fisheries Agency Treaty funds which was not forecasted for this month.

Table 3: Revenue by Ministry

MINISTRY	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to the 31 July 2011	Year-To-Date for the 1 month to the 31 July 2011	Performance for July 2011/2012	Performance Variance 2011/2012	Year-To-Date for the 1 month to the 31 July 2010
	\$	\$	\$	\$	%	\$
Audit Office	75,000	6,000	8,000	2,000	133	8,000
Foreign Affairs	2,500,000	200,000	234,618	34,618	117	137,402
Prime Minister's Office	60,000	250	250	-	100	7,152
Finance & National Planning	34,034,000	349,996	357,833	7,837	102	380,877
Revenue Services	110,670,000	8,719,567	9,365,530	645,963	107	9,331,815
Public Enterprise	6,000,000	-	-	-	-	11,582
Communication & Information	4,800,000	4,917	73,573	68,656	1,496	219,729
Justice	700,000	49,775	59,983	10,208	121	64,137
Police, Prisons & Fire Services	565,000	17,389	36,930	19,541	212	25,342
Health	950,000	60,979	52,316	(8,663)	86	62,914
Education, Women's Affairs & Culture	2,116,200	292,859	178,972	(113,887)	61	291,262
Training, Employment, Youth & Sports	200,000	12,698	14,649	1,951	115	11,760
Tourism	76,000	3,050	3,000	(50)	98	1,035
Labour, Commerce and Industries	645,443	62,311	50,229	(12,082)	81	39,746
Agriculture, Food, Forests & Fisheries	2,500,000	126,979	352,703	225,724	278	104,200
Works	500,000	39,167	19,700	(19,467)	50	64,327
Transport	4,000,005	338,180	372,569	34,389	110	193,355
Lands, Survey and Natural Resources	500,000	31,499	31,089	(410)	99	49,155
Total	170,891,648	10,315,616	11,211,944	896,328	109	11,003,790

Table 3 above depicts those Ministries with significant revenue variances between target and actual with eight ministries collection significantly more than targeted. The Ministry of Police revenues were enhanced by an increase in the number of liquor licenses issued and MAFF received a one-off payment of annual Forum Fisheries Agency (FFA) Treaty monies.

The increase in revenue from the Ministry of Transport reflects the re-activate of the automobile annual inspection facility. Ministry of Revenue also collected 7% more than its target.

Seven ministries did not meet their target revenue this month including Ministry of Public Enterprises where no revenue was collected. Significant variances happened at the following Ministries:

- **Works** only managed to collect 50% of its target. This was due to over forecast of architectural fees for the month.
- **MEWAC** did not achieve its target collection as it only collected 61%. Majority of revenue collected came from school and examination fees. The shortfall was due to short-collection from school fees due for the month.
- **Labour, Commerce and Industries** fell short of 29% to meet its target collection for the month. This was due to under collection of fees and licenses.
- **Health** only managed to collect up to 86% of its target. This shortage was due to delay in the collection of health certificate fees which was forecasted to be collected this month.
-

4. GOVERNMENT EXPENDITURE

Table 4: Expenditure by Standard Group

	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to 31 July 2011	Year-To-Date for the 1 month to 31 July 2011	Variance (Target - in-Year- Actual)	Performance for July 2011/2012	Year-To-Date for the 1 month to 31 July 2010
	\$	\$	\$	\$	%	\$
EXPENDITURE						
Established Staff & Others	90,331,010	6,711,855	7,154,355	442,500	107	6,905,988.71
Unestablished Staff	2,158,732	154,394	186,175	31,781	121	249,930.11
Travel and Communications	5,838,996	789,530	784,026	(5,504)	99	613,748.13
Maintenance & Operations	5,445,048	345,754	348,020	2,266	101	1,112,409.52
Purchase of Goods & Services	20,895,255	1,610,748	1,276,027	(334,721)	79	1,393,075.27
Grants and Transfers	12,863,671	1,486,179	1,308,939	(177,240)	88	1,348,730.87
Development Duties Expenditure	474,400	-	-	-	-	-
Debt Management	20,927,000	209,882	210,490	608	100	389,163.85
Contingency Fund	3,200,000	-	-	-	-	-
Pension & Gratuities	5,117,021	365,000	457,456	92,456	125	-
Assets	3,140,513	85,586	69,306	(16,280)	81	33,276.72
Equity Payments	500,000	-	-	-	-	12,122.39
Total Expenditure	170,891,646	11,758,928	11,794,793	35,865	100	12,058,446

Key Indicator	Variance	Key Drivers
Established Staff & others	\$0.04million (higher than forecast)	<ul style="list-style-type: none"> Inflated by the incremental increase in teacher's salaries due to their annual increments being awarded on the 1st July of every year. Recruitment of new teachers also contributed to this high salary cost. In addition, overtime for the month of June 2011 was understated in the forecast.
Unestablished Staff	Marginally increased	<ul style="list-style-type: none"> Extra recruitments by Ministry of Health of more daily paid labourers.
Other Operating Costs	\$0.3million (lower than forecast)	<ul style="list-style-type: none"> The Other Operating Costs was \$0.3 lower than forecast. This was mainly due to: <i>Travel and Communication</i> expenses were on forecast, so as <i>Maintenance and Operations</i>. In addition, the forecast for <i>Procurement of goods and services</i> for the period was overstated.
Grants and Transfers	\$0.2million (lower than forecast)	<ul style="list-style-type: none"> Overstating of the forecasted amount of grants to non-government schools that Ministry of Education was going to disburse during the month.
Pension & Gratuities	\$0.1million (higher than forecast)	<ul style="list-style-type: none"> An increase in the number of civil servants approved for pension which was not expected.
Assets	\$0.02million (lower than forecast)	<ul style="list-style-type: none"> Some of the <u>assets</u> forecasted to be procured this month were deferred as line agencies had to complete the procurement formalities

Table 5: Expenditure by Ministry

MINISTRY	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to the 31 July 2011	Year-To-Date for the 1 month to the 31 July 2011	Performance for July 2011/2012	Performance Variance 2011/2012	Year-To-Date for the 1 month to the 31 July 2010
	\$	\$	\$	\$	%	\$
Palace Office	5,335,000	395,804	374,952	(20,852)	95	363,611
Legislative Assembly	3,709,600	545,550	503,993	(41,558)	92	305,757
Audit Office	1,122,629	114,049	59,962	(54,087)	53	126,001
Commissioner of Public Relations	127,100	9,528	7,953	(1,575)	83	8,519
Foreign Affairs	8,450,000	706,106	784,631	78,526	111	831,211
Tonga Defence Services	6,589,000	635,287	629,124	(6,163)	99	610,616
Prime Minister's Office	5,540,000	363,604	334,297	(29,307)	92	1,340,483
Finance & National Planning	49,597,526	2,347,560	2,177,147	(170,413)	93	2,015,368
Revenue Services	4,010,300	307,168	213,492	(93,676)	70	276,115
Public Enterprises	670,000	37,571	24,135	(13,436)	64	43,266
Communication & Information	558,999	39,896	33,484	(6,411)	84	90,337
Justice	2,699,000	233,079	221,295	(11,783)	95	171,409
Crown Law Department	1,285,000	72,684	72,764	80	100	55,731
Police, Prisons & Fire Services	9,960,001	721,317	676,383	(44,934)	94	611,883
Health	22,596,000	1,717,977	1,488,661	(229,316)	87	1,447,292
Education, Women's Affairs & Culture	27,800,000	1,901,479	2,702,626	801,147	142	2,212,791
Training, Employment, Youth & Sports	2,936,999	272,806	224,489	(48,316)	82	207,347
Tourism	1,845,000	68,596	73,370	4,774	107	94,476
Labour, Commerce and Industries	2,393,152	182,163	199,240	17,076	109	137,299
Agriculture, Food, Forests & Fisheries	5,969,919	479,325	390,476	(88,849)	81	526,180
Works	2,662,000	204,600	180,163	(24,437)	88	195,464
Transport	2,547,420	230,709	262,866	32,157	114	196,734
Lands, Survey and Natural Resources	1,682,837	131,294	116,167	(15,127)	88	132,906
Environment and Climate Change	804,163	40,776	43,122	2,346	106	57,649
Total	170,891,646	11,758,927	11,794,793	35,865	100	12,058,446

Table 5 above shows Ministries with significant variances between targets and actual, with six ministries spending more than their targets for July 2011.

- **Foreign Affairs** exceeded their target by 11%, this was basically due to an increase in Overseas Travel for the Ministry in this month
- **MEWAC** exceeded their target by 42% as a result of new appointments and promotions in the Ministry as response to the identified problem of shortages in teachers identified from the 2006 redundancy program in 2006.
- **Tourism** exceeded their target by 7% driven by new campaigning initiatives as part of the marketing effort towards building recognition of the Kingdom and the tourism industry in anticipation for the Annual Heilala Festival Week

followed by a couple of other marketing initiatives like the Rugby World Cup in our neighbouring country of New Zealand

- **Transport** exceeded their target by 19% which was driven by high spending on overseas travel as field visits to other neighbouring islands as part of the Transport Sector Consolidated Project currently implemented by the Ministry.
- **Labour, Commerce** exceeded their target by 9% due to full settlement of rental arrear for their office premise for the previous financial year 2010/2011.

4. CONTINGENCY FUND

No redirection of resources from the \$3.2m allocated to the Contingency Fund occurred during the month.

5. UNBUDGETED REQUESTS

A total of \$2.5m, including \$1.7m unpaid balance for the airport lease and other proposed un-budgeted expenditure requests were received by the MOFNP via Cabinet Decisions. These unbudgeted requests (refer table 6) are yet to be paid out to the line ministries as the MOFNP is gauging options to judiciously mitigate these unbudgeted. These requests were not included in the 2011/12 budget allocation.

Due to financial constraints, line ministries will be informed to fund within their existing votes un-budget requests. MOFNP will continue to review budget performance of line ministries to ensure all commitments are funded.

Table 6: Unbudget Request 2011/2012

CD No.	Date	Subject	MoFNP Obligation		Comments
		Opening Balance contingency fund		3,200,000	
205	23/03/2011	Land Lease Tongatapu airport (Hon.Kalaniuvulu)	1,700,000		paid \$2m on the 30th June 2011(FY 2010/2011; remaining to be paid \$1.7m
593	7/10/2011	Update on the application for Liquidation of Janful International Dateline Hotel	70,000		
458	1/06/2011	30 Constable Officers	70,000		government to top-up MOP salaries vote for 30 new recruits
601	15/07/2011	MAFFF Agricultural Show	200,000		possible payment from vote government & donor project exemption; October - December 2011 Tongatapu, Vava'u, Ha'apai, 'Eua
		SIC Operations	30,000		CEO MLCI informed they will take up in existing vote
585	8/07/2011	Tonga Export Quality Management Limited (new Public Enterprise)	25,000		1 chairman \$6k pa; 3 directors \$5k pa (revenue \$500k anticipated by issue of shares)
660	29/07/2011	TBC screening of the 2011 RWC	80,000		TBC letter- discussed by EDC on Thursday 21 July 2011; Cabinet Decision on 29/7/2011
		Tonga Rugby Sub-Union	106,470		refer to MoTEYS to review and fund within their community prog
1126	17/11/2010	Court of Marine Inquiry	60,070		MOT to provide proper costing (savingram sent to MOT 25/07/2011)
662	29/07/2011	Land Compensation	200,000	2,541,540	Land Compensation for FOA Causeway
		Budget Remaining		658,460	

6. CASH BALANCES

As at 31 July 2011	
Consolidated General Bank Accounts	\$17.9m

7. FINANCING OF THE BUDGET DEFICIT

The cash deficit of \$0.6m recorded for July was financed from a drawdown of the government cash reserves.

8. FISCAL OUTLOOK

It is projected that August will be producing a budget deficit of around \$2.2m. Revenue is forecasted at \$12.3m with expenditure at \$14.5m. The high level of expenditure will be driven by a \$2.2m scheduled debt payment for the month. Other SEGs are projected to be in the vicinity of July's outcome.

Due to the expected budget deficit for August and the uncertain economic context, the MOFNP is carefully considering putting into action some stringent fiscal measures to slow-down or reduce expenditure to balance with the level of the projected revenue. This will avoid resorting to cash reserves for financing.

Table 7: Cash Flow Projection for August 2011/2012 (\$million)

INDICATORS	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to 31 July 2011	Year-To-Date for the 1 month to 31 July 2011	Forecast for the 1 month to 31 August 2011
TOTAL REVENUE	171	10.3	11.2	12.3
TOTAL EXPENDITURE	171	11.8	11.8	14.5
SURPLUS/DEFICIT	0.0	-1.5	-0.6	-2.2

Annex 1**Monthly Report for the Period ended 31st July 2011**

	ORIGINAL ESTIMATE 2011/2012	Forecast for the 1 month to 31 July 2011	Year-To-Date for the 1 month to 31 July 2011	Variance (Target - in-Year- Actual)	Performance for July 2011/2012	Year-To-Date for the 1 month to 31 July 2010
	\$	\$	\$	\$	%	\$
REVENUE						
Income Tax	21,210,000	1,484,500	1,395,208	(89,292)	94	1,904,248.20
Trade Taxes	12,520,000	1,104,771	958,992	(145,779)	87	1,275,465.54
Taxes on Goods & Services	49,425,000	4,126,175	4,307,420	181,245	104	-
Excise Tax	26,510,000	1,937,163	2,598,884	661,721	134	4,195,831.08
Fees & Licences	20,488,648	1,292,596	1,305,985	13,389	101	1,418,625.16
Entrepreneurial & Property Inc	8,610,318	118,488	382,088	263,600	322	-
Miscellaneous Revenue	505,000	1,667	13,071	11,404	784	384,462.69
Capital & Other Transfers	3,697,682	250,296	250,296	(0)	100	1,825,157.63
Budget Support	27,925,000	-	-	-	-	-
Total Revenue	170,891,648	10,315,656	11,211,944	896,288	109	11,003,790
EXPENDITURE						
Established Staff & Others	90,331,010	6,711,855	7,154,355	442,500	107	6,905,988.71
Unestablished Staff	2,158,732	154,394	186,175	31,781	121	249,930.11
Travel and Communications	5,838,996	789,530	784,026	(5,504)	99	613,748.13
Maintenance & Operations	5,445,048	345,754	348,020	2,266	101	1,112,409.52
Purchase of Goods & Services	20,895,255	1,610,748	1,276,027	(334,721)	79	1,393,075.27
Grants and Transfers	12,863,671	1,486,179	1,308,939	(177,240)	88	1,348,730.87
Development Duties Expenditure	474,400	-	-	-	-	-
Debt Management	20,927,000	209,882	210,490	608	100	389,163.85
Contingency Fund	3,200,000	-	-	-	-	-
Pension & Gratuities	5,117,021	365,000	457,456	92,456	125	-
Assets	3,140,513	85,586	69,306	(16,280)	81	33,276.72
Equity Payments	500,000	-	-	-	-	12,122.39
Total Expenditure	170,891,646	11,758,928	11,794,793	35,865	100	12,058,446
OPERATING SURPLUS/ (DEFICIT)	2	(1,443,272)	(582,849)			(1,054,655)