



Government of Tonga

**2011/2012 Budget
Mid-Term (July-December) Review
3rd – 20th January, 2012**

**Ministry of Finance and National Planning
Nuku'alofa
February, 2012.**

1. INTRODUCTION

- 1.1 The 2011/12 budget was premised on the principle to “maintain macroeconomic stability without compromising service delivery” as an efficient allocative guiding principle.** The 2011/12 total budget envelope preserved the same aggregate level as it was in 2010/11 at \$170m, including \$27.9m as budget support from bilateral and multilateral donor agencies.
- 1.2 The execution of the 2011/12 budget had been carefully and closely monitored to ensure expenditure does not exceed what had been allocated, while staying focused on delivery of the adopted theme.** Ministries with emerging activities that were considered priority were advised to manage within their allocated resources through expenditure rationalization and reprioritization. That is, ministries had to forgo or reallocate resources from activities in their Annual Management Plans.
- 1.3 Ensuring that the 2011/12 budget is implemented in a prudent, effective and efficient way, the mid-term budget review is essential to provide an overview of progress in the budget execution and to project the likely budget position for the last six months of the financial year.** The review provides the opportunity to assess the budget execution and to consider ways to improve budget management going forward. Specifically, to review whether implementation of programs is on schedule and will be completed within the allocated budgets.
- 1.4 The budget review focused on two areas:**
- a. budgetary (fiscal) performance which primarily aimed at achieving a fiscal balance; and
 - b. projection of the aggregate fiscal outturns with an objective to identify redeployable resources to ministries that are confirmed encountering significant cost over-run due to unanticipated expenditures.
- 1.5 Over the period review, MOFNP adopted an internal financing strategy in response to fiscal pressure from line ministries requesting additional resources to meet the cost of low priority/ emerging activities or unanticipated expenditures that was not known at budget time.** The internal financing strategy provided an opportunity to line ministries to consider expenditures reprioritization and avoid any attempts to take a soft approach by resorting to Contingency Funds, early in the financial year, as the only funding options. A total of \$6.2m unbudgeted requests have been received so far and \$1.6m has been funded within the allocated resources of the requesting ministries.
- 1.6 Apart from the reallocation of resources between sub-programs and ministries,** there have not been major policy changes implemented to warrant a major modification to the approved estimate.

2. KEY FISCAL ACHIEVEMENTS

- Keeping expenditures on manageable level without affecting service delivery;
- Improved cash management replaced cash rationing as the key element in budget execution;
- Maintaining debt at a prudent level by ensuring that operating expenses do not significantly exceed total recurrent revenue;
- Managing prudently the fiscal pressures facing the Government;
- Pursuing policies which are consistent with a reasonable degree of predictability about the level of revenue expected to collect from taxes and non-taxes.

3. RECOMMENDATIONS

In light of the above, the following recommendations are submitted for your consideration and approval.

1. That the **Mid-Term Budget Review** report be noted.
2. That the proposed mitigation measures in **table 6 be approved** and for the BFPD to prepare the Cabinet submission for consideration and approval.
3. That the proposed mitigation measures in **table 7 be noted** for further discussion with relevant stakeholders.

4. MID-TERM FISCAL PERFORMANCE

Overall Budget Performance (by ministry and category)

4.1 The overall position of the government budget reflects the careful budget control and management by MOFNP ensuring that overall outlays stay within the benchmark established for the first six months of the financial year- 50 percent of the appropriated allocation.

Table 1: Overall Budget Position

INDICATORS	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual to December 2011	Variance (Target - in-Year-Actual)	Performance for Six Months to December 2011	Cumulative Actual to December 2010	Forecast for the rest of FY 2011/12	Estimated Outturn
	\$	\$	\$	\$	%	\$	\$	\$
TOTAL RECEIPTS	171	100.5	107.3	6.8	107	88.7	70.4	177.7
TOTAL EXPENDITURE	171	87.9	83.1	-4.9	94	82.5	87.1	170.2
SURPLUS/DEFICIT	0.0	12.6	24.2	11.6	13.0	6.2	-16.7	7.5

4.2 Actual cumulative receipts collected during the review period totaled to \$107.3m, or \$6.8m (7 percent) higher than expected. The higher performance was due to receiving of the \$12.8m from European Union (EU), along with amendment made to the excise tax legislations and businesses stocking up for Christmas festivities. Expenditures were carefully controlled showing \$5.0m or 6 percent less than provided.

4.3 The overall balance is a budget surplus of \$7.5m which is possible only with significant donor support. The \$15.4m Budget supports provided by the World Bank (including New Zealand- \$2.5m) is about \$4.2m more than what was estimated. This underscores the importance to create a cash reserve for the next budget to provide for fiscal risks and timing difference between receipts and expenditures.

Table 2: Receipts in aggregate (Revenue) by Standard Group

	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual to December 2011	Variance (Target - in- Year-Actual)	Performance for Six Months to December 2011	Cumulative Actual to December 2010	Forecast for the rest of FY 2011/12	Estimated Outturn
	\$	\$	\$	\$	%	\$	\$	\$
RECEIPT								
Income Tax	21,210,000	10,069,500	11,050,163	980,663	110	11,233,411	11,140,500	22,190,663
Trade Taxes	12,520,000	7,182,919	8,063,050	880,131	112	7,311,979	5,337,081	13,400,131
Taxes on Goods & Services	49,425,000	26,167,349	29,803,849	3,636,501	114	-	23,257,651	53,061,501
Excise Tax	26,510,000	12,192,430	14,989,432	2,797,002	123	25,821,230	14,317,570	29,307,001
Fees & Licences	20,488,648	11,267,093	7,942,376	(3,324,717)	70	13,415,491	9,258,757	17,201,133
Entrepreneurial & Property Inc	8,610,318	2,366,985	3,519,847	1,152,862	149	-	6,226,361	9,746,208
Miscellaneous Revenue	505,000	10,000	300,520	290,520	3,005	4,185,852	495,000	795,520
Capital & Other Transfers	3,697,682	3,339,526	3,434,885	95,359	103	8,309,933	337,927	3,772,812
Budget Support	27,925,000	27,925,000	28,226,255	301,255	-	18,458,662	-	28,226,255
Total Revenue	170,891,648	100,520,800	107,330,377	6,809,577	107	88,736,557	70,370,847	177,701,224

4.4 Receipts as of December 2011 amounted to \$107.3m and projected for a total of \$ 177.7m by the end of the financial year or 23 percent of GDP. The actual receipt collected also includes the budget support provided from donors as part of their financial assistance to close the fiscal gap identified during 2011/12 budget production. All receipts categories, except fees & licenses, collected were more than they were targeted for indicating improvement in tax administration and the recent amendments made to excise tax legislation. Fees & Licenses were 30 percent below projected mainly due to new revenue streams were identified at the beginning of the budget but yet to be implemented by responsible ministries.

4.5 Receipt including budget support of \$28.2m and recurrent receipts were higher than the previous corresponding period. The high recurrent receipts were driven by domestic consumption as evident by the CT and excise taxes collection. Anecdotal evident points to loan scheme introduced by the Retirement Funds, which injected roughly \$8m to the economy.

4.6 While recurrent receipts were more than the target, the risks remain include continuants of fiscal pressures, possibility of a natural disaster and likelihood of a weak domestic demand owing to declining remittances.

Table 3: Payments in aggregate (Expenditure) by Standard Group

	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual to December 2011	Variance (Target - in- Year-Actual)	Performance for Six Months to December 2011	Cumulative Actual to December 2010	Forecast for the rest of FY 2011/12	Estimated Outturn
	\$	\$	\$	\$	%	\$		
EXPENDITURE								
Established Staff & Others	90,331,010	43,301,872	44,374,731	1,072,859	102	42,298,834	44,852,518	89,227,249
Unestablished Staff	2,158,732	1,141,069	1,199,465	58,396	105	1,320,759	1,453,133	2,652,598
Travel and Communications	5,838,996	4,090,870	4,737,020	646,150	116	3,414,775	4,108,623	8,845,643
Maintenance & Operations	5,445,048	3,325,115	3,638,826	313,712	109	3,473,995	2,508,871	6,147,698
Purchase of Goods & Services	20,895,255	12,169,671	9,317,138	(2,852,533)	77	9,215,766	10,468,320	19,785,458
Grants and Transfers	12,863,671	8,049,195	6,431,011	(1,618,183)	80	14,331,935	6,211,069	12,642,080
Development Duties Expenditure	474,400	189,760	33,776	(155,984)	-	-	284,640	318,416
Debt Management	20,927,000	10,892,336	9,108,865	(1,783,472)	84	5,887,786	9,960,390	19,069,255
Contingency Fund	3,200,000	-	-	-	-	-	3,200,000	3,200,000
Pension & Gratuities	5,117,021	2,207,021	2,797,916	590,895	127	-	2,910,000	5,707,916
Assets	3,140,513	2,069,323	1,073,455	(995,867)	52	1,121,402	1,144,452	2,217,907
Equity Payments	500,000	500,000	360,308	(139,692)	-	1,415,674	-	360,308
Total Expenditure	170,891,646	87,936,231	83,072,512	(4,863,719)	94	82,480,926	87,102,016	170,174,528

4.7 The payments made by the end of the period review amounted to \$83.1m and projected for a total of \$170.2m by the end of the financial year or 22.7 percent of GDP. Table 3 above shows that most expenditure by category are more than their estimates except for purchasing of goods and services and non-discretionary expenditures such as debt, which virtually parallel to the approved estimate. De-bundling effort of expenditures that habitually occurs in previous years seem to be effective evidencing by the low spending projected for the purchasing of goods and services. The projected outturn shows that 94 percent of the approved budget will be consumed.

4.8 Comparing to last financial years' outcome, payment is higher by about \$0.6m indicating there had not been a major change on the spending structure as manifest by the projected additional \$3.1m towards spending on travel and communication. Travelling cost remain a significant concern as it continues to undermine the credibility of the budget as resources are being transferred from other activities that had been initially assigned as priority merely to cover for travel costs. This pattern of spending also has an effect on resources distribution to activities that will play a greater role in economic and social development.

4.9 Total wage bill (established and un-established) projected to exceed what was budgeted are driven by hiring of contractual workers to attend to emerging activities such as road maintenance and staffing of regional offices for the MOT. Travelling & communication and maintenance and operation are also projected to spend more than what was budgeted for expenditure mostly driven by travelling expenses. At the end of the financial year, these over-expenditure categories will be net-off by the lower spending on other categories including non-discretionary categories.

5. FISCAL POSITION TO-DATE AND PROJECTION

Table 4: Receipts (revenue) by Ministry

MINISTRY	ORIGINAL ESTIMATE 2011/2012	Forecast for Six Months to December 2011	Cumulative Actual to December 2011	Variance (Target - in-Year-Actual)	Performance for Six Months to December 2011	Cumulative Actual to December 2010	Forecast for the rest of FY 2011/12	Estimated Outturn
	\$	\$	\$	\$	%	\$	\$	\$
Audit Office	75,000	46,000	29,000	(17,000)	63	34,250	29,000	58,000
Foreign Affairs	2,500,000	1,300,000	1,428,576	128,576	110	1,026,702	1,200,000	2,628,576
Prime Minister's Office	60,000	27,750	26,481	(1,269)	95	47,779	32,250	58,731
Finance & National Planning	34,034,000	33,499,849	34,303,069	803,220	102	19,022,402	506,051	34,809,120
Revenue Services	110,670,000	56,074,176	64,370,264	8,296,088	115	58,614,755	54,595,823	118,966,087
Public Enterprise Communication & Information	6,000,000	-	739,821	739,821	-	1,795,318	6,000,000	6,739,821
Justice	4,800,000	3,034,825	348,743	(2,686,082)	11	1,323,900	1,765,175	2,113,918
Police, Prisons & Fire Services	700,000	322,678	380,989	58,311	118	350,508	377,322	758,311
Health	565,000	251,843	364,720	112,877	145	343,693	292,390	657,110
Education, Women's Affairs & Culture	950,000	432,152	426,681	(5,471)	99	423,174	517,848	944,529
Training, Employment, Youth & Sports	2,116,200	1,081,113	940,846	(140,267)	87	2,706,313	1,035,088	1,975,933
Tourism	200,000	120,479	66,567	(53,912)	55	110,716	79,521	146,088
Labour, Commerce and Industries	76,000	20,370	9,000	(11,370)	44	11,227	20,370	29,370
Agriculture, Food, Forests & Fisheries	645,443	354,902	360,483	5,581	102	311,106	290,541	651,024
Works	2,500,000	913,390	1,123,156	209,766	123	755,645	1,586,610	2,709,766
Transport	500,000	255,000	208,566	(46,434)	82	352,556	245,000	453,566
Lands, Survey and Natural Resources	4,000,005	2,565,553	1,956,673	(608,880)	76	1,247,935	1,478,268	3,434,941
Total	170,891,648	100,520,801	107,330,377	6,809,576	107	88,736,556	70,370,847	177,701,224

5.1 Table 4 depicts the level of revenue collected to-date and outturns to the end of the financial year. Despite the projected outturn showing an increase in receipts, including budget support, Tourism and MCI collected less than 50 percent, with Ministry of Communication and Information (MCI) collecting only 11 percent. While the bulk of MCI receipt is financial-year-based, there had been no progress made on new revenue streams included in the budget preparation. It is recognized that MCI has the potential to collect additional revenue from new sources such as fees levy on vessels for air-waves frequency usages.

5.2 In aggregate, receipts, including budget support, are performing satisfactorily with 7 percent higher than what had been estimated. Recurrent receipts without budget support appear to be on track to meet its estimated target. Careful consideration of revenue enhancement should be premised on non-distortionary principle in light of the current economic environment.

5.3 While receipt exhibits an upsurge driven by consumption and excise taxes, it is vital to take note of the seasonality effect on the collection pattern. Normally, collection in the month of December is higher when compare to previous months given that most businesses are stocking up for Christmas festivities. Notwithstanding of the higher collection, monthly variance indicates some ministries are not collecting what they were estimated for.

Table 5: Payments (expenditures) by Ministry

MINISTRY	ORIGINAL ESTIMATE	Forecast for Six Months to December 2011	Cumulative Actual to December 2011	Variance (Target - in-Year- Actual)	Performance for Six Months to December 2011	Cumulative Actual to December 2010	Forecast for the rest of FY 2011/12	Estimated Outturn
	2011/2012	2011	2011			2010	2011/12	
	\$	\$	\$	\$	%	\$	\$	\$
Palace Office	5,335,000	2,765,434	2,443,784	(321,650)	88	2,177,209	2,569,566	5,013,350
Legislative Assembly	3,709,600	2,157,418	2,017,181	(140,237)	93	2,115,989	1,552,182	3,569,363
Audit Office	1,122,629	608,323	510,495	(97,828)	84	416,556	514,306	1,024,801
Commissioner of Public Relations	127,100	60,587	58,651	(1,935)	97	58,535	66,513	125,165
Foreign Affairs	8,450,000	4,396,395	4,410,006	13,611	100	5,532,512	4,053,605	8,463,611
Tonga Defence Services	6,589,000	3,958,929	3,863,889	(95,040)	98	3,606,744	3,630,071	7,493,960
Prime Minister's Office	5,540,000	2,649,990	2,475,479	(174,510)	93	4,270,682	2,518,539	4,994,018
Finance & National Planning	49,597,526	23,928,646	20,619,204	(3,309,443)	86	20,324,844	27,690,936	48,310,139
Revenue Services	4,010,300	2,045,560	1,599,589	(445,971)	78	1,682,752	1,964,740	3,564,329
Public Enterprises	670,000	285,396	232,766	(52,630)	82	187,131	384,604	617,370
Communication & Information	558,999	405,890	296,965	(108,925)	73	461,266	153,109	450,074
Justice	2,699,000	1,594,939	1,544,470	(50,470)	97	1,393,097	1,475,533	3,020,002
Crown Law Department	1,285,000	563,480	405,965	(157,515)	72	390,884	721,520	1,127,485
Police, Prisons & Fire Services	9,960,001	5,383,445	4,985,731	(397,714)	93	4,349,746	4,576,556	9,562,287
Health	22,596,000	11,837,406	10,769,855	(1,067,551)	91	9,464,986	10,758,593	21,528,448
Education, Women's Affairs & Culture	27,800,000	14,989,168	16,338,207	1,349,039	109	16,576,412	13,310,833	29,649,039
Training, Employment, Youth & Sports	2,936,999	1,401,663	1,487,186	85,523	106	1,258,886	1,535,336	3,022,522
Tourism	1,845,000	1,082,861	907,401	(175,460)	84	667,787	762,139	1,669,540
Labour, Commerce and Industries	2,393,152	1,191,760	1,059,134	(132,626)	89	851,651	1,201,392	2,260,526
Agriculture, Food, Forests & Fisheries	5,969,919	2,969,639	3,120,165	150,526	105	2,467,225	3,000,282	6,120,447
Works	2,662,000	1,366,445	1,314,594	(51,851)	96	1,358,775	1,295,555	2,610,149
Transport	2,547,420	1,164,141	1,496,989	332,848	129	1,573,675	2,007,823	3,504,812
Lands, Survey and Natural Resources	1,682,837	849,779	810,090	(39,689)	95	953,699	833,058	1,643,148
Environment and Climate Change	804,163	278,937	304,716	25,779	109	339,887	525,226	829,942
Total	170,891,646	87,936,231	83,072,512	(4,863,719)	94	82,480,926	87,102,016	170,174,528

5.4 Table 5 shows the ministries' expenditure performance during the review period and the projected outturns. Expenditures or payments do not necessary follow a seasonal pattern vis-à-vis receipts because payment is contingent on most confirmed activities and progress of implementation including procurement process.

5.5 Experience shows that in June (last month of the financial year), most ministries are habitually bundling expenditures so as to exhaust their votes. However, the improved budget management and expenditure control in light of the difficult fiscal situation helps support the effort of the MOFNP fiscal consolidation to ensure attainment of a balance budget.

5.6 Apparently, there are few ministries require additional resources because their approved budget allocations were affected by some unanticipated expenditures or emerging activities that had to be funded.

5.7 To avoid service interruption, the following ministries are identified as the most needed ministries for resources replenishment with some to be considered in later stage.

Table 6: Proposed mitigation measures

Ministry	Resource requirements	Reasons	Proposed mitigation measures
MEWAC	\$3.0m	To meet salary short fall	From budget support
MAFF	\$0.2m	To cover the agricultural show expenses	Consider in later stage as rooms identified.
MCI	\$0.1m	To cover the new rental rate and relocation expenses	Consider in later stage as rental arrangement is yet to be confirmed
TDS	\$0.5m	To cover the pensioners' entitlements,	Provide from CF or potential saving in MOFNP
Police and Prisons	\$0.2m	To cover salary and operation for the 30 constables recruited. And vehicle approved for the Eua Prison and to procure Vavaú vehicle. Fire trucks maintenance	Provide from CF or MOFNP potential savings
MOT	\$0.3m	To cover rental, unanticipated cost such as repairing of Tele-ki-Tonga beacon and court of marine inquiry.	Provide from CF or potential saving in MOFNP
MOJ	\$0.2m	To cover the AG and LG	Provide from CF or MOFNP potential saving
TOTAL	\$4.5m		

6. TRANSFERS of RESOURCES

6.1 The budget control and management have proven to be working as depicted by the aggregate level of the budget position as expenditures are within the benchmark. However, the credibility of the disaggregated budget items is undermined by significant variance in composition at sub-program level, as significant resources are transferred or shifted between sub-programs.

6.2 Although some flexibilities to reallocate resources between sub-programs is often desirable and useful, such large variations suggesting weak budget planning.

6.3 About 91 transfers had been undertaken during the period review compared to 1300 transfers undertaken in the corresponding period of last financial year, albeit transfers were done on activity level. There had been transfers of resources from program to program through the CF to meet unanticipated expenditures such as the regional road maintenance as government response to natural deterioration of the road network.

6.4 Tonga Defense Services (TDS), MOW, and MAFF were among the leading ministries in transferring funds. Most transfers were carried out during the period of September to December.

6.5 Bulk of resources transferred went to travel, personal entitlements such as acting and maintenance.

7. BUDGET/OUTPUT PERFORMANCE

7.1 Overall, there are 79 programs with 247 sub-programs allocated among 24 ministries. The review has revealed that funds of about 26 percent (or \$3.2m) of these sub-programs were transferred from or to other sub-programs in order to meet unanticipated and unbudgeted expenditures. Indeed this reallocation of resources had interrupted the service initially planned for that sub-programs resulting in deferring to later stage of the year or ministries requesting additional resources from the CF.

7.2 Among the 24 ministries; MOH, MOFNP, PMO, MCI and MEWAC have the highest number of transfers from and to sub-programs. These have interrupted activities initially assigned to sub-programs as priority at the beginning of the budget and post a question to those ministries' deliverables of those programs.

7.3 With resources being reallocated to other activities different from what were initially agreed at the budget time, it has underscored that the desire to reallocate often stem from factors outside the budgeting system. For example, emerge activities (political preferences) may abruptly change due to unknown reasons at the time of the budget preparation. This has undermined the effort to improve allocative efficiency, in particular. The planned implementation of the medium-term orientation to the budget will strengthen the effort to identify current and future costs of policies hence reducing fragmentation across government.

8. FISCAL PRESSURES

8.1 Beside the leading cost driver- salary and wages (consumed 55 and 58 percent of their approved allocation); the following are the major cost drivers of the budget.

- **Travel**- the full in-year budget allocation of \$2.5m to International travel has been fully utilized with additional resources of \$0.3m being transferred from other activities to meet travelling cost. International travel alone has consumed 62 percent higher than the full in-year allocation. Domestic travel, on the other hand, consumed 16 percent more than what was appropriated for. These are significant concerns as they had a considerable crowding out effect on the priority activities. Top 5 spenders on oversea travel are: **Palace Office consuming \$1.2m or \$0.2m more than it was allocated for full year, MOFA, PMO, LA and MOFNP.**
- **Fuel**- with a full in-year allocation of \$1.5m, 63 percent has been consumed which is higher by 13 percent compared to the benchmark. This necessitates policy consideration on how to reduce fuel consumption by way of outsourcing delivery services or strictly enforcing the existing policy on using vehicles after hours. Top five spenders are: Police, TDS, MOH, MAFFF and MOW.
- **Personnel entitlements**- of the \$3.7m allocated for entitlements (such as acting, , overtime, allowances etc), 62 percent has been utilized 12 percent more than the provisions in the in-year estimate. Acting allowances had consumed 64 percent more than its approved allocation. This is a Human resource issue that needs to be addressed through careful application of non-monetary incentives. CEOs who completed their employment contract also contribute to the cost pressure of the responsible ministries. **Overtime top 5 spenders are MOH, MORS, MAFFF, LA and MEWAC,**
- **Maintenance**- while maintenance of government assets including public roads is good undertaking, proper planning is required in order to avoid undertaking ad-hoc maintenance. Of its approved allocation of \$3.2m, 71 percent has been consumed, which is 21 percent higher than what was supposed to spend during the period under review.
- **Rental**- period review shows that 75 percent of the allocated budget (\$1.4m) has been consumed driven by the relocation of ministries to new premises, which had higher rental rates than the previous location. Rental in-year allocation

appears to be over-run as a result of new rates applied to relocation ministries (MOT & MCI).

- **Electricity-** 7 percent consumed more than the benchmark and higher than the tolerable range. It is expected that allocation from electricity will be fully utilized.

9. FINDINGS AND ACTIONS TO BE UNDERTAKEN

9.1 It is apparent from the review that some ministries spent more than their budget for the period. Some ministries spent more than what they were estimated but within the tolerable range of 3 percent are considered satisfactory and no need for resource replenishment. For those that spent outside the 3 percent tolerable range ought to have some resources replenishment to prevent interruption of service provision.

9.2 Some unbudgeted requests are yet to be financed as there are pending issues that require further discussion and confirmation of issues regarding the initial arrangement made. Table 7 below explicitly states the proposed actions.

9.3 While some ministries budget position is significantly impacted by unbudgeted requests to their total envelope, the impact on the others is insignificant and manageable within their own resources going forward.

9.4 As stated in Table 7, those are unbudgeted requests pending further discussion with the responsible stakeholders. These requests could be managed within the overall allocation in later stage once pending issues are addressed and resolved. Other unbudgeted requests are in table 6 with suggested mitigation measures and they are considered urgent to be met.

Table 7: Unbudgeted Requests and Mitigation Measures.

Ministry	Subject of the request	Amount \$	Activities internally funded	Activities yet to be funded	Proposed Mitigation measures
MOT	Land lease Tongatapu airport (Kalaniuvalu)	1,700,000		1,700,000	To be further discussed
PE	Update on the Application for Liquidation of Janful International Dateline Hotel	70,000			No action
PE	Tonga Export Quality Management Limited (new Public Enterprise)	25,000			No action
MOJ	Office of the Lord Chancellor	619,546		619,546	To be further discussed
MOW	To fund Roundabout Land Acquisition and Compensation- Integrated Urban Development Project Tonga.	100,000	30,000	70,000	To be further discussed
MOTEYS	Procurement of training equipments for the Tonga Maritime Polytechnic Institute and additional classroom	1,773,000	60,000	1,713,000	To be further discussed
PALACE O	Building of dog kennels for Palace security arrangement	35,415	35,415		To be furtehr discussed
MOH	Construction of temporary sea wall for Niu'ui Hospital (Haapai)	100,000	100,000		To be considered in later stage if MOFNP have saving
		4,422,961	225,415	4,102,546	

10. LESSONS LEARNT

10.1 Lack of commitment to conduct rationalization and reprioritization expenditures-

experience in the first six months suggested that ministries are complacent to conduct a critical expenditure rationalization exercise once emerging activities become known. As a result, ministries are turning to the MOFNP via Cabinet for resources to be allocated from the Contingency Fund as if there is no room to maneuver resources within the flat envelope.

10.2 Wage bill containment measures-

So far recruitments occurred only to positions that had an allocated budget. There is one ministry (PSC) that had recruited staff (without obtaining confirmation of funds from the MOFNP as per the requirement of the approved policy. The BFPD is endeavoring to strictly adhere to the gradual reducing of wages proportion to the overall budget to 45 percent target ratio over the next three years. The overall position based on the original budget is 55 percent or 55 cents of every dollar.

10.3 Elevation of budget control and management-

Budget control and management was elevated from activity to sub-program levels. Less than 100 transfers were made during the period under review compared to previous years with about 1300 transfers when the budget control effect on activity levels. This has allowed more time to the ministry to enhance its budgetary analysis for better policy advice on resources direction and concentration.

10.4 Contributions and subscriptions to international and regional organizations- the in-year budget payment of contributions and subscriptions to international and regional organizations was centralized to MOFNP in attempt to consolidate and streamline these obligations to elude accumulation of arrears and to curtail transfers made out to unrelated activities. Experiences suggest effective centralization and it has coerced ministries to be transparent with these obligations. Going forward, there is need to review these memberships to determine the relevancy or usefulness of these institutions to the core function of the responsible ministries because of increasing budget costing.

10.5 The unbudgeted requests received so far appeared not to be policy-based. Because unbudgeted requests transpire due to emerging activities that ministries failed to communicate during the budget preparation and formulation or they become apparent during the course of the financial year. This has significantly affected allocation to activities initially provided as priority of the ministries request. Surprisingly, some of the activities were not provided in their Annual Management Plans which were used as a resource allocative discipline tool.

10.6 Quality and strategic orientation of budget management- the quality and strategic guidance of budget management requires the strengthening of the planning and budgeting function at ministry level. It is noticeable from the mid-term review that the planning and budgeting function was underdeveloped in most line ministries. Consequently, incremental budgeting through transferring resources is the norm and the process is handled by financial managers with insufficient attention given to policy analysis and prioritization.

11. CONCLUSION

In conclusion, the overall performance of the budget during the period review is satisfactory, albeit there were fiscal pressures during the period review in which the MOFNP prudently managed with significant consideration not to jeopardize the adopted budget theme.