

FINANCE EXTERNAL CIRCULAR NOTICE NO. 20 OF 2010

**Ministry of Finance and
Development Planning
P.O. Box 395
Maseru 100
17th December, 2010**

FIN/EXPDT/S.1 (2010/11)

**TO: ALL PRINCIPAL SECRETARIES
ALL HEADS OF DEPARTMENTS
CLERK TO THE SENATE
CLERK TO THE NATIONAL ASSEMBLY
SENIOR PRIVATE SECRETARY TO HIS MAJESTY
AUDITOR GENERAL
OMBUDSMAN
INDEPENDENT ELECTORAL COMMISSION
SECRETARY TO THE PUBLIC SERVICE COMMISSION**

**COPY: GOVERNMENT SECRETARY
ATTORNEY GENERAL
SENIOR PRIVATE SECRETARY TO THE PRIME MINISTER
SECRETARY TO THE TEACHING SERVICE COMMISSION
NATIONAL AIDS COMMISSION
DISTRICT COUNCIL SECRETARIES**

Signed:.....

INTERIM CALL CIRCULAR 2011/2012 BUDGET ESTIMATES

1. INTRODUCTION

1.1 Chief Accounting Officers are requested to submit to the Ministry of Finance and Development Planning estimates of revenue and expenditure for the Financial Year 2011/2012 and projections of revenue and expenditure for 2012/2013 and 2013/2014 in accordance with the preliminary ceilings in Appendices 1, 2 and 3. Final ceilings will be established after the review by the Cabinet Budget Committee and the Cabinet. The submissions must be received by the Budget Controller by 18th December, 2010. The full calendar is covered in paragraph 1.5.

1.2 While the 2011/12 – 2013/14 BFP form the basis for the estimates, it should be noted that there are considerable resource constraints as discussed below and that lower-than-anticipated ceilings will be unavoidable.

1.3 In view of the envisaged resource constraints, the 2011/12 capital budget will focus on the productive sectors of the economy and will favour programmes and projects with a very high potential for achieving the following goals:

- a) Preserving existing jobs and creating new jobs;
- b) Generation of income;
- c) Contributing towards the desired economic growth; and
- d) Revenue Generation

The current budget should maintain the ceilings given in the annexes below

1.4 Ministries are urged to strictly adhere to the given budget ceilings for both recurrent and capital expenditure estimates.

1.5 It is important that the deadlines for submissions and budget discussions are observed to enable delivery of the budget to Cabinet and Parliament on schedule.

ACTION	DEADLINE
Submission of Revenue Estimates	20th December 2010
Submission of Expenditure Estimates	21th December 2010
Budget Discussion with Line Ministries	21st December – 14th January 2011
Presentation of Budget Estimates to Cabinet Budget Committee	18th January 2011
Presentation of Budget Estimates to Cabinet	25th January 2011
Presentation of Budget Estimates to Parliament	11th February 2011

2. MEDIUM-TERM FISCAL FRAMEWORK, 2008/09 – 2013/14

2.1 Based on the above policy goals an optimal fiscal strategy proposed for adoption by Government should involve:

- The allocation of increased investment to productive sectors where jobs are created and skills developed.

- Mobilisation of more resources - domestic, external grants and concessional loans for productive investment. It will require critical revision of fees and charges and exploration of new revenue sources, without increasing the burden of taxation on the poor. It will also mean the adoption of a more focused and robust approach to dialogue with Lesotho's development partners.

- Improvement in financial administration, accounting and auditing in order to eliminate fraud, corruption and resource leakages.

- A shift in the current composition of resource use from recurrent to capital expenditures by keeping the overall recurrent budget constant in real terms. In order to maintain the constant level of recurrent expenditure, the Ministerial ceilings for 2011/12 have been reduced with regard to approved budget in 2010/11 to cater for critical activities.

2.2 The proposed fiscal strategy derives from the overall economic and fiscal forecasts produced by the Ministry of Finance and Development Planning. Table 1 below provides a summary of key elements of the fiscal strategy.

Table 1: Summary Fiscal Framework

A. Baseline Scenario (Based on Current Trends)	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	9554.7	8708.3	8240.7	10483.5	11094.3
of which Capital Grants	693.4	1241.2	1442.3	1289.2	1226.5
Expenditure	-10039.9	-10116.1	-12759.0	-13267.2	-14540.9
Recurrent	-7017.2	-6715.8	-8382.5	-9051.4	-10416.7
Capital	-3022.7	-3400.2	-4376.5	-4215.7	-4124.2
of which GoL	2055.2	1968.5	1805.4	1926.4	2051.6
Fiscal Deficit (GoL)	-462.0	-1504.9	-3386.2	-1781.2	-2600.0
Fiscal Deficit (GoL)	-3.1%	-9.1%	-19.0%	-8.8%	-11.6%
B. Policy Scenario (Based on Proposed Policy Direction)	2009/10	2010/11	2011/12	2012/13	2013/14
Revenue	9554.7	8708.3	8168.3	10322.9	10914.3
of which Capital Grants	693.4	1241.2	1442.3	1289.2	1226.5
Expenditure	-10039.9	-10116.1	-11515.7	-11488.0	-12362.8
Recurrent	-7017.2	-6715.8	-7390.4	-7644.3	-8735.9
Capital	-3022.7	-3400.2	-4125.3	-3843.6	-3626.9
of which GoL	2055.2	1968.5	1554.3	1554.3	1554.3
Fiscal Deficit (GoL)	-462.0	-1504.9	-2215.4	-162.5	-601.8
Fiscal Deficit (GoL)	-3.1%	-9.1%	-12.6%	-0.8%	-2.7%
C. Gross domestic Product	2009/10	2010/11	2011/12	2012/13	2013/14
GDP Growth % (Current Prices)	10.9%	10.0%	6.9%	12.4%	10.9%
GDP Growth % (Constant Prices)	3.9%	2.9%	1.9%	4.8%	4.3%

2.3 During the medium-term (Forecast years-2010/11-2013/14), real GDP is projected to grow from 2.9 percent forecast in 2010/11 to 4.8 percent in 2012/13 at the back of the world recovery which is expected to positively impact on mining and manufacturing. Construction activities related to Metolong, Millennium Challenge Compact (MCC) and Phase II of the Lesotho Highlands Water Project, coupled with other Government investment in infrastructure development will also contribute to the expected growth in real GDP in 2011/12 and 2012/13. It is however expected that in 2013/14, real GDP will register a slow growth of 4.3 percent from 4.8 percent projected in 2012/13 due to, among other factors, the winding down of construction activities related to MCC and Metolong.

2.4 With the projected economic growth in the medium term, tax revenue is projected to increase marginally from M3,214.4 million in 2010/11 to M3,539.6 million in 2011/12, M3,885.9 million in 2012/13 and M4,374.5 million in 2013/14. On the other hand, SACU revenue, which has historically remained a major source of government revenue, is projected to continue to decline from M4,917.7 million in 2009/10 to M2,627.9 million in 2010/11, M2,141.3 million in 2011/12, and slightly pick up to M3,946.8 million in 2012/13 and M4 billion in 2013/14.

2.5 Thus, total revenue including grants is expected to follow a declining trend, from M8,708.3 in 2010/11 to M8,168.3 in 2011/12. However a slight recovery to M10,322.9 and M10,914.3 is expected in 2012/13 and 2013/14, respectively, as a result of improved SACU collections emanating from a recovery in RSA imports.

2.6 With no policy change, total expenditure would grow by about 13.8 percent in 2011/12, from M10,116.1 million in 2010/11. The growth would then decline to 3 percent in subsequent years. Recurrent budget would grow by 11.0% in 2011/12, from M6,662.1 million in 2010/11. It will then grow by 3.4 percent in 2012/13 and 14.3 percent. The capital budget expenditure, on the other hand, would grow by

20.6 percent from M 4,125.3 million in 2010/11, due to delayed execution of Metolong project in 2010/11. It would thereafter decline by 6.8 percent and 5.6 percent in 2012/13 and 2013/14, respectively. Thus a large fiscal deficit of around 19.0% of GDP is projected in 2011/12, all things the same.

2.7 The proposed fiscal strategy (policy scenario) considers a sustainable government's resource envelope that could help maintain foreign reserves at the Central Bank at the level that could cover about 3 months worth of imports and maintain the Loti/ Rand peg. Such a strategy would lead to a fiscal deficit around 8.4 percent of GDP in 2011/12; 0.8 percent of GDP in 2012/13; and 2.7 percent of GDP in 2013/14. Given that government's tax revenue is highly dependent on the level of economic growth and hence it is not possible to significantly increase in the short term to cover the expenditure requirements without incurring further fiscal costs, this would require a significant increase in non-tax revenue coupled with excessive cuts in the normal expenditure patterns.

2.8 However, since 2011/12 is a special year, within which Government needs to finance activities such as the National and Local Government elections, the new referral hospital, and several prior commitments, there is a limit to which Government expenditure can be reduced for Government to be able to provide services effectively. Hence there is need that a coherent and coordinated strategy to engage Lesotho's cooperating partners in discussion of increasing their development support is developed and implemented. Government would borrow from the domestic bond market to finance the gap.

2.9 It is imperative that the ceilings, which have been based on the fiscal framework, be adhered to, in order to ensure fiscal sustainability.

3. GUIDELINES FOR BUDGET ESTIMATES FOR 2011/12 – 2013/14

The 2011/12 – 2013/14 budget estimates will again be prepared using the new chart of accounts. The chart of accounts is discussed further in section 5 of this Circular for 2011/12 – 2013/14 budget estimates will continue to be entered into the new IFMIS Budget Module. However, the familiar MTEF budget entry forms and guidelines will continue to be used to facilitate proper costing and budget justification.

3.1 Revenue Estimates

All revenue collecting agencies must ensure that they submit realistic and achievable revenue estimates. Extra efforts to collect revenues and to close loopholes in the collection systems are required. Ministries should identify specific actions which will be implemented to improve administration of all revenue collecting activities. All relevant policy issues should be covered, including:

- the need to increase rates on fees and charges to keep them in line with inflation; and
- The identification of possible new tax and non-tax revenue items to compensate for losses from the traditional sources such as SACU.

Revenue estimates **should include**: Actual Performance for 2009/10; projected outturn for 2010/11 based on Actual Performance in the first six months of 2010/11; and estimates for the financial years 2011/12 and projections for 2012/13 and 2013/14.

3.2 Recurrent Expenditure Estimates

3.2.1 General Issues

Sound Public Expenditure Management has three components:

- adhering to the resource envelope defined in the fiscal framework;

- targeting resources at those activities which make the largest contribution to the attainment of national development goals and objectives; and
- Undertaking approved activities with maximum productivity and efficiency.

The Government continues to implement the Medium-Term Expenditure Framework (MTEF) approach to budgeting. All ministries now prepare medium term estimates, and all ministries prepare budget framework papers. For the 2011/12 – 2013/14 estimates, the piloting of programme budgeting will target to 5 pilot ministries (Agriculture and food Security, Labour and Employment, Tourism, Environment and Culture, Education and Training and Gender and Youth, Sports and Recreation). Other enhancements to the MTEF approach to budgeting will be introduced over the medium term.

Ministries have produced Budget Framework Papers (BFPs), matching their ministerial objectives and funding requirements with national development documents. Discussions on the BFPs were held to highlight Government's goals and priorities, and to build consensus on the resource allocation based on these priorities and by looking at allocations made to cost centres, sub-cost centres, programmes and sub-programmes.

The discussions on the BFPs are not meant to result in increased aggregate ministerial ceilings. The BFPs provide valuable information to assist the Ministry of Finance and Development Planning and the Cabinet Budget Committee to make more informed decisions about budget priorities. The BFPs also increase the focus on ways of improving **effectiveness** and **efficiency** by identifying issues to be addressed to improve service delivery and areas where **reallocations** and **savings** can be made within the Ministries.

3.2.2 Conditions for Budget Estimates

Ministries are required to observe the following conditions pertaining to the 2011/12 – 2013/14 budget estimates:

- (i) Ministries should ensure that their budget estimates are linked to the proposals included in their BFPs;
- (ii) Submissions must include all commitments already made by the Government which will have the effect of incurring expenditure over coming years;
- (iii) Submissions should identify measures that will be taken to improve the policy environment and to build up institutional capacity to implement approved activities in a timely manner.
- (iv) In view of the prevailing aggregate resource constraint, ministerial submissions should **clearly indicate the priority ranking of allocations by programmes.**
- (v) Ministerial submissions should include realistic estimates to meet the recurrent costs arising from projects which are scheduled for completion in 2011/2012 – 2013/2014, as well as for the maintenance of existing assets.
- (vi) The submissions must also demonstrate that they include policy measures and/or resource allocations required to satisfy agreements with development partners.

3.2.3 Content of Detailed Submissions

(a) Personal Emoluments (PE)

- (i) Chief Accounting Officers are advised to discuss their staffing situation with Ministry of Public Service before submission of the estimates:
 - Requests for creation and funding of new posts should be cleared with the Ministry of Public Service.

- Promotions should be cleared with Human Resource Department (HRD).
 - Up-grading should be cleared with Remuneration and Benefits Department (RBD).
 - Ministries should provide information on the current status of filling of vacant positions. Regarding the creation of new positions, strong justification should be provided, including how these positions will enhance performance of the ministries/departments and the impact on the future wage bill.
- (ii) Allowances should be shown by type, numbers of employees affected and clear costing.
- (iii) Estimates of Personal Emoluments must be complemented by nominal roll.
- (iv) Ministries should ensure that the Sub-Cost Centre totals for Personal Emoluments estimates match those contained in the payroll system. **If estimates are placed in the wrong Sub-Cost Centre, warrants will be distributed to the wrong Sub Cost Centre, and there may be delays in the payment of salaries until the relevant ministry is able to process virements.**
- (v) In respect of Teaching Service, additional information is required in the following format:
- Number of schools;
 - Number of Government-paid teachers per district;
 - Salaries and allowances estimates for 2011/12; and
 - Projections for 2012/13 and 2013/14
- (vi) The Ministry of Public Service should be given a copy of estimates of Personal Emoluments to confirm payroll with establishment.

(b) Other Charges (OC)

Ministries should use official Government prices to estimate fuel and maintenance costs. A comprehensive list of ministerial/departmental fleet containing vehicle descriptions and year of purchase must be attached to the estimates.

In regard to vehicles under Full Maintenance Lease, the latest hire rates must be used.

A prioritised list of international trips should be attached to the estimates for International Travel.

Details of seminars, workshops and short courses proposed for the financial year should be attached and cleared with the Ministry of Public Service.

Breakdown for Training Costs should be provided according to type of training, individual positions (i.e. not names of holders) affected and the amount estimated.

Efforts should be made to prioritise training activities and spread the training plan over the medium term.

Appropriate authority must accompany a request for purchase of new vehicles.

Subscriptions to International Organisations

These are now classified within Operating Costs, using Items 431021 to 431025, and Item 431027. Ministries should also attach a breakdown

showing name of the organisation and an amount to be paid. In the case of arrears, the outstanding amounts should be shown separately and the reasons given.

Line ministries providing subsidies/subventions to other organisations should submit a complete budget for such institutions, including audited accounts and annual reports for 2008/09 and 2009/10

Parent ministries should discuss the requested subvention with relevant institutions and agree on the level of support proposed.

Estimates for Personal Emoluments must be accompanied by nominal roll indicating grades and number of employees in each grade; vacancies; and gross salaries for 2010/11, 2011/12, 2012/13 and 2013/14.

3.2.4 Special Funds and Trading Accounts

(a) Separate submissions are required for:

- (i)** Trading Accounts; and
- (ii)** Special Funds.

(b) Ministries should further note that:

- (i)** No Trading Accounts/Special Funds will be allowed to operate without approved budget estimates;
- (ii)** Trading Accounts/Special Funds that do not submit regular and audited financial and non-financial reports will not be considered for approval.

3.2.5 Projects and Other Bank Accounts

Ministries must include in their submissions a list of **all project bank accounts** and their balances at commercial banks and at the Central Bank of Lesotho.

3.3 Capital Estimates

3.3.1 General Issues

The aggregate ceilings for capital expenditure for Financial Year 2011/12 and indicative ceilings for subsequent financial years are set out below:

Table 5: Capital Expenditure, Aggregate Ceilings (M, million)

	2010/11	2011/12	2012/13
Capital budget	ceilings	indicative ceilings	indicative ceilings
Total	3128.5	3275.9	3594.2
GoL	1308.7	1,307.3	1,416.8
Loans	418.8	453.0	501.1
Grants	1401.0	1,515.6	1,676.3
<i>of which MCA</i>	<i>724.7</i>	<i>845.9</i>	<i>600.8</i>

All project submissions should indicate how the project reflects national development priorities as contained in Part III above.

In view of prevailing aggregate resource constraint, all new project submissions should clearly indicate priority ranking attached to proposed resource allocations.

Ministries must submit their Capital Estimates for two categories of projects: CB1 forms should be used for ongoing projects which have been allocated resources in the Capital Budget Estimates for 2010/11 and which will have some additional resource requirements in 2011/12 and subsequent financial years; and

CB2 forms should be used for new project proposals which have not yet received any resource allocations but which are expected to incur some capital expenditure in Financial Years 2011/12, 2012/13 and 2013/14. **Ministries must ensure that minimum conditions (e.g. site availability, appraisal, feasibility studies, etc.) have been met as these are critical for timely implementation of projects.** Given

the current resource constraint, new programmes/projects are most likely to attract funding if they clearly target preserving existing jobs and creating new ones; generate income and contribute to economic growth.

3.3.2 Priorities in Capital Budget Allocations

The **first priority** in allocating GOL capital resources will be the requirement to preserve and create jobs, generate income, contribute to economic growth, to meet counterpart obligations under financing agreements with development partners, and complete ongoing GOL funded projects.

3.3.3 Submissions from Line Ministries

Line Ministries must submit three copies of all documents in support of the Capital Budget Estimates.

The Capital Budget Estimates must include all projects funded through grants and loans regardless of the funding arrangements (e.g. Treasury, project bank account, direct payment by development partner). **Balances accrued in project bank accounts must be included in the estimates of the respective projects for the coming financial year for appropriation so that such balances do not constitute unauthorised over expenditures.**

(a) Ongoing Projects

Ministries **MUST** submit Form CB1 for ALL ongoing Capital Projects that are expected to require funds in financial years 2011/12, 2012/2013 and 2013/14. This includes all ongoing projects that will **NOT** be completed by 31st March 2011 or will have financial obligations after that date.

Form CB1 also requires submission of an implementation progress report indicating the progress achieved in implementing the project during 2010/11 (and any

problems and delays experienced during implementation). An updated Implementation Schedule should be provided to indicate the expected attainment of key dates in implementation.

If a project has been COMPLETED during 2010/11, this should be reflected in the Progress Report and the Implementation Schedule and the Form should clearly indicate that there will be NO resource requirements in 2011/12 or future years.

Form CB1 should also show additional resource requirements for the ministerial recurrent budget once the project has been completed and is being utilised.

(b) New Project Proposals

While the Government continues to be committed to social development, in line with its stated objective of **Broad Based Growth**, new projects linked to the creation of conducive and competitive environment for increased investment and employment creation will be accorded high priority.

Ministries must submit Form CB2 in respect of EVERY new capital project proposal which is expected to incur capital expenditure in 2011/12, 2012/13 and 2013/14.

Screening of new project proposals will be facilitated if all sections of Form CB2 are completed comprehensively in accordance with the Guidance Notes. In particular, a clear description of the physical scope of the project is required, together with a statement of the project objectives demonstrating that the project is consistent with the national and sectoral development goals.

It will still be necessary for all new project proposals to have been considered by the **Project Appraisal Committee** prior to formal endorsement and inclusion in the Capital Budget Estimates for 2011/12. To assist in screening of new project

proposals, it is necessary to indicate the progress made in satisfying minimum acceptance conditions as listed in Form CB2.

Form CB2 should also show additional resource requirements for the ministerial recurrent budget once the project has been completed and is being utilised. Proposals which have large recurrent implications will be subject to careful scrutiny in view of the limits being imposed on the creation of new posts.

(c) Summary Forms

Ministries should also complete summary Form CB3 (for ongoing projects and new projects). The information contained in these summary forms must be extracted accurately from the Project Information Sheets (Forms CB1 and CB2) for each specific project. All these forms can be obtained from the Ministry of Finance and Development Planning (Budget Department).

(d) Information Communication Technology

Top priority should be given to internet connectivity within Government (including districts). Reliability of internet service providers and their ability to render resolutions to problems are critical for operations of the Ministries.

Other issues or areas to be considered include:

1. Development of Local Area Network/Wide Area Network (LAN/WAN) within a ministry;
2. Website development and maintenance;
3. Staff training in ICT service/operation;
4. Software purchase or licence renewal.

Ministries should contact the ICT department of Ministry of Communications, Science and Technology for advice and guidance in respect of infrastructure

requirements relating to the development of e-governance and associated cost estimates.

4. CHART OF ACCOUNTS CHANGES FOR 2011/12

4.1 Overview

The structure and scope of the chart of accounts has been changed to take advantage of the powerful analytical and reporting capacity of the new IFMIS, and to comply with international accounting and financial statistics standards. The budget classification system has been expanded and revised to introduce several new fields.

5 IFMIS Budget Module - Budget Entry Process

5.1 Budget Entry

In 2011/12, five pilot ministries will prepare their recurrent and capital budget estimates for 2011/12 using the programme Budget approach, the MTEF entry forms, and the IFMIS budget module. For 2012/13, additional ministries will use the programme Budget entry process for their recurrent estimates.

The other non pilot Ministries will enter their recurrent budgets into the IFMIS Budget by item for Sub-Cost Centre, within the ceilings provided. The non pilot Ministries will also enter their project expenditures at Item level.

It should be noted that Ministry staff that have been trained on the IFMIS Budget Module will be permitted to enter budget data on the Budget Module. Any officer in a Ministry who does not have the appropriate IFMIS user name and password will not be permitted to use the IFMIS Budget Module. It should also be noted that it will be an offence for any officer to share his user name and password with another officer. Ministries should take advanced action to ensure that relevant officers have the appropriate user access rights.

6 ESTIMATES SUBMISSIONS

6.1 Estimates submissions must cover actual expenditure in Financial Year 2009/10; the projected outturn for 2010/11; budget requests for 2011/12; and projections for 2012/13 and 2013/14.

6.2 Ministerial Budget Framework Papers formed the basis for preparation of the estimates and projections. Information contained in the BFPs assists MFDP and the Cabinet Budget Committee to prioritise new spending and to set expenditure ceilings.

6.3 Ministries are required to ensure that financial implications of decisions they make over the medium term are properly analysed, and included in the budget estimates.

7 BUDGET SPEECH 2011/12

7.1 Contributions to the 2011/12 Budget Speech should be submitted with the Estimates.

7.2 The contribution should include: an assessment of performance in 2010/11; and an outline of the Ministry's planned objectives and activities for 2011/12, 2012/13 and 2013/14. The contributions should be brief and specific, focussing on core goals, objectives and achievements of the Ministry.