GOVERNMENT OF LESOTHO

THIRD QUARTER PERFORMANCE

BUDGET AND FISCAL BULLETIN

MINISTRY OF FINANCE

MINISTRY OF FINANCE; P.O BOX 395; MASERU 100

Ministry of Finance
Government of Lesotho

Budget & Fiscal Bulletin **Vol. 1, Issue 3**
Third Quarter – 2015/2016

Foreword from Principal Secretary of the Ministry of Finance

I am delighted to release the third quarter issue of the Budget and Fiscal Bullet of 2015/2016. As flagged in the first two quarterly bulletins, the Ministry continues to uphold the obligation and commitment of ensure that the use public funds is transparent and is communicated to the public.. For availability and accessibility please visit: http://www.finance.gov.ls.

This bulletin continues to support our efforts in the area of fiscal transparency in an attempt to provide information to the public on government's fiscal responsibility.

The bulletin is divided into three sections. Section one provides an overview of the quarterly fiscal performance. Section two presents the budget and fiscal developments and is divided into three subsections, which deal with the execution of the Government's budgetary transactions (recurrent and capital expenditures) and revenue collection. Section three provides a summary of the Government's initiatives in the PFM reform arena.

Introduction

This bulletin reports and informs various ministries and agencies, the public, donors, and civil society about Government's revenues and expenditures performance. It reports revenue collections and expenditure outlays for the third quarter of FY 2015/16.

The third quarter recurrent expenditure recorded M8, 117 which is 68 percent of the approved budget of M11, 993 million, whilst the capital budget is at M2, 400 which is 51 percent of M5, 132 million.

The revenue collection for the third quarter is M3, 890 million which is about 25 percent against the quarterly target.

Section 1 – Quarterly Fiscal Developments

During the third quarter of 2015/16 (October- December), total revenue recorded M3, 890.4 million, reflecting total growth of 7 percent compared to the same period of 2014/15. This was attributed to the increase in tax revenues recording 16 percent; increase in other revenue collections as well as in donor grants recording 36 percent and 85 percent, respectively. As noted in the last two quarterly bulletins, SACU receipts continued to struggle, recording a decline of 5 percent compared to the same period in 2014/15.

Figure 1: Revenue Shares (in Millions of Maloti)

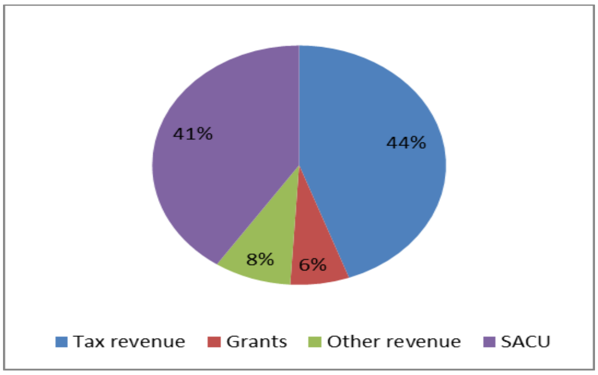


Table 1: Budgetary Operations – Q3:2015/2016

Budgetary Operations: October- December 2015 (Millions of Maloti)	
Revenues	3,890
Expenditures	3,775
of which	
Recurrent	2,985
Capital	790
Budget Balance	**115**

Note: The budget balance is estimated due to certain discrepancy in data reconciliation.

Total expenditure for the quarter showed M3, 775 million of which M2, 985 million was recurrent expenditure and M790 million for capital expenditure. This expenditure is slightly less than the revenue collection leading to the fiscal balance for the third quarter estimated at a surplus of M115 million; owing to lower than anticipated expenditure especially with regard to the capital budget as a result of the late approval of the expected budget reallocation.

Section 2 – Budget and Fiscal Developments

Section 2:1 – The Third Quarter's Revenue Collection

During the quarter under review, the total revenue collection was M 3,890.1 million, which is 25 percent of the total target of M15, 321.4. Despite the anticipated low GDP growth, this reflects a slight increase in performance relative to an estimated quarterly target of M 3,830.4 million. The good performance was brought by tax revenue and other revenue.

Table 2: Revenue Performance (in Millions of Maloti)

Revenue Items	2014/15 Q3	2015/16 Q3	Growth in percent
Tax Revenue	**1,493.5**	**1,730.2**	**15.9%**
Grants	**136.4**	**252.6**	**85.2%**
Other Revenue	**242**	**330.2**	**36.4%**
SACU	**1,758.5**	**1,577.1**	**-5%**
Total	**3,630.4**	**3,890.1**	**7.2%**

Tax Revenue

As shown in Table1 and Figure 1, tax revenue responded positively in some categories against the estimated target. Tax revenue recorded M 1, 730.2 million against the target of M1, 629.3 million, exceeding the quarterly target of M 101 million (6.1 percent). This positive collection was brought by growth in corporate tax, withholding tax and gaming levy, which offset the decline in VAT and income tax.

Personal income tax declined by 1.7 percent below the target. This was attributed to the underperformance from the private sector PAYE due to reduction in employment levels by the large tax payers. VAT registered a decline of 2 percent owing to the reductions in sales in wholesale and retail which traditionally accounts for 60 percent of VAT.

Corporate income tax (CIT), on the other hand, exceeded the target by 11 percent. This was mainly influenced by higher than expected growth in the collections from the financial and insurance as well as telecommunications sectors. In the face of declining diamond prices, mining sector also contributed significantly in CIT due to dollar appreciation in 2015/16. In addition, withholding taxes and Fringe Benefit Tax (FBT) recorded a 50 percent increase against the target as a result of improved compliance initiatives.

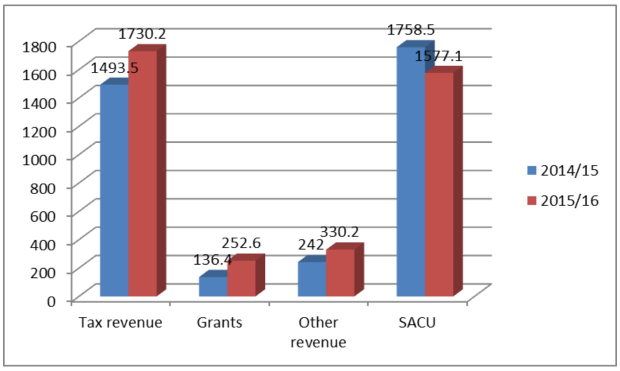
Other Revenue

This is a non- tax revenue which consists of administrative fees and charges, fines and forfeits and property income. Property income (mainly dividends) and electricity and water royalties are the major drivers of the revenue collections under this category. The third quarter revenue collections registered M 330.2 million against the target of M362.5 million. The decline was attributed to the poor administration of dividends from the institutions where government has shareholding. It remains critical that government steps up its collection management of dividends.

SACU

The story around the SACU revenues remains the same as the predetermined quarterly receipts continue at 5 percent below the 2014/15 level, and as indicated in the second quarter, this will be the case throughout the 2015/16 fiscal year.

Table 3: Revenue performance (in Millions Maloti)



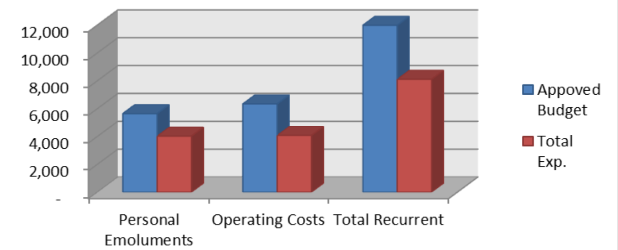
Section 2:2 – The Third Quarter's Recurrent Expenditures

Recurrent budget expenditure for the third quarter is M 8,117 million (86 percent of 2015/16 Q2 warrant(s) released). When comparing expenditure with warrant(s) released (M 9,489 million), this reflects a rather slower utilisation than estimated. Furthermore, expenditure stands at 68 percent of approved budget. (See Table 4 below)

Table 4: Recurrent Budget Performance

Expenditure Type	Approved Budget 2015/2016	Warrant Released	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
TOTAL PERSONAL EMOLUMENTS	5,650	4,389	4,034	1,616	92%	71%
TOTAL OPERATING COSTS	6,343	5,100	4,082	2,260	80%	64%
TOTAL RECURRENT	**11,993**	**9,489**	**8,117**	**3,876**	**86%**	**68%**
Note: Amounts are in millions of Maloti						

2015/2016 Third Quarter Recurrent Budget Performance



In the third quarter, personnel emoluments and operating costs (essentially goods and services) are at 71 and 64 percent, respectively, of the approved budget for FY 2015/16. This indicates a fairly reasonable utilization of the budget as compared to the second quarter where there were only 47 and 39 percent expenditure on personnel emoluments and operating costs, respectively.

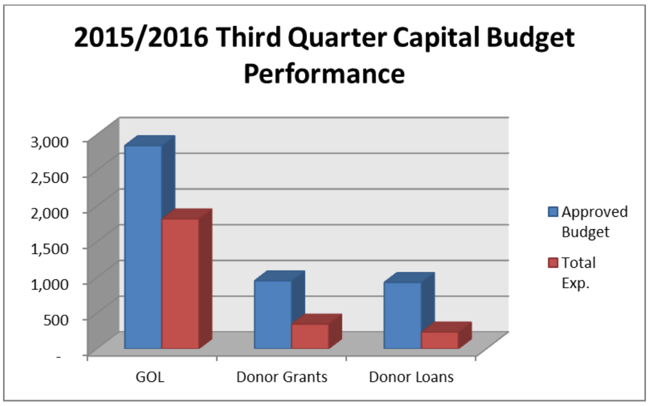
Although, we are at a stage where government operations should have stabilized, operating costs are still low. Some of the challenges identified for low utilisation are due to some decisions that Government had to make in order to finance some of the its services such as the transfer of Vehicle Maintenance, Short Term Hire, Fares and Subsistence International budget balances from line Ministries to the Ministry of Finance Short Term Hire to cater for fleet management costs contracted during the course of the year.

Section 2:3 – The Third Quarter's Capital Expenditures

Table5: Capital Budget Performance

Code	Approved Estimates	Warrant Released (RIE'S)	Total Expenditure	Budget Balance	EXP as % of Warrant Released	EXP as % of Approved Estimates
GOL Total	2,844	1,902	1,819	1,025	96%	64%
Donor Grants Total	952	206	347	605	169%	36%
Donor Loans Total	930	261	234	669	90%	25%
TOTAL	**4,726**	**2,369**	**2,400**	**2,299**	**101%**	**51%**

Note: Amounts are in millions of maloti



Cumulative capital spending of up to the third quarter is at M 2,400 million, which is 101 percent of warrants released and 51 percent of the total approved budget. This indicates that, regarding donor funds, line ministries do not request funds for posting as expected but rather spend outside the IFMIS system. This is an important management gap that requires being resolved as a matter of urgency so that government's financial reporting is comprehensive.

The fund releases on development budget are as per ministerial requests, not quarterly basis as is the case with the recurrent budget. Total development budget performance indicates a huge improvement from 34 percent in the second quarter to 51 percent in the third quarter.

This is due to the fact that at the end of the second quarter, funds were reallocated from low spending projects to fast performing projects approved by Cabinet.

It should be noted that more than one-quarter of official flows for development projects are not captured within the budget due partly to resistance from agencies supported by such funding and discrepancies in financial management procedures practiced by some development partners and that of the Government. This, in turn, imposes parallel structures in public finances, impedes capacity building within the Government, and voids the budget of its comprehensiveness – due to lack of the data.

Section 3 – PFM Reform Efforts

Component 1 - *PFM Regulatory Framework Updated to Underpin PFM Reforms* – The Audit Bill, whose crux is the independence of the Office of the Auditor General (OAG), has been presented for debate in parliament and comments made on the Bill. The OAG is addressing comments on the Bill before the second reading in parliament; and ii) New submissions of proposed amendments from the Budget and Private Sector Development departments to address identified gaps in the law have been received for updating the Public Financial Management and Accountability Act 2011.

Component 2 – *Transparency and Effectiveness of Policy Oriented Annual Budgets* – An initial stock taking of the State-Owned-Enterprises (SoEs) has been completed and a draft concept note meant to provide basis for the need to establish the financial positions of the SoEs and possible fiscal risks to the GoL that is associated with the SoEs has been developed.

Component 4 - *Internal Control Framework is strengthened to Ensure Operational Efficiency and Effectiveness (value-for-money).* To build capacity of the Internal Audit Department, *procurement* audit (Supply Chain Management) training was held for fifteen (15) internal auditors. The training was administered by the Institute of Internal Auditors South Africa (IIA-SA).

Component 5 – *Accounting and Fiscal Reporting Fully Compliant with the Regulatory Framework and Accepted International Accounting Reporting Standards – i)* Electronic Funds Transfer (EFT) and Information Technology (IT) audit consultants were engaged during the reporting period. Preliminary findings for the two audits have been presented to Treasury management and IFMIS Steering Committee; and ii) the draft contract for IFMIS upgrade has been reviewed and negotiations of the upgrade contract are ongoing in order to ensure inclusion of critical technical elements for a useful system upgrade.

The impact and sustainability of the PFM reforms hinge predominantly on the effective leadership of the departments involved in the reform and the extent of integrating change management in the initial stages of the project.

This Newsletter is published under the authority of the Minister of Finance.
Editor-in-Chief: Principal Secretary, Ministry of Finance
Co-Editor-in-Chief: Principal Secretary, Ministry of Development Planning.
For more information contact Ms. Maleshoane Lekomola (maleshoane.lekomola@gov.ls) or Ms. Nthabiseng Sello (nthabiseng.sello@gov.ls) or Mrs. Marethabile Tsoeu (marethabile.tsoeu@gov.ls).
Tel: 22311101

The newsletter is available on the Ministry of Finance website: http://www.finance.gov.ls