GOVERNMENT OF SOLOMON ISLANDS

2018 Mid-Year Budget Review

July 2018

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MINISTER'S FORWARD

The publication of the 2018 Mid-Year Budget Update by the Solomon Islands Government provides an annual budgetary review as part of a range of reforms designed to increase the accountability and transparency of the Government's fiscal stance in line with the *Public Financial Management Act 2013.*

This document, though produced late in relation to Section 52 (1) a. of the Public Financial Management Act 2013 requirements, provides to National Parliament and all stakedholders of Government 'a review of the budget's execution for the first six months of the financial year' in terms of overall macroeconomic performance of the country, as well as tracking revenue collections and expenditures incurred by Government Ministries and Offices.

The outlook for real Gross Domestic Product in 2018 is forecast to be 3.5 per cent growth compared with the 3.6 per cent in 2017. The slight decline in growth is due to the expected fall in value of logs and fishing activities throughout the year. Of the 3.5 per cent growth, the primary sector is expected to contribute to around 0.5 percentage points to growth. The service and industrial sectors are forecast to contribute 2.4 per cent and 0.6 per cent growth in 2018.

The $138 million of arrears that were rolled over from 2017 have all been addressed within the first six months and Government has met its commitment of clearing these outstanding bills for 2017 within this year's fiscal envelope.

Revenue collections for the first six months of 2018 are in line with our forecasts, with IRD and CED collections performing stronger than 2017 actuals. Increased audit and compliance activities on provisional tax, debt and returns in line with a number of new measures are largely responsible for the increase.

Total IRD revenue was initially forecast to be around $1,909.1 million and CED was forecasted to be around $1,097.3 million, however, an expected $50 million additional revenue is expected from domestically sourced revenue as a result of a windfall revenue from increased compliance activity and forecast increases in goods tax, excise increases and goods tax amendments. An additional $60 million in logging revenue is also anticipated and these windfalls in revenue were instrumental in approving the 2018 Supplementary Bill 2018 of $229 million. These revisions will be reflected in the 2018 Final Budget Outcome in April 2019.

Overall, the Other Charges Budget continues to be successfully implemented in line with pro rata estimates, however the Payroll budget is already facing overspends as a result of recruitment of staff to vacant positions that have not been budgeted for and increases in allowances and gratuities, without the consideration of the original appropriations that were approved by Parliament in April 2018. The Development Budget actuals are lower than anticipated, but this is due to having no Development Budget allocations during the Interim Budget of 2018 that extended from January to April, when the budget proper is passed.

My Ministry will continue to support Government to ensure the smooth delivery of services and the successful execution for the 2018 National Budget of the Solomon Islands Government.

I commend this document to National Parliament.

Hon. Manasseh D Sogavare
Minister of Finance & Treasury

INTRODUCTION

The 2018 Mid-Year Budget Review has been prepared in accordance with Section 52 of the *Public Financial Management Act 2013 (the Act)*.

The report is designed to closely match the presentation of the Annual Budget, as required under the Act and provides a summary of expenditure and revenue actuals as against the Budget. In addition, it also provides relevant information in relation to broader economic and fiscal issues that have arisen since the 2018 Budget was presented to and approved by the National Parliament in April.

Note that all tables and analysis in the report review revised expenditure and revenue actuals against pro-rata estimates i.e. budget estimates pro-ratad for the first 6 months only. In future reports on the mid year performance of the SIG budget, we will endeavour to review both revenues and expenditures against more realistic trends for collections as well as the cash flow forecasts provided by Ministries to provide a more robust assessment overall.

ECONOMIC UPDATE

The outlook for real GDP in 2018 is forecast to be 3.5 per cent growth compared with the 3.6 per cent seen last year. The fall in growth is primarily due to the expected wind down of logging activities and fishing activities throughout the year. Of the 3.5 per cent growth, the primary sector is expected to contribute around 0.5 percentage points to growth. The service and industrial sectors are forecast to contribute 2.4 per cent and 0.6 per cent growth in 2018.

The government is introducing some changes to logging tariffs, and with the introduction of the new HS 2017 tariff version, we are anticipating to improve revenue collections for logging receipts when this is implemented on 1st of October 2018. The Determined Value for Logs is usually updated on a quarterly basis. The price is determined using the Global Trade Atlas database that reports the price paid for Solomon Islands' logs in key markets, China and South Korea.

It must be noted that the Ministry of Finance has published the export duty schedule, which is 25% of the value of the determined value price for each species. The export duty schedule was not a determined value price and must be differentiated to avoid confusion. To enhance the Government's ongoing commitment to improve sustainable logging, the determined value for logs will be reviewed to conform to the requirement under the tariff HS 2017 which calls for a single price for each species of logs.

Under the current HS 2012 tariff version, each log species is classified according to four different grades: Regular, Small, Super Small and Low Grades, which can allow for possible fraud to happen. The classification is merged into one description and price for each species. In the HS 2017, with this new classification, revenue on log exports will improve as a result of not having description choices.

Petrol and diesel prices have risen to around $60- $70 USD dollars per barrel over the first half of 2018. According to the World Economic Outlook Report (published in April 2018), the oil price has slightly increased in recent months and is expected to subdue over the medium term. Logging production is anticipated to remain high and similar to 2017 levels of around 2 million cubic metres, while business activities (retail and wholesale) and investment is likely to increase; this is in line with the work commencing on a number of infrastructure investments, particularly in the transport and energy sector. Log production has increased by 20 per cent in the first half of 2018, compared with the same period last year. YTD volume is around 1.4 million cubic metres compared to 1.02 million cubic meters seen last year.

The Agriculture sector is projected to contribute to around 0.5 percentage points to growth in 2018. Production of agriculture exports commodities (copra, cocoa, palm oil, and P/K oil) increased by 2.4 per cent in the first 5 months of 2018, led by fish catch and PK oil, which surged by 32 % and 29 %, respectively. Timber/Log rose by 20 per cent. Copra and Palm oil production also rose to 9 % and 0.5 %, while Cocoa fell 16% in 2018.

Prices for the key agriculture commodities decreased by 24 per cent, despite increase in the price for cocoa and logs by 16 per cent and 1 per cent, respectively in the first half of 2018.

Balance of Payments and the Global Economy

- The Solomon Islands Current Account Deficit is now expected to narrow slightly to be around 4.6 per cent of GDP in 2018 (from 5.1 per cent of GDP in 2017.
  - Improvements in the balance of income and current account transfers balance are expected to be the main drivers for the improvements of the current account balance in 2018.
  - The CAD is expected to widen to around 6 per cent of GDP in 2019 and 7 per cent in 2020. This is in line with the expected stabilization in the value of log exports, stabilization of donor inflows in line with the expected increase in the value of oil imports and impacts from large project investments.
- Trade balance in goods is anticipated to be narrowed in 2018, by around $16 million as compared to $52 million in 2017. This downside change reflecting the expected decline in value log exports and increasing value of import in 2018.
- Foreign reserves are forecast to gradually decline based on the recovery in oil prices and a gradual decline in logging output. However, in the short term, reserves should be remain well above the 3 months import benchmark and be sufficient to ensure exchange rate and monetary stability.

The key risks to the outlook of Solomon Islands economy are continued global financial market instability vulnerabilities and political instability. This includes also the ongoing trade wars between two of the major economies United States and China.

Nominal GDP

Nominal GDP (the current dollar value of goods and services produced in the economy) is forecast to grow at around 5.5 per cent of GDP in 2018. That growth is slightly higher than 2017 but well below the annual average during the period 2010-2016 (which was around 8 per cent of GDP).

The modest increase of nominal GDP growth rate is due to persistent inflation over the first half of the 2018. Strong nominal GDP growth is placing upward pressure on revenue collections, particularly goods tax on oil imports.

Nominal GDP growth is forecast to rebound to around 5.9 per cent in 2019, consistent with stronger growth in prices and an increase in overall economic activity.

Inflation Developments

The rate of inflation is expected to be around 2 per cent in 2018 compared to a growth of 1 per cent in 2017 due to continue increase in fuel and oil price of around 30 per cent for the first six months in 2018, compared to the same period last year. The continued increase in inflation also reflects the rise in domestic aggregate demand due to continued improvement in our national economic growth which boosts economic activity, coupled with continued increases in government expenditure.

The Honiara Consumer Price Index (CPI) for the first five months to May grew at a declining rate of 2.8 per cent compared to 3.9 per cent in the previous month (based on a 3 month moving average), largely driven by the decline in the import price of food but largely offset by a slight increase in domestic prices, mainly food.

Average annual headline inflation for 2018 will still forecast to grow around 2-3 percent though the import price is expected decline but this may largely be offset by a huge increase in the price of oil, coupled with an increase in the domestic price of food.

FISCAL UPDATE

The 2018 Supplementary Budget

In order to fully fund the supplementary pressures for 2018, the government has secured about $170.4 million from the following sources;

- ERU revised revenue projections of $110 million additional revenue for 2018.
- The cash sweep account additional deposit balance of $23.4 million which will be transferred back to the consolidated fund.
- ICSI reimbursement of $10 million to SIG under the Submarine Cable equity arrangements.
- The remaining balance of about $27 million for the NPF development bond. Government will only spend about $123 million of the total development bond this year.

The Government remained committed to clear all outstanding arrears this year, ensuring that no outstanding arrears are carried forward in 2019. With that commitment in mind, the government has decided to secure additional resources to finance the remaining gap for the 2018 Supplementar Budget of $29.7 million through domestic borrowing. SIG has limited space of about $30 million available to borrow in the domestic market to fund development pressures as specified in the 2018 appropriation Act 2018.

These overall adjustments have not been captured in this report (expect for one Contingency Warrant approved of $1.3 million for Judiciary), as the timing on the review of budget execution as per the PFM Act is for the first six months, however, it should be noted that the 2018 Supplementary Budget has only been considered against windfall revenue increases that were being assessed during the formulation of this report.

The $226 million in increases that was approved was to cater mainly for further arrears (around 80% of the total approved Supplemetnary Budget) that had accumulated since 2017, for which the Government did not initially have resources secured in April when the budget proper was passed, as had to wait for a comprehensive review of revenues in order to determine whether these outstanding obligations would be paid this year or incorporated into next year’s budget.

The 2018 Revised Budget Execution Performance as of the 30th of June 2018

Total expenditure for 2018 from January till June was $1,647.7 million, which is 42 per cent of the Revised Budget Estimates of $3,953.1 million. Recurrent expenditure actuals are $1,397.8 million (or

48 per cent) of the revised annual Budget. The Development Budget has faced underspends of around 36 per cent (or $75.1 million) from the revised Budget as at the end of June.

There have been minor increases in overall budget expenditure which have been allowed for through Contingency and Advance Warrant provisions. These are detailed further in later sections.

Overall, recurrent revenue has exceeded expected collection rates by 4 per cent (or $63.2 million). IRD is tracking slightly below expected levels at 5 per cent (or $46.2 million) out of a total revised estimate of $1,909.1 million but this will improve over the next 6 months with the improvements in compliance and forecasted increase in Goods Tax due to Goods Tax amendments. Customs is tracking at 60 per cent (or $653.7 million). Revenue receipts from other ministries (non-tax) is currently on track and exceeding the revised Budget of $536.6 million by 2 per cent (or $4.4 million).

The Fiscal Table (Table 1 below) highlights key variations and estimates in the budget for 2018. While the Fiscal and other tables in this document compare the actual results for the first half of 2018 with revenue and expenditure Budget estimates, this only provides an indicative guide of how the budget is tracking. **This is because it does not take into account seasonal factors that can have a significant impact on some revenues and the cyclical and unpredictable nature of monthly expenditure. The revenue figures below are consistently being updated and reflect a snapshot as of the 30th of June, depending on the data that was posted to the Financial Management Integrated System.**

Table 1: Updated 2018 Fiscal Table

	2018 Budget Estimates $m	2018 Revised Estimates $m	Budget Variance $m	Budget Pro Rata $m	2018 Actuals $m	Variance $m	Variance (%)
Total Revenue	**4,067.9**	**4,090.9**	**23.0**	**2045.5**	**1,883.9**	**(161.6)**	-7.9%
Recurrent Revenue	**3,543.1**	**3,543.1**	**0.0**	**1771.6**	**1,834.4**	62.8	**3.5%**
Taxes on income & profits	**1,081.1**	**1,081.1**	**0.0**	**540.6**	**517.4**	**(23.2)**	**-4.3%**
Personal/Income tax	499.8	499.8	0.0	249.9	240.4	(9.5)	-3.8%
Withholding tax	296.6	296.6	0.0	148.3	128.6	(19.7)	-13.3%
Company tax	284.7	284.7	0.0	142.4	148.4	6.1	4.3%
Domestic taxes on goods & services	**828.0**	**828.0**	**0.0**	**414.0**	**390.7**	**(23.3)**	-5.6%
Sales tax	74.9	74.9	0.0	37.5	36.2	(1.3)	-3.3%
Goods Tax	721.5	721.5	0.0	360.8	338.3	(22.5)	-6.2%
License Revenue	16.9	16.9	0.0	8.5	8.4	(0.0)	-0.6%
Stamp duty	14.7	14.7	0.0	7.4	7.8	0.5	6.1%
Taxes on international trade & transactions	**1,097.4**	**1,097.4**	**0.0**	**548.7**	**653.6**	**104.9**	**19.1%**
Excise Duty	185.7	185.7	0.0	92.9	109.8	17.0	118.3 %
Export Duty	584.2	584.2	0.0	292.1	406.7	114.6	139.2 %
Fees, charges, and other	1.1	1.1	0.0	0.6	0.9	0.4	163.6 %
Import Duty	326.4	326.4	0.0	163.2	136.2	(27.0)	83.5%
Others	**686.6**	**686.6**	**0.0**	**343.3**	**272.7**	**(70.6)**	**-20.6%**
Other taxes (other ministries)	536.6	536.6	0.0	268.3	272.7	4.4	1.6%
Development Bond (NPF)	150.0	150.0	0.0	75.0	0.0	(75.0)	-100.0 %
Grants and Budget Support	**374.8**	**397.8**	**23.0**	**198.9**	**49.5**	**(149.4)**	**-75.1%**
General Budget Support	80.0	80.0	0.0	40.0	0.0	(40.0)	-100.0 %
Sector Budget Support	224.8	247.8	23.0	123.9	49.5	(74.4)	-60.0%
Donor - Funded Development	70.0	70.0	0.0	35.0	0.0	(35.0)	-100.0 %
Less 2018 Outstanding Arrears	138.0	138.0	0.0	69.0	0.0	0.0	0.0%

Available Revenue for 2018	**3,929.9**	**3,952.9**	**23.0**	**1976.5**	**1,647.7**	**(328.8)**	**-16.6%**
Total Expenditure	**3,929.9**	**3,952.9**	**23.0**	**1976.5**	**1,647.7**	**(328.8)**	**-16.6%**
Recurrent Expenditures	**2,898.1**	**2,899.4**	**1.3**	**1449.7**	**1,397.8**	**(51.9)**	**-3.6%**
Payroll	1,077.2	1,077.2	0.0	538.6	568.4	29.8	5.5%
Other Charges	1,820.9	1,822.2	1.3	911.1	829.4	(81.7)	-9.0%
Others	**176.0**	**174.7**	**(1.3)**	**87.4**	**0.0**	**0.0**	**0.0%**
Recapitalization of ICSI	150.0	150.0	0.0	75.0	0.0	(75.0)	-100.0%
Contigency Warrant Provision	26.0	24.7	(1.3)	12.4	0.0	(12.4)	-100.0%
Budget Support (Including on-lends and grants)	**304.8**	**327.8**	**23.0**	**163.9**	**49.5**	**(114.4)**	**-231.1%**
General Budget Support	80.0	80.0	0.0	40.0	0.0	(40.0)	-100.0%
Sector Budget Support - L3	224.8	247.8	23.0	123.9	49.5	(74.4)	-60.0%
Consolidated Development Budget	**551.0**	**551.0**	**0.0**	**275.5**	**200.4**	**(75.1)**	**-27.3%**
Donor-funded development	70.0	70.0	0.0	35.0	0.0	(35.0)	-100.0%
SIG funded development	**481.0**	**481.0**	**0.0**	**240.5**	**200.4**	**(40.1)**	**-16.7%**
Budget Balance	**0.0**	**0.0**	**0.0**	**0.0**	**236.2**	**236.2**	**-24.5%**

REVENUE

Revenue collections for the first six months of 2018 are almost within the Budget forecasts, demonstrating that economic performance is generally stronger than 2017 collections. Slightly weaker than budgeted collections for Inland Revenue Division (IRD) are consistent with the fall in prices over the first half of 2018. There was also a higher rate of collections from Customs and Excise Division (CED) and other Ministries. Total IRD, CED and Fees and License collections from other ministries were forecast to be around $3,543.1 million in 2018, an decrease from 2017 levels of 0.3 per cent (or $12 million). Overall, domestic revenue collections have exceeded forecasts by $103.7 million (or 6 per cent) from the $63.2 million expected collection in the first six month of 2018.

Total original IRD revenue estimates for 2018 is $1,909.1 million (see Table 2). IRD June 2018 YTD revenue collections were around 11 per cent higher than the same period in 2017 and 13 per cent (or $109.4 million) higher than in 2016.

- Business profitability has improved in the first half of the year and this has led to company tax receipts in this period being 2 per cent above the same period in 2017. However, this is partly due to Company tax receipts are forecast to grow by 4 percent.
- Personal tax receipts for the first six months of the year showed an increase of 11 per cent compared to the same period last year and is 4 per cent below budget. The strong performance of personal tax reflects increased business activity in the private sector which is expected to continue in 2018 and personal tax is forecast to grow by 4 per cent.
- Goods tax receipts in the first half of 2018 were 10 per cent (or $32.6 million) higher than the same period in 2017 with 12 per cent higher than the same period in 2016. This mostly reflects the slight increase in fuel imports, forecast to rise by around (4 per cent) in 2018 in line with growth in the nominal economy and anticipated increase in oil price.
- Sales tax for the first six months of 2018 is around 13 per cent higher than the same period last year. This is due to Strong growth in consumption (household and government) will provide support for sales tax receipts.

CED YTD revenue collections were 29 per cent (or $190.7 million) higher than the same period in 2017 with $463.0 million (supported by strong logging receipts).

- The collection for import duties YTD June collections was 21 per cent (or $28.7 million) higher than the same period in 2017, and 26 per cent compared to 2016. However, import duties are forecast to strengthen over the second half of 2018 as a result of an expected increase in public expenditure.
- Export duty receipts are forecast to decline by 7 per cent in 2018. A sharper than expected downturn in the Chinese economy (the major export destination for logs) is a key risk to logging receipts in 2018 and 2019. YTD to June is 42 per cent lower compared to the same period last year.
- The estimate for Excise duties in 2018 is $185.7 million. YTD June is around 28 per cent (or $30.1 million) higher than the same period in 2017. This rate is expected to continue to second half of the year with planned excise increase expected to come into effect in the 3rd quarter of the year. Excise receipts are forecast to rise by around 7 per cent in 2018, consistent with solid growth in household consumption and overall growth in the nominal economy.

Additional external budget support

Additional revenue from development partners is outlined in Table 7

Table 2 – Summary of Revenue

Revenue Type	2018 Budget Estimate $m	2018 Revised Estimate $m	Budget Variance $m	Budget Pro Rata $m	2018 Actuals $m	Variance $m	Variance (%)
			OTHER REVENUE				
License Revenue	390.8	390.8	0.0	195.4	160.0	(35.4)	-18%

Fees, charges and other	145.8	145.8	0.0	72.9	112.7	39.8	55%
Total	**536.6**	**536.6**	**0.0**	**268.3**	**272.7**	**4.4**	**2%**
			INLAND REVENUE				
Company Tax	284.7	284.7	0.0	142.4	148.4	6.1	4%
Goods Tax	721.5	721.5	0.0	360.7	338.3	(22.4)	-6%
License Revenue	16.9	16.9	0.0	8.5	8.4	(0.0)	0%
Personal Tax	499.8	499.8	0.0	249.9	240.5	(9.5)	-4%
Sales Tax	74.9	74.9	0.0	37.5	36.2	(1.2)	-3%
Stamp Duty	14.6	14.6	0.0	7.3	7.8	0.5	7%
Withholding Tax	296.5	296.5	0.0	148.3	128.6	(19.7)	-13%
Total	**1909.1**	**1909.1**	**0.0**	**954.5**	**908.3**	**(46.2)**	**-5%**
			CUSTOMS REVENUE				
Excise Duty	185.7	185.7	0.0	92.8	109.8	17.0	18%
Export Duty	584.2	584.2	0.0	292.1	406.7	114.6	39%
Fees, charges and other	1.1	1.1	0.0	0.5	0.9	0.4	73%
Import Duty	326.4	326.4	0.0	163.2	136.2	(27.0)	-17%
Total	**1097.3**	**1097.3**	**0.0**	**548.7**	**653.7**	**105.0**	**19%**
Total Domestic Revenue	**3543.1**	**3543.1**	**0.0**	**1771.5**	**1834.7**	**63.2**	**4%**
			GRANTS AND BUDGET SUPPORT				
Recurrent	224.8	247.8	23.0	123.9	49.5	(74.4)	-60%
Development	70.0	70.0	0.0	35.0	0.0	(35.0)	-100%
General Budget Support	80.0	80.0	0.0	40.0	0.0	(40.0)	-100%
Donor Funded Development	150.0	150.0	0.0	75.0	0.0	(75.0)	-100%
Total	**524.8**	**547.8**	**23.0**	**273.9**	**49.5**	**(224.4)**	**-82%**
TOTAL REVENUE	**4067.9**	**4090.9**	**23.0**	**2045.4**	**1884.2**	**(161.2)**	**-8%**

EXPENDITURE

The consolidated mid-year actual expenditure for the first half of 2018 was $1,650.7 million against a revised *pro-rata* budget to the end of June of $1,926.4 million, which reflects a 14 per cent (or $276.7 million) underspend (see Table 1) compared to 10 per cent underspend (or $168.7 million) in 2017 and 13 per cent underspend (or $208.1 million) in 2016.

Recurrent Expenditure

Total actual recurrent expenditure, which includes budget support provided by donors, on a *pro-rata* basis, was $126.2 million (or 8 per cent) underspent for the first half of 2018 compared to $227 million (or 14 per cent) and $128.9 million (or 9 per cent) underspent respectively in 2016 and 2017. This was partially due to expenditure controls enacted by MoFT to reduce discretionary or wasteful spending (see Table 1) and to reesablish a cash buffer in the first 6 months of budget execution. The overall underspend will also capture the Interim Budget, which was based on 2017 actuals across Ministries for the first four months. Some Ministries did not expend their other charges budgets in the first 4 months of 2017, so they consequently did not receive a budget allocation in the Interim Budget for 2018.

The mid-year total domestic recurrent expenditure for the first half of 2018 was $51.8 million (or 3.6 per cent) below *pro-rata* budget estimate in the first six months. This was represented by actual expenditure of $1,397.8 million against the *pro-rata* budget estimate of $1,449.6 million (Table 3).

Table 3- Recurrent Expenditure

Head Of Expenditure		2018 Budget $m	2018 Revised Budget $m	Budget Variance $m	Budget Pro Rata $m	2018 Actuals $m	"Variance" $m	Variance (%)
269	Ombudsman's Office	5.4	5.4	0.0	2.7	1.0	(1.7)	-62.3%
270	Agriculture and Livestock Development	30.5	30.5	0.0	15.3	17.2	1.9	12.7%
271	Office of the Auditor General	7.9	7.9	0.0	4.0	3.6	(0.3)	-7.6%
272	Education & Human Resources Development	1169.3	1169.3	0.0	584.7	527.0	(57.7)	-9.9%
273	Finance and Treasury	125.3	125.3	0.0	62.7	63.8	1.2	1.9%
274	Foreign Affairs and External Trade	48.8	48.8	0.0	24.4	28.3	3.9	15.8%
275	Office of the Governor General	8.9	8.9	0.0	4.5	3.1	(1.4)	-31.3%
276	Health and Medical Services	391.3	391.3	0.0	195.7	171.8	(23.9)	-12.2%
277	Infrastructure Development	67.8	67.8	0.0	33.9	33.5	(0.4)	-1.2%
278	National Debt Servicing	77.8	77.8	0.0	38.9	63.3	24.4	62.7%
279	National Parliament	84.2	84.2	0.0	42.1	51.9	9.8	23.4%

280	Forestry & Research	22.6	22.6	0.0	11.3	9.1	(2.2)	-19.4%
281	Office of the Prime Minister and Cabinet	103.1	103.1	0.0	51.6	58.2	6.6	12.9%
282	Pensions and Gratuities	8.3	8.3	0.0	4.2	6.5	2.3	56.5%
283	Police, Nat. Security & Correctional Services	257.3	257.3	0.0	128.7	116.5	(12.2)	-9.5%
284	Provincial Gov't & Institutional Strenthening	122.9	122.9	0.0	61.5	66.8	5.3	8.6%
285	Lands, Housing and Survey	18.0	18.0	0.0	9.0	7.0	(2.0)	-22.0%
286	Development Planning and Aid Coord.	6.7	6.7	0.0	3.4	2.9	(0.4)	-13.2%
287	Culture and Tourism	22.2	22.2	0.0	11.1	11.8	0.7	6.3%
288	Commerce, Industries, Labour and Immigration	36.4	36.4	0.0	18.2	18.9	0.7	3.6%
289	Communication & Aviation	48.2	48.2	0.0	24.1	22.6	(1.5)	-6.2%
290	Fisheries and Marine Resources	16.8	16.8	0.0	8.4	8.8	0.4	4.5%
291	Public Service	26.5	26.5	0.0	13.3	20.2	7.0	52.5%
292	Justice and Legal Affairs	29.5	29.5	0.0	14.8	15.8	1.0	7.0%
293	Home Affairs	47.7	47.7	0.0	23.9	11.4	(12.4)	-52.1%
294	National Unity, Reconciliation and Peace	16.5	16.5	0.0	8.3	8.9	0.6	7.4%
295	Mines, Energy & Rural Electrification	15.5	15.5	0.0	7.8	7.3	(0.5)	-5.9%
296	National Judiciary	28.1	29.4	1.3	14.7	14.4	(0.3)	-2.3%
297	Women, Youth and Children's Affairs	10.8	10.8	0.0	5.4	3.2	(2.2)	-41.6%
298	Rural Development	16.7	16.7	0.0	8.4	8.7	0.4	4.3%
299	Environment, Climate Chng,	27.1	27.1	0.0	13.6	14.6	1.1	8.0%

	Disaster Mgmt & Met.							
TOTAL		**2898.1**	**2899.4**	**1.30**	**1449.7**	**1397.8**	**(51.9)**	**-3.6%**

Variations in the Recurrent Budget estimates include:

- A $1.3 million increased under the National Judiciary for Court of Appeals Sittings budget allocation through a contingency warrant provision.

Total **Other Charges expenditure** by all ministries in 2018 was below *pro-rata* budget by $81.7 million (or 9 per cent) (Table 4) compared to $16.4 million or (2 per cent) in 2017 and $5.4 million (or 0.6 per cent) in 2016. This reflects actual expenditure of $829.4 million against the *pro-rata* budget estimate of $911.1 million.

Ministries that have already spent their other charges expenditures <u>above *pro-rata*</u> budget estimates will have to consider the better management of available budgets to sustain implementation of their remaining activities in the second half of 2018. The following ministries have significant overspends as of the 30th June 2018:

- National Debt expended 63 per cent (or $24.4 million) above *pro-rata*; most of these payments were for the payments were mostly for External Debt - Official Debt (Interest), External Debt - Official Debt (Principal), Domestic Debt - Interest, Foreign Debt - EXIM Bank Interest, Foreign Debt - EXIM Bank Principal, Domestic Debt - Treasury Bills – Interest.

- National Parliament expended 24 per cent (or $6.7 million) above *pro-rata*; of which includes expenditures relating to MP's discretionary funds, MP's allowances and house rental.

- Ministry of Foreign Affairs expended 17 per cent (or $3.6 million) above pro-rata estimates. The payments were mostly for subscriptions/membership to overseas bodies or grants for the Solomon Islands diplomatic mission overseas namely to Brussels, Canberra, New York, Port Moresby, Suva, Taipei, Geneva, Havana, Kuala Lumpur, Auckland, Jakarta and for house rent and office rent as well public servants - annual leave fares.

- Agriculture and Livestock Development expended 15 per cent (or $1.3 million) above *pro-rata*; most of these payments were for house rent, training other, Government livestock grant, security and maintain - non residential buildings.

- Ministry of Provincial Gov't & Institutional Strengthening and Ministry of Environment, Climate Change, Disaster Management & Meteorology expended 12 per cent (or $6 million and $1.1 million) above *pro-rata*; the payments were mostly for the fixed services grant , telephones, house and office rentals.

- Office of Prime Minister and Ministry of Rural Developments expended 8 per cent (or $0.8 million and $0.2 million) above *pro-rata*, these expenditures are for MP's and MPA's - overseas fares, overseas accommodation and overseas other costs, conferences, seminars and workshop, others - local accommodation, patients - overseas other costs, telephone and faxes and house rent as well for salaries-public servants

- The other Ministries that expended a million or less above their *pro-rata* budget for the first half of 2018 are; Finance and Treasury with $0.8 million (or 2 per cent), National Unity, Reconciliation and Peace with $0.8 million (or 13 per cent), National Judiciary with $0.1 milion (or 1 per cent).

Overall, by July 2018, the other charges budget was underspent against *pro-rata* estimates by 8.8 per cent which originates from fourteen Ministries by varying levels. Significant underspends were recorded across the following Ministries:

- Ministry of Education & Human Resources Development underspent by 19 per cent or $64.8 million. Key under spends are on training - overseas, public servants - local fares, training - other, maintain - non residential buildings, office rent and public servants - annual leave fares. Ministry of Health and Medical Services underspent by 26 per cent (or $21.6 million). The largest under spend budget lines are drugs and dressings, electricity, water, house rent, telephone and faxes, general stores & spares and capex - specialised equipment.

- Ministry of Police, National Security and Correctional Services also underspent by 23 per cent (or $17.5 million). The key areas of under spends are on electricity, water, maintain - ships, workers compensation and capex - specialised equipment.

- Ministry of Home Affairs underspent by 55 per cent (or $12.3 million). The key areas of under spends are on National General Election registrations, church grant, legislation review, grant to Honiara Town Council, fixed services grant and office rent.

- Ministry of Communication & Aviation underspend by 53 per cent (or $2.3 million); the payments were mostly capex - motor vehicles, telephone and faxes, training – other. Ministry of Women, Youth and Children's Affairs expenditure in the first half of the year also revealed to under spend by $2.3 million (or 53 per cent). These expenditures were reflected mostly from; office rent, subvention, national women, youth and children's grants, electricity and telephone and faxes. In connnection, the other nine Ministries that spent below their *pro-rata* Budgets for the first half of 2018 are also reported in Table 4 (below).

Table 4- Other Charges Expenditure

Head Of Expenditure		2018 Budget $m	2018 Revised Budget $m	Budget Variance $m	Budget Pro Rata $m	2018 Actuals $m	"Variance" $m	Variance (%)
269	Ombudsman's Office	3.6	3.6	0.0	1.8	0.2	-1.6	-86.6%
270	Agriculture and Livestock Development	17.3	17.3	0.0	8.7	9.9	1.3	14.8%
271	Office of the Auditor General	5.7	5.7	0.0	2.9	2.4	-0.4	-14.4%
272	Education & Human Resources Development	698.3	698.3	0.0	349.2	284.4	-64.7	-18.5%
273	Finance and Treasury	97.9	97.9	0.0	49.0	49.8	0.8	1.7%

274	Foreign Affairs and External Trade	43.0	43.0	0.0	21.5	25.0	3.5	16.4%
275	Office of the Governor General	6.6	6.6	0.0	3.3	2.3	-1.0	-30.6%
276	Health and Medical Services	165.9	165.9	0.0	83.0	61.4	-21.6	-26.0%
277	Infrastructure Development	59.2	59.2	0.0	29.6	28.5	-1.1	-3.7%
278	National Debt Servicing	77.8	77.8	0.0	38.9	63.3	24.4	62.7%
279	National Parliament	56.3	56.3	0.0	28.2	34.8	6.7	23.8%
280	Forestry & Research	13.2	13.2	0.0	6.6	4.6	-2.0	-29.7%
281	Office of the Prime Minister and Cabinet	72.4	72.4	0.0	36.2	38.9	2.7	7.5%
282	Pensions and Gratuities	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
283	Police, Nat. Security & Correctional Services	148.7	148.7	0.0	74.4	56.9	-17.5	-23.5%
284	Provincial Gov't & Institutional Strenthening	96.9	96.9	0.0	48.5	54.4	6.0	12.3%
285	Lands, Housing and Survey	12.1	12.1	0.0	6.1	4.0	-2.0	-33.3%
286	Development Planning and Aid Coord.	4.1	4.1	0.0	2.1	1.7	-0.4	-18.5%
287	Culture and Tourism	18.9	18.9	0.0	9.5	10.2	0.8	8.1%
288	Commerce, Industries, Labour and Immigration	27.5	27.5	0.0	13.8	13.3	-0.4	-3.0%
289	Communication & Aviation	37.3	37.3	0.0	18.7	16.3	-2.3	-12.6%
290	Fisheries and Marine Resources	11.2	11.2	0.0	5.6	5.6	0.0	-0.2%
291	Public Service	13.4	13.4	0.0	6.7	6.5	-0.2	-3.2%
292	Justice and Legal Affairs	19.0	19.0	0.0	9.5	9.2	-0.3	-2.7%
293	Home Affairs	45.2	45.2	0.0	22.6	10.3	-12.3	-54.6%
294	National Unity, Reconciliation and Peace	12.9	12.9	0.0	6.5	7.3	0.8	12.8%
295	Mines, Energy & Rural Electrification	9.9	9.9	0.0	5.0	4.8	-0.1	-2.3%

296	National Judiciary	13.3	14.6	1.3	7.3	7.4	0.1	1.9%
297	Women, Youth and Children's Affairs	8.6	8.6	0.0	4.3	2.0	-2.3	-53.0%
298	Rural Development	6.4	6.4	0.0	3.2	3.5	0.3	8.3%
299	Environment, Climate Chng, Disaster Mgmt & Met.	18.3	18.3	0.0	9.2	10.2	1.0	11.4%
TOTAL		**1820.9**	**1822.2**	**1.3**	**911.1**	**829.4**	**(81.7)**	**-9.0%**

Total **Payroll expenditure** by all ministries was above the *pro-rata* budget for the first six months of 2018 by $29.8 million (or 5.5 per cent) (Table 5). In 2017, this was $1.8 million (or 0.3 per cent) below the *pro-rata* estimates and $11 million (or 2 per cent) below *pro-rata* estimates in 2016. Actual payroll expenditure was $568.4 million against the *pro-rata* budget estimate of $538.4 million. Vacant positions have been removed from the establishment for 2018 and no further Cost Of Living Allowance (COLA) adjustments have been considered for 2018 whilst Ministry of Public Serivce (MPS) work on the review of the public service remuneration policy. Ministries are required to consult with MPS to ensure that the vacant positions that they are recruiting for have a budget allocation and additionally, are required to ensure that they keep within their appropriated budgets for overtime, allowances and other payroll areas of spending to avoid putting pressure on the availability of cash and diverting scarce resources away from where they were initiatlly authorized to be spent.

Table 5- Payroll Expenditure

Head Of Expenditure		**2018 Budget**	**2018 Revised Budget**	**Budget Variance**	**Pro Rata Budget**	**2018 Actuals**	**Variance**	**Variance**
		$m	**$m**	**$m**	**$m**	**$m**	**$m**	**(%)**
269	Ombudsman's Office	1.80	1.8	0.0	0.9	0.8	-0.1	-13.7%
270	Agriculture and Livestock Development	13.20	13.2	0.0	6.6	7.2	0.6	9.8%
271	Office of the Auditor General	2.2	2.2	0.0	1.1	1.2	0.1	9.9%
272	Education & Human Resources Development	471.0	471.0	0.0	235.5	242.6	7.1	3.0%
273	Finance and Treasury	27.4	27.4	0.0	13.7	14.0	0.3	2.3%
274	Foreign Affairs and External Trade	5.8	5.8	0.0	2.9	3.2	0.3	11.1%

275	Office of the Governor General	2.3	2.3	0.0	1.2	0.8	-0.4	-33.5%
276	Health and Medical Services	225.4	225.4	0.0	112.7	110.4	-2.3	-2.0%
277	Infrastructure Development	8.6	8.6	0.0	4.3	5.0	0.7	15.6%
278	National Debt Servicing	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
279	National Parliament	27.9	27.9	0.0	14.0	17.1	3.1	22.6%
280	Forestry & Research	9.4	9.4	0.0	4.7	4.5	-0.2	-4.9%
281	Office of the Prime Minister and Cabinet	30.7	30.7	0.0	15.4	19.3	3.9	25.5%
282	Pensions and Gratuities	8.3	8.3	0.0	4.2	6.5	2.3	56.5%
283	Police, Nat. Security & Correctional Services	108.6	108.6	0.0	54.3	59.6	5.3	9.7%
284	Provincial Gov't & Institutional Strenthening	26.0	26.0	0.0	13.0	12.3	-0.7	-5.1%
285	Lands, Housing and Survey	5.9	5.9	0.0	3.0	3.0	0.0	1.2%
286	Development Planning and Aid Coord.	2.6	2.6	0.0	1.3	1.2	-0.1	-5.0%
287	Culture and Tourism	3.3	3.3	0.0	1.7	1.6	-0.1	-4.3%
288	Commerce, Industries, Labour and Immigration	8.9	8.9	0.0	4.5	5.5	1.1	23.9%
289	Communication & Aviation	10.9	10.9	0.0	5.5	6.3	0.9	15.8%
290	Fisheries and Marine Resources	5.6	5.6	0.0	2.8	3.2	0.4	13.9%
291	Public Service	13.1	13.1	0.0	6.6	13.7	7.2	109.6%
292	Justice and Legal Affairs	10.5	10.5	0.0	5.3	6.5	1.3	23.9%
293	Home Affairs	2.5	2.5	0.0	1.3	1.2	-0.1	-7.1%
294	National Unity,	3.6	3.6	0.0	1.8	1.6	-0.2	-12%

	Reconciliation and Peace							
295	Mines, Energy & Rural Electrification	5.6	5.6	0.0	2.8	2.5	-0.3	-12.1%
296	National Judiciary	14.8	14.8	0.0	7.4	6.9	-0.5	-6.5%
297	Women, Youth and Children's Affairs	2.2	2.2	0.0	1.1	1.1	0.0	2.9%
298	Rural Development	10.3	10.3	0.0	5.2	5.2	0.1	1.8%
299	Environment, Climate Chng, Disaster Mgmt & Met.	8.8	8.8	0.0	4.4	4.4	0.0	1.0%
TOTAL		**1077.2**	**1077.2**	**0.0**	**538.6**	**568.4**	**29.8**	**5.5%**

Recurrent Expenditure by Economic Classification

This section provides a breakdown of expenditure against economic classifications, which provides at a whole of government level an insight into the types of payments that have been prioritised in the first half of 2018, and performance against budget.

Table 6: Economic Classification of Recurrent Expenditure

Expenditure Classification	**2018 Original Budget ($m)**	**2018 Revised Budget ($m)**	**Variance $m**	**Budget Pro rata ($m)**	**Actuals ($m)**	**Variance ($m)**	**Variance (%)**
Payroll	1,077.1	1,077.1	0.0	538.6	568.4	29.8	5.5%
Administration	130.1	130.1	0.0	65.1	61.5	(3.5)	-5%
Consumables	82.8	82.8	0.0	41.4	27.8	(13.6)	-33%
Specialist Services	6.4	7.0	0.6	3.5	3.2	(0.3)	-10%
Entertainment	13.2	13.2	0.0	6.6	8.4	1.8	27%
Fuel	21.4	21.4	0.0	10.7	5.2	(5.5)	-52%
Disaster Relief	2.0	2.0	0.0	1.0	1.0	(0.0)	-4%
Hire Goods and Services	183.9	183.9	0.0	92.0	99.2	7.2	8%
Maintenance	83.5	83.5	0.0	41.8	44.8	3.0	7%
Training	453.5	453.5	0.0	226.8	170.6	(56.1)	-25%
Travel	147.1	147.8	0.7	73.9	56.2	(17.7)	-24%
Transport	13.3	13.3	0.0	6.7	2.0	(4.7)	-70%
Uniforms	14.6	14.6	0.0	7.3	8.1	0.8	12%
IRD Repayments	3.7	3.7	0.0	1.9	0.8	(1.1)	-58%
Utilities	2.8	2.8	0.0	1.4	1.4	(0.0)	0%
Electricity	73.5	73.5	0.0	36.8	24.5	(12.3)	-33%
Gas	1.4	1.4	0.0	0.7	0.6	(0.1)	-19%

Postal Charges	0.2	0.2	0.0	0.1	0.0	(0.1)	-99%
Internet, Radio and Satellite	17.0	17.0	0.0	8.5	13.9	5.4	63%
Telephone and Faxes	35.4	35.4	0.0	17.7	14.7	(3.0)	-17%
Water	15.9	15.9	0.0	8.0	4.5	(3.5)	-44%
Grants	385.3	385.3	0.0	192.7	204.8	12.2	6%
Capital Expenditure	56.2	56.2	0.0	28.1	13.2	(14.9)	-53%
Debt Management	77.8	77.8	0.0	38.9	63.3	24.4	63%
Total	**2,898.1**	**2,899.4**	**1.3**	**1,449.7**	**1,397.8**	**(51.9)**	**-3.6%**

The following expenditure items by economic classification have been tracked to have expended more than the *pro-rata* budget in the first half of the year. These areas of expenditure will require stringent management of resources to sustain activities for the second half of the year.

- Payroll is tracking at 5.5 per cent (or $29.8 million) above the *pro-rata* budget; this was for Salaries – Public servants, Long service benefits and various allowances.

- Debts is tracking at 63 per cent (or $24.4 million) above its *pro-rata* budget. Above *pro-rata* expenditure for External Debt - Official Debt (Principal)

- Internet, radio and satellite is tracking at 63 per cent (or $5.4 million) above the pro-rata budget; this was for ICTSU funded to SATSOL Ltd and Our Telekom for maintance and upgrading of SIG Connect Network.

- Hire Goods and Services is tracking at 8 per cent (or $7.2 million) above the *pro-rata* budget; this was for Ministry of Infrastructure Development (MID) hire of plants and house and office rentals expenses, as well security for Ministry of Helath and Medical Service (MHMS).

- Entertainment expenditure is tracking at 27 per cent (or $1.8 million) above pro-rata budget. The large expenditures are for Office of the Prime Minister and Cabinet (OPMC) caterings services and hotel hiring with floral preparations. Ministry of Home Affairs (MHA) has also expended for related programs involved in hosting the Solomon Islands 40th Independence Anniversary celebration programs.

- Uniform expenditure is tracking at 12 per cent (or $0.8 million) above pro-rata budget. The large expenditures are for Ministry of Police National Security and Correctional Services (MPNSCS), Ministry of Culture and Tourism, Ministry of Infrastructure and Ministry of Communication and Aviation.

- Maintenance expenditure is tracking at 7 percent (or $3.0 million) above pro-rata in the first half of 2018. Most of these expenditures were from maintain, roads, bridges, non residential and residential buildings (MID), maintain non residential buildings and residential buildings and specialized equipment (MoFT), mainatain structures, airfields and wharves (MCA) and maintain non residential buildings respectively from MEHRD and National Parliament.

- Grants is also tracking at 6 per cent (or $12.2 million) above pro-rata and mostly for Education grants, MP discretionary fund and scholarhip award grant, and fixed service grants.

The following expenditure items by economic classification have been tracked to have expended below the *pro-rata* budget in the first half of the year. These areas of expenditure will require flexible management of resources to improve activities for the second half of the year.

- Capital is tracking below *pro-rata* budget estimates at 53 per cent (or $14.9 million) for the first half of the year mostly for MID capex – motor vehicles and MPNSCS capex - specialised equipment and vehicle, Ministry of Education, capex- computer software and hardware and Ministry of Lands, Capex- land.

- Transport is tracking below budget estimates at 70 per cent (or $4.7 million) in the first half of the year mostly from franchise shipping (MID), transport other (MPG) and freight from MEHRD and MPNSCS.

- Training is tracking below *pro-rata* budget estimates at 25 per cent (or $56.1 million) for the first half of the year mostly for MEHRD training other and training oversea, MPNSCS training in service and Ministry of Commerce training pre service.

- Electricity is tracking below *pro-rata* budget by 33 per cent (or $12.3 million) in the first half of the year mostly from the MoFT, MHMS, and MPNSCS as well Ministry of Lands, Education, Environment, Judiciary, Justice, Communication and Aviation.

- Water expenditure are tracking below budget at 44 per cent (or $3.5 million) in the first half of the year. Most of these expenditures were derived from Ministry of Police, Health and National Parliament.

- The other expenditure items that expend below their *pro-rata* budget for the first half of 2018 are also reported in Table 6.

Donor Budget Support

Donor funded recurrent spending was 60 per cent under spent against the *pro-rata* budget of $123.9 million (Table 7) compared to 63 per cent in 2017 and 70 per cent 2016. Donor budget support is an area that the Government has identified as requiring improvement, both in relation to budgeting and expenditure. The coordination of donor budgets is complicated as donors' budget cycles do not match Solomon Islands Governments. Additionally, execution of this expenditure typically requires approval from donors and significant levels of reporting, which contributes to under spending.

It is likely that the total 2018 budget for donor support has been over-estimated, and joint efforts across Ministry of Finance and Treasury (MOFT) and Ministry of Planning and Aid Coordination (MDPAC) are underway to reflect more robust estimates of donor support. Part of the reason for the inflated estimates is that donor partners often provide funding estimates for a full grant to the SIG that can cover many years, while budget estimates (and appropriations) should only reflect those amounts due to be spent in the budget year.

Table 7- Donor Recurrent Expenditure

Head Of Expenditure		2018 Budget $m	2018 Revised Budget $m	Budget Variance $m	Budget Pro Rata $m	2018 Actuals $m	"Variance" $m	Variance (%)
372	Education & Human Resources Development	76.1	80.6	4.5	40.3	14.8	(25.4)	-63%
373	Finance and Treasury	0.0	6.7	6.7	3.4	4.8	1.4	42%
374	Foreign Affairs & External Trade	2.4	8.8	6.4	4.4	1.1	(3.3)	-75%
376	Health and Medical Services	132.1	133.9	1.8	66.9	25.9	(41.1)	-61%
383	Police, National Security and Correctional Services	5.9	5.9	0.0	2.9	0.0	(2.9)	-100%
390	Fisheries and Marine Resources	8.4	8.4	0.0	4.2	2.1	(2.1)	-51%
392	Justice and Legal Affairs	0.0	0.6	0.6	0.3	0.2	(0.1)	-19%
396	National Judiciary	0.0	0.3	0.3	0.1	0.0	(0.1)	-100%
399	Environment, Climate Chng, Disaster Mgmt & Met	0.0	2.8	2.8	1.4	0.6	(0.8)	-54%
TOTAL		**224.8**	**247.8**	**23.0**	**123.9**	**49.5**	**(74.4)**	**-60.0%**

Variations in the Donor Budget Support are incurred through an Advance Warrants provision and include:

- $4.5 million increased under the Ministry of Education and Human Resources Development for the implementation of various projects and activities;
- $6.7 million increased under the Ministry of Finance and Treasury to assist improving Information and Communication Technology (ICT) system, including improving of SI Human Resources Management Information System (HRMIS) and IRD system;
- $6.4 million under the Ministry of Foreign Affairs & External Trade provides additional funding for an implementation of Solomon Islands Tourism for Inclusive Development project and for Enhancing Solomon Island Trade Related Capacity project.

- $1.8 million under the Ministry of Health and Medical Services (MHMS) to re-appropriate unspent grant purposely for mapping of population size estimates, and Integrated Biological Behavioural Surveillance funded in 2017;
- $0.6 million for the Ministry of Justice and Legal Affairs for maintenance related activities activities in 2018
- $0.3 million increased under the national Judiciary for maintenance related activities in 2018.
- $2.8 million under the Ministry of Environment, Climate Change, and Disaster Management & Meteorology (MECDM) for implementation of two (2) new solar projects approved for Selwyn College and Solomon Islands National University (SINU).

As shown in the Donor Recurrent Budget Support (Table 7), all Ministries have under spent against their donor funded *pro-rata* budgets. The contributing factors could be additional funding through an Advance Warrant presumably to pull away staff from their core program towards donor partner driven activities that maybe not included in their strategic plans or annual operational plans. It is encouraged for donor partners to adopt and us SIG planning & budget process that will support implementing ministries.

DEVELOPMENT BUDGET

Domestic and Donor funded development actual expenditure was $200.4 million and $75.1 million or 27 per cent (see Table 1) below *pro-rata* budget estimates compared to $109.9 million (or 19 per cent) in the first half of 2017 and $128.1 million (or 22 per cent) in 2016. This reflects a drawback of approximately 40 per cent compared to implementation of the development Budget appropriation in 2017. This was mainly due to the fact that the first quarter of the 2018 financial year was operated on interim budget thus no developments budget has been budgeted.

Expenditure in the second half of 2018 is expected to pick up significantly as tenders are currently being evaluated and projects, particularly in infrastructure and rural development are getting underway.

Variations in the Development Budget include:

- $1.5 million additional funding through an Advance Warrant provision under the MRD for ROC support to Rural Constituency Development Fund program.

Table 8- Summary Development Expenditure

Head Of Expenditure		2018 Budget $m	2018 Revised Budget $m	Budget Variance $m	Budget Pro rata $m	2018 Actuals $m	"Variance" $m	Variance (%)
470	Agriculture and Livestock Development	12.4	12.4	0.0	6.2	3.5	(2.7)	-44%
472	Education &Human Resource Management	18.0	18.0	0.0	9.0	8.8	(0.2)	-2%

473	Finance & Treasury	160.0	160.0	0.0	80.0	3.0	(77.0)	-96%
476	Health & Medical Services	9.0	9.0	0.0	4.5	2.5	(2.0)	-45%
477	Infrastucture Development	78.0	78.0	0.0	39.0	9.5	(29.5)	-76%
479	National Parliament	1.0	1.0	0.0	0.5	0.0	(0.5)	-100%
480	Forestry & Research	3.6	3.6	0.0	1.8	0.1	(1.7)	-93%
481	Office of the Prime Minister & Cabinet	2.5	2.5	0.0	1.3	0.0	(1.3)	-100%
483	Police, Nat. Security & Correctional Services	15.0	15.0	0.0	7.5	1.5	(6.0)	-81%
484	Provincial Gov't & Institutional Strengthening	10.0	10.0	0.0	5.0	0.0	(5.0)	-100%
485	Lands, Housing & Survey	4.0	4.0	0.0	2.0	0.4	(1.6)	-79%
486	Development Planning & Aid Coord.	4.0	4.0	0.0	2.0	0.4	(1.6)	-79%
487	Culture and Tourism	8.9	8.9	0.0	4.5	1.3	(3.1)	-70%
488	Commerce, Industry & Employment	10.0	10.0	0.0	5.0	1.0	(4.0)	-81%
489	Communication & Aviation	14.0	14.0	0.0	7.0	0.3	(6.7)	-95%
490	Fisheries & Marine Resources	4.0	4.0	0.0	2.0	1.4	(0.6)	-29%
491	Public Service	1.0	1.0	0.0	0.5	1.0	0.5	100%
492	Justice and Legal Affairs	1.0	1.0	0.0	0.5	0.0	(0.5)	-100%
493	Home Affairs	9.0	9.0	0.0	4.5	4.2	(0.3)	-6%
494	National Unity, Reconciliation & Peace	1.0	1.0	0.0	0.5	0.5	0.0	0%

495	Mines, Energy & Rural Electrification	9.0	9.0	0.0	4.5	0.6	(3.9)	-86%
496	National Judiciary	1.0	1.0	0.0	0.5	0.0	(0.5)	-92%
497	Women, Youth & Children's Affairs	0.5	0.5	0.0	0.3	0.2	(0.1)	-20%
498	Rural Development	320.0	321.5	1.5	160.8	159.5	(1.3)	-1%
499	Environment, Climate Chng, Disaster Mgmt & Met	4.1	4.1	0.0	2.0	0.7	(1.4)	-67%
TOTAL		**701.0**	**702.5**	**1.5**	**351.2**	**200.4**	**(150.8)**	**-43%**

Overall, the development budget is below *pro-rata* by 43 per cent (or $150.2 million). At the head level there is only one (1) ministry that have gone over its *pro-rata* estimates whilat a significant number of ministries are well below.

The ministries that have over spent their Development budgets against *pro-rata* estimates in the first half of the year will require tough management of resources to sustain activities for the second half of the year

- Ministry of Public Service expended by 100 per cent (or $0.5 million) above their *pro-rata* budget.

Out of twenty five (25) ministries that have Development Appropriation, twenty three (23) of the them have spent below their *pro-rata* development Budgets as per Table 8. These include;

- The Ministry of National Unity, Reconciliation & Peace have not spent any of their Development budgets with a total underspend of $0.5 million
- Ministries of Finance and Treasury, National Parliament, Forestry & Research, Office of the Prime Minister & Cabinet, Provincial Government, Communication and Aviation, Justice and Legal Affairs and National Judiciary, have under-spends of over 90 per cent (or $93.0 million).
- Ministries of Police, National. Security & Correctional Services, Commerce, Industries, Labour and Immigration, and Mines, Energy & Rural Electrification have under-spends greater than 80 per cent (or $14.0 million).
- Ministries of Infrastructure Development, Lands, Housing & Survey, Development Planning & Aid Coordination and Culture and Tourism have under-spend greater than 70 per cent (or $35.8 million)
- Ministries of Environment, Climate Change, Disaster Management & Meteorology have under-spends between 50 and 60 per cent (or $1.4 million).
- Ministries with under-spendings below 50 per cent of their *pro-rata* Budgets are; Agriculture, Education and Human Resources, Health & Medical Services, Fisheries, Home Affairs, Women, Youth & Children's Affairs and Rural Development . These amount to $7.1 million.

2018 BUDGET IMPLEMENTATION MEASURES

Pursuant to section 44 (1) (2) of the Public Financial Management (PFM) Act 2013, *the Ministry of Finance and Treasury is responsible for the preparation, management and monitoring of the budget process and procedures in accordance with the PFM Act and the subsidiary legislation*. As such, in recognising the importance of coordination across Government, MOFT together with MDPAC and MPS is committed to assisting and supporting Ministries across Government to improve the effective execution of the 2018 National Budget.

For the first six months, financial circulars were issued to guide ministries in implementing their Budget appropriations which has been enforced for the remainder of budget year. These instructions were presume to have contributed to the expenditures and services delivery in the first half of the year;

The first financial circular issued was the Financial Circular 01/2018 – *Instructions and Rules for the effective implementation of the 2018 Budget* was issued on 17th April 2018.

The circular provides all ministries with detailed and extensive guidance on key procedures for executing the current year's budget to be able to prioritise and work together to collectively implement Government's key priorities.

A) This includes "*General Guidelines on the execution of the 2018 Budget such as:*

i. Contingency warrant criteria are to be met only for
   - urgent and unforeseen need has arisen by an authorize an issue from the consolidated fund
   - No such issue has been authorized by an appropriation act or supplementary appropriation act for the relevant financial year and
   - The issue cannot be delayed without detrimental effects to the public interest.

ii. **Advance warrants** must have a financing agreement on the project/program and a CBSI confirmation letter on funding.

iii. **Chart of Accounts:** MoFT strictly enforce compliance with relevant and appropriate ledger account.

iv. **Virements** as required under the PFM Act 2013 Section 53 and 54 will only be processed when they are in the public interest and in line with ministerial work plans and activities

B) *Procurement Requirements for the 2018 Budgets.*

This was to ensure ministry in accordance with part 9, Clause 72 [2] of the PFM Act 2013 are adherered so Accountable officers shall plan and prioritize their procurement activities with a view to achieving maximum value for public expenditure so that procurement transactions are carried out within the Appropriation Act and Subsidiary Legislation, given the scarcity of financial resources, other limitations and at the most favourable time. Thus all Ministry and Agencies were requested to submit to MoFT a detailed Annual Procurement Plan for the 2018 for review and approval. Approval are under certain criteria as follows

i. All Goods, Works and Services included in the plan shall have corresponding budget allocations under SIG 2018's Appropriation Act or Donor funds.

ii. Items in the Plan to contained detailed cost estimated (based on current prices) and are grouped/packaged in the most efficient and economic manner.

iii. No procurement packages shall be unnecessarily broken down into smaller amounts to avoid competitive tending [as per PFMA clause73 (2) (d)]

iv. Approve plans serves as convenient and efficient guide to ministries Accountable Officers and Personnel in their procurement operations.

C) *Submission of and processing of payments:*

1. Local Purchase Orders
    i. Suppliers should obtained an approved LPO prior to supplying any goods/services to ministries to ensure that there will be an adequate budget available and allocation for any payments.
    ii. Ministries are advised to used account codes relevant to the type of purchased to ensure that LPO processing run smoothly.
    iii. MoFT recommends that supplies DO NOT or perform work of supply services/goods until they have received the copy of the LPO form the ministry they are dealing with.
    iv. A delivery docket must be provided which must be signed off by the receiving ministry.
    v. Supplier LPO's must only be collected from the MoFT payments cashier, by designated submitting ministry represented(s)
    vi. Suppliers who fails to obtain an approved LPO before the provision of goods/services are subjected to delay payments or no payment due to potential lack of budget allocation.
2. Payment Process
    i. The schedule of payments must be delivered by designated submitting ministry represented(s) to the MoFT staff.
    ii. Ministries must prepared documentation in a timely manner and upon receipts MoFT will endeavour to process within the available cash or funding.
    iii. Suppliers must contact the ministry they are dealing with for all payments enquiries as Ministries have access to SIG-Infor System.
    iv. All suppliers, vendors, accountants must go to the MoFT payments cashier for enquiries or at the interview room, thus unauthorised actions will not be accepted under SIG Code of Conduct and Interim Financial Instructions.
3. Prioritization of payments and querying of payments
    i. As of the 17th of April 2018, payments are prioritized as
        a. Service grants
        b. House rent claims
        c. Office rent claims
        d. Utilities bills for electricity, water, gas, telephone and internet
        e. Contractual obligations that have to be met in April 2018
        f. Scholarship Awards
    ii. Discretionary payments may be subjected to delays and scrutiny as MoFT will not have any relevant information on the legitimacy and timing of payments to service providers and for goods and services until Ministry cash flow and procurement requirements are known.

D) Ministry Consultations and MoFT support to 2018 Budget execution

On the 19th & 20th April 2018, consultation was schedule at MoFT conference room on the implementation of the 2018 budget and the expected cash flow forecasting templates. Line Ministries to submit their respective procurement plans and cash flow forecast templates by the 15th May 2018.

The Second Financial circular issued was the Financial Circular 02/2018 – *Mandatory procedures to support effective cash management for the smooth implementation of the 2018 Budget* issued on 12th June 2018.

The purpose of the circular was to clarify the introduction of new measures to ensure that ministry payments are in line with their available budgets in 2018 and that they brought to MoFT in a timely manner, specifying what they plan to spend against which expenditure items and that these payments are fully in line with their cash flow forecasts and procurement plans for the year. These was an internal circular in supporting the first **Financial circular 1/2018** issued on the 17th of April 2018. In the circular, the following important points was noted when assessing ministries submissions as part of the normal compliance process;

1. **Completed ministries' procurement plans provided to Treasury.**

Ministries should have submitted their procurement plans and cash flow forecasts templates for the implementation of their 2018 recurrent budget on the 15th of May 2018

2. **On the 30th May**, Budget Unit works closely with the FMIS cash management team to provide the cash flow forecast and payment information expected by Ministry to the payment sections in Treasury in order to support their work flow and manage the prioritization of payments.
3. **Ensure payments, procurement and budget unit staff understand ministries' procurement plans.** Familiarised Ministries planned priorities and cash flow forecasts to have a clear understanding of what payments are expected and the volume of payments ministries are expected to submitted to MoFT for processing for the reminder of the financial year by month.
4. **Process payment(s) in line with Ministry procurement plan and cash flow forecasts.** Checked if payments received are included in their procurement cash flow templates and at the right time they are schedules to be paid. Payments could returned back to ministries should their details and costings mismatched the information as provided in the submitted cash flow forecast templates.
5. **Ensure right account codes (GL codes) are used when raising payments.** Checked if ministries used the right account codes when raising payments, particularly against the cods and amounts for that particular month. Chart of Accounts are encourage to be checked, thus, payments submitted with the wrong codes could be queried or send back to ministries.
6. **Payments that require virement.** Any payments that will depend on virement application submitted to Budget Unit should not entered in the system until the virement has been reviewed, officially approved and processed as well as being posted into AX.
7. **Scrutinized regular payment.** Tresary have the right to scrutinised a payment if, according to the cash flow schedule it is supposed to be paid qurterly or maybe twice a year, but then submitted to Finance for processing almost regularly.
8. **Processing of priority or big payments.** There will be peak times for processing priority or big payments such as scholarships, grants or other essential priorities. It is importants to note that monthly cash inflow for those peak times may not accommodates those big payments when they are needed to be paid. As such, **<u>prior</u>** to those peak months, treasury must carefully assess payments and process **<u>only</u>** those that are genuine and urgent to be paid to avoid any detrimental impact to the public. This way savings can be available to cater for those peak months for processing bigger payments to avoid delay of processing payments when it supposed to be paid out.
9. **Processing times for payments and tracking them in the system to ensure that beyond budget compliance checks, they are processed and paid out within a 5 day period.** All PV's brought to MoFT should have clear date of intended use or deadline for when the payments has to be made, so these payments are brought well within the time frame required to process them. This is to avoid unnecessary

24 hour payments waivers and to ensure that all Ministries comply with proper procurement and cash planning process.

RECOMMENDATIONS

To improve the efficacy and usage of the Mid Year Budget Update, the report should be based on performance reports on budget implementation, which should be sourced from Ministry Budget Implementation Committees. As part of the ongoing PFM reforms of the Government and commitment to improving the implementation of the national budget to deliver tangible services to the people of the Solomon Islands, the Financial Controller of every Ministry is expected to coordinate the establishment of an internal committee for formulating the budget of their Ministry and to also bring all HoDs, Under Secretaries and the PS as the chair together to assess, review and track the status of implementation of the activities of the Ministry. Only through collective internal review will Ministries be able to identify:

1) The progress of each Division in meeting their outputs and deliverables set out in their annual work plans against their budget appropriations and actual expenditures.
2) Any issues concering the implementation of their work plans in relation to their budget for the year.
3) Requirements for any adjustments to their work plans if they have either overspent or underspent their budgets against their planned activities for the year.
4) Requirements for any adjustments to their budgets as a result of emerging work pressures that require budget adjustments i.e. virement applications. If they cannot reprioritize resources within their Division/ Unit budgets, they will have to raise their needs in this Committee to determine, through the PS, where the additional funds can be sought (from another Division). These adjustments across Sub-Heads must be done in consultation with all other HoDs to ensure concurrence with and transparency of budget adjustments.
5) Requirements for any increases to Divisional budgets that cannot be met internally through savings and offsets, at which point, Supplementary budget applications may be considered and submitted to MoFT for review.

This level of performance reporting and internal review will be continuously supported by the Budget Coordinating Committee Members: MoFT, MDPAC, MPS and PMO with the view to improving the linkages between the implementation and delivery of policies and actual expenditure incurred annually. A Mid-Year review will be considered in 2019, in May to ensure that any considerations for Supplementary Budgets will be supported by the careful review of Ministry expenditure performance through BIC reports and udpates by Ministries directly.

Based on current macroeconomic forecasts, overall, monthly collections seem to be strong enough to support the smooth execution of the budget, due to increased audit and compliance activities on provisional tax, debt and returns in line with a number of new measures which are largely responsible for the increase, however, a formal and effective cash management mechanism and committee is still not in place to be able to ensure an average 5 day turnaround time for legitimate payments, or to manage cash reserves and ring fence a fiscal buffer of two months' worth of Recurrent spending, as has been previously suggested by the IMF. Nevertheless, the key risks to the outlook of Solomon Islands economy are continued global financial market instability vulnerabilities and the political instability. The underspend within and across Ministry heads and ledgers will have to be addressed during the execution of the Budget in the second half of the year to ensure that there are improved management in the execution of the budget. For the remainder of 2018, mandatory procedures to support effective cash management for the smooth implementation of the 2018 budget are essential so to demonstrate better budget discipline. Put forward below are some expenditure measures that will improve the execution of the 2018 Budget in the reminder of the year;

- Improve the collaboration and networking between central agencies (PMO, MPS, MDPAC & MOFT) and Budget Implementation Committee (BIC) within the implementing ministries to improve budget planning, oversight and budget management, as well as regularly assessing the performance of the Ministry in terms of budget execution and making informed decisions.
- Prioritize expenditures towards achieving the policies and objectives of the SIDCC Government.
- Expenditure should be focused on the planned programmes and activities that have clear outputs and deliverables. Spending decisions will have to be tightened to avoid having funds redirected towards unbudgeted activities and programmes.
- Refocus expenditures to delivering realistic and achievable programmes and activities.
- Comply with the procurement guidelines and other control measures that were already enforced for the current budget year.
- Ministries that over spend and/ or under spend against their *pro-rata* Budget are required to better manage their available budgets to sustain implementation of priority activities in the second half of the year.