

PRESS CONFERENCE

GHANA'S NEW PUBLIC FINANCIAL MANAGEMENT (PFM) LAW ACT 921



MINISTRY OF FINANCE
20TH SEPTEMBER, 2016



1. Introduction



Outline of presentation



- Background and introduction
- Object of the Act
- Scope of the Act
- General Provisions
- Key Provisions for
 - Macro-fiscal
 - Budget formulation
 - Budget implementation
 - Reporting

Background and Introduction



- Work started in 2015 as a follow up from the GIFMIS project and all the other Reforms
- Objective is to address significant weaknesses especially in
 - fiscal policy formulation,
 - budgeting,
 - commitment control,
 - Transparency and accountability
 - Debt management and,
 - improve service delivery through the monitoring of results

Background and Introduction Contd



- Extensive consultation was done (MDAs, Civil Society organizations professional Bodies etc.)
- Parliament passed it on 3rd August, 2016
- President has assented and so it the Law now
- Financial Administration Act (FAA) 2003 and Loans Act 1970 has been repealed
- Regulations was saved until new Regulations have been developed

Scope



- Macro-Fiscal policy formulation
- Budget formulation and preparation,
- Budget Implementation with special emphasis on commitment control
- Internal Audit
- Performance Reporting
- Accounting and Reporting
- Debt management
- Management of State Owned Enterprises
- Streamlining of management of Statutory fund
- Local government borrowing
- Move to general government reporting
- External audit
- A sanctions regime



- Clear roles and responsibilities for key Officials
 - Minister
 - Chief Directors
 - Controller and accountant General and Deputies
 - Principal Account Holders(Ministers)
 - Principal Spending Officers(Chief Directors)
- Oversight of Parliament

Establishment of new offices

- Budget office
- Debt management office



Macro Fiscal Policy Formulation and Budgeting





- Introduction of Fiscal Rules
- Introduction of a clear procedure and time lines
- Introduction of new documentation
- Introduction of a role for Cabinet



- **Application of sections 13 to 17**
- (1) The provisions of sections 13 to 17 apply to the central Government.
 - The Minister may, by legislative instrument, extend the application of sections 13 to 17 to local government authorities and public corporations.
- **Fiscal Policy Principles**
- (1) The following general principles of fiscal management apply for the effective implementation of this Act:

Specific clauses - Clauses 13 to 17



- the Principal Account Holder and Principal Spending Officer of a covered entity shall be accountable to Parliament for the performance of their functions with respect to the implementation of fiscal policies;
- **Fiscal Policy shall be developed in a manner that takes into account the impact on the welfare of the current population and future generations;**
- **Fiscal Policy shall be conducted in a manner that avoids abrupt changes in the evolution of macroeconomic and fiscal indicators; and**
- the management of public funds, assets and liabilities, including natural resources, and fiscal risks in the country shall be conducted in a prudent way, with a view to maintaining fiscal sustainability.

Fiscal policy principles – Clause 13



- The following principles shall guide the formulation and implementation of Fiscal Policy objectives:
 - sufficient revenue mobilisation to finance Government programmes;
 - maintenance of prudent and sustainable levels of public debt;
- ensuring that the fiscal balance is maintained at a sustainable level over the medium
 - management of fiscal risks in a prudent manner; and
 - achieving efficiency, effectiveness and value for money in expenditure.

Fiscal Policy Principles – Clause 13



- Fiscal management shall be carried out in a professional and transparent manner and in accordance with best practice and standards.
- For purposes of subsection (3),
 - the roles and responsibilities of a covered entity and public officer with respect to the implementation of the Fiscal Policy shall be clearly established and defined;
 - timely information related to the management of the Fiscal Policy shall be made available to enable effective scrutiny of the Fiscal Policy and the management of public finances; and
 - a person responsible for publicising information shall not withhold the information except for reasons of national security, defence, or international obligations of the Republic

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- (1) The prime Fiscal Policy objective of Government is to ensure the macroeconomic stability of the country within the macroeconomic and fiscal framework.
- The Government may determine any other fiscal policy objective, consistent with the principles set out in section 13.



- (1) The Minister shall, not later than the end of May of each financial year, prepare and submit to Cabinet for approval, a Fiscal Strategy Document.
- The Fiscal Strategy Document shall specify
 - the Medium-Term Fiscal Framework of the Government with measurable fiscal objectives and targets to guide short and medium term fiscal planning for the ensuing three to five year period, consistent with the fiscal principles and fiscal policy objectives of Government;
 - an updated and comprehensive medium-term macroeconomic and fiscal forecast covering current developments and multiple year projections in line with the co-ordinated programmes



- development policies as specified in article 36(5) of the Constitution;
- the Medium-Term Expenditure Framework of the Government with a resource envelope and overall expenditure ceiling;
- a statement of policy measures the Government shall implement in order to stay within the confines of the fiscal policy objectives;
- a comprehensive and quantified fiscal risk statement for the public sector showing the impact of alternative macroeconomic assumptions on the forecast fiscal balances, and quantified risks of guarantees, contingent liabilities and public private partnerships;



- the Medium-Term Debt Management Strategy including debt sustainability analysis and sensitivity analysis of macro fiscal risk scenarios;
 - a progress report on the implementation of the Fiscal Strategy Document for the previous financial year; and
 - **the alignment of statutory and other earmarked funds to national macro-fiscal goals and targets.**
- The report referred to under paragraph (g) of subsection (2) shall include
- an update on the macroeconomic forecasts and fiscal outturns;
 - the implementation of the fiscal policy and progress against the fiscal principles and rules, including targets where feasible;
 - an explanation of deviations from the fiscal principles, rules and targets for the short and medium term objectives; and
 - an explanation of the measures taken to respond to deviations



- In addition to the requirements specified in subsection (2), the Minister may propose specific numerical fiscal rules in the Fiscal Strategy Document to constrain Government with specific reference to one or more budget aggregates subject to subsection (5).
- A numerical rule proposed shall be consistent with
- the Fiscal Policy objectives and Fiscal Policy indicators specified under sections 14 and 16 respectively; (b) the Petroleum Revenue Management Act, 2011 (Act 815); and (c) any other relevant



(1) Compliance by Government with the fiscal policy objectives, fiscal policy principles and other requirements shall be assessed in accordance with the following indicators:

- the non-oil primary balance or non-oil fiscal balance, as a percentage of gross domestic product; and
- any two of the following fiscal policy indicators:
 - public debt as a percentage of gross domestic product;
 - capital spending as a percentage of total expenditure;
 - revenue as a percentage of gross domestic product; or
 - wage bill as a percentage of tax revenue.
- The Ministry shall review the fiscal policy indicators specified in subsection (1), every five years.



- Subject to article 76(2) of the Constitution, Cabinet shall, adhere to the targets set out in the Fiscal Strategy Document,
 - in making decisions with implications for public finances,
 - in determining, formulating and implementing the policies of the Government, or
 - in performing any function conferred on it by the Constitution

Suspension of rules or targets – Clause 18



- (1) A fiscal target or rule provided for in the Fiscal Strategy Document may be suspended with the prior written approval of Cabinet where (a) any of the following events occur:
 - a natural disaster, public health epidemic, or war as a result of which a state of emergency has been declared by the President under article 31 of the
- Constitution;
 - an unanticipated severe economic shock, including commodity and oil price shocks; and
- (b) as a result of the occurrence of an event under paragraph (a), the Minister is of the opinion that the implementation of any of the fiscal targets or rules would be unduly harmful to the fiscal and macroeconomic or financial stability of the country.
- Where an event under subsection (1) has occurred, the Minister shall submit a memorandum to Cabinet to request for approval to suspend any of the rules or targets in the Fiscal Strategy Document.
- The Minister shall state in the memorandum
 - the reasons why the implementation of the fiscal rule or target would be harmful to the finances and macroeconomic or financial stability of the country;
 - the period within which the fiscal rule or target is to be suspended; and
 - a fiscal adjustment plan setting out the measures to return to a position of compliance with the fiscal rule or target within a period of not more than five years.



Budget Formulation and Preparation



Budgeting Formulation and Preparation



- Clear timelines for budget preparation
- Minimum content for both the budget guidelines and the budget itself
- Expanded coverage for budget
- Expanded coverage of reporting of government operations
- Stronger oversight of state owned enterprises by the MOF
- Alignment of all the statutory funds to policy framework of government and budget
- Introduce participatory approach to budgeting formulation into law to improve transparency of budget processes



- The Minister responsible for Employment in consultation with the Minister shall ensure that
 - salary and other compensation negotiations in respect of the public sector for the ensuing financial year are completed not later than the end of April of the current financial year; and
 - the Fiscal Strategy Document required under section 15 reflects the negotiated aggregate of public sector salaries and compensation for the ensuing year.
- Where salary and other compensation negotiations in respect of the public sector are not completed by the end of April of the current fiscal year, the Fiscal Strategy Document prepared for the ensuing fiscal year shall state an expected negotiated aggregate of public sector salaries and compensation for the ensuing year based on the negotiated public sector salaries and compensation for the preceding fiscal year.



(1) The Minister shall,

- in consultation with the relevant stakeholders, prepare the proposed annual budget not later than 1st October of each financial year; and
- submit the proposed annual budget to Cabinet for approval not later than the 15th of October of each financial year.
- Cabinet shall, not later than the 30th of October of each financial year, communicate to the Minister, the decision of Cabinet on the proposed annual budget.
- The Minister shall, on behalf of the President, lay before Parliament not later than the 15th of November of each financial year, estimates of the revenues and expenditure of the Government, the annual budget, for the ensuing financial year.



- For the purpose of subsection (1), “relevant stakeholders” include the Ministry of Finance, Bank of Ghana, Ghana Statistical Service, civil society organisations, Ministries, Departments and Agencies, Ghana Revenue Authority, Controller and Accountant-General’s Department, National Development Planning Commission and local government authority.



Reporting





- Institutionalization of reporting
- Introduction of performance reporting in budget management
- Mid year reporting by Hon Minister of Finance
- End year reporting by Principal Account Holders
- Quarterly reporting to MOF and Parliament by Principal Spending Officers



- Each Principal Account Holder shall, within the first quarter of the ensuing year after the Minister submits the annual budget to Parliament, submit to Parliament, a performance report on budget implementation for the proceeding financial year.
- Each Principal Account Holder shall submit a copy of the performance report required under subsection (1) to the Minister.
- The Minister shall determine the format of the performance report required under subsection (1).

Performance report – Clause 27



- The performance report shall indicate
 - the achievements of the Principal Account Holder for the preceding financial year;
 - the annual work plan comprising the objectives, outputs, outcomes, targets and performance indicators;
 - the staff establishment of the Principal Account Holder in respect of a vote for the preceding year and ensuing three years;
 - a statement on the actions taken by the covered entity to implement the recommendations of Parliament in respect of the most recent report of the Auditor-General; and
- any major investment to be implemented for more than one year, including
 - any multi-year investment;
 - the total cost of the major investment within the medium term profile set out in the Medium Term Expenditure Framework, and
 - the respective amount to be appropriated in the budget year.



- The Minister shall, not later than the 31st of July of each financial year, prepare and submit to Parliament a mid-year fiscal policy review.
- The mid-year fiscal policy review shall include the following information:
 - a brief overview of recent macroeconomic developments of Government;
 - an update of macroeconomic forecasts undertaken by Government;
 - an analysis of the total revenue, expenditure and financing performance for a period up to the first six months of the financial year;
 - a presentation of a revised budget outlook for the unexpired term of the financial year, and the implication of the revised budget outlook for the Medium-Term Fiscal and
- Expenditure Framework if necessary; and
 - where necessary
 - plans for submitting a proposed supplementary budget for approval by Parliament; and
 - an overview of the implementation of the annual budget and of the budgets of covered entities.



Budget Implementation



Budget Implementation



- Strengthen Commitment control
- Curb discretionary multi - year commitments without due regard to fiscal space
- Restriction of budget management to the use of GIFMIS
- Serious Sanctions for Non compliance with appropriation



- Effective risk management especially from SOE
- Strengthened oversight of Agencies by ministries
- Better alignment of statutory funds to government medium term policies



Complexity of budget management

STATUTORY EXPENDITURES

S/N	Statutory / Earmarked Funds		
1	National Health Fund (NHF)	8	Student's Loans Trust (1% CST)
2	Education Trust Fund	9	Export Development Levy
3	Road Fund	10	Environmental Tax
4	Petroleum Related Funds	11	Petroleum Debt Recovery Levy
5	Dist. Ass. Common Fund	12	Airport Tax
6	Transfer to GNPC from Oil Revenue	13	Mineral Royalties
7	Youth Employment Agency (80% CST)	14	GIIF



6. Conclusion



Conclusion



- The new PFM Act is a significant step towards strengthening the PFM systems to ensure fiscal discipline and the effective and efficient use of public resource for the delivery of improved public services.