

**Ministry of Finance, the  
Economy & Investment**

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## Corporate Services Directorate

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The role of the Corporate Services Directorate (CSD) is that of providing essential support services to the Ministry and to its departments, entities and divisions.

The core functions are:

- Finance (accounts, procurement and asset management);
- Office Management;
- Human Resources;
- Registry;
- Parliamentary Questions.

### FINANCE

During 2011, the Finance Section continued to provide operational support to Director Corporate Services on all matters related to finance administration concerning the Ministry of Finance, the Economy and Investment (MFEI).

The Finance section was responsible for the administration of funds provided under Recurrent Vote 26–MFEI, which included the cost centre of the Parliamentary Secretariat. This section was also responsible for the management of funding for capital projects and collection of revenue included under the Financial Estimates of MFEI.

The Section was involved in the procurement of goods and services, from the initial stage of the raising of commitments up to the settlement of invoices within a reasonable period of time through the Departmental Accounting System. During 2011, the total number of transactions effected on the DAS was 9,890.

During last year, the Finance Section also managed requests submitted by public entities for the release of approved Capital and Recurrent budgetary subventions and other allocations. These entities included FinanceMalta Foundation, Privatisation Unit, Malta Statistics Authority, Financial Intelligence Analysis Unit, Malta National Laboratory, Financial Services Tribunal, Malta Enterprise, Collective Bargaining Unit, Malta Film Commission, Malta Air Traffic Services, MGI/MIMCOL, Malta Industrial Parks, Water Services Corporation, Public Contracts Review Board, Enemalta Corporation and the Cooperatives Board.

The Section was also involved in:

- providing assistance in the preparation of travel documents required by Ministry officials when travelling abroad on official business, including the issuing of 290 travel advances to said officials;
- submission of financial statements, including monthly Re-assessment of Budgetary Estimates, monthly cash flow projections and quarterly financial statements on accruals basis;
- compilation of financial information related to the drafting of replies to parliamentary questions;
- coordination of replies by the Ministry and its departments to several requests and queries by the National Audit Office and the Treasury Department;
- submission of quarterly statements to VAT Department with list of suppliers who failed to submit fiscal receipts for goods and services procured by the Ministry;

- assisting the National Lotteries Good Causes Advisory Board in the financial administration and operations of the Good Causes Fund including issuing of cheques to beneficiaries of the said fund. During the year, 318 cheques were issued to various beneficiaries;
- supporting Director General (Budget Affairs) in the issuing of new Government Guarantees/Letters of Comfort on domestic/foreign loans and other banking facilities granted to public entities, the renewal of old ones and the compilation of a quarterly report. During 2011, 10 new guarantees/letters of comfort were issued, whereas 12 existing ones were extended for a further period of one year;
- assisting Director General (Budget Affairs), in the verification of requests by government ministries to open bank and below-the-line accounts. During 2011, the Ministry received 43 requests for the opening of a bank account that were considered positively. During the same year, the Ministry authorised the opening of 13 below-the-line accounts, the maintenance and updating of a database on government direct shareholding, and finally participated in a number of Ministerial Steering Committee meetings to monitor project progress under the Cohesion Policy 2007-2013 Programme.

## HUMAN RESOURCES

This Section processed the recruitment, appointment, progression and promotion of staff in various grades throughout the whole Ministry. Four HR circulars were issued to fill nine positions of Assistant Director in departments across the Ministry. Public calls for applications filled various posts and contractual positions at middle and senior management level to enhance the Ministry's needs and operations. Contracts of engagement and renewals of contracts continued to be drawn up as necessary for Private Secretariat staff of the Minister of Finance, the Economy and Investment and the Parliamentary Secretary for Small Business and Land.

During 2011, the HR Section continued with the preparation and payment of the four-weekly salaries of staff at the Ministry, including the two Private Secretariats, as well as the Economic Policy Department and Lotto staff. Constant monitoring of the personal emoluments, particularly the allowances and overtime items, was maintained throughout the year.

## REGISTRY

The Registry continued to provide the core service of recording and tracking all incoming correspondence with the following statistics:

Correspondence registered on DOCREG system	4,330
New MF files	759
New EU	1,010
Parliamentary Questions	1,854
Publication of MF/HR circulars	11/4

Registry staff was also entrusted with the administration of the Ministry's inventory.

ANTHONY SAVONA

*Director (Corporate Services)*

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## EU Affairs Directorate

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### BACKGROUND

The EU Affairs Directorate is responsible for the coordination of all EU-related issues falling within the remit of the Ministry of Finance, the Economy and Investment. One of its main tasks is to coordinate the drawing up of a national position in preparation to meetings taking place within the EU institutions (the European Commission, the Council of the EU and the European Parliament, but also European Committees such as the Economic and Social Committee and the Committee of Regions). The Directorate's responsibilities include the dissemination of meeting agendas and documentation, coordination of attendance of officials at EU-related meetings, and the drawing up and clearance of instruction notes used by the technical officials and attaches participating in the same meetings. Malta's position is drawn up in consultation with the technical experts from both the public and the private sector. The Directorate provides support to the Ministry's line departments in areas relating to the European Union. The EU Directorate is also responsible for the drafting of letters in reply to requests from the EU Commission and infringements cases opened by the EU Commission against Malta and is also the contact point within the Ministry for the notification of Maltese legislation to the EU Commission.

### Progress Achieved in 2011

The economic crisis that hit the European Union continued to persist throughout 2011. Action taken at EU level to stem the financial crisis had a ripple effect on the operations of the EU Directorate in terms of workload. In fact, throughout the crisis, the EU Directorate continued to provide support to the high-level officials attending the meetings taking place at the European level. The Directorate was also responsible for the preparation of briefing material for the ministerial delegations attending the Eurogroup, ECOFIN, Competitiveness and Trade Council meetings. Apart from preparing the Council meeting files for the Maltese delegation, the EU Directorate organised pre-ECOFIN and pre-Competitiveness briefings for resident EU representations in order to brief them on the position that Malta intended to take during the Council meetings. These briefings form part of the negotiation process and help Member States discuss common positions with a view to reaching agreement on EU proposals.

One of the main responsibilities of the Directorate was to coordinate the consultation process on proposals submitted by the Commission. Malta's position is drawn up in consultation with both internal and external entities. The Directorate was also responsible for presenting the proposals at the Inter-Ministerial Committee (a Committee composed of high-level officials from all Government ministries and headed by the Permanent Representative of Malta to the EU). In 2011, the EU Directorate presented 160 explanatory memoranda. The Directorate also assisted MEUSAC in setting up consultation meetings with the MEUSAC Core Group and its sub-committees. One of the dossiers discussed during the MEUSAC sectoral and core group meetings were the EU2020, the European Semester and the Multi-Annual Financial Framework 2013-2020. Apart from preparing for Council meetings, the EU Affairs Directorate was also involved in the preparations leading to visits by foreign dignitaries. The Directorate was also responsible for the drawing up of briefing notes for the President's and the Prime Minister's meetings held in Malta and abroad.

DIANE SAMMUT  
*Director (EU Affairs)*

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## Programme Implementation Directorate

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### BACKGROUND

The Programme Implementation Directorate is responsible for the management of the Ministry's Change Management Programme, including facilitating the implementation of the Ministry's endorsed policies, strategies and change management programmes and monitoring the implementation of the required programs and activities that include EU funded projects implemented by the Ministry's entities. The Directorate is also entrusted with the coordination of the appointments on Boards and Committees that fall under the Ministry's remit, Customer Care and Green Initiatives. The Conference Incentive Fund is also coordinated from within the Directorate.

### EU Funded Projects

During 2011, in line with its core responsibilities, the Directorate undertook the following key tasks in relation to the coordination and monitoring of the implementation of the EU funded projects:

- oversaw the implementation of EU co-financed projects;
- verified the eligibility of payment claims pertaining to EU co-financed projects and monitored the disbursement of such funds;
- supported and promoted liaison between project leaders and the relevant authorities.

The Programme Implementation Directorate acts as a liaison between project leaders, the Planning and Priorities Coordination Division within the Office of the Prime Minister and other stakeholders to ensure effective implementation of EU funded projects. It also assists other divisions and departments in exploring EU funding options for their projects and liaises between the Department of Contracts and other ministries to ensure the timely processing of EU-funded tenders.

During the year under review, the Directorate continued to monitor several projects funded under the 2007-2013 programming period that included the setting up of a life sciences centre, a project being implemented by Malta Enterprise, and the upgrading and embellishment of industrial estates, a project being implemented by the Malta Industrial Parks. Assistance was also afforded in the implementation of the aid schemes for industries managed by Malta Enterprise. During the period under review, the Programme Implementation Directorate also coordinated the implementation of the JEREMIE financing package in Malta.

Projects' progress was monitored via regular meetings with relative project leaders and coordinators together with participation in on-the-spot checks and site visits, where applicable. The Directorate also convened the Ministerial Project Steering Committee and the Investment Board in the case of the JEREMIE initiative and actively participated in the monthly bilateral meetings chaired by the Principal Permanent Secretary as well as in various Monitoring Committees called by the Managing Authority.

#### *ERDF 001 – Upgrading and Embellishment of Industrial Parks*

This project is being implemented by Malta Industrial Parks, an entity that has been incorporated with Malta Enterprise. This project aims at upgrading and embellishing various industrial parks in Malta and Gozo. Three child care centres will also be funded under this project. Interventions will be made in Bulebel, Hal Far, Mosta Technopark, Kordin and Xewkija. Child care centres will be built in Kordin,

Xewkija and Mosta Technopark. The project value is of €16,592,450 and the disbursement up to end December 2011 amounted to €7,550,429.87. The number of Invoice Status Certificates (ISCs) raised in connection with this project during 2011 was 66.

#### *ERDF 199 – Setting up of a Life Sciences Centre*

This project is being implemented by Malta Enterprise and consists of the building of a life sciences centre. This centre, which will be located close to the hospital and university, will focus on life sciences and associated technologies and will incorporate laboratories and research facilities aimed at supporting knowledge-based companies. The centre will increase skills in the sector, generate indigenous investment and drive new FDI and RTD activity and will incubate new enterprises. A new electricity substation will also be set up on site. The project value is of €36,486,655.51 and the eligible amount for EU funding amounts to €19,827,676.50. The disbursement up to the end of December 2011 amounted to €1,248,243.45, of which €953,043.45 were disbursed during the course of 2011. The number of ISCs raised in connection with this project during 2011 was 18.

#### *Malta Enterprise Aid Schemes*

Seven aid schemes are being implemented by Malta Enterprise. The total allocation for these aid schemes adds up to €42m and is split up as follows:

- ERDF 127 Small Start Ups €2.5m
- ERDF 128 Innovation €7m
- ERDF 128 Environment €3m
- ERDF 129 E-Business €3.5m
- ERDF 130 Research & Development €4.5m
- ERDF 133 Energy €15m
- ERDF 134 International Competitiveness €6.5m

Up till the end of the year under review, three calls had been issued under these schemes with a total allocation of €33.5m. The disbursement up to the end of December 2011 amounted to €8,072,214.30, of which €5,096,344.55 were disbursed in 2011. The number of ISCs raised in connection with this project during 2011 was 87 split up as follows:

Payment made during 2011 - Malta Enterprise Aid Schemes		
<i>Project Code ERDF</i>	<i>Total Amounts paid 2011 €</i>	<i>No of Invoice Status Certificates</i>
127	103,628.98	3
128	1,415,829.93	23
129	328,441.66	10
130	224,403.68	4
133	3,010,539.76	46
134	13,500.54	1
<b>Total</b>	<b>5,096,344.55</b>	<b>87</b>

#### *CF 116 – Malta South Sewage Treatment Infrastructure*

The year under review marked the commissioning of the Malta South Sewage Treatment Infrastructure, a project implemented by the Water Services Corporation. This project had a project value of €69,000,000 and was funded under the Cohesion Fund. The disbursement up to end of December 2011 was of €66,240,667.69, of which €3,921,238.24 were disbursed during the course of 2011. The number of ISCs raised in connection with this project during 2011 was 61.

### *JEREMIE Financing Package for SMEs including Micro-Enterprises*

The aim of the JEREMIE financing package is to support Micro Enterprises and the self employed to reduce their difficulties in accessing finance through the provision of credit risk protection. This is a loan for capital expenditure purposes (investments which enhance the company's value). The loan amount for Micro Businesses can range between €25,000 and €500,000. This scheme kicked off in May 2011 and will run for 36 months until May 2014. The total funds allocated for the implementation of this instrument amounted to €10m that translate into €51.04m worth of loans due to the multiplier effect that is generated by the design of this instrument. The funds were allocated from the Structural Funds.

As at end December 2011, SME transactions sanctioned under the JEREMIE instrument were as follows:

- Number of loans sanctioned: 181
- Number of SMEs involved: 167
- Loans amount in euro: 15.61m
- Total investment amount: 24m  
(including customer contribution)

### *European Energy Programme for Recovery (EEPR)*

- Electricity interconnection Malta-Italy

The electricity interconnector between Malta and Sicily is being implemented by Enemalta and is part funded under the European Energy Programme for Recovery (EEPR). The estimated project value is of €200,000,000 and the allocated amount under the EEPR adds up to €20,000,000. The payments claimed up to end of December 2011 amounted to €11,341,727.

- Small isolated islands initiative (Kappara substation)

This project is also being implemented by Enemalta and will link the St Andrews Distribution Centre to the Kappara substation that will subsequently service the interconnector between Malta and Sicily. This project is also part funded under EEPR and has an estimated project value of €10,200,000 with an allocated amount under EEPR of €5,000,000. The payments claimed up to end of December 2011 amounted to €2,456,565.

### **Freedom of Information**

The Programme Implementation Director was entrusted with the implementation of the provisions emanating from the Freedom of Information Act and therefore there was a continuation in the preparation for such implementation for when these provisions enter into force. Members from the Directorate attended and participated in a series of meetings convened by the MJHA in order to familiarise themselves with the requirements of the FOI Act, and its implementation.

### **Customer Care**

The Directorate receives customer care queries through the Ministry's website, the Clearance House at the Office of the Prime Minister, telephone calls, letters and personal calls. Furthermore this Directorate also receives SOLVIT queries through the Department of Trade. No complaints were received from the Ombudsman's office during the period under review. Every effort is made to answer all customer care queries in a quick and efficient manner and during 2011, the Directorate dealt with and satisfactorily resolved a number of complaints with the close collaboration of the various other contact points within the entities, departments and divisions falling under the Ministry's portfolio.

## Boards and Committees

The Programme Implementation Directorate coordinates the appointments of boards and committees that fall under this Ministry's portfolio. This work is carried out in coordination with the Minister's Private Secretariat, the Office of the Prime Minister and the Department of Information. Records are kept of all members on these boards and committees and a database has been designed to keep records current and updated at all times. During the year under review, the Programme Implementation Directorate coordinated the appointments on 39 boards or committees that fall under the Ministry of Finance, the Economy and Investment's remit.

## Green Initiatives

During the year under review, the Ministry received the results of the walk-through energy audits and the relative analysis was carried out and various recommended measures were implemented. Measures to safeguard the environment, such as waste management and reduction of consumption of water and electricity, continued to be implemented. Constant contact was kept with the departments, divisions and entities falling under the Ministry's remit, through the network of focal points on green issues.

## Gender Issues

Throughout 2011, this Office attended meetings organised by the NCPE and also collaborated and participated in studies commissioned by the said entity.

## Conference Incentive Fund

The Conference Incentive Fund was launched in mid-2009 and this initiative was coordinated and implemented by the Programme Implementation Directorate. This initiative assisted departments, ministries, entities and NGOs in the bidding, organising and hosting of international conferences in Malta. In the period under review, 21 conferences were partially funded and €233,519 was disbursed from this fund. These conferences brought over around 4,800 delegates for a total of around 69 conference days. Commitments were also made to sponsor several conferences that will take place in 2012.

## Representation on Boards

The Programme Implementation Directorate, through its Director, participated in a number of boards during the year under review. These included the board of the Grand Harbour Regeneration Corporation, the Malta Trade Fairs Corporation Board, the Board of Standards, the Sanctions Monitoring Board and the Inter-Ministerial Commission for the European Capital of Culture in Malta - 2018.

## Implementation of Sanctions

The Director, Programme Implementation is a member of the Sanctions Monitoring Board that is set up under the Sanctions (Monitoring Board) Regulations (LN327/06). The year under review marked an increase in the activity of this board that was mainly due to the conflicts in Egypt, Tunisia and Libya, with the latter conflict leading to the setting up of the Asset Freezing Unit, an ad hoc unit between the Ministry of Finance, the Economy and Investment and MFSA. This unit was set up following the conflict in Libya and its main task was to trace all the assets belonging to Libyan individuals or entities who were listed by the United Nations and/or by the European Union. Several tracing exercises were carried out and the findings were compiled in reports that were then forwarded to the Sanctions Monitoring Board.

The Director, Programme Implementation was also entrusted with the implementation of the provisions emanating from the United Nations Sanctions (Libyan Arab Jamahiriya) Regulations (SL 365.33), that introduced the principle of licensing for companies and/or entities that had a degree of listed Libyan

shareholding. These licences enabled these companies and/or entities to continue their normal operations and this contributed to the retention of jobs within these companies and/or entities. During the conflict in Libya a total of 14 licences were issued and these were issued after consultation with different stakeholders that would include the Sanctions Monitoring Board, MFSA, Central Bank and other entities that might have an interest in the operations of the applying entity or company.

AUDREY-ANNE CALLUS RANDICH  
*Director (Programme Implementation)*

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## EU Paying Authority

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### Mission Statement

*To perform duties and responsibilities relating to the financial management and certification of expenditure of EU-Funded projects and payment of EU Own Resources with the aim of maximising the benefits to Malta within the obligations and parameters as set out in national and EC legislation.*

### MAIN AREAS OF RESPONSIBILITY

- To act as National Authorising Officer (NAO) in charge of the National Fund dealing with EU Pre-Accession and Transition Facility Funds;
- To act as the EU Paying/Certifying Authority with regard to Structural and Cohesion Funds, SOLID Funds, EEA/Norway Funds, Swiss Funds and EU Travel Vote regarding the certification of expenditure and subsequent drawdown of funds from the European Commission;
- To open and manage accounts in connection with receipts and payments of EU-related funds;
- To disburse funds relating to Own Resources as part of Malta's contribution to the EU Budget.

### CORE FUNCTIONS

- To perform the duties of the Paying/Certifying Authority for Structural and Cohesion Funds SOLID Funds, EEA/Norway Funds, Swiss Funds;
- To perform the duties of the National Authorising Officer for Malta and be responsible for the management of the National Fund with regard to Pre-Accession and Transition Facility Programmes for Malta;
- To monitor progress of the projects which are being financed through foreign funds emanating from the EU and the European Economic Area and other non EU Member States, and draw budgets and forecasts for the said fund;
- To control and report on a regular basis the financial position of the funds and relative disbursements;
- To liaise with the DG Budget on the payment and financial management of EU Own Resources;
- To compile and maintain proper records of ex-ante, interim and ex-post inspections by third parties;
- To perform desk-based checks on a sample basis - and on-the-spot checks if deemed necessary - on the expenditure declared by stakeholders involved in the implementation of EU-Funded projects;
- To maintain an ongoing liaison with Government institutions on EU related matters in order to ensure that all commitments emanating from the various funding operations are being met;
- To manage the EU Travel Envelope regarding Malta's participation in EU Council and Commission meetings;
- To manage and process funds related to other EU Initiatives and Programmes.

### WORK REPORT FOR 2011

#### Pre-Accession and Transition Facility Funding

The Director EU Paying Authority is also vested with the responsibility of National Authorising Officer (NAO) which is a function directly delegated by the Minister of Finance, the Economy and Investment. As stated in the Memorandum of Understanding (MOU), the Financing Memoranda (FM) and EC Financing Decisions for the four Pre-Accession and the three Transition Facility Programmes, the National Authorising Officer is recognised as the overall authority in the Programme implementation process. These

Programmes are regulated by EC Regulation 555/2000 and were managed and implemented under the Extended Decentralised Implementation System (EDIS).

During 2011, the Office of the NAO liaised with the EU Commission in an effort to finalise the closure of the three Transition Facility Programmes, the implementation of which was successfully completed in June 2010 for the TF 2006. It is not excluded that further audits are performed by the Commission particularly on the 2006 Transition Facility Programme.

During 2011, the National Authorising Officer (NAO) was also involved in the following:

- participated and contributed in the reporting by the NAC to the EC via written procedure on the monitoring of sustainability of the Projects implemented under the Pre-accession and Transition Facility Programmes;
- monitored the iPerseus System for the updating of financial data on the Programmes;
- Communicated, particularly with DG ELARG, its position on various issues and problems encountered obtaining good success in its dealing with the EC on cases where the latter proposed recoveries following audits held on its behalf.

### Structural and Cohesion Funds

The Directorate also performed the role of Paying Authority (PA) for Structural and Cohesion Funds and during 2011 honoured Malta's commitments and obligations and fulfilled its functions and tasks emanating from EC Regulations 1260/1999 and 438/2001 for the programming period 2004-2006. The Directorate also acted as Certifying Authority for Cohesion Policy Funds for the new programming period 2007-2013 under EC Regulation 1083/2006

During 2011, the Directorate performed a total of 11 certifications of expenditure to the Commission during the year and was directly responsible for overseeing the whole certification process, and drawing up the necessary financial reports and disbursement claims for the drawdown of funds from the EC. All the claims certified were accepted by the Commission and the relative funds received transferred to Government Revenue.

The EU Paying Authority continued to establish and maintain efficient communications and contacts with the relative DGs and Financial Services of the EU Commission in Brussels to ensure a smooth and reliable process. Communication and coordination with the Managing Authority was enhanced in order to facilitate the checking process. Moreover, all efforts were made to redraw and simplify the certification strategy cutting on duplication of controls. The result was a smoother process with more value added to the system of controls thus leading to a more expedited certification and drawdown of funds.

During the year, the PA participated as a permanent member in all the Monitoring Committees for the remaining Cohesion Funds projects of the 2004-2006 programming period and the Cohesion Policy funded Operational Programmes for 2007-2013. Throughout the year, the Directorate was involved in other fora and communicated its position on various issues.

Furthermore, the EU Paying Authority ensured that the funds received from the EC were credited to the correct accounts at the CBM. In this process, sound communication links with the Central Bank of Malta (CBM) were maintained at all times and instructions to the CBM were issued to provide statements of accounts of all transactions, including interest earned on balances and other certifications requested by the EU Commission.

As per table below, for the 2007-2013 Financial Period a total amount of €171,887,964.57 were certified and transferred to Government Revenue under the Cohesion Policy Operational Programmes (OP) I and II. Moreover, the CA transferred to Revenue the sum of €6,116,010.54 from the Cohesion Policy advance payment held at the Central Bank of Malta.

Fund	Allocation	Certified during 2011	Certified and transferred to revenue-aggregate
	€	€	€
OPI - ERDF	443,978,031	62,093,266.37	91,831,223.59
OPI – Cohesion Fund	112,000,000	12,004,660.09	64,409,367.71
OPII - ESF	284,145,020	10,316,696.79	15,647,373.27
<b>Total</b>	<b>840,123,051</b>	<b>84,414,623.25</b>	<b>171,887,964.57</b>

The table below shows the amounts received from the Commission during 2011 regarding the Structural Funds for the 2004-2006 Programme which are now closed.

Fund	Received from EC in 2011 €
ERDF	2,334,881.95
EQUAL	30,488.21
ESF	463,275.64
FIFG	119,535.31
EAGGF (Guidance)	210,000.00
<b>Total</b>	<b>3,158,181.11</b>

### Own Resources

The EU Paying Authority Directorate also managed the bank account relating to EU Own Resources. During 2011, close relations were maintained with the relevant services in DG Budget of the EU Commission and also local stakeholders mainly the Customs and VAT Departments and the National Statistics Office, on the payment and financial management of Own Resources, reporting requirements, and the transactions to be made in the accounts and the exchange rate criteria. The Directorate ensured that payments to the European Commission were effected on a regular basis and in the appropriate manner within the stipulated deadlines.

The table below indicates the payments of Own Resources effected by the Directorate for Malta in favour of the Commission during 2011, amounting to €66,980,610.72.

Payments to the EU during 2011	€
TOR	10,140,238.05
VAT-Based	10,921,809.51
GNI-Based	42,586,490.04
UK Correction	2,933,041.08
Reduction in favour of other Member States	399,032.04
<b>Total</b>	<b>66,980,610.72</b>

### Travel Vote

The EU Paying Authority Directorate manages the Travel Envelope of EU Funds allocated to Malta in respect of the reimbursement of travel expenses for participation in EU Council Meetings as per EU Decision 190/2003, and also implemented the procedures for reimbursement for participation in EU Commission Meetings.

The Directorate conducted the following related work in this regard:

- coordinated the follow-up of all outstanding travel claims with all government ministries, departments and entities;

- formulated Malta's Travel Declaration in respect of the reimbursement of all travel expenses incurred following the participation in EU Council Meetings;
- gave its contribution towards the issuing of instructions by the MFEI laying out the procedures to be followed by all government ministries, departments and entities for the reimbursement of travel expenses for participation in EU Council and Commission Meetings, apart from also providing information to the various stakeholders involved and also issuing various circulars in this regard;
- assisted the Council of the European Union audit team during their verification mission which took place in April;
- authorised the transfers of the EU Funds from the Central Bank of Malta to Government Revenue and the respective government ministries, departments and entities claiming reimbursement of travel expenses following their participation in the respective meetings.

During 2011, the total of travel funds claimed and transferred to Maltese revenue for participation in EU Council and Commission Meetings during the year in question to date, amounted to €1,514,554.42. This included €1,111,442.59 for Council Meetings and €40,111.83 for Commission Meetings.

### SOLID Funds

The EU Paying Authority Directorate performs the role of Certifying Authority for the Solidarity and Management of Migration Flows Programme (SOLID) for seven different Annual Programmes covering 2007-13. This programme is further divided into four funds, namely the External Borders Fund (EBF), European Refugee Fund (ERF), Return Fund (RF) and the European Integration Fund (EIF).

During 2011, the CA certified and transferred to revenue funds in connection with ERF, EBF and Return Fund projects falling under Annual Programmes 2008, 2009 and 2010, and these amounted to €8,406,997.05, as shown in the following table:

Fund	AP 2008	AP 2009	AP 2010	Totals
External Borders Fund (EBF)	33,276.58	5,088,745.20	2,181,645.00	7,303,666.78
European Refugee Fund (ERF)	614,969.33	184,079.85	-	799,049.18
Return Fund (RF)	304,281.09	-	-	304,281.09
<b>Total</b>	<b>952,527.00</b>	<b>5,272,825.05</b>	<b>2,181,645.00</b>	<b>8,406,997.05</b>

### Norwegian & EEA Financial Mechanisms (NFM & EEA FM)

Malta is participating in these funds to achieve a social and economic disparities reduction with regard to participation in the Internal Market. The protection of the environment, the promotion of sustainable development, the conservation of European cultural heritage, human resource development, health and childcare, and academic research are the identified priority areas for Malta wherein eight projects (Technical Assistance included) are benefitting from €3,389,957. During the year, the Paying Authority participated in the Monitoring Committee and Annual Meeting for the European Economic Area (EEA) and Norway Financial Mechanisms as well as meetings for the new agreements 2009-2014. During 2011, €873,064 (NFM) and €1,001,876 (EEA FM) were certified and transferred to revenue.

### Swiss Fund

The Swiss Government granted a fund amounting to €3581million covering the costs of a PET scanner acquisition and support to the Mediterranean Academy of Diplomatic Studies (MEDAC), which are the only two projects under this fund. During 2011, the Paying Authority certified and transferred to revenue €331,183.

### **EFF 2007-2013**

The EU Paying Authority Directorate performs the role of Certifying Authority for this Programme. During 2011, the CA performed two certifications amounting to €1,131,003 (EU funds). In view of the fact that the amount certified in 2010 was received in 2011, the amount transferred to revenue is significantly higher than the certified amount. In fact, the amount transferred to revenue totals €1,647,035.66.

### **Other work**

On 26-27 September 2011, the Paying Authority hosted a delegation of 12 officials from the Albanian Ministry of Finance and provided training on Management and Control Systems of Pre-Accession, Transition Facility and Post-accession EU funded Programmes. The Directorate also coordinated with the PPCD to participate in delivering training activities to the Albanian counterparts of the Managing Authority regarding the programming, project selection and management of EU Funded Programmes. The training delivered was a complete success and the Albanian counterparts praised the competence and hospitality of the Maltese authorities.

On 23-24 May 2011, the Directorate in its role as Certifying Authority for Cohesion Policy and SOLID Funds participated with delegates from Certifying Authorities from the other Member States in the third EU Certifying Authorities Network Meeting in Belfast Northern Ireland hosted by the UK authorities. The Certifying Authority (CA) Network is now an established forum which was set up to bring together the Certifying Authorities of the Member States to discuss the various issues related to the CA functions and tasks.

**JOSEPH SGHENDO**

*Director (EU Paying Authority)*

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## Policy Development Directorate

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### INTRODUCTION

During 2011, the Policy Development Directorate (PDD) continued to focus upon its core areas of responsibility, specifically the development of policies, the coordination of the National Reform Programme (NRP) under the Europe 2020 strategy, coordinating the Euro Plus Pact, coordination of issues pertaining to the Single Market, representing the Ministry on inter-ministerial committees and other bodies, as well as the provision of timely support and advice to the Permanent Secretary on any issue referred to it.

### NATIONAL REFORM PROGRAMME UNDER THE EUROPE 2020 STRATEGY AND EURO PLUS PACT

The Directorate's foremost task for the year was the coordination of the Europe 2020 Strategy for smart, sustainable and inclusive growth, which succeeded the Lisbon Strategy. The new strategy builds on the Lisbon Strategy's achievements as a partnership for growth and job creation, whilst renewing it to meet new challenges. The Europe 2020 Strategy aims to help the EU come out stronger from the economic crisis by boosting competitiveness, delivering high levels of employment, productivity and social cohesion. Member States were called to prepare their National Reform Programmes under the new strategy with a view to deliver structural reforms needed to increase the growth potential of their economies.

The Directorate submitted Malta's first NRP under the Europe 2020 strategy in April to the Commission. The NRP presents a number of tangible measures and initiatives aimed at promoting smart and sustainable growth. The NRP aims to raise labour productivity by focusing on education, investment, research and development, and improving market functioning.

Malta worked towards the development of ambitious yet realistic targets taking into consideration Malta's starting point and national specificities so as to promote growth and jobs. These targets are:

- *Employment*: Malta set its employment rate target at 62.9% by 2020;
- *R&D*: Malta set its national R&D target at 0.67% of GDP by 2020;
- *Poverty Reduction*: Malta target is to lift around 6,560 people out of risk of poverty and exclusion by 2020;
- *Energy*: Malta set the following ambitious targets for energy efficiency, renewable energy and greenhouse gas emission reduction:
  - A maximum increase of greenhouse gas emissions not falling within the scope of the EU Emissions Trading Scheme of 5% by 2020 (compared to 2005 levels particularly emissions from transport, mainly road transport, waste, agriculture and fuel combustion in industry and commercial and residential buildings);
  - A commitment to achieve by 2020 a share of energy from renewable sources in gross final energy consumption of 10%;
  - A commitment to achieve by 2020 a target of 10% of energy consumed in all forms of transport from renewable sources;
  - A commitment to achieve a 22% energy or 235,254toe savings target by 2020 with an intermediate target for 2014 of 15% or 144,876toe.
- *Education*: Malta set the following targets:
  - Aiming to reduce school drop-out rates to 29% by 2020;

- Increasing the share of 30-34 years old having completed tertiary or equivalent education to 33% by 2020.

In March 2011, the members of the Euro area, joined by other EU Member States, agreed on the Euro Plus Pact, a plan aimed at improving the competitiveness of participating states. The Pact contains four objectives: to foster competitiveness, foster employment, contribute further to the sustainability of public finances, and reinforce financial stability. As a participating state in the Euro Plus Pact, Malta adopted nine concrete measures which Government is committed to implement within a twelve-month period to contribute to the realisation of the objectives of the Pact. This pact was included in the NRP.

In its Euro Plus Pact, Malta submitted commitments on:

- Strengthening the Fiscal Framework,
- Enactment and Implementation of the Small Business Act,
- Administrative Burden Reduction,
- Start-up Finance and Micro Credit Scheme,
- Cultural and creative industries Strategy,
- Full liberalisation of the postal sector,
- Telecommunications Market,
- Next Generation Networks,
- Telecommunications Regulatory Measures.

Many of the recommendations listed in the Annual Growth Survey were addressed in Malta's National Reform Programme. Smart fiscal consolidation, which is the first of the ten recommendations of the Annual Growth Survey, is described as a priority action for Malta in its National Reform Programme and is listed as one of the measures to address economic imbalances and growth bottlenecks, along with the strengthening of market structures, strengthening financial stability and better regulation.

The Annual Growth Survey's recommendation to make work more attractive has been taken on in the National Reform Programme in the form of such measures as the youth employment programme, financial incentives to attract inactive women to the labour force, encouraging older workers to continue working, and family-friendly measures such as child care centres and afternoon school programmes. The same thing can be said about getting the unemployed back to work, which Malta believes will contribute to its Europe 2020 Strategy employment target. Among the measures in this regard, the National Reform Programme lists an employability programme, a community work scheme and measures to contain informal work and abuse of the unemployment register.

The Annual Growth Survey recommends attracting private capital to finance growth and this was taken on board in the National Reform Programme through the launch of various private investment incentives. Creating cost-effective access to energy is also among the Annual Growth Survey priority actions. Malta's answer to this recommendation is the interconnection to the European Energy Grid, the extension of the Delimara Power Station, schemes to increase energy end-use efficiency, and measures to increase energy efficiency in transport.

Malta is also committed to comply with the Stability and Growth Pact requirements and has ensured that the proposals contained in the National Reform Programme are consistent with the fiscal targets contained in the Stability Programme. In addition, whilst economic activity has regained momentum in Malta, the policies contained in the National Reform Programme should help Malta achieve its fiscal consolidation targets in a sustainable and credible manner.

In its role as NRP coordinator, the Directorate received a European Commission delegation in March which dealt with industrial competitiveness. One of the aims of this technical visit was to prepare the regular update of the Commission annual report on Member States Competitiveness Performance and Policies.

Consultations on the new NRP and the Europe 2020 strategy were held throughout the year. In fact, a public consultation document on the new NRP and its measures was issued in January. A good number of meetings were held with the various ministries, entities and key stakeholders. The Malta Council for Economic and Social Development (MCESD) and the Malta-EU Steering & Action Committee (MEUSAC) were given a detailed presentation in order to keep them updated on Malta's new NRP, its targets and objectives. Information on the Europe 2020 Strategy was also disseminated on radio and TV programmes in cooperation with MEUSAC. The Directorate also draws up instruction notes and policy papers on the Europe 2020 strategy and in this connection attends meetings in both local and EU fora.

Throughout the year under review, the Directorate closely monitored the progress achieved on the various NRP and Euro Plus Pact measures with a view to ensure their timely implementation. Subsequently, the Directorate provides the Commission with a detailed progress report on an annual basis.

### **Better Regulation**

The Directorate is the Better Regulation Ministry Coordinator (BRMC) for MFEL. The role entails identifying opportunities for the reduction of administrative burdens, reporting progress on current better regulation initiatives taken in the Ministry, and acting as a contact point on better regulation. The Directorate also fully participated in the BRMC network, which regularly convened at the Better Regulation Unit, MEU. Throughout 2011, members of this Directorate also attended seminars and training programmes organised by MEU.

One of the main tasks undertaken over the past year was that of assisting MEU and PricewaterhouseCoopers in their assignment of compiling a compendium of all primary and secondary legislation falling under this Ministry. It is worth noting that five out of the ten priority areas fall under this Ministry's remit. In addition, this Ministry's departments and entities were also asked to verify the accuracy and completeness of the list of information obligations compiled by PWC and to classify them in three categories, depending on whether such information obligations were of national or EU origin. The next phase of this assignment is currently underway with a view to reduce administrative burden on businesses by 15% by 2012.

### **Single Market**

The Policy Development Directorate is also responsible for the coordination of horizontal issues falling under the Single Market. During the period under review, the main focus of the Directorate was on coordinating Malta's position on the Single Market Act. The EU decided to refocus the Single Market Act on twelve key areas with a priority proposal under each area to be adopted by the end of 2012.

In this connection, the Directorate compiled Malta's position on this document and liaised with various ministries to determine which proposals were most relevant to Malta. Consultation meetings were also held through MEUSAC, where the business community was given the opportunity to express their opinion on the Single Market Act. Based on the consultation process, this Directorate formulated Malta's position on this act and subsequently this position was used by officials from this Directorate who participated in meetings held in Brussels to discuss the Single Market Act and the particular proposals that featured in this act.

This Directorate, together with other departments, represented Malta at the Single Market Forum (SIMFO). This forum brings together officials, citizens and business people from all EU countries. The main focus of the forum was the future of the single market and what needs to be done to bring the citizens closer to the single market. In fact, this forum was the perfect opportunity to listen to the problems encountered by citizens in the Single Market.

## Training

This Directorate believes in the continuous development and skill enhancement of its personnel. During the year under review, PDD staff attended various training programmes given by the Centre for Development, Research and Training. PDD staff also attended training given by PricewaterhouseCoopers on the use of the Standard Cost Model and Better Regulation principles. This training was provided under the ESF 4.87 Project Developing the Public Sector's Capacity to Implement Better Regulation. The Standard Cost Model is the tool that is used to measure the administrative burdens resulting from information obligations imposed on businesses and citizens. In fact, this tool that will be used to measure the target set by Malta of reducing administrative burdens on businesses of at least 15% by 2012.

## Meetings, Seminars and Conferences

During the year, the Directorate ensured that it was always duly represented by a member of staff in both national and European meetings, seminars and conferences focusing on various policy issues mainly those concerning the Europe 2020 Strategy, the Internal Market and Competitiveness. The Directorate also continued to keep abreast with developments on a national as well as on a European level in the areas falling under its responsibility.

## Other Activities

During the period in question, the Directorate also coordinated the Ministry's position on the draft Strategic Plan for Environment and Development and the draft National Environment Policy. The Directorate also represents the Ministry on the Inter-Ministerial Committee on the Water Catchment Management Plan.

MARTIN SPITERI

*Director (Policy Development)*

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## Enterprise Policy Directorate

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### INTRODUCTION

The objectives of the Enterprise Policy Directorate are to build and sustain an administrative and legal framework which focuses on small and micro enterprises and contributes towards creating a positive environment in which entrepreneurs and businesses can flourish, to ensure that enterprise policy complements the country's economic and industrial policies for the benefit of the smaller enterprises in Malta. The Directorate therefore aims to:

- develop an enterprise policy for Malta with a particular focus on small and micro enterprises while ensuring that initiatives in the interest of SMEs link with Government's industrial policy for Malta;
- provide feedback to the EU Affairs Directorate and other directorates of the Ministry of Finance, the Economy and Investment on specific issues relating to enterprise policy.

### Small Business Act

In 2011, the Directorate reviewed all the submissions received vis-à-vis the consultation carried out on the legislative proposal on the Small Business Act. Following this evaluation, the Small Business Act (SBA) was enacted through Parliament in June 2011 (<http://doi.gov.mt/EN/bills/2011/BILL%2076.pdf>). On 10 November, circular MF 9/2011 was published explaining the coming into force of parts of the Act through LN 410 and some exemptions from certain provisions in LN 429. In 2011, the Directorate also initiated a call for the recruitment of staff for the Unit within the Directorate which will be responsible for overseeing the implementation of the SBA and the implementation of the SME Test.

Through the Small Business Act, Government aims at improving the regulatory environment for SMEs. The implementation of the SME Test will ensure that while legislation will be implemented for the benefit of all, it will not adversely impact on SMEs and will therefore provide for a mechanism which will seek to identify mitigating measures which will alleviate the burden on business.

The setting up of the Enterprise Consultative Council and the College of Regulators will further ensure that SMEs have the opportunity to voice their views, guarantee that SMEs are consulted and that action is taken by the respective government entity, as well as ensuring a more efficient regulatory environment.

### Entrepreneurship through Education

The Directorate, in collaboration with the Ministry of Education, Employment and the Family, launched the Entrepreneurship through Education Scheme. This scheme provided funding for all primary and secondary schools in Malta to submit proposals (up to €5,000) which focused on enhancing and promoting entrepreneurial qualities such as creativity and innovation as well as investment in skills and exposure to the business environment. A total of 19 projects were selected with a budget of around €75,000 being disbursed. The Directorate also continued to follow this topic in European fora and will be organising a conference on the subject on 20 January 2012.

### **Business Needs Awareness Seminar**

The Directorate was responsible for the implementation of budget measures on training to public service and public sector officials on the needs of enterprises and entrepreneurs. The training course, which was attended by around 40 officials from the Public Sector who shape their organisation's service delivery, included sessions with business representatives meant to identify the specific concerns of entrepreneurs. On the other hand, the latter had the opportunity to discuss certain difficulties with public service officials and ways through which certain areas could be improved.

### **European SME Week 2012**

For the third consecutive year, the Ministry of Finance, the Economy and Investment organised events as part of the European SME Week in October 2011. During this week, the European Commission encourages Member States to organise activities which aim at promoting entrepreneurship, entrepreneurial skills, especially amongst youth as well as to serve as a platform for established entrepreneurs who would like to obtain information on the European Commission's and Government's activities in support of entrepreneurship. The activities, which were spread over four weeks, varied from a training course on Intellectual Property Rights (with the participation of the European Union's Intellectual Property Rights Help Desk) to a Business Networking Event organised in collaboration with Junior Chamber International and a conference focusing on Crafts as well as an event targeting would be female entrepreneurs.

The Crafts conference also included workshops on sustainability in crafts, environmental concerns on materials used, packaging and the use of technology while the 'Female Business Café' was organised by the Directorate in collaboration with the Foundation for Women Entrepreneurs. This activity enabled women wanted to set up their own business to discuss their ideas with officials from the Employment and Training Corporation, Malta Enterprise and the Commerce Department.

The week also allowed for students to voice their ideas and participate in a discussion with established entrepreneurs at the Institute of Tourism Studies on the theme of 'Being Entrepreneurial'.

### **Enterprise Consultative Council**

Set up as part of the obligations emanating from the Small Business Act, the Enterprise Consultative Council meets to discuss topics which are directly relevant to SMEs. In 2011, the Council met three times and discussed issues such as the international economic situation and the impact on the various sectors such as manufacturing, financial services, tourism and the construction industry amongst others. Other issues discussed at the Council related to public procurement and e-procurement and Government's micro-credit scheme.

### **Sub-Committee of the Enterprise Consultative Council on increasing women's participation to the labour market**

This sub-committee was set up in July 2011, following a suggestion at the Enterprise Consultative Council. This committee, which met four times, discussed possible initiatives which should encourage women to return to the labour market. These include fiscal incentives, current social security benefits and child care facilities.

### **Social Entrepreneurship Study**

The Social Enterprise sector is an area which has the potential of contributing to the national economy while also ensuring the pursuit of social objectives. The Directorate embarked on a study on this sector so as to analyse the existing scenario and identify the gaps from a legal perspective which currently hinder the setting up of social enterprises. The study also includes a benchmarking exercise with two Member States, as well as a survey with a number of voluntary organisations in Malta.

The Directorate will be disseminating the information of this study in early 2012 as part of a consultation exercise, which should lead to the drafting of legislation meant to improve the legal environment for these organisations.

### **Malta Innovation Awards**

In September, the Directorate launched the 2011 Malta Innovation Awards with a total prize fund of €75,000. There were three categories for this year's awards: Scientific Innovation, Creative Innovation and Technological Innovation. The evaluation process for the awards was concluded and the next awards ceremony will be held in February 2012.

### **National Enterprise Support Awards**

In collaboration with the Small Businesses and Crafts Directorate within the Department of Commerce, the Enterprise Policy Directorate led the National Enterprise Support Awards. These awards are open for local councils, government entities, business stakeholders, national organisations and NGOs who would have undertaken activities to promote and boost entrepreneurship. The winners, which will be announced in January 2012, will participate at the European Commission's European Enterprise Awards. In May 2011, Mellieħa Local Council and Junior Achievement Young Enterprise, winners of the 2010 edition of the Awards, had the opportunity to participate at this European Enterprise Awards Competition in Spain.

ANTON SPITERI

*Director (Enterprise Policy)*

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# Information Management Unit

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## INTRODUCTION

During 2011, the Information Management Unit (IMU) within MFEI consolidated further its position and in tandem with key ICT personnel in the various departments provided the required ICT support in terms of operations, strategy, project management, consultancy, governance and end user support to the Ministry and its departments. The IMU was also instrumental in leading and implementing IT initiatives and ensure that these are in line with the overall Government ICT strategy. The following is an outline of the operations, projects and initiatives in which the IMU was involved during the year under review.

### Requests for ICT services

The IMU logged and/or approved requests for ICT services required by users across the Ministry and its departments. All final approvals were granted only through the IMU to ensure more control when accessing systems or services while monitoring costs and increasing security. Typical requests for services included among others the following:

- Rationalisation of generic mailbox quotas and shared drives
- Mailbox or files/folders restores
- Port Unlocking
- Blackberry and mobile email services
- Provision of VPN accounts to teleworkers
- Change in details and e-mail alias of users joining/leaving the Ministry
- Granting of Corp, e-mail and Internet accounts for new users
- Assign/revoke rights to shared folders
- Assign/revoke rights to access corporate information systems
- Passwords notifications
- Alterations in access permissions to generic e-mail accounts
- Deletion of obsolete e-mail accounts
- Provision or deletion of digital secure certificates and/or secure mail tokens
- Provision or deletion of VPN accounts.

### User and Departmental Support

The IMU provided general technical support to the Ministry and its users. Though support calls generally declined due to the desktop leasing agreement, whereby the leasing supplier attends to requests related to the workstation, the IMU still received additional requests of a different nature. The support provided consisted mainly in the following:

- Provision of minor IT equipment such as mice, keyboards and other peripherals
- Transfers of data prior to or following laptop/PC repairs
- User support on MS Office applications
- Support for problems related to e-mails such as offline mail, backups, archiving etc
- Provision of video conferencing facilities and related support
- Printer sharing for new users
- Troubleshooting networking problems
- Mapping of shared drives for users

- Transfer of IT equipment, network connectivity and telephony following office moves
- Assist users in handling files in unsupported formats
- Installation of non standard software following an exemption process
- Assist users in upgrading their leased PC/laptop when required
- Troubleshooting of peripheral hardware devices that are not normally covered by the desktop leasing agreement such as external hard disks and other peripherals.

The IMU also offered support to a number of departments within the Ministry related to diverse aspects of ICT ranging from project management, consultancy, advice and technical support. The following entities made use of our services: Office of the Permanent Secretary, Parliamentary Secretariat, Customs Department, Treasury Department, Notary to Government, Commerce Department, Government Property Department, Accountancy Board, and the Contracts Department.

### Local Area Networks

During 2011 various network related tasks were carried out in various departments and these included:

- Implementation of a WAN and LAN for the Public Contracts Review Board premises
- New LAN for the Ministry on the 4th floor
- New LAN for the Customs MIA Departures office at Luqa
- Upgrade of WAN for the Quality Assurance Unit in Marsa
- Extending the Fibre back bone connectivity between the Customs Administration Offices at Hal far and the Customs Mobile Office adjacent to the Nuctech mobile scanner.

Other minor network related works included:

- Local Area Network extensions
- Replacement of faulty network switches and/or reconfiguration
- Installation of new network and distribution switches
- New network points or their relocation following office moves
- Upgrading of network cabinets
- Re-patching of telephony and network points in network cabinets
- Redeployment of network equipment from one premises to another
- Installation of uninterruptible power supplies in a number of network cabinets

### Procurement, Supplier and Contract Management

All ICT procurement for the Ministry and its departments, except for leased personal computers and laptops, was centralised within the IMU. This mechanism ensured more control on ICT spending and while allowing the IMU to monitor and ensure that suppliers delivered services/products in accordance to specifications, service agreements and/or contractual obligations. The IMU also checked the legitimacy and accuracy of various invoices related to the procurement of ICT equipment prior to authorising payments.

The IMU was also involved in managing suppliers and coordinating repairs on electronic equipment that needed to be carried out by third party suppliers. The IMU prepared the equipment for pick-up by the supplier, kept track of such equipment and ensured that the equipment was properly repaired and returned to its user/s.

The formulation of a number of maintenance and support agreements related to hardware and/or information systems that are implemented within the Ministry or its departments also fall within the remit of the IMU.

## Transfer and Storage of ICT Assets

The IMU coordinates the transfer of ICT assets between government entities and departments. This includes transfer of the equipment, transfer of asset forms, update of the inventories and renaming and/or re-installation of the asset. This procedure is ensuring that the use of assets is optimised to the full without having assets lying idle.

## Technical Apprenticeship Scheme

For the third year running, a Training Apprenticeship Scheme apprentice was engaged with the IMU through the Employment and Training Corporation. The sponsored apprentice is following a three-year course for a Computer Engineering Technician at MCAST. The apprentice will obtain the necessary hands-on work experience at the IMU by assisting with network related works and the provision of end user support.

## ICT Budgeting 2012

In April/May, the budgeting process to submit the Operational (OPEX) and Capital (CAPEX) ICT budgetary requirements for the Ministry and its departments for 2012 was commenced. A number of meetings with all relevant stakeholders were organised in order to assess the ICT requirements for the coming year. The finalised ICT Budgets were forwarded to MITA by end June 2011.

## New Websites and Related Support

The IMU was heavily involved in works related to web related support and development. Responsibility for keeping the ministry portal [www.finance.gov.mt](http://www.finance.gov.mt) updated also lies within the IMU. During 2011, the IMU assisted five different departments in launching a new website. These were:

- Treasury - [www.treasury.gov.mt](http://www.treasury.gov.mt) - launched February 2011
- National Statistics Office – [www.census2011.gov.mt](http://www.census2011.gov.mt) - launched June 2011
- Public Contracts Review Board – [www.pcrb.gov.mt](http://www.pcrb.gov.mt) - launched December 2011
- Accountancy Board – [www.accountancyboard.gov.mt](http://www.accountancyboard.gov.mt) - launched December 2011
- Government Property Rent on-line - <http://www.gpd.gov.mt/> - launched December 2011

The IMU was directly or indirectly involved in the requirements gathering stage, selection of suppliers, project management, quality assurance, domain name registration, hosting arrangements and formulation of maintenance and support agreements among other tasks.

## Upgrade of the EPTOS framework at the Commerce Department.

The EPTOS framework of the Commerce Department has now been upgraded to the latest version 9.0 as recommended by the technical team of the European Patent Office (EPO). The upgrade was done in conjunction between the IMU, MITA where the system is hosted, and the Tecno team of the EPO. The Soprano System for Patents in use at the Commerce Department currently runs on the EPTOS framework.

## Establishing key ICT positions in Departments

During 2011, the IMU was involved in the establishment of a number of ICT positions within the Ministry's departments. It was felt necessary that apart from having a central IMU, the Ministry's departments required to build their own ICT capacities that were more geared to combine business knowledge with ICT. These decentralised IT units work in tandem with the central IMU to deliver ICT solutions more appropriate to the business of the department but at the same time in line with Government's overall ICT strategy, ICT governance principles and within allocated budgets.

## Security and Governance

From time to time MTCERT (Computer Emergency Response Team) at MITA informs the IMU about PCs that are not behaving normally on the Magnet. These include PCs that do not have the proper antivirus installed, PCs that are creating undue traffic on the network, PCs not logging correctly onto the Corp domain or cases where non compliant software has been installed. In all these cases, the IMU through its Governance function investigates these instances and takes the appropriate line of action.

## Exemptions and Waivers

The IMU received a number of ICT requests, which due to GM ICT policies required a formal exemption from the MITA ICT Compliance Department, in order to be implemented. The process for coordinating the submission and eventual processing of exemptions by MITA was fully coordinated by the ICT Governance function within the IMU. In all, 34 exemption requests were processed during 2011.

## Time Tracking System

In order to raise accountability and better governance of projects within the IMU, a Time-Tracking System has been implemented. The system allows officers to track time spent on the various projects and tasks while allowing management to oversee the tasks each officer is responsible for. The system also facilitates and standardises the way performance reports are issued.

## Training

During the year under review, officers from the IMU benefited from the following training programmes:

- Training in Electronic Procurement;
- Training in Risk Management;
- Training workshops organised by the European Patent Office in the Hague, the Netherlands on Information Systems currently in use by the Commerce Department;
- Technical training by the Office of Harmonisation in the Internal Market (OHIM) in Alicante, Spain on behalf of the Commerce Department;
- Training on the V-Smart Library Information System;
- Information Security Awareness;
- IT in Customs and Taxation under the Fiscalis programme of the EU;
- Enhancing your Personal Assistant Skills;
- Training in Management of Value - UK's Office of Government Commerce's (OGC);
- Training in Better Regulation and the Standard Cost Model.

The IMU was also invited and participated through its officers in a number of local conferences and/or seminars dealing with various aspects of ICTs and information management during 2011.

## Open Source Web Framework for the Ministry

The IMU has established a standard web framework for the Ministry based on an Open Source Content Management System known as Plone (now in Version 4.0). The framework is located on a segregated hosting environment in MITA's data centre. The framework allows the Ministry to quickly deploy a number of websites, intranets, document management systems and extranets for use by the Ministry and its departments.

## Delegated Internal Market Information Coordinator (DIMIC)

During 2011, the IMU as a DIMIC had the responsibility to register Competent Authorities in the IMI system, manage their data, monitor progress of requests and assist in case of problems.

## ICT Support for the National Budget 2012

The IMU managed the Ministry's ICT requirements for the preparation of the national Budget 2012. The support commenced weeks prior to the budget as well as during Budget Day itself. The main tasks included the coordination for the provision of dedicated technical support to the Ministry, the allocation of additional and standby hardware, real time updating of the Ministry's web portal with the Budget publications and domain name registration.

## Representation on Boards

The IMU, through the CIO, participated in a number of boards and councils during the year. These included among others the National Information Society Advisory Council (NISCO), the INFOSEC Council, ICT Positions Selection Boards, the CIO Council and the CIO Forum. The IMU also participates through a representative in the Malta Open Source End User Group (MOSEUG).

## ICT Support to Customs

The IMU works constantly with Malta Customs to assist and eventually finance the ICT systems required by the Customs Department. This particular Department has the highest demand for new information systems due to requirements imposed by the EU. During 2011, the IMU assisted the Customs Department as follows:

- Implementation of TARIC 3;
- Customs Risk Management System redundancy;
- General support to internal users on Customs Information Systems and assistance in the debugging of errors

## Business Intelligence Reporting Framework

The IMU has extended the functionality of SAP Business Objects in use at the Customs Department for accessibility by other departments within the same Ministry to create a common platform for generating business reports from information systems.

## Enhancements to the Fleet Management System

As part of the commitment of this Ministry to continually improve the Fleet Management System, the Ministry through the IMU and MITA carried out a set of 20 new developments and/or enhancements to render the system more user-friendly and improve monitoring. Further deployments of the FMS were also carried out.

## Land and Estate Management Information System

During the last quarter of 2011, the new rents module of the Land and Estate Management Information System (LEMIS) at the Government Property Department (GPD) was launched. The parallel run with the previous Licence Management System (LMS) continued until end 2011. GPD staff are now using LEMIS to issue invoices related to government rents. Towards the end of 2011, there was also the launch of the new online rents payment portal which is accessible on [www.gpd.gov.mt](http://www.gpd.gov.mt). Other LEMIS modules, notably the GIS, will be available towards mid-2012.

ALBERT VELLA  
*Chief Information Officer*

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## Financial Policy and Management Division

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### FINANCIAL POLICY DEVELOPMENT AND ANALYSIS DIRECTORATE

The consolidation of policies, laws, regulations and standards continued during the course of 2011. In particular the Vehicle Registration and Licensing Act was amended. During 2011, FPMD also continued to participate in the Malta Government Accounts Standards Committee.

One of the main objectives of the Financial Policy and Management Division is that of modernising financial management across public administration, enabling ministries, departments and extra-budgetary units to manage better their financial resources, become more accountable and to increase efficiency in the use of public assets. This necessitates the continuous liaison with line ministries, departments and extra-budgetary units, together with the National Audit Office (NAO), Treasury Department, Budgetary Affairs Division, the Internal Audit and Investigation Department (IAID) and the National Statistics Office (NSO), among others.

FPMD will be responsible for the organisation of the first course for junior and senior managers involved in the implementation of IPSAS locally. This course will be organised in conjunction with the IPSAS Institute (Switzerland) and is scheduled to take place in April 2012. The course will be held at the Centre for Development, Research and Training (CDRT).

### VEHICLE REGISTRATION AND LICENSING

During 2011, the Division led the changes in methodology used in the computation of registration values for the purpose of calculating registration tax. The registration values, upon which the registration tax for used M1 category vehicles (passenger cars) is calculated, are derived combining data held by Transport Malta, consumer prices collected through a continuous consumer survey by the National Statistics Office for used vehicles and information published by CAP Motor Research Ltd. This marked a shift from opinion data collected from authorised dealers of used cars, values provided by importers of new vehicles and information published by CAP Motor Research Ltd that had been used up to now. The registration values will continue to be updated on a monthly basis using the used cars price index published by the NSO and UK market information published by CAP Motor Research Ltd. Registration values are published by Transport Malta through its web portal, this portal features also the calculation of registration tax for N category vehicles (commercial vehicles) and motorcycles.

In the course of the year, the European Commission formally closed the infringement procedure against Malta concerning the calculation of registration tax..

### GOVERNMENT TRANSPORT

During 2011, the Government Transport Unit within the Financial Policy and Management Division held various meetings with a number of entities and departments with the aim of reducing the number of hired vehicles in the fleet. Organisations were directed to procure rather than lease and in many cases only the temporary hire of vehicles was approved with the intention that vehicles would be procured when funds became available.

Moreover fuel expenditure, together with other expenditure items, was closely monitored. The objective is to ensure that ministries, departments and extra-budgetary units make better use of their resources in line with Government's over-riding objective to consolidate public finances. Quarterly reports were drawn up and vehicles having a low efficiency were identified. Ministries, departments and extra-budgetary units were asked to assess and justify such instances, corrective action being taken as appropriate. The Fleet Management System (FMS) was successfully installed by the Police Department and NSO. Moreover, in 2011, thirty new developments and/or enhancements were carried out to render the FMS more user-friendly, and to also improve monitoring by MFEI and by ministries, departments and extra-budgetary units

As a Green Initiative, the FMS was modified and paper printouts reduced by two-thirds. A green element was also proposed of thresholds on carbon dioxide for fully-expensed cars. Moreover, data was collected for the last three years in connection with the amount of fuel used by all departments and the carbon dioxide element was calculated.

The Ministry was represented in monthly board meetings held at the National Commission Persons with Disability (KNPD) whose aim is to decide on the outcome of requests relating to the exemption of registration tax. The Board was also tasked with the updating of the current guidelines on exemptions to be presented to the Minister responsible for Finance.

During 2011, calculations were carried out in connection with the reimbursement given to officers for using their private transport for work related purposes. After consultations were carried out with various organisations, a circular was issued updating the allowance to €0.31c/km.

This unit also worked on a fresh circular which aims to update the currently used MF5/98 which regulates fully-expensed vehicles made used by senior management. This update also took into consideration greener procurement. In addition, a cash allowance has been provided for. Currently, the draft is being reviewed.

In the course of 2011, the NAO published a report on fully-expensed vehicles. This report was analysed and followed up with the extra-budgetary units which had been audited. A justification to any shortcomings was requested with a view to rectify any shortcomings or malpractices.

A new policy aimed at streamlining the procedure to be adopted regarding Government Motor Insurance was drafted in view of the agreement between the Ministry and the Protection and Compensation Fund (PCF), which will be regulating for claims arising against Government. Discussions are currently being held with the PCF related to the implementation of such policy.

During 2011, FPMD initiated the process leading to the publishing of a service tender requesting consultancy services related to the management of the Government's fleet of vehicles. It is the Government's aim to have a smaller fleet made up of less polluting vehicles that can better service its needs, including the transportation of officials and the operation of its mail courier service. Cost effectiveness and environmental concerns are two key principles driving the reform in Government transport policy, aiming at enhancing the current system. The service tender was drafted to include requirements specific to government needs with the intention of attracting the suitable expertise in the area that can evaluate the current situation and offer appropriate recommendations to the objectives put forward in the terms of reference. Input on this procurement procedure was received from the Department of Contracts, Director Corporate Services and the Office of the Prime Minister, including the Green Travel Committee under the lead of the Principal Permanent Secretary. This tender will be issued in 2012 and an interim report is expected to be received from the contractor within six months, with the final report and presentation of recommendations to be presented within a year from being awarded.

## OBESITY

During 2011, the Division represented the Ministry on the Intersectoral Committee to Counteract Obesity (ICCO). This committee is responsible for:

- translating measures outlined in the European Charter on counteracting Obesity (2006) into a series of specific sectorial and intersectorial objectives and implementation strategies, within an appropriate timescale and priority ranking as defined in a working plan;
- ensuring close collaboration and consistency of action regarding food and nutrition as described in The Malta Food and Nutrition Policy (1988);
- submitting proposals to Government on any matters related to its functions;
- reporting regularly to the authorities on progress achieved.

An obesity strategy aiming to change existing conditions and helping Maltese people make healthier lifestyle choices is nearing finalisation. Moreover, FPMD will represent MFEI on a group responsible for the implementation of such strategy.

## LATE PAYMENTS

The European Commission holds that numerous payments in commercial transactions among businesses or between enterprises and public authorities are made after delivery and frequently later than arranged in general commercial conditions. The Commission holds that these habits impact liquid assets and complicate the financial management of businesses. Furthermore, overdue payments by public authorities weaken the credibility of policies and make operating conditions for businesses unstable and unpredictable, thereby hindering growth and employment.

Among other things the recast directive provides that public authorities will have a 30-day payment period to settle invoices for the purchase of goods and services, or 60 days under exceptional circumstances such as with the case of healthcare. Additionally, the rate of interest for late payments will be no less than 8% above the European Central bank's reference rate.

The transposition of this recast Directive into Maltese law will be effected by March 2012. Moreover, this Division will also be participating in an expert group to discuss outstanding issues with respect to this Directive.

## UTILITIES

In the 2010 Budget, Government announced that it was to undertake an exercise to calculate the carbon footprint of the departments and government entities and introduce a system of incentives to reduce it.

During 2011, FPMD compiled an update of all property that is used by ministries and departments for administrative purposes, including details on water and electricity accounts. A circular was disseminated by MFEI to each Ministry, through the respective Director Corporate Services. Each Ministry was required to verify the details on both the electricity and water accounts pertaining to administrative buildings, and to correct as necessary. Ministries and Departments forwarded the completed information to FPMD by the end of November 2011. It is envisaged that through such data the carbon footprint of all government departments would be established.

## INSURANCE

Government's standing policy is to self-insure, settling claims that arise. To this effect the Ministry had undertaken the initiative to explore the feasibility of insuring against:

- Medical malpractice;
- Government owned vehicles;

- Government property.

Possibly this will extend also to professional indemnity, protecting against potential negligence claims made by individual, businesses or organisations against Government.

Priority has been assigned to medical malpractice. In the course of 2011, professional expertise quotations were sought to assist Government with this feasibility study. The feasibility of insuring against medical malpractice will be consolidated during 2012 in collaboration with the Ministry for Health, the Elderly and Community Care.

### **CREDIT CARD POLICY**

FPMD was tasked with proposing a common-platform policy across all ministries regulating the use of credit cards. To this effect, during 2010 and 2011 an analysis was carried out to identify the use and extent of credit cards by ministries. During 2011, a draft on credit card policy was drafted. This policy area will be further consolidated in 2012 with the assistance of the Central Bank of Malta and Treasury Department.

### **LOANS AND CLAIMS**

Since 2008, the Division was assigned the task of assessing requests by local councils to enter into agreement for loans to fund specific projects. During 2011, FPMD processed three requests for loans amounting in total to €498,600, and one request for a bank overdraft amounting to €150,000. The Division, through liaison with the Department for Local Government (DLG) and Budget Affairs Division, also established policy guidelines which are to be followed by the local councils in their submission to the DLG for a request for a bank loan. FPMD is also responsible for assessing claims against Government which require input by the Ministry, namely relating to collisions and medical malpractice.

### **GRANTS**

A number of grants were implemented in the course of 2011, namely;

- the reintroduction of the bicycle grant;
- the grant related to the assistance to church and independent schools, related to the capital expenditure incurred in their transition from primary to secondary school;
- the reintroduction of the grant related to the purchase of a more environment friendly car, where €5.2 million were allocated by Government over a two-year period;
- the 20/20 Sport Training Leave Scheme for private sector employees; and
- the grant related to expenditure incurred by sport organisations on the purchase of sport equipment.

Other grant schemes which were still being administered by Government include the marriage grant, the funeral grant, the ordination of priesthood grant, the grant on the purchased of musical instruments, a grant related to capital expenditure incurred by sports organisations and the grant related to the purchase of a more environment friendly car. The total recurrent expenditure on such grants for this financial year amounted to around €5.8 million.

### **SPORTS SCHOLARSHIPS SCHEME**

Research was carried out regarding sports scholarships and grants being offered both locally and abroad. The *Kunsill Malti għall-iSport* (KMS) was investing in the provision of a number of support programmes, which offer financial subsidies and/or provision of facilities to KMS registered sports associations, federations and clubs. The Malta Government Scholarships Undergraduate Scheme Awards for 2009 also included a number of sports related degrees. Details on a number of schemes and grants offered by other countries to both athletes and coaches were also noted. A copy of the document was forwarded to the Parliamentary Secretariat for Youth and Sport.

## **NATIONAL ENVIRONMENT POLICY**

During 2011, the Division undertook an assessment of those sectors that need to be restructured due to their significant environmental impacts. Work on various assessments as a result of commitments in the National Environmental Policy will be consolidated in the coming years according to the timeframes set in this policy.

## **AUDIT REPORTS**

During 2011, FPMD reviewed a number of performance audits carried out by the NAO and IAID. Follow-up checks were made by FPMD to verify whether the recommendations provided in these audits were being implemented.

## **EU COMMUNICATIONS, DIRECTIVES AND OTHER DOCUMENTS**

The Division also reviews and provides a Malta position on a number of documents issued by the European Union institutions, mostly related to energy, the environment, resource efficiency and biodiversity. FPMD also submitted feedback on behalf of the Ministry on the proposed National Environment Policy and the Strategic Plan for Environment and Development.

## **OTHER**

### **Duty Travel Management System (DTMS)**

In 2010, the assistance of MITA was sought to identify a suitable solution for managing travel, the aim being to replace the current paper-based system. This activity was consolidated during 2011 to the effect that a comprehensive document was drawn up detailing the processes and supporting policies as regulated by the provisions of Chapter 8 of the Public Service Management Code (PSMC). Such a solution would enable Government to better manage travel abroad, potentially centralising booking, etc. and reducing costs. The document is currently being reviewed.

### **Departmental Accounting System**

The Division requested MITA to generate a new DAS report which would provide information about the income and expenditure of government departments to a lower level of granularity than currently is available. This report was compiled and is now available.

### **Sick Leave**

During 2011, an exercise was undertaken to quantify the financial cost of sick leave that was availed of by Government officials during the year 2010, this broken down by mMinistry. Such an exercise showed that during 2010 sickness related costs amounted to €130 million, average sickness expenditure per government official amounted to €574, whereas average number of sick-leave days per government official amounted to eight days.

The report also highlighted the salient features that may induce workers to take sick-leave and guidelines were put forward in order to mitigate such a problem.

### **Investment Facility Committee**

During 2011, FPMD continued representing Malta as member on the Investment Facility Committee (European Investment Bank). The Investment Facility (IF) is a revolving fund, i.e. loan amortisations will be re-invested in new operations.

The IF provides various forms of risk sharing financing instruments for investment projects in most sectors of the economy. This includes projects in the commercially run public sector and in the infrastructure sector which are key to the development of the private sector, as well as the financial sector. IF support is provided through: debt finance, guarantees, equity-type financing, and acting as an investor in private equity funds.

All projects funded by the IF must be economically, financially, technically and environmentally viable.

## **TAX, PAY AND SOCIAL WELFARE POLICY DIRECTORATE**

### **CONDITIONS OF SERVICE (COS)**

This incorporates matters related to a vast range of allowances, requests for increase in salaries/other payments or the establishment of eligibility criteria for recipients in the Public Service and extra-budgetary units. Requests are always considered in the light of existing policies and regulations, including PSMC and the Manual of Allowances issued by PAHRO. Continuous liaison with PAHRO and Budget Affairs Division forms an integral part of this process. The objective is to evaluate requests related to COS in a just manner, that reflects government policy, and within a reasonable time.

The FPMD is primarily concerned with assessing the financial implications of any award, especially in the case of the establishment of new allowances and benefits.

### **BOARDS, COMMITTEES AND SIMILAR BODIES**

An exercise was undertaken to collect information related to the remuneration of government-appointed boards, committees and other similar bodies falling under all ministries' remit, to promote uniformity and conformity in matters related to members' remuneration. The aim of this exercise is also to ensure that each ministry is held accountable for all boards falling under its remit. Keeping up-to-date records and monitoring any changes establishes a much needed measure of control. FPMD has been considering a number of recommendations to facilitate the ministries' tasks in this regard.

FPMD, in conjunction with PAHRO, considers requests for the set-up of new boards on the basis of number of sittings, duties and responsibilities, and evaluates requests on an ad-hoc basis for revision of remuneration resulting from additional duties or hours worked.

### **MINISTRY OF FOREIGN AFFAIRS (MFA) – MISSIONS ABROAD**

Over the past year, members of the division were engaged in an inter-departmental committee related to the revision of Conditions of Service for Locally Engaged Personnel (LEPs) serving in Maltese missions abroad. The Committee, comprising officers from MFEI, MFA and PAHRO, concluded the task of reviewing the existing Conditions of Service, a task that was long overdue. The revised Conditions of Service take into account engagement of LEPs, contracts, remuneration, allowances and other benefits.

Together with MFA, FPMD is in the process of collecting data with respect to all locally engaged personnel in over 30 missions abroad. It is aimed to use this data to ensure that all existing benefits strictly adhere to the revised document that shall be issued shortly.

FPMD is also responsible for assessing requests for increase in salaries and other payments, related to LEPs. The main tasks involve reviewing contracts, setting up eligibility criteria and liaising with the Ministry of Foreign Affairs in order to ensure that up-to-date records are kept. The Section's aim is to promote a measure of uniformity in all missions.

Besides LEPs, FPMD assists MFA in the interpretation and implementation of the Conditions of Service for Malta Based Officers, covering matters related to Global Emoluments, Health, Travel, Education, Benefits etc.

### **EUROPEAN UNION ACT (AMENDMENT OF PENSIONS ORDINANCE), 2012**

FPMD played an active role in bringing about an amendment to the Pensions Ordinance. The amendment was considered following the need for Malta to create a legal and administrative framework to allow for pensions' transferability rights with respect to those persons who join EU institutions.

### **MOTOR VEHICLES REGISTRATION AND LICENSING ACT**

During the course of 2011, discussions were held between the MFEI and Transport Malta to amend Chapter 368, Motor Vehicles Registration and Licensing Act and Subsidiary Legislation 368.02, Exemptions from Motor Vehicles Registration Tax Rules. A number of changes were proposed to the Act and subsidiary legislation in order to simplify the criteria governing the exemptions granted to individuals, who were normal residents outside Malta for a continuous period of at least 24 months and who transferred their normal place of residence to Malta. The recast will also address shortcomings in discrepancies in definitions between Chapter 368 and SL 368.02. The changes enacted to Article 19 of Chapter 368 will come into effect on 1 January 2012, and it is also recommended that the changes to SL 368.02 are also brought into effect on 1 January 2012.

Throughout the year, this Division also led changes in the vehicle registration tax for private motor vehicles. The aim of this reform was to further embrace elements addressing environmental concerns in the calculation of registration tax levied on cars with the objective to incentivise a smaller, younger and cleaner fleet of vehicles. Thus, besides being a factor of vehicle length, CO2 emissions and value, from 1 January 2012 registration tax will also be a function of Euro Standard, as stated by the vehicle's manufacturer and in line with the EU Treaty. Chapter 368, Motor Vehicles Registration and Licensing Act was amended to cater for the inclusion of the Euro Standard element, mainly through the replacement of tables containing taxation rates. Furthermore, there was an amendment of the actual registration tax rates for vehicles having €3 standard or lower; resulting in such vehicles paying a higher tax rate than before, in attempt to encourage newer and cleaner cars. Rates for €4 and €5 standard vehicles remained unchanged. Additional minor amendments were implemented to the legislation in order to modify certain parts of the legal text which became irrelevant or have been updated throughout the years.

### **FINANCIAL SERVICES POLICY**

In the past years, FPMD expanded its activities to incorporate a structured financial services policy formulation capability. Throughout the year, the Division continued on this policy course and enhanced its work in the field of financial services. The financial markets' turbulence, which characterised the past year, has required a major involvement from FPMD especially through participation at various committees organised within the European Council and European Commission, including:

- the Financial Services Committee which assists the European Council to define the medium- and long-term strategy for financial services issues;
- the European Banking Committee which assists the European Commission in providing advice on policy issues related to banking activities. In the past year, the Division was heavily involved in the discussions in relation to the adoption of a Directive proposal, transposing the Basel 3 regulations (as endorsed by the G20) into EU legislation;
- the European Securities Committee which assists the European Commission in providing advice on policy issues in the securities field. Throughout the year, FPMD was involved in periodic discussions prior the Commission proposals on a Regulation on insider dealing and market manipulation (market abuse) and on a Directive on criminal sanctions for insider dealing and market manipulation. Other major work was also performed in relation to the revision of the Markets in Financial Instruments Directive (MIFID);

- The European Insurance and Occupational Pensions Committee assists the European Commission in adopting and implementing measures for EU Directives and to act as an independent advisory group providing advice on legislative proposals and existing legislation governing insurance, reinsurance and occupational pensions. In the course of the year under review, the Division continued to attend several meetings and discussions held in relation to the adoption of Solvency II Directive. Solvency II Framework Directive is scheduled to be transposed by Member States by 1 January 2013, with a transition throughout 2013 towards the full application by 1 January 2014. Other major work was also performed in relation to the revision of the Insurance Mediation Directive (IMD);
- The the European Financial Conglomerate Committee is responsible for reviewing the Financial Conglomerates Directive which aims at the supplementary supervision of regulated entities that form part of a financial conglomerate, i.e. groups with licences in both the banking and the insurance sector. The Division is sometimes requested to attend ad-hoc working groups at the request of one of the above committees. Such sub-committee working groups would generally have limited scope and would need to tackle specific technical issues with a view to identifying key issues and risks.

### **RECOVERY DIRECTIVE 2010/24/EU**

On 20 April 2010, Council Directive 2010/24/EU ‘concerning mutual assistance for the recovery of claims relating to taxes, duties and other measures’, entered into force. ‘Recovery directive’ 2010/24/EU was devised in order to facilitate and improve the mutual assistance that Member States provide to each other to recover claims mainly concerning:

- Taxes, duties, and other administrative penalties/fines that are imposed by authorities that are competent to impose taxes or duties;
- Refunds/interventions that are related to the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD);
- Levies under the common organisation of the market for the sugar sector.

FPMD attended working party meetings at EU Council level in 2009 as part of the process in which member states agree on a common and compromise legislative text. Subsequently during 2011, a consultation process with the line departments which are called into question by this directive, was carried out. The aim of this consultation was the transposition of the ‘recovery directive’ into the Maltese legislation and the improvement of the internal organisation and communication process related to the incoming and outgoing requests as a result of the exercise of this directive.

### **ENERGY TAX DIRECTIVE**

In April 2011, the EU Commission put forward a proposal to revamp Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, also referred as the Energy Tax Directive. The proposed amendment is aimed at restructuring energy taxation such that it is better geared towards helping Member States reach policy objectives in the area of climate change set for 2020. The Division represents Malta at EU Council working party meetings, preparing Malta’s position accordingly. This entails the analysis of various policy documents put forward by the EU Commission and the presidency, as well as holding the necessary consultations.

### **REDUCED RATE OF TAXATION TO THE AGRICULTURAL SECTOR**

MRRA have requested the Ministry’s assistance in calculating a possible reduced rate of excise duty on diesel to be granted to various types of farmers. Work in this regard consisted of using data supplied by MRRA to calculate the amount of ‘subsidy’ (i.e. the amount granted through a reduced rate of taxation) which various farmers would benefit from under various reduced excise duty rate scenarios. FPMD also worked closely with MRRA in examining the legal and administrative ramifications and constraints of granting such subsidy.

## EU DOCUMENTS

FPMD explained Malta's position when giving feedback on EU policy documents related to the field of taxation. It also provided assistance to other departments with various response and guidance, when the latter were forming Malta's position in reaction to policy issues/proposals put forward by the EU.

HERALD BONNICI

*A/Director General (Financial Policy & Management)*

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## Strategy and Operations Support Directorate

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### BACKGROUND

The overall purpose of this Directorate is to support the Ministry of Finance, the Economy and Investment to maintain a dedicated capability for the planning and execution of long-term and strategic programmes, projects and initiatives arising from the business and financial plans of the Ministry and its operations. These programmes and projects generally have a service-wide application but may also include initiatives limited to MFEI.

### Government Objectives

Work on various initiatives and projects as directed for the implementation of MFEI reforms within the relevant departments and across the Public Service. This included ongoing work on the amalgamation of the Revenue Departments, Accrual Accounting, the Wind Farm project, the Policy on Government Bank Accounts, the Proposed Fiscal Framework, the Codes of Ethics and practice for Procurement Purposes, the National Savings Policy and Strategy, the Structure Plan of the Maltese Islands, Inter-Ministerial Consultation on National Environment Policy, set off dues between Government and third parties, Pensions Ordinance Government Authorities, Inter-Ministerial Committee on Water Policy, Draft Report on Supported Living Policy, Legal amendments regarding Official Receiver and Court-appointed Liquidators, the Union Training Centre in Malta, the Central Visa Unit, the setting up of the Government Clearing House, the drafting of the Proposed Public Finance Management Act, and the proposal for visits on energy conservation and energy audits in households.

The Directorate followed up and coordinated the work of the two teams set up to ensure the implementation of the budget measures concerning reduction in arrears of revenue by 10% and increase in efficiency gains by 2% across the Public Sector and Service, including all government ministries, departments and entities.

With regard to the implementation of Better Regulation, liaison with the Management Efficiency Unit on the review of work in VAT, public procurement, statistics and financial services.

### International Affairs

Prompt action was taken relating to resolutions and other requests from international banks and other financial institutions. Work included the preparation of completed voting forms on various resolutions proposed by the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF), the Multilateral Investment Guarantee Agency (MIGA) and other World Bank institutions. Work was carried out on Malta's increase in capital in EBRD and the Council of Europe Development Bank, action was taken relating to EIB loans and contributions by Malta to EIB's various funds, and also on amendments to the articles in the agreement establishing the EBRD. Other work related to the hosting of the EBRD Constituency Meeting in Malta, the IBRD Capital Stock Maintenance value, the European Central Bank, the World Bank's Doing Business Project and also work related to issues concerning the Multilateral Development Banks took place.

## General Management

Ongoing support and full collaboration was provided to institutions of oversight such as Parliament, the Attorney General, the Public Accounts Committee, the Ombudsman, the Public Service Commission, the National Audit Office and the Internal Audit and Investigations Department. Support and information were provided to the said institutions on reports, audits and investigations on various matters. Liaison was also carried out with the Attorney General with regard to the financial settlement of European Court of Human Rights and Constitutional cases. Cabinet Office was proactively supported with respect to drafting of Cabinet memos and the follow-up of Cabinet decisions.

Provision of support and advice to the Permanent Secretary on various issues at stake was also given, including extending the use of EHIC facilities in the private sector, Malta's renewable energy contingent liability potential costs to attain EU's mandatory targets, implications on the Surplus Stocks of Sugar, financial opportunities for Government, financial implications on the removal of TV licences, and also the financial implications of the Malta Libraries Act and the Employment and Industrial Relations Act. This support and advice also included the drafting of memos on various subjects, such as the tax treatment of biodiesel. Also, the Director General participated on behalf of the Permanent Secretary/Government in various meetings and fora including the Police Negotiating Board, Air Malta's Extraordinary and General Meetings, NER 300 Committee, the Public Accounts Committee, and a High-level Pan-Commonwealth Preparatory meeting for Fourth High-Level Forum on Aid Effectiveness held in London during September 2011.

The Directorate planned and oversaw the restructuring programme that needs to be carried out in relation to the financing of various sectors and institutions. Work related to the restructuring of Air Malta, Enemalta and other entities was also performed.

There was coordination with other ministries, departments or public entities on various issues. Relations were maintained and collaboration kept at the highest levels with various stakeholders and institutions on broad business issues related to projects, research policies, legislation and queries. These included the Departments of VAT, Inland Revenue, Customs and Contracts, the National Statistics Office, the Lotteries and Gaming Authority, and various other ministries and entities. Various stakeholders were consulted prior to the introduction of significant policy changes and their feedback was requested before action was taken. Work was carried out on various Legal Notice Checklists and MFEI clearance was provided on regulations related to Waste Management, Marine Policy and GMOs. There is an ongoing follow-up with MFEI entities to ensure their compliance with directives issued under the provisions of the Public Administration Act.

## Other Assignments

The Directorate managed work carried out as EU National Fiscalis Coordinator and Representative of Malta for the Fiscalis Programme 2013 within the MFEI. As Account Holder, it managed the Malta Fiscalis Account held at CBM, regarding the transfer of funds from the EU to Government Revenue. Malta's participation in various activities, such as seminars, exchanges, multi-lateral controls, committees and workshops, offered by the Fiscalis Programme was coordinated and managed. For the year, circa €106,000, which covered the reimbursement of travel costs by Malta's participation in Fiscalis activities incurred by various officials across departments, were transferred to government revenue.

Work was effected related to other various ad hoc assignments and tasks. This included reviewing reports of various departments including Customs, VAT, the Government Property Department, the Information Management Unit, EBRD, the Board Minutes of Malta Industrial Parks and the accounts of the Kordin Grain Terminal. Other work was carried out on the conclusions of the European Council, MFEI debtors with MEPA, Malta - Japan Cooperation Agreement, on the Exchange of Financial Information relating to money laundering and terrorist financing, the MARSEC Foundation for the provision of marine engineering software, the Report of the Commission Expert Group on Fisheries Control of Blue fin Tuna,

EUREKA and Eurostars R&D Grants, State Aid Reference Rate for Malta. The Directorate also provided information for PQs on various subjects and queries from aboard on living and working in Malta, from a Libyan NGO for conducting business in Malta, and also on Malta Enterprise funds.

The Directorate participated in local seminars, workshops, CDRT training and conferences on various topics which included Better Regulation, the Employee Support Programme for Public Employees, a presentation by Malta Enterprise on MFEI, and also a conference by the Prime Minister on Malta's successes in EU Funding.

The Director General was appointed as the MFEI representative on the Committee for the Adaption of Laws following introduction of Divorce and in the Committee for the liquidation of the Malta National Laboratory and as a Member of an Evaluation and Adjudicating Committee; also as chairperson of a Wrap-Up Meeting with EU Auditors in November following a control visit in Malta on VAT Own Resources & NSO GNI Own Resources.

**CLAUDE G CUSCHIERI**

*Director General (Strategy and Operations Support)*

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## Department of Contracts

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### HUMAN RESOURCES SECTION

During 2011, the Department of Contracts (DOC) endeavoured to strengthen its administrative capabilities by completing the procedure for the appointment of a number of Procurement Managers. This resulted in the appointment of six new officials in the posts of Procurement Manager (Contracts) and three Procurement Managers (Electronic).

Training on the human resources of the Department was sustained as in previous years. A number of officials were afforded the opportunity of training abroad in public procurement. Two officials attended training in Maastricht on *Appraising, prioritising, procuring Public Sector Capital Investment Projects*. Another official attended a seminar in Budapest on *Pre-commercial Procurement*. Other officials were constantly afforded local training through courses organised by the Centre for Development, Research and Training.

### REFURBISHMENT WORKS

New premises to be used as stores were acquired by the Department. Works carried out on this store consisted of the installation of a new electrical system. This enabled the transfer of more documents and archiving of files to this new building thus relieving valuable office space.

The basement of the Department was converted into offices and boardrooms. During 2011, aluminium partitioning was carried out in order to construct a new board room. This alleviated the constant problem of lack of board room space available for meetings, since the only other board Room is used extensively by the General Contracts Committee.

Structural alterations were also completed on the new premises earmarked for the Public Contracts Review Board. The keys to this building were handed over to the PCRb which now convenes its appeal meetings there, providing for more transparency in the eyes of the public, since the Board is now operating from an independent facility.

### TRAINING FOR CONTRACTING AUTHORITIES, BENEFICIARIES AND ECONOMIC OPERATORS

Training, in collaboration with the Centre for Development, Research and Training, on *National Procurement* focusing on local legislation i.e. Legal Notice 296 of 2010 relating to the Public Procurement Regulations as well as EU Directives 17 and 18 of 2004, was carried out by means of intensive six module seminars. During 2011, nine courses were organised. The training consisted of theoretical tutorials on the use of the regulations, the evaluation process, the appeal procedures available to economic operators and the correct use of specifications and terms of reference. Practical interactive sessions were organised during the seminar on the use of the specifically designed DOC tender documentation templates for works, services and supplies.

*Procurement by Contracting Authorities* is a short half-day course organised for public employees responsible for procurement in their organisations and which is facilitated by the Department under the auspices of the CDRT. During 2011, four courses were organised.

The Department organised an information session on public procurement in December 2011. The session delved into a number of procurement-related topics, such as the modernisation of procedures at an EU level, and the developments in electronic procurement. The floor was also given an overview and some practical insights of green public procurement by the GPP Office within the Office of the Prime Minister. The Management Efficiency Unit also delivered a presentation on how public procurement can be simplified to the benefit of contracting authorities and economic operators alike. The session was open for public procurers and tenderers, and recorded over 400 attendees.

## **PUBLIC CONTRACTS REGULATIONS**

Public procurement policy and practice are continually developing in the national as well as international sphere. In order to keep public procurement progressing on the same lines, the Department actively participate in meetings organised by the Commission of the Advisory Committee on Public Contracts, the Working Group on e-Procurement and the Working Group on Public Procurement Economics and Statistics. In this way, as well as advising Government on proposed new legislation, the Department contributes to the development of public procurement methodologies adopted in the EU.

After consultations with the above-mentioned Advisory Committee, the European Commission started the consultative process for a review of the EU public procurement directives to simplify the rules, increase their efficiency and effectiveness and make them better suited to deal with the evolving political, social and economic context. Streamlined, more efficient procedures will increase flexibility for contracting authorities, benefit all economic operators and facilitate the participation of SMEs and cross-border bidders. Improved public procurement rules will also allow contracting authorities to make better use of public procurement in support of common societal goals, such as the protection of the environment, higher resource and energy efficiency and combating climate change, promoting innovation and social inclusion, and ensuring the best possible conditions for the provision of high quality social services.

The Commission has tabled three new proposals namely:

- Proposal for a Directive of the European Parliament and of the Council on public procurement;
- Proposal for a Directive of the European Parliament and of the Council on procurement by entities operating in the water, energy, transport and postal services sectors;
- Proposal for a Directive of the European Parliament and of the Council on the award of the concession contracts.

The Department is heavily involved in the consultative process leading to the final draft proposals of such directives and attends meetings aimed at establishing Malta's position on such important changes to legislation.

## **EUROPEAN UNION MATTERS**

The EU Unit is responsible for the administration of all tenders which are fully or partially funded through EU funds, EEA Funds, EQUAL Community Programmes, EAGGF, External Borders Funds, Norwegian Funds, European Refugee Funds, EAFRD, and other projects that are partly or fully funded through Community Funds. These operations, which include the vetting of tender documentation and publication thereof, are related to the procurement of Supplies, Services or Works. Such tenders owe their origin to the Single Programming Document for the years 2007-2013.

The Structural Funds Programmes for Malta 2007-2013 are currently progressing at a very fast rate with a large amount of tenders relating to projects funded under these funds being processed by the EU Unit. In 2011 the majority of contracts signed were related to works contracts, while the number of works contracts signed was almost double the number of services contracts signed. The value of works contracts signed

was more than double the value of supply and services contracts combined together, with the construction of a car park and three educational institutes, Blocks J, D and F at MCAST, Paola, the Development of a public aquarium and marine attraction in Qawra, the reconstruction and upgrading of Mellieħa Bypass, and the tender for the construction of an underpass from Triq Diċembru 13 to Menqa Roundabout, Marsa being the most significant in value, as they represent almost 38% of the total value of the contracts signed in 2011. The estimated cost of all contracts in 2011 was €80,074,321.17; however the actual cost came to €67,722,050.00, which represents a saving of €12,352,271.17 which is equivalent to circa 15.4%.

The amount of works contracts signed accounts to 44.9% of the total amount of contracts signed, whereas supplies contracts signed amount to 32.1% and the remaining 23% of the contracts signed were service contracts.

The value of tenders issued in 2011 amounted to €173,425,552.19, which amount was issued in 109 different calls for tender mostly under the open procedure. This shows that a lot of projects under the 2007-2013 funds are currently in their contracting/implementation phases with the restoration of historic fortifications and ramparts, and reconstruction and upgrading of roads being the most common tenders in 2011, and they also account for a good amount of the total amount of tenders issued during 2011.

### **GENERAL CONTRACTS COMMITTEE**

The General Contracts Committee held regular sittings during 2011, in which contractual issues were considered. These issues ranged from pre-contractual matters, such as approval of clarifications to prospective bidders, to post-contractual ones involving approval of extra works/variations. Amongst these cases the Committee evaluated reports and recommendations submitted by contracting authorities resulting in 253 awarded contracts, and 93 cancellations.

The General Contracts Committee was also involved in the scheduling of tenders published by the Department of Contracts. In this regard, some 1,074 tender submissions were scheduled in respect of 295 calls that closed during the year. In addition, the Committee scheduled a further 54 offers in respect of 16 tenders issued by Enemalta Corporation, and another 37 offers in respect of eight tenders issued by the Water Services Corporation.

### **POST-CONTRACTS**

Most of the work post-contract is in respect of requests by the contracting authorities (government entities) for variations (financial), extensions to the period of execution or other amendments to the contracts such as changes to the payment terms. Invariably, these changes are referred to the General Contracts Committee for approval. In this regard, during 2011, 212 requests were referred to the General Contracts Committee.

Other work post-contract relates to the ongoing maintenance of bank guarantees, including tender guarantees, performance guarantees and retention guarantees.

Some disputes during contract implementation end up in conflict and one or both parties will refer their case to the Courts of Justice or to the Malta Arbitration Centre. With the ongoing support of the Office of the Attorney General, the Department of Contracts is represented during court and/or arbitration sittings.

### **Electronic Procurement**

The Department continued in its transition from conventional to electronic procurement. Information on all 282 calls for tenders issued during 2011 was made available online from the Department's website, [www.contracts.gov.mt](http://www.contracts.gov.mt). As from June 2011, prospective tenderers were only able to obtain tender documents online, with the Sales Office at Notre Dame Ravelin being closed. The transition has proved to

be smooth, with all economic operators having adapted to purchase and download tenders without the need of calling at Floriana.

Parallel to maintaining its website and correlated e-services, the IT Unit within the Department was heavily involved in a new initiative aimed at achieving a full electronic procurement capacity, through the introduction of electronic compilation, submission and evaluation of tenders. Following a call for tenders issued by the Malta Information Technology Agency (MITA) in 2010, a contract came into force in February 2011 for a 'solution as a service' (SOAS) that provided a full electronic procurement solution. Adaptations, configurations and parameterisations were made in the following months, so that the solution reflected the local requirements and provisions where the Public Procurement Regulations were concerned. The new solution, named Electronic Public Procurement System (EPPS) came online on [www.etenders.gov.mt](http://www.etenders.gov.mt) on 24 June 2011. Immediately after, the IT Unit coordinated a number of intensive training sessions on the EPPS to some 80 public officers actively involved in procurement. Other than officials from the Department of Contracts, officers from other contracting authorities and entities were invited to this training. These included MITA, Enemalta Corporation, Water Services Corporation, the newly set-up Central Procurement & Supplies Unit (CPSU) within the Ministry for Health and Elderly Care, the Department of Corporate Services within the Ministry for Education, Employment and the Family, as well as the National Audit Office and the Internal Audit and Investigations Department. The choice of the contracting authorities reflected the intention of expanding the use of the EPPS across the same authorities as part of the initial deployment of EPPS across the Government's departments and organisations during late 2011/early 2012.

As part of the transition process, the IT Unit convened a series of information sessions aimed towards raising awareness amongst economic operators on the new e-tendering procedures. Over 400 economic operators attended 10 sessions, which were held during the period August-December 2011. These sessions also proved important in guiding potential tenderers to start the registration procedure particularly where the organisation e-ID was concerned. A number of sector-specific information sessions were also convened where economic operators heavily involved in the ICT and the pharmaceutical sectors were concerned.

The Department of Contracts was also tasked with the system administration of EPPS. This effectively means that the IT Unit is responsible for the management of user registrations, and for the provision of a helpdesk and first-line of support. To this end, the Unit is compiling an ever-growing list of FAQ files aimed at facilitating economic operators in making an optimal use of the EPPS.

The Department of Contracts issued the first batch of electronic tenders in October 2011. In order to achieve this important milestone, the IT Unit worked towards setting up an electronic tender structure that could serve as a yardstick for other e-tenders. It was also involved in re-designing the tender documents template with a view to simplifying the tendering procedure further. MITA and CPSU also published their first e-tenders before the close of the year. As an added level of assistance, the IT Unit provided for a series of training workshops where prospective tenderers were allowed to simulate the e-tender compilation and submission of real-life tenders on a test environment. This measure proved to be well-accepted by economic operators.

Following the information session on Public Procurement held in December 2011, many contracting authorities expressed their interest in becoming involved in e-procurement. All along, preparations were intensified so that the Department of Contracts issues the first above-threshold e-tenders whilst overlooking the work being done by those contracting authorities that are already involved in the EPPS initiative in order to expand the take-up of electronic procurement further during 2012.

**FRANCIS ATTARD**

*Director General (Contracts)*

## Value Added Tax Department

The principal aim of the Department is to ensure that the VAT revenue target set out in the annual budget is attained and possibly exceeded, in line with the Government's policy of ensuring sound public finance and with the minimum cost and burden to registered persons.

### Revenue and Expenditure

#### Revenue

During 2011, gross revenue collected under the VAT Act 1998, the CET Act 1997 and the VAT Act 1994 was €630,844,423 compared to €580,697,856 in the previous year. Refund of excess credit paid out of revenue amounted to €106,371,141 resulting in net revenue of €524,473,282 compared to €482,538,295 in the previous year. The relevant information is shown in the following table.

	VAT Act 1998 (€)	CET Act 1997 (€)	VAT Act 1994 (€)	Total (€)
Total Gross	630,795,358	13,753	35,312	630,844,423
Less Refunds	106,370,545	389	207	106,371,141
<b>Total Net</b>	<b>524,424,813</b>	<b>13,364</b>	<b>35,105</b>	<b>524,473,282</b>

#### ECO Contribution

The VAT Department is the competent authority for the administration and collection of ECO Contribution. During 2011, the amount collected from this contribution was €8,025,478.

### Outstanding Credits and Debits

As at the end of 2011, the Department had a net debit book balance on VAT (1998) of €537,412,238 after deducting outstanding taxpayers' credit. The realistic net balance is €56,925,165 after deducting estimated assessments and interest.

	VAT (1998) €	CET (1997) €	VAT (1994) €	Total €
Debit Balance	631,279,364	3,165,770	6,823,753	641,268,887
Outstanding credits	106,370,545	5,938	23,850	106,400,333
Net Balance	537,412,238	3,159,832	6,799,903	534,868,554
<b>Outstanding Accounts</b>				
Accounts with a balance as at end December 2011	27,108	1,065	1,396	29,569
Accounts with a balance as at end December 2010	28,125	1,053	1,405	30,583

### Cost-Effectiveness

Total recurrent expenditure during 2011, excluding the Fiscal Receipt Lottery, amounted to €4,863,105. Net revenue from VAT 1994, CET 1997 and VAT 1998 amounted to €534,868,554. Revenue from ECO Contribution was €8,025,478. Net total revenue collected amounted to €542,894,032. The cost effectiveness rate for 2011 remained that of 1c per euro as in 2010.

## Analysis and Control

The Analysis and Control Unit set up in 2009 in order to monitor the effectiveness of the operations at the Department has evaluated data submitted by registered persons, analysed credit control claims and results of investigations to upgrade parameters for the risk analysis system. The Unit also assisted in the identification of cases for investigation by the Tax Compliance Unit and the VAT Department and monitored and evaluated work performed. This year, the Unit reviewed 69 investigations carried out during the previous months and referred 30 for further or corrective action.

### Collection of Tax Arrears

#### Civil Procedures

A total of 44 cases were settled through Civil Court action, resulting in the collection of €23,395,681 of tax in arrears, as shown below:

	<i>Demand Notices</i>	<i>Judicial Letters</i>	<i>Garnishee Orders/ Warrants of Seizure</i>	<i>Civil Cases Settled</i>	<i>Tax Collected</i>
<b>Total</b>	<b>14,686</b>	<b>195</b>	<b>34</b>	<b>44</b>	<b>€23,395,681</b>

### Operations and Enforcement

#### Audit Investigations

The number of audit investigations carried out by the Department during 2011 was 78 resulting in 48 provisional assessments of €3,814,348. There were 14 cases referred to the Tax Compliance Unit resulting in provisional assessments amounting to €573,375 and final assessments of €1,953,053. The Department also carried out 46 ECO contribution investigation cases resulting in assessments of €191,467.

#### Credit Controls

The Department concluded 230 credit controls resulting in assessments of €205,113.

#### Validation of VAT Returns, Correction and Audit Trail

The VAT returns are regularly validated for erroneous tax declarations. The following is a breakdown of the cases:

<b>Type</b>	<b>Cases Concluded</b>
Validation	526
Correction	498
Audit trail	240

#### Compliance Rate

VAT returns continued to be issued regularly each month. The following table shows the returns issued and received during 2011. The overall compliance rate as on due date, expressed as the percentage of returns received over the number of returns issued, was 65.02%, increasing to 87.55% by end year.

	<i>Returns Issued</i>	<i>Returns Received as on Due Date</i>	<i>Compliance Rate as on Due Date</i>	<i>Returns Received up to End of Year</i>	<i>Compliance Rate as at End of Year</i>
<b>Total</b>	<b>143,300</b>	<b>93,177</b>	<b>65.02</b>	<b>125,462</b>	<b>87.55</b>

## Inspections

During the year, despite a considerable shortage of inspectors, the VAT Department carried out a number of field inspections consisting of spot-check inspections and surveillance visits. A number of cases were referred for court action.

Throughout the same year, the majority of inspectors were assigned work connected with administrative tax enforcement and review of tax assessments. Six inspectors were regularly assigned duties to carry out inspection visits. There are two Revenue Security Corps members carrying out limited inspection duties and delivery of specific mail.

A task force consisting of members from the VAT Department, Customs Department and the Police was set up to curb illicit trading in Malta. Inspections were held twice weekly on transporters and persons have been arraigned in court as a result of this measure.

## Objections

During 2011, a total of 1,689 objection letters concerning VAT issues and 182 objection letters concerning ECO Contribution were dealt with completely. The number of outstanding objections at the end of the year was 884 and 61 respectively.

## Legal Action

### VAT Legislation

During 2011, there were two amending Acts – Act IV and Act V of 2011 – An ACT to implement Budget measures and other administrative measures and the latter amending article 21 and article 42 of the VAT Act. Fifteen legal notices were published under the VAT Act (Cap 406).

### Court Cases

Legal action was taken against taxpayers wherever it resulted that the VAT legislation was being abused. As a result, 208 cases involving failure to issue fiscal receipts were brought before the Court, of which 25 were acquitted and 121 of them found guilty. The latter were together fined a total of €181,808.

Another 2,017 new cases involved failure to submit tax returns. As a result, 325 cases were together fined €382,087 whilst 1,506 cases were withdrawn once the returns were duly submitted prior to the Court's hearing. The relevant information is shown below:

	Involving Fiscal Receipts				Involving Tax Returns			
	Appointed	Fined		Acquitted	Appointed	Fined		Withdrawn
		No	€			No	€	
<b>Total</b>	<b>208</b>	<b>121</b>	<b>181,808</b>	<b>25</b>	<b>2,017</b>	<b>325</b>	<b>382,087</b>	<b>1,506</b>

## Appeals

During 2011, the number of new appeals lodged with the VAT and CET Appeals Boards was 181. The Boards decided a total of 111 cases.

## Taxpayers' Registry

### Registration and De-registration

During the year, 4,400 taxpayers were registered with the Department, bringing the total number of registered persons to 105,827. The current active registered taxpayers is 48,531, of which 36,086 are in

Register A, 11,601 are in Register B and 844 are in Register C. The number of outstanding applications for a VAT number as at the end of the year was nil. During the same year, 3,798 new applications were received for de-registration. A total of 3,741 applications were processed completely. The Department also deregistered 8,287 taxpayers whose sales do not exceed €7,000 as a result of LN 524/2010.

## Other Matters

### *Manual Fiscal Receipt Booklets*

The number of fiscal receipt booklets distributed during 2011 was 43,236.

Printed Booklets	43,080
Distributed Booklets	43,236
Returned Booklets	54,771

During this year, the Department enhanced controls on the issue of fiscal receipt books by supplying new fiscal receipt books only where old ones are returned. Legislation is also being amended to strengthen the present procedure.

### *Customer Service*

Customer service was also improved. The Department improved communication with registered persons by upgrading the Department's website and publishing information on for registered persons informing them of changes in legislation. Training to staff was enhanced in this respect. The Department is also extending its schedule of opening hours in summer for the benefit of its customers. The ledger statement was completely renewed to a simpler and more informative way. It is intended that such statement would be sent to VAT registered persons together with the VAT return which will become due.

### *e-Government*

During the year, the Department continued to enhance its online services as part of the e-Government project.

### *Updating of Internet Website*

Throughout 2011, the VAT Department continually updated its website at [www.vat.gov.mt](http://www.vat.gov.mt). The website provides useful information on VAT for the general public, for traders and for tax professionals as well as online application for VAT registration, submission of VAT returns, submission of the recapitulative statement declaration, online requests for receipt books and online payment. The intranet site was also updated for the benefit of the VAT Department officials.

### *Legal Committee*

The Legal Committee set up in 2005 continued to discuss the various changes proposed by the European Commission and the EU Council to the VAT Directive and which should be included in the Maltese VAT legislation. The committee also makes recommendations to the Inter-Ministerial Committee regarding these changes and also deals with certain cases of VAT interpretation. The Legal Committee is presided by the Commissioner of VAT.

### *Participation in EU Commission and Council Working Party meetings*

The VAT Department also participated actively in meetings held in Brussels of the Working Party No 1, VAT Committee, SCAC Committee, Recovery Committee, Fiscalis Committee, Advisory Committee on Own Resources and other meetings.

The VAT Department also participated in the Council Working Party on Tax Questions which discusses the technicalities of the proposed VAT Directives for approval by COREPER and ECOFIN.

#### *Own Resources*

As in previous years, the VAT Department collected the necessary data and completed the compilation of the VAT Statement on Own Resources in due time.

#### *EU Related Matters*

During 2011, the Department continued to compile questionnaires related to EU matters. Notwithstanding that these commitments are increasing from year to year, the Department complies with such obligations in the prescribed time. The Department also made a number of consultation meetings with stakeholders such as the Malta Financial Services Authority on VAT treatment on financial services and with the Malta Tourism Authority on the tourist profit margin scheme.

#### *Fiscalis Programme*

The VAT Department continued to participate in the Fiscalis Programme, which is targeted to update officials from all member states on VAT issues. This year, several officials from the Department participated in seminars, workshops, work visits and multilateral controls.

The Department successfully organised a Fiscalis Seminar for the Commission, Member States and candidate countries in February 2011 in Malta.

The Department also prepared the financial statement for Fiscalis.

#### *Manuals and Procedures*

The Department continued to update its manuals and procedure to guide the Department's officials in their work. These are aimed to secure accountability, to create more transparency and to ensure that rules are applied consistently across the whole Department.

#### *IT Security*

The recommended measures by MITA to strengthen internal IT security controls were put in place after an exercise was carried out to audit the security features in the VAT system.

#### *Training*

Training to staff was held both in-house and outside the Department. Two days per month were identified to be fully dedicated for training.

CHARLES VELLA  
*Commissioner of VAT*

## Inland Revenue Department

### OFFICE OF THE COMMISSIONER OF INLAND REVENUE

The projected strategic targets for the Inland Revenue Department for 2011 were attained. Throughout the year, the Department sought to consolidate its function as administrator of the Income Tax Acts and the Capital Transfer Duty Acts, whilst simultaneously ensuring the effective enforcement of collection of social security contributions under the direction of the Ministry of Finance, the Economy and Investment.

A major initiative for the second year running, which required a significant and sustained input from various sections within the Department, was the Reduction of Interests and Penalties Scheme. Phase Two of the Scheme apart from the sustained collection of personal tax arrears (individuals and companies) also focused on the collection of revenue arrears due by employers in respect of their employees' income tax and social security contributions. During the year, €40.5 million were collected in terms of the scheme, representing taxes (both personal and FSS tax) as well as social security contributions (due by employers).

### REVENUE

Net revenue generated through income tax in 2011 amounted to €776.1 million. Furthermore, the Inland Revenue Department also collected €585.5 million in social security contributions. The following table illustrates the Department's revenue from 2009 up to 2011 (figures are in millions):

	2009 (€ million)	2010 (€ million)	2011 (€ million)
Income Tax	739.4	801	850.7
Transfers to Refunds	51.7	56.1	74.6
Income Tax - Net	739.4	801.2	776.1
Social Security Contributions	524.2	552.5	585.5
<b>Total</b>	<b>2,054.7</b>	<b>2,210.8</b>	<b>2,286.9</b>

Throughout 2011, the Department issued a total of 48,418 refunds amounting to €75,521,805.

The total recurrent expenditure for the year, including emoluments and other operating expenses, stood at €7.1 million, an increase of €1 million from the previous year due to the expense of the Tax Compliance Unit being borne by the Department as from 2011. Hence, every €1 of income tax collected came at a cost of €0.00,9. If one were to consider the revenue collected by the Department through social security contributions, then the overall cost per €1 of revenue collected from both sources is revised downwards to €0.00,5.

### Income Tax Revenue

A more detailed breakdown of the above stated revenue figures is presented in the ensuing table.

	2009	2010	2011
Final Settlement System	265,789,226	299,492,569	322,394,109
Provisional Tax	264,887,979	278,145,538	252,790,066
International Tax Unit	131,000,000	120,000,000	140,000,000
Settlement Tax	15,340,814	53,322,420	23,782,482

Capital Gains Tax	66,844,460	64,365,750	68,845,421
15% Withholding Tax	47,280,854	42,005,202	42,901,908
<b>Total Gross Revenue</b>	<b>791,143,333</b>	<b>857,331,479</b>	<b>850,713,986</b>

### Final Settlement System

During 2011, employers submitted a total of 11,355 Annual Reconciliation Statements (FS7) and 47,337 Payee Statements (FS3) in relation to 1998 to 2010. 9,739 of these FS7 submissions related to 2010. All of the submitted data was subsequently vetted, captured and reconciled by the Final Settlement System (FSS) Section. Moreover, the FSS Section registered 400 resident taxpayers during the finalisation process, whilst a total of 2,798 temporary residents were also registered in the same period.

The section was also involved in an enforcement exercise throughout the year. As at the end of year, the compliance rate stood at 91.4%.

The below table provides an overview of the FSS Section's other key performance indicators over a three-year period.

	<b>Electronic Lodgements</b>	<b>FS7 Web Submissions</b>	<b>Electronic FS3</b>
2011	131	1,232	257,576
2010	196	1,155	235,870
2009	954	1,196	247,796

During the year, 22,493 electronic filing errors were solved and 11,299 adjustment forms were processed.

### TAXPAYER INTERFACE

Taxpayer assistance is mainly provided through two sections, depending on the nature of assistance and contact required. The Taxpayer Service Centre handles face-to-face requests whereas the Taxpayer Call Centre manages taxpayer queries through incoming telephone calls or by means of e-mail. The main objective of the IRD Call Centre is that of handling taxpayer queries, be it through incoming telephone calls or by means of e-mail. Queries are raised by all categories of taxpayers, that is, individuals, companies, employers and expatriates.

#### Taxpayer Service Centre

The following are some key statistics relating to the level of activity registered by the Taxpayer Service Centre:

	<b>Personal Encounters</b>	<b>Registration of New Taxpayers</b>	<b>Issued Income Tax Returns</b>
2011	30,265	1,453	15,188
2010	32,865	1,216	15,967
2009	31,980	1,074	22,595

#### Taxpayer Call Centre

The following statistics indicate the high level of activity and services rendered by the IRD Call Centre. It is interesting to note how the use of electronic mail as a means of contacting the Department's Call Centre officials continues to steadily rise, perhaps offset against the other more traditional means.

	<b>Telephone Calls</b>	<b>Electronic Mail</b>	<b>Ordinary Mail</b>
2011	61,126	14,742	2,199
2010	92,867	12,880	2,567
2009	114,863	9,779	3,208

## Tax Returns and Non-Fileers

In 2011 (basis year 2010), the number of tax statements issued without the need for taxpayers to fill in and submit their annual tax return (non-filers) was 190,192 representing over 70% of taxpayers. On the other hand, the number of tax returns generated was of 80,909.

## eBusiness Usage

The Inland Revenue Department continues to consider the gradual shift to eBusiness models of interfacing with taxpayers as a strategically important goal. The results below are testimony to this drive particularly in case of electronic payments which registered a 14% increase in the number of payments received and a 43% increase in the value of transactions over the corresponding period two years earlier.

### Corporate Tax Return

	Y/A 2011 (Ratio)	Y/A 2010 (Ratio)	Y/A 2009 (Ratio)
Returns filed Electronically	16,715 (92%)	17,316 (96%)	11,828 (93%)
Returns filed Manually	1,535 (8%)	718 (4%)	805 (7%)

### Individual Tax Return

	Y/A 2011 (Ratio)	Y/A 2010 (Ratio)	Y/A 2009 (Ratio)
Returns filed Electronically	706 (1%)	701 (2%)	443 (1%)
Returns filed Manually	59,472 (99%)	56,318 (98%)	60,597 (99%)

### Electronic Payments

Year	Government Payment Gateway		Internet Banking		Total Value
	Count	€	Count	€	€
2011	5,590	3,956,688	20,299	113,636,772	117,593,460
2010	5,922	3,896,052	18,726	97,314,301	101,210,353
2009	6,291	2,939,064	16,465	79,068,961	82,008,025

## AUDIT AND ENFORCEMENT

### Audits and Investigations

Throughout 2011, the tax audits and investigations carried out by the Tax Audit Section and the Tax Compliance Unit resulted in assessments and adjustments that produced an increase in tax (income tax, VAT, duty and eco tax combined) of €16,721,135.

Year	Increase in Tax (€)
2011	16,721,135
2010	20,338,106
2009	13,404,294

### Enforcement Initiatives

The following table presents a summary of a number of key enforcement exercises carried out throughout 2011 by the IRD. Of particular note for the second consecutive year is the Reduction in Interest and Penalties Scheme.

	Count
Assessments	1,120
Best of Judgement Notifications	11,287
FSS/SSC Employers Default Notices	2,385
FSS/SSC Notices (Current Year FS5 Defaulters)	1,880
FS7 Defaulters Notice (Current Year)	4,849
Provisional Tax Enforcement	4,124
15-day Notice (Individual/Corporate)	5,563

Reduction in Interest & Penalties Scheme (Defaulters)	870
Reduction in Interest & Penalties Scheme (Phase 2)	5,860
Reduction in Interest & Penalties Scheme (Employers)	2,875
Judicial Letters	889
Garnishee Orders	7

### *Mutual Recovery of Tax and Clearance Certificates*

The IRD continued to take enforcement action and precautionary measures for the recovery of claims from other European Union member states as per directives 76/308EEC and 2001/44/EC. Out of the 54 cases at hand throughout 2011, 15 were new claims, two cases were finalised, whilst another 52 are still pending at year end.

### *Other Enforcement Exercises*

During 2011, the Department was involved in 57 court cases relating to the recovery of taxes and social security dues out of which 12 were new cases. 22 cases were concluded whilst 35 are still pending. In total, 198 court sittings were held.

Also during the year, court action was taken against employers who defaulted in sending their respective end-of-year documents and/or had outstanding FSS/SSC arrears. 32 sittings were held in which 3,680 employers were arraigned before the Criminal Court. Many of these employers regularised their position by availing themselves of the Reduction in Interest & Penalties Scheme (Phase 2).

## **TECHNICAL MATTERS**

### **Legislation**

Amendments to the Income Tax Acts and amendments as well as new enactments of subsidiary legislation under the Acts were made during 2011 mainly:

- An introduction of two schemes to attract and regulate high net-worth individuals who settle in Malta (one for EU citizens and one non-EU citizens);
- Measures to better govern the scheme covering the previous permanent residents settled in Malta;
- A new scheme to encourage highly qualified persons to come to work in Malta for a few years and also train locals in the financial services and gaming sectors;
- New measures to regulate the capital gains on disposal of partnerships and partnership shares and the capital gains rules were also updated with respect to notaries' duties;
- Measures to ensure administrative cooperation with foreign jurisdictions in line with Malta's international obligations;
- New or amended Double Tax Treaties with Italy, Germany and China were issued;
- To encourage green initiatives, a new deduction of 125% in respect of the purchase of electric vehicles was granted to companies;
- The taxation of petroleum profits was overhauled and updated to current requirements;
- The tax returns submitted by companies and individuals were updated;
- New provisions were introduced to cater for securitisation transactions.

### **Other Technical Matters**

The Department's Technical Section delivered support to the other divisions within the Department in the implementation of their processes by giving technical guidance to heads of sections and answering numerous technical queries made by staff. Special mention must be made of the continuous support given to the Call Centre (situated in Gozo), the Taxpayer Service Section and the Capital Gains Section.

Technical queries were received from a variety of sources including the Ministry, tax practitioners, auditors, lawyers and the general public.

A significant contribution was given to staff training and education through representation on the training committee, participation and lecturing in the actual training sessions and the circulation of internal memos on technical developments. The section is also the major contributor to the Department's Legal Committee.

The section carried out the completion of Volume 3 of the Board of Special Commissioners Decisions with a view to publishing it early in 2012. Numerous contributions were made to the Department's website, including those to the guidelines issued by the Department regarding: High net-worth individuals, Highly qualified persons, Residents Scheme & Annual declaration, Authorised Mandatories and Capital Gains rules schedule submission.

Fourteen complaints were received from the Office of the Ombudsman during 2011. 13 cases were concluded, and one has been replied to but further feedback is awaited. Apart from philanthropic organisations mentioned above, five requests for exemption were received and examined.

### **OTHER DEPARTMENTAL ACHIEVEMENTS**

The Department's management continued in its endeavour of modernising its offices as a whole. Besides the major refurbishment works at Block 1 which were commenced during 2010, continued and completed during 2011, further refurbishment was carried out within Block 2.

### **APPEALS**

#### **Administrative Review Tribunal**

During the year, the tasks and duties of the Board of Special Commissioners were replaced and vested in the newly set-up Administrative Tribunal at the Law Courts. Apart from the 80 cases taken over from the Board of Special Commissioners, the Administrative Review Tribunal took cognisance of 64 new cases. 15 cases were settled during the year, leaving 129 pending cases as at the end of year.

#### **Court of Appeal and Constitutional Court**

In addition to the three cases in hand at beginning of year, three new appeals were lodged to the Court of Appeal during 2011. Of these, one case was decided while another one was abandoned by the appellant, leaving four unresolved cases at year end.

### **INTERNATIONAL TAX UNIT**

#### **Double Taxation Agreements**

During 2011, the legal notices in connection with the double taxation agreements (DTA) with China (new DTA) and the protocols amending the double taxation agreements with Germany and Italy were published. Furthermore, double taxation agreements with Hong Kong, Israel, Switzerland, Turkey and Uruguay and protocols amending the double taxation agreements with Luxembourg and Poland were concluded and signed. The double taxation agreements with Guernsey, Hong Kong, Mexico, Russia and Ukraine and a protocol amending the DTA with South Africa were negotiated and initialled. Negotiations on a double taxation agreement were held with Azerbaijan.

#### **Tax Information Exchange Agreements**

The Tax Information Exchange Agreement with Bermuda was concluded and signed. Furthermore, Tax Exchange Agreements were negotiated and initialled with Bahamas, Bermuda, Gibraltar and Macao.

## Revenue Collected through the International Tax Unit

During the year, €140,000,000 were transferred to revenue from tax paid by companies dealt with at ITU.

## Other International Tax Unit Affairs

Members of the International Tax Unit attended 19 meetings in connection with the EU, one with the Organisation for Economic Cooperation and Development and six in connection with the Global Forum on Transparency and Exchange of Information on Tax Matters. Staff members of the ITU took part in work related to new legislation on international taxation. Throughout the year, staff members of the International Tax Unit were involved in further work related to the computerisation of the process of the New Tax Regime, in particular on the registration of shareholders and of the refund claim form.

## CAPITAL TRANSFER DUTY DIVISION

### Revenue Collected by the Capital Transfer Duty Division

The revenue collected through the Capital Transfer Duty Division in 2011 is shown in the table hereunder:

	2009 (€)	2010 (€)	2011 (€)
Death and Donation Duty	36,266	75,007	15,247
Duty on Documents and Transfers	78,220,861	79,289,491	82,250,750
Fines and Late Fees	16,503	11,404	13,051
Fees on AIP Permits	56,906	47,991	52,742
<b>Total</b>	<b>78,330,536</b>	<b>79,423,893</b>	<b>82,331,790</b>

### Duty on Documents

The data below shows the Capital Transfer Duty Division's involvement throughout 2011 as compared to the previous two years:

	Notarial Deeds Examined	Referred to CTD Engineers	Original Assessments Revised	Objections Filed	Revised Claims	Duty on Documents (€)
2011	12,828	5,616	3,552	1,247	575	82,250,750
2010	11,775	5,868	4,549	1,935	662	79,289,491
2009	11,741	4,518	3,853	1,516	387	78,220,861

The total revenue collected from this source amounted to € 82,250,750 (Duty on Documents). Revenue under this source included also the duty collected in respect of share transfers, insurance policies, bank credit cards, other duties payable on various documents, and revenue in respect of *causa mortis* transmissions.

323 refusals were issued in anticipation of appeals for the consideration of the Administrative Review Tribunal.

During the year, 2,897 *causa mortis* declarations were filed, out of which 548 filed by notaries were referred to the Division's technical experts to verify the valuation of immovable properties declared therein. The amount of *causa mortis* declarations processed during 2011 was 3,337. The Division receives and investigates a number of deficient returns. In fact, during the period, 1,479 claims were issued and 60 revised assessments were raised. During this same period, 127 objections were filed by transferees against the said *causa mortis* claims, while 110 objections have been concluded. Appeals against eventual refusals will have to be finally considered by the afore-mentioned tribunal.

### Death and Donation Duty

The number of returns of chargeable transmissions filed during the period was 34. All returns were duly processed and hence, no outstanding returns are pending at year end. Revenue collected, including prepayments on account and from arrears, totalled €15,247. This legislation will be repealed in December 2012.

### Acquisition of Immovable Property by Non-Residents

In 2011, the Capital Transfer Duty Division received 312 applications and issued 244 permits.

### Preliminary Agreements

The Division registered a total of 7,841 Promise of Sale Agreements in 2011. Of these, 536 were registered in Gozo.

### Monte di Pietà

The Monte di Pietà, which is responsible for advancing money on pledges of precious metals, registered the following level of activity during 2011:

	2009	2010	2011
Pledges Accepted	1,731	1,462	969
Pledges Redeemed	2,032	2,997	2,393
Amount Loaned Out	€184,417	€158,012	€94,333
Amount Repaid	€216,522	€310,920	€238,181
Interest Received	€21,979	€39,397	€38,410

The number of pledges at hand as at year end 2011 stood at 4,104, against which a total of €398,658 had been advanced.

### Assay and Valuations Office

The Assay and Valuations Office is responsible for the administration of the Goldsmiths and Silversmiths Act, which effectively regulates the local, single market and third country levels. In addition to the regular publication of gold and silver valuations in the Government Gazette, the Office conducted the following assay of articles and inspections:

	Gold	Silver	Total
Articles Received	7	1,539	<b>1,546</b>
Assays	232	118	<b>350</b>
Articles Weighed and Valued	34	0	<b>34</b>
Articles broken up due to Inferior Standard	0	730	<b>730</b>

MARIO BORG  
*Director General (Inland Revenue)*

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## Customs Department

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### MANAGEMENT

The Customs Department is a relatively small (in EU terms) customs administration which, within the single European customs area, successfully facilitates legal economic flows and prevents illegal imports of products and substances. It oversees imports and exports and the international supply chain, and maintains balance between the safety, protection and financial interests of Malta and the European Union, on the one hand, and the increased competitiveness of the economy, on the other.

The main tasks of Customs Department are:

- customs and excise controls on goods and customs clearance of goods;
- assessment, calculation and collection of import duties, import VAT and excise duties;
- customs and excise inspections and post-clearance audit;
- prevention and detection of customs and excise offenses and other criminal offences;
- control of admission, removal and transit of goods subject to special measures due to interests of the safety and protection of the health and lives of people, animals, plants, environmental protection, as well as protection of the cultural heritage and intellectual property;
- collection of statistical data on the exchange of goods between EU Member States;
- implementation of foreign trade and common agricultural policy measures;
- implementation of EU legislation and international treaties in the field of work of the customs administration.

Like its counterparts in the EU, during 2011 the Maltese customs administration faced new challenges to ensure the smooth flow of trade whilst applying the necessary controls to safeguard the health and safety of citizens and the financial interests of the Community. The achievement of these objectives required the striking of a correct balance between facilitation and enforcement. The main priority thrusts were: to improve delivery of services to clients, particularly the traders and manufacturers; to enhance control on inward and outward movement of goods, people and means of transport; to enforce legislation more effectively; to improve collection of revenue and the prevention of fraud; and to prevent the importation of illicit drugs and other prohibited goods. At the same time, the functions of Malta Customs continued to be streamlined in line with Government's commitment to the revised Lisbon Agenda.

Through its considerable revenue generation capacity, the Malta Customs administration contributed in a significant manner to the national economy and also met its financial obligations to the European Community. This notwithstanding, the financial results of the administration were influenced by the global economic situation during the year under review, which had an effect on the trade and economic activities of our country. International politics also impacted on the administrations operations. For several months the implementation of the sanctions imposed by the UN and EU in view of the situation in Libya, and the facilitation of the transfer of humanitarian aid, absorbed significant resources.

On its part, the Malta Customs administration undertook various initiatives to try to improve its efficiency and effectiveness and in other ways support the local and EU economy in facing up to the challenges of the time. To this effect, a primary challenge for the administration now continues to be the upgrading of existing and introduction of new ICT systems that abet its processing and control functions.

## **CUSTOMS EU SPECIALIST**

Customs EU Specialist supported the Department's senior management in areas of operations where Community legislation or relations with EU institutions are significant. This function has three major aspects: coordination within the Department, liaison with outside entities (besides EU Directorate MFEI, these include the Ministry of Foreign Affairs, the Attorney General's Office, the Economic Policy Department, Commerce Department, the Ministry for Resources and Rural Affairs, Malta Enterprise and others) and the production of substantive EU-related input.

During 2011, issues requiring the intervention of the Customs EU Specialist ranged from the drafting of communications with the EU Commission, to policy-related work (e.g. following Commission proposals relevant to the Department's operations and coordination the Department's reaction to them, etc.) and the coordination of replies to questionnaires about aspects of customs operations. Other work coordinated by the EU Specialist included the drafting of instruction notes (particularly for the Customs Union Working Party on Legislation and Policy but also for other meetings), the monitoring of issues brought before the General Rules Section of the Customs Code Committee, and the processing of ad hoc requests for information received from traders, traders' associations, Malta Enterprise and the Ministry of Foreign Affairs.

EU Specialist is a member of the committees set up by the Department to administer the issue of AEO certificates and to draft proposals for the revision of national customs legislation. As the Department's representative on the Sanctions Monitoring Board, EU Specialist worked closely with the other entities represented on the Board and with several colleagues in the Department (particularly the Non Proliferation Unit, Assistant Director Landing and Releasing and the Office of the Head of Investigations) on the implementation of UN and EU sanctions in relation to Libya, Syria and Iran. EU Specialist also acts as the Department's Data Protection Officer and Freedom of Information Desk Officer.

## **ADMINISTRATION**

### **FINANCE BRANCH**

The total revenue generated by Customs' activities in 2011 was €209,573,094, which constitutes an increase of €21,281,057 (10.15 %) as compared to the previous year. The figure of €13,205,159 was income from import duties (Traditional Own Resources). According to set obligations, 75% of the latter figure of import duties income were transferred to the EU, and the other 25% retained by Malta as administration fee. At €196,715,477, income from excise registered an increase of just over €21.6 million and constituted 94% of the total departmental income. Other Customs' income such as from licences, fines, fees, rent, service refunds, and sale of items, totalled €1,391,927 million. A further amount of €71,985,219 million was collected by Customs as VAT on behalf of the VAT Department.

### **ACCOUNTS SECTION**

During 2011, resources continued to be focused on improving the methods of revenue collection and addressing revenue arrears aspects and cases. Other primary roles undertaken included the regular financial reporting to MFEI as well as the Treasury; the expenditure control of the budget allocated to the Department; and the routine daily activities associated with money transfers and transactions, and the general accounting function.

### **CUSTOMS DEBT UNIT AND CASH OFFICE**

The Customs Debt Unit continued to chase dues outstanding to Customs and to effect refunds due to traders, besides monitoring the deferred payment facilities granted to certain importing companies and

managing bank guarantees. The main Cashier's Office received payments for taxes (import and excise duties and VAT) as well as fees, fines, store rent, proceeds from sales and other miscellaneous items.

### **PROCUREMENT AND STORES UNIT**

A total of 980 local purchase orders were committed during 2011. Six departmental tenders and numerous calls for quotations were issued, adjudicated and awarded. Several items, including office equipment and furniture, were repaired or replaced as necessary. Uniform items were procured and distributed to entitled staff members including special uniforms and winter jackets for container-scanning and boat-crew personnel. Personal protective equipment and other health-and-safety related items were also procured.

### **EU PROCEDURES UNIT**

The EU Procedures Unit is in charge of processing and approving import declarations intended to benefit from agricultural quotas managed from the EU's DG Agri and first-come-first-served quotas from the EU's DG Taxud. The movement of certain agricultural goods was controlled under the transit procedure upon request of other EU Member States for these to benefit from the export refund system. Unit staff participated in various meetings with other local entities, including the MRRA Paying Agency and the Malta National Laboratory, and in various CAP meetings in Brussels. Regular liaison was kept with customs laboratories of other Member States, especially Italy and Holland, in connection with the analysis of various commodities for their classification and application of the relative taxes. Anti-Dumping and Surveillance reports were regularly sent to the EU Commission.

### **EU PROGRAMMES UNIT**

During 2011, a total of 351 participants attended 245 customs-related events abroad. Joint actions, including seminars and workshops, project groups and steering groups, working visits, training activities etc, were organised under respective programmes Customs C2013 and Fiscalis 2013. Under these programmes, the Customs Department has benefited from the provision of IT systems, including trans-European systems and common customs applications ex. EMCS (Excise Movement and Control System) Phase 3, Future of IT – Cheaper, Faster, Better workshops. Commission and Council partly financed by the departmental travel vote ex. CUG (Customs Union Group), CCWP (Customs Cooperation Working Party), Customs Code Committee (Data Integration and Harmonisation, Counterfeit and Pirated Goods, Valuation, Section for Import and Export formalities, etc). The annual WCO invitation was attended under the Customs Department Travel vote, namely 2011 Heads of Customs Conference of the WCO Region Europe, and also the Customs Cooperation Council 117<sup>th</sup> and 118<sup>th</sup> Sessions. The departmental travel budget caters also for Debriefings and Joint Customs Operations (ex. Fireblade, Ulysse, Colosseum etc.), training for example SLD (Second Line of Defence) Stakeholders Familiarisation Training; conferences like UAE event – Malta's experience as a Maritime Hub and Sea Cargo Operations: US Malta (International Exchange Programme).

### **SECRETARIAT SECTION**

The amounts of €242,208 in respect of rent and €13815.22 regarding electricity bills were collected from 31 bond operators using the 23 bond stores at the Customs Groupage Terminal at Hal Far. The sum of €4,658.74 was collected as rent for two temporary bond stores at Luqa. The Section dealt with 611 new cases of incorrect declarations, settled 315 current cases and referred eight to MFEI. This resulted in the collection of the total amount of €175,322 in fines, duties and VAT. Nine applications were received and processed regarding the issue of customs certificates and other misplaced documents. There were also three new post entries of which one was settled, while 32 instances of garnishee orders or information requests by law courts were processed. 19 legal cases regarding arrears of revenue to Customs were in progress, of which two were concluded during the year. The Section's activities contributed to the total collection of €436,003.96 in rents, electricity bills, taxes and fines.

## HUMAN RESOURCES UNIT

As from January 2011, payments for salaries to Customs employees started being issued through the Dakar system. More staff followed courses at the University and three received Diplomas in Management and Public Administration. Replies were furnished to 13 parliamentary questions relating to vacancies, recruitments, overtime, family-friendly measures and disabled staff. More employees chose to avail themselves of family-friendly measures and now the Department has 12 employees on telework, 12 on a reduced timetable, one on maternity leave, one on a career break and two on responsibility leave. 12 sections worked flexitime during the summer months and offered their services to traders for longer hours. The appointments of one Director, one Chief Inspector, two Senior Systems Analysts, two Customs Auxiliaries, one Assistant Technical Officer (Transport) were effected throughout the year and the process is underway to fill two vacancies in the post of Chief Inspector. The number of staff continued to decrease and by the end of December stood at 390.

## HEALTH AND SAFETY UNIT

Customs implemented several initiatives and measures regarding health and safety during the year. Inspections were made and risk assessments prepared for various sections and their operations. H&S fact-sheets, medical first-aid kits and personal protective equipment were replenished as required. A fire extinguishers and smoke detectors servicing exercise was performed. Several H&S related training courses were organised and delivered to Customs personnel, including on: first-aid, radiation protection, H&S risk assessments, and H&S workers representatives. Various issues were discussed and organised during meetings with the H&S Official and workers' representatives. Testing and engineering certification and servicing of lifts and hoists at Customs premises were performed as required by law. Several inspections by an architect were commissioned and building repairs undertaken. Customs completed the exercise initiated in the previous year for the eye sight tests scheme in terms of LN 43/2002, and 241 staff benefitted from it. As in previous years, immunisation against the common seasonal influenza was made available to all Customs staff. Following the Fukushima Nuclear plant disaster, necessary precautions were taken against the spread of contamination through cargo. Training directed to safeguard personnel on the front line as well as how to approach cargo arriving directly from Japan was given to all personnel involved. Inspections were carried out on vessels carrying second-hand vehicles arriving directly from Japan with one positive result, namely a vehicle contaminated with Cesium 134. Routine inspections and cleaning of various Customs areas and warehouses was also carried out.

## GREEN INITIATIVES

Monitoring reports continued to be prepared regarding the performance of the PV system installed on the roof of the Administration Block of the Hal-Far Groupage Terminal. Water meters and plumbing systems of all Customs premises were again during the year under review systematically checked for leaks and if necessary repaired or replaced. Low power consumption lights were procured and installed in some of the premises. A hazardous-waste collection policy in offices regarding batteries, toners and ink-cartridges, as well as the re-use of envelopes and one-side printed paper, continued to be implemented. Replaced batteries and engine oil of Customs cars serviced at the Customs garage were sent for recycling.

## TRAINING UNIT

During 2011, a total of 15 in-house courses for staff and economic operators were delivered. A total of 797 participants attended for these courses which included 96 sessions and 334¼ hours of training. The majority of this training consisted in IT Training ex. Entry/Exit Summary Declaration, CES Import, Public Administration Act Briefing Directive 4, Freedom of Information Act.

There were nine training courses organised by other entities for Customs personnel which included 78 sessions, 185¼ hrs of training and which were attended by 78 participants for example NEBOSH – International General Certificate Occupational Health & Safety, Basic First Aid, IPR Product Training.

There were four courses which were organised through CDRT and which were attended by 99 Customs personnel e.g.. Managing with Leadership.

## **LEGAL OFFICE**

This section compiled 26 Letters to prosecute and 109 Seizure Notes all duly signed by the Comptroller. The former were sent to the Commissioner of Police for further necessary action, whilst Seizure Notes were mailed to offenders.

As regards representations in Court, Customs had 825 sittings, which were sub-divided as follows: 338 civil cases and 487 criminal cases (of which 17 sittings dealt with Evasions).

Every Evasion of Duty sitting is being counted as one sitting which comprises 20 separate Court cases on average. Also, personnel from this section were required to testify and/or assist prosecution, etc, in practically all the cases.

Three Civil and 25 Criminal cases were decided where fines inflicted amounted to €17,722.72. Fines collected from out-of-court settlements were € 91,259.81 whilst the amount recouped from the Civil Debt awarded by the Court was € 36,548.29. Thus, the grand total of the revenue collected from the activities of the unit resulted in that of €145,530.82.

## **EXCISE AND SYSTEM CONTROLS**

### **LOCAL PRODUCERS, TRADERS AND SERVICE PROVIDERS**

This section controls authorised tax warehouse keepers who produce alcohol or tobacco products, excise warehouse keepers who sell duty-free goods to passengers for non-EU countries and traders that are not tax warehouse keepers. The section is also responsible for the issue of excise control stamps to importers and manufacturers as well as for payments of excise duty on mobile telephony services. At present there are six mobile service providers. All excise movements under duty suspension are monitored via the EMCS Electronic Administrative Accompanying Document (EAAD) or the manual Internal Administrative Accompanying Document (IAAD). All tax warehouse keepers are required to submit regular stock reports to Customs. As to breweries, only one company is producing local beer besides importing beer in bulk. During 2011, the section processed 41 applications for the status of Excise Registered Trader (ERT). At present there are eight registered local producers of alcoholic beverages and wine, besides being importers of wines and spirituous beverages. Three of these producers are situated in Gozo. One local producer of wine requested to begin producing fortified wine. Although authorised, the process is still being tested and has not yet been offered for sale. With regard to importation of pure alcohol, a number of tax warehouse keepers are manufacturers of medicines which use a large amount of ethanol for end-products that are not subject to excise duty. Other importers sell the alcohol either to be used in hospitals or for analysis and research. During the year there were three producers of pipe tobacco/cigars. These producers were also importers of roll-your-own tobacco for cigarettes, pipe tobacco and cigars. Another five tax warehouse keepers were dealing with importation and distribution of cigarettes under duty suspension.

## TAX WAREHOUSES

This unit monitors tax warehouses at Barriera Tax Warehouse (BTW) and the other private tax warehouse keepers. Controls of stock were performed as necessary during the year and monthly statements were checked regularly.

The number of tax warehouses registered to operate from BTW was 42, and 26 were operating as private tax warehouse keepers from their own private premises, during 2011. Two new tax warehouse keepers initiated their operations from BTW during the year. New applicants for tax warehouse keepers are being encouraged to operate from BTW.

## FUEL EXCISE

This section monitors all fuel moved under duty suspension and ensures the proper payment of taxes and duty due on fuel released for consumption. Monitoring involves physical checks, satellite tracking as well as recording of the quantities of fuels imported, blended or moved. Data was submitted to the Malta Resources Authority on all imports and exports and on all the internal transfers and movements carried out between tax warehouses. All importations were physically controlled while internal movements between tax warehouses were controlled via the internal accompanied administrative document (IAAD) and entry into the electronic database. Frequent inspections of tax warehouses and bunkering barges were made and fuel analysed to deter and detect illicit traffic. Liberalisation of the local fuel sector, especially in the LPG area, continued to be implemented during the year, and this section therefore adopted the first changes to be able to manage efficiently this new scenario.

## HEATING GAS OIL

The main objective of this unit is to monitor and control issues of heating gas oil with 0.1% sulphur content. This rebated product is distributed solely for heating purposes and is used by an extensive number of users such as hotels, bakeries, farms, garages and several other private and government entities. It is also used for domestic heating in a number of households throughout Malta and Gozo. During 2011 the unit managed to identify abusers and prepared all preliminary compilation work to take all necessary legal action against them.

## EXCISE LIAISON OFFICE

This office deals with the maintaining and updating of the Community's System for Exchange of Excise Data (SEED) database, covering all the excise registered traders, tax warehouse keepers and tax warehouses. This office is also responsible for four mail boxes: the Early Warning System for Excise (EWSE), Movement Verification System (MVS), the SEED, as well as ELO (Excise Liaison Office) to ELO mailbox. The Excise Movement Control System (EMCS) was fully monitored and maintained by this office. The Excise Liaison Office liaises with its counterparts in all Member States and takes an active part during the Excise Committee Working Party meetings. It is also responsible for the National Project Plan as well as the monthly development plans.

## COMPUTER SYSTEMS

The Computer Section continuously supports both traders and customs personnel in the use of the IT systems. Furthermore, members of the Computer Section keep in line with the discussions, preparations and developments of IT projects forming part of the EU Multi-Annual Strategic Programme (MASP). This requires a lot of time analysing the functional and technical specifications of the systems to be introduced or upgraded. Moreover, the participation of personnel from the Computer Section in seminars, meetings and training courses held by the European Commission is essential for the smooth implementation of upgrades and new IT systems.

User acceptance testing is another area that the section is responsible for. During 2011, before the deployment of upgrades and new systems, intensive tests were carried out to minimise the risk of having problems during the implementation in the live environment. Besides the responsibility of the testing and administration of the Customs Electronic Systems (CES), other specialised IT demands on the Computer Section originated from various EU legislations such as the Modernised Customs Code (Regulation 450/2008) and Decision 70/2008, the main objectives being to make Member States' National Electronic Customs Systems compatible with each other, introduce EU-wide electronic risk analysis, improve information exchange, make electronic declarations the rule, simplification of customs procedures, introduce a centralised customs clearance arrangement, and generate a paperless environment for both customs and trade.

## **IT CENTRE**

The IT Centre Section deals with all IT-related hardware and network issues, software installations and general customs staff support.

The major issues in 2011 were the replacement and installation of various computer hardware, such as printers and scanners, installation and upgrades of various applications used by the Department, such as ECN+ and MCC, and provision of support regarding Local Area Network extensions and connectivity.

## **TRANSIT AND FREE ZONES**

As country of departure, 151 transit movements were opened from Malta, and 141 messages which settled movements initiated from here, were received, 2,048 transit movements were also received, and 1,882 movements were closed with Malta as country of destination. Malta initiated 34 enquiries through the computerised transit system (NCTS), and received 784 incoming enquiries. Thirty-four TC21/21A requests for Post-Clearance Verification of status documents were sent, while five incoming requests were processed. The national transit installation – NCTS-MCC – was further upgraded during 2011 under the collaborative contract comprising the customs administrations of Malta, Ireland, Sweden and The Netherlands, with maintenance and support from foreign software contractor Intrasoft. One member from this Section participated in the testing of the upgrades. System operation and functionality was reviewed during various meetings of the Electronic Customs Group (ECG) of the European Commission, as well as the Change Management Board set up with Intrasoft. System stability and availability remained well within Community targets.

A decrease in staff in the last quarter of 2011 had some impact on the monitoring of transit movements through the computerised transit system. Controls of stocks at the Free Warehouses were carried out on the basis of the documented stock records held by the operators and the Distripark manager.

## **CUSTOMS WAREHOUSING**

This Unit is responsible for monitoring of non EU warehoused goods subject to import duty and/or VAT, and their eventual release/export from approved customs public and private warehouses. 328 containers were warehoused during 2011. Four new customs warehouses were approved. A total of 1,894 new non-EU vehicles were warehoused. All units were released for home use. Revenue from new vehicles amounted to €2,306,749 import duty and €2,121,431 VAT. 18 second-hand vehicles were released for home use on which €21,017 import duty and €24,735 VAT were collected. €609,565 import duty and €189,486 VAT were collected from other goods released from customs warehouses. Regarding the Newport Bonded Stores operating under this Unit, rent collected from goods released from these stores and from transfer in bonds amounted to €4,052 respectively, whilst import duty and VAT were €920 and €6,928 respectively. There was one lot received for safe custody. One auction sale was held in 2011, the total income derived from this sale amounted to €24,294.

## COMPLIANCE

This Directorate is responsible for the collection of import duties and VAT and ensures compliance with EU Customs regulations, particularly the Customs Code and its Implementing Provisions. When releasing goods for free circulation, officers in this directorate also ensure that EU import regulations administered by other departments and authorities are adhered to. This entails continuous consultation with Veterinary Services, Environmental Health, Plant Health, CITES, OHSA and Malta Competition and Consumer Affairs Authority (MCCAA). Trade facilitation is given top priority and no efforts have been spared to introduce new facilitations to local industry and to economic operators in general.

The overall volume of economic activity in importations from third countries remained relatively the same as in 2010. A slight drop of 2.8% in customs duties was recorded. This may be attributed to a shift in business patterns. A substantial increase in acquisitions from EU countries was noted for the first time since 2008. Statistics for 2011 show an increase of over 1,800 containers more than 2010 from EU countries.

In 2011, steps were taken to reduce physical controls and replace them with documentary checks. Several commodities that offer lower risks are being controlled by a simple documentary check. This initiative translates into less handling costs and reduced loss of time for economic operators.

The Libyan crisis and the radiation fallout in Japan were two major situations which Customs had to deal with this year. In the former situation, one had to make sure that sanctions imposed by the United Nations and the EU were scrupulously observed, while on the other hand it had to be ensured that humanitarian aid was cleared for export in the shortest time possible. This was a collective effort between officers from air and sea customs offices. Special arrangements were also made for the benefit of local exporters who wanted to re import goods which had already been exported to Libya.

As soon as news of the Fukushima nuclear disaster was received, steps were immediately taken to protect citizens from radiation contamination. Meetings were held with OHSA and Environmental Health to coordinate controls on commodities dispatched from Japan after 11 March 2011. OHSA provided training to staff on the use of radiation detecting equipment and Customs provided all the necessary equipment and protective clothing.

Regular meetings were held with regulatory bodies and government agencies to ensure that goods which did not comply with their requirements were not released for free circulation.

The implementation of the AEO (Authorised Economic Operator) programme continued throughout 2011. In February, a joint validation team from the EU Commission (DG TAXUD) and USA Customs (CPB) came to Malta to scrutinise the implementation of the AEO programme. This joint validation visit was held in preparation for the implementation of mutual recognition of certificates issued by EU Member States and the USA, and was one of a series held throughout the EU. The results of the visit were very satisfactory from the point of view of all concerned and Malta Customs was commended for its strict implementation of the safety and security criteria that must be met before issuing an AEO certificate. Later in the year, a member of the AEO Committee took part in a joint validation visit to the USA.

## LANDING AND RELEASING BRANCH

The Landing & Releasing branch in the Customs Department comprises the following outstations: Deep Water Quay, Examination Shed, Courier Office, Airfreight Section, Malta Freeport, Hal-Far Groupage Complex, Laboratory Wharf, Parcel Post Office and Weighers Office.

## Deep Water Quay

During 2011, a total of 143 authorised regular shipping vessels discharged and/or loaded the under mentioned cargo at the DWQ:

Discharged	Loaded
6,038 containers (5,818 EU, 220 non-EU)	682 containers community status
14,415mt tons conventional cargo (14,033 tons EU, 382 non-EU)	89 containers under T1 procedure
1,450 new vehicles (1,018 EU, 432 non-EU)	

In May 2011, a new ferry service *Enrica M* started operating from Augusta, Sicily. The vessel was represented locally by Triton Logistics; however this service was short-lived and ceased its operation by end of October 2011. The workload at the DWQ has been mainly of goods arriving from the EU. The volume of loose cargo showed a decline when compared to the previous year's, while the release of second-hand vehicles imported from Japan was shifted to Laboratory Wharf. At DWQ an overall increase of 6.6% in container movements was recorded.

## Container Examination Shed - Hal Far

During the year under review, 2,360 units from third countries were selected for control, examined and released for free circulation:

- 634 containers/trailers were examined at General Examination Shed
- 803 containers/trailers were examined at importer's premises
- 923 units were 'documentary checked'
- All units were Vacis Scanned
- 112 Post Entries were raised

Various infringements were identified at the time of release, which yielded the amount of €88,391 in Customs Duty, VAT, Anti-dumping Duty and Agricultural Duty. The amount of €39,185 was collected as 'Fines' for non-compliance. During releases for free circulation, regular referrals were made to the Enforcement Section, Weigher's Office, Intellectual Property Rights and Drug Squad. Goods were also referred for clearance by Environmental Health Plant Health, Veterinary Services and MCCA on a regular basis.

## Courier Section

The overall workload at this Section continued to increase considerably, mainly due to the increase of popularity of buying over the internet. The past year was the first full year in which courier export operations were conducted directly from the Aerospeed facility of Air Malta. This initiative offered further trade facilitation to courier operators. One of the courier operators situated in the MIA freight village installed a scanning machine to meet security obligations for outbound packages. The total traffic in courier packages amounted to 281,144. Officers in this section scanned over 1,329 bags and 1,657 cartons.

## Revenue Collected

	Customs Duty	VAT	Fines	Total
<b>Declarations</b>	414,144	2,676,888	NIL	3,091,032
<b>Post Entries</b>	5,771	13,688	17,937	37,396
<b>Total</b>	<b>€419,915</b>	<b>€2,690,576</b>	<b>€17,937</b>	<b>€3,128,428</b>

## Airfreight Section

Revenue collected in this section experienced a slight decrease, which is mainly attributed to a decrease of approximately 7% in air cargo traffic from third countries. However, this section still registered an increase of €178,997 (4.9%) in VAT, a decrease in Import Duty of €188,682 (24%) and Excise Duty of €13,853 (59.5%). The number of Post Entries raised by the Airfreight Section officers amounts to €9,463. A total of 8,044 import declarations were processed, of which 1,644 were selected for control. Throughout the year, the Section continued to liaise with the Customs Intelligence Section and the Enforcement Unit in respect of certain importations targeted for special inspections due to possible infringements in IPR Regulations, false declarations or concealment of goods. Monitoring of cargo manifests continued to be carried out efficiently through telework, while an officer has been detailed to carry out post verification of declarations which are not subject to physical control. Of special mention was the very active role of this section in the Libyan crisis. The Airfreight Section handled huge volumes of humanitarian aid which arrived by air at any time of the day for eventual transshipment to Libya by sea or other air routes. Continuous liaising between this section, the Enforcement Unit, Proliferation Unit and management ascertained that sanctions imposed by the United Nations and the EU on Libya were also kept in check.

### Revenue Collected (Customs Area Code 102) – 2011

Duty	VAT	Excise Duty	Other Duties	Fines	Post Entries	Total
€593,064	€3,815,264	€9,439	€793	€5,036	€1,648	€4,424

## Malta Freeport

The main responsibility of this Section is to ensure that all units that exit and enter the Free Zone area are accounted for and covered by the relevant customs documentation and authorised gate passes.

Officers in this section carried out 2,637 vessel *pratiques*, of which 1,635 were on vessels coming from third countries. A total of 32,190 containers were despatched for local consumption, of which 11,813 were non Community goods and were released for free circulation. Another 169 units were despatched for transshipment.

## Hal Far Groupage Complex

This section is responsible for the warehousing and clearance of groupage cargo arriving from EU and third countries. Revenue generated in this section rose by 24% (duty) and 16% (VAT) compared to 2010. Additional revenue collected during physical controls increased by 16%. Rent charges collected for goods kept in storage beyond the period stipulated in the Customs Regulations amounted to €42,308.

The NUCTECH scanner stationed at Hal-Far was instrumental in facilitating the clearance of containers which were not subject to physical control.

A total of 4,541\* containers entered the complex, of which 1,410 were non-EU. Random tallying was carried out on 346 non-EU units and 71 EU. There were also 1,316\* spot checks carried out by SIAT at the gate.

\*does not include data for 3 months due to industrial action by gatekeepers

### Total Revenue (including additional revenue)

Customs Duty	V A T	Fines	Total
€2,870,018	€6,897,296	€11,278	€9,778,592

## Laboratory Wharf

This Section is responsible for the supervision of goods landed/loaded at Laboratory Wharf, Coal Wharf and the Grain Silo.

A total of 560 vessels landed goods at this station and the following operations were recorded:

Goods discharged	13,579 containers of which 433 were non –Community status 4,810 new and 3,294 used vehicles, 165 live horses, 26,500 live poultry, 238 pigs, 67 cows and 10 boats
Goods loaded	2,946 containers of which 664 exported to third countries, 532 new vehicles, 1,309 used vehicles, 113 trucks and 236 accompanied vehicles.

In 2011, the amount of €2,579,107 was collected as excise duty.

Discharged	Commodity	Metric tons EU	Metric tons non-EU	Landed in Gozo
	Cereals	106,738.21	26,222.98	5,658
	Bulk Cargo	650,162.5	7,353	0
<b>Loaded</b>	Scrap Metal	2,743	18,256	0

### Other Statistics

ECNs Processed	MRNs Processed	Manifests Amendments	Searches at Gate	Containers Transferred from FTM to LW (TMSD/TSB)
1,529	140	27	510	91/25

## Parcel Post Office

The main activity at the Parcel Post Office concerns the processing and release of domestic parcels for goods purchased through the internet. In view of the relief of customs duties for packages valued €150 and under, a decrease in revenue was registered. Parcel traffic from third countries has remained the same as the previous year, however there was an increase of parcel traffic from EU countries. Parcel scanning continued to facilitate the workflow in this section especially during the Christmas period. Officers examined over 15,000 parcels sent from third countries and 582 from EU countries. In all, over 6,500 parcels were scanned and a good number of them were delivered to consignees without physical inspection. In their daily work, officers in this section keep continuous contact with other government departments with regard to importations of foodstuffs, pharmaceuticals, endangered species, product safety and plant health.

### Revenue Collected

	Duty	VAT	Excise	Fines	Total
<b>Gozo</b>	4,335	31,952	Nil	Nil	36,287
<b>MaltaPost/EMS</b>	73,889	595,448	1,971	2,806	674,114
<b>Total</b>	<b>€78,224</b>	<b>€627,400</b>	<b>€1,971</b>	<b>€2,806</b>	<b>€710,401</b>

## Customs Weighing Section

Customs Weighers are responsible for confirming declared weights on products which are subject to a specific duty rate according to the Common Customs Tariff of the EU. Weighing fees collected during 2011 amounted to €1,400.

## PROCESSING SERVICES BRANCH

This branch includes the post Verification Unit, Valuation Section, Binding Tariff Information Unit and Customs Laboratory, Customs Economic Procedures Unit, Binding Origin Information Unit, Customer Services and Risk Management Unit

### Verification Unit

The Verification Unit's main target remains the verification and post clearance controls of import declarations which were not selected for control. In view of the initiative taken by this directorate to reduce physical controls and increase documentary checks, the role of this section has become more important than ever before. Scrutiny of customs declarations yielded a substantial amount of revenue as shown in the table below. In 2011 the section checked over 16,000 import declarations. Officers in this section are also responsible to verify Intra Community status documents that are presented in respect of containers dispatched from Freeport. In 2011, a total of 12,751 T2L's were checked. During the inspection of these documents, several queries were noted and settled with the respective traders.

<b>Additional Revenue collected</b>	Duty	€40,697
	Anti dumping duty	€6,265
	VAT	€56,955
	Fines	€9,700
	<b>Total</b>	<b>€113,617</b>
Documentary checks on intra Community supplies (T2L)		12,751
Cases referred to Post Clearance Audit for further investigation		27
Documentary checks on declarations not selected for control		16,063
Amendments to cargo manifests		133
Issue of gate passes for containers exiting Freeport		31,573

### Valuation Section

In the past year, the valuation office of the Customs Department continued to perform its duties as a reference point on values to the management, other sections of the department, business community and to private individuals.

Officials from this Unit participated on various occasions in the Valuation Customs Code Committee in Brussels. In 2011, the Unit submitted for discussion in the relative Committee an issue regarding auction fees.

At times this office is called to inspect the values of items being released on spot. Most of the time the officers take note of the imported goods, take photos and ask importers to produce more evidence re the value of the goods. When it is not possible to make a final decision on spot, a deposit is raised to cover any additional duties due after the valuation exercise.

The Enforcement Section of this Department refers contraband cigarettes, spirits and fuel for valuation purposes. There was a marked increase in the cases referred to this office. Members of this section represent the Department in court cases regarding the above.

### Binding Tariff Information Unit – Laboratory

The principal activity of the Binding Tariff Information Unit (BTIU) is the classification of goods. Information on classification matters is requested by traders, customs clearance agents and even releasing officers at time of release or during document processing. Samples are also often referred to this section for further discussions and guidance. Queries are sometimes received from other Member States

requesting classification opinions of various products. This method of consultation is commonly used by all Member States, so as to try to obtain a 'quick' opinion and avoid having to pursue the matter further with the Commission. This way, certain unnecessary delays in classification decisions are avoided.

During 2011, the Laboratory carried out analyses on 891 gasoil samples, to determine the presence of solvent yellow, national marker or both. BTIU officers and the Senior Customs Analyst participated in meetings in Brussels covering various sectors.

During 2011, the Unit received 40 new BTI applications. All these applications were published in the European Union EBTI-3 database. Nine of these BTIs and six BTI applications from 2010 were processed and the BTIs issued accordingly.

Internal communications were issued to officers concerning uniform application of the Combined Nomenclature and EU classification decisions on various products. These decisions are first discussed and voted on during meetings of the Customs Code Committee in Brussels and then issued in the Official Journal of the European Union as Regulations and Notices.

### **Customs Economic Procedures Unit**

During the year, 2,702 T2L documents were manually processed at the section.

574 Authorisations for various Preferential Customs Procedure Codes were activated in the Business Registry. 437 claims for refund of import duty paid under the Drawback System were processed. The number of Temporary Importation declarations created was 148 while 115 movements were written off and settled. There were 27 newly created TI declarations registered during the year. EUR 1 certificates issued amounted to 531, while the number of ATRs issued totalled 178 and GSP FORM A certificates issued were 57.

Revenue collected from Burdnara licence fees amounted to €1,255.66.

The number of operations registered at CEPU for which customs personnel attendance was requested during the year was 1,833.

### **Binding Origin Information Unit**

During 2011, the Unit forwarded 15 movement certificates to third countries for verification.

Three non-preferential Certificates of Origin were sent to China and the UAE. These non-preferential certificates of origin covered the importation of goods subject to anti-dumping duties. Following a reply received from China, it was established that at time of importation, the invoice presented was undervalued by more than €7,086.

Two other replies were received from China. These were in respect of requests forwarded during the previous year and even in these cases it resulted that though the four Certificates of Origin were correct, the relative invoices were undervalued by €104,335.

A reply received from Norway stated that part of the consignment covered by a EUR 1 included bolts which were of Chinese origin, and therefore subject to anti-dumping duty amounting to €1,454.

During the year, the Unit answered two requests for verification received from Croatia and Israel. In the case of Croatia, the Unit confirmed the authenticity and correctness of the EUR 1, whereas the Invoice Declaration submitted by the Israeli authorities could not be confirmed because it was issued by an approved exporter in Germany.

## Customer Services

This office deals with the general public's queries and inputs manual declarations presented by traders in the Customs Electronic System (CES). Officers here also assist clearing agents and private individuals in interpreting customs rules and EU regulations. The Customer Service Unit processes import declarations presented by persons eligible for the suspension of import taxes as provided for by EU Regulation 1186/09 on duty reliefs. Transshipments and shipping bills, as well as requests for refund of duties, are also processed in this section. Containers selected for control are registered for inspection in this office prior to detailing releasing officers for control. Court Garnishee Orders and Counter Warrants are presented at this Unit for updating the Customs Electronic System. The section is also responsible for the data inputting of 'intrastat' forms, registers new importers and administers the user accounts of the CES.

### Statistics for 2011

Duty free imports of Personal Effects	187
Manual import declarations inputted by Data Entry Operators	5,634
Export declarations inputted by traders	8,167
Export declarations inputted by Data Entry Operators	1,675
Claims for refunds on preference certificates (ATR - GSP - EUR 1)	113
Claims for refunds of deposits paid on importation of personal effects	103
Inputting of 'Intrastat' Forms for intra community supplies	54,599
Transshipment bills which were registered, checked and authorised	1,269
Vetting of TSB's after export and submitted to Records Office	2,412
Processed applications (Form B) for duty free vehicles imported by persons with a disability and Diplomatic missions	28
Registrations of new economic operators in CES	640
Registration of Court Garnishee Orders and keeping updated records of same	371
Importation of Pleasure Craft by Vat Deferment Procedure	29
Importation of Pleasure Craft by Onward Supply Relief Procedure	18
Importation of Pleasure Craft under Temporary Importation Procedure	1
Direct Importation of Pleasure Craft	2

The Unit dealt with over 2,000 customs files, mostly requests for refund of duties on presentation of preference certificates, overpaid duties due to incorrect classification and refunds of deposits on importation of personal effects. Sale of customs forms amounted to €7,858.

## Risk Management Unit

The Risk Management Unit is mainly responsible for the administration of the risk analysis system in creating of specific risk profiles (selection process/knowledge based), setting of the risk parameters (screening process/knowledge based), and adjustment of result tables (Adjusting of the threshold risk values) and setting of the random sampling.

The profiles are compiled on alerts or reports issued by: European Antifraud (OLAF) – Mutual Assistance Alerts (AM), Risk Management (DG TAXUD) – Risk Information Form (RIF), Alerts issued by Central Intelligence Services (CIS). A risk profile is created in the system after the above-mentioned alerts or reports are thoroughly evaluated according to standard risk treatment procedures.

Risk Profiles	
New risk profiles created in the system	180
Risk profiles which were updated or re-activated	176
Drafting of new risk profiles on documentary checks (Other departments' clearances & controls)	32

Risk Evaluation	
Risk Information Forms (RIF)	556
Mutual Assistance Alerts (AM)	67
Intelligence Reports (CIS)	87
Other Alerts (MAB)	90

Surveillance of the Import Module in the Customs Electronic System (CES) is also performed by this Unit which monitors all import declarations in the two hour time-out and checks the documentation of full load

containers that are selected for physical control prior to release of goods. Officers also check the documents of consignments selected for documentary control by the CES. The Export System is monitored by two officers and at present the risk analysis is performed on a manual basis.

There is an effective communication network between the Risk Management Unit and other key sections within the Department, such as Intelligence Unit and Post Clearance Audit. The Risk Management offers a supporting role to the Authorised Economic Operator Unit in audit visits (Security & Compliance) and monitoring inspections on AEO certified traders - 39 AEO audit visits and seven monitoring inspections were undertaken.

The Risk Manager completed successfully an international Training Course on Container Examination organised by the Netherlands Customs Administration in Rotterdam.

## **ENFORCEMENT**

### **INVESTIGATION AND INTELLIGENCE BRANCH**

#### **Head Investigations Office**

The head office coordinated the local, EU and international administrative and operational activities concerning anti-fraud matters and illicit drug trafficking. Meetings abroad were regularly attended and contribution made to the EU Customs Cooperation Working Party (CCWP) and Mutual Assistance Committee (MAC). The CCWP is the coordinating group within the European Council's structure tasked with initiatives in the areas of customs cooperation. In this regard, several joint operations were organised involving customs organisations within the member states and in other operations organised by the WCO. Such operations included BARREL, FAIR PLAY, PANGEA IV, GAPIN, COLISEUM and GLOBAL HOAX 2. These operations targeted smuggling of highly taxed goods, counterfeit products, including medicinals, CITES related species, and heritage consignments. Obligations concerning Mutual Administrative Assistance Regulation (EC) 515/97, other EU and international conventions regarding dissemination of information were fulfilled through OLAF and WCO databases and communications networks. The use of these facilities helped to further integrate Malta Customs in the field of information sharing, both within EU and with third countries' customs services. Several operations (searches/inspections) were conducted in collaboration with the Police, AFM, MCCA and the VAT Department. Such joint operations further strengthened the collective effort in the relentless fight against fraud, drug smuggling and illegal trade in general.

#### **Non-Proliferation Unit**

The Non Proliferation Unit carried out 269 documentary checks, divided as follows: 93 on maritime consignments for export and in transshipment, 132 on airfreight cargo and 44 on fast parcel consignments prior to shipping for destination. 92 of the maritime consignments were also inspected and 23 of them were withheld, as the items concerned required export clearance prior to shipping to their destination. Besides, 41 airfreight consignments and 19 fast parcel consignments were also inspected for non-proliferation purposes. 23 maritime, one airfreight and three fast parcel consignments were withheld since contents within were found to be subject to provisions of the export control regulations. A total of 60 vessels collectively carrying 16,958 containers and 1,296 vehicles were scrutinised for sanctions prior to being cleared for shipping to Libya. The NPU continued with its Industry Outreach programme with several meetings being held with different stakeholders.

#### **Post Clearance Audit (PCA) and Economic Procedures Enforcement Unit (EPEU)**

PCA/EPEU personnel carried out 131 visits to premises of traders. These led to the raising of 37 post-entries and the sum of €14,349 was collected in duties and other taxes.

### Container Monitoring Unit (CMU)

A total of 1,658 vessels' manifests, collectively carrying 710,309 transshipment containers which were landed at Malta Freeport, were reviewed leading to the scanning of 8,172 containers. 1,098 of these containers were furthermore physically examined, resulting in the seizure of the contents from 38 of them. 4,007 domestic containers were also scanned. Staff from this unit participated in various meetings abroad, mostly related to risk assessment and security and safety provisions. At the Hal-Far Groupage Complex, the Nuctech mobile container scanner was used for close inspection of 3,158 containers and trailers imported from community states and third countries.

### Special Investigation and Action Team (SIAT)

This Unit tallied 64 containers and carried out over 1,063 searches targeting IPR infringements, CE markings and Excise controls, on vehicles leaving the Customs Hal-Far Groupage complex. It also performed daily counter checking and verification of container units dispatched from other stations such as Deep Water Quay, Laboratory Wharf and Malta Freeport Terminal.

### Enforcement Unit

The unit targeted 7,505 flights and conducted eight aircraft searches. At the seaport, 338 ferry arrivals/departures were monitored, whereas 144 shipments of humanitarian aid to Libya were supervised. 23,080 cigarettes were seized from various crew and passengers disembarking cruise liners. The Unit effected 11 drug seizures, of which four seizures resulted from luggage searches, six seizures resulted from swallowers/stuffers and one seizure took place at the Parcel Post Office. Drugs seized included: 3.91kgs heroin, 3.973kgs cocaine, 8kgs cannabis resin, 2.96kgs cutting agent and 510gm mephedrone. The unit also accomplished the seizure of 5.78kgs chewing tobacco and 100 suitcases stuffed with the plant khat which contains the alkaloid cathinone (amphetamine-like stimulant). Controls at the airport also resulted in the seizure of 43,390 cigarettes, 5.75kgs hand rolling tobacco, 73.5kgs water pipe tobacco and five bird-skins (under CITES Regs.). 2,193 cash control checks yielded two positive results, and a total of €72445 was withheld. Two cases of black money scam were intercepted. Enforcement staff responded to 93 alerts raised by the radiation portals at the Airfreight sheds. 44 surveillance visits at open-air markets and 734 searches commercial outlets for illegal excise goods gave 47 positive results leading to the seizure of a further 261,461 cigarettes and 1,246 alcohol bottles. One vehicle was withheld pending investigations. 29 searches on vessels and yachts yielded three positive results, involving 555,600 contraband cigarettes which were seized. The fight against the illegal importation of fuel continued, 68 fuel samples were taken from various service stations, tanks or reservoirs in private yards for analysis, whereas 124 field tests were carried out on vehicles or heavy equipment. One road tanker was withheld pending investigations about fuel consisting of 5,050 litres gas oil. Other surprise inspections at private residences, garages and commercial outlets were carried out in connection with the use of light heating oil for heating purposes. In collaboration with the Container Monitoring Unit, various containers in transit were seized as their contents were inconsistent with their manifest declaration. Such seizures included 5,131,670 cigarettes. The unit also supervised the destruction of illegally imported cigarettes, tobacco and duty-free vehicles, seven vehicles were surrendered to Customs and six others transferred to other government departments. €127,213 was collected as dues from various importers, as well as a further €47,905 from duties and VAT. 69 inspections were held jointly with the Veterinary Services/PHO/VAT Department. 916 containers were inspected for IPR infringements, of which 37 transshipment containers loaded with counterfeit goods were withheld by the IPR Unit. 135 IPR cases were registered, with 32 leading to legal action and another 79 cases were settled out of court. 2,191,852 counterfeit items in transit and 3,221 counterfeit items intended for the domestic market were detained. Detained items included mobile phones, sunglasses, deodorants, purses and wrist watches. The unit participated in various Joint Customs Operations (JCOs) organised by the European Council and the World Customs Organisation. The focus of these operations included cultural goods, CITES, hazardous waste, cultural goods and counterfeit or contraband cigarettes.

## Customs Intelligence Services (CIS)

During 2011, CIS continued with its task of vetting sea and air manifests for passengers and cargo in connection with the evasion of Customs, Excise and Anti-Dumping duties and VAT. Fraud, contraband in general, illegal export or import of cash, counterfeit and rejected goods and particularly the interdiction of narcotic drugs and fake medicine were also tackled by this section. The section issued a total of 1,766 passenger and cargo alerts. From all alerts issued, 22 'passenger' and 171 'cargo' resulted positive. 556 RIF alerts were received from and/or forwarded to other EU Member States. CIS supported other customs units during several EU wide Joint Customs Operations. CIS staff participated and contributed in various meetings both locally and abroad, particularly in areas related to general customs legislation, cash controls, AEO and Commission Regulation (EC) 1875/2006. Emerging threats and new modus operandi were also continuously monitored to formulate appropriate counter-measures.

## FRONTIER CONTROL

The main functions of this branch include the inward and outward clearance of sea vessels, pleasure crafts, aircrafts and passengers, censorship of video tapes, DVDs, and software, watching over and escort of non-customed goods, patrols on land and sea in customs areas, supervising the landing and loading of all cargo imported or exported by air, release of accompanied commercial goods; inspection and export certification of accompanied goods subject to VAT refunds, collection of Import & Excise Duties, and VAT, vigilance over importations of restricted and prohibited goods, including flora and fauna.

## Yacht Marinas

In 2011, there were 647 arrivals and 544 departures of pleasure crafts from and to EU Member States, which crafts had requested Customs services. Arrivals and departures from and to non-EU Member States amounted to 165 and 95 respectively. Marsamxetto Harbour was responsible for 37% of the total departures, the Grand Harbour for 56%, and Gozo for 7%.

## Customs Baggage Room (Seaport)

This Section operated on a 24x7 basis. During the year, 6,252 commercial vessels arrived in Malta, 3,665 of which from non-EU countries, while 6,304 vessels were cleared outwards. These figures relate to all harbours, that is the Grand Harbour, Marsamxetto, Marsaxlokk and Mġarr, Gozo. 46 rummages were conducted on incoming vessels. There were also 142,634 arriving and 132,632 departing passengers to/from Malta via seaport, apart from 489,511 other passengers from cruise liners. There were 21,539 accompanied vehicles which arrived in Malta, and 19,296 such vehicles which departed. The section processed 1,296 Transshipment Shipping Bills, 2,264 duty-free deliveries and 5,134 fuel stores authorizations. Currency spot-checks on incoming/and outgoing passengers totalled 168, while 902 searches were carried out at the various customs areas entry and exit gates.

## Airport

A total of 2,997 aircrafts arriving from non-EU countries landed in Malta in 2011. The total Import & Excise Duties and VAT taxes collected amounted to €39,366, with a further €1,445 collected as fines on dutiable goods undeclared by passengers passing through the Green Channel. Freight landed at the airport amounted to 5,378,141 kgs, whilst 4,172,364 kgs. were exported. Passenger arrivals from non-EU countries amounted to 189,459, of whom 6,678 were in transit, whereas 190,070 passengers of whom 6,957 were in transit departed from Malta. 552 currency control checks were carried out on incoming and outgoing passengers. Five seizures were made of meat or meat products, amounting to just over 32 kgs, which goods were all destroyed by incineration. Other roles undertaken by Customs at the airport related to safety and security of EU citizens and others; protection of the environment and flora/fauna species;

safeguard against restricted or illegal importations, including vigilance over counterfeit goods and anti-dumping restrictions. The section operated on a 24x7 basis.

### **Prohibitions and Restrictions**

854 out of a total of 8,728 items of recorded media submitted to Customs for vetting were viewed, and assessed. From these, two were withheld whereas the rest were released. No cases were referred to the Printed Matter Appeals Board. Taxes collected through this function amounted to €26,928.

### **Detail Section**

This Section operated on a 24x7 basis. It was primarily involved in the deployment of Customs officials, particularly Senior Customs Assistants to the various Customs stations or gates. Weekly rosters of duties of Customs Class personnel were prepared and distributed to all section heads and the customs management team. The section was also involved in receiving requests and replying to queries from traders and/or their representatives in connection with attendances rendered by Customs officials. Other functions included the checking and recording of staff attendances. Vacation and sick leave management was carried out in close liaison with the Customs Personnel Section.

JOSEPH P BRINCAT

*Director General (Customs)*

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# Treasury Department

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## INTRODUCTION

The Treasury Department has the responsibility to maintain an effective accounting methodology and relevant accounting systems across Government; monitor and effect disbursements on behalf of line ministries and departments, oversee Government's cash flow position; and raise the necessary finances to service the Government's obligations and commitments.

In order to fulfil its mission statement, the Department is split into two main directorates, namely the Debt Management and the Government Accounts Directorates.

## DEBT MANAGEMENT DIRECTORATE

The Debt Management Directorate (DMO) was established within the Treasury in December 2006, with responsibilities for the operational dimensions of debt and cash management for the central government and for providing specified funding requirements as authorised by Parliament.

The principal objective of the Directorate in its debt and cash management activities is to raise funds as well as carry out other financial transactions in such a way as to ensure that:

- the central government borrowing programme (short and long term) is financed prudently and cost effectively consistent with an acceptable level of risk;
- the annual debt servicing costs are met at the lowest possible cost;
- the development of the domestic financial markets is given the necessary support; and
- the liquidity of government funds is adequate to meet government's payment obligations as and when they fall due.

## ORGANISATION AND RESOURCES

The DMO is organised along functional lines under three main areas: a Front, Middle and Back Office to ensure a clear division of responsibilities. The Front office executes government debt policy regarding the issuance of government securities, the Middle office undertakes market research and analysis, whilst the Back office is responsible for recording, servicing and settlements of central government debt.

## LEGAL FRAMEWORK FOR BORROWING

The statutory basis for central government borrowing is set out under the following primary and subsidiary legislation:

- Malta Treasury Bills Act, Cap.133 (relating to the issue of short-term borrowing up to 12 months maximum maturity. The maximum amount of outstanding Treasury bills is established by Parliamentary Resolution. In 2002, the maximum amount was set at €698.80 million);
- Malta Treasury Bills (Dematerialisation) Regulations, 2007;
- Local Loans (Registered Stock and Securities) Ordinance, Cap.161 (relating to terms and conditions applicable to loans authorised to be raised locally by the issue of stock in Malta);
- Local Loans (Registered Stock) Regulations, S.L.161.01;

- Development Loan Act, Cap.229 (in respect of bilateral loans raised outside Malta);
- Government Borrowing and Granting of Loans to the Hellenic Republic Act, 2010 (Act III of 2010);
- Government Borrowing and Granting of Loans to Air Malta PLC Act, Cap.506;
- An annual budget law that authorises the Minister of Finance to raise loans on behalf of the government for an established amount during the financial year by the issuing of securities and provides also the main purposes for which government can apply such borrowing.

### **Financing Instruments and Operations used in Debt and Cash management**

Until now, in order to meet its financing needs, the Government's policy was that of relying, almost exclusively, on issuing euro-denominated financing instruments in the domestic market rather than raising funds on the international markets.

During 2011, as in previous years, the main financing instruments offered to cover the central government funding requirements were Treasury bills (T-bills), being of maturity of 12 months or less, and Malta Government Stock (MGS) – with a maturity ranging between three-year to over 20-year bucket.

The Treasury carried out its cash management operations by conducting public auctions of Treasury bills on a weekly basis. While T-bills are primarily issued to cover the temporary revenue shortfalls incurred by the Government, at the same time, such issuances maintain liquidity in the domestic Treasury bills market. T-bills issued to investors through such auctions are listed and traded on the Malta Stock Exchange.

The conventional Fixed Rate MGS remains the Treasury's primary financial instrument, by which it funded the long-term borrowing programme for 2011. The Fixed Rate MGS issues were offered in the maturity structure between 6-year and 20-year buckets. As in the past two years, alongside the Fixed Rate MGSs, Treasury continued to offer Floating Rate MGS linked to the six-month Euribor through the auction system primarily intended for the institutional investors. The MGSs are listed and traded on the Malta Stock Exchange.

In November 2011, the Treasury introduced a Malta Government Stock Switch Auctions Programme – to be conducted over a three-year period – as part of its issuance strategy for lengthening and smoothing the interest and redemption profile of the existing MGSs debt portfolio and also, to some extent, to provide an opportunity for institutional investors to diversify the maturity of their bond portfolios.

Prior to the launching of this Switch/Conversion Offer – on a voluntary basis – the Treasury held a consultation exercise with the main market players and stakeholders to discuss and consider their views.

### **Malta Government Stock Financing Operations in 2011**

During 2011, the Debt Management Office managed to achieve its funding programme announced at the beginning of the year even though market volatility was high for most of the year especially towards the second part of the year.

In terms of the Budget Measures Implementation Act (Act No IV of 2011) the total amount of MGS financing for 2011 was set not to exceed €570 million.

The funding programme was mainly applied for the purpose of:

- redeeming MGS issues of €128 million;
- financing the deficit estimated at €196 million;
- financing of four loan tranches to Hellenic Republic totalling €34 million (actual €30.8 m);
- financing a loan of €52 million to the national airline to support its restructuring programme; and
- effecting changes in Central Government's debt portfolio in line with Government's debt management policies by reducing the outstanding amount of T-Bills by €120 million (actual).

## Issuance Strategy

In view of the uncertainty prevailing in the international markets at the time, the Directorate adopted a front-loaded issuance programme with the result that by end of May 2011 it successfully financed 70% of the Treasury borrowing programme.

The total sum raised in 2011 through the issuance programme of three MGS, held during the months of February, May, and November, reached €569.6 million as illustrated in the table below.

In line with the Indicative Issuance Calendar issued in January 2011, the issuance strategy focused mainly on the fixed-rate euro denominated stocks with a maturity horizon biased towards the medium and long term. Two new MGSs were launched: a six-year maturity bucket, maturing in 2017, mainly to cater for the banking sector, and a 20-year MGS maturing in 2031, with the aim of satisfying the growing demand for long-term paper by the insurance sector and fund managers.

In conjunction with the fixed-rate stock, the Directorate continued on its policy to promote diversification in the domestic financial market by issuing a number of floating-rate stocks, linked to the six-month Euribor. The ratio of floating rate stock to the total portfolio of MGS increased from 1.9% in 2010 to 3.5% in 2011.

Issuance Strategy (€ million)					
Issuance month	6-Year	20-Year	3-Year FRN	TOTAL	Bid-to-Cover
February	115.06	84.72	-	199.78	2.72
May	89.92	59.91	52.00	201.83	1.98
November	19.07	124.92	24.00	167.99	2.74
<b>Total</b>	<b>224.05</b>	<b>269.55</b>	<b>76.00</b>	<b>569.60</b>	<b>2.44</b>

Source: DMO internal records

Demand for the government paper by institutional investors and members of the public was strong for each of the three MGS issues held during 2011. Altogether, the average bid-to-cover ratio for 2011 was 2.44 compared with a ratio of 2.10 for 2010.

In line with Government's allocation policy, subscriptions by members of the public (offered at a pre-offer price) were given preference over bids tendered at the auction by institutional investors. To a certain extent, this has crowded out allocation for institutional investors with the result that the demand for MGS by institutional investors could not be met in full.

In addition to the above issuances, two MGSs amounting to a total of €3.32 million were issued in June 2011 in partial settlement of ex-church property transfer.

The following table illustrates the ratio allotted by auction to total applications accepted and the ratio of bids accepted against bids received.

Demand vs Allotment of Bids by institutional investors					
Issuance	Security Issued	Total Allotment	Allotted by Auction	% of Total Allotment	% of bids accepted/ all bids received
		€ millions	€ millions		
Feb	4.25% MGS 2017	115.1	62.5	54%	33%
	5.25% MGS 2030	84.7	29.5	35%	97%
	<b>Total</b>	<b>199.8</b>	<b>92.0</b>	<b>46%</b>	<b>42%</b>
May	4.25% MGS 2017	89.9	56.0	62%	71%
	5.25% MGS 2030	59.9	26.0	43%	51%
	FRN MGS 2013	52.0	52.0	100%	51%
	<b>Total</b>	<b>201.8</b>	<b>134.0</b>	<b>66%</b>	<b>58%</b>
Nov	4.25% MGS 2017	19.1	3.0	16%	3%
	5.25% MGS 2030	124.9	6.9	6%	10%
	FRN MGS 2014	24.0	24.0	100%	54%
	<b>Total</b>	<b>168.0</b>	<b>33.9</b>	<b>20%</b>	<b>16%</b>

Source: DMO internal records

### Bond Switch Operation

In the early 2000s, the Government adopted a strategy of issuing a series of fungible MGS issues to reduce the fragmentation of its debt portfolio. Also, it was intended to establish a number of benchmark bonds to increase depth and liquidity in the market and at the same time to create the minimum critical mass necessary for a possible international issuance in the future. Following the onset of the international financial crisis of 2008-09, the idea of an international issuance was postponed indefinitely. Such issuance strategy has resulted in the accumulation of MGSs due for redemption during the period 2012 -2014.

In order to address this issue, during the third quarter of 2011, the Treasury held a consultation exercise with the main market players and stakeholders to discuss and consider their views on the introduction of a 3-Year Bond Switch Auction Programme – on a voluntary basis - with a view to lengthen and smoothen the interest and redemption profile of the existing MGSs debt portfolio. At the same time, this issuance strategy, to some extent, provides an opportunity for institutional investors to diversify the maturity of their bond portfolios. In November 2011, the Treasury conducted the bond switch operation and as a result, the level of MGS maturing in 2012 was reduced from €5096 million to €349.7 million, in which €160 million in the 5.7% MGS 2012 (II) (source stock) were exchanged for €158 million in the 4.3% MGS 2016 (IV) (destination stock) by auction on a bid price basis. The exchange had a neutral effect on the Debt/GDP ratio and also avoided any negative effect on the budget deficit.

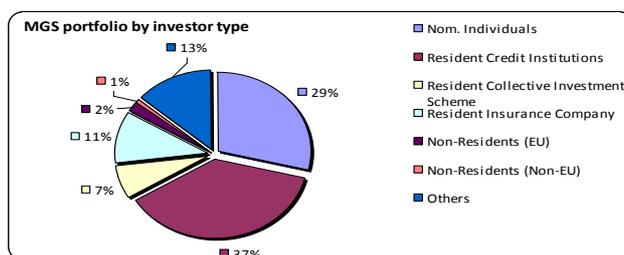
The second and third stage of this exercise will be conducted in 2012 and 2013 with a view to reducing the roll-over levels for the years 2013-2014 by a maximum of €200 million in each year.

### Distribution by investor type

Chart 1 below illustrates the sectoral distribution of outstanding MGS as at end of December 2011. Out of the outstanding total, 37% is held by resident commercial banks, 29% is held by domestic retail investors while resident Insurance Companies held 11%. Holdings by non-residents accounted for only 2% of outstanding MGS. The fact that the vast majority of Malta Government debt is held domestically acts as a cushion against external market volatility.

During 2011, it was observed that there was a growing interest by the resident insurance sector as by end of November 2011 it was the third largest holder of Malta Government Stocks (MGS) after the resident credit institutions and resident individuals. In particular, the insurance sector has shown interest in the long term MGSs to obtain a better maturing matching between their long term liabilities and assets.

Chart 1 – MGS Holder Distribution as at 31<sup>st</sup> December 2011



Source: DMO internal records

### Borrowing for on-lending purposes

- Loan Facility Agreement (Hellenic Republic):** After raising €30 million in 2010, under the Government Borrowing and Granting of Loans to the Hellenic Republic, Act 2010, the Treasury issued a second tranche of €24 million in November 2011, via a Floating Rate MGS maturing in 2014, linked to the six-month Euribor plus a spread of 45 basis points (bps). The issuance of this security was intended for financial institutions and was fully subscribed. During 2011, four tranches amounting to €308 million were disbursed to the Hellenic Republic under the Loan Facility Agreement entered into in May 2010.

- *Loan Facility Agreement (Air Malta Plc)*: Following the enactment of Act XVIII of 2010, which authorises the raising of loans for the purposes of entering into re-lending agreement between the Malta Government and AirMalta Plc, the Treasury issued a floating rate note linked to Euribor (plus 45bps) maturing in 2013. Under this issuance, the Treasury raised a nominal value of €52 million, which was loaned to Air Malta in four tranches spread throughout late 2010 and 2011.

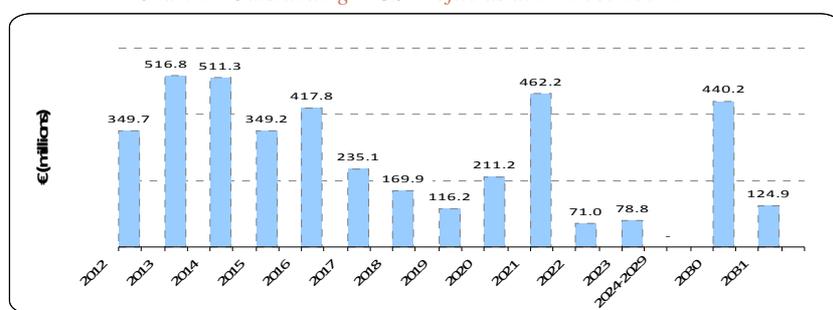
### Maturity Profile

The outstanding nominal value of MGS as at 31 December 2011, reached € 4,054.2 million.

Chart 2 illustrates that the distribution of the MGSs maturity profile lies skewed to the left, with 42.6% of total outstanding MGS maturing during the period 2012-2015.

As a result of strategic measures being undertaken by the Directorate, both the skew of the maturity profile and the weighted average maturity (WAM) of MGSs have now improved, notably the WAM which has reached 6.80 years compared to 6.60 years at 2010.

Chart 2 - Outstanding MGS Profile as at 31 December 2011

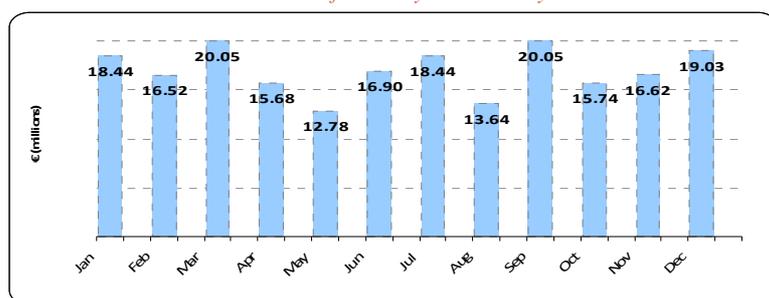


Source: DMO internal records

### Cost of Borrowing

During 2011, the total interest payments on MGSs amounted to €203.89 million. Such payments of interest throughout the year were spread as illustrated in Chart 3.

Chart 3 - Distribution of Monthly Interest Payments on MGS



Source: DMO internal records

As interest payments for 2011 have increased by 9.5% year on year while the outstanding MGS balance increased by 12.3%, it resulted that the average amount of interest paid during 2011 on outstanding debt has actually decreased. In fact, the weighted average coupon (WAC) in 2011 has dropped to 5.19% from 5.41% a year earlier.

## Treasury Bills

In line with Government's debt management policy in effecting changes in its debt portfolio by placing more emphasis on long-term loans rather than on short-term borrowing, the Treasury managed to reduce the stock of outstanding T-Bills at end of 2011 by €120 million.

### Issuance Strategy

Total offers of T-bills accepted and redeemed by the Treasury during 2011 in respect to each tenor are presented in the table below.

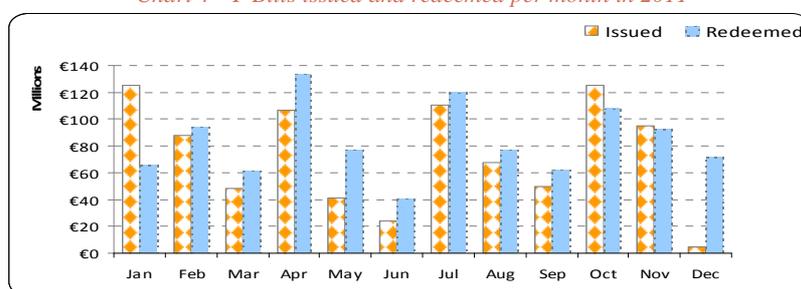
It is remarked that such issuance strategy, which focused mainly on the 91-day and the 182-day tenor (equivalent to 56% and 21% of total issuance respectively), is in line with that for the preceding year. The weighted average maturity (WAM) also remained fairly constant vis-à-vis 2010, with the duration for T-bills issued in 2011 being 132 days, decreasing from 142 days a year earlier.

T-Bills issued by tenor in 2011			
Tenor	Amount issued(€ million)	% of Total	Amount redeemed
28	€72.9€	8%	€72.9€
91	€491.3€	56%	€401.9€
182	€187.8€	21%	€326.8€
273	€132.7€	15%	€203.0€
364	€0	0%	€0
<b>Total Issuance</b>	<b>€884.9</b>	<b>100%</b>	<b>1,004.78</b>

Source: DMO internal records

Chart 4 shows that on a monthly basis the level of T-bills redemptions - except for three months - was higher than the level of issues, thus leading to a reduction in outstanding stock of treasury bills of €119.86 million year-on-year.

Chart 4 - T-Bills issued and redeemed per month in 2011

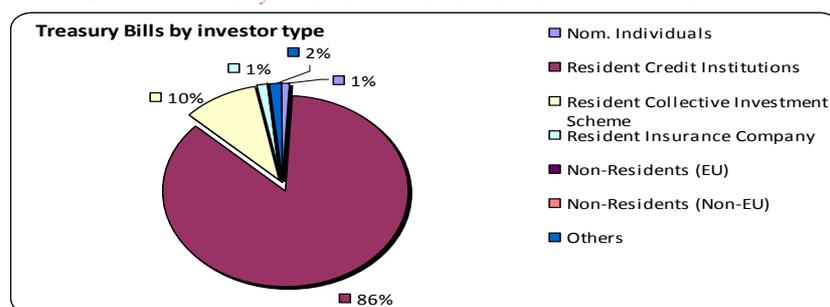


Source: DMO internal records

### Distribution by investor type

Chart 5 illustrates the distribution of outstanding T-bills categorised by investor type. Auctions are regularly oversubscribed by the various participants. As at 31 December 2011, 86% of outstanding treasury bills were held by resident credit institutions, followed by collective investment schemes (10%).

Chart 5 – Treasury Bills Holder Distribution as at 31<sup>st</sup> December 2011

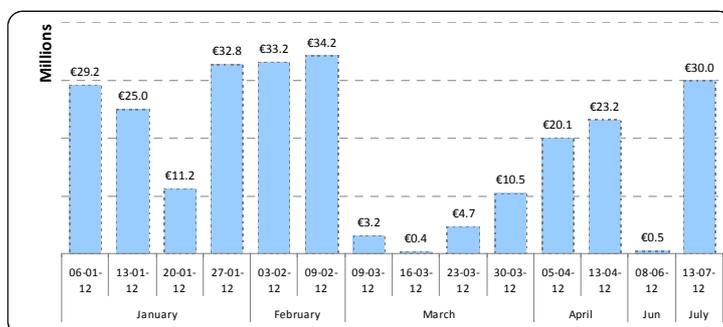


Source: DMO internal records

## Redemption Profile

At end December 2011, the nominal value of outstanding T-bills stood at €257.90 million and its redemption profile is presented in Chart 6.

Chart 6 - Outstanding Treasury Bills as at end 2011



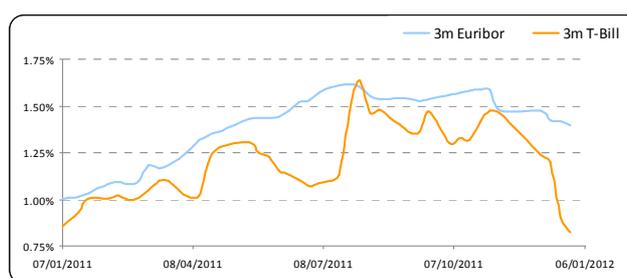
Source: DMO internal records

## Yields & Cost of Borrowing

Throughout the year, the weighted average rate of the accepted bids in respect of the 91 and 182-day was lower than the prevailing average Euribor rate on auction date, except for one occasion. However, as a result of higher money market rates, the weighted average yield for the accepted bids at all maturities throughout the year was 1.335%, being an increase of 0.925% over 2010. The primary market yields for the 91-day T-bill fluctuated between a maximum of 1.637% (on 2 August 2011), and a minimum of 0.824% (on 27 December 2011). The primary market yield of the 182-day T-bill peaked at 1.799% (on 9 August 2011) and was lowest at 1.041% (on 14 January 2011). The servicing cost accrued on new T-bills issued in 2011 reached €4.32 million compared to €4.51 million for 2010 (- €0.19 million), whereas the cost incurred on maturing T-bills during 2011 was €4.63 million compared to €6.03 million (- €1.42 million for 2010).

Chart 7 shows that during 2011 the 91-day T-bill yield outperformed the three-month Euribor rates.

Chart 7 - 3m Euribor vs. 3 month T-bill rates



Source: DMO internal records; European Banking Federation ([www.euribor-ebf.eu](http://www.euribor-ebf.eu))

## Developments in the MGS Primary & Secondary Markets during 2011

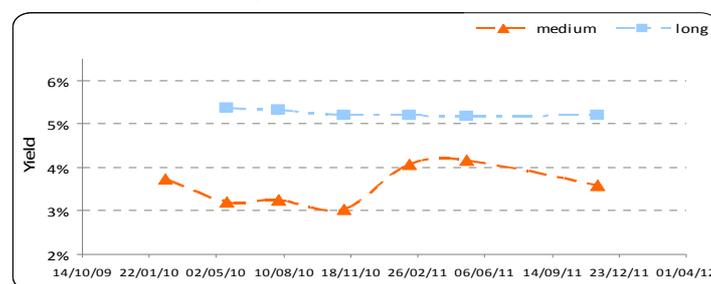
The year 2011 was again characterised by a high volatile market conditions in many sovereign debt markets especially in the Eurozone. While the borrowing cost for peripheral countries in the Eurozone surged on sustainability concerns, the borrowing cost for the Malta Government Stocks was stable throughout 2011 both in the six-year (medium) and the 20-year (long) maturity buckets.

### Primary Market

Chart 8 illustrates the comparative accepted ISMA yields in each primary market issue during 2010 and 2011. In 2011, average medium term yields were higher than the equivalent 2010 yields. On the other

hand, the average 20-year yield was lower in 2011 compared to 2010. Yet the average six-year yield accepted in the last issuance of 2011 declined remarkably when compared to previous issuances of similar maturity in 2011.

Chart 8 - Medium & Long Term Yields on the Primary Market 2010-2011



Source: DMO internal records

As can be seen from the table below, the spreads attained during the first half of 2011 were narrower than those attained in the first half of 2010. The positive trend was reversed in the last auction of 2011 (held in November) where the spread against the German Bund widened in comparison to issuances that took places in the first six months of the year.

Spread Over Bund in Primary Market					
Year	Issuance	Medium term		Long term	
		Retail	Auction	Retail	Auction
2010	Feb	+125bps	+98bps	-	-
	May	+123bps	+148bps	+169bps	+199bps
	Aug	+135bps	+133bps	+192bps	+185bps
	Nov	+134bps	-	+220bps	-
2011	Feb	+119bps	+96bps	+134bps	+126bps
	May	+118bps	+119bps	+140bps	+143bps
	Nov	+249bps	+211bps	+269bps	+229bps

Source: DMO internal records; Deutsche Bundesbank ([www.bundesbank.de](http://www.bundesbank.de))

This illustrates the contrast between a fairly calm first half of the year, during which market analysts perceived to be in line with what had been seen in 2010, and an extremely volatile second half of 2011, which led many market participants to switch to a risk-off attitude which, among other things, led to the appreciation in the price of the Bund.

### Secondary Market

The following table illustrates how the benchmark MGS yields moved throughout 2011 on the secondary market. Figures refer to yields sampled at regular intervals throughout the year representing closing bid prices at which the Central Bank of Malta broker actually traded or would have been prepared to buy on the dealing date.

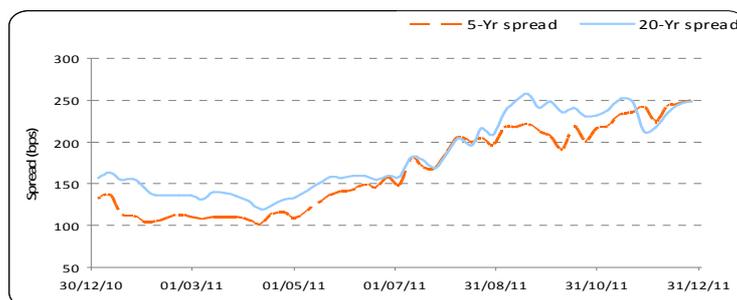
MGS Yields in secondary market			
Term	Lowest	Highest	Average
2-Yr	1.97%	2.86%	2.43%
5-Yr	3.11%	3.81%	3.48%
10-Yr	4.05%	4.74%	4.44%
20-Yr	4.97%	5.23%	5.10%

Source: Central Bank of Malta ([www.centralbankmalta.org](http://www.centralbankmalta.org))

Chart 9 displays the evolution of sampled MGS and German Bund yields for the five and 20-year tenors during 2011. The general pattern is similar for both tenors, with spreads widening consistently as from mid-April onwards as bund yields plunged due to heightened uncertainty caused by the eurozone

sovereign debt crisis. The overall ‘flight to quality’ led Bund yields to reach record lows during 2011, as investors rushed to buy the safest government bonds in the euro zone.

Chart 9 – Spreads MGS vs. Bund (5yr & 20yr)



Source: DMO internal records; Financial Times; Bloomberg

In some instances, the two curves intersect, suggesting that apprehension by market participants in the shorter term was higher than in the long term as pressure on the five-year Bund yield increased the spread whereas the 20-year would move at a slower pace.

## Foreign Loans

Bilateral loans with foreign entities are specifically undertaken to finance large capital projects. A total of €13.12 million was repaid throughout 2011, according to the repayment schedule, resulting in an end-of-year balance of €74.58 million. Interest costs incurred in servicing these loans amounted to €3.91 million. The majority of Government’s bilateral agreements are denominated in Euros as shown in the table below:

Foreign debt and distribution by currency (in € equivalent)						
	Euro	GBP	JPY	USD	CAD	Total
Amount (€ equivalent)	€73,330,228	€54,629	€233,609	€726,134	€236,474	€74,071,074
%	98.32%	0.07%	0.31%	0.97%	0.32%	100.00%

Exchange rates as at 30th December 2011.

Source: DMO internal records; Central Bank of Malta ([www.centralbankmalta.org](http://www.centralbankmalta.org))

## Relations with other institutions

### Credit Rating Agencies

In July 2011, the DMO participated in the annual meeting held at the Ministry of Finance with Standard and Poor’s during which debt management matters were discussed. The Directorate also regularly answers requests for data put forward by other credit rating agencies.

### EFC sub-committee on EU Sovereign Debt Markets (ESDM)

The DMO attended meetings of the Economic and Financial Committee (EFC) Sub-committee on EU Government Bills and Bonds Markets in Brussels. The main objectives of the sub-committee are to promote further the integration and achieve a better functioning of the EU government bond markets.

During the course of 2011, the Debt Management Directorate jointly with officials from CBM participated in five meetings during which issues relevant to the functioning of markets and the potential impact of policy decisions on sovereign debt markets were discussed.

In this context the preparation of the Collective Action Clauses (CACs) took prominent place in the discussions. After the Eurogroup statement of 28 November 2010, followed by the signing of the Treaty Establishing the European Stability Mechanism on 11 July 2011, standardised and identical Collective

Action Clauses (CACs) shall be included for all new euro area government securities with maturity above one year with effect from 1 January 2013.

#### *National Audit Office*

In July 2011, the National Audit Office (NAO) received a questionnaire about the practices of public debt management in Malta from the Swedish National Audit Office.

For this purpose, two representatives from the NAO called at the Directorate to assist them in completing the detailed questionnaire, which was in turn forwarded by the NAO to the Swedish National Audit Office in September 2011.

#### *Other Institutions*

The Directorate participated in the meeting with DG ECFIN held at the Ministry of Finance in October 2011, in connection with the Autumn Forecast Mission. Among other things, the meeting discussed matters relating to debt management issues.

The DMO participated also in meetings with various foreign financial institutions who had shown interest to meet the DMO and Central Bank of Malta to demonstrate their capabilities in terms of sovereign debt market activities and to update on the ongoing developments in the international capital markets, in particular the euro-area sovereign debt markets.

In its capacity as advisor to Malta Government on financial matters, Central Bank of Malta assisted the Directorate in the pricing process of new issuances of Malta Government Stock.

#### **Draft Legislation**

Draft legislation was drawn up to regulate the raising of loans by the Government of Malta, to make provisions, in place of the Local Loans (Registered Stock & Securities) Ordinance, for the creation and issue of stock, to provide for the manner in which Loan Guarantees shall be issued, and to provide for the establishment of a Debt Management Directorate and for other matters related thereto.

In November 2011, the draft legislation was forwarded to the other members of the legal team for their consideration and to solicit any proposals or amendments which they wish to submit for further evaluation by the Ministry of Finance.

#### **Staff Training and Development**

The Directorate continued to invest in the training of its human resources, both through in-house programmes and through external courses organised by local and foreign institutions. During 2011, a number of initiatives were undertaken and various opportunities were offered to its staff to attend training courses, seminars and annual conferences organised by institutions both locally and abroad. These included: Technical Assistance on Funding Policy & Risk Management, hosted by Dutch State Treasury Agency; and Professional Assertiveness Workshop, hosted by CDRT.

#### **Support Services**

The Directorate continued to offer guidance and provide the necessary service to the heirs of deceased stockholders so that inherited stocks can be transferred in their name by a procedure initiated through the heirs' own legal adviser.

The Directorate received 303 new claims from the heirs' legal advisers requesting the transmission of MGS from deceased stockholders to their clients. Settled claims reached 297, out of which 195 were lodged during 2011 and 102 related to claims which were pending from previous years.

## Online Services

In February 2011, the Debt Management section within the Treasury website was revamped to include new information in an effort to better meet the needs of the clients in a faster and more efficient manner. Among other things these include:

- the publication of Treasury bills weekly auction results;
- weekly bid analysis of Treasury bills;
- tender forms for Treasury bills;
- Malta Government Stocks auction results;
- monthly issuance calendar for Treasury bills;
- the yearly indicative issuance calendar of Government Securities;
- various reports, both of a technical and an informative nature;
- new guidelines intended for the heirs of deceased stockholders in respect of *causa mortis* claims was launched.

## GOVERNMENT ACCOUNTS DIRECTORATE

The main functions of the Government Accounts Directorate of the Treasury are to maintain an effective accounting methodology and accounting systems across Government; exercise a monitoring role on the disbursements of public funds and report fairly and truthfully the financial position of Government.

### CONSOLIDATED ACCOUNTS UNIT

During the year 2011, the Consolidated Accounts Unit processed the under-mentioned local payments which included the cheques issued by the Government as Energy Support Measures and refunds which reflected differences between the old and the new registration tax regime.

Batches	Cheques	Value (€)
14,489	144,278	289,146,291
<i>consisting of:</i>		
DAS	141,733	287,953,808
ARMS	1,865	149,203
LICENSING & TESTING	680	1,043,280

### REPORTS

Apart from the day-to-day duties, this Unit performed other duties namely: the issue of ad hoc reports for the Ministry of Finance, the Economy and Investment, the National Office of Statistics and the Central Bank of Malta. Besides, other reports as required by the law were presented by this Section in due time. These reports included the Annual Report regarding Section 65 of the Financial Administration and Audit Act, the Annual Financial Report, the Comparative Report regarding Expenditure and Income, and the publication in connection with the position of the Consolidated Fund which is issued every three months.

### CASH OFFICE

As in previous years, the bank reconciliation of the Public Account was undertaken by the Cash Office. Automated and manual reconciliation for 2011 is 69% complete. Liaison and coordination with MITA and departments was maintained to ensure that the process progressed smoothly. Final touches on developments in the new Bank Reconciliation Statement are being carried out, and are expected to be implemented soon.

During the first months of this year, this section continued with the gathering of balances of bank accounts held by ministries/departments at the Central Bank of Malta and local commercial banks.

Every effort is being made to increase SEPA payments. Treasury Pensions payments were paid by SEPA for the first time in January 2011, together with payments in respect of travelling subsistence allowance and other various payments.

A total of 1,116 stop payments and 562 Garnishee Orders were handled during 2011.

### **BANK TRANSACTIONS UNIT**

The Bank Transactions Unit is responsible for effecting overseas and local payments. The following table illustrates the number of transactions by category effected by the Unit during 2011.

<b>Transaction Type</b>	<b>Number</b>	<b>Value €</b>
Credit Advice	3	-523,298
Debit Advice (Local)*	3,115	1,458,847,440
Debit advice (Foreign)	138	11,577,273
Funds transfers	4,627	123,857,164
Draft	520	1,662,579
Letter of Credit	3	226,036
Travel	5,253	3,116,596

*(\*) Debit Advices issued by salaries and public debt are not included.*

### **VERIFICATIONS UNIT**

The main objective of this Unit is to carry out the verification of payments being processed and other payments already processed and paid by government departments, as defined in Legal Notice 185 of 2007, amending the General Financial Regulations. Verification officers are responsible to:

- verify that the incidence of charge is correct;
- verify that the payment will not cause an excess on the provision authorised for the service;
- verify that adequate information has been given on the voucher on the nature of the services rendered or the supplies delivered;
- verify that the certificate has been signed by the proper officer.

The aim of this process is to ensure proper spending of public funds and that all payments are effected according to standing financial regulations.

### **Batches of Payment Vouchers for Verification**

During the year under review, authorised officers within this section carried out verifications on batches containing payment vouchers which were processed for payment during 2010 and 2011 as follows:

Total verified Batches for 2010: 73  
Total verified Batches for 2011: 191

A report in respect of the verifications carried out is prepared on a quarterly basis.

### **Identified Weaknesses**

A number of weaknesses were identified during verification including: lack of VAT receipts from suppliers; copies of fuel requisition and issue notes provided instead of the originals; incorrect invoice number on payment voucher; payment vouchers/abstract without authorised signature; incorrect incidence of charge; itemised telephone bills not provided; payments under a factoring agreement not always indicated; and backdated invoices, amongst others.

Furthermore, verification officers requested clarifications through the submission of copies of tender documents, contracts, and other approvals from Financial Management and Monitoring Unit and the

Ministry of Finance, the Economy and Investment, as the case may be, in order to confirm adherence to the Financial Regulations.

Whenever a high risk area was encountered, the National Audit Office and the Budget office were informed so that action could be taken.

## **Travel**

Verifications of post travel documentation on visits abroad are undertaken by the Verifications Unit.

During 2010, checking of pre-travel and post travel documentation was carried out and departments instructed, wherever omissions were noted, to abide by established procedures. A system of close coordination between Treasury and the Ministry of Finance, the Economy and Investment was strengthened ensuring that departments strictly followed regulations.

During the year, Treasury continued with the maintenance of the 2005-2010 travel databases and enhanced the 2011 database. Verification of documents was performed on overseas travel effected in 2010 and 2011. Figures show that 4,021 visits abroad were recorded for 2011, divided as follows: training courses 45; official business 3,976.

## **ACCOUNTING METHODOLOGY AND CONTROL**

### **Accounting Methodology and Compliance Unit**

The Accounting Methodology and Compliance Unit is primarily responsible for collecting and checking accrual accounting returns submitted by government departments on a quarterly basis. It continuously monitors the data submitted by the departments so that if any irregularities are noted in the reporting the officers concerned are contacted to clarify the issues in question. Moreover, this Unit provides continuous support both via e-mail and through phone calls when the departments contact this Unit for support while compiling the accrual accounting data.

Furthermore, this Unit issues circulars to departments as guidance on how to compile the templates. In cases where departments encounter difficulties when it comes to applying the procedures outlined in these circulars, the officers concerned are called to the Unit in order to clarify their issues and to give them further guidance.

Thus, the primary objective is to obtain an accurate picture of the financial position and performance as the data collated will be used to prepare the financial statements under the accrual accounting methodology, which at this stage are being produced for internal consumption only.

In 2008 an Accrual Accounting Working Group (AAWG) was formed through the mandate of the Permanent Secretary MFEI. This working group was chaired by Director, Government Accounts, Treasury and other members included representatives from MITA and the Internal Audit and Investigations Department as observers. The ultimate objective of the AAWG was to discuss and scrutinise the accrual based financial statements of ministries/departments and to ensure that they were submitting relevant and reliable accrual accounting information. The WG concluded its remit since by end 2011 it had met with each department and ministry.

Another function of this Unit is the collation of the yearly End of Year Stores Written Off and Cash Losses Return and End of Year Statements of Account Arrears of Revenue Return from ministries and departments. First-level checking on these returns is performed prior to onward transmission to the Auditor General.

This Unit also has a role in the 'Excessive Deficit Procedure' Notification. It ensures that ministries and departments submit the end-of year accruals forecasts on a quarterly basis. First-level verifications on the forecasts submitted are performed after which the data is forwarded to NSO and Ministry of Finance, the Economy and Investment – EDP Working Group.

This Unit is also responsible for the accounting and monitoring of Direct and Indirect Investments, Loan Receivables and Trust Funds. Following receipt of relevant information from the responsible authorities, Treasury records the relevant transactions in the Government Accounting System (DAS) using the historical cost basis for unquoted investments or fair value for quoted investments. The ultimate aim is to report the financial assets position in the Financial Report (Cash Based) and in the Financial Statements (Accrual-Based).

### **EU Funds Management**

The role of the EU Funds Management Unit is to ensure the efficient management and control of the EU Funds allocations. In 2011, the EU Funds falling under the direct responsibility of the unit comprised of the: Cohesion Funds 2004-2006; ERDF, ESF and Cohesion Fund falling under Cohesion Policy 2007-2013; SOLID Funds; European Fisheries Fund (EFF); EEA and Norwegian Financial Mechanism; Swiss Maltese Cooperation Programme 2007-2017.

During the year under review, the EUF MU cooperated with all the stakeholders involved with the above mentioned funds. This cooperation included the participation in numerous meetings held both in a holistic and in bilateral circumstances.

During 2011, the final payments with regard to the Cohesion Funds 2004-2006 Programme were processed. Following reconciliation, said bank account will be closed in 2012 and all the residual balance will be passed to revenue.

NOEL CAMILLERI  
*Director General (Treasury)*

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# Economic Policy Department

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## BACKGROUND

The Economic Policy Department (EPD) provides Government with expert advice and assistance in the formulation of economic policy and the management of economic activity, with the aim of attaining the Government's overall objectives of economic growth and development, high employment and low inflation. Attention is devoted towards the achievement of a stable macroeconomic framework, also by attaining an appropriate fiscal policy. Furthermore, the EPD assists in the formulation of policy in areas which are crucial to Malta's economic development including sustainable growth, productivity and competitiveness, financial stability, labour market, investment, tourism, education, creativity, innovation and the environment. Within this context, the EPD provides the Government with the relevant technical input, so that the implementation of policy measures is done within the framework of Malta's economic developmental goals.

The Department also provides technical advice and assistance to the Government on international economic/trade issues. Through its participation in Commission Working Parties and Trade Policy Committee formations, the Department monitors and advises on the economic/financial impact of issues and strategies concerning the EU's Common Commercial Policy. Furthermore, the Department assists Government by providing economic analysis of policy issues emanating from Malta's participation in a host of international, regional, bilateral and multilateral institutions. The EPD also provides support to other government entities whose area of activity may be affected by EU initiatives with third countries in the area of international trade and investment.

## ECONOMIC STRATEGY DIRECTORATE

The EPD is responsible for the evaluation of economic policies proposed by Government. The Department is also responsible to give policy advice and come up with recommendations based primarily on technical economic analyses, research, modelling and forecasting. Its main areas of responsibility range from structural policies, fiscal policy, economic and fiscal governance frameworks, forecasting, financial stability and EU economic and budgetary affairs.

## Budgetary Process

The Department participates in the budgetary process by providing information on the domestic and international economic situation, the macroeconomic outlook and the EU's fiscal surveillance process. This information acts as an important input in the budgetary process ensuring that the fiscal policy stance is appropriate to the macroeconomic conditions and targets and also in compliance with EU fiscal requirements.

During 2011, the EPD participated in the preparation of the Pre-Budget Document 2012, providing technical input ranging from the analysis of fiscal conditions and macroeconomic imbalances in preparation to the new Excessive Imbalance Procedure to analyses and recommendations on human resource development and economic growth strategy.

Throughout the year, the Department also provided an important input to the analysis of the fiscal situation and projections within the context of the EU's fiscal surveillance mechanism and the obligations of the Stability and Growth Pact.

### **EU Economic and Fiscal Policy Coordination**

The EPD continued to participate actively in the EU's economic policy coordination processes. In particular, the Department participated in the Economic and Financial Committee (Alternates) and the Economic Policy Committee, including the Eurogroup composition of the respective committees. In addition, the Department also provided support for the preparations of the Economic and Financial Committee meetings.

In view of the new European Semester and the EU2020 strategy, the Economic Strategy Directorate was actively involved in joint EFCA/EPC/EMCO discussions and deliberations on the Council Specific Recommendations to Malta, particularly in the area of wage bargaining and wage indexation, on pension reform, on budgetary objectives and the compliance with SGP requirements and the strengthening of budgetary frameworks.

The EPD also participated in a number of working groups attached to the EPC. In particular, the Department is actively involved in the Working Group on Ageing Populations (AWG) which examines the economic and budgetary consequences of ageing. Moreover, it also participates in other working groups of the EPC, namely the Output Gaps Working Group, the Joint EFC-EPC Working Group on the Economic and Financial Aspects of Climate Change and the Lisbon Methodology Working Group (LIME).

During the year, the Department was very active in LIME due to the technical work, which was required in preparation for the completion of the scoreboard of macroeconomic imbalance indicators which will eventually be used as part of the new Excessive Imbalance Procedure. The Department was also assisted by the Central Bank of Malta and the National Statistics Office in order to prepare technical feedback in preparation for the LIME meetings.

The Department also monitors closely developments in the Labour Market Working Group and the Quality of Public Finances Working Group. In addition it gave technical advice on labour market issues, particularly on wage indexation and wage bargaining, to the Maltese representation on the Employment Committee (EMCO).

The EPD is also engaged in the preparation of briefings for the ECOFIN and Eurogroup meetings as well as for meetings of other Council formations and for the European Council meetings. In this context, it is noteworthy that during 2011, the Department provided feedback towards and within various Committee formations contributing towards improving economic governance and tackling the economic and financial crisis, at an EU level, and more importantly, at a euro area level. The Department contributed towards these goals within the tight framework inherent in the European Semester which is a six-month period every year during which the Member States' budgetary and structural policies are reviewed to detect in advance any emerging imbalances which could jeopardise the functioning of the EU and the Euro area in particular. Moreover, the EPD provided feedback during the consultation process regarding the Commission's legislative proposals to strengthen economic governance. This legislative package came into force during the year so as to ensure the effective implementation of the new economic and fiscal surveillance arrangements. Finally, the Department also provided feedback on a number of Reports drawn up by various EU Committees having Maltese representation as well as the EU Parliament, as requested. This Department provides such feedback from an economic perspective in line with Malta's position taken in the various EU Committee meetings and Council formations mentioned earlier.

During 2011, the Economic Policy Department continued to provide information on the domestic economic situation and on the economic policies and measures that are being pursued by Government to

the EU and other relevant parties. In particular, the Department coordinates closely with Commission officials from DG ECFIN and provides the requested information in connection with the EU's fiscal and economic surveillance process. Bilateral meetings were held both in Malta as well as in Brussels with Commission officials from DG ECFIN on the fiscal situation, on economic forecasts and on structural economic issues such as the EU2020 strategy, pension reform and wage indexation and wage bargaining processes.

In 2011, the Department was also actively engaged in the technical economic analysis related to the EU2020 strategy and the National Reform Programme (NRP) co-ordinated by the Planning Priorities Directorate (PPD) with the line ministries. The EPD assisted the PPD to ensure proper coordination between the thematic aspects of the draft NRP and the macroeconomic aspects. This Department also assisted various line ministries, departments and entities in order to formulate structural economic policy recommendations to be included in the NRP and provided technical assistance in order to ensure that the fiscal and economic impact of policy recommendations included in the NRP were quantified. It was also involved in the formulation of the NRP submitted to the European Commission in April 2011.

Due to the unfolding of the most extensive financial and economic crisis since the Great Depression,, financial stability issues have increasingly featured in the EU economic policy coordination framework. This necessitated the strengthening of the required institutional capacity and knowledge of the Department in this area. This helped the EPD to participate effectively in discussions conducted within the EU economic policy coordination processes relating to financial stability. EPD also provided support for the preparations of the Financial Stability Table composition of the Economic and Financial Committee meetings, while also following participating within the EU Financial Services Committee. The Financial Services Committee was set up by the Ecofin Council with a mandate to provide for cross-sectoral strategic reflection, to help to define the medium and long-term strategy for financial services issues, to consider sensitive short-term issues, to assess progress and implementation, and to provide political advice and oversight on both internal issues (e.g. single market) and external issues (e.g. WTO). This Committee is paramount due to the shortcomings found in the regulation and supervision of the banking and financial industry, which was one of the factors that contributed to the crisis.

A Task Force on Coordinated Action was set up in order to draft a euro area crisis management system which would provide the ultimate backstop mechanism for distressed euro area countries that would file a request for financial assistance. This crisis management system would have the objective of fostering financial stability throughout the single currency area by enhancing investor, depositor and consumer confidence.

### **Representation on the Malta Council for Economic and Social Development**

The Economic Policy Department is represented in the Malta Council for Economic and Social Development and during 2011 it continued to participate actively in its proceedings, providing technical analysis and helping Government to adopt positions on issues which are discussed in the Council. Furthermore, as in previous years, the EPD computed and presented the relevant cost-of-living adjustment for 2011 as stipulated in the Incomes Policy Agreement of 1990. In April, the Department presented the members of the MCESD with an update of the Inflation Report. The Department was also tasked with the preparation and the presentation of a study on the impact of inflation on vulnerable households in Malta.

During 2011, the Department also gave presentations to the Malta-EU Steering Action Committee relating to the multi-financial framework for the period 2014-2020, including a brief regarding the Commission proposal with respect to related issues, as well as the latest Malta position regarding each issue.

## National Econometric Modelling

The Department has two econometric models of the domestic economy. One model is used to produce short term forecasts for the main macroeconomic indicators. The purpose of the second model is to undertake economic policy simulation exercises and to provide a framework for medium-term forecasts. During 2011, the Department pursued work related to strengthening its econometric modelling capability. The short-term model (STEMM) was used to produce economic forecasts for Spring and Autumn, which were presented during the Economic Forecasts Meetings held between the Commission and the EU Member States. Discussions on these forecasts were held with Malta's desk officer in DG ECFIN. Such forecasts were also used for the preparation of the Budget.

The second disaggregated model (SAMM) is being further fine-tuned in order to reflect better the realities of the Maltese economy and to modify the way in which a number of important relationships within the model are calibrated.

## International Institutions

The Economic Policy Department provides information on the performance of the Maltese economy, as well as on Government's economic strategy to representatives of international organisations. As in previous years, the Department contributed in meetings with representatives from credit rating agencies such as Standard and Poor's, Moody's and Fitch. As the credit ratings assigned to Malta bear a direct influence on the interest rate charged on loans raised by Government, the Department assigns significant importance to its interaction with these agencies. During these meetings, the performance of the domestic economy and the policies and measures pursued by Government to address the economic challenges faced by the Maltese economy were discussed.

## Financial Stability

The Economic Policy Department continued its work in monitoring and assessing developments in economic and financial conditions. In particular, this included research and regular monitoring with respect to international sovereign debt markets, the EU's and the local legislative frameworks related to financial stability and the financial sector in general, studies and reports conducted by other institutions on financial stability issues, as well as developments in the local financial sector.

## Pension Modelling

During 2011, the Economic Policy Department continued to provide technical input to the Pensions Working Group with regards to modelling work on pensions in Malta. Moreover, in 2011, the Economic Policy Department worked actively on the update of the EPC Ageing Working Group long-term budgetary projections exercise. Following the approval of the new demographic projections by Eurostat, a process where the National Statistics Office was actively consulted, the Economic Policy Division embarked upon the process of updating the pension model used in projecting pension expenditure over the long-term. The Department was responsible for running projections for pensions. In addition, the Department, with the help of the Health Authorities, compiled the questionnaire on health and long-term care as requested by Commission Services. This questionnaire, in turn would serve as basis for health and long-term care projections. The process of updating the pension model involved the collation of data on beneficiaries and contributors as well as liaising with the World Bank and the Social Security Department, in order to ensure that the modelling reflected in as far as possible the pension regime in Malta. The Maltese pension system was modelled using the World Bank's model (PROST) and from their part the World Bank assisted in the modelling of the baseline scenario through a mission to Malta in October 2011.

The EPD also provided technical assistance in relation to the estimation of the updates of the Theoretical Pension Replacement Rates 2010-2050 for Malta in an exercise coordinated by the Indicators Sub-Group of the Social Protection Committee.

## **Euromod**

In 2011, the Economic Policy Department entered into a contract with Essex University in order to assist in the modelling of Malta's tax and benefit system. The key objective of this work was of updating EUROMOD, the tax-benefit microsimulation model, to cover recent policy systems and to upgrade EUROMOD to operate using EU-SILC data as the basis of the input database. Once the model is completed Malta will have at its disposal a very powerful tool for socio-economic policy analysis.

In order to reach this objective, during 2011, the Department fully co-operated with Essex University, the Social Security Department, the National Statistics Office and the Inland Revenue Department. A technical meeting between staff from the Department and the University of Essex was held during the second half of the year, followed by a meeting in Riga in October during which the modellers provided a review on the progress so far and a discussion on the future of EUROMOD as well as the potential for other joint initiatives. The actual building of the model for Malta started in July 2011.

## **EU Budget**

EPD is represented in the Malta Group on Financial Perspectives and provides regular feedback, including briefing notes and technical papers in relation to the EU Budget issues, specifically on its financial aspects. The Department's representatives participated in the meetings of the Core Group on the Review and Modernisation of the EU Budget which was set up with the aim to draw up and continuously update the Malta Position on the new EU Budget framework which will replace the present framework. The representatives drew up and presented policy papers to this Core Group in relation to the EU Budget Reform. Moreover, the Department developed a model forecasting EU Budget receipts and payments for the next financial framework. This will aid Malta in the negotiating process of the EU budget which will start in 2012. EPD representatives also participate in the Friends of Presidency Group meetings and Own Resource Working Party Group meetings at EU level in relation to the EU budget.

## **Research and Publications**

Staff at the Department carries out research work on various economic, fiscal, and financial topics. In April 2011, the Department published an Update of Stability Programme 2011-2014.

In April 2011 the Department published the Inflation Report. This report detailed price developments in Malta, outlining trends in inflation, an analysis of inflation from the macroeconomic perspective as well as providing an outlook for inflation in Malta.

In addition, the Department published the Economic Survey in November 2011. This document, which was presented to the House of Representatives at the beginning of discussions on Government's budgetary estimates, provides a comprehensive analysis of Malta's recent economic performance and emerging economic trends, as well as an overview of international economic developments.

During the second half of 2011, the Department, together with the Central Bank of Malta, was also entrusted to prepare a detailed analysis of the wage bargaining and wage adjustment processes in Malta, with particular reference to the Cost of Living Adjustment (COLA). This review is also partly compliant with the Council Specific Recommendation to Malta on the same subject.

The Department also participated in discussion with the Central Bank of Malta and the National Statistics Office on the coordination of economic policy with the aim of securing an appropriate environment for economic growth. The Department regularly collaborates with the Central Bank of Malta in areas of mutual interest, as well as to discuss local economic developments and prospects. Furthermore, the Department continued to engage with similar organisations abroad.

## Further Developments

Following an internal review of activities within the Economic Policy Department, a new Directorate responsible for Structural Economic Research was set up during November 2011. The functions of the Directorate will mainly involve the development and updating of the economic models within the Economic Policy Department in line with the needs of the Ministry of Finance, the Economy and Investment and the support provided to other Ministries within Government. In addition, the Directorate will spearhead the promotion of the research function across the organisation.

## INTERNATIONAL ECONOMIC RELATIONS DIRECTORATE

### Common Commercial Policy

The Department participated, monitored and continuously analysed the developments on the EU's *Common Commercial Policy* taking place within the framework of the Trade Policy Committee to ensure that Malta's interests are fully represented in the field of international trade and investment policy.

### Trade Policy Committee

The Trade Policy Committee is a trade co-ordination and advisory committee to the European Union concerning all aspects of trade policy.

During 2011, the Department participated actively in various formations of this Committee including the Full Members, the Services and Investment Committee, the Committee on anti-dumping/anti-subsidy, the General System of Preferences Committee and the Steel, Textiles and Other Industrial Sectors Committee. The Department also followed other specific committees including the Trade Policy Committee Deputies and ad hoc Trade Policy Committee experts meetings. The Department consulted with Ministries and other government entities as well as the wider civil society to formulate Malta's positions on topics concerning international commercial policy.

### Trade Policy Committee Titulaire

The Committee discussed the multilateral and bilateral aspects of international trade relations. The Department participated actively in this Committee that continued to discuss developments and coordinate positions with respect to the WTO Doha Development Agenda, the Southern Mediterranean Mandates for Deep and Comprehensive Free Trade Agreements, EU-India Free Trade Agreement, the EU-Canada Free Trade Agreement, the EU-US Transatlantic Council, Russia's WTO accession, and EU-Japan relations.

### Market Access Advisory Committee

The Department participated and gave its feedback on issues of market access within the European Union's Market Access Strategy. The Market Access Advisory Committee meetings are held on a regular basis to ensure that EU companies, in particular small and medium sized enterprises, do not suffer from trade barriers that are imposed when exporting goods and services to third countries and that trade remains open and fair with economic partners.

### Trade Policy Committee Services and Investment

The Department actively participated in the Committee and continued to analyse various aspects related to the liberalisation of international trade in services and also issues related to foreign investment. This includes the Regulation that is still being discussed at a technical level on establishing transitional arrangements for bilateral investment agreements between Member States and third countries. Concurrently, the Commission also released the 'Communication towards a comprehensive European international investment policy'.

Various measures were also implemented relating to the access for European companies in third country markets, including greater openness of international markets. In particular, the Committee discussed the negotiating offers in services with Canada, India, Ukraine and Morocco, amongst others.

### **Generalised System of Preferences (GSP) Working Party**

Discussions continued on a newly proposed Regulation by the EU Commission intended to regulate tariff preferences to developing countries. The ultimate goal of this Regulation is to help developing countries increase their export revenue by granting tariff preferences for goods exported from these countries to the EU. Malta is participating actively in the discussions on the draft Regulation with the aim being the facilitation of the development of countries most in need.

### **Trade Policy Committee Steel, Textiles and Other Industrial Sectors (STIS)**

The Department followed discussions and prepared Malta's positions on a number of industrial sectors in the form of sectoral *fiches*, including the electronics and pharmaceuticals sectors. The Committee discussed policy action in these sectors with the aim of securing EU access to raw materials and the competitiveness of EU industries. In this process, the Department sought feedback of other government entities and pertinent stakeholders as necessary.

### **Anti-dumping/Anti-subsidy Committee**

As of December 2011, the European Union had 116 anti-dumping and ten anti-subsidy measures in force. The Department continued to closely follow developments on issues related to Trade Defence Instruments. The Department also formulated Malta's positions on these measures and participated actively in the meetings. Advice was provided on a number of trade defence issues, this being based primarily on an economic analysis whilst taking into consideration the European Commission's investigation findings and the objectives, interests and priorities of the various government entities and stakeholders.

### **Multilateral Trade Relations**

Multilateral negotiations on the Doha Development Agenda continued in the World Trade Organisation (WTO). Major negotiations during 2011 were mainly in Non Agricultural Market Access (NAMA) which aims at reducing tariffs on non-agricultural products, including fishery products. Despite extensive efforts by the EU to try to achieve a compromise solution acceptable to all WTO countries, no agreement has been reached. This resulted in the technical negotiations being stalled.

The Department participated in the 8<sup>th</sup> Ministerial Conference of the WTO, which was convened in Geneva between 15 and 17 December 2011. During the Ministerial Conference, four new countries acceded to the WTO, namely, Russia, Samoa, Vanuatu and Montenegro. Malta supported all accessions.

In addition, Ministers at the WTO Ministerial Conference extended an e-commerce moratorium which aims at committing WTO members not to make any form of trade restrictions (duties or otherwise) on trans-national electronic transactions. A services waiver allowing WTO members to grant preferential treatment to services and service suppliers of Least Developed Countries (LDCs) without according the same treatment to similar services and service suppliers of all other WTO members was also agreed. Against a backdrop of growing protectionist pressures, especially following the recent global economic downturn, and also in view of the EU's fundamental systemic interests towards a functioning rules-based multilateral system, this Department has worked together with the EU Commission to engage in efforts to reinforce the WTO's monitoring and peer review related work under the Trade Policy Review Body (TPRB). In particular, the aim has been to review the regular Trade Policy Review Mechanism (TPRM) with the aim of making it more effective.

## Bilateral Trade Relations

In the area of bilateral and regional trade relations, the Department consulted and co-ordinated with the competent authorities to be in a position to formulate a policy on a number of bilateral commercial agreements that the Commission is negotiating with third countries. These include:

### *EU-Southern Mediterranean: Deep and Comprehensive Free Trade Areas (DCFTAs)*

Negotiations mandates were approved by the Council of EU Foreign Ministers on 14 December 2011 authorising the European Commission to open bilateral negotiations with Egypt, Jordan, Morocco and Tunisia regarding DCFTAs. These future trade agreements that the EU will be negotiating with these four Southern-Mediterranean partners are expected to help consolidate the progress achieved in the Arab Spring and strengthen the democratisation process on the southern and eastern rims of the Mediterranean basin.

The DCFTAs will build on the present Association Agreements and their main aim would be to bring these four Mediterranean partners progressively closer to the EU single market. Malta supported the mandates for the negotiations with these countries which should serve for more and new opportunities in the areas of trade and investment with these countries.

### *EU-Eastern Partner countries: DCFTAs with Georgia and Moldova*

Malta supported the launch of EU-DCFTA negotiations with Georgia and Moldova, which are intended to boost economic growth and investment with the Eastern European partners. The negotiations will tackle a broad range of trade and economic issues so as to achieve a closer economic integration with the EU. These free trade areas will be part of the Association Agreement under negotiation with Georgia and Moldova since July 2010 and January 2010, respectively, within the framework of the Eastern Partnership and the European Neighbourhood Policy. Both countries already benefit from preferential access to the EU market.

### *EU-Korea Free Trade Agreement*

The Department continued to follow developments on the Free Trade Agreement with South Korea that was signed in 2009 and entered into force in early July 2011. This Agreement offers market access and commercial opportunities, including new investment in the Korean market, both in processed and manufactured goods, services, and other areas of economic interest.

### *EU-Canada Comprehensive Economic and Trade Agreement (CETA)*

The Department was actively involved in the technical and economic aspects of the EU-Canada Comprehensive Economic and Trade Agreement (CETA) that was launched in Prague on 6 May 2009. The Department performed specific macroeconomic assessments on potential implications through increased liberalisation with Canada in key strategic sectors for Malta. Negotiations during 2011 progressed swiftly with provisional agreements being reached in a number of areas. Key areas, such as trade in services and investment, were also discussed, and this Department was responsible for analysing key offensive and defensive sectors with respect to Canada.

### *EU-India Free Trade Agreement (FTA)*

Since the launch of negotiations in June 2007, eleven rounds of negotiations were held between the EU and India. During 2011, negotiations intensified at a technical level. This Department was engaged in the technical consultations with the EU Commission, with respect to liberalisation in a number of areas including trade in goods, trade defence instruments, trade in services and establishment, transparency and dispute settlement, mediation mechanism and investment protection. Good progress was made in most areas of the FTA however there still remain a number of areas where further work needs to be done. From

an economic point of view, the Department aims at obtaining the greatest possible market access to the Indian market in sectors where Malta has an economic interest.

### *EU-China*

The Department followed and analysed the ongoing developments taking place in the EU-China High Level Economic and Trade dialogue negotiations regarding proposals to enhance trade and investment with a view to achieve greater market openness and fair competition.

### *EU-United States*

The EU pursued further negotiations for a stronger EU-US Transatlantic Economic Co-operation and closer integration of both economies within a globalised environment. The Department monitored the ongoing progress in EU-US relations in co-ordination with the Ministry of Foreign Affairs and other pertinent authorities.

### *EU-Japan*

The Department monitored further developments arising from the bilateral dialogue with respect to the EU-Japan Regulatory Reform proposals in the High Level Group on trade and economic aspects and new avenues in the EU-Japan relations, including the possibility of negotiating a Free Trade Agreement.

### *EU-Africa, Caribbean, Pacific (ACP): Economic Partnership Agreements (EPAs)*

The Department followed the developments in the negotiations of the Economic Partnership Agreements with Africa, Caribbean and Pacific countries. In early 2011, the European Parliament ratified the EPAs with Papua New Guinea and Fiji. EU ratification was completed by Council in February 2011. Following the ratification by Papua New Guinea in May 2011, this EPA entered into force. Within the Eastern Southern Africa configuration, Madagascar and Mauritius have notified the provisional application in July 2011. Negotiations with other ACP members are still ongoing.

### **Other ongoing trade negotiations**

The Department continued to support the Commission in its negotiations with respect to trade negotiations with third countries, including with Colombia and Peru, Ukraine, Singapore and the MERCOSUR region. The negotiations include the liberalisation in services and establishment, goods, non-tariff barriers to trade, government procurement, geographical indications and intellectual property rights, amongst other economic sectors.

### **International Investment Policy**

During 2011, Malta and Albania signed the bilateral Investment Promotion and Protection Agreement.

Within the framework of the EU's competence in international investment policy, no negotiations have been held bilaterally with third countries.

The Department monitored developments and participated in discussions on the draft Regulation establishing transitional arrangements for bilateral investment agreements between Member States and third countries, as well as the Investor - State dispute Settlement - Financial Liability of the European Union.

## Consultations

Besides consulting the various pertinent public and private authorities with respect to specific trade policy issues, the Department organised information meetings on a monthly basis with a number of stakeholders in order to disseminate information and consult stakeholders on international trade issues.

The Department also coordinated and contributed to several European Commission consultations, including a consultation on trade and development; the public consultation on investment relations with China and the consultation on products considered as dual use. The Department also contributed towards the European Commission's consultation on the sector relating to business of small and medium enterprises.

## Advisory Services

The Department continued to provide its services to a number of government entities particularly through the preparation of information briefings and technical advice on Malta's position with respect to issues pertaining to international trade and investment policy. Research and analysis on international trade and economic issues were also carried out to respond to *ad hoc* requests by various government entities.

JOSEPH RAPA

*Director General (Economic Policy)*

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# Commerce Department

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## INTRODUCTION

The role of the Commerce Department is to assist business and facilitate trade whilst providing the necessary infrastructure to encourage the securing, utilisation and respect of intellectual property rights.

Initiatives aimed at fulfilling this role are undertaken through the concerted efforts of its three directorates namely the Industrial Property Registrations Directorate, the Trade Services Directorate and the Small Businesses and Crafts Directorate assisted by its Support Services arm.

## OPERATIONS

The Commerce Department performs the following duties:

- registration of trademarks, certification marks, collective marks and designs;
- patenting of inventions;
- issuing of supplementary protection certificates in respect of medicinals and plant protection products;
- issuing of trade licences;
- recording of transfers, cancellations, amendments and renewals regarding trading licences as well as trademarks, patents and designs;
- authorisation of the export and transaction of dual use goods;
- issuing of import licences and export licences;
- administration of EU import quotas;
- administration of temporary state aid for sugar;
- licensing of auctioneers;
- dissemination of information relevant to the business sectors;
- administration of the flour transport subsidy;
- provision of first-hand assistance and advice to clients who require any service offered by the Department;
- acting as the National Coordinator (NIMIC) of the Internal Market Information System (IMI);
- running of Crafts Centre in St John Square, Valletta;
- developing and managing various initiatives aimed at sustaining the local crafts sector;
- providing support to the Malta Crafts Council, the Copyright Board and the Auctioneers Board;
- hosting the EU SOLVIT Centre for Malta;
- coordinating Malta's participation in the European Enterprise Awards;
- coordinating the drafting of legislation relating to trade and intellectual property;
- providing input on drafting of related EU directives and regulations as well as international treaties;
- participating in international and EU meetings as required.

## Salient Statistics for 2011

### Trade

The following applications were processed:

New applications for premises based activities	416
Reactivation of Licence	10
Transfer of Licence	356

Transfer by Inheritance	25
Market Hawkers	84
Street Hawkers	101
Buskers	20
Marketing Agents	5
Registration of Freelance Activity Non-premises Based	113
Extension of Time	13
Commercial Fairs	184
Car Boot Sales	14
Change or Additional Activity	68
Late Night Shopping	10
Import licences	1,382
Export licences	73
Exports of dual-use goods and military equipment	273

The Department through the Trade Services Directorate testified 769 times in court cases instituted by different authorities including Civil and Criminal courts, Family Courts, MEPA Appeals Tribunal and Local Councils Tribunals.

### Industrial Property

Applications were received as follows:

Registration of new trademarks	859
Registration of new designs	7
Patenting of new inventions	16
Validation of European Patents in Malta	357
Renewal of existing trademarks	2,171
Renewal of existing designs	49
Renewal of existing patents	778

Furthermore, there were 2,428 Industrial Property searches.

The Commerce Department through its Industrial Property Registrations Directorate was called to testify in court 51 times on intellectual property related issues.

The Department's portal for Intellectual Property services was fully launched in 2011 and has marked the major milestone of successfully processing online filings and their corresponding payments for all the Department's IP services through this internet platform.

The Department has also extended its online presence by providing the IP portal's major News and Information services via a national IP Office Malta Facebook site that also began functioning in 2011.

### Crafts

Members registered with the Malta Crafts Council as on 31 December 2011, stood at 936 craftsmen and 440 entrepreneurs.

The number of visitors (including locals and tourists) to the local exhibition of crafts at Crafts Centre Valletta was 19,442.

During 2011, the Malta Crafts Council participated in several crafts fairs/exhibitions held locally such as Great Spring Show, *Festival Nazzjonali tal-Ghana*, Artisan Fair in Valletta (as part of World Tourism Day), and others organised by various local councils, such as *Festa tar-Rebbiegħa*, *Hidma Agrarja u Tradizzjonijiet*, *Irkotta Fest*, *Lejl f' Casal Fornaro*.

The Department participated in the General Assembly of the World Crafts Council (Europe), which was held in Dublin on 8-9 June. During this event, the Department's representatives initiated discussions with senior officials of the Crafts Council of Ireland with the aim of establishing close ties of cooperation between the two organisations. As a result, Mr John Tynan, Head of Education Training and Development of the Irish Crafts Council was invited to address the Malta Crafts Conference which the Department held on 7 October.

A number of initiatives were organised or continued by the Commerce Department in line with the Government's allocation of the fund of €200,000 in the 2011 Budget i.e. Business Support Fund for Crafts and Artisan Work, namely:

- *National Action Plan on Better Development of the Maltese Crafts Sector and the First Maltese Socio-Economic Survey on Crafts and Craftsmanship*: The Commerce Department commissioned the National Statistics Office to send a questionnaire regarding crafts to 5,000 persons. The collated data was forwarded to an expert to draw up a report in the form of an Action Plan to be eventually presented to Government for more evidence-based policy making in the realm of crafts.
- *Helping Crafts persons registered with the Malta Crafts Council to create attractive websites*: a portal was created and is currently undergoing testing. The launch is expected in Q2 of 2012.
- *Helping Crafts persons registered with the Malta Crafts Council present their products more attractively while using the latest ICT knowledge available*: A number of courses were organised for crafts persons about the subjects of marketing and information technology.
- *Ġieħ l-Artiġġjanat Award*: The second edition was launched. The categories are intended to give recognition a) Innovative Crafts Products and b) Crafts Initiatives (teaching & research, awareness raising and promotion & sales). Approximately 100 applications were submitted.

### Internal Market Information (IMI) System

The National IMI Coordinator carried out various activities in relation to the implementation of IMI:

- two new Competent Authorities were registered in the system; five new users were added to existing CAs, whilst four new users replaced users who left;
- 19 training sessions were held, through which users were given an overview of the IMI System or assisted in any difficulty they might have; eight of these were related to the new business register feature;
- in the Professional Qualifications Module, 10 requests were sent by Maltese Competent Authorities to their counterparts in other EU Member States;
- in the same module, seven requests were sent by EU CAs to Maltese CAs.

One request was sent in the Services Directive Module. One request was received in the Posting of Workers module which was launched in May.

### ASSISTING BUSINESS

#### Business Care Unit

The Commerce Department through the Business Care Unit of the Small Business and Crafts Directorate continued to give first hand assistance and advice to clients who required any service offered by the Department.

During 2011, circa 2,163 telephone enquiries and 3,405 personal visits were received at the Business Care Unit mainly in relation to services offered by the Commerce Department.

#### Malta SOLVIT Centre

The Commerce Department has been hosting the EU SOLVIT Centre for Malta since 2004. SOLVIT is a network of centres throughout the EU and EEA, committed to solve cross-border problems which hinder

the rights of citizens and businesses in the internal market. The network works through an online database maintained by the EU Commission.

Officers from the Malta SOLVIT Centre attend regular training and updating through workshops organised jointly by individual Member States and the SOLVIT team of the European Commission. The Malta SOLVIT Centre at the Commerce Department hosted one of these workshops in Malta on 12-13 May where about 50 foreign delegates attended and participated. The following is a summary of SOLVIT's case activity in relation to 2011:

<b>Total Enquiries</b>	<b>21</b>	
SOLVIT		12
Non-SOLVIT		9
<b>Cases entered in database as Home Centre</b>	<b>10</b>	
Non-SOLVIT/Not accepted		4
Accepted ( Solved 4 – Unresolved 0 – Open 2)		6
Awaiting acceptance/Draft		0
<b>Cases received in database as Lead Centre</b>	<b>14</b>	
Non-SOLVIT/Not accepted		5
Accepted (Solved 4 – Unresolved 2 – Open 3)		9

### Awareness Activities and meetings with the Business Community

The Commerce Department organised or participated in several seminars or meetings aimed at raising awareness amongst local stakeholders on trade issues, intellectual property, crafts, SOLVIT and the Internal Market Information System. In particular one may mention the following:

- The Department presented its IP services during a national seminar on Research and Innovation organised by the Malta Enterprise, together with additional participation by the Chamber of Commerce, Enterprise and Industry, the Malta Council for Science and Technology (MCST) and the University of Malta.
- A national seminar celebrating the European Day of Chemistry was also jointly organised by the European Patent Office, the Commerce Department, the University of Malta and the MCST.
- A national seminar on the Harnessing of Intellectual Property for Investment Promotion was organised by the Malta Business Bureau together with the Commerce Department and the European Patent Office, along with the participation of MCST and the Generic Pharmaceutical Industry as well as Business Europe.
- A number of IP awareness raising talks and workshops were undertaken for start-ups in cooperation with the ETC, during which an overview of community trademarks and designs was also provided. In addition promotional material was also created through funds made available to this office under the Technical Cooperation Agreement entered into with the Office for Harmonisation in the Internal Market (OHIM) – for Community Trademarks and Designs.
- The second edition of the Malta Innovation Awards was once more held in conjunction and the MFEI's Enterprise Policy Directorate, with input from other local stakeholders including the MCST, Malta Enterprise, MCAST, the Centre for Creativity. The winners were also bestowed with awards from the World Intellectual Property Organisation.
- The IP Check-Up Diagnostic service was continued with purposely trained officials from the CD visiting the premises of any interested SME and in full confidence advising them through a detailed and methodical report on the SME's IP potential not only for protection purposes but also, equally important, in order for the SME to strategically exploit its IP potential commercially.
- Senior officials from the Department attended a number of scheduled consultation meetings that were organised by the Secretariat for Small Business and Land in connection with the White Paper on Market Hawkers' Reform.

## LEGISLATION AND BETTER REGULATION

The Department is regulated in its activities by the following main legislations: the Auctioneers Act, the Commercial Code, the Trading Licences Act, the Supplies and Services Act, the Trade Marks Act, the Copyright Act, and the Patents and Designs Act. These are complemented with a significant amount of subsidiary legislations. The following legislation was enacted in 2011:

- Amendments to the Trading Licences Act CAP 441 aimed at curbing alcohol abuse which was completed by various amendments the Trading Licence Regulations SL 441.7, namely Legal Notice Nos 52, 87, 96, 134, 208, 228 and 249;
- SL 117.32 simplifying terms and conditions of transfers of defence-related products regulations

## INTERNATIONAL AND EU INITIATIVES

Officials from the Department participated in EU and international meetings pertaining to its remit or in order to assist other entities. Meetings concerned the following issues: Sanctions Monitoring, Dual Use Goods, Trademark Practice and Procedures, Protection of Designs, Trade Related Aspects of Intellectual Property Rights, Patents, Copyright, Patent Libraries, Technical Cooperation, the Internal Market Information System, European Enterprise Awards, and Regulation 2679/98 EC on Disruption to the Internal Market and Crafts.

In addition to the above, the Department participated in the General Assembly of the World Intellectual Property Organisation as well as other meetings organised under the auspices of WIPO, such as the Standing Committee on Copyright and Related Rights and the Standing Committee on Patents. The Department also participated in the meetings of the Administrative Council of the European Patent Office and of the Administrative Board and Budget Committee of the Office of the Harmonisation of the Internal Market, as well as the EPO's Budget and Finance Committee, the Committee on Patent Law and the EPO's Technical and Operational Support Committee and OHIM's Liaison Meeting on Trademarks, Designs and Technical Cooperation.

In addition, national judges were given the opportunity to participate in a series of seminars for judges dealing with trademark and design cases organised by the Office for Harmonisation in the Internal Market (OHIM) – Community Trademarks and Designs.

## BILATERAL COOPERATION INITIATIVES

### Cooperation with the Office for the Harmonisation of the Internal Market (Trademarks and Designs)

The Department actively participated in a number of projects in order to avail of the technological solutions being developed in the Trademarks and Designs fields for the enhancement of a number of services through the Office for Harmonisation in the Internal Market's Cooperation Fund. Amongst these projects, one can mention the Future Software Package, the Classification of Goods and Services and the TMView.

The Department also actively participated in the Working Group of the Class Headings Project under the Office for Harmonisation in the Internal Market's Convergence Programme, and discussions have been held on the possibility of further participation in other Convergence Projects.

### Cooperation with the European Patent Office

Malta was the first European country member of the European Patent Office to introduce the SOPRANO system for Patents which is gradually replacing the manual system for the application, processing and granting of patents. During 2011, with the assistance of the EPO, the Ministry's IMU together with MITA

a full upgrading of the EPTOS set, including SOPRANO and the implementation of other software tools in the area of patents was completed.

Discussions were held on the new Bilateral Cooperation Plan for 2012-2017, which will significantly contribute to the enhancement of the Department's patent services and related infrastructure, as well as training and awareness related activities.

### **Cooperation with EU DG Enterprise**

The Department was invited, accepted and signed on as a full partner in a new EU wide transnational project for IP Offices throughout the EU named Iporta, following on from the successful results achieved under the previous participation within the EU's IPeuroAware Project for SMEs, which drew to a close in 2011.

### **Cooperation with the World Intellectual Property Organisation (WIPO)**

A Memorandum of Understanding with the World Intellectual Property Organisation was signed and agreed activities under a Plan of Action for 2011 were implemented in addition to the discussions held and agreed for the 2012 Plan of Action, which will consist primarily of the significant upgrading in the Department's technological systems together with the enhancement of patent and related services as well as training and awareness related activities.

### **TRAINING AND FAMILY-FRIENDLY MEASURES**

Ongoing exposure was given to the members of the SOLVIT team through participation in workshops partly funded by the European Commission and two members of the IMI team through training events also organised and partly funded by the EC. Other officials participated in workshops and training sessions organised by the Office for the Harmonisation of the Internal Market, the World Intellectual Property Organisation and by the European Patent Office.

During the past year, officials from the Department attended several courses organised by CDRT, as well as courses organised by the Commerce Department. During this year, a seminar on the Psychosocial and Disability Issues at work was organised, as part of the Employee Support Programme project launched by the Public Administration Human Resources Office. This project intends to assist employees in a professional and confidential manner in various issues such as stress related to the work place, mental and emotional health problems – family problems, terminal illnesses, drug and alcohol abuse as well as disabilities.

Where possible, new requests for teleworking were processed and approved by respective directorates. Moreover, requests for reduced hours continued to be approved.

GODWIN WARR

*Director General (Commerce)*

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## Office of the Notary to Government

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The Office of the Notary to Government comprises two main sections: the Notarial Archives and the Notarial Section.

### ARCHIVES SECTION

In the Notarial Archives are deposited deeds *inter vivos* and *causa mortis* published by Notaries Public who have practised or are practising in Malta. The latter are wills drawn up in the public form; the former are all other deeds relating to property transfers (sales, *emphyteusis*, partitions and others), loans, powers of attorney and so on. Moreover, in the Archives one finds also all deeds received by the Notaries to Government. All these deeds are deposited for custody and safe-keeping. At the head office in number 2/3, Mikiel Anton Vassalli Street, Valletta, are housed the original deeds, whilst the Registers (copies) are housed at 24, St. Christopher Street, Valletta.

All deeds are also accessible to the public for inspection, provided that the person enquiring about a particular deed can indicate the Notary who published same and the date thereof. Legal or informal photocopies thereof are issued on request. Requests are also made by means of e-mail and this system has helped to improve the services. Fees are charged for such inspections and for any copies requested.

Assistance was given to a great number of clients who had problems arising from deeds published by a defaulting Notary. In March, the Notary in question deposited all deeds and wills published by him following an order of the Court of Revision. Although these deeds were not visited according to law, they were at least made accessible to the public who had no access to them prior to this as the Notary was away from the island.

The Department checked the deeds which were in loose leaf form, put them in chronological order, bound them and enumerated them. The Chief Notary to Government communicated with the Notary for him to put in order a number of deeds which were not according to law or which had no stamp duty paid. The Notary complied up to a certain date; however there are still many problems pending and these are expected to be settled in Court.

### NOTARIAL SECTION

The Notarial Section publishes deeds to which the Government, any corporate body established by law or any partnership or other body in which the Government of Malta or any such body has a controlling interest or over which they have effective control, is a party.

The Notarial Section liaises directly with various government departments to give effect to certain government policies and activities. The Department also receives requests for the publication of deeds relating to courses of study which the Health Division advertises from time to time for the training of medical and paramedical staff. These requests are also received when scholarships are granted by the Education Division, the Ministry of Foreign Affairs, MARRA and others.

Two Notaries from the Department were present at the offices of Transport Malta to oversee and record the proceedings of the opening of bids and the granting of 20 new taxi licences.

Two deeds were published in Gozo, one referring to the donation to Government of a stone tablet of archeological value, and another to the donation of the Giuliana Masini. A Deed of Trust was witnessed by the Chief Notary to Government relating to the University of Malta Research Innovation and Development Trust in a ceremony held at the Prime Minister's Office. This office also published a Deed of Loan to Transport Malta and a Guardianship Deed between the Superintendent of Cultural Heritage and Din l-Art Helwa regarding the Church of Our Lady of Victory in Valletta. Another Guardianship Deed was signed between the Superintendent of Cultural Heritage and Fondazzjoni Wirt Artna regarding the Couvre Porte Barracks at Vittoriosa.

The Chief Notary to Government was involved in a number of meetings with the ministry consultant and the President of the Notarial Council in discussions regarding the amendments to Chapter 55. The resulting bill was presented in Parliament and following a number of sessions in Parliament for the reading of the Bill and the Committee Stage, the Bill became law by virtue of Act XXIV.

### **Upgrading of Archives at Mikiel Anton Vassalli Street**

During the summer of 2011, restoration works were carried out in the internal courtyard of these premises. Painting and restoration works were also carried out on the wooden balcony and apertures on the façade of these premises. Pest control was carried out in the rooms containing the volumes and the rest of the Department.

### **Upgrading of Archives at St Christopher Street**

During the period under review, the office with the assistance of the Notarial Archives Resources Council continued working on the project of organising and upgrading the Archives at St Christopher Street Valletta. A number of distinguished visitors were received at these Archives and were impressed with the wealth of its contents. During the year under review, a number of volunteers offered their services at the Archives. A group of volunteers from HSBC were offered an extra day of leave which was to be dedicated to the digitisation process being carried out in these Archives. Another group of volunteers led by an expert in the field discovered a number of volumes had live insect activity. Steps were taken immediately to isolate these volumes and to treat them individually with an anoxic treatment. Normal pest control was also carried out. White washing works were carried out and carpenters replaced a number of apertures which were in a bad state of repair.

HSBC donated a number of office furniture to these Archives. A foreign volunteer started work on the compilation of a database of the *Bastardelli*. When this work is complete it will be of great interest and help to researchers.

The Archives were also the subject of a televised programme which appeared on Channel 22.

In September, an extension of the agreement was signed with the Hill Monastic Manuscript Library of St John's University, Minnesota in the United States for the digitisation of some of the oldest volumes. HMML pledged the sum of €150 per month for the duration of this extension to aid the Archives.

The Archives are officially open to the public twice a week; however by agreement with the staff they are in actual fact receiving the public every day.

### **Notarial Warrant Examination**

In March 2011, a notarial warrant exam was held for 17 students. All students were successful and obtained their warrant in May.

## List of Notaries

The Department also prepared the list of deceased notaries and their keepers, both in Malta and Gozo, as well as the list of practising notaries, in Malta and Gozo, for publication in the Government Gazette in January 2012.

## Lotteries

The notaries from this Department were appointed by the Lotteries and Gaming Authority to be present to supervise the weekly Super Five and Lotto draws held throughout the year. These are being held in a private studio in Birkirkara and transmitted live on television.

A notary from the Department also supervised the Government VAT receipts lottery held monthly at Saint James Ditch, Floriana.

## STATISTICS

### Notarial Archives

Volumes of deeds received in the Archives in terms of the Notarial Profession and Notarial Archives Act (Cap. 55)	385
Volumes of deeds received from the Special Commissioner for Notarial Acts in terms of Act X of 1999	330
Copies of deeds issued	10,500
Volumes repaired	15
Volumes bound	102

### Notary to Government Office

Deeds were published in connection with:	
Courses of Study and Scholarships	52
Sale of grave sites	13
Other transactions to which Government was a party	27
Notes of Enrolment, Hypothecs, and References entered in the Public Registry	78

## Revenue and Expenditure

The revenue collected by the office during the year under review amounted to €78,545.39, and the expenditure during the same period totalled €295,991.10

DR CORA VELLA

*Chief Notary to Government*

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# Government Property Department

## Directorate General

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### INTRODUCTION

The Government Property Department (GPD) is responsible for the management of Government's immovable estate. The mission of the GPD is to promote and maintain the highest and best use of Government's immovable estate and to ensure an equitable process for the acquisition of property that may be required for public purpose. The GPD incorporates the Land Directorate, Finance and Administration Directorate, the Estate Management Directorate, and the Joint Office all of which fall under the full responsibility of the Director General.

Whereas each of the four directorates has precise objectives to achieve within a specific remit, the GPD acts as the coordinator of all operations whilst ensuring smooth management through the provision of the necessary financial and administrative support.

### Major Projects

The operations of the GPD are instrumental to the carrying out of major projects identified by Government. This is mainly due to the fact that GPD provides ongoing support to other Government Departments/Entities to achieve the project's objectives. The support service provided includes, information on government property, eviction of squatters, termination of leases, acquisition of private property, provision of alternative accommodation, drawing up of property drawings, drafting of deeds and presenting parliamentary resolutions.

The major projects in which GPD was heavily involved during 2011 include:

- the continuation of the City Gate Project and the relocation of all kiosks situated around the bus terminus;
- all preparatory technical work required in connection with the launching of the Special Property Vehicles (SPV) which Government is initiating in the near future;
- the finalisation of ERDF 104 project regarding the removal of all illegal structures and the embellishment of Verdala and St Nicholas Bastions areas in Cospicua;
- the ongoing process to transfer residential blocks to the Housing Authority according to Cabinet direction;
- removal of illegalities around the bastions in Mdina and Valletta for possible restoration of both areas which project is being co-financed by EU and is in conjunction with MRRA;
- relocation of mobile kiosks in Qawra as area has been identified for the building of the Aquarium;
- continuation of the masterplan earmarked for Marsaxlokk promenade;
- retrieval of land from VISET;
- the ongoing exercise to identify vacant property in Valletta;
- the ongoing process to retrieve property which had been expropriated on behalf of the roads authority in the past but had not been utilised, in order to release it to its former owners;
- an exchange of land previously occupied by GO plc; and
- settlement of claims for past expropriations.

### Tender Committee

One of GPD's main functions is the disposal of government property which generally is made through a call for tenders. During the year, a change in the tendering procedure for the disposal of government

property was effected. This change was intended to achieve more transparency, accountability and efficiency in the tender process. To this effect a new Tender Committee, constituted by representatives from the Ministry of Finance, the Economy and Investments, and the Contracts Department and chaired by the Director General Government Property, was formed to cater for all issues of calls for tenders and subsequent adjudication and this without the need of referral to the Contracts Committee. Furthermore, the minimum value expected by Government is now indicated in all calls for tender. No changes were effected in the set-up of the committee.

### **Review of Internal Policies and Procedures**

GPD started to review the existing policies and procedures, and all other templates which may be downloaded from the website. This preparatory exercise is in relation to the construction of a new website which will be completed in the first quarter of 2012.

### **Information Technology**

At the beginning of 2010, GPD entered into an agreement with LOQUS for the provision of a new, comprehensive IT system to operate the Land Estate Management Information System (LEMIS). The first six months of 2011 were quite challenging. Management had to take decisions on whether the new IT system will address the requirements of the Department and ascertain that the system will support all relevant GPD business procedures efficiently and effectively with accurate functionality and data. The exercise also served to enable GPD staff members to become familiar with LEMIS operation and output. To actually confirm that the successful migration to Manhattan, there was an extended period of parallel run-testing to verify that the new system produces the same results as the old system and that it can handle the production load of the Department.

Training sessions were organised to cashiers at the local councils who are responsible to collect rent on behalf of GPD.

It is pertinent to know that the whole changeover to the new automated revenue system was completed successfully.

### **Conclusion**

The Government Property Department's role is to ensure that government property is optimally utilised.

The major challenges for next year include the reduction of pending arrears especially those relating to commercial premises, the digitising of files and scanning of all documents, to finalise the refurbishment of the Auberge de Bavière and continue the implementation of the Manhattan in all other areas of the department including also the Joint Office data.

IMAN SCHEMBRI

*Director General (Government Property)*

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# Government Property Department

## Finance and Administration Directorate

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### INTRODUCTION

The Finance and Administration Directorate is responsible for all the financial and administrative work of the Government Property Department and also provide support services to the other three Directorates falling under the Department's umbrella, namely the Estate Management, Land and the Joint Office.

### Human Resources

During 2011, GPD carried out a capacity building exercise to address the Department's needs and requirements to be able to fulfil vacancies for the numerous tasks and responsibilities. In this connection, GPD prepared an analysis report and initiated procedures to issue calls for several positions.

Although GPD experienced the loss of staff members who left due to retirement or to seek alternative employment with the private sector, it managed to acquire one lawyer, three casual substitutes, five newly appointed clerks, two ICT officers, as well as the deployment of a manager, clerk and one minor staff from IPSL.

Another public call for application was issued to recruit two Junior Legal Officers in order to decrease the backlog in the legal section. The process to issue other calls for the position of managers and one A&CE is still ongoing.

The post of Director in the Estate Management was filled by an incumbent officer and consequently, approval has been acquired from PAHRO to issue three calls for applications for the posts of Assistant Directors. The post of Senior System Administrator is still vacant as the person who was successful for the interview refused the position.

Overtime hours were allocated for specified jobs only and this further decreased the allocated amount.

During 2011, GPD continued to implement the family-friendly measures and in the last quarter of 2011, one officer who worked on a reduced time-table, opted for telework and thus increased the working hours. Teleworking is being monitored by the respective Department Head.

### Training initiatives

GPD, together with CDRT, designed a Training Needs Analysis to assess each staff member's actual attributes. These are being mapped against the desired requirements and subsequently a suitable corporate/individual training programme on the basis of the emerging discrepancies/variations was prepared. This is an ongoing process, which is underway and will engage all officers of the GPD no matter the grade and the responsibility. Sessions will be staggered accordingly.

### Car Tracking System

All departmental cars have been equipped with a tracking device so GPD will be in a position to monitor all vehicles used during the day.

## Departmental Tenders

Departmental tenders were issued to regulate all eviction works including the building of rubble walls, the removal of illegalities from government-owned land and the transportation of furniture following eviction. One other departmental tender was issued for the provision of cleaning services to the Auberge de Bavière.

## Revenue Collection

During 2011, no less than 62,700 rent invoices were issued to ensure timely recovery of rent dues. Special efforts to recoup rents arrears were made either by mailing reminders or through legal procedures; judicial letters and termination warnings. GPD also managed to fulfil the estimated budget by 100.3% and the total amount of income generated was €41,062,932. The sum also includes sale of land through the tender procedure.

## Parliamentary Questions

The number of parliamentary questions replied by GPD in 2011 amounted to 212, which exceeded the number of PQs replied in 2010 by 62.

## Staff Welfare Committee

The Finance and Administration Directorate also set up a staff welfare committee with the objectives of organising in-house sports activities during break and also participate in tournaments earmarked for government employees, organising other activities after office hours to enhance social interaction between all employees of the Department; to improve staff morale and foster a greater sense of belonging in the civil service, and also assisting persons working at the GPD who find themselves in hardship or distress related to terminal sickness and may need financial assistance for treatment abroad. During 2011, the staff welfare committee organised mass on the first Friday of each month, fund raising activities, participated in the football league organised for government and parastatal employees, organised an in-house table tennis mini tournament, organised a Christmas party for children of employees, and also organised a competition for the best decorated office for Christmas by using recycled objects.

NANCY CARUANA

*Director (Finance and Administration)*

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# Government Property Department

## Estate Management Directorate

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### DEPARTMENTAL OVERVIEW

The EMD's mission is to help the Government Property Department shape and deliver Government's immovable property agenda by providing quality property-related advice and services. EMD helps the Government achieve its policy objectives by contributing to three key outcomes:

- improved and more efficient property operations;
- sustaining government finances;
- sustaining government projects and initiatives.

### PROPERTY OPERATIONS

#### Property Records

The update and maintenance of government property records is a fundamental task carried out by the EMD. This comprises of several property datasets including a textual database of government-owned property, deed packets as well as a number of map-sets. These records are an important information source for such government projects as Enemalta SPV project, the Grand Harbour project, City Gate project, housing, roads etc.

#### Properties occupied by Government Departments/Entities

In order to consolidate the property terrier, properties occupied by government departments/entities are being investigated and verified; this exercise is being carried out to confirm occupation, type of use, extent and actual occupier. During 2011, EMD continued the task of verification and consolidation of properties occupied by Enemalta and Heritage Malta, whilst initiating records of property held by MRRA.

#### Property Information Requests

As part of its role in maintaining the property terrier, the EMD provides property-related information to a varied list of clients that ranges from private individuals and companies to government ministries, departments, agencies and authorities. Information is typically required in connection with the possible disposal of such property and in relation to government projects and initiatives. During 2011, the EMD handled over 11,375 such requests/reports. In addition, the EMD carried out 2,525 property inspections, apart from giving assistance to the Land Directorate in 45 court cases. 691 property status reports were also drawn up.

#### Property Plans

The preparation of property plans and drawings is an essential element in the management of government immovable property and the maintenance of a property terrier. The EMD utilises a custom-developed GIS-based Property Drawing System for the preparation of all property drawings. This system also interfaces with specific off-the-shelf computer aided design software to facilitate layout drawings. During 2011, the EMD put up a total of 1,658 property drawings in connection with leases, sales and permits over

government-owned property. In addition, 3,276 copies of plans were provided by the GPD in relation to such matters as Parliamentary Resolutions, land registrations, tenders etc.

### **Protection of Government Title to Property**

Under the provisions of the Land Registration Act, the first registration claimant to a property obtains a pre-emptive advantage over other pretenders. To safeguard Government's rights, the EMD checks every single application for property registration made with the Land Registry. During 2011, about 180 such applications were checked and, where applicable, the necessary cautions raised. The Department also investigated and resolved 28 cases of cautions and corrections raised against it by private parties. To further secure Government's title to its real estate, the EMD also undertakes the laborious process of registering Government's title via ad hoc applications to the Land Registry. During the year, some 1,512 land registration plans were prepared, of which the EMD registered a total land area of 389,341 square metres.

## **SUSTAINING GOVERNMENT FINANCES**

### **Tender Proposals**

Tender proposals are prepared for the eventual issue of tenders for the disposal of government property. During this process, EMD analyses and submit proposals for the issuing of tenders, taking into account factors such as demand, location, type of use, property ownership, etc. During 2011, EMD prepared and referred to the Land Directorate 222 tender proposals. In addition, 376 property valuations were carried out.

## **SUSTAINING GOVERNMENT PROJECTS AND INITIATIVES**

### **Devolution of Property to Local Councils**

The EMD's task is to assess the devolution proposal, draw up necessary plans and ad hoc conditions and then refer the matter to the Land Directorate for finalisation of contract of transfer. During 2011, the Government Property Department concluded the devolution/leasing agreements for nine properties as approved by EMD.

### **Property Expropriation Assistance for Infrastructural Projects**

The EMD also handles requests made by government departments for the expropriation of private property for public purposes, mainly in connection with infrastructural projects. The EMD collects all relevant technical data, takes corrective measures as appropriate, liaisons with the sponsoring department and prepares the necessary plans for the expropriation. The EMD also provides technical assistance to the Land Directorate in acquisition cases taken in front of the Land Arbitration Board. In 2011, the EMD approved the release back to the original owners of 7,165 square metres of land that had been expropriated but was never made use of by Government.

### **Special Projects**

During 2011, the EMD continued to play an active role in special projects sponsored by Central Government including the Enemalta SPV project, Malta Drydocks, City Gate project, the GO/Government property exchange and the Grand Harbour project. EMD's involvement relates to the identification of land boundaries, status and burdens, participation in the preparation of disposal conditions, preparation of plans and in some cases provision of final documentation.

### **Land Transfer to Government Entities**

Other major projects that involved the EMD during 2011 were those related to the transfer of government-owned properties to government entities. These included the transfer of several parcels of land to Enemalta, MEPA and MIP.

### **Facilitation of the Home Ownership Scheme**

As in previous years, the EMD continued to sustain Government's efforts to promote home ownership by authorising the transfer to the Housing Authority of properties for eventual sale to tenants. 103 legal notices were issued.

### **Agricultural Land Scheme**

This scheme was a corporate initiative that enabled cultivators of government-owned agricultural land to register for the possibility of acquiring a new title to the land even where occupation was irregular. During 2011, the EMD processed and approved for leasing 794 applications, of which 631 lease agreements were signed.

### **Support Services**

The EMD also provides support services by providing property related information to such government bodies as MEPA, MRRA, Department of Social Housing, Land Registry, MIMCOL, MIP, Transport Malta and Housing Authority.

RAYMOND CAMILLERI  
*Director (Estate Management)*

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# Government Property Department Joint Office

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## INTRODUCTION

The roles of the Joint Office are:

- managing and administering the immovable estate transferred to Government by the ecclesiastical authorities in terms of the Ecclesiastical Entities (Properties) Act, Cap. 358;
- validating and verifying the data being transferred to it by the ecclesiastical entities. The scope is to determine the exact value of all the properties transferred so that the necessary adjustments are made to the original amount of €65,378,523 (Lm 28,067,000), which the Government issued in Bonds in terms of the 1991 Agreement with the Ecclesiastical Authorities;
- to register at the Land Registry all the properties which it administers, as well as those retained by the ecclesiastical entities.

## PROPERTY ADMINISTRATION AND ALIENATIONS

In 2010, the following properties were alienated:

As per 2002 Initiative or original deed	389
Perpetual Emphyteusis (not part of 2002 Scheme)	41
As per Tenders/Exchange/Direct Disposal/Conversion	11
<b>Total</b>	<b>441</b>

The Department also received requests for the recognition of emphyteutae and tenants in their respective properties. In 2011, the Department processed 2,039 of these requests.

## 2002 INITIATIVE

This scheme was a result of Government's announcement in the 2002 Budget Speech, that the Government was putting on the market all the properties being administered by the Joint Office and which are either resident-occupied or used as a summer residence. By 29 January 2009, when the scheme was suspended, the Joint Office had received about 5,500 applications for the redemption of ground rent and for the purchase of leased premises.

With a view to hastening the process, the Joint Office farms out to architects in private practice, the valuation of certain properties and to notaries in private practice the publication of deeds of redemption or sale.

## AGRICULTURE LEASES SCHEME

The Joint Office liaises with the Estate Management Directorate for processing applications received by February 2001 in terms of a scheme whereby persons occupying government-owned land for agricultural purposes without title were given the opportunity to regularise their position.

## RECONCILIATION, VERIFICATION AND REGISTRATION

### Transfer of Information on Properties

During 2011, the transfer of information from the Church Administrative Offices to the Joint Office regarding properties transferred to the Government by the Church continued at a steady pace. Up to the end of the year, about 25,000 forms concerning properties, listed in Annex 8 of the Church/State Agreement, were forwarded to the Joint Office by ecclesiastical entities.

It is to be noted, however, that a large number of correction forms had to be raised or confirmed regarding this information, which corrections have to be approved by the Control Committee in terms of Section 4 (2) of the Agreement. These corrections entail additions of properties inadvertently left out of the Annexes to the Agreement, deletion of others that were erroneously included, and correction to the capitalised amounts of properties.

In 2011, the Control Committee approved 454 of the above mentioned corrections. The Committee also signed 335 property forms, thus confirming the final amount due to ecclesiastical entities in respect of the properties concerned.

The Joint Office continued to reconcile the values of properties previously owned by 99 different ecclesiastical entities. During the year, while reconciliation continued on six entities, work on another five entities was taken in hand. Out of these five were reconciled, thus by the end of the year the Joint Office has reconciled a total of 62 entities. During 2011, in terms of properties, a total of 871 properties were reconciled.

By Legal Notice No 201/2011 the sum of €466,000 in Government Stock was issued to ecclesiastical entities following the reconciliation of these entities.

### Registration of Properties

The Department continued with the registration of property with the Land Registry in terms of Cap 358. During 2011, the Joint Office registered 609 properties. The related work entailed the drawing up of relative plans. Besides these new registrations, 256 other plans were referred to the Land Registry in respect of corrections to previous registrations. This brought the total number of properties registered as of 31 December 2011 to 13,432. The following table shows the number of properties which were registered during the past years:

	2008	2008	2009	2010	2011
Properties registered	607	607	542	555	609

## REVENUE COLLECTION

Besides the collection of rent of leased properties, the Department identified properties available for disposal in terms of the Disposal of Government Land Act. The following table shows the comparative figures of revenue collected during the past years:

	2008 €	2009 €	2010 €	2011 €
Rent	888,428	1,066,711	1,371,097	1,487,662
Sales	13,266,255	2,310,012	5,188,321	2,460,530
<b>Total</b>	<b>14,154,683</b>	<b>3,376,723</b>	<b>6,559,418</b>	<b>3,948,192</b>

41% of the amount of rent collected during 2011 consisted of arrears. This was the result of an ongoing enforcement exercise undertaken by the Joint Office in conjunction with the Land Directorate.

### **CONTROL COMMITTEE**

The Control Committee is a body set up in terms of Article 17 of the 1991 Agreement between the Holy See and the Government of Malta. Two members of the Committee are nominated by the Holy See and two members are nominated by the Government of Malta. Chairmanship of meetings is by rotation. The present members representing the Government of Malta were nominated in January 2002. During 2011, this Committee met ten times.

The functions of the Control Committee are promoting and monitoring the correct and timely application of the provisions of the above-mentioned Agreement with particular reference to the approval of corrections to the Annexes, and the alienation of property and in particular to bonds that have to be issued to the Foundation for Church Schools.

By Legal Notice No 202/2011 the sum of €2,858,800 in Government Stock was issued to the Foundation for Church Schools in respect of property alienated in the previous year.

### **COORDINATION WITH THE ESTATE MANAGEMENT DIRECTORATE AND LAND DIRECTORATE**

For further coordination and related cooperation of the Joint Office with the other divisions forming the Government Property Department namely Estate Management Directorate and the Land Directorate, considered to be essential for uniformity in adapting common policies of the Department, it was decided that the Joint Office be moved to the Auberge de Bavière so that now all directorates forming the Department would be housed under one roof.

VINCENT GILSON  
*Director (Joint Office)*

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## Government Property Department

### Land Directorate

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The Land Directorate's role within the Government Property Department is the legal aspect of government property management. This means that after the Estate Management Directorate or Joint Office has decided on the best possible use for a particular property, the issue is taken over by the Land Directorate for the actual disposal of the property under the procedures permitted in the Disposal of Government Land Act.

In general terms, the formal disposal of government property requires either the issue of a call for tenders or else an ad hoc Parliamentary Resolution. It is the Land Directorate's task to prepare tender documents, publish them and award the disposal. Likewise, ad hoc Parliamentary Resolutions are prepared by the Directorate. Subsequent to the disposal of a property through lease agreements/contracts, the Land Directorate is then responsible for the follow-up and enforcement of any conditions imposed on the transferee. These include the payment of rent and the proper maintenance of the property but may also contain other special conditions such as the development of structural improvements within specified time limits. The finalisation of contracts also includes those related to the acquisition of private property for a public purpose under the auspices of the Land Acquisition (Public Purpose) Ordinance. Indeed, the expropriation of private property is a primary task of the Land Directorate, one which enables Government to carry out major infrastructure works and other projects of benefit to Maltese society.

The Land Directorate is organisationally split up into two branches, namely the Enforcement Branch and the Contracts Branch; between them, these cater for the wide ranging roles entrusted to the department. As the names suggest, the former is responsible for all enforcement measures required to better manage government property, whilst the latter takes care of the formal requirements of leasing or selling/purchasing property and finalising related contracts.

#### Enforcement

The enforcement of contractual conditions is essential if property management is to be given any significance. Within this aspect, the very small number of Enforcement Officers carries out site checks to ensure that conditions of leases and permits are being honoured. Non-compliance is met by counter measures to ensure that defaulters are brought back on track. These measures include formal warnings, the issuing of prohibitory injunctions and also eviction proceedings. In this regard Chapter 228 of the Laws of Malta - Land (Compulsory Eviction) Act – gives the Commissioner of Land extensive powers to evict persons who occupy government property without title. This power is used with caution but the Land Directorate is committed to ensure that government property is not abused of.

#### Contracts Branch

The role of this branch is the formalisation of any disposal or acquisition of property.

As already indicated, the Disposal of Government Land Act stipulates that government property can generally be disposed of either through tenders or through a Special Resolution of the House of Representatives. The publication of tenders necessitates continual liaison with the Estate Management Directorate and the Joint Office to ensure that the appropriate conditions are set out in the tender. Transparency is ensured by opening all tender documents in public.

Government has for decades made use of the provisions of the Land Acquisition (Public Purpose) Ordinance (LAO) to enable it to take over private property without having finalised acquisition proceedings. The lack of property ownership information in Malta makes the whole acquisition process cumbersome and time consuming. Since 1994, the Directorate has limited the growth of the acquisition debt by requiring government departments that originate the need for the acquisition to provide up-front the full estimated value of the effected property. This ensures the payment on demand for any acquired property.

In an attempt to eliminate the accumulation of the acquisition debts due for expropriated property prior to 1994, during the last ten years additional funds were provided and between 2002 and 2011 over €101,000,000 were paid for expropriated property.

In accordance with the provisions of amendments brought into force in 2003, the Department can take action to process past outstanding acquisitions and purchase property under certain conditions set out by law. These are intended to minimise the expropriation debt as well as to enable Government to draw up the long outstanding HOS plots contracts and dispose of residences within housing estates constructed on land still under acquisition. Under these amendments a total of 116 bank accounts were opened in 2011 on which the total sum deposited amounts to €8,260,281.

In terms of Act XXI of 2009, which came into force on 1 December 2009, the Land Acquisition (Public Purpose) Ordinance was amended further to establish a method of valuation for the expropriation of historical property, allow the owner/s to contest the public purpose, qualify further the role of the architects and appointment of architects sitting on the Land Arbitration Board as experts, make court appointed architects' reports accessible and to the parties who may wish to make questions to members of the Land Arbitration Board and allow persons to appeal on both points of law and facts before the Court of Appeal.

## 2011 Highlights

During 2011, the Land Directorate continued in its efforts to maximise the use and return on government property. The major efforts include:

### *Abuse of government property/evictions*

During the last four years, every effort has been made to strengthen the Enforcement Section and during 2011, the number of inspectors increased to nine. The Enforcement Section carried out without break several enforcement actions and successfully managed to free public and government land from illegal occupation. As a result, the Land Directorate won the support of the public in its commitment to stop abuse of government land. A total of 156 evictions and approximately 993 inspections on illegalities were carried out during 2011.

### *Tenders, Leases and Sales*

During 2011, the Land Directorate advertised a total of 124 tenders for the lease/sale of government property. A total of 216 lease agreements were concluded in terms of the Agricultural Scheme. 277 encroachment permits were issued. These included permits for mobile kiosks and permits for the placing of tables in public areas, one-time permits and permits for structural alterations. The Land Directorate also completed the sale of government land/property, including ex church property resulting in revenue for 2011 of €14,319,216.

### *Acquisition*

In 2011, the Directorate finalised a number of acquisition deeds paying a total of €3.85million to owners of expropriated property. 55 new President's Declarations for the expropriation of land mainly for road formation were issued. 61 President's Declarations of past outstanding acquisitions in order to compensate

the owners in accordance with the amendments made to the Land Acquisition (Public Purpose) Ordinance (Cap 88) were also issued.

### **Releases**

In 2011, a total of 11,854square metres of land in various localities formerly acquired in virtue of the Land Acquisition (Public Purpose) Ordinance (Chapter 88) was released back to private owners.

### **Conclusion**

In 2011, the Directorate continued with the capitalisation of approximately 100 acquired properties under the title of possession and use/public tenure in the Cottonera area and the complete acquisition of land by outright purchase in Paola and Gudja. The Directorate aims to continue with its commitment to conclude past contracts of acquisition for the complete acquisition of areas within housing estates in order to enable HOS beneficiaries to purchase their residences.

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