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FROM: Chief Executive Officer, Finance & National Planning

TO: All Chief Executive Officers and Heads of Departments

SUBJECT: GUIDE TO PREPARING REVENUE RETENTION
ARRANGEMENT

1.0 Objective

- 1.1 The objective of this circular is to inform Chief Executive Officers of the adoption of the *Revenue Retention Arrangements (RRA)* that some agencies may be eligible for, in compliance with the requirements of the Financial Management Act 2004.
- 1.2 The revenue retention is introduced as part of the move to performance budgeting and the accompanying devolution of authority that needs to be given to Chief Executive Officers to better manage their resources in achieving their specified target outputs.
- 1.3 The *Revenue Retention Arrangements* allows a Chief Executive Officer to retain certain types of **user charges** as identified under section 32 (1) of the Finance Instructions and is to be known as agency revenue. Once the *Revenue Retention Arrangements* are approved by Cabinet through the Ministry of Finance and the revenue is actually collected, the Chief Executive Officer may use the additional funds to finance spending programs.
- 1.4 The *Revenue Retention Arrangements* provide agencies incentive to earn additional revenue which they can spend on their priorities and to

improve performance. Through the Revenue Retention Arrangement initiative, agencies are required to:

- (i) act in a more commercially oriented manner in order to earn additional revenues;
- (ii) recover the costs of providing goods, works or services; and
- (iii) provide services in a way which is fair to customers, clients and to the general community.

1.5 A *Guide to Revenue Retention Arrangements* has been developed to assist agencies understand the process and procedures to be followed for the effective implementation of the Revenue Retention Arrangement.

2.0 Requirements of the Financial Management Act 2004 and Finance Instructions 2005

2.1 Section 20 (1) of the Financial Management Act states that the Minister of Finance may with the approval of Cabinet authorise a budget sector agency to retain specified agency revenue; while Section 20 (2), specifies that those revenues become automatically appropriated to that agency from the consolidated fund (or other fund to which they are paid), without further appropriation being required.

2.2 Sections 32 (1) to 32 (7) of the Finance Instruction sets out procedures to be followed for agencies to:

- (i) identify their agency revenues and apply for revenue retention;
- (ii) stipulates the types of information agencies must provide when making application to the Ministry of Finance to retain these revenues; and
- (iii) Sets the guidelines for setting and increasing agency fees and charges.

3.0 Contents of the Guidelines

3.1 The procedures outlined in the guide are designed to regulate the overall revenue retention process for Chief Executive Officers if they wish to exercise this authority.

3.2 The guide basically outlines the following information for Chief Executive Officers and officers that will be involved in the revenue retention process:

- (i) How to differentiate an agency revenue from a state revenue;
- (ii) Requirements for revenue retention in the FMA 2004 and the FI 2005;
- (iii) The procedures to be performed by agencies if they wish to exercise this authority;
- (iv) The revenue retention documentation process; and
- (v) The revenue retention reporting requirements.

3.3 The procedures outlined in the guide demarcates roles and responsibilities of the various stakeholders for processing the agency revenue retention, therefore holding officers accountable for their actions and it also ensures that proper control mechanisms are established to track agency revenue and expenditure posted against it in the financial system.

4.0 Timeline

4.1 It is important for Chief Executive Officers to note that agency revenue has to be earned in the current year for the same agency to spend it in the following year.

4.2 In 2007, agencies will collect revenue, seek approval from Cabinet through the Minister of Finance, and sign an agreement as to the retention of the agency revenue.

4.3 In 2008, agencies will receive a Revenue Retention Warrant (RRW) from the Ministry of Finance, which is an authority to incur expenses against the revenue retained allocation. A cash flow forecast has to be submitted and budget uploaded to ensure expenses remain within the amount approved as retained revenue.

4.4 Revenue collected in 2008 will be spent in 2009.

5.0 Conclusion

5.1 For Chief Executive Officers to fully exercise this authority, they must ensure they have the necessary logistics in place to allow the whole process to work.

- 5.2 In broad terms, a Chief Executive Officer who intends to exercise this authority has to ensure that the following are in place within his agency:
- (i) Ensure that an officer within the agency is appointed to be responsible for the whole revenue retention process;
 - (ii) Ensure that proper records and forms are kept and made available to those concerned with the process;
 - (iii) Ensure that a revenue account code has been created for this purpose and all revenue received are properly receipted and banked in the accounts;
 - (iv) Ensure that monthly agency revenue report is compiled for management and copy of this is submitted to the Ministry of Finance and National Planning before the 15th of the following month; and
 - (vi) Ensure the whole revenue retention process is properly documented for audit trail purposes and for reporting in to the agency annual report.
- 5.3 For any clarifications on the contents of this circular or the *Guide to Revenue Retention Arrangements*, please contact Zakir Hussain on phone 330 7011 Ext. 2186 or email zhussain@govnet.gov.fj.
- 5.4 We look forward to your continued support in ensuring the successful implementation of the financial management reforms.

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