

Memorandum for Cabinet by the
Hon. Minister of Finance, Customs & Port
Financing of Power/Water Station Extension Project

In February last the Ministry of Finance, Customs and Port and the Ministry of Trade, Industry and Agriculture made joint submissions to Cabinet concerning the provision of the finance required to meet the cost of Stages II and III of the Power/Water Station Project. At the time it was recommended inter alia that a Malta Electricity Board loan of the order of £3 million should be raised from local sources for financing the electricity expansion programme and that legislation should be enacted to enable Government to guarantee such a loan and to provide temporary finance by means of the proceeds of Treasury Bills or of other short-term Government borrowing until the loan is issued to the public.

2. Since then we have borrowed £2 million (3,000 million lire) from the Italian Government on 'soft' terms and we are relending this amount to the Malta Electricity Board who will be using the money to pay the cost of the Italian equipment they have ordered for the Power Station. This, however, leaves the Board with an uncovered balance of £1 million which they need immediately to meet expenditure on the local costs of the project and other commitments, and which will have to be raised by borrowing from local sources.

3. The Board have for some time been requesting an advance of £100,000 pending the raising of this loan. They have in fact been spending on capital account (i.e. on the extension project) from their recurrent revenues and they have now reached a stage where they cannot honour their commitments because they are running short of cash.

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4. The Board have submitted a cash flow statement (Attachment A) which shows (1) the actual balance for the financial year ending 31st March, 1988, and the figures for the first six months of the current financial year and (2) the estimated cash flow for October. The statement reveals that the Malta Electricity Board had actually a credit balance of £148,320 on the 31st March, 1988. But at the end of September this balance was reduced to £74,304 and the Malta Electricity Board now anticipate that this month their surplus will be wiped off and they will end up £252,398 in the red. According to the Malta Electricity Board this deficit will be incurred because in recent months their recurrent revenues have had to bear expenditure on capital works (viz: about £250,000 the cost of which should properly be financed from loan money and they now hardly have enough liquid cash to meet all their liabilities which this month include an I.B.R.D. Instalment of principal and interest (viz: £120,000) and bills for fuel and capital expenditure (£94,000 and £91,000 respectively).

5. On the 14th September last the Board asked for a refund from Government of the amount (viz: some £250,000) they spent on capital account from their revenues. Since then they have intimated that they are not in a position to pay a bill for £94,000 due to Messrs A.G.I.P. for supplies of fuel and have passed on this bill for direct settlement by Government. This procedure is of course irregular and cannot be accepted and it is therefore proposed to send the bill back to the Malta Electricity Board. At the same time however it is imperative that something should be done to place the Board in funds.

6. According to the estimated cash budget drawn up by the Malta Electricity Board they anticipate an overall deficit of £1,227,000 by the end of the current financial year (1988/89). Included in this amount is £948,000 in respect of capital expenditure on Stages II and III of the Extension Project and £350,000 representing interest payment to Government. The sum of £948,000 is made up of £455,000 in respect of off-shore costs and £491,000 for local costs of the project. The sum of

£485,000 falls to be met out of the loan to be made available by the Italian Government whilst the balance of £491,000 will have to be defrayed from a local loan as already indicated in the Joint Memo submitted to Cabinet last February.

7. In view of the acute position in which the Board find themselves it is not possible to delay any longer the advance of £100,000 requested by the Board. Such an advance, however, in virtue of the provisions of Section 10 of the Electricity Board Act can only be made pending the raising of a loan by Government. In the circumstances as the Malta Electricity Board's need for liquidity has become an urgent matter it now seems to be advisable for Government to raise such a loan directly and then relend it to the Board instead of requiring the Board to borrow the money themselves whilst guaranteeing the repayment of such money as previously recommended (viz: in the February memorandum). This would enable 'Finance' to make the necessary advances to the Board as soon as Cabinet approves the raising of the proposed £1m. loan from local sources provided a notice of such advances is given to Parliament in terms of Section 10(1) of the Electricity Board Act.

8. Hon. Ministers are therefore requested to approve:-

(1) that the necessary measures (including legislative action) be taken to raise a local loan of £1m. for the Power/Water Station Extension project;

(2) that in the meantime a sum of £100,000 and any other amounts which may eventually be required in connection with the Extension project (pending the raising of the Loan), should be advanced to the Board subject to a notice of such advances being given to the House of Representatives: and

(3) that the amount borrowed by the Government should be relend to the Board under terms and conditions to be negotiated between the two

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parties in the light of the cash flow situation and the overall commitments of the Board (with particular reference to the payment of interest to Government on the value of the Board's assets).

5th November, 1968.

	Budget		September		October	
	Estimated	Actual	Estimated	Actual	Estimated to April 1968	Revised Estimate based on September performance
Receipts						
Balance	£ 120,000	£ 125,600	£ 105,000	£ 110,840	£ 95,000	£ 74,204
Collections - Electricity	-	7,224	-	9,401	-	8,000
Water	4,500	5,774	4,500	7,250	4,500	4,000
Roads	-	-	-	-	-	4,000
Short Works	10,000	5,188	10,000	8,125	10,000	10,000
Borrowed - I.B.S.D. Grants	-	24,532	-	29,000	-	-
Balance overdrawn	£ 138,500	-	£ 161,000	-	£ 497,000	£ 252,634
	£ 283,000	£ 157,580	£ 266,000	£ 186,949	£ 606,500	£ 445,500
Payments						
Balance	£ 136,000	-	£ 138,500	-	£ 161,000	-
Wages & Salaries	37,000	33,062	32,000	27,961	32,000	32,000
Revenue Collection Charges	-	-	-	9,870	12,500	12,500
Fuel	-	-	-	-	110,000	110,000
Bills	70,000	60,091	75,000	28,770	75,000	70,000
Capital Exp. - R.P.K.S. Gas Turbine	30,000	42,604	30,000	35,644	70,000	70,000
I.B.S.D. Principal & Interest	-	-	-	-	21,000	21,000
Government Interest	-	-	-	-	120,000	120,000
Grants	5,000	-	5,000	-	5,000	5,000
Balance	-	21,023	-	74,204	-	-
	£ 283,000	£ 157,580	£ 266,500	£ 186,949	£ 606,500	£ 445,500

Notes: Although the revised estimate for October is showing a provision for the resulting deficit, but this will not alter the projected cash flow figures prepared earlier this financial year, as Capital Expenditure which has not yet been made is likely to offset up to the resulting surplus. We hope no reason to believe that the ultimate deficits at the end of the year will be as variable from the figures already quoted and in your possession.