

FOREWORD

This is the second Fiscal Report as required under the *Intergovernmental Relations (Functions and Funding) Act 2009* (Section 69). The Act, passed in March 2009, defines reforms to intergovernmental financing arrangements (RIGFA).

The Fiscal Report provides detailed information on how NEFC calculates the distribution and level of funding for recurrent goods and services to provincial governments and local-level governments, as well as the recommended amounts to be provided by Treasury in the 2010 Budget.

The Report includes:

- the Ministerial Determination in relation to the apportioning of the annual equalisation amount;
- NEFC's recommendation of the individual provincial share and individual local-level government shares;
- The functions and administration grant determination made by the Minister for Treasury;
- NEFC's reporting on provincial expenditures, revenues and other information on intergovernmental financing;
- Monitoring the reforms; and
- The Function Assignment Determination approved by NEC in July 2009.

The Fiscal Report 2010 describes how the costs of service delivery are estimated and how revenues are assessed. The Report also demonstrates how funding for provincial governments and local level governments has been distributed on a needs basis. Finally, the Report provides a brief summary of expenditure by Provincial Governments in 2007.

The reform objectives are to provide provincial governments with adequate funding so that minimum essential services such as rural health and basic education, village courts, agricultural extension and transport infrastructure maintenance are delivered. NEFC and Treasury have increased funding to those Provinces with fiscal need, and maintained funding to the rest of the provinces as part of the transitional arrangements. It is now incumbent on provincial governments and local-level Governments to direct these funds toward their intended purposes.

It is also important that other government agencies responsible for building capacity and monitoring performance play their part in ensuring that provincial governments are adequately equipped to manage the additional funding now made available in the new system.

This report complements the 2005-2007 Provincial Expenditure Review Reports and the 2004-2007 Revenue Report that NEFC has already released (www.nefc.gov.pg). The publication of these reports provides comprehensive information on how much revenue provincial governments have received and what they have expended these on. Finally, the Fiscal Report 2010 ensures there is transparency and accountability in the way NEFC calculates the amount of National funding that goes to provinces and local level governments for recurrent costs for service delivery.



Nao Badu
Chairman & Chief Executive Officer

EXECUTIVE SUMMARY

Under the new system approved by Parliament on 16 July 2008 and the Ordinary Act passed in 2009, the amount of funding to be shared amongst provincial and local-level governments (the equalisation amount) is based on a percentage of resources available to the government. This is known as Net National Revenue (NNR), which is the total tax revenue received by the government after excluding mining and petroleum revenue.

In the Ministerial Determination for 2010, the equalisation amount is K207.3 million, an increase of K30.3 million from last year. The Determination provides for a guaranteed amount for each provincial and local-level government, the equivalent of K84.8 million for provincial governments and K39.0 million year for local-level governments. These guaranteed amounts are necessary as all provincial and local-level governments, will for the first five years of the new system, not receive less than the combined total of goods and services grants and GST than they received in the 2008 budget. It also provides for the balance of the funds of K64.5 million to be distributed amongst the provincial and local-level governments on a needs basis.

Following the Ministerial Determination, the NEFC calculates and recommends to the Treasurer individual allocations for each provincial and local-level government (called the individual province share or individual local level share), along with recommended allocations for the different service delivery function grants. These are then provided to the provincial and local-level governments by Treasury for the purpose of preparing their 2010 budgets. Provinces are then given the opportunity to vary the distribution of these funds among the different function grants, but only within the total overall amount for that province. Once this process of negotiation is completed, the Treasurer issues the Function and Administration Grants Determination that locks in the level and distribution of funding for each province for 2010.

In determining the “need” of a province, all revenues received are counted, and then compared with their estimated costs of delivery services. The main sources of revenue in a province are national government grants, GST, licences, fees, taxes, commercial activities, mining and petroleum royalties and dividends. For the purpose of calculating grants, NEFC’s assessed revenue for 2010 is K316.4 million, an increase of K6.3 million from last year. NEFC’s estimates of the cost of delivering basic services in each province are based on the work done in the 2005 costs of services study. The costing has been kept current by applying the relevant inflation and population indices for each year using 2005 as the base year. The costs estimated are only those related to recurrent goods and services and exclude personnel emoluments and development expenditures. The study involved an in-depth review of how much the provinces should be spending to ensure service delivery takes place in the vital MTDS sectors in the rural areas. Work is currently underway to update the costs of service study. The new data should be available by mid 2010.

The estimated total cost of delivering a basic level of services in the provinces, districts and local governments is K599.8 million (in 2010 prices). This includes the costs of recurrent goods and services for transport infrastructure maintenance, education, health/HIV, agriculture, village courts and administration. This is against a projected total revenue envelope for the provinces and local-level governments in 2010 of K316.4 million.

After estimating the costs of services and assessed revenue, the fiscal needs of provinces and a local-level governments is calculated. This is defined as the difference between estimated recurrent cost and assessed revenue.

In addition to work on cost of services NEFC, together with the Provincial and Local-Level Service Monitoring Authority (PLLSMA) have worked to provide a clearer assignment of service delivery functions and responsibilities of provincial and local-level governments. A PLLSMA sub-committee finalised a review on function assignment that gave a clear understanding on the distribution of responsibilities among the three tiers of government to avoid confusion on who is responsible for what, and to ensure that funding follows function. The results of the review were endorsed by PLLSMA and approved by Cabinet in June this year. The final product will be the issuance of a Governor-General's Determination, published in the Government Gazette in the near future.

Under the legislation, the new system requires that monitoring and reporting of the expenditure on the different types of grants, including service delivery function grants take place. The normal process for this to happen is through Department of Treasury's quarterly budget reviews. Further details and clarification on monitoring and reporting responsibilities has been covered in the budget and expenditure instructions issued by the Secretary for Treasury (Appendix D). Among many other considerations, the instructions also spell out the possible sanctions that can be imposed in the event that grants are not used as originally intended. The second set of budget and expenditure instructions to be released by the Secretary Treasury are intended to go beyond the requirement to just budget for 11 Minimum Priority Activities. Provinces will in 2010 have to report against specific indicators in order to demonstrate actual performance. A review by the Commission on compliance shows that provinces are gradually getting used to the idea of reporting on their expenditure and outputs, based on the minimum priority activities.

The 2007 Provincial Expenditure Review was launched in late 2008 and provides a comprehensive overview of expenditure of each province from all revenue sources. It revealed that the funding gap continued in 2007 but that this is now being addressed by the implementation of the new system of intergovernmental financing which is directing more resources to the provinces that do not have enough of their own resources to meet the cost of delivering core services. The review re-emphasised that provincial governments and administrations need to address the priority gap by choosing to reallocate their own resources to support the MTDS priority sectors. Furthermore, provinces can use the NEFC Cost of Services Study data as a guide to how much recurrent funding is required to deliver core services in their province. The 2008 Provincial Expenditure Review is being finalised in late 2009.

Although the NEFC is currently just reviewing recurrent expenditure, any expenditure incurred on infrastructure and staffing do significantly affect recurrent costs in the future. In terms of spending for service delivery, this also means that funding for recurrent goods and services has often been compromised in the name of funding for administration, capital projects and development schemes.

In conclusion, the Government is now starting, through the new system of intergovernmental financing, to address the funding gap faced by most of the provinces. Provinces now also need to do their part to ensure the additional funds are spent wisely and that they better prioritise the funding already available to them in order to improve service delivery.

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1 EQUALISATION AMOUNT

The *Intergovernmental Relations (Functions and Funding) Act* (Section 4 Schedule 1) sets a minimum level of funding for the assigned service delivery functions and responsibilities of provincial and local-level governments. It is intended to provide greater certainty for provincial and local-level governments as grants are aligned to Net National Revenue (NNR).

This amount is referred to as the equalisation amount. The equalisation amount is then divided between individual provincial and local-level governments in the later steps of grant calculation.

The equalisation amount is set by a formula based on a percentage of net national revenues (NNR). The NNR amount is the total tax revenue received by the National Government excluding mining and petroleum tax revenue. In general, the new system also uses actual data (as opposed to forecasts) to determine amounts as this is considered more accurate. As such when the NNR amount for 2010 was calculated, actual 2008 revenue data was used.

If net national revenue is high in one particular year, provincial governments and local-level governments will receive more funding. If net national revenue in a particular year is low, they will receive less funding. In this way the ratio of funding between the National Government and the other two levels of government (provincial and local-level governments) will ensure some parity is maintained.

Further legislative provisions related to the calculation and process for determining the equalisation amount is described below. However, first, some further background is provided on how the percentage to be applied to net national revenues has been determined.

How was the percentage to be applied to NNR determined?

During the transition period, the first five years, special transitional provisions apply. These are contained in schedule 1 of the *Act*.

In the transition period, the equalisation amount is increased over the five years by increasing the percentage applied to NNR each year. To determine the funding levels for each year of the transition period, the percentage was increased in five even steps from the 2008 funding level of provincial and local-level governments as a percentage of NNR of 4.76% to the final percentage to be applied to NNR in the full system of 6.57%.

The equalisation amount in each year of the transition period is calculated as follows:

Year	Rate
2009:	net national revenue amount X 5.12%
2010:	net national revenue amount X 5.48%
2011:	net national revenue amount X 5.84%
2012:	net national revenue amount X 6.21%
2013:	net national revenue amount X 6.57%

The result of this gradual increase in the percentage in five even steps is that the overall amount of funding available for provincial governments and local-level governments gradually increases as a proportion of Net National Revenue.

1.1 Calculation of the Equalisation Amount 2010

The process for the calculation of the equalisation amount in the transition period is set out in Section 4 of Schedule 1 to the Act.

NEFC prepares a written estimate of the equalisation amount for 2010 and provides the estimate to the Treasury Departmental Head on or before 31 March 2009.

The minimum funding level for the equalisation amount is calculated as a set percentage of the NNR amount.

Since the net national revenue amount is calculated by the end of 31 March 2009 for the purposes of 2010 grants, the Act requires the NEFC to use the most recently available actual data from the most recent and complete fiscal year (the second preceding fiscal year).

Consistent with Section 4 of Schedule 1 of the Act, the NNR amount for 2010 was calculated using tax revenue data from 2008 (the second preceding fiscal year) in accordance with the following formula.

General tax revenue for 2008	-	Mining and petroleum tax revenue for 2008	=	Net National Revenue
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Where:-

“General tax revenue” is the total amount of tax revenue received by the National Government in the second preceding fiscal year; and

“Mining and petroleum tax revenue” is the total of the following amounts received by the National Government in the second preceding fiscal year:-

- (a) gas income tax within the meaning of the *Income Tax Act 1959*;
- (b) mining income tax within the meaning of that Act;
- (c) petroleum income tax within the meaning of that Act;
- (d) any other tax imposed in relation to any gas, mining or petroleum activity.

Actual outcomes for the National Government revenues are taken from Table 1 – Fiscal out-turn tables of the *2008 Final Budget Outcome* published by the Department of Treasury in March 2009.

The following table shows how the NNR amount for 2010 is calculated.

Act definition	Final Budget Outcome equivalents	Kina million
1. 2008 General tax revenue	Tax revenue	K5,756.1
MINUS (-)		
2. 2008 Mining and petroleum tax revenue	1. Mining and petroleum taxes	K1,961.8
	2. Mining levy	K11.4
	TOTAL	K1,973.2
EQUALS (=)		
3. 2010 Net National Revenue Amount		K3,782.9

For 2010 Budget, the minimum funding level for the equalisation amount is calculated according to the formula below in Kina million:

Net national revenue for 2008 X 5.48% = NEFC estimate of 2010 equalisation amount

K3,782.9 x 5.48% = K207.302

In accordance with the Act, the NEFC provided a written estimate of the equalisation amount to the Secretary for Treasury on 31 March 2009.

On receipt of NEFC's estimate of the equalisation amount, the *Act* provides that the Secretary for Treasury can provide a higher estimate of the 2010 equalisation amount to the NEFC on or before 30 April of the same year.

If the Government wished to decrease the funding available to provincial and local-level governments, the Parliament would need to amend *the Act* and reduce the percentage applied to the NNR amount.

1.2 Projections for Equalisation Amount (2010-2013)

As noted above, the percentage that is applied to the NNR amount is gradually increased over the transition period. The result of this increase in the percentage used is that the overall amount of funding available for provincial governments and local-level governments increases each year over the first five years of the new system. This also reduces the annual budgetary impact of increased funding on both the National and provincial Governments.

The following table provides preliminary projections of the estimated equalisation amount for 2010 to 2013 using data published in the 2008 Budget Outcome and the 2009 Budget.

Table: Projections of Equalisation Amount 2010 – 2013 (K'million)

	2010	2011	2012	2013
General tax revenue (from second preceding year)	5,756.1	4,614.3	4,705.7	4,936.6
MINUS (-)				
Mining and Petroleum taxes (from second preceding year)	1,961.8	626.5	434.4	357.9
Mining Levy	11.4	0	0	0
EQUALS (=)				
NNR Amount	3,782.9	3,987.8	4,271.3	4,578.7
MULTIPLIED BY (x)				
Percentage to be applied to NNR Amount	5.48%	5.84%	6.21%	6.57%
EQUALS (=)				
Equalisation Amount	207.3	232.9	265.2	300.8

2 MINISTERIAL DETERMINATION OF THE EQUALISATION AMOUNT

2.1 Legislative Provisions

In the transition period (2009-2013), the *Intergovernmental Relations (Functions and Funding) Act 2009*, states that the Minister for Treasury, in consultation with the NEFC will make a written determination specifying a provincial share, a local level share, total transitional individual province guarantees and total transitional individual local-level guarantees.

The provincial guarantees are provided to ensure no Provincial Government receives less funding than they did in **total** from grants and GST for each year of the transition period than they did in 2008.

The local level guarantees are provided to ensure that no local-level government receives less than its 2008 level of funding.

The provincial and local level share will be distributed to provincial governments and local level governments on an equalisation basis.

In the full system (2014 and beyond) there will be no more guarantees and the equalization amount will be split between the amounts for provincial governments and local-level governments purely on the basis of **need**.

The Ministerial Determination specifying the splits will remain in force at least for the whole transition period until revoked by the Minister. The NEFC will publish the Determination that is in force each year in the Annual Fiscal Report.

2.2 Apportioning equalisation amount between provincial & local-level governments

Equalisation Amount

In the second year of implementation of the equalisation system, the Ministerial Determination that was issued by the Treasurer splits the equalisation amount of **K207.3 million** as follows;

<i>i Total amount for funding transitional individual province guarantees</i>	K'm
Amount appropriated for block grant, function grant and derivation grant for 2008	84.8
"GST" Guarantee in 2009	18.9
Total	103.7
<i>ii. Total amount for funding transitional individual local level guarantees</i>	
Receive their 2008 level of funding	39.0
<i>iii. Province share</i>	
Remainder – to be distributed on an equalisation basis.	60.4
<i>iv. Local level share</i>	
Remainder – to be distributed on an equalisation basis	4.1
Total	207.3

Transitional Guarantees

(i) Total of the transitional individual province guarantees of all Provincial Governments

Over the transition period, no Provincial Government will be worse off compared to 2008 funding levels. Each Provincial Government will receive a guaranteed amount equal to the sum of:

- 2008 block, function and derivation grant funding (K84.8 million for all provinces)
- if the GST distribution received by a Provincial Government in 2008 is greater than the GST distribution received in the transition period, the difference between the two GST distribution amounts will be given in the form of service delivery function grants.
 - Under the new system, Provincial Governments will receive 60% of net inland GST collections from the "second preceding year."
 - For 2010 the amount 'converted' from GST transfers to service delivery grants is K18.9 million for all provinces.
- In 2010 total funding for transitional individual province guarantees for all provincial governments is K103.8 million.

(ii) Content of Determination part (i)

The total amount for funding transitional individual province guarantees is:

- K84.9 million: being the amount appropriated to all Provincial Governments in 2008 for block grants, function grants and derivation grants

PLUS

- For the relevant year of the transition period, the total of the following amounts for all Provincial Governments:
 - if the GST distribution received by a Provincial Government in 2008 is greater than the GST distribution received in the relevant year (2010) of the transition period.
 - The difference between the two GST distribution amounts will be allocated to Provinces as top ups to their service delivery Function Grants.

(iii) Total of the transitional individual local-level guarantees of all Local-level Governments

During the transitional period, no Local-level Government will be worse off compared to 2008 funding levels.

- Each Local-level Government will receive a guaranteed amount equal to the 2008 amount for goods and services grant funding

(iv) Content of Ministerial Determination Part (ii)

In 2010, the proportion of the equalisation amount available for the total of the transitional individual local level guarantees is K39 million.

(v) Local Level Share

In comparison to Provincial Governments, Local-level Governments fare better in that they will receive 21% of the equalisation amount despite them only accounting for 14% of the total provincial and local level government costs of service delivery. That is local-level governments receive a higher proportion of funding relative to their costs than provincial governments.

However, it would not be realistic to freeze local-level government funding at 2008 levels as recurrent costs of increased district expenditure is expected to rise with the injection of the K10 m provided under the District Service Improvement Program.

Some individual local-level governments also do not currently receive enough funding, and we therefore need to provide some of the remaining equalisation amount to those Local-level Governments that need it.

Overall, local-level governments when compared to 2008 levels will receive additional funding of K4.1 million in 2010, or a 10.6% increase.

(iv) Provincial Share

In the Ministerial Determination, the Province Share will be defined as all the remaining funding from the equalisation amount as shown below.

	<i>K'million</i>	<i>% of EA</i>
<i>Equalisation Amount (EA)</i>	<i>207.3</i>	<i>100%</i>
<i>(i) Total amount for funding transitional individual province guarantees</i>	<i>103.8</i>	<i>50%</i>
<i>(ii) Total amount for funding transitional local level guarantees</i>	<i>39.0</i>	<i>19%</i>
<i>(iii) Local level share – 2% of EA</i>	<i>4.1</i>	<i>2%</i>
<i>(iv) Province share – remaining funding from EA after paying (i), (ii) and (iii)</i>	<i>60.4</i>	<i>29%</i>

All these components are funded from the equalisation amount (EA). To ensure there is sufficient funding available to meet all these components, the guarantees must be accounted for first. The remaining component is distributed on the basis of need.

The amount distributed on the basis of needs will increase during the first five years of the new system to minimize large fiscal impacts on provinces and the National Government.

Written Determination issued by Minister

A copy of the Determination is contained in Appendix A.

3 ESTIMATING COSTS

Since provincial and local-level government grants are now being calculated on a needs basis, it is important to establish each provincial and local-level governments revenues and costs. After determining these factors, NEFC can:

- 1) determine the 'fiscal need' and
- 2) calculate the amount of grants for Provincial and Local-level Governments.

During the transition period of the new intergovernmental financing system, the estimated costs of assigned service delivery functions and responsibilities will be the *"estimate by the NEFC of the cost for the fiscal year to the Provincial Government of performing its service delivery functions and responsibilities. This includes the incidental costs of administration of the Provincial Government (whether or not the service delivery functions and responsibilities are assigned under Part 2 of the Act)"*

As a result, the NEFC is allowed to make its own estimate of the *estimated costs of assigned service delivery functions and responsibilities* in the absence of a Determination that clarifies the *assigned service delivery functions and responsibilities to the different levels of government*.

The Function Assignment Determination was passed by NEC in June 2009. The NEFC examined the draft Determination prior to this to consider its potential impact on grant calculation for the 2010 Budget. No major differences between the work originally done by the NEFC under the Responsibility Specification Exercise were found and thus no changes were required to be made.

3.1 2009 Ministerial Determination

Summary of legislative provisions

1. The Organic Law on Provincial and Local-level Governments

Part 4, Division 2, of the Organic Law explains the division and distribution of revenue among and between the levels of government and other financial arrangements.

These provisions are further explained in greater detail in the *Intergovernmental Relations (Functions and Funding) Act 2009*.

2. Intergovernmental Relations (Functions and Funding) Act 2009

Part 2 of the Act explains the principles and the circumstances under which service delivery functions and responsibilities assignment will be determined.

Part 3 explains the equalisation system of the new intergovernmental financing arrangements, which also clearly highlights the fiscal need basis upon which provincial and local-level Government grants will be calculated.

3.2 Function Assignment Determination

The reforms to the intergovernmental financial arrangements envisage a fairer system of distribution of resources. In order to achieve this vision of a fairer system, it was necessary to establish the roles and responsibilities of local level governments and provinces. This in turn would allow for more accurately estimating the costs of the services they are supposed to provide.

The function assignment project was undertaken to ensure improved service delivery. This was further pursued in 2009 given the introduction on the Inter-governmental Relations (Functions and Funding) Act. The ultimate aim of the exercise is to remove the already existing confusing and to provide certainty about the roles and responsibilities which contributes towards effective planning, budgeting, delivering and monitoring the activities they are accountable for delivering.

Over recent years, an exhaustive review was done of legislation, sector strategies, corporate plans, policies, and other relevant publications together with broad consultation with all levels of government that led to the development of two key documents.

The first document is the service delivery activities working document which documents in detail service delivery activities of each level of government and administration-including National Government, and Provincial Headquarters, District Administrations and Local-level Government.

The second set of documentation pertains to the determination of Service Delivery Functions and responsibilities which focuses on activities that have recurrent funding implications. The determination delineates the respective roles and responsibilities for the different tiers of government. This will then be ultimately costed out to determine the appropriate level of function grants to be allocated to each province and local level government.

The determination has since been endorsed by cabinet and awaiting clearance from the Head of State before been gazetted. The NEC approved Determination is attached as Appendix C.

NEC has formally approved a Determination which will shortly be ratified by the Governor-General. After ratification by the Governor-General, DPLGA will spearhead the roll-out of a number of initiatives. These are:

1. Development of Service Delivery Activity Guides, a Service Delivery Toolkit; and a Register of Service Delivery Functions and Responsibilities.
2. Institutionalising function assignment into government systems and processes.
3. Delivering an awareness and education programme.
4. Integrating function assignment into the new system of intergovernmental financing.
5. Reviewing the Determination.

3.3 NEFC Cost of Services Study

The purpose of the Cost of Services Study is to assess what provinces and local-level governments should be spending to deliver a basic set of services.

The first NEFC Cost of Services study was undertaken in 2005. An update to this study is currently being undertaken over 2009 and 2010.

The Study only covers recurrent non-salary provincial and local level government costs only. It does not include salaries, leave fares of public servants and teachers, nor any capital or development expenditures.

The primary focus of the study is therefore on service delivery to the rural majority of PNG's population.

It is assumed that;

- the costing should relate to existing service delivery programs. It only applies to existing and operational facilities and infrastructure, and to current staffing numbers.

- the Costing study is based on a similar standard set of services. This was done even though some provinces undertake some services and not others.

The Methodology

A primary objective of the Cost of Services update is to accurately record any changes to the travel modes, routes and distances for each district, so that changes to these costs can be accurately calculated.

Travel routes between all service delivery points are marked on maps. The information on these maps will then be transferred to an electronic database by the University of Papua New Guinea Remote Sensing Unit for purposes of plotting and calculating actual (Euclidean) distances. Information on travel modes through walking, road, and sea transport are used calculate actual travel costs.

Other cost factors are taken into consideration in order to calculate actual travel costs, such as using actual fuel prices of each district, or PMV and boat fares.

The Cost of Services study develops cost estimates based on inputs, rather than outputs. Input-based standards are used to define activity levels for costing. The Function Assignment Determination (Appendix C) was the basis for determining the functions of the two tiers of government within the various service delivery sectors and in so doing, guiding the study in focusing on annual activities in the study year against related costs.

In order to achieve required levels of service delivery, the study requires activities involved and the capacities of the activities, to be determined by highlighting main inputs as outlined in the following broad categories.

- Fuel, & other supplies and routine equipment servicing (provincial price survey of a basket of goods)
- Travel costs, and training costs (based on province and district-specific travel routes and local costs of accommodation and venue hire)
- Board fees, and politicians' salaries and allowances (based on determinations under the Boards Fees and Allowances Act, and the Salaries and Remuneration Commission of National Parliament, respectively), and
- Road maintenance costs and maintenance costs of buildings (based on Department of Works data)

3.4 Estimated Costs for 2010

What are we counting in the Cost of Services Study?

The table below shows the estimated costs for all administration and service delivery sectors at the provincial and district levels in 2008 (two years prior). These exclude staffing costs and capital or projects costs.

Provincial and district costs

Table 1: Province and districts costs (excluding staffing costs) – 2008 in K'000

Province	Health and HIV	Education	Infrastructure	Village Courts	Agriculture	Other Service Delivery Costs (b)	Administration costs (a)	Total
Western	6,361	5,009	11,566	117	1,852	2,754	2,997	30,656
Gulf	2,764	2,266	3,933	33	1,042	1,632	1,634	13,302
Central	3,413	4,461	9,690	108	1,379	2,644	2,190	23,886
Milne Bay	6,366	4,556	5,475	68	1,409	2,685	2,598	23,156
Oro	2,750	2,150	2,942	38	913	1,867	1,944	12,604
Southern Highlands	7,394	6,048	9,829	159	2,599	3,285	3,307	32,622
Enga	3,928	3,781	10,028	94	1,569	2,497	2,439	24,336
Western Highlands	4,111	6,392	13,583	233	1,608	2,710	2,416	31,052
Simbu	3,295	4,329	6,593	69	959	1,985	2,320	19,549
Eastern Highlands	4,968	5,739	14,041	64	1,549	2,944	2,329	31,634
Morobe	7,114	7,887	13,129	68	2,808	4,392	3,775	39,172
Madang	5,522	3,558	9,048	36	1,808	3,267	2,682	25,922
East Sepik	7,004	4,734	15,064	116	1,902	3,143	3,597	35,560
Sandaun	5,493	4,340	5,077	62	1,947	1,936	2,674	21,528
Manus	1,427	1,758	3,465	56	622	1,530	2,051	10,909
New Ireland	3,295	2,657	3,885	32	811	2,267	2,278	15,226
East New Britain	3,563	4,743	7,402	58	1,513	2,999	2,854	23,132
West New Britain	4,371	4,227	3,034	172	1,288	2,701	2,269	18,062
TOTAL	83,139	78,634	147,785	1,582	27,578	47,236	46,354	432,308

- (a) Assembly, Office of the Administrator, Internal Audit, Local-level Government administration, HRD Policy, Planning and Research, Finance and Administration and Legal Services
- (b) Commerce, Communication, Community Development, Correctional Services, Environment, Fisheries, HIV, Land Administration, Natural Resource Management, and Police

The three big sectors, Infrastructure, Health/HIV and Education, account for over 80 percent of the total service delivery costs at the provincial and district levels.

Individually, **Infrastructure** is the most expensive sector, making up nearly a third of total estimated service delivery costs. **Health/HIV** accounts for about 17% of total service delivery costs whilst **Education** costs is about 19% of the total service delivery costs.

The cost of **infrastructure** is dominated by the cost of maintaining roads, bridges and jetties. The length of the road network in the country determines the overall cost in this sector. **Health** and **education** are expensive because they are delivered through a large network of facilities. Schools and health facilities are the main sectors which place public servants in rural areas, outside district administration headquarters, delivering services to communities. No other sector has anywhere near the same presence.

The other major sector, **agriculture**, which makes up about 5% of total costs, mainly involves extension officers travelling into rural areas to provide extension services. As such, much of the cost in this sector is associated with public servant travel. While agriculture also involves contact with a large number of people, there are relatively fewer agricultural extension officers than there are teachers or health workers.

National responsibilities such as police, CIS and NBC were included in the 2005 cost of service study because in 1999 the National government imposed a requirement that provinces meet some of the costs associated with running these functions.

The new Function Assignment Determination excludes these three national functions and are therefore not included in the updates of the Cost of Services study.

‘Assembly’ covers the administrative costs associated with the political structures of provincial and local-level governments. The administrative aspect of assembly services accounts for two-thirds of the administrative overhead costs of provincial and local-level governments. However, there is considerable variation among provinces.

The main reason for this is the cost of paying allowances to politicians, in particular Local-level Government politicians. The cost of politicians travelling to meetings also has a major impact on administration overheads, especially where politicians need to travel long distances to attend Assembly or Local-level Government meetings.

The main reason why assembly costs are so much higher in some provinces than in others is that they have more politicians.

Local-level Governments

Given the time and resources available at the time of undertaking the costing study, the NEFC only attempted to cost rural Local-level Governments. Table 2 shows the relevant costs associated with Local-level Governments under each sector. Note that in most sectors, there were no responsibilities which Local-level Governments were responsible to fund. The main sectors which Local-level Governments have responsibilities include Health/HIV, Education and Village Courts (refer to Appendix B).

The costing study found that there is far less similarity among provinces in terms of urban services than there is among rural services in different provinces. The nature of the services that need to be provided depends on the size of the urban population.

The nature of the services provided by different urban Local-level Governments around PNG varies considerably. For example, some of them are required to provide water and/or sewerage services, whereas in other towns one or both of these services are provided on a user-pays basis by the PNG Waterboard. In smaller towns, residents provide these services themselves, by collecting rainwater in tanks and using pit latrines or septic tanks. Some towns have extensive paved roads, while others have mainly dirt roads.

Table 2: Local level government costs (excluding staffing costs) – 2008 in K'000

Province	Health and HIV	Education	Infrastructure	Village Courts	Agriculture	Other Service Delivery Costs (b)	Administration costs (a)	Total
Western	180	622	0	55	0	0	4,031	4,887
Gulf	136	276	0	35	0	0	1,745	2,192
Central	133	1,091	0	101	0	0	2,049	3,374
Milne Bay	239	978	0	33	0	0	3,144	4,393
Oro	112	365	0	18	0	0	1,917	2,412
Southern Highlands	412	1,197	0	217	0	0	4,584	6,409
Enga	202	785	0	121	0	0	2,260	3,368
Western Highlands	236	1,425	0	131	0	0	2,027	3,819
Simbu	87	1,042	0	142	0	0	1,474	2,745
Eastern Highlands	120	1,166	0	155	0	0	1,381	2,823
Morobe	347	1,638	0	92	0	0	5,088	7,163
Madang	247	660	0	77	0	0	4,249	5,233
East Sepik	183	1,184	0	110	0	0	4,821	6,298
Sandaun	251	612	0	26	0	0	5,578	6,468
Manus	101	289	0	43	0	0	717	1,150
New Ireland	63	572	0	41	0	0	1,136	1,812
East New Britain	163	1,066	0	36	0	0	3,311	4,576
West New Britain	142	963	0	47	0	0	1,544	2,696
TOTAL	3,352	15,931	0	1,479	0	0	51,054	71,817

As Table 2 shows, apart from the administrative costs which are dominated by Assembly related costs, the only service delivery sectors which have Local-level Government funding responsibilities are Health, Education and Village Courts.

What year should costs be calculated with reference to – the distribution year or the 2nd preceding year?

The Cost of Services Study was conducted in 2005. Therefore, 2005 will be the base year for any updating of the costing data until the 2010 update can be integrated into the costs for the 2012 budget.

Revenues, which form the other component of the fiscal needs calculation, will be based on the second preceding year's data, since those are the latest actual figures available. Hence, for 2010, the latest available actual revenue data is from 2008, which is the second preceding year from 2010.

Similarly, for costs, NEFC applies the second preceding year's cost data to calculate fiscal needs of Provincial and Local-level Governments. For that reason, applying 2008 costs and revenues in the fiscal needs calculations is more relevant and related to the same period of time.

Given the recent government cumulative allocation of K14 million DSIP funding to each district and other grants from the development budget (including DRIP, DSG), it is important to update this costing data to reflect any resulting increase in the number of facilities and staffing levels.

What indexation factors should be used to grow the costs?

The Cost of Services Study was undertaken in 2005. It incorporated province specific costs of inputs for that year. In between physical updates, an index is applied to these costing figures to accommodate inevitable increases in costs.

Therefore, for the 2010 budget grant calculation, NEFC took into account province-specific population growth rates as well as inflation since 2005. NEFC then used these indexed estimated costs for each province to derive the ‘fiscal needs’ of each provincial and local-level government.

3.5 Assessed Revenues

Under the new funding arrangements, calculation of grants for provincial and local-level Governments is based on the need of each province. This is the difference between the revenues and costs of assigned service delivery functions and responsibilities. For this reason, revenues for provincial governments need to be calculated in order to be assessed.

Assessed revenues are the total amounts likely to be received by the provincial government for that fiscal year to be used to carry out their assigned service delivery functions.

Revenue data is compiled from multiple sources.

These include:

National goods and services grants

The National Government provides Provincial Governments with a range of goods and services grants each year to support a variety of core service delivery activities.

This information is sourced from data on actual grants paid, as reported in National Budget Papers.

GST

Provincial Governments receive a Goods and Services Tax (GST) distribution paid through the Internal Revenue Commission (IRC). This data is sourced from the IRC.

Own-source revenue

Provincial Governments collect revenue from a variety of activities including licenses, fees, taxes and commercial activities.

This data is obtained from the PNG Government Accounting System (PGAS) “internal revenue” electronic summary files held by the Department of Finance (DoF).

The NEFC is aware that not all revenue received by provincial governments is recorded accurately in PGAS. Where this occurs, the NEFC may count these “hidden” revenues in the overall consideration of total revenues. For example, for 2010 the Central Provincial Government was asked for actual revenues received by the Central Provincial Transport Authority as these revenues were not recorded in PGAS. In the absence of any actual data, the NEFC used projections provided by the Central Provincial Government. This represented an increase of K2.9 million from the revenues recorded in PGAS.

Mining and Petroleum Royalties

Provincial Governments with mining and petroleum activities within their provincial boundaries may be entitled to royalties as a result of Memoranda of Agreement (MOA) between the Provincial Government, customary land owners, the mining company and other stakeholders. In the case of petroleum projects negotiated after 1988, Provincial Governments shares are provided under the provisions of the relevant mining and petroleum legislation.

This data has been sourced direct from mining and petroleum companies and from Government agencies (Mineral Resources Authority (MRA) for mining projects, and Department of Petroleum and Energy (DPE) for petroleum projects).

Mining and Petroleum Dividends

Provincial Governments with mining and petroleum activities within their provincial boundaries may also be entitled to dividends through MOA between the Provincial Government, customary land owners, the mining company and other stakeholders.

This data is sourced from the Mineral Resources Development Corporation (MRDC) and direct from relevant mining and petroleum companies (where available).

Types of revenue

Apart from the national grants, the following sources of revenues are used to assess revenues available to Provincial Governments:

- own source revenues;
- royalties and dividends from Mining and petroleum projects;
- GST distributions, under the *Intergovernmental Relations (Functions and Funding) Act 2009*;
- Bookmakers Tax, distributed under the *Intergovernmental Relations (Functions and Funding) Act 2009*; and
- any other fiscal benefits.

Generally, revenues for a fiscal year are assessed with reference to the second preceding year to that fiscal year as this will be the last available year of actual complete data. That is, for the 2010 distribution year, 2008 revenues were assessed by the NEFC.

Own Source Revenue

These are local taxes, charges, and receipts collected by the provincial administration, which are the only revenue base that provinces have some local control and influence over. These comprise;

- sales and service tax
- licences for liquor outlets
- Licences for gambling establishments
- motor vehicle registration and license fees
- proceeds from business activities, rents, sale of assets
- provincial road users tax
- court fees & fines; and
- other fees & charges

The NEFC estimates that in 2008 (the second preceding year), provinces raised K60.2 million¹ from this revenue source.

Royalties and Dividends from Mining/Petroleum projects

For every new project since the late 1980s, the National Government has not exercised claims over mining and petroleum royalties in the MOAs. Instead, the royalties have been split among landowners, Local and Provincial Governments, in various ways depending on the project. In turn, Provincial Governments have also sometimes made various long-term commitments regarding their share of royalties (for specific projects, to local governments and/or non-government agents).

In 2008 (the second preceding year), NEFC estimates that provinces received K129 million from dividend payments and these sharing arrangements as contained in the MOAs.

GST distribution

GST is collected and administered by the IRC. The IRC distributes a portion of the GST revenue to Provincial Governments and the NCD as set out in the *GST Revenue Distribution Act 2003* (the distribution Act). This Act was repealed in 2008 and the provisions relocated to the new *Intergovernmental Relations (Functions and Funding) Act*. Any remaining GST that is not distributed to Provincial Governments or the NCD under these sharing arrangements is paid into consolidated revenue (to the National Government).²

The amount of GST distributed under the Act is based on 60% of net inland GST collections for each province from the second preceding year.

Generally, revenues for a fiscal year are to be assessed with reference to the second preceding year to that fiscal year as this will be the last available year of data. So GST distribution will be based on 60% of net inland GST collected from the second preceding year (i.e. 2008).

Bookmakers Tax

Bookmakers Tax received by Provincial Governments will be 100% of the revenues collected in the province in the second preceding year.

In 2009, Bookmakers tax was not distributed by IRC due to technical delays in the certification of the legislation. NEFC has been pursuing this matter and it is anticipated that this revenue will be fully paid to provinces as part of the 2010 Budget.

Table 3 below gives the estimate of revenues available to provincial governments for service delivery as collected in the second preceding year 2008;

¹ This excludes Bookmakers Tax

³ It is important to note that these distribution arrangements to Provincial Governments are not shown in the national budget. The amounts of GST shown in the national budget are the amounts retained by the National Government, after Provincial Governments and the NCD have received their distribution.

Table 3: Actual revenues collected by province in 2008 (K '000)

Province	GST Distribution	Bookmakers Tax	Own Source Revenues	Royalties	Dividends	Total
Western	2,898	0	368	36,800	23,200	63,266
Gulf	197	0	146	0	2,505	2,848
Central	750	0	7,104	0	0	7,855
Milne Bay	2,544	0	1,292	0	0	3,836
Oro	1,237	0	217	0	0	1,454
Southern Highlands	653	0	182	29,935	3,495	34,265
Enga	465	0	10,505	14,973	0	25,943
Western Highlands	11,966	461	1,688	0	0	14,115
Simbu	662	0	422	0	0	1,083
Eastern Highlands	10,275	245	1,401	32	0	11,953
Morobe	30,786	898	6,750	0	0	38,434
Madang	4,035	624	2,299	0	0	6,958
East Sepik	2,036	28	1,637	0	0	3,701
Sandaun	317	0	1,026	0	0	1,343
Manus	224	0	407	0	0	631
New Ireland	2,247	89	1,264	18,121	0	21,721
East New Britain	8,517	285	6,962	0	0	15,764
West New Britain	5,560	0	16,553	0	0	22,113
TOTAL	85,371	2,630	60,221	99,861	29,200	277,283

2010 Assessed revenues

For the purpose of calculating the different funding levels of the different function grants in 2009 onwards, the following assessments have been made. All revenues are assessed based on the actual revenues collected for the second preceding year for each province.

i) Royalties and Dividends from Mining and Petroleum Project

- 80% of *royalties and 50% of dividends from mining and petroleum projects*. This gives the recognition that some revenues are spent on development of mining infrastructure.

ii) Own Source Revenues

- NEFC takes into account only 50% of *own source revenues* collected in order to encourage provinces to continue to collect and enhance their own revenue base.

iii) GST

- 100% of GST distributed under the *Intergovernmental Relations (Functions and Funding) Act 2008* (which is 60% of net inland collections).

iv) Bookmakers Turnover Tax

- 100% of *Bookmakers Tax* distributed under the *Intergovernmental Relations (Functions and Funding) Act 2008*.

Table 4: Assessed Revenues by province for 2010 (Kina '000)

Province	Individual Transitional Province Guarantees	GST Distribution	Bookmakers Tax	Own Source Revenues	Royalties	Dividends	Total
Assess Percentage	100%	100%	100%	50%	80%	50%	
Western	4,209	2,898	0	184	29,440	11,600	48,331
Gulf	3,764	197	0	73	0	1,253	5,287
Central	4,175	750	0	3,552	0	0	8,478
Milne Bay	3,914	2,544	0	646	0	0	7,104
Oro	3,172	1,237	0	108	0	0	4,517
Southern Highlands	7,962	653	0	91	23,948	1,748	34,402
Enga	6,918	465	0	5,252	11,978	0	24,614
Western Highlands	7,204	11,966	461	844	0	0	20,475
Simbu	4,704	662	0	211	0	0	5,576
Eastern Highlands	6,920	10,275	245	700	26	0	18,166
Morobe	7,717	30,786	898	3,375	0	0	42,776
Madang	12,459	4,035	624	1,149	0	0	18,268
East Sepik	7,133	2,036	28	818	0	0	10,015
Sandaun	4,418	317	0	513	0	0	5,248
Manus	2,366	224	0	204	0	0	2,793
New Ireland	3,904	2,247	89	632	14,497	0	21,368
East New Britain	5,871	8,517	285	3,481	0	0	18,153
West New Britain	6,989	5,560	0	8,277	0	0	20,826
TOTAL	103,798	85,371	2,630	30,111	79,889	14,600	316,398

3.6 Fiscal Needs of Provincial and Local-Level Governments

The fiscal needs of a Provincial and Local-level Government is the difference between the cost of providing the assigned service delivery functions and responsibilities and the revenue available to the Provincial and Local-level Governments to pay for these services.

Where a Provincial and Local-level Government has assessed revenues that are greater than its costs, its fiscal need is zero. That is, it has fiscal capacity to fulfil service delivery functions without additional revenue from the national government.

The amount that a Provincial and Local-level Government needs is called the **fiscal needs amount**. This amount is calculated on the basis of the recurrent cost of providing the assigned service delivery functions and responsibilities, as well as the revenue already available to the Provincial and Local-level Governments to pay for these services.

Fiscal Needs Amounts for Provincial governments

The fiscal needs amount for a Provincial Government is calculated using the formula:

$$\begin{array}{l} \text{Estimated recurrent cost of} \\ \text{assigned service delivery} \\ \text{functions \& responsibilities} \end{array} - \begin{array}{l} \text{Assessed} \\ \text{revenue} \end{array} = \begin{array}{l} \text{Fiscal Needs} \\ \text{amounts} \end{array}$$

where:-

“estimated recurrent cost of assigned service delivery functions and responsibilities” are the estimated recurrent cost for the Provincial Government of performing its assigned service delivery functions and responsibilities for the fiscal year, including the necessary and incidental costs of administration of the Provincial Government;

“assessed revenue” is the amount of revenue that the NEFC considers to be available to the Provincial Government for meeting the recurrent cost of its assigned service delivery functions and responsibilities for the fiscal year.

Fiscal Needs Amounts for Local-Level Governments

The fiscal needs amount of each Local-level Government for each fiscal year is calculated using the formula -

$$\begin{array}{l} \text{Estimated recurrent cost of} \\ \text{assigned service delivery} \\ \text{functions \& responsibilities} \end{array} - \begin{array}{l} \text{Assessed} \\ \text{revenue} \end{array} = \begin{array}{l} \text{Fiscal Needs} \\ \text{amounts} \end{array}$$

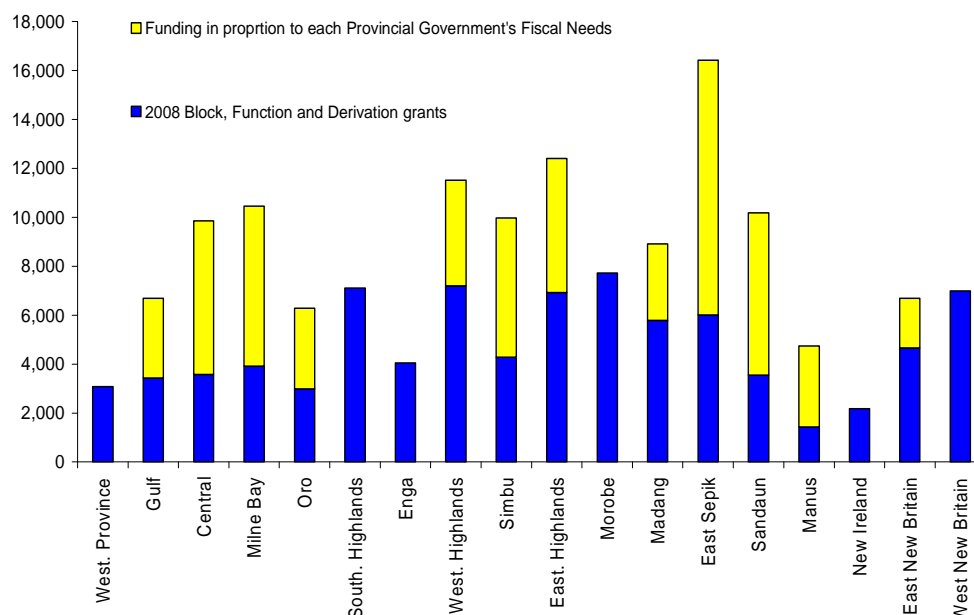
Where:-

“estimated recurrent cost of assigned service delivery functions and responsibilities” are the recurrent cost to the Local-level Government of performing its assigned service delivery functions and responsibilities for the fiscal year, including the necessary and incidental costs of administration of the Local-level Government;

“assessed revenue” is the amount of revenue that the NEFC considers to be available to the Local-level Government for meeting the recurrent cost of its assigned service delivery functions and responsibilities for the fiscal year.

Table 5: Fiscal Needs of provinces for 2010 (Kina ‘000)

Province	Estimated costs	Assessed revenues	Fiscal needs	% of total fiscal needs
Western	30,656	48,331	0	0%
Gulf	13,302	5,287	8,015	5%
Central	23,886	8,478	15,408	10%
Milne Bay	23,156	7,104	16,053	11%
Oro	12,604	4,517	8,086	5%
Southern Highlands	32,622	34,402	0	0%
Enga	24,336	24,614	0	0%
Western Highlands	31,052	20,475	10,577	7%
Simbu	19,549	5,576	13,973	9%
Eastern Highlands	31,634	18,166	13,468	9%
Morobe	39,172	42,776	0	0%
Madang	25,922	18,268	7,654	5%
East Sepik	35,560	10,015	25,545	17%
Sandaun	21,528	5,248	16,280	11%
Manus	10,909	2,793	8,115	5%
New Ireland	15,226	21,368	0	0%
East New Britain	23,132	18,153	4,979	3%
West New Britain	18,062	20,826	0	0%
TOTAL	432,308	316,398	148,154	100%



Graph: The above chart graphs the provincial guarantees in blue with funding in proportion to each government's fiscal needs shown in yellow. Note that for 2010 there are six provinces with fiscal capacity in excess of fiscal need. Thus there is no additional funding.

4 INDIVIDUAL PROVINCE SHARE

Provincial Governments are all different, therefore they will each need a different amount to deliver their assigned service delivery functions and responsibilities.

The individual province share is the amount an individual Provincial Government receives from the equalisation system. This amount is divided into service delivery function grants and an administration grant.

During the transition period (2009 – 2013), the individual province share is calculated using the formula:

$$\text{transitional individual province guarantee} + \left(\text{equalisation amount for provinces} \times \frac{\text{fiscal needs amount of individual province}}{\text{total fiscal needs amount of provinces}} \right) = \text{individual province share}$$

where -

“transitional individual province guarantee” means the transitional individual province guarantee of that Provincial Government for the relevant fiscal year;

“equalisation amount for provinces” means the amount equal to the province share specified in the determination made under paragraph 2(1)(c) that is in force on 30 April of the immediately preceding fiscal year;

“fiscal needs amount of individual province” means the fiscal needs amount of that Provincial Government for the relevant fiscal year;

“total fiscal needs amount of provinces” means the total of the fiscal needs amounts of the Provincial Governments that have fiscal needs amounts greater than zero for the relevant fiscal year.

Table 6: 2010 Individual Province Share (K'000)

Province	Transitional Individual Province Guarantee (a)	Fiscal Needs (estimated costs minus assessed revenues)	Percentage of total fiscal needs	Funding based on percentage of total fiscal needs (b)	Individual Province Share (a+b)
Western	4,209	0	0%	0	4,209
Gulf	3,764	8,015	5%	3,266	7,031
Central	4,175	15,408	10%	6,279	10,455
Milne Bay	3,914	16,053	11%	6,542	10,455
Oro	3,172	8,086	5%	3,295	6,467
Southern Highlands	7,962	0	0%	0	7,962
Enga	6,918	0	0%	0	6,918
Western Highlands	7,204	10,577	7%	4,310	11,514
Simbu	4,704	13,973	9%	5,694	10,398
Eastern Highlands	6,920	13,468	9%	5,488	12,408
Morobe	7,717	0	0%	0	7,717
Madang	12,459	7,654	5%	3,119	15,578
East Sepik	7,133	25,545	17%	10,410	17,543
Sandaun	4,418	16,280	11%	6,634	11,052
Manus	2,366	8,115	5%	3,307	5,673
New Ireland	3,904	0	0%	0	3,904
East New Britain	5,871	4,979	3%	2,029	7,899
West New Britain	6,989	0	0%	0	6,989
TOTAL	103,798	148,154	100%	60,375	164,173

INDIVIDUAL LOCAL-LEVEL SHARE

The individual rural Local-level share is the amount an individual rural Local-level Government receives from the equalisation system.

The Local-level Government share is divided into two amounts: one for urban Local-level Governments, and an amount for rural Local-level Governments. These are called individual local-level shares.

The amounts for individual urban or rural Local-level Government for the relevant fiscal year are calculated using the formula below:

$$\text{transitional individual local-level guarantee} + \left(\frac{\text{equalisation amount for urban Local-level Governments} \times \text{fiscal needs amount of individual urban Local-level Government}}{\text{total fiscal needs amount of urban Local-level Governments}} \right) = \text{individual local-level share}$$

where—

“transitional individual local-level guarantee” means the transitional individual local-level guarantee of that urban Local-level Government for the relevant fiscal year;

“equalisation amount for urban Local-level Governments” means the amount estimated by the NEFC to be the urban Local-level Governments’ share of the local-level share specified in the determination made under paragraph 2(1)(d) that is in force on 30 April of the immediately preceding fiscal year;

“fiscal needs amount of individual urban Local-level Government” means the fiscal needs amount of that urban Local-level Government for the relevant fiscal year;

“total fiscal needs amount of urban Local-level Governments” means the total of the fiscal needs amounts of the urban Local-level Governments that have fiscal needs amounts greater than zero for the relevant fiscal year.

A similar formula is used to calculate the rural Local-level Government share.

Most rural Local-level Governments have minimal revenues available to them. However, they each have very different costs. Reasons include higher costs due to remoteness or having different populations to service. Even though most rural Local-level Governments have little or no revenue, they have different fiscal needs amounts because they all have different costs.

Urban and rural Local-level Governments have different assigned service delivery functions and responsibilities now defined by the Function Assignment Determination approved by NEC. They also have different revenues available to them. Urban Local-level Governments can raise substantially more revenue to fund a more significant proportion of their service delivery costs. Rural Local-level Governments tend to have minimal revenues and fewer service delivery functions and responsibilities.

Revenues for rural and urban Local-level Governments have been assessed at zero. This is because data on these revenues are incomplete and of poor quality. However, eventually the NEFC expects to obtain better information on the revenues of urban Local-level Governments and would then assess these more accurately. It may never be possible to accurately assess revenues for over 308 rural Local-level Governments. In the circumstances, revenues for rural Local-level Governments may remain at zero.

Table 7: Local-level government share by province for 2010 (K'000)

Province	Urban LLGs Share per province	Rural LLGs Share per province	LLGs Share per province
Western	592	1,414	2,007
Gulf	125	908	1,032
Central	0	1,475	1,475
Milne Bay	240	1,643	1,883
Oro	483	947	1,430
Southern Highlands	764	3,760	4,524
Enga	102	2,095	2,197
Western Highlands	678	2,892	3,570
Simbu	225	1,774	1,999
Eastern Highlands	640	2,833	3,473
Morobe	2,292	3,429	5,721
Madang	694	2,584	3,278
East Sepik	492	2,618	3,110
Sandaun	237	1,727	1,965
Manus	143	337	480
New Ireland	274	831	1,105
East New Britain	584	1,637	2,221
West New Britain	345	1,314	1,659
TOTAL	8,911	34,220	43,130

On average, Local-level Governments have experienced a 13% increase in funding each year from 2004 to 2007 and received a further 9% increase in the 2009 budget from their 2008 levels. In the 2010 budget, local level governments are expected to receive a one percent increase over the 2009 amount, because overall, LLGs have slightly better fiscal capacity when compared to the provinces.

The total Local-level Government share is divided between rural and urban Local-level Governments in the same proportion as provided in the 2009 budget i.e. 79% rural, 21% urban.

The rural Local-level Government share is then further divided into 308 individual Local-level Government amounts, based on district costs and population in each Local-level Government.

For urban Local level governments, their funding is determined as what they received in 2008 PLUS their share of additional funding based on their assessed fiscal needs.

5 FUNCTION AND ADMINISTRATION GRANTS DETERMINATION

As stated earlier in the report, the equalisation amount is broken down amongst the different service delivery function grants for each Provincial Government based on the fiscal need of the relevant service sector (such as health and transport infrastructure maintenance) through comparing the NEFC's estimated cost of service delivery for each sector against the funding level for each sector.

Provincial Administrations were provided these amounts through the 2010 Budget Circular. As part of the process, provinces are allowed to request minor shifts among function grants within their overall provincial ceiling.

Treasury holds negotiations with provinces that request changes and an agreement can be reached as to the revised split among the function grants.

The Determination is then prepared and signed by the Treasurer to formalize the splits amongst the provincial grants for the 2010 Budget.

This Determination is signed and issued prior to the meeting of the Budget Screening Committee with the provinces in order that they can focus their discussions on personnel emoluments and the development budget.

The table below shows the final amounts (in K'000) for each service delivery function grant for each province for 2010.

Table 8: 2010 Function and Administration Grants Determination

	Agriculture Function Grant	Health Function Grant	Education Function Grant	Transport Infrastructure FG	Village Courts FG	Other Service Delivery FG	Administration Grant	Administration and Function Grant Ceiling
Western	618.1	879.1	893.5	1,409.0	127.6	141.0	141.0	4,209.3
Gulf	532.8	1,946.0	2,154.8	1,545.9	49.0	455.1	347.0	7,030.6
Central	257.6	2,279.0	2,904.0	3,225.4	153.9	1,229.9	404.8	10,454.6
Milne Bay	556.0	3,271.5	2,248.0	2,391.4	76.2	1,139.3	773.0	10,455.4
Oro	773.4	1,525.2	1,486.6	1,660.4	42.5	576.5	402.3	6,466.9
Southern Highlands	46.7	2,462.2	1,919.5	1,580.3	257.3	921.0	775.0	7,962.0
Enga	89.2	1,873.4	929.3	2,471.0	153.3	916.4	485.3	6,917.9
Western Highlands	1,199.7	2,260.8	3,456.0	3,110.1	274.3	757.5	455.8	11,514.2
Simbu	144.6	2,250.3	2,946.0	3,195.2	150.2	1,161.8	550.0	10,398.1
Eastern Highlands	1,025.5	2,525.7	3,168.6	3,253.5	153.0	1,291.8	990.0	12,408.1
Morobe	373.4	785.6	1,794.0	2,739.0	124.7	990.3	910.3	7,717.3
Madang	760.2	3,889.4	3,264.1	5,197.7	78.3	1,683.7	704.8	15,578.2
East Sepik	850.6	4,813.9	3,315.9	6,297.8	167.3	1,452.3	645.0	17,542.8
Sandaun	382.1	3,418.8	2,755.9	2,469.9	67.1	1,435.8	522.5	11,052.1
Manus	101.5	1,269.8	1,362.3	1,797.5	73.3	788.6	279.9	5,672.9
New Ireland	547.3	1,160.1	845.0	930.1	51.7	184.7	184.7	3,903.6
East New Britain	1,527.3	1,737.2	2,303.8	1,839.7	70.6	339.7	81.1	7,899.4
West New Britain	4,330.6	767.9	1,167.9	435.7	165.3	61.0	61.0	6,989.4
TOTAL	14,116.6	39,115.9	38,915.2	45,549.6	2,235.6	15,526.4	8,713.5	164,172.8

5.1 Service Delivery Function Grants

Service Delivery Function Grants are provided to Provincial Governments to ensure that a minimum set of core services are adequately funded so as to benefit the majority of people across Papua New Guinea.

Service Delivery Function Grants are to be used exclusively for goods and services (operational costs) and not to fund salaries, capital or development costs unless specified in the budget.

The following service delivery function grants will be in operation in 2010 (though they may increase in number in the future):

- Education Service Delivery Function Grant
- Health Service Delivery Function Grant
- Transport Infrastructure Maintenance Grant
- Village Courts Function Grant (Operations)

-
- Village Courts Allowances Grant
 - Agriculture Service Delivery Function Grant
 - Other service delivery Function Grant

5.2 Administration Grant

This grant is to fund general overhead costs or meeting the day to day operation costs of the Provincial Administration.

No salaries or other personal emoluments, casual wages, and debt payment are to be paid using the administration grant.

5.3 Minimum Priority Activities and Performance Indicators

For the 2009 Budget, the Secretary for Treasury issued Budget and Expenditure Instructions calling for provinces to adequately fund eleven specific service delivery activities (Appendix D). These eleven activities have been identified as basic provincial responsibility across the five key function grant categories of Agriculture, Education, Health, Transport Infrastructure and Village Courts (all MTDS priority areas) and are known as **Minimum Priority Activities**.

These Minimum Priority Activities (MPAs) were arrived at after extensive consultation with national agencies, provinces and PLLSMA. MPAs should assist Provincial Governments to prioritise effective and targeted service delivery outcomes at the district and rural level.

Provincial Governments must create identifiable activity codes for each MPA in their respective budgets and request performance reporting from sector managers.

The following eleven MPAs across five key sectors were endorsed by the Inter-Departmental Committee (IDC) and issued by the Secretary of Treasury in the Budget and Expenditure Instructions for use by all Provincial Governments in the 2009 budget onwards;

Agriculture

- Extension activities for agriculture, fisheries and forestry

Education

- Distribution of school materials
- Supervision of schools by district and provincial officers
- Operation of district education offices

Health

- Operation of rural health facilities
- Integrated health outreach patrols
- Drug distribution

Transport Infrastructure Maintenance

- Road and bridges maintenance
- Airstrip maintenance
- For maritime provinces- wharves and jetties maintenance

Village Courts Operations

-
- Operational materials

The Interdepartmental Committee went further and identified and agreed specific indicators against which each of these MPAs could be measured. However these indicators were not invoked in 2009. These indicators will be part of the 2010 Budget Expenditure Instructions and performance of the MPAs through these indicators will be monitored during the quarterly budget reviews in 2010.

Minimum Priority Activities and Performance Indicators.

Minimum Priority Activity	Performance Indicator
<u>Health</u>	
1. Operation of rural health facilities	i. Number of health facilities open
2. Drug distribution	ii. Health facilities with adequate water supply
	i. Number of months health facilities stocked with essential supplies
3. Integrated health outreach patrols	ii. Number of times drug distribution happened to health facilities
	i. Total number of health patrols conducted and then,
	a. Number of administrative supervision patrols to health facilities
	b. Number of patrols with specialist medical officers to health facilities
	c. Number of maternity child health patrols to health facilities.
<u>Education</u>	
4. Provision of school materials	i. Percentage of schools that received basic school supplies before 30th April.
5. Supervision by provincial/district officers	i. Number of schools visited by district / provincial education officers
6. Operation of district education offices	i. Number of quarterly performance reports submitted by District Education officers.
<u>Transport Maintenance</u>	
7. Road and bridge maintenance	i. Names and approximate lengths of provincial roads maintained
8. Airstrip maintenance	ii. Names of bridges maintained
9. Wharves and jetties maintenance	i. Names of rural airstrips maintained
	i. Names of wharves, jetties and landing ramps maintained
<u>Agriculture</u>	
10. Extension activities for agriculture, fisheries and forestry	i. Number of extension patrols conducted by provincial government staff and
	ii. Number of people who attended extension sessions
<u>Village Courts</u>	
11. Operational materials	i. Number of village courts in active operation
	ii. Number of village courts supplied with operational materials

- These are minimum activities that **must** be funded from service delivery function grants within each financial year
- These form part of the conditions of the service delivery function grants
- These minimum activities are a **minimum**. Function grants can still be used for funding other recurrent goods and services activities within that functional area.

5.4 Conditions of Funding of Function Grants

Conditions for function grants (including the minimum priority activities) and management of expenditure are provided for in the Function Grant and Administration Grant Determination and the “Budget and Expenditure Instructions” issued by the Secretary for Treasury.

The Budget and Expenditure Instructions specify:

- i. What grants, receipts or other revenues are to be used for and the expected outputs from spending
- ii. The management of grants, receipts or other revenues
- iii. How the expenditure of grants, receipts or other revenue is reported; and
- iv. The budget preparation process, including consultation with stakeholders.

The Department of Treasury, in conjunction with the Department of Provincial and Local Government and the National Economic and Fiscal Commission will seek to ensure compliance of these Budget and Expenditure Instructions.

6 MONITORING AND REPORTING ON EXPENDITURE

Section 65 of the *Intergovernmental Relations (Functions and Funding) Act 2009* serves as the basis on which the Secretary for the Department of Treasury may, in consultation with the National Economic and Fiscal Commission, determine the conditions to which all or any of the following grants are subject;

- a) service delivery function grants
- b) administration grants
- c) rural local-level government grants
- d) urban local-level government grants
- e) staffing grants
- f) payments to address development needs

Budget and Expenditure Instructions

The Secretary for the Department of Treasury may issue Budget and Expenditure Instructions highlighting conditions surrounding management and reporting aspects on the expenditure of the above-mentioned grants.

Budget and Expenditure Instructions contain specific instructions as stipulated in s.65 of the *Intergovernmental Relations (Functions and Funding) Act 2009*:

- a) what the grants are to be used for
- b) timing and nature of expenditure of grants
- c) expected outputs
- d) management of grants
- e) the nature, timing and format of information to others
- f) the budget preparation process (including stakeholder consultation).

The Department of Treasury will, through the regular quarterly budget expenditure reviews, ensure compliance with the conditions of implementation of the grants.

In addition, the NEFC may provide to the Minister responsible for Finance and Treasury such information in relation to its findings.

6.1 Compliance with Treasury Budget and Expenditure Instructions

An analysis of the majority of 2009 Provincial Government Budget Documents reveals that there is a mixed level of compliance with the requirements of the Budget and Expenditure Instructions (BEI) issued by the Department of Treasury in November 2009 (www.treasury.gov.pg).

The degree of compliance with various parts of the BEI is outlined in more detail below.

Rollover

Most provincial administrations rolled over significant amounts of national grants into their own revenue account for use in future years. This amounts to 15% of total national government grant spending in some provinces and leads to situations where no or very little assurance can be provided to Treasury that funds have been or will be used for their intended purpose.

In addition, the value of these rolled over amounts is treated as actual expenditure in Provincial Government financial statements.

Budget assignment of Function Grants

Most Provinces do budget for the use of national function grants in accordance with the BEI. The major exception to this is in infrastructure maintenance spending, where funds are routinely re-directed to rehabilitation or even the construction of new roads. There is a potentially valid argument that perhaps this is unavoidable because maintenance expenditure has been at such a low level for many years that the infrastructure has deteriorated to the stage where no benefit will be accrued from routine maintenance expenditure.

Revenue Estimation and Coding

In addition, the coding instructions for Provincial Government for receipts and payments are almost completely not complied with. This too, may be unavoidable as the instructions for expenditure coding, at least, are substantially incomplete

In one provincial government budget, budgeted receipts included claimed liabilities from the national government of 40 million kina that Treasury had advised were never going to be paid and 25 million of Trust Fund Receipts that were never going to be realised.

Balancing this on the expenditure side were funds for a similar amount for projects that were not going to be commenced. A known K65 million shortfall from a total budgeted expenditure of K156 million made that budget particularly misleading.

NEFC findings on 2009 Half Year Provincial Budget Reviews.

Provincial Government Half Year Budget Reviews were conducted by the Department of Treasury, with the National Economic and Fiscal Commission. In addition the NEFC conducted four regional workshops early in 2009. The following are some observations made by the NEFC:

- some Provincial Governments have commenced some service delivery reporting on activities actually performed in accordance with S119 requirements
- some provinces tried to quantify the number of agricultural extension patrols actually conducted and the degree to which basic school materials have been delivered to schools
- however performance indicators do require better definition and data collection processes
- there was no evidence of separate MPA activity code with a budgetary allocation cited in any province
- this review process should not be seen as a mere accounting exercise but ensuring that the expenditure is genuine and that a sound financial management and accountability is practised and installed

-
- regular combined quarterly budgetary reviews by national agencies (Department of Treasury, DPLGA, DPM and DNPM and assisted by National Economic and Fiscal Commission) is paramount because it will have some indirect impact in terms of behavioural changes in the way the provincial government spends its appropriation
 - more time should be given to each Provincial Government in the quarterly review discussions to allow sufficient opportunity for the province to explain its case thoroughly.
 - Treasury, DPLGA, and DNPM should respond to Provincial governments on the issues raised during the review discussions as soon as practicable to ensure effective dialogue among all levels of government
 - nevertheless ,NEFC regards the commencement of this process as very positive step in the potential demonstration of the effectiveness of reformed intergovernmental financial relations through the delivery of a greater quantity and improved quality of services

It is anticipated that the 2010 Budget and Expenditure Instructions issued by the Secretary for Treasury shall contain specific guidance and conditions in the following areas:

- 1) The conditions relevant to service delivery function grants and administration grant.
- 2) Key restrictions on the usage of service delivery function grants and administration grant.
- 3) List of service delivery function grants and administration grant for 2010.
- 4) Correct usage of PGAS Grant Code for 2010 Function Grants.
- 5) Specification of eleven (11) Minimum Priority Activities and performance indicators for each of them.
- 6) Restrictions on rollovers of service delivery function grants and administration grant from 2010 to 2011.
- 7) Reporting requirements for service delivery function grants and the administration grant.
- 8) Penalties for non-compliance.

7 PROVINCIAL EXPENDITURE REVIEW – 2007

NEFC analyses actual provincial expenditure on an annual basis and charts the results in comparison with the estimated cost of services. This has been completed for 2005, 2006 and 2007.

In 2007, the Provincial Expenditure Review was called 'Closing the Gap'. It describes two main reasons for the inadequate funding of service delivery at a provincial level. For some provinces it is due to a lack of funding while for others it is a result of poor prioritisation. Or in some cases it is a combination of both. Closing the gap is about ensuring that PNG puts enough resources into basic services through its recurrent budget to enable adequate delivery in rural areas.

Buildings and staff will not work unless there is operational funding to carry out their work. After all, what kind of a health service is one where there is no medicine, no health patrols, no fuel to maintain the refrigeration of vaccines and other medicines, no health promotion materials, no transfers of patients to provincial hospitals and no money to enable school visits?

Health staff in the field without medical supplies simply cannot provide a basic health service – but who funds the distribution of medical supplies? Where is that money allocated in the budget? Medical supplies need to get from Port Moresby to provincial centres to the many remote health facilities. This requires the co-ordination and participation of a number of people and funding available at the right places and the right time to make it happen. If, medical supplies do not get to facilities people will suffer.

Equally, we need funding for agriculture extension patrols. Agriculture officers- didi men- need to travel to districts to provide training and assistance to farmers who are the backbone of the rural economy. But how can extension officers travel without the money to pay for fuel, accommodation and living expenses? The current answer is that many don't because of a lack of operational funds. This is why services stop and the economic development of PNG is constrained.

Another example: Roads are expensive assets to build and we need to maximise their usefulness, we need to maintain the assets. It is a little like building a house. Periodic maintenance of a road may cost K6,000 per kilometre per year. However if we do not maintain the road and its condition deteriorates, the road requires rehabilitation. Rehabilitation costs are like building the road again. These costs are enormous and may cost upwards of K250,000 per kilometre.

The Provincial Expenditure Reviews are an important part of making transparent the choices made about service delivery. Is there adequate funding for core service delivery? Is the available funding being used efficiently and effectively?

The Provincial Expenditure Review Series

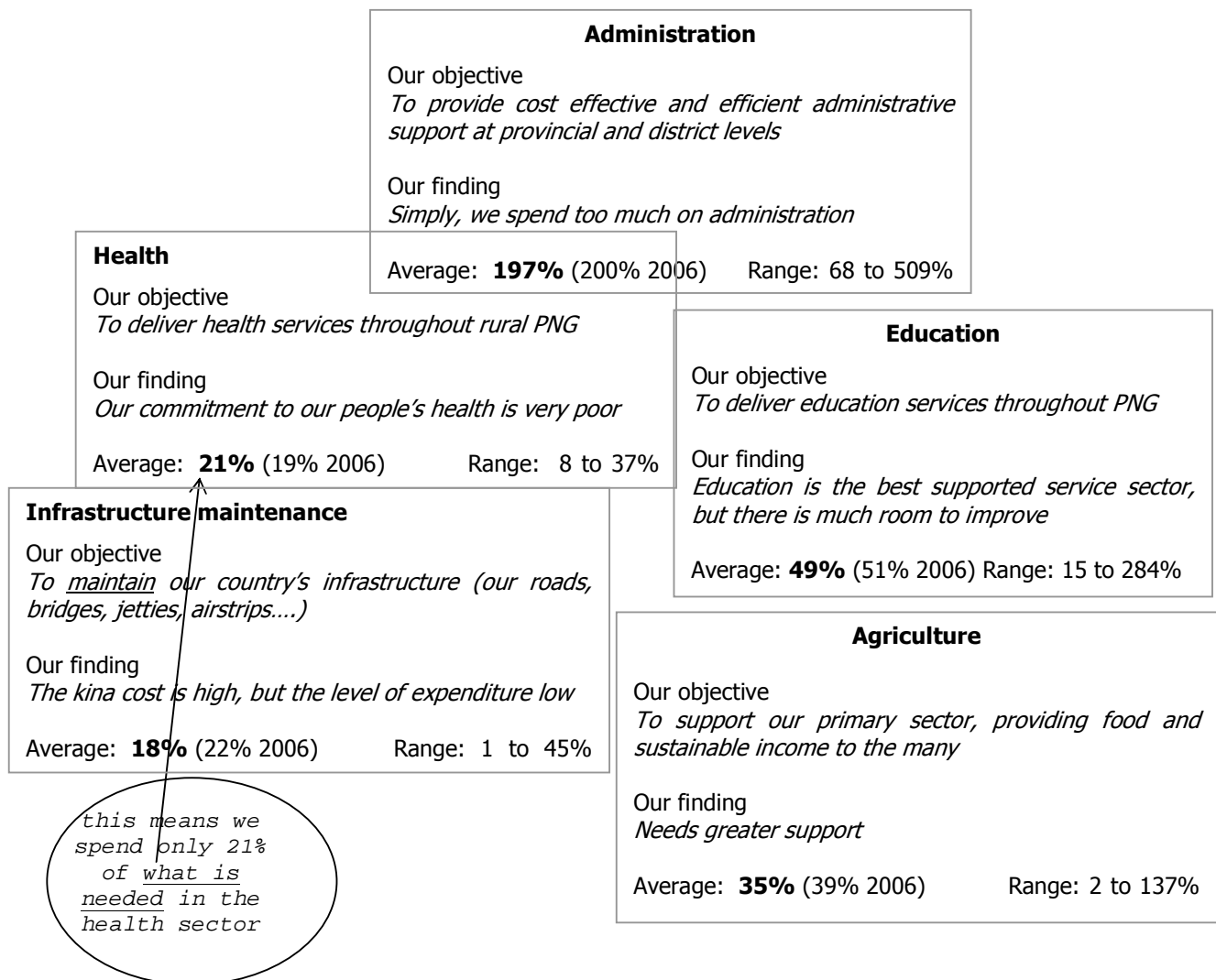
COST	How much does it cost to deliver priority services in each Province?
CAPACITY	What is the impact of each Province's resource envelope?
PERFORMANCE	Does provincial spending support service delivery?

The 2005 Provincial Expenditure Review (PER), *Cost Capacity Performance*, established a methodology for reviewing our progress in a systematic way using an evidence-based approach, approaching the task by answering the three key questions and establishing a baseline for determining future performance.

The 2006 PER, *It's More Than Numbers*, built upon the 2005 review and introduced the start of a trend analysis, reporting our progress year by year toward our objective of improved service delivery. With our 2007 PER, *Closing the Gap*, we can provide a three year time series of data that paints a picture of where we are at, where there are improvements and where we need to more closely examine our commitment to service delivery.

Critically, this report seeks to stimulate discussion around these issues – by considering cost (what we need to spend), fiscal capacity (what can we afford) and provincial expenditure patterns (where are we spending) – we can know how we are doing, who we can best learn from and where we need to change. This report provides vital information to government agencies and partner organisations that are committed to improving the delivery of critical basic services throughout our country.

SECTOR BY SECTOR



What are some of the main findings of the review looking across the years 2005 to 2007?

- The Provinces showing consistent improvement are Western, Central and Milne Bay.
- Southern Highlands, East New Britain and Madang have suffered the largest decreases in spending on core service delivery over the three years.
- The current trend level of spending by provincial administrations on recurrent goods and services in priority areas is too low and inadequate. If this trend continues, existing service delivery will continue its downhill slide. Adjusted for inflation and population growth, real spending on the core Medium Term Development Strategy sectors has reduced by 10% across 2005- 2007.
- When Enga's high spending in one sector – education - is removed, spending on education by the other seventeen Provinces decreased by more than K3 million in total. Infrastructure maintenance spending decreased by K5m.
- Health spending increased by K1.7 million, albeit that this is the result of larger National Government health service delivery function grants and increased provincial access to Health Services Improvement Program (HSIP) funds. Administration spending also increased by K1m. Agriculture spending stayed the same.

Are the broad issues established by the 2005 and 2006 reviews still apparent?

- Yes, there continues to be a funding gap – that can only be addressed by redesigning the way PNG's resources are shared. The funding gap is the difference between the revenue a Province receives and the amount it costs to deliver all the basic services the Province has responsibility to provide.

The good news is that in 2008, the National Parliament legislated for a fundamental change in the way we distribute funds across our country. Funding is now progressively based on need – with those Provinces that need more funding to enable basic service delivery receiving greater funding.

- And yes, there continues to be a priority gap – that can only be addressed by Provinces choosing to spend their available funding on priority sectors. The priority gap happens when a Province has the revenue, but chooses to spend its money on other things – not core services. To address this, Provinces have to choose to spend their funds on basic services and this may mean reducing spending in one area (such as administration) and redirecting it to another (such as health).

The introduction of minimum priority activities (MPAs) in the 2009 budget will help ensure that funding is progressively directed to activities that are fundamental to service delivery. Provinces, however, need to improve their own prioritisation.

The NEFC is exploring ways of further assisting Provinces by introducing the *Unit Costing Model*, a tool designed to aid Provinces with their budgeting by making easily accessible the NEFC provincial costing information in ways customised to the needs of individual Provinces, district administrations and local level government administrations.

- And yes, the current level of spending on recurrent goods and services in priority areas continues to be too low and inadequate. If this trend continues the implications are dire for government efforts in providing core social services, such as health and education, and for promoting economic development, through a maintained road infrastructure and by developing a vibrant and sustainable agricultural sector.

Overall:

- The funding gap continued in 2007 and will be addressed incrementally by the implementation of the intergovernmental financing reform that directs more resources to the Provinces that do not have enough of their own resources to meet the cost of delivering core services to their people.
- Provincial Governments and Administrations need to address the priority gap by choosing to reallocate their own spending to support the priority sectors.
- Provinces and central agencies can use the NEFC Cost of Services Study as a guide to how much recurrent funding is required to deliver core services across PNG. The *Unit Costing Model* will progressively be introduced to Provinces to assist with their budgeting.
- PNG needs to consider the impact of new infrastructure development. Every new infrastructure development creates ongoing costs. Effectively, new infrastructure development that is not matched with an increased recurrent budget reduces service delivery.

How does this happen? When we build a new school we need to increase the recurrent budget to support this school, year after year, to pay for costs like materials and maintenance. If we don't provide increased recurrent funding we are taking funding away from existing schools to cover the new school. The more we do this, the worse it gets for all schools, including the new school. This is especially important to take note of in the current environment where significant funding has been appropriated for new infrastructure development, including at the district level.

- We also need to consider the impact of employing more staff. Increasing staff numbers places more demand on the recurrent goods and services budget. Effectively increasing staff numbers that are not matched with an increased recurrent budget will reduce service delivery.

How does this happen? When we employ additional staff they need to be resourced. They need office space, use electricity, sometimes need a computer, need to travel for work (which means travel allowance, fuel costs, car hire, air travel etc) and recreation leave fares. When we don't increase our recurrent budget to provide for these costs we reduce the amount available to support all our staff – and we thereby reduce their effectiveness.

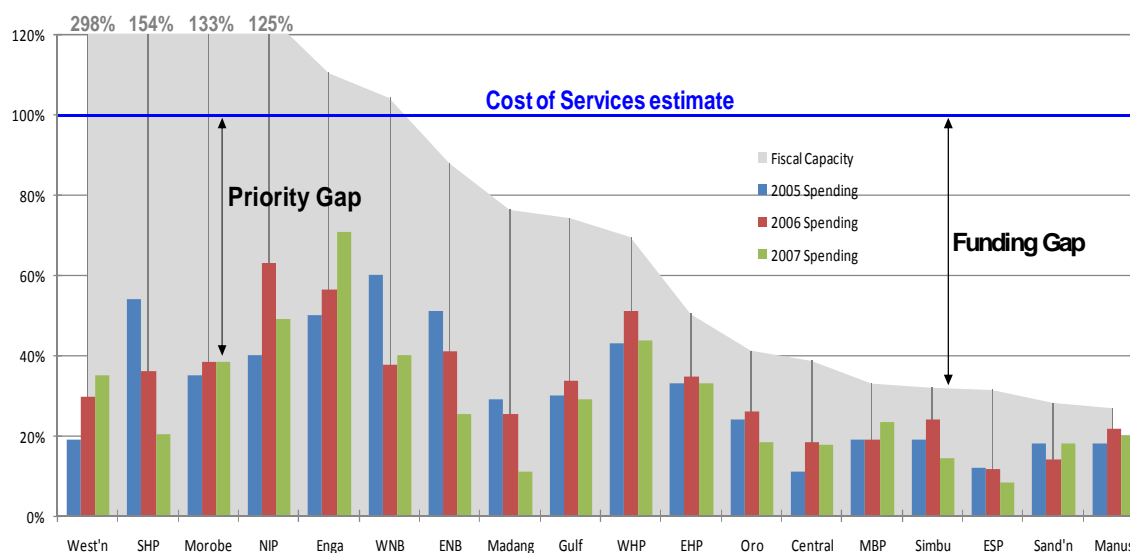
Provincial Governments should aim to only increase spending on service delivery:

- In overall terms, total spending on health and education decreased by approximately K1.9 million or 4% between 2005 and 2007, when it needs to have increased by 10% to match inflation and population growth. How can we expect service delivery to improve in these critical areas when we are reducing spending? At present, the reality is that these services are deteriorating.
- However, in overall terms spending on administration grew by nearly K9 million between 2005 and 2007. We need to control and reduce spending in low priority areas. These include administration, projects, and casual wages.
- In 2007 62% of internal revenue expenditure went on non-priority areas such as administration, arrears, and smaller sectors. The whole provincial resource envelope (both national government grant funds and internal revenue) should be used to support recurrent spending in priority areas of health, education and infrastructure maintenance.

Spending within sectors must be improved:

- NEFC analysis shows that often secondary education receives more funding than basic education. This means that many children are missing out on the opportunity to have basic education- learning how to read and write and other basic skills. We need to ensure that elementary, community and primary schools (where 90% of enrolled children attend school) are adequately resourced.
- What systems have we in place to manage teacher leave fares? 2006 saw massive expenditure on arrears in this area – in 2007 we see two provinces recording no spending on teacher leave fares – are past problems going to recur? We must control this high-cost area that accounts for 25% of all education spending by Provinces.
- While more Health Services Improvement Program funding was accessed by Provinces for health service delivery in 2007 than 2006, many Provinces seem to ignore this funding source. Provinces should use all means possible to support priority areas.
- Some Provinces spend millions on unspecified arrears. This raises many questions, lacks transparency and encourages poor spending. Provinces need to spend within their means and do so during the year to support service delivery.

All MTDS sectors combined expenditure by province 2005-2007



APPENDIX A DETERMINATION APPORTIONING THE EQUALISATION AMOUNT

SI 157/2008



Intergovernmental Relations (Functions and Funding) Act 2008.

DETERMINATION APPORTIONING THE EQUALISATION AMOUNT.

I, **PATRICK PRUAITCH**, Minister for Treasury and Finance, by virtue of the powers conferred by Item 2 of the Schedule of the *Intergovernmental Relations (Functions and Funding) Act 2008* and all other powers me enabling hereby make the following determination:-

1. **TRANSITIONAL INDIVIDUAL PROVINCE GUARANTEES.**

For a fiscal year of the transition period, the proportion of the equalization amount for that fiscal year available for the total of the transitional individual province guarantees of all Provincial Governments is the sum of the following 2 amounts:-

- (a) K84,849,100 being the amount appropriated to all Provincial Governments in the fiscal year commencing on 1 January 2008 under the *Organic Law on Provincial Government and Local-level Government* for block grants, function grants and derivation grants; and
- (b) if the amount of GST distribution received by a Provincial Government for the fiscal year commencing 1 January 2008 under the *Goods and Services Tax Revenue Distribution Act 2003* is greater than the amount of GST distribution received by that Provincial Government for the relevant fiscal year of the transition period, the total of the differences between the 2 GST distribution amounts for each of those Provincial Governments.

2. **TRANSITIONAL INDIVIDUAL LOCAL LEVEL GUARANTEES.**

For a fiscal year of the transition period, the proportion of the equalization amount for that fiscal year available for the total of the transitional individual local level guarantees of all Local-level Governments is an amount of K38,984,200.

3. **LOCAL-LEVEL SHARE.**

For a fiscal year of the transition period, the local-level share, being the proportion of the equalization amount for that fiscal year available for distribution amongst Local-level Governments, is an amount equal to 2 per cent of that equalization amount.

4. **PROVINCIAL LEVEL SHARE.**

For a fiscal year of the transition period, the province share, being the proportion of the equalization amount for that fiscal year available for distribution amongst Provincial Governments, is the amount remaining after deducting from that equalization amount the total of the amounts calculated under Clauses 1, 2 and 3 for that fiscal year.

5. **MEANING OF TERMS.**

In accordance with Section 77 of the *Interpretation Act 1975*, the terms used in the determination have the same meaning as in the *Intergovernmental Relations (Functions and Funding) Act 2008*.

MADE this

12th

day of

May

, 2008.


MINISTER FOR TREASURY AND FINANCE.

APPENDIX B: FUNCTION AND ADMINISTRATION GRANTS DETERMINATION



SI 268/2009

Intergovernmental Relations (Functions and Funding) Act 2009.

FUNCTION AND ADMINISTRATION GRANTS DETERMINATION.

I, **PATRICK PRUAITCH**, Minister for Treasury and Finance, by virtue of the powers conferred by Section 64 and Clause 17 of the Schedule of the *Intergovernmental Relations (Functions and Funding) Act 2009* and all other powers me enabling, in consultation with the National Economic and Fiscal Commission, hereby make the following determination:-

1. AMOUNT OF SERVICE DELIVERY FUNCTION GRANT AND ADMINISTRATION GRANT.

Subject to the approval of the Parliament, the amount of each service delivery function grant and administration grant to be made to a Provincial Government is the relevant amount set out in the attached table.

2. SERVICE DELIVERY FUNCTION GRANTS.

(1) Service delivery function grants are provided to Provincial Governments to ensure that adequate funding is directed towards a minimum set of core services for all people across Papua New Guinea and consistent with the Government's Medium Term Development Strategy priorities.

(2) Service delivery function grants must not used to fund salaries or capital development unless the budget allocated specifies that purpose.

3. HEALTH FUNCTION GRANT.

(1) A health function grant must be used to fund operational and maintenance costs (i.e. goods and services) incurred in the primary health sector.

(2) Without limiting Subclause (1), a health function grant must be used to fund goods and services for the following main programs and activities:-

- (a) the distribution of medical supplies;
- (b) outreach services;

- (c) malaria supervision;
- (d) safe motherhood;
- (e) immunization;
- (f) water supply and sanitation;
- (g) health service monitoring, review and performance agreements.

4. EDUCATION FUNCTION GRANT.

(1) An education function grant must be used to fund operational and maintenance costs (i.e. goods and services) incurred in the basic education sector.

(2) Without limiting Subclause (1), an education function grant must be used to fund the operational costs for elementary and primary education that are within the responsibilities of a Provincial Government, such as:-

- (a) the maintenance of primary schools; and
- (b) the procurement and distribution of school materials; and
- (c) the operation of district education offices in the province.

5. TRANSPORT INFRASTRUCTURE MAINTENANCE FUNCTION GRANT.

(1) A transport infrastructure maintenance function grant must be used to fund operational and maintenance costs (i.e. goods and services) incurred in the transport infrastructure maintenance sector.

(2) Without limiting Subclause (1), a transport infrastructure maintenance grant must be used to fund the maintenance costs of provincial roads, bridges, jetties, wharves, airstrips and airfields that are within the responsibilities of a Provincial Government.

(3) A transport infrastructure maintenance grant must not be used to fund all or any of the following:-

- (a) the construction of new roads;
- (b) the maintenance of buildings;
- (c) the major reconstruction or rehabilitation of unusable existing roads, bridges, wharves, jetties, airstrips or airfields.

6. VILLAGE COURT FUNCTION GRANT.

(1) A village court function grant must be used to fund operational and maintenance costs (i.e. goods and services) incurred in the village court sector.

(2) Without limiting Subclause (1), a village court function grant must be used to fund the operational and supervision costs incurred in the village court sector for the purchase of goods and services, such as uniforms, flags and badges.

(3) A village court function grant must not be used to fund the costs of salaries or allowances for village court officials.

7. AGRICULTURE FUNCTION GRANT.

(1) An agriculture function grant must be used to fund operational and maintenance costs (i.e. goods and services) incurred in the agriculture sector.

(2) Without limiting Subclause (1), an agriculture function grant must be used to fund primary production through support for supervision, training and extension activities to the agricultural and fisheries sectors, as well as for the export promotion of these products.

8. OTHER SERVICE DELIVERY FUNCTION GRANT.

An other service delivery function grant must be used to fund the recurrent goods and services costs for other sectors not covered by the service delivery function grants mentioned in Clauses 3 to 7, such as business development, community development and environment and conservation.

9. ADMINISTRATION GRANT.

An administration grant must be used to fund the costs of administrative overheads of a Provincial Government, excluding salaries.

MADE this 17th day of September, 2009.


Minister for Treasury and Finance.

2010 Budget Function and Administration Grants Determination

	Agriculture Function Grant	Health Function Grant	Education Function Grant	Transport Infrastructure FG	Village Courts FG	Other Service Delivery FG	Administration Grant	Administration and Function Grant Ceiling	Urban LLG grants	Rural LLG grants	Total LLG Grants	GRAND TOTAL
Western	618.1	879.1	893.5	1,409.0	127.8	141.0	141.0	4,209.3	592.4	1,414.2	2,006.6	6,215.9
Gulf	532.8	1,946.0	2,154.8	1,545.9	49.0	455.1	347.0	7,030.6	124.6	907.9	1,032.5	8,063.1
Central	257.6	2,279.0	2,904.0	3,225.4	153.9	1,229.9	404.8	10,454.6	0.0	1,474.9	1,474.9	11,929.5
Milne Bay	556.0	3,271.5	2,248.0	2,391.4	76.2	1,139.3	773.0	10,455.4	240.4	1,843.0	1,883.4	12,338.8
Oro	773.4	1,525.2	1,466.6	1,660.4	42.5	576.5	402.3	6,468.9	482.8	947.4	1,430.2	7,897.1
Southern Highlands	46.7	2,462.2	1,919.5	1,580.3	257.3	921.0	775.0	7,962.0	764.0	3,759.9	4,523.9	12,485.9
Enga	89.2	1,873.4	929.3	2,471.0	153.3	916.4	485.3	6,917.9	102.3	2,095.1	2,197.4	9,115.3
Western Highlands	1,199.7	2,260.8	3,456.0	3,110.1	274.3	767.5	455.8	11,514.2	677.6	2,892.5	3,570.1	15,084.3
Simbu	144.6	2,250.3	2,946.0	3,195.2	150.2	1,161.8	550.0	10,398.1	225.2	1,774.4	1,999.6	12,397.7
Eastern Highlands	1,025.5	2,525.7	3,168.6	3,253.5	153.0	1,291.9	990.0	12,408.1	639.6	2,833.7	3,473.3	16,881.4
Morobe	373.4	785.6	1,794.0	2,739.0	124.7	990.3	910.3	7,717.3	2,292.1	3,428.6	5,720.7	13,438.0
Madang	760.2	3,889.4	3,264.1	5,197.7	78.3	1,683.7	704.8	15,578.2	694.0	2,583.9	3,277.9	18,856.1
East Sepik	850.6	4,813.9	3,315.9	6,297.8	167.3	1,452.3	645.0	17,542.8	492.4	2,617.8	3,110.2	20,653.0
Sandaun	382.1	3,418.8	2,755.9	2,469.9	67.1	1,435.8	522.5	11,052.1	237.5	1,727.2	1,964.7	13,016.8
Manus	101.5	1,269.8	1,362.3	1,797.5	73.3	788.6	279.9	5,672.9	142.9	337.1	480.0	6,152.9
New Ireland	547.3	1,160.1	845.0	930.1	51.7	184.7	184.7	3,803.6	273.9	831.0	1,104.9	5,008.5
East New Britain	1,527.3	1,737.2	2,303.8	1,839.7	70.6	339.7	81.1	7,895.4	583.9	1,637.2	2,221.1	10,120.5
West New Britain	4,330.6	767.9	1,167.9	435.7	165.3	61.0	61.0	6,989.4	344.8	1,313.8	1,658.6	8,648.0
TOTAL	14,116.6	39,115.9	38,915.2	45,549.6	2,235.6	15,526.4	8,713.5	164,172.8	8,910.4	34,219.6	43,130.0	207,302.8

APPENDIX C: DRAFT FUNCTION ASSIGNMENT DETERMINATION

DETERMINATION AND ASSIGNMENT OF SERVICE DELIVERY FUNCTIONS AND RESPONSIBILITIES APPROVED BY NEC

Education Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide secretariat, technical and logistical support to the Provincial Education Board. • Establish and provide logistical support to Provincial education committees, such as the Provincial In-service Committee and the Provincial Curriculum Committee. • Approve members of Boards of Management and Boards of Governors to Provincial education institutions. 	<ul style="list-style-type: none"> • Recommend to Provincial Government membership of Boards of Management of elementary and primary schools.
2	Policy and Planning <ul style="list-style-type: none"> • Develop and implement the Provincial Education Plan. • Develop and implement other plans such as a Provincial Education In-service Plan. • Develop and implement Provincial education policies. • Provide enrolment data to the National Department of Education. • Maintain a register of member and permitted schools in the Province. • Collect, record and analyse information and data on education in the Province, such as enrolment data, number of teachers, and the number of open and closed schools. • Monitor education indicators for each District. 	<ul style="list-style-type: none"> • Advise the Provincial Education Board of local education priorities.
3	New Schools <ul style="list-style-type: none"> • Approve at the Provincial level (through the Provincial Education Board) and subsequently seek approval at the National level (through the National Department of Education): new schools; amalgamations of existing schools; school re-openings; changes of school names; closure of schools; transfer of schools and changes in status. 	<ul style="list-style-type: none"> • Draw up plans for the establishment and development of new schools.
4	Infrastructure <ul style="list-style-type: none"> • Prepare an annual maintenance plan. • Inspect the condition and maintain: <ul style="list-style-type: none"> – Provincial Secondary schools, – Vocation and Trade Training Schools, – teacher and education worker housing; and – ancillary facilities. 	<ul style="list-style-type: none"> • Inspect the condition of and maintain elementary and primary schools, and its teacher housing and ancillary facilities.
5	Teachers <ul style="list-style-type: none"> • Appoint, deploy and redeploy teachers to their posting in Provincial education institutions. • Procure and arrange teacher leave fares. • Repatriate and remove teacher personal effects upon retirement, death or retrenchment. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Administer the teachers payroll, including school resumption visits, leave applications. • Coordinate in-service training at the Provincial level. • Deliver in-service training (short presentations and/or workshops at school in-service meetings or during in-service week but not fund further study or courses) as required. • Distribute in-service materials (provided by National Department of Education) to schools. • Recommend candidates (through the Provincial Education Board) to the National Department of Education for further study and National in-service training. 	
6	<p>School Operations</p> <ul style="list-style-type: none"> • Purchase and distribute materials and supplies for Provincial schools where the school does not have sufficient capacity to make own purchases or source these from other donors. • Fund and distribute school subsidies. • Set school fees within the limits imposed by the National Education Board. • Distribute curriculum materials, National examination papers, Certificates, Diplomas and other awards to schools. • Select students for grade 9 classes. • Organise venues, and fund supervisors and markers for National Grade 8, 10 and 12 examinations. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

Health Sector – Health

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide secretariat, logistical and technical support to the Provincial Health Board, District Health Management Committees and the Provincial Water Supply and Sanitation Committee if it is operating in the Province. 	<ul style="list-style-type: none"> • Provide logistical support Aid Post Committees where they are operating in the local area.
2	Policy and Planning <ul style="list-style-type: none"> • Develop Provincial Health Implementation Plans. • Coordinate and monitor the implementation of the National Health plan, National Health Standards and the Provincial Implementation Plan in the Province. • Develop and implement provincial policies such as a rural health user fee policy. • Collect, record and analyse information and data on health in the Province. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
3	Infrastructure and Equipment <ul style="list-style-type: none"> • Maintain health centres, rural hospitals, staff housing and ancillary facilities where the health facility hasn't the capacity to undertake the work from internal revenue. • Maintain and arrange for the repair of rural health facility (not aid posts) medical equipment including cold chain equipment. • Maintain adequate stocks of consumables, spare parts and accessories for equipment. • Pay for transport to and from the place of repair for equipment that must be repaired away from the Province. • Distribute equipment purchased and provided by the National Government and/or donors to rural health facilities, including aid posts. • Fund the cost of health radio repairs. • Pay radio license fees. • Identify radios that aren't working and transport to and from Port Moresby for repairs. 	<ul style="list-style-type: none"> • Maintain aid posts and health worker housing. • Maintain aid post medical equipment.
4	Essential Drugs, Vaccines and Supplies <ul style="list-style-type: none"> • Order and distribute drugs, vaccines and other medical supplies to rural health facilities. • Properly store drugs, vaccines and other medical supplies at rural health facilities to prevent premature expiry. • Distribute aid post kits to aid posts. 	<ul style="list-style-type: none"> • Purchase non-medical supplies for the Aid Post (e.g. soap, bleach, cleaning supplies).

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
5	Family health services <ul style="list-style-type: none"> • Distribute of vaccines to aid posts and clinic points • Distribute of Village birth attendant kits. • Undertake data collection in rural health facilities as per Family and Sexual Violence Strategy. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
6	Health facility operations and outreach <ul style="list-style-type: none"> • Operate rural health facilities. • Inspect government and non government health facilities to ensure they meet minimum standards. • Undertake patrols to aid posts, clinic points and schools. • Transfer patients between one rural health facility to another and/or from a rural health facility to Provincial or higher level hospital. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
7	Disease control <ul style="list-style-type: none"> • Maintain laboratories at District health centres. • Fund travel for hospital technicians to monitor provincial facilities. • Deliver clinical care, follow-up care, intervention and testing programs. • Distribute bed nets and other materials for malaria control intervention. • Investigate disease outbreaks, report and monitor in accordance with public health manual and coordinate emergency programs. • Transport extra vaccines and medicines to the outbreak area. 	<ul style="list-style-type: none"> • Disseminate information on disease control to the local community.
8	Health Promotion <ul style="list-style-type: none"> • Coordinate the implementation of health promotion campaigns and activities in the Province. • Deliver health promotion activities. • Maintain adequate stocks and distribution of health education and promotion materials. 	<ul style="list-style-type: none"> • Disseminate information on health issues to the local community.
9	Environment Health <ul style="list-style-type: none"> • Monitor water quality and undertake surveillance of water supply, sanitation and waste disposal facilities to ensure that they meet minimum standards. • Deliver public awareness and education activities on environmental health. • Coordinate the preparation of environmental health impact assessments for development and infrastructure projects. 	<ul style="list-style-type: none"> • Regulate dumping in public places. • Maintain public hygiene, sanitation and waste disposal facilities such as dumps (Urban Local-level Governments).
10	Monitoring <ul style="list-style-type: none"> • Monitor the Province's performance against provincial health indicators. • Investigate health services to ensure compliance with National Health Plan and National Health Standards. 	<ul style="list-style-type: none"> • Monitor the operation of aid posts and report to Districts.
11	Training <ul style="list-style-type: none"> • Induct new health workers. 	<ul style="list-style-type: none"> • No assigned function or

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Deliver in-service training for health care workers. • Deliver training for village birth attendants. 	responsibility.

HIV and AIDS Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1 Governance	<ul style="list-style-type: none"> • Provide logistical support to District HIV and AIDS Committees where they are operating in Districts. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2 HIV and AIDS policy and planning	<ul style="list-style-type: none"> • Develop and implement District HIV and AIDS plans through the District HIV and AIDS Committees. • Mainstream HIV and AIDS issues and responses into planning, programs and operations. • Develop and implement a Provincial Government Workplace HIV and Aids Policy. 	<ul style="list-style-type: none"> • Mainstream HIV/AIDS issues into planning processes, programs and operations.
3 Voluntary Counselling and Testing	<ul style="list-style-type: none"> • Distribute HIV Testing Kits to Voluntary Counselling and Testing Clinics. • Inspect Voluntary, Counselling and Testing Clinics and ensure facilities and operations meet National standards. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
4 Treatment	<ul style="list-style-type: none"> • Provide services in rural health facilities for people affected by HIV and AIDS according to minimum standards. • Inspect Anti-retroviral Treatment Clinics and ensure facilities and operations meet National standards. • Distribute medical and laboratory supplies and other life prolonging drugs to rural health facilities and Anti-retroviral Treatment Clinics. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
5 Education and Prevention	<ul style="list-style-type: none"> • Coordinate and deliver awareness programs in the Province such as HIV awareness and prevention promoting behavioural change interventions. 	<ul style="list-style-type: none"> • Disseminate information on HIV and AIDS obtained from the

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Distribute education and awareness materials to Voluntary Counselling and Testing Clinics, Anti-Viral Treatment Clinics, Local-level Government and other stakeholders. • Store condoms received from National Government and distribute them to rural health facilities and other public distribution points. • Mobilise and engage community leaders to promote the prevention of HIV and care and support to individuals affected by HIV. 	Provincial Government to the Ward Committees and the community.
6	Family and Community Care <ul style="list-style-type: none"> • Deliver home-based care and palliative care services from aid posts where viable. • Coordinate programs for Aids orphans. • Coordinate programs for individuals and families affected by HIV. • Promote and mobilise community support for people living with HIV. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
7	Monitoring, Evaluation and Surveillance <ul style="list-style-type: none"> • Monitor the implementation of a Provincial HIV and AIDS strategic plan and annual activity plans through participation in the Provincial Monitoring Evaluation and Surveillance Team. • Collect data HIV and AIDS data from health facilities in the Province as per National Surveillance Plan and national Monitoring and Evaluation Plan. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
8	Social and Behavioural Change Research <ul style="list-style-type: none"> • Participate as required in research activities undertaken by National agencies and provide data, as requested. • Disseminate research information to relevant stakeholders and partners. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

Agriculture Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide secretariat, logistical and technical support to the Provincial Agriculture Committee if one is operating in the Province. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Policy, planning and programs <ul style="list-style-type: none"> • Develop, implement and monitor the implementation of Provincial agriculture policies, plans and programs. • Coordinate the delivery of commodity development programs in the Province. • Collect, store and analyse information and data on agricultural production in the Province. • Promote the development of public/private partnerships and nucleus partnerships. 	<ul style="list-style-type: none"> • Implement National and Provincial plans, policies and programs at the local level.
3	Awareness and Education <ul style="list-style-type: none"> • Develop and distribute to farmers education, awareness and extension material to guide the development of appropriate commercial commodity opportunities specific to local environments. 	<ul style="list-style-type: none"> • Advise District Officers of education and awareness needs in the local area.
4	Training <ul style="list-style-type: none"> • Provide training for farmers in farming and post harvest techniques, pest control and in quality assurance. • Mobilise farmer groups and model farmers for training and field days by Commodity Organisations, Non Government Organisations and other organisations. • Promote rural based training as part of the curriculum at vocation and secondary schools. 	<ul style="list-style-type: none"> • Identify model farmers and other farmers in the local area for training.
5	Extension Services <ul style="list-style-type: none"> • Provide in-house training to extension officers. • Undertake extension services for cash crops (except in areas where Commodity Organisations collect levies for those cash crops) and food security including: <ul style="list-style-type: none"> – distributing education and awareness material; – delivering farmer training, – distributing new planting materials; – distributing marketing, quality and price information to farmers; 	<ul style="list-style-type: none"> • Identify farmer needs and advise Provincial Government.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> - providing technical advice; - promoting the development of women in agriculture; - monitoring development projects; and - collecting farmer and production information. <ul style="list-style-type: none"> • Liaise with extension officers from Commodity Organisations and other organisations, assisting with the mobilisation and general organisation of farmers. • Support local landowners respond to disasters including the outbreak of pests and diseases. 	
6	Monitoring <ul style="list-style-type: none"> • Monitor and report on provincial output indicators. • Collect, analyse and maintain data and information on agriculture production and prices in the Province. 	<ul style="list-style-type: none"> • Monitor crop production in the local area.
7	Research <ul style="list-style-type: none"> • May operate some small scale research stations in the Province. • Promote ways of improving quality, post harvest, processing and marketing in consultation with National Agriculture Research Institute. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

Fisheries Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide logistical, technical and secretariat support to the Provincial Fisheries Committee, if it is operating. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Planning <ul style="list-style-type: none"> • Review fishery management plans prepared by the National Fisheries Authority which impact on the Province. • Work with communities to establish local marine conservation areas, where appropriate. 	<ul style="list-style-type: none"> • Review fishery management plans that impact on the local area.
3	Licensing and Access <ul style="list-style-type: none"> • Develop guidelines and policies for reviewing fishing licenses. 	<ul style="list-style-type: none"> • Review license

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Review applications for new licenses and licenses that are due for renewal. 	<ul style="list-style-type: none"> • applications and renewals, when consulted.
4	Extension Services <ul style="list-style-type: none"> • Provide extension services for small scale and subsistence fisheries. 	<ul style="list-style-type: none"> • Identify farmers for training by extension officers and for Nationally run courses.

Forestry Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Provincial Forest Management Committee <ul style="list-style-type: none"> • Participate as a member in the activities of the Provincial Forest Management Committee, such as preparing draft guidelines for forest development projects, evaluating project proposals, evaluating applications for timber authorities and making recommendations on: <ul style="list-style-type: none"> – the preparation and terms of Forest Management Agreements; – the preparation of timber permits; – the enforcement of timber permit conditions; and - the issue, amendment or surrender of timber authorities. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Policy and Planning <ul style="list-style-type: none"> • Prepare the Provincial Forest Plan and forest development programs in consultation with the Provincial Forest Management Committee and with technical assistance from the National Forestry Service. • Prepare Provincial policies on forests. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
4	Timber Permits <ul style="list-style-type: none"> • Participate in negotiating team on the negotiation of a draft project agreement for consideration by the National Forest Board. • Integrate any conditions in the project agreements for forest developers to provide infrastructure and/or maintenance and operation payments into planning documents. 	<ul style="list-style-type: none"> • Participate in the negotiating team for project agreements in the local area. • Integrate conditions in the project agreements

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
		to provide infrastructure, and/or maintenance and operation payments into planning documents.

Disaster Management Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide technical, secretariat and logistical support to the Provincial Disaster Committee and any other disaster committee that may be established in the Province from time to time (e.g. District Disaster Committee, Emergency Response Office). 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Policy and planning <ul style="list-style-type: none"> • Develop, maintain and monitor the implementation of the Provincial Disaster Management Plan. • Develop and implement Provincial disaster policies. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
3	Preparedness, awareness and training <ul style="list-style-type: none"> • Deliver public awareness on the risks of disasters in the Province, preparing for disasters, responding to disasters and the Provincial Disaster Management Plan. • Deliver training to key stakeholders in the Province. 	<ul style="list-style-type: none"> • Disseminate information on disaster management to the Ward Committees and the community.
4	Disaster & Emergency Response <ul style="list-style-type: none"> • Initiate the initial response for any disaster by: <ul style="list-style-type: none"> – activating an Emergency Response Office (and begin coordinating rescue and/or relief efforts); – completing a Situation report; and – notifying the National Disaster Management Office of the disaster and sending it a Situation Report. • Prepare and forward to National Disaster Management Office relevant assessment reports if seeking National Government assistance (e.g. the Initial Damage and Needs Assessment and the Detailed Sector Assessment). 	<ul style="list-style-type: none"> • Assist the Emergency Response Office in responding to disasters in its local government boundaries.

Environment Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide technical, secretariat and logistical support to the Provincial Environment Committee, if it is operating in the Province. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Policies <ul style="list-style-type: none"> • Develop and enforce provincial environment policies and/or laws on matters such as noise, litter, hygiene and sanitation. 	<ul style="list-style-type: none"> • May make and enforce laws about noise.
3	Environment Regulation <ul style="list-style-type: none"> • Review Environment Impact Statements made by proponents. 	<ul style="list-style-type: none"> • Review Environment Impact Statements.
4	Protecting Fauna <ul style="list-style-type: none"> • No designated function. 	<ul style="list-style-type: none"> • Review proposals for Wildlife Management Areas within the local government area; and proposed rules for the Wildlife Management Areas.
5	Conservation Areas <ul style="list-style-type: none"> • Participate on Conservation Area Management Committees, where they exist in the Province. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
6	Parks and Reserves <ul style="list-style-type: none"> • Maintain provincial parks and reserves. 	<ul style="list-style-type: none"> • Maintain Local-level Government parks and recreation areas.

Community Development Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Child Welfare <ul style="list-style-type: none"> • Provide technical, logistical and secretariat support to the Provincial Lukautim Pikinini Council if it operates in the Province. • Coordinate the delivery of child welfare services in the Province, including education and awareness. • Collect, record and analyse information and data on child welfare including adoption, child protection and orphans. 	<ul style="list-style-type: none"> • Provide logistical support to the Local Lukautim Pikinini Council if one is operating in the local area. • Disseminate information on child welfare obtained from the Provincial Government to the local community. • Arrange the Gazettal of volunteers designated as child protection officers.
2	Community Learning and Development Centres <ul style="list-style-type: none"> • Provide technical, logistical and secretariat support to the Community Learning Development Centre District Advisory Committees, if they are operating in the Province. • Coordinate the delivery of community based programs through District Community Learning Development Centres, if they are operating in the District. • Monitor the operation of Community Learning Development Centres and report periodically to the Department of Community Development. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
3	Literacy Training <ul style="list-style-type: none"> • Organise National Literacy Week activities in the province. • Coordinate the delivery of literacy programs in the Province. 	<ul style="list-style-type: none"> • Disseminate information on literacy training obtained from the Provincial Government to the local community.
4	Community Environment <ul style="list-style-type: none"> • Promote sustainable development and conservation in Provincial programs, including the delivery of education and awareness. 	<ul style="list-style-type: none"> • May establish local laws about: <ul style="list-style-type: none"> – litter management; – the storage of inflammable gases and

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
		liquid; – cemeteries, including the allocation of land and regulation of burials; - community work days.
5	Civil Registration <ul style="list-style-type: none"> • Act as registration agents, including submitting registration applications and transmitting certificates to applicants. • Establish a network of civil registration through hospitals, schools and churches and communities • Collect and maintain data on civil registration, and submit to Registrar-General on a regular basis. 	<ul style="list-style-type: none"> • Establish and maintain Village Book Registers.
6	Sport <ul style="list-style-type: none"> • Develop and implement Province sports policies. • Promote sport activity and participation in the Province. • Coordinate the implementation of the National Sport Policy in the Province: 	<ul style="list-style-type: none"> • Promote sport activity in the local area.
7	Youth <ul style="list-style-type: none"> • Provide technical, logistical and secretariat support to the Provincial Youth Council and District Youth Councils if they are operating in the Province. • Develop and implement Provincial Youth Development Plans and District Youth Development Plans. • Develop forums for youth at the District level. • Coordinate and promote youth activities and programs in the Province. 	<ul style="list-style-type: none"> • Coordinate the development of youth forums at the Ward level. • Provide logistical support to Ward Youth Councils if they operating in the local area. • Coordinate and promote youth activities at the local and ward level.
8	Community Economics <ul style="list-style-type: none"> • Coordinate and implement community development programs such as the Integrated Community Development Program in the Madang Province and the Personal Viability Program in East New Britain Province. 	<ul style="list-style-type: none"> • Arrange gazettal of informal sector inspectors. • Carry out awareness and basic training in relation to food handling and other matters relevant to the proper operation of informal businesses. • Inspect food sellers to ensure that food, food preparation and food storage facilities meet

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
		minimum standards. • Declare market areas.
9	Disability <ul style="list-style-type: none"> • Provide secretariat, technical and logistical support to the Provincial Board of Disabled Persons, if it is operating in the Province. • Coordinate the delivery of disability programs in the Province. 	<ul style="list-style-type: none"> • Disseminate information on disability services obtained from the Provincial Government to the local community.
10	Gender <ul style="list-style-type: none"> • Provide technical, logistical and secretariat support to a Provincial Council of Women and District Council of Women if they are operating in the Province. • Promote gender equality in the workplace and in Provincial programs. • Coordinate the delivery of gender programs in the Province, including education and awareness. • Implement the National Family and Sexual Violence Strategy. 	<ul style="list-style-type: none"> • Promote gender equality in the workplace and in local level programs. • Disseminate information on gender equality obtained from the Provincial Government to the local community. • Promote the establishment of local women associations.
11	Community Governance <ul style="list-style-type: none"> • Facilitate the delivery of capacity building programs in the Province for Community Leaders, Councillors and Ward Committees 	<ul style="list-style-type: none"> • Identify candidate community leaders for training.

Law and Justice Sector – Village Courts

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Policy <ul style="list-style-type: none"> • Develop Provincial policies. • Coordinate, implement and monitor the implementation of National and Provincial policies. 	<ul style="list-style-type: none"> • Monitor the day-to-day functioning of Village Courts.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
2	Village Courts <ul style="list-style-type: none"> • Identify potential areas for a new Village Courts • Induct officials for new Village Courts. • Monitor the operations of Village Courts. • Arrange for the collection of all Village Court materials and records (e.g. insignia, books) of abolished Village Courts to be placed in the custody of the Provincial Supervising Magistrate and for its cases to be transferred to a District Court. 	<ul style="list-style-type: none"> • Assist Provincial Government with activities necessary to establish, suspend or abolish a Village Court.
3	Village Court Officials <ul style="list-style-type: none"> • Appoint, revoke or suspend village court peace officers and Village Court clerks, including completing relevant forms and informing all newly appointed officials of the terms and conditions of their office 	<ul style="list-style-type: none"> • Provide information about potential Village Court official candidates to Provincial Government. • Support local selection process for village court officials.
4	Equipment, Materials & Logistics <ul style="list-style-type: none"> • Distribute to Village Courts all Village Court materials provided to the Provincial Administration by the Village Courts Secretariat. 	<ul style="list-style-type: none"> • Purchase and distribute to Village Courts: uniforms, badges and flags. • Provide transportation assistance to Village Courts Officials if required.
5	Allowances <ul style="list-style-type: none"> • Provide the Village Court Secretariat with updated officials' listings on a regular basis and on request. • Distribute the payment of allowances to Village Court officials. 	<ul style="list-style-type: none"> • Advise Provincial Government of changes in Village Court officials.
6	Training <ul style="list-style-type: none"> • Deliver training to Village Court officials using agreed national curriculum and resources. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
7	Inspection and Monitoring <ul style="list-style-type: none"> • Undertake inspections and monitoring of Village Court operations. • Advise the Village Court Secretariat of financial irregularities in individual Village Court finances or breaches in the <i>Village Court Act 1989</i>. • Complete quarterly data reports and forward to the Village 	<ul style="list-style-type: none"> • No assigned function or responsibility.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	Court Secretariat.	

Law and Justice Sector – Land Mediation

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide logistical and technical support to the Provincial Land Disputes Committee, if it is operating in the Province. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Policy and Procedures <ul style="list-style-type: none"> • Develop provincial policies and procedures. • Implement national and provincial policies 	<ul style="list-style-type: none"> • No assigned function or responsibility.
3	Land Mediation Areas and Divisions <ul style="list-style-type: none"> • Declare Land Mediation Areas. • Declare Land Mediation Divisions after consulting with Local-level Governments and Village Courts whose areas partly or wholly occur within the proposed Division. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
4	Appointment and Revocation <ul style="list-style-type: none"> • Appoint and revoke permanent and ad hoc land mediators. • Inform permanent and ad hoc land mediators in writing of their appointment, the terms and conditions of their appointment and their legislative powers, functions, duties and responsibilities. • Maintain a running record of all permanent and ad hoc land mediators • Review the appointment of land mediators at or before three years following their appointment. • Provide to the Land Mediation Secretariat updated land mediators listings periodically and on request 	<ul style="list-style-type: none"> • If requested by National or Provincial Government, provide information about potential land mediators. • Support the local selection process for land mediators • Recommend to Provincial Land Disputes Committees land mediators to be appointed or revoked.
5	Allowances <ul style="list-style-type: none"> • Distribute the payment of allowances to land mediators. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
6	Equipment and Logistics <ul style="list-style-type: none"> • Distribute Land Dispute Registers and relevant forms provided to the Provincial Government by the Land Mediation Secretariat. 	<ul style="list-style-type: none"> • Acquire and distribute to land mediators uniforms and badges.
7	Training	

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Where requested, provide facilities for training sessions. • Carry out induction training for new Provincial and Local-level Government officials regarding land use mediation. 	<ul style="list-style-type: none"> • Nominate Local-level Government officials to attend training sessions. • Where requested, provide facilities for training sessions.
8	Inspection and Monitoring <ul style="list-style-type: none"> • Inspect land mediators records. • Advise the Land Mediation Secretariat of any problems/issues facing land mediators 	<ul style="list-style-type: none"> • Advise Provincial Government of problems and issues facing land mediators

Commerce and Industry Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Business Development <ul style="list-style-type: none"> • Deliver training programs (e.g. such as the Start Your Own Business program) to potential or existing small business owners. • Decimate information to the community on micro-credit or other assistance to promote business development. • Advise and assist applicants in seeking funding for their businesses through National Government schemes. • Undertake business extension programs in the province to provide training and advisory services. • Promote linkages between private sector and the Provincial Government through the Chambers of Commerce 	<ul style="list-style-type: none"> • Promote the establishment of Co-operative Societies to assist income generation for the rural population.
2	Tourism <ul style="list-style-type: none"> • Provide secretariat, technical and logistical support to the Provincial Tourism Committee, if it is operating in the Province. • Coordinate the implementation of the National Tourism Master Plan in the Province. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Develop and implement Provincial Tourism Plans. • Deliver training to private sector participants in tourism industry. • Promote the tourist potential of the Province. 	
3	Culture and the Arts <ul style="list-style-type: none"> • Promote the staging of Regional Festivals and other cultural events. • Advise the National Cultural Commission of dates of festivals and other cultural activities. 	<ul style="list-style-type: none"> • Provide support to festivals and other cultural activities in the local area. • Declare sacred sites outlining whether traditional laws and rules apply to the sacred site.
4	Liquor Licensing <ul style="list-style-type: none"> • Assess applications and make a decision whether to grant or not to grant a license and apply conditions. • Maintain a register of licenses. • Conduct regular liquor inspections. • Collect annual license fees. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

Land and Physical Planning Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Governance <ul style="list-style-type: none"> • Provide logistical, technical and secretariat support to the Provincial Lands Board and the Provincial Physical Planning Board. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
2	Surveys <ul style="list-style-type: none"> • Purchase and maintain survey equipment. • Carry out surveys, including, undertaking a field survey, collecting survey data, identifying the true land owners (clarifying with Local Level Governments, Land Mediators and Village Court Officials that there are no unresolved land disputes) and completing the Land 	<ul style="list-style-type: none"> • Assist District Survey Teams carry out surveys particularly with the liaison with land owners.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<p>Investigation Report and the Survey Plan.</p> <ul style="list-style-type: none"> • Seek certification from the Department of Lands and Physical Planning before any survey carried out on customary land who will issue a Land Inspection Report Number. • Carry out valuations in consultation with the Valuer General's Office. 	
3	<p>Customary Land</p> <ul style="list-style-type: none"> • Check the authenticity of the letter of request to register customary land and consent form • Seek survey instructions from the Surveyor-General's Office for requests by landowners to register customary land. • Maintain a register of requests to register customary land. 	<ul style="list-style-type: none"> • Receive requests from landowners to register customary land. • Confirm that applicants are the true landowners and get a letter of consent and forward to the Provincial Government.
4	<p>Acquisition of Customary Land by Government for Public Purposes</p> <ul style="list-style-type: none"> • Determine what land is to be acquired for public purposes in consultation with National Agencies and Local-level Governments. • Release land titles (for balance of land not acquired) to land owners. • Forward payment for land owners. • Maintain a register and receipts for the release of land titles and the payment to landowners. 	<ul style="list-style-type: none"> • Maintain records of land tenure in the local area.
5	<p>Registration of Incorporated Land Group</p> <ul style="list-style-type: none"> • Review applications for an Incorporated Land Group and then forward compliant applications to the Department of Lands and Physical Planning. • Receive Incorporated Land Group Certificates from the National Department and distribute to landowners. • Maintain a register of all Incorporated Land Group applications and certificates in the Province. 	<ul style="list-style-type: none"> • Forward applications from interested land groups to the Provincial Government.
6	<p>Lease-Lease Back Agreements</p> <ul style="list-style-type: none"> • Work with potential developers to identify possible sites in the province for proposed developments. • Consult landowners on the potential for a lease-lease back agreement on their land including the possible terms for the use of a site by a developer and the financial and/or other compensation for the use of that land. • Prepare a lease-lease back agreement where there is an agreement in principle between landowners and the developer. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Arrange public ceremonies for signing of lease-lease back agreements. 	
7	<p>Leasing of State and for third parties</p> <ul style="list-style-type: none"> • Maintain a register of all State leases in the Province and their conditions. • Identify land for tendering. • Receive, evaluate and make recommendations to the Department of Lands and Physical Planning on applications for new leaseholders. • Distribute new leases to leaseholders. • Undertakes monitoring of lease conditions, including periodic inspections of lease sites. • Prepare show cause notices for suspected breaches of lease conditions. • Investigate breaches of lease conditions and complete an inspection report with recommendations on whether the lease should be forfeited. 	<ul style="list-style-type: none"> • Advise the Provincial Government if any suspected breaches of lease conditions.
8	<p>Regulating Development</p> <ul style="list-style-type: none"> • Develop and maintain a zoning plan for the Province that incorporates District Zoning Plans. • Receive, consider and decide on development proposals (via the Provincial Physical Planning Board) • Monitor and coordinate developments in the province. 	<ul style="list-style-type: none"> • Provide comments on development proposals in the local area to the Provincial Physical Planning Board.

Infrastructure Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Land Transport <ul style="list-style-type: none"> • Provide logistical, secretariat and technical support to the Provincial Land Transport Board, if it is operating in the Province. • Develop, implement and monitor the implementation of Provincial transport policies (including policies on regulation) and the Provincial Transport Plan. • Implement and monitor the implementation of National transport policies and the National Transport Plan. • Collect, maintain and analyse information and data on transport. • Regulate license of heavy vehicles. • Collect license and registration fees if a traffic registry exists in the Province. • Maintain roads and bridges which are not classified as a national government responsibility. • Promote road safety and consider safety responses in road network planning. 	<ul style="list-style-type: none"> • Certify village Passenger Motor Vehicles. • Maintain footpaths (Urban Local-Level Governments).
2	Sea Transport <ul style="list-style-type: none"> • Register small craft (Certificate of Registry, Safety Certificate, Permit to Operate a Small Craft), where the Provincial legislation is in place. • Appoint inspectors to inspect small craft to see if craft meets minimum standards, where the Provincial legislation is in place. • Investigate the condition of wharfs and jetties not under National Government management. • Maintain wharfs, jetties and boat landings not maintained by National agencies. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
3	Air Transport <ul style="list-style-type: none"> • Maintain rural air strips including grass cutting, drainage works, the removal of debris from the runway, hole and wheel rut filling, painting of runway cones, clearing airstrip approaches and the maintenance of wind sock. 	<ul style="list-style-type: none"> • No assigned function or responsibility.
4	Government Buildings <ul style="list-style-type: none"> • Provide secretariat, logistical and technical support to the Provincial Building Board. • Plan, survey, design and cost public building projects. 	<ul style="list-style-type: none"> • Maintain Local-level government offices and staff housing.

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
	<ul style="list-style-type: none"> • Maintain Provincial Government buildings such as District administration buildings and staff housing. • Inspect buildings to ensure they comply with regulations. 	
5	Procurement <ul style="list-style-type: none"> • Provide secretariat, logistical and technical support to the Provincial Supply and Tenders Board. • Maintain a register of contractors covering capability, experience, and performance assessments for previous work undertaken. • Undertake tender processes for projects (<K3 million). • Negotiate Community Participation Agreements for maintenance of infrastructure (i.e. grass cutting, culvert cleaning, bridge painting). • Inspect work and organise progress payments to contractors. 	<ul style="list-style-type: none"> • Undertake procurement process for Local-level Government contracts. • Arrange payments for contractors.
6	Other Infrastructure <ul style="list-style-type: none"> • Install and maintain power to provincial headquarters and district administrations—solar, hydro or diesel-powered generator, including fuel, replacement and maintenance. 	<ul style="list-style-type: none"> • Operate and maintain street lighting (Urban Local Level Government only). • Operate and maintain town water supply and sewerage where not provided by PNG Waterboard, Eda Ranu or Provincial government (Urban Local-level Governments only).

Non-Renewable Resources Sector

	Service delivery functions and responsibilities assigned to Provincial Governments	Service delivery functions and responsibilities assigned to Urban Local-level Governments and Rural Local-level Governments
1	Mining, gas and Petroleum <ul style="list-style-type: none"> • Participate in discussions with National Department of Mining and proposed miners on new mines with respect to provincial employment opportunities (either directly or indirectly from the mine), and contributions to government related infrastructure and/or services. Regulate small-scale mines. • Liaison with landowners on issues relating to mining. 	<ul style="list-style-type: none"> • No assigned function or responsibility.

APPENDIX D BUDGET AND EXPENDITURE INSTRUCTIONS 2009



DEPARTMENT OF TREASURY Office of the Secretary

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BUDGET AND EXPENDITURE INSTRUCTIONS 2009

7 November 2008

To: The following officers in all Provinces, *except* the National Capital District and the Autonomous Region of Bougainville:

- Provincial Administrators
- Provincial Budget Officers
- Provincial Planning Officers
- Provincial Treasurers

CONDITIONS OF FUNDING, EXPENDITURE, ESTIMATION AND PROGRESS REPORTING FOR PROVINCIAL GOODS AND SERVICES GRANTS

1 Background

- 1.1 On Wednesday 16th July 2008, the National Parliament passed amendments to the *Organic Law on Provincial Governments and Local-level Governments* establishing a new system for funding goods and services in Provinces and Local Level Governments.
- 1.2 The new system covers goods and services grants for all Provinces, *except the National Capital District and the Autonomous Region of Bougainville* which are both subject to separate legislation.
- 1.3 Grants for personal emoluments continue to be determined through the normal Budget process.

Increased funding

- 1.4 Under the new system, the amount of funding provided to Provincial and Local-Level Governments for goods and services is set at a specified percentage of actual revenue from two years proceeding the Budget year. The legislation specifies the proportion of this net national revenue that should be provided.
- 1.5 This “share of net national revenue” approach ensures that, as “normal” revenues rise, funding to Provincial and Local-Level Governments will increase. On current forecasts, these new arrangements will lead to substantial and ongoing increases in funding.

Focus on functions

- 1.6 The National Government has always provided funding to Provinces to perform particular functions. However, with the introduction of the revised system and substantially increased funding, the Government will more clearly define the functions that Provinces are responsible for, and will establish reasonable conditions to link grant funding directly to those functions.
- 1.7 The intention is to ensure that funding is used as efficiently and effectively as possible to perform the vital basic services for which it is provided. To ensure that funds are used as intended, with a focus on improving service delivery to the people of Papua New Guinea, the new system allows the Treasury Secretary to issue Budget and Expenditure Instructions specifying what the funding has been provided for and how it is to be managed and used.

2 Purpose

- 2.1 The primary objective of these Budget and Expenditure Instructions is to advise Provincial Administrations/Governments (Provinces) of:
 - the legal framework establishing these Budget and Expenditure Instructions;
 - the functions for which the service delivery function grants, administration grants and local level government grants are provided;
 - the minimum priority activities that Provinces are required to establish and report against;
 - how Provinces are to Budget for the receipt and expenditure of goods and services grants;
 - how Provinces are to monitor and report on the expenditure of their goods and services grants;
 - the strict conditions under which unspent service delivery function grant funding may be rolled over from one year to the next; and
 - the penalties and sanctions that may be imposed if Provinces do not comply with the requirements set out in these Budget and Expenditure Instructions.
- 2.2 Provincial Administrators must ensure that officers involved with preparing and executing that Budget are provided with copies of these Budget and Expenditure Instructions.

3 Legal Framework

- 3.1 These Budget and Expenditure Instructions are issued under Section 65 of the *Intergovernmental Relations (Functions and Funding) Act 2008*, which is expected to pass Parliament in the Budget session. Section 65 allows the Treasury Secretary to issue Budget and Expenditure Instructions that specify:
 - What grants, payments or other revenue are to be used for, and what Provinces are expected to achieve from spending these funds;

- The timing and nature of expenditure of grants, payments or other revenue;
 - How grants, payments or other revenue are to be managed by Provinces;
 - How the expenditure of grants, payments or other revenue is to be monitored and reported; and
 - The budget preparation process, including consultation with stakeholders.
- 3.2 Section 67 of the proposed *Intergovernmental Relations (Functions and Funding) Act 2008* empowers the National Government to take serious actions if these conditions are not complied with.
- 3.3 These Budget and Expenditure Instructions will stay in force until they are withdrawn, replaced or superseded.

4 Funding for Functions

- 4.1 Section 5 of the proposed *Intergovernmental Relations (Functions and Funding) Act 2008* allows for service delivery functions and responsibilities to be formally assigned to Provinces and Local-Level Governments.
- 4.2 Furthermore, if a Province is determined to have a 'fiscal need', Section 28 of the proposed *Intergovernmental Relations (Functions and Funding) Act 2008* requires the National Government to provide service delivery function grants and an administration grant to assist with meeting the recurrent costs of the *assigned* service delivery functions and responsibilities.
- 4.3 This means that National Government goods and services grants are **only** provided to contribute towards the costs of providing functions which are assigned to Provinces under the law. Provinces may choose to perform other functions, but will have to ensure that they have other sources of funding available.

Function Grant Funding only available for the stated purposes

- 4.4 Therefore, service delivery function grants are only to be used for the recurrent costs of goods and services related to the specific function grant.
- 4.5 Under no circumstances are service delivery function grants to be used for salaries and other personal emoluments, casual wages, debt payments, legal settlements or capital projects.
- 4.6 Provinces may spend a service delivery function grant on the administrative costs that are *directly* related to performing the relevant service delivery function. For example, the health function grant can be used to support health administration, but not other types of administration.
- 4.7 Service delivery function grants cannot be transferred between different grant and expenditure types without the express approval of the Treasury Secretary.

Service Delivery Function Grants and Administration Grant

Health Function Grant

- 4.8 Provinces are responsible for the administration and routine maintenance of all rural health facilities in the Province, other than provincial hospitals, including health centres, rural aid posts and urban day clinics. Their responsibility includes the delivery of basic recurrent health services such as drug distribution, health patrols, immunisation, supporting women during childbirth, and HIV/AIDS awareness activities.

Education Function Grant

- 4.9 Provinces are responsible for the administration and routine maintenance of elementary, primary and secondary schools (including provincial high schools), and vocational centres, including the delivery of basic recurrent education goods and services such as the purchase and distribution of school materials to schools and vocational centres, distribution of curriculum materials and supporting supervision activities of teachers and schools.
- 4.10 More emphasis should be placed on expenditure on elementary schools and primary schools than vocational schools and provincial high/secondary schools. The Education Function Grant should not be used to subsidise university fees. While this is a worthwhile objective, it *is not* a Provincial Government function. If a Province wishes to subsidise, or otherwise fund university education, it must do so out of its internal revenue.
- 4.11 The Education Function Grant is not to be used for the construction of new teachers' houses or classrooms, however, it may be used for routine maintenance of these facilities.

Transport Infrastructure Maintenance Function Grant

- 4.12 The Transport Infrastructure Maintenance Function Grant can only be applied to the maintenance costs of existing transport infrastructure in the Province, such as provincial roads, jetties/wharves, airstrips/airfields etc.
- 4.13 This grant must not be used for the construction of new roads or maintenance of buildings, or for major reconstructions of unusable existing roads. Routine maintenance of buildings, including schools, health facilities and administrative buildings must be funded out of the relevant function or administration grant.

Village Court Function Grant

- 4.14 The Village Court Function Grant is provided to assist with the goods and services costs associated with the administration, supervision and support for the village court system in the Province. This includes operational materials such as badges, flags and uniforms.
- 4.15 The grant is not to be used for the staffing costs of Village Courts, which are funded separately through the Village Courts Allowance Grant under the Province's Personal Emoluments Budget.

Agriculture Function Grant

- 4.16 From the 2009 Budget, Provinces will *no longer be provided with a Derivation Grant*. Instead, they will receive an Agriculture Function Grant which is provided to further the development of export commodities in the Province.
- 4.17 The Agriculture Function Grant provides funding for the recurrent cost of goods and services associated with agriculture and other primary production, including fisheries, livestock and forestry. The grant covers activities such as extension services to farmers, farmer training, and the distribution of seeds and other technologies to farmers and fishermen.

Other Service Delivery Function Grant

- 4.18 In response to comments from Provinces in the 2008 Budget process, they will now receive an Other Service Delivery Function Grant to provide goods and services funding for all assigned functions, other than those which have a specific service delivery function grant. This includes business development, community development, natural resource management and lands administration.

Administration Grant

- 4.19 In addition to the service delivery function grants, Provinces will receive an Administration Grant to assist them to meet the day-to-day operational costs of the Provincial and District Administrations.
- 4.20 This grant is provided for the core costs of the administration. The administrative costs of specific sectors, such as health and education, are provided for under the respective service delivery function grants.
- 4.21 Under no circumstances is the administration grant to be used for salaries and other personal emoluments, casual wages, debt payments, legal settlements or capital projects, without the express approval of the Treasury Secretary.

Local-level Government Grants

- 4.22 Local-level Government Grants are provided for *goods and services* directly related to the functions for which rural and urban LLGs are responsible.
- 4.23 In the 2007 Budget, funding that was previously separately provided under the LLG Secretariat Grant, was incorporated into the provincial Staffing Grant. As a result, there is no longer a separate LLG Secretariat Grant. Secretariat wages, salaries and allowances are to be met out of the Staffing Grant.
- 4.24 LLG Grants are provided for goods and services only and *cannot* be spent on salaries, fees and allowances (including the salaries, wages and/or allowances of Local-level Government members), unless specifically provided for in the Budget.

Urban Local-level Government Grant

- 4.25 Since the 2006 Budget, Provinces have no longer received funding under the Town and Urban Services Grants.

- 4.26 Instead, Urban Local-level Government Grants are provided to fund the additional functions for which an urban LLG is responsible, including those functions which were previously funded through the Town and Urban Services Grant, such as town maintenance, cleaning, upkeep and urban beautification.

5 Minimum Priority Activities

- 5.1 In addition to the general requirement that the service delivery function grants be used for goods and services for the assigned functions outlined above, from 2009 Provinces will be *required* to specifically fund a set of Minimum Priority Activities (MPAs) in each area of functional responsibility.
- 5.2 The MPAs, which were determined in 2008 following consultation between Provinces, the National Economic and Fiscal Commission (NEFC) and the Department of Provincial and Local-level Government Affairs, are a minimum set of activities that *must* be funded out of each of the function grants.
- 5.3 The MPAs are not the only activities that can be funded, and in general Provinces would be expected to fund a broader range of activities out of each of their service delivery function grants. However, they are a core set of basic activities that most Provinces would be already expected to have in place.
- 5.4 In order to demonstrate that they are adequately funding these activities, Provinces will be required to establish programs/activities for each MPA within their Budget, and report regularly on performance against these activities throughout the year.
- 5.5 The minimum priority activities are:

Agriculture

Extension activities for agriculture, fisheries and forestry

Education

Distribution of school materials

Supervision of schools by district and provincial officers

Operation of district education offices

Health

Operation of rural health facilities

Integrated health patrols

Drug distribution

Transport Infrastructure Maintenance

Road and bridges maintenance

Airstrip maintenance

For maritime provinces- wharves and jetties maintenance

Village Courts Operations

Operational materials (eg. Flags, uniforms, badges)

6 Provincial Budgets

- 6.1 Provinces are required to correctly budget for the receipt of goods and services grants and for the expenditure of these grants against identified programs.

- 6.2 This means that Provinces will have to use the correct PGAS codes for both revenue and expenditure, clearly identify each grant in the Budget documents they submit to Treasury, and identify all of the programs/activities, including the MPAs, that the grants will be spent on.

Revenue - Correct PGAS Grant Codes

- 6.3 With regard to revenue, the following grant codes (GC) and function codes (FC) are to be used to identify each of the goods and services grants:

GC	FC	Grant
1	1	Administration
1	9	Other Service
3	2	Health Function Grant
3	4	Education Function Grant
3	5	Village Court Function Grant
3	6	Transport Infrastructure Maintenance Function Grant
4	7	Rural LLG Grant
5	7	Urban LLG Grant
6	3	Agriculture Function Grant

Expenditure - Correct PGAS Activity Codes

- 6.4 Provinces must also ensure that programs/activities are established to expend the goods and services grants. As a minimum, this will mean that agencies will have to establish, and account for expenditure against, each of the MPAs.
- 6.5 Provinces must ensure that each activity, including each MPA, has its own activity code in the 2009 Budget submitted to the Department of Treasury, and that these activity codes are consistent with the current chart of accounts.
- 6.6 Before submitting their Budgets for ministerial approval, Provinces should consult with Budgets Division in the Department of Treasury to develop a correct chart of accounts for the programs and activities they will conduct, including the MPAs.
- 6.7 If a Province submits a Budget that does not comply with the requirements regarding activity codes, it will be returned to the Province for correction before it will be considered for approval by the Treasurer.

7 Monitoring and Reporting on Performance

- 7.1 At this stage, all additional reporting requirements, such as reporting on performance in the MPAs and reporting on expenditure of rolled over funds, will be met by the regular quarterly reporting process.
- 7.2 Section 5 of the *Public Finances (Management) Act* requires Provinces to report each quarter on their financial performance. However, despite this, Treasury is concerned that Provinces regularly fail to submit their reports on time.

- 7.3 It is important for Provinces to report, so that the Government is satisfied that the funding provided is being properly spent. Under the revised funding system, Provinces that fail to report as required may be subject to a range of sanctions, as outlined in Section 9, below.
- 7.4 In early 2009, the Department of Treasury, with the NEFC and the Department of Provincial and Local-level Government Affairs, will consult with Provinces about introducing a range of relevant performance indicators for the MPAs. It is expected that additional Budget and Expenditure Instructions will be issued in 2009, explaining the agreed indicators and how they are to be used by Provinces to meet future reporting requirements.

8 Restrictions on Rollovers

General restrictive approach to rollovers from 2008 to 2009

- 8.1 As outlined in section 4 above, service delivery function grants are provided by the National Government for specific purposes, with the intention that they be spent on the function for which they are provided within the year they are provided.
- 8.2 In the normal course of business, Provinces should actively work towards spending their service delivery function grants throughout the Budget year. However, there may be occasions when it is not possible to expend all the available funds. This should only occur in exceptional circumstances and not as a matter of routine.
- 8.3 If a Province continually fails to fully spend its service delivery function grants, it suggests that they do not have the capacity to spend the funds on the critical function for which they are provided. If this is the case, Treasury will consider re-allocating the funds to a Province with a better track record.
- 8.4 Where it is not possible to expend all the available funds at the end of the Budget year, Provinces should 'roll over' the unspent National Government funds into the following year's internal ('700 series') revenue Budget. However, it is a *strict* condition that these funds remain in the core priority sectors for which these were provided. For example, rolled over Health Function Grants must *only* be used on recurrent goods and services relevant to primary health care.
- 8.5 To ensure they are used as intended, unused funds from 2008 must be rolled over into one of the following four specific revenue votes for 2009:
- Health Function Grant Former Year's Appropriation;
 - Education Function Grant Former Year's Appropriation;
 - Transport Infrastructure Function Grant Former Year's Appropriation; and
 - Village Court Operations Function Grant Former Year's Appropriation.
- 8.6 Where a Province intends to roll over one or more service delivery function grants, it must include accurate estimates of the rollover in its Provincial Budget, with the rolled over funds shown against the relevant revenue vote from paragraph 8.4. The Department of Treasury will not approve Budgets that fail to clearly roll over unspent function grants into the correct revenue votes.

9 Penalties for Non-Compliance with Budget and Expenditure Instructions

- 9.1 Provinces must ensure that they comply with these Budget and Expenditure Instructions when developing and presenting their Budgets.
- 9.2 Where a Province submits, for approval, a Budget that does not comply with the conditions in these Budget and Expenditure Instructions, it will be returned to the Province for correction before being considered for approval by the Treasurer.
- 9.3 Furthermore, there are a range of possible sanctions set out in Section 67 of the proposed *Intergovernmental Relations (Functions and Funding) Act 2008*. These include:
- The Treasury Secretary may issue a non-compliance notice under the legislation outlining:
 - the circumstances of the non-compliance;
 - the action required to be taken to rectify the non-compliance;
 - the date by which the action must be undertaken; and
 - any additional reporting requirements
 - The Treasurer may make a written determination to the Province for all or any of the following purposes:
 - specifying how the expenditure of the grant is to be managed;
 - requiring expenditure to be supervised or authorised by a person or body specified in the determination;
 - delaying the making of any further grants or payments to the Provincial Government, until such time as is specified in the determination; or
 - requiring the Provincial Government to repay an amount specified in the determination.

10 Conclusion

- 10.1 I wish to thank the Provinces for participating in workshops and consultation on the new intergovernmental financing arrangements. I trust that the constructive dialogue that has developed between Treasury, NEFC and Provinces will continue into the future and that we will see continuing improvement in the budgeting, accounting and reporting of the goods and services grants.



Simon Tosali
Secretary
