



## **NATIONAL ECONOMIC & FISCAL COMMISSION**

# **ANNUAL REPORT 2015 & 2016**

**NEFC Annual Key Performance Outcomes**

Strengthening Basic Service Delivery for all  
Papua New Guineans no matter where they live.





## Chairman/CEO's Message



It is my pleasure to present to you, the combined NEFC Annual Reports for the years 2015 and 2016. These reports are my highest priorities in reporting NEFC's annual achievements in implementing the Reforms of Intergovernmental Financing Arrangements in Papua New Guinea. I would also like to acknowledge the assistance of the Auditor General for making his officers available to work with the NEFC team in bringing these reports up to date including completing the audits in a timely manner.

During the years 2015 to 2016, the NEFC was very much involved in implementing and progressing the Reforms on the Intergovernmental Financing and funding Arrangements (RIGFA), which took effect from 2009 following the passing of the Organic Law on Provincial & Local-Level Governments. The NEFC has since continued to play a vital role in fostering government reforms including providing day to day support to the provinces and advocating to address issues on their behalf.

As part of its strategy to strengthen RIGFA, NEFC has also continued to facilitate the four NEFC annual regional workshops in collaboration with our major stakeholders. These workshops first commenced in 2009 and are now institutionalized. The annual workshops provide a valuable conduit for bringing together National and sub-national agencies to interact with each other, to disseminate policies but more importantly to assist in addressing issues and bottlenecks that affect effective service delivery.

Since the implementation of the reforms, the demands and expectations of the NEFC have also increased significantly particularly over recent years. This has prompted a review of its organizational structure including the production of the NEFC corporate plan 2014-2017 which was formally launched by the former Minister for Treasury Honourable Patrick Pruaitch. The revised NEFC organizational structure has since been submitted to the

Department of Personnel Management for formal endorsement in 2015. The Corporate Plan is currently being reviewed as its reaching its end. As new Corporate Plan 2019-2023 is being developed.

Since my appointment as the CEO-Chairman in March 2013, it has also been my priority to strengthen the governance issues including the re-establishment of the NEFC Board which has been inactive for some years. This has prompted the establishment of the NEFC Board in 2016. The establishment of a fully functional NEFC Board will ensure that the Commission not only meets its legislative obligations but also contributes to the depth of decision making.

The NEFC is a relatively small agency with an approved establishment of 19 staff but, continues to be a highly effective agency in implementing and progressing government reforms.

The NEFC has also benefited from external advisory support and financial assistance from our major donor partner – DFAT. In addition to providing technical assistance they have also partially supported the annual NEFC Regional workshops and other important engagements.

I extend my sincere appreciation to all our major stakeholders for their support in enabling the NEFC to achieve as much as it has accomplished in a relatively short time. Stronger links have also been developed with all our major stakeholders including the Departments' of Finance, Treasury, Provincial and Local Government Affairs and the Department of Implementation and Rural Development (DIRD). The stakeholder networks continue to be the key to successfully implementing and progressing the Reforms on Intergovernmental Financing Arrangements (RIGFA).

This consolidated NEFC annual report 2015 and 2016 also incorporates the National Economic & Fiscal Commission's performance and financial statements inclusive for these years.

Finally, I wish to commend the hard work and commitment of my staff, principally for working as a team, staying focused and attaining the targeted milestones and objectives for 2015 and 2016.

**MR HOHORA SUVE**

CEO-Chairman

National Economic & Fiscal Commission





## Some of NEFC's Publications & Work Initiatives



PNG Accessibility & Remoteness Index



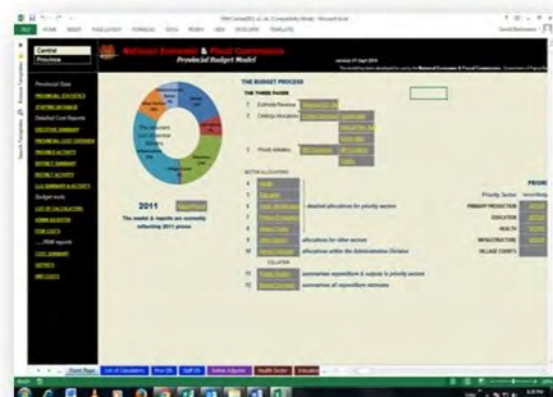
District Expenditure Review



Provincial Expenditure Review "Game Changer"



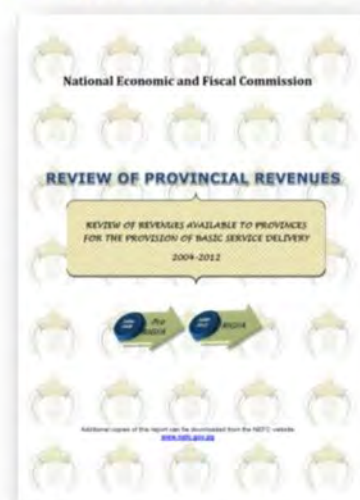
NEFC Annual Report



Provincial Budget Model (PBM)



Provincial Establishment Cost Model (PECM)



Provincial Revenue Report



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# CHAPTER ONE: STATEMENT OF PURPOSE

## 1.1. Our Mandate

NEFC is established under section 187H of the Constitution and its detailed roles and responsibilities are outlined in the following legislations;

- Organic Law on Provincial & Local Level Governments (OLPLLG)-Section 117;
- Intergovernmental Relations (Functions & Funding) Act 2009; and
- National Economic & Fiscal Commission Act 2009.

## 1.2. Our Vision

We envisage a healthy, wealthy, wise and prosperous society for all Papua New Guineans through the fair and equitable distribution of development opportunities and economic growth, no matter where they live.

## 1.3. Our Mission

To provide quality, independent and objective advice on economic and public policy issues to the National Government as it relates to sub-national Financing & Funding arrangements.

## 1.4. Our Role

The overarching role of the NEFC is to provide advice to the government on intergovernmental financing. The Commission is responsible for;

- Assessing and monitoring the economic and fiscal policies of the National Government, Provincial Government and Local Level Governments;
- Advise and recommend to the National Executive Council, appropriate economic policies; and
- Make recommendations to the National Executive Council and to the National Parliament on the financial arrangements and allocation of grants.

## 1.5. Our Values & Guiding Principles

Our values are important because they reflect our organizational culture and provide guiding principles to our staff in their decision-making and behaviour. We believe that where and when we adhere to these values and principles, our work will be efficient and of high quality and standard and beneficial to the development and achievement of reforms on the intergovernmental financing arrangements.

**Our values encompass the following:**

## Our People



- We recognize the diverse backgrounds of our staff and provide a workplace free from discrimination and harassment (physical and psychological);
- We provide a safe, fair and healthy workplace;
- We value high performance and encourage learning; and
- We provide opportunities for our staff to enhance their skills and competence.





## Client Services



- We develop and maintain positive relationships with individuals, departments and semi-government bodies, our Members of Parliament, all levels of Governments, the private sector and civil society; and
- We provide services to Provinces, Districts, Local level Governments, and related public sector agencies which will assist them in delivering high quality services to the people of PNG.

## Professionalism



- We carry out our functions and make decisions in an impartial manner;
- We have high ethical standards;
- We promote transparency and accountability for actions through the Minister responsible for Treasury and Finance, Intergovernmental Relations, the National Parliament and the people of Papua New Guinea;
- We embrace innovation as a comparative advantage; and
- We encourage and adopt ideas for improvement.

## Results



- We are responsive to the National Government for providing comprehensive, accurate and timely data including advice and in implementing the Government's policies and directives.
- We take responsibility for our own performance and are accountable for results;
- We focus on project management to deliver core business and we use project teams to achieve programs; and
- We seek efficient outcomes and eliminate unnecessary or non-value adding activities.



## CHAPTER TWO: OUR CORPORATE OUTCOME AREAS

The following are the five (5) Corporate Outcome Areas or program as per NEFC's Corporate Plan that NEFC undertake its activities under;

### **Corporate Outcome Area 1**

#### **2.1. Economic Policy Strategy**

This requires NEFC to provide economic policy advice regularly to the government on important economic issues.

### **Corporate Outcome Area 2**

#### **2.2. Advice on Intergovernmental Financing Arrangements and other Government Reforms**

This requires NEFC to advise the government on the total amount of annual grants required and their distribution among the Provinces and LLG's.

### **Corporate Outcome Area 3**

#### **2.3. On-going Improvement to RIGFA**

This focuses on enhancing the implementation of the Organic Law on Provincial government reforms and recommend areas for improvement.

### **Corporate Outcome Area 4**

#### **2.4. Monitoring of Provincial Budgets & Financial Management Practices**

This focuses on collaborating with relevant stakeholders in monitoring and reviewing the Budget & Financial Management Practices at the Provincial, District and LLGs.

### **Corporate Outcome Area 5**

#### **2.5. Institutional Strengthening and Workforce Capacity Building**

This focuses on Institutional Strengthening and Workforce Capacity Building of NEFC's personnel as we value high performance and encourage learning and we provide opportunities for staff to enhance their skills and competence.





## CHAPTER THREE: COMBINED ANNUAL REPORTS FOR 2015 & 2016

**T**his publication includes the consolidated Annual Reports and financial statements on the years 2015 and 2016. The financial statements for these years were duly audited by the Auditor General's Office.

The financial statements for each year are included as part of this publication.

NEFC's major achievements for the years 2015 and 2016 are reported under the key corporate outcome areas as outlined in the NEFC Corporate Plan 2014-2017.

### NEFC STAFF - 2016



**Front Row:** Mrs. Rei Melepia- Financial Management Advisor, Mr. Patrick Painap, Director-Economic Policy, Research & HR, Mr. Hohora Suve – Chairman/CEO, Mr. Idau Airi, Acting Director- Fiscal Policy & Administration, Mr. Svend Muller, Economic & Fiscal Advisor.

**Second Row:** Ms. June Dibela, Finance Officer, Ms. Fiona Diener- Senior Policy Analyst, Ms. Immah Atu, Casual Officer, Ms. Elizabeth Belapuna, Executive Secretary, Mrs Elizabeth Babate, Policy Analyst-Communication & Information, Ms. Loraine Andrew- Casual Officer, Mr. Laspa John, Office Janitor, Ms. Allison Jambui, Policy Analyst.

**Back Row:** Mr. Noho Henao, Implementation & Monitoring Officer, Mr. Mala Marare, Policy Analyst, Mr. Robert Suve, Office Driver, Mr. Gerald Bailoenakia, Senior Policy Analyst, Mr. Justin Hane, Administration Officer, Mr. Nigel Ainui- Policy Analyst, Mr. Valentine Sime, Senior Policy Analyst, Ms. Flora Suve- Casual

**Absent:** Erwin Pouru – Senior Policy Analyst and Jacklyn Walum – Policy Analyst



# Sub-Chapter: **2015 ANNUAL PERFORMANCE REPORT**





### 3.1. Sub-Chapter: 2015 Annual Report

The 2015 financial year represented the seventh year of the implementation of the Reform on the Intergovernmental Financing Arrangements (RIGFA). Each year the NEFC develops an annual activity plan to guide the attainment of the corporate goals and objectives.

The outcomes attained have been outlined against the corporate strategies as follows:-

#### 3.1.1. Economic Policy Strategy

This strategy represented the broad corporate outcome areas which the NEFC undertook as was necessary, and includes:

- Taking on a lead role in initiating discussions on economic policies;
- Deliberating on major economic policy issues;
- Effective monitoring of the economic and fiscal policy arena;
- Conducting evidence based research and assessments on important economic issues including emerging issues before the Nation;
- Preparation of briefs to Chairman/ NEFC Board on topical economic issues as they arise;
- Conveying formal economic and fiscal policy advice to the NEC; and
- Participating in broader discussions and forums intended to inform of international practices.

One of the major tasks which the NEFC undertook on behalf of the National Government in 2015 included the conducting of the sub-national 'cost of services study' (CoSS). The CoSS study remains a major task and was commenced by the NEFC in 2015. This study was a follow up to the first cost of services study which was initially conducted 2005. The CoSS primarily provides an update on the current cost of providing basic service delivery.

The NEFC also undertook other economic studies such as Autonomous Region of Bougainville (ARoB) cost of service delivery. This CoSS primarily assisted the ABG Government adequately allocates its annual funding towards the each sector based on the level cost.

#### 3.1.2. Advice on Intergovernmental Financing Arrangements

As part of its support to the National Budget process under the new system, the NEFC undertook its mandated core activities as follows:

- ⇒ Assessed national and provincial revenues which are used to determine each province's fiscal capacity;
- ⇒ Provided recommendations on the 2016 provincial and Local Level Government function grants based on equalisation principles. The final determination was endorsed by the Treasurer effectively approving a total equalised funding pool amount of K578 million;
- ⇒ The timely calculation and recommendation by the NEFC of the function grants also ensures that provinces and LLGs receive their following year's budget ceilings in a timely manner so that they are able to better plan their budgets;
- ⇒ NEFC ensured that the 2016 Fiscal Report is compiled and published ahead of the National Budget; and
- ⇒ The timely publication of the 2016 Budget Fiscal Report is also aimed at promoting greater accountability and transparency by making information readily and timely accessible to the public.





### 3.1.3. On-going Improvement to RIGFA

- ⇒ The NEFC Chairman has actively participated and provides strategic input at the PLLSMA meetings. The CEO also acts as the alternate PLLSMA Chairman when required;
- ⇒ The NEFC Chairman was a member of the working committee that tour provinces with the CLRC in creating awareness and undertaking consultations with the provinces on the review of the Organic Law on Provincial & Local-level Governments.
- ⇒ The Chairman of NEFC was also appointed as a member of the newly established Parliamentary Committee on Service Delivery Reforms.
- ⇒ The NEFC also assists in providing an analytical oversight to assist PLLSMA with its provincial performance monitoring;
- ⇒ The NEFC is also a Secretariat to the quarterly Inter Departmental Committee (IDC). The IDC plays an important role in strengthening RIGFA including addressing and resolving inter departmental and agency issues and addressing identified bottlenecks. Other issues addressed included:
  - the development of the uniform provincial chart of accounts,
  - policy initiatives including the development of finance instructions,
  - budget expenditure instructions and providing oversight including monitoring of NEFC regional workshop outcomes;
  - monitoring and compliance over the application of chart of account codes by provinces; and
- ⇒ NEFC was also invited and participated on a Department of Finance's steering Committee for the software enhancement of the PGAS Chart of Accounts. This culminated in the development and pilot testing of PGAS upgrade version 27 and is pending a formal roll out.

### 3.1.4. Monitoring of Provincial Budgets & Financial Management Practices

- ⇒ NEFC assisted Treasury with conducting the 2015 second Quarter provincial Budget Reviews including assessment of MPA expenditure and performance outcomes (August 2015);
- ⇒ Assisted Treasury:- Provincial Budget's Branch with the 2015 Provincial Budget Screening processes. NEFC used the budget screenings to monitor provincial budget allocations against the Minimum Priority Activities (MPAs) for delivery of basic services;
- ⇒ Compiled a provincial and LLGs quarterly warrant releases publication. This publication is included as a newspaper insert and circulated each quarter. The amount of funding released to provinces and LLGs is intended to promote greater transparency over the allocation of sub-national funding;
- ⇒ Provided ongoing feedback and training as requested by provinces to strengthen budgeting and expenditure monitoring processes. This includes the roll out of an in-house produced budgeting tool. The tool is linked to the Cost of Services Model and provides evidence based budgeting prioritisation and allocation.
- ⇒ In 2015, the NEFC produces a District Expenditure Review which was a pilot review of four (4) district expenditure to assess development expenditure and compare it to goods and services expenditure. This is to do a comparative analysis on the current capital investment expenditure trend and level of goods & services funding to cater for the increasing trend in infrastructure development



A Provincial Expenditure Review was produced in 2015 showing the 2013 expenditure on goods & services by each province.

The current Governor for Jiwaka, Hon. William Tongamp launched the 2013 Provincial Expenditure Review in July, 2015 during the Highlands Regional Workshop held in Lae.

Each year the NEFC selects a theme to synergize with the launch of the PER. The title of the 2013 PER was "*Raising the Bar*". Over one three hundred copies of the PER publication were distributed. The publication was also made available through the NEFC website: [www.nefc.gov.pg](http://www.nefc.gov.pg).

The theme "*Raising the Bar*" pose the question to us as public servants, how will we set the bar to improve the quality of services we deliver to our people? The 2013 PER help us assess our financial performance against the bar of supporting service delivery.

The overall findings of the 2013 PER identified the following:

- ⇒ The additional function grants allocated to Provinces (i.e. following the reforms) were being spent on key service delivery sectors;
- ⇒ It was also identified that the proportion function grants being allocated by provinces under "Administration" or 'administrative costs' has declined in comparison to previous years;
- ⇒ Provincial Management Administration teams commenced prioritising expenditure on basic service delivery, more evidently on the Minimum Priority Activities (MPA's);
- ⇒ There was evident commitment to using internal revenues although this continued to be inadequate to the amount identified by the cost of services study that should be spent particularly by resource rich provinces;
- ⇒ The need for provinces to prioritise expenditure on basic service delivery was also reinforced during PER presentations at the regional workshops;
- ⇒ Treasury oversight of provincial budgets including the NEFC scorecard and province ranking system anecdotally has been useful in creating a performance benchmarks for provinces to aspire to. As a result some provinces who previously performed poorly have improved their own performance. Overall it was evident that the average benchmark scores for all provinces has been increasing each year and this is pleasing to see;
- ⇒ Treasury, NEFC, DPLGA and PLLSMA have continued to collaborate well to reinforce the national policies for improving sub-national service delivery;
- ⇒ One of the major weakness of the system identified by the PER has been the inconsistent cash and warrant releases to sub-national agencies. This problem has continue to deteriorate despite strong advocacy by the NEFC.



### 3.1.5. Institutional Strengthening and Workforce Capacity Building

NEFC has been the driving force behind the organisation and conducting of the four provincial annual Regional Workshops. The year 2015 was the seventh year of RIGFA. NEFC together with its major stakeholders Treasury and DPLGA brought together more than 200 provincial service delivery managers and central agency staff to promote the understanding of respective roles and responsibilities for the provision of basic delivery under the new system. The workshops were considered as a major communication outcome in successfully implementing the intergovernmental financing reforms. The focus of the regional workshop in 2015 was on improving budgeting and monitoring processes for the delivery of basic services. The 2015 theme “*Raising the Bar*” challenges all of us public servants to be proactive and innovative in all aspects to improve performance in service delivery. The following are the initiative taken by NEFC to support Institutional Strengthening and Workforce Capacity Building.

- Coordinated with key line agencies, particularly National Department of Health, Department of Works, National Department of Education and the Village Courts Secretariat;
- Coordination with DPLGA Capacity Building Division to include PER and MPA feedback in their regular monitoring and improvement plans;
- Collaborating with DPLGA Capacity Building Division to include intergovernmental financing and service delivery in the Division's task of monitoring Corporate Planning and Capacity Building in the provinces;
- Policy impact advice to Treasury and Department of Personnel Management (DPM) and Treasury on the K55m per annum in provincial service delivery alone due to increases in the costs of per diems;
- Monitoring information on quality of provincial budget submissions. The NEFC conducts a comprehensive analysis of provincial budget using a scorecard system which scores the performance of each provincial administration assessing the quality of their annual budget submissions to the Department of Treasury. The results are disseminated at the Regional Workshops;
- Monitoring of the Reform of Intergovernmental Finance Arrangements (RIGFA) implementation indicates this major reform is progressing well;
- NEFC developed spread sheet models to improve the capacity of provinces to improve the quality of budgets including the prioritising of Minimum Priority Activities:
  - a) A provincial budget scorecard that scored each provincial administration on the quality of their budget documents according to the Budget and Expenditure Instructions;
  - b) A summary provincial budget model, the summary sheet known as the “Three pager” is based on the cost of services which provinces can use to develop more meaningful budgets;
  - c) A standardised chart of accounts for use by all provinces has been developed and promoted by the NEFC with the aim of improving the quality of expenditure classification. This would then lead to more meaningful analysis and improved decision making;
  - d) The NEFC continues to provide quantitative analysis to provincial and district administrations including providing cost analysis of provincial organization restructure including New Ireland, Southern Highlands and Morobe provinces. An ad hoc analysis of budgets was also conducted at the request of the Autonomous Region of Bougainville;
  - e) Addressed the Provincial Treasurer's conference in Kundiawa on function grants and reporting;
  - f) With the involvement in the use GIS Software, Maps were plotted with all the facilities including Health Centres, Schools, Roads, Extension Points, etc. and were provided to provinces and districts as per their requests.
  - g) A combined 2010, 2011, 2012, 2013 and 2014 Annual Report was provided to CACC/NEC to be tabled in Parliament. This was intended to further strengthen accountability and transparency of the Commission's activities in government.





## 2015 Financial Statement

### NATIONAL ECONOMIC & FISCAL COMMISSION

#### STATEMENTS OF RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 2015

	Notes	2015 <u>K</u>	2014 <u>K</u>
<b>RECEIPTS</b>			
Opening Bank Balance as at 1 January, 2015		861,217	1,199,977
Government Grants	2	2,644,760	2,085,501
Concept Payroll (DoF)		879,352	682,500
<b>Total Receipts</b>		<b>4,385,329</b>	<b>3,967,978</b>
<b>LESS: PAYMENTS</b>			
Personnel Emoluments	3	1,132,834	1,031,167
Travel & Subsistence		855,821	683,885
Utilities		93,258	73,300
Supplies & Consumables	4	190,732	220,177
Transport and Fuel		67,762	75,883
Routine Maintenance		141,108	257,016
Other Operational Expenses		793,028	600,665
Capital Expenditures	5	101,760	98,296
Training & Consultancy	6	39,895	64,482
Bank Charges		226	1,889
<b>Total Payments</b>		<b>3,416,422</b>	<b>3,106,761</b>
<b>Net Surplus(Deficit) as at 31 December 2015</b>		<b>968,907</b>	<b>861,217</b>

The accompanying notes form part of this financial statement



## NOTES TO AND FORMING PART OF THE STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2015

2014

K

K

1

The Commission operated a drawing bank account with the Bank South Pacific in September of 2009.

The Commission uses the cash basis method of accounting

Appropriations from the Government are deposited into this account and paid out for the operations of Commission.

2

**Appropriation**

Recurrent Appropriations	4,168,000	2,768,001
Funds credited to Bank	2,644,760	2,085,501
Amount retained by Dept of Finance	1,112,000	682,500

As at 31 December 2015 Grants totalling K138, 300.00 for the month of February was not remitted to NEFC operating account. In January 2015 Finance remitted K250,000 which resulted in a surplus of K41,500 as the actual CFC issued was K208,400. Then in February 2015, total CFC issued was K208,400 however DoF credited to the NEFC account only K70,100.00, which is a deficit of K138,300 for the February CFC. Finance advise in confirmation letter of 18/04/2016 that K96,800 was recouped for the final balance of duplication from WPA in 2013. Thus K41,500 retained was the over payment in January.

3

**Salaries**

Salaries and Allowances are paid through the Department of National Planning and Monitoring salary code.

A total of K1,112,000.00 was retained by DoF as the salary component. Total Salaries paid for the year was K879, 352 as provided by DNPM - Salaries Section. Department of Finance, therefore has to pay the balance of K232,648 to NEFC.

Concept Payroll (External - DoF)	879,352	895,657
NEFC Salaries (Internal - PGAS)	126,922	6,270
Wages	0	71,500
Overtime	0	15,482
Leave Fares	13,002	10,625
Gratuity	113,557	31,633
	<u>1,132,834</u>	<u>1,031,167</u>

4

**Supplies & Consumables**

Office Materials and Supplies	101,658	143,832
Operational Materials and Supplies	89,074	76,345
	<u>190,732</u>	<u>220,177</u>

5

**Capital Expenditure**

Office Furniture & Equipment	43,300	98,296
Construction, Rennovation & Improvements	58,460	
Purchase of Motor Vehicles		
	<u>101,760</u>	<u>98,296</u>

6

Training Fees	11,950	11,665
Admin Consultancy Fees	27,945	52,818
	<u>39,895</u>	<u>64,483</u>

7

**Fixed Asset**

Asset	Opening Bal	Additions	Disposals	31/12/15	31/12/14
Land & Building	-	-	-	-	-
Plant & Equipment (office)	278,495	43,300	-	321,795	278,495
Furniture & Fittings	129,837	-	-	129,837	129,837
Motor Vehicle	384,840	-	-	384,840	384,840
<b>Total</b>	<b>793,172</b>	<b>43,300</b>	<b>-</b>	<b>836,472</b>	<b>793,172</b>



# Sub-Chapter: 2016 ANNUAL PERFORMANCE REPORT







## 3.2. Sub-Chapter: 2016 Annual Report

The 2016 fiscal year represented the eight (8) year in the implementations of the Reforms to Intergovernmental Financing Arrangements (RIGFA). It also represented the end of the transition arrangements following NEC approval to extend the RIGFA by examining ways to further improve intergovernmental financing.

The NEFC continued with reviewing the next phase of the decentralized reforms with dialogue commenced on the possible impact after the cease of transitional guarantees to the resource-rich provinces from 2016 and onwards. It was determined that the transition phase which was due to end 2013 would be extended for a further two years to 2015. This was to allow the resource rich provinces additional time to make the budgetary realignment to commit their internal revenues towards the provision of basic service delivery. At least three provinces, Morobe, New Ireland and Western Provinces were unlikely to receive function grants from the Government as they are considered as having the resources to be able to provide basic service delivery.

However, following a Ministerial decision, the transitional guarantees were ceased in 2016. The three (3) resource – rich provinces were affected but it likely for Western province to remain within the system as its resource envelop was affected when Ok Tedi mine experienced a drop in its production. The NEFC continues to search for innovative ways to further engage resource – rich provinces maintain the same level of consistency in providing support to service delivery.

NEFC also continued with the analysis on personnel emoluments and development expenditure. An analysis of the personnel emoluments was commenced by an NEFC policy officer. The NEFC is yet to establish a dialogue with the Departments of Personnel Management and Treasury to further proceed with the work on Personnel Emoluments.

The outcomes attained have been outlined against the corporate strategies as follows:-

### 3.2.1. Economic Policy Strategy

This is a broad Corporate Outcome Area that NEFC continues to undertake as and when required by taking a lead role in initiating discussions on economic policies and deliberating on major economic policy issues.

Some outstanding reform Issues which NEFC continued working on are;

- ⇒ The post RIGFA phase (RIGFA2) continues to be fragile particularly in relation to the engagement of resource rich provinces who are failing to prioritize their internal revenues to fund expenditure on basic service delivery (the Provincial Expenditure Reviews further highlights this issue);
- ⇒ The RIGFA2 research study is currently in progress with a view to developing meaningful reforms and strategies to address the potential gaps and weaknesses identified as;
  - Provincial/District/LLG Performance and Accountability is still a question of assessing performance reporting which should also bring together financial, performance, outcome and impact information;
  - Establishment of District Development Authorities poses the issues of shared service delivery responsibilities between the province and the districts. This also brings along the issue of accountability.
  - The NEFC assess the performance of grant dependant provinces. Is the funding reaching the facilities? And how is the performance of MPAs which need to be brought together financial and impact level information;
  - Provinces (Resource – Rich provinces) with small grants, large internal revenues may miss out from the receiving the grants. The NEFC considered adjusting the definition of costs to be less equalizing (e.g. moving the benchmark up to 120%) or advocate for provinces to spend the internal revenue on service delivery.



- Establishment of the Municipal Authorities may create a huge fiscal imbalance between urban and rural service delivery points. The NEFC however, is required to provide the costing for the Authorities on the municipal services.
- The NEFC revisited the GST and Grant guarantee arrangements;
- The NEFC also look at ways to accommodate LLGs and minimise the impact when LLG guarantees ends; and
- NEFC considered adjusting the Net National Revenue with more solid performance/outcome/impact information.

### 3.2.2. Advice on Intergovernmental Financing Arrangements

NEFC has continued to establish itself as a lead agency of Reforms in partnership with the Department of Treasury and Finance, DPLGA, DIRD and PLLSMA which enables sub national provincial governments to fulfil their service delivery functions. RIGFA moved away from the per capita funding prior to 2009 to a “needs” based funding system. The transition phase of the five year reforms which began in 2009 was due to end in 2013 but ended in 2016. The NEFC has sought an extension of a further two years to allow resource rich provinces additional time to make the budget adjustments to reprioritize their own source revenues, and to commit to expenditure on basic service delivery. In 2016, one resource – rich province fell out of the system, but showed conscience in allocating 20% of funding from its internally sourced revenue to support service delivery sectors. The NEFC continues to look for ways to better engage the rich – resource to commit funding for service delivery using their own internal revenues.

The NEFC recommended a provincial and LLG grant calculation which was included as part of the Treasurer's 2017 determination which amounted to K565 million (i.e. included as part of the 2016 National Budget). The proportion of grants is allocated based on NEFC's costs of services study which was first undertaken in 2005, updated in 2011 and again updated in 2015 and indexed every year using the population growth rate and CPI.

NEFC continue to work closely with the Provincial Budget Branch – DoT to communicate the changes to provincial service delivery managers, provincial treasurers and other national government agencies. NEFC continued to work closely with DoT – PBB in publishing warrant release information as well as facilitating workshops regionally to provide feedback on provincial performance.

NEFC also continued to update the NEFC grants model with 2015 Costing Data including updating the Provincial Budget Model with the updated Cost of Services data.



### 3.2.3. Compliance with RIGFA legislative Mandate

NEFC continued to strictly adhere to its mandatory obligations in ensuring that all key milestones and publications were timely produced. This included:

- Providing advice to DoT on the 2017 Provincial & LLG grant calculations in accordance with the statutory time frames;
- The NEFC annual regional workshops were conducted in May and June 2016. The regional workshops are part of the RIGFA communication strategy to strengthen the reforms. The collective workshop resolutions were promptly distributed to Provincial Administrators and Governors for their prompt attention. In addition a post workshop feedback survey was analysed and feedback provided to stakeholders including donors who partly sponsored the workshops. The Provincial Regional workshops enables the Provinces and also the relevant Agencies to have increased knowledge and understanding on the areas of concern relating to release and spending of the function grants.
- The 2017 Budget Fiscal Report was produced timely and the report published to coincide with the 2016 Budget Speech.

### 3.2.4. On-going Improvement to RIGFA

The warrant releases, an NEFC initiative, has been taken over by DoT as the due custodian. They have agreed to produce the quarterly publication and to date two quarterly publications have been released by them which is pleasing to note.

The NEFC took another proactive approach to revisit the study on the Least Developed District which was started 2010. The task was undertaken by a policy officer to reassess the development indicators used to rank the all the 89 districts in Papua New Guinea.

### 3.2.5. Monitoring of Provincial Budgets & Financial Management Practices

The 2014 PER titled “Game Changer” was extensively used during the 2016 regional workshops to show to the participants on how the function grants was used and how much the MPAs were funded. The “Game Changer” sold the message to all participants that every change the style in performing their individual duties to see a change in the performance of service delivery. The Reports enables the Provinces and the Public at large to know when the Function Grants were released and used by Provinces and LLGs in 2014. It also showed whether or not provinces are using their own internal revenue to adequately fund the 11MPAs.

NEFC continued with Provincial Budget Scorecard Analysis and disseminated to provinces at the NEFC Regional Workshops. Some of the provinces have shown inconsistencies formulating their annual provincial budgets. The NEFC was encouraging provinces to prepare quality budget in order to make execution possible to attain the ultimate aim of achieving tangible service delivery outcomes.

Strengthening Provincial Budgets by promoting the use of a high level budget summary report known as the ‘3 Page Report’. To date seven provinces had adopted the report and included this as part of their 2016 budget submission;

- Provinces are encouraged to use the PBM as it is a tool that will capture all information in a succinct manner and will enable the decision makers to quickly read and understand the budget;
- Generate interest with provinces to invite NEFC to provide the assistance;
- Communicate with Provincial Budget Officers and the Provincial Planners on the use of the Generic Chart of Accounts;





- Provinces proper recording of expenditures through Chart of Accounts will enable a clear picture as to how the function Grants are spent; and
- The NEFC was involved the Public Expenditure & Financial Accountability (PEFA) Reform Monitoring Group which was spearheaded by the Department of Finance in 2016. The NEFC was the lead agency in the Evaluation Design on the “*Performance of Service Delivery*” at the sub-national levels of government. The design was one of the key performance indicators within the PEFA Framework 2016-2018.

### 3.2.6. Institutional Strengthening and Workforce Capacity Building

The NEFC is an independent constitutional office and the secretariat includes 19 staff with an annual staffing budget of K1.3 million. The NEFC’s 2015-2016 Financial Statements have been audited by the AGO which included a qualified opinion.

The NEFC has undertaken four (4) regional workshops in 2016. The Highlands workshop was conducted in Mt. Hagen, Momase Region in Madang, New Guinea Islands Region in Kokopo; and Southern Region in Port Moresby. These workshops have been ongoing since 2009 and serve as an avenue for several reasons;

- Advocate for effective service delivery through information sharing and establishing relationships with all key stakeholders;
- Establish an open dialogue between the service delivery implementers and the policy makers on any issues affecting the implementation of service delivery activities in the provinces;

The also undertook interventions to further strengthen the capacity of all provinces by conducting budget programs with provinces that requested for technical assistance from NEFC. Trainings are conducted on the use of the Provincial Budget Model (PBM), Provincial Establishment Costing Model (PECM) for personnel emoluments budgeting; and the use of Chart of Accounts.

As part of the Institutional Strengthening, the NEFC also implemented its 2016 training plan by conducting in-house trainings and outdoor trainings for staff. The trainings were conducted the use of Microsoft Excel Level 1, 2, 3, and Advance; Microsoft Access Level 1; Personal Management; Time Management, and Risk Management.

### 3.2.7. Governance

The Chairman - CEO continues to make it his priority to re-establish the NEFC Board, therefore, established the NEFC Board in 2016.

The three Commissioners were formally endorsed by the Minister and the Commission’s inaugural meeting was held in July 2016. The Commission members include Dr Alphonse Gelu, Mr Uvenama Rova and the Chairman/CEO, Hohora Suve bring a wealth of experience to the work of the Commission which is a valuable asset in guiding the Commission and initiating much needed reform.

Other governance aspects includes the;

- The NEFC financial statements were duly audited by Auditor General’s Office.
- An officer has been appointed to conduct internal audits. The Officer was sent on an internal auditing training course and audits in key areas of risk will be initiated. The internal audit reports will be presented to the Board when it reconvenes.
- The SCMC organizational restructure has been approved and a career path for graduates developed.



### 3.2.8. New Reform Initiatives

The NEFC has continued to seek innovative initiatives to promote ongoing government reforms. The NEFC used the 2016 Regional workshops to raise awareness of lesser known sectors which contributed to the delivery of services. This featured the Christian Health Services who provide 47% of Health Services in the PNG and Village Courts Secretariat. Both these organizations were able to take advantage of the exposure and also secured funding in the 2016 National Budget allocations. This demonstrates how the NEFC continues to make significant contributions to service delivery through innovative means.

The NEFC continued strengthening its collaboration with its major stakeholders which includes:

- Continuation of the joint study of District Expenditure Review (DER) with DIRD. This pilot study of five Districts representing each of the four regions will include a review of recurrent and development expenditure. The study analyse the recurrent expenditure to see how much was spent on the MPAs and also to identify recurrent expenditures on other activities apart from MPA. Also the study analyse the development expenditure to identify development expenditure on other activities. A draft report was completed in 2014 and provided to DIRD to peruse and comment. The DER was launched in 2016 during the PLSMA meeting by the Chairman of the PLSMA Committee, Mr. Dickson Guina.
- NEFC continue with the also collaboration with DIRD and DPLGA to develop robust minimum standards. Further collaboration is being extended to other areas to include data, information and resources sharing.
- NEFC assisted the Department of Education in developing the Education Equalization subsidy formula to address remote cost handicaps. A report titled "Go Long Ples – Reducing inequalities in education funding" was published on this study. The study was in 2016 as the basis to assist the Teaching Service Commission determined the hardship allowances for the Teachers teaching in the remote areas of Papua New Guinea.
- The NEFC continued with collaboration with CIMC and PLLSMA to promote community monitoring of government expenditure as part of a bottom up approach.

### 3.3.9. The NEFC Secretariat

The commission was supported by a Secretariat of 19 staff established positions. The staff structure was approved by Department of Personnel Management in 2015. The structure has been staffed through normal open advertising and recruitment process in accordance with the Public Service General Orders. The has also gone through the graduate recruitment exercise through the Public Sector Workforce Development Program co-ordinated by DPM as part of a succession planning strategy to address the impending retirement of senior staff.



## 2016 Financial Statement

### NATIONAL ECONOMIC & FISCAL COMMISSION

#### STATEMENTS OF RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 2016

	Notes	2016 <u>K</u>	2015 <u>K</u>
<b>RECEIPTS</b>			
Opening Bank Balance as at 1 January, 2016		968,907	861,217
Government Grants	2	2,292,971	2,644,760
Concept Payroll (DoF)		844,918	879,352
<b>Total Receipts</b>		<b>4,106,796</b>	<b>4,385,329</b>
<b>LESS: PAYMENTS</b>			
Personnel Emoluments	3	1,373,639	1,132,834
Travel & Subsistence		687,124	855,821
Utilities		153,417	93,258
Supplies & Consumables	4	256,405	190,732
Transport and Fuel		99,356	67,762
Routine Maintenance		97,379	141,108
Other Operational Expenses		919,609	793,028
Capital Expenditures	5	55,187	101,760
Training & Consultancy	6	81,722	39,895
Bank Charges		301	226
Prior Year Adjustments	-	191,153	
<b>Total Payments</b>		<b>3,532,986</b>	<b>3,416,422</b>
<b>Net Surplus(Deficit) as at 31 December 2016</b>		<b>573,810</b>	<b>968,907</b>

The accompanying notes form part of this financial statement

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## 2016 Financial Statement

### NOTES TO AND FORMING PART OF THE STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2016 K	2015 K
1 The Commission operated a drawing bank account with the Bank South Pacific in September of 2009. The Commission uses the cash basis method of accounting Appropriations from the Government are deposited into this account and paid out for the operations of Commission.		
2 <b>Appropriation</b>		
Recurrent Appropriations	3,498,500	4,168,000
Funds credited to Bank	<u>2,292,971</u>	<u>2,644,760</u>
Amount retained by Dept of Finance	844,918	1,112,000

As at 31 December 2016 Grants for the month of April, May were not remitted to NEFC operating account which res outstanding of K477,691.00 from the total appropriation for NEFC from Department of Finance and Treasury.

- 3 **Salaries**  
Salaries and Allowances are paid through the Department of National Planning and Monitoring salary code.  
A total of K844,918 was retained by DoF as the salary component. Total Salaries paid for the year was K1,097,986.. by DNPM - Salaries Section..

Concept Payroll (External - DoF)	1,097,986	879,352
NEFC Salaries (Internal - PGAS)	181,766	126,922
Wages	0	0
Overtime	0	0
Leave Fares	40,299	13,002
Gratuity	53,587	113,557
	<u>1,373,639</u>	<u>1,132,834</u>

- 4 **Supplies & Consumables**
- |                                    |                |                |
|------------------------------------|----------------|----------------|
| Office Materials and Supplies      | 124,998        | 101,658        |
| Operational Materials and Supplies | <u>131,408</u> | <u>89,074</u>  |
|                                    | <u>256,405</u> | <u>190,732</u> |

- 5 **Capital Expenditure**
- |   |               |                |
|---|---------------|----------------|
| Office Furniture & Equipment            | 16,983        | 43,300         |
| Construction, Renovation & Improvements | 28,385        | 58,460         |
| Purchase of Motor Vehicles              | <u>45,368</u> | <u>101,760</u> |

- 6 Training Fees
- |                        |               |               |
|------------------------|---------------|---------------|
| Admin Consultancy Fees | 36,149        | 11,950        |
|                        | <u>45,572</u> | <u>27,945</u> |
|                        | <u>81,722</u> | <u>39,895</u> |

7 **Fixed Asset**

Asset	Opening Bal	Additions	Disposals	31/12/16	31/12/15
Land & Building	-	-	-	-	-
Plant & Equipment (office)	321,795	16,983	-	338,778	321,795
Furniture & Fittings	129,837	28,385	-	158,222	129,837
Motor Vehicle	384,840	-	-	384,840	384,840
<b>Total</b>	<b>836,472</b>	<b>45,368</b>	<b>-</b>	<b>881,840</b>	<b>836,472</b>





## NEFC INITIATIVES ON STRENGTHENING RIGFA



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