



National Economic and Fiscal Commission

2022 Budget Fiscal Report

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Foreword



I am pleased to present the 15th Annual Budget Fiscal Report published by the National Economic & Fiscal Commission (NEFC). This yearly publication is required under the Intergovernmental Relations (Functions and Funding) Act 2009 (Section 69). The Act passed in March 2009, defines the reforms to the intergovernmental financing arrangements (RIGFA). The publication forms part of the budget documentation to the National Executive Council and is required to be tabled in Parliament by the Minister for Treasury.

This report basically gives information on the equalization amount for function grants available and how this amount is distributed to the provincial & local level governments and provincial health authorities (PHAs), taking into account costs and assessed revenue available in each province. The report also shows the mechanisms adopted to calculate and allocate function grants to the provincial and local level governments and PHAs. The total function grants calculated for these institutions for 2022 is K594.0 million, a decrease of K33.0 million from the previous year. Due to this, allocation to provinces generally declined compared to previous year except for Enga province which experienced a substantial increase in its function grants due to the fact that their assessed revenue reduced drastically primarily due to the closure of the Pogera gold mine. This reflects the reality that provinces that are heavily dependent on income from resources projects in most cases are unable to sustain their revenues in the long term. Full details of the equalization pool available for distribution and mechanisms adopted for calculations are all given in this Fiscal Report for the reader to read and comprehend.

I also take this opportunity to highlight some key achievements in 2021 and the reform strategies that the NEFC has initiated to support the National Government's development priorities.

2021 was another difficult year in light of the COVID-19 pandemic. As with other organizations, the pandemic has also affected the Commission's operations. One of the annual key activities, the NEFC Regional workshops planned for 2021 were again cancelled. The workshops which have become institutionalized, provides a valuable conduit for bringing together national departments and agencies 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. We hope that situations will improve for the workshops to be held in 2022.

However, the NEFC was able to deliver some critical projects in the year. Among others, the NEFC was able to deliver two key activities in the year. Firstly, the NEFC continued to work to determine the annual function grants for the provincial and local level governments and the provincial health authorities (PHAs). The final output of this activity is the 2022 Budget Fiscal Report which you are viewing now. Another critical project that the NEFC worked on in the year was the consolidation, verification and updating of the Cost of Service Study (CoSS) which was undertaken in 2020. The data consolidation and verification exercise has taken longer than expected largely due to data gap issues. However, after a peer review of the updated CoSS model by an international technical advisor, we plan to use the updated Cost of Service estimates for the calculation of function grants in 2023 and onwards until the next Cost of Services Update.

When I was appointed as Chairman & CEO of the NEFC, we immediately strategized to bring reforms in the following key areas that would enable the Commission to perform its constitutional mandate effectively. We have noted that the Commission since the Reforms in Intergovernmental Financing Arrangements (RIGFA) in 2009 has focused more on managing the RIGFA system and neglected policy advice to the Government on broad economic and fiscal areas as mandated by the Constitution. The following reform process we are embarking on is to enable the Commission to lift its game to fulfill its constitutional mandate.

Some key initiatives that we have embarked on include restructuring the organizational structure; a 5 year training plan has been developed to address the development needs for our staff. We have also partnered with Transparency International PNG (TIPNG) to improve corporate governance, accountability and integrity areas. A MOU has been signed between the two organizations to work together in these areas.

Another key reform process that the NEFC with key national departments and agencies commenced in 2021 is the review of the intergovernmental financing systems. This is a national government priority agenda and a PLLSMA subcommittee has been established comprising of very senior officers from national departments and agencies to undertake this review. Preparatory work has commenced on the review. The purpose is to review the current systems, identify deficiencies/weaknesses and recommend for an integrated, efficient and effective intergovernmental financing system that supports the Government's decentralization reforms and managed and coordinated in a more holistic and cohesive manner. I urge you to read a brief of this important review presented in the later part of this report.

These reforms processes, both at the institutional and macro levels, are not easy to achieve but with commitment and collaboration from all stakeholders for the common good of our people, these are not impossible to achieve.

I thank my staff, other national departments and agencies, provinces and districts for their support in working together to achieve some of these results in 2021. I look forward to working with you all on our reform journey to make PNG a better country.



Patrick Kennedy Painap
Chairman & Chief Executive Officer

Executive Summary

Purpose of this Report

Each year the National Economic & Fiscal Commission (NEFC) is required by law to produce to the Government and Parliament through the Minister for Treasury, a report on the workings of the NEFC and its function grant determination for the Provincial and Local Level Governments (LLGs). The Annual Fiscal Reports are produced in accordance with Section 69 of the Intergovernmental Relations (Functions and & Funding) Act 2009 and under Section 117 (9) of the Organic Law on Provincial & Local Level Governments. These reports are required to be tabled in Parliament by the Minister for Treasury.

The following is a summary of the Fiscal Report giving the function grant determinations for 2022 and other key operational achievements of the NEFC in 2021. The main part of the report covers the calculation and allocation of function grants going to the provincial and local level governments and provincial health authorities (PHAs).

2022 Ministerial Determination for Function Grants

Total Function Grant Determination for 2022 is K594.0 million, a decrease of K33.0 million from the previous year. Function grants for all key sectors have also declined in 2022 compared to 2021.

The following summary table shows the function grant allocation for 2022 compared to 2021.

(Kina in millions)	2022	2021	Variance	Variance (%)
Provincial Government Function Grants *	K534.3	K564.0	-K20.7	-6.7%
Local Level Government Function Grants	K59.7	K63.0	-K3.3	-5.2%
Total	K594.0	K627.0	-K33.0	-5.3%
<i>Major Sectors</i>				
Health	K109.6	K115.1	-K5.5	--4.8%
Education	K125.9	K133.9	-K7.1	-5.3%
Transport Infrastructure	K160.6	K170.0	-K9.4	-5.5%

* This includes the Health function grants which now go directly to the Provincial Health Authorities (PHAs) and not through the provincial governments.

Provincial Expenditure Review (PER)

The Provincial Expenditure Review (PER) report, one of the key yearly publications by the NEFC has been delayed for some years now. The last PER publication was compiled in 2016. The delay was due to difficulties encountered in extracting data from the newly rolled out IFMS system. The PER was produced using data extracted from the PGAS system which is gradually being phased out. Difficulties have been encountered in collecting data include obtaining budget, revenue and expenditure reports from provinces as the government is currently undergoing a transitional period from the GoPNG legacy accounting system PGAS to the introduced Integrated Financial Management System (IFMS).

However, the NEFC is undertaking a review in consultation with other relevant agencies and technical advisors towards developing the sub-national's IFMS Chart of Accounts (CoA). The establishment of the CoA will aid the sub-nationals in efficient and effective budgeting, monitoring and reporting. This will also enable the NEFC to compile its outstanding PER reports since 2017.

Cost of Service Study (COSS)

The NEFC conducted its 4th full Cost of Service Study (CoSS) in 2020. In 2021 the raw data from the CoSS has been analyzed, verified and actions were taken to fill data gaps. The data consolidation and verification exercise has taken longer than expected largely due to data gap issues. The final data will be uploaded into the CoSS model and will be peer reviewed by an international technical advisor. It is planned that the final updated Cost of Service estimates will be used for calculating function grants for 2023 and onwards until another update study is undertaken.

Intergovernmental Financing Arrangement Review (IGFAR)

The Provincial & Local Level Service Monitoring Authority (PLLSMA) at its meeting in Lae on 23 – 24th September 2020, has established the PLLSMA sub committee on Intergovernmental Financing Arrangement Review (IGFAR) and endorsed the National Economic & Fiscal Commission (NEFC) and the Department of Treasury (DoT) to chair and co-chair respectively. The PLLSMA sub-committee has been established and this team is comprised of very senior officers from key national departments/agencies'. Preparation work on the review has already started in 2021 and progressing very well.

The IGFA Review will look at the current intergovernmental financing systems, identify key issues and impediments and make appropriate recommendations to the national government for an appropriate fiscal decentralization system. The article given later in this Fiscal Report gives a very brief background, key issues, the main objective of the review, the expected outcomes, the scope and framework and highly possible risks and mitigation options to minimize these risks.

For more details of the items presented in this summary, readers are encouraged to read through the subsequent chapters of this report.

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List of Abbreviations

BEI	Budget Expenditure Instruction
CoA	Chart of Accounts
CoSS	Cost of Services Study
DFAT	Department of Foreign Affairs & Trade
DoT	Department of Treasury
DPM	Department of Personnel Management
DPE	Department of Petroleum & Energy
DPLGA	Department of Provincial & Local Level Government
DSIP	District Service Improvement Program
EA	Equalization Amount
GST	Goods & Services Tax
IFMS	Integrated Financial Management System
IGFAR	Intergovernment Financing Arrangement Review
IRC	Internal Revenue Commission
LLG	Local Level Government
MPA	Minimum Priority Activity
MRA	Mineral Resources Authority
MTDS	Medium Term Development Strategy
NEC	National Executive Council
NEFC	National Economic & Fiscal Commission
NNR	Net National Revenue
PER	Provincial Expenditure Review
PGAS	Papua New Guinea Government Accounting System
PHA	Provincial Health Authority
PLLSMA	Provincial & Local Level Services Monitoring Authority
PMNEC	Department of Prime Minister & National Executive Council
PSIP	Provincial Services Improvement Program
RIGFA	Reform on Intergovernmental Financing Arrangement
TFF	Tuition Fee Free
WSIP	Ward Services Improvement Program

CHAPTER ONE: ADDRESSING SERVICE DELIVERY IN PNG

Financing service delivery in Papua New Guinea has always been a major concern for the national government. The principle of equity has to be maintained in order to adequately provide services to Papua New Guineans no matter where they live. In order to finance service delivery in PNG, the national government has to make necessary adjustments to maintain this principle taking into account the perception of social and economic differences amongst provinces. PNG's intergovernmental financial relations framework was purposely established to address these differences.

PNG has a three-tier government of which revenue raising power for each tier are subjected to legislations and guidelines. These guidelines outline what particular level of government is responsible for certain services and activities in PNG.

Having a highly centralized system, the national government raises approximately 95% of total tax revenues. Provincial governments in their own capacity raise own-source revenues, though certain revenue sources have been prohibited for provinces to collect mainly to avoid duplications. This can be seen from prohibitions imposed by the Internal Revenue Commission (IRC) on beer and cigarette taxes as this is already part of the Goods & Services Tax. In most cases, provinces do not have sufficient revenue raising powers thus, bearing the need for revenue collecting arms within the provinces to be fully capacitated.

The system recognizes the differences amongst the sub-national levels of government thereby, fixates the different imbalances that inhibit the implementation of service delivery within provinces. The two underlying imbalances that the system aims to address are:

1. The differing tax revenues and government spending requirements of which can be referred to as **horizontal fiscal imbalances &**
2. the inability of provinces to raise revenues and spend according to their responsibilities- **vertical fiscal imbalance.**

As opposed to the horizontal fiscal imbalances, the inability for provinces to raise greater revenue calls for centralized tax collections by the national government. Provinces in this context are better placed to only deliver services.

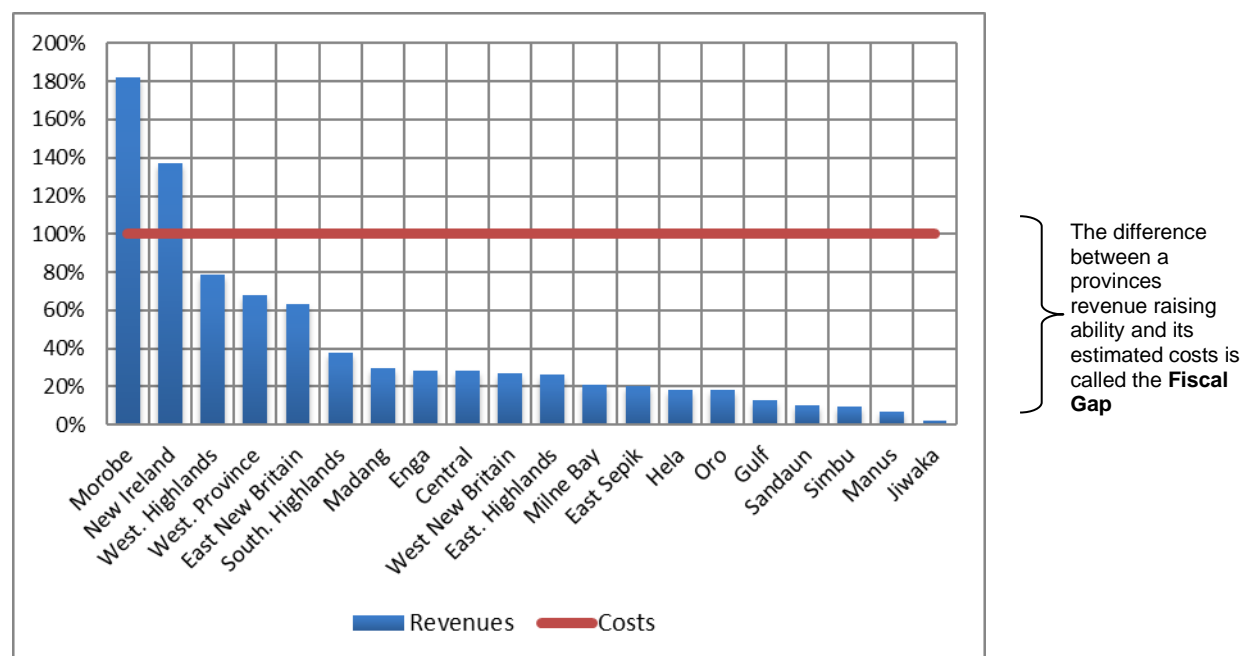
The intergovernmental financial relations framework addresses both types of fiscal imbalances as well as to serve other purposes, such as the national coordination of policies.

1.1 The Fiscal Gap

Annually, the NEFC determines a funding base for provinces and local level governments known as Function Grants. These are based on the level of responsibility by the sub-national government to provide a number of government services to their communities. The costing levels within different provinces also differ mainly because of the unique characteristics that provinces bear. Some have large populations who live in easily accessible areas whereas others have small populations that live in difficult to access remote areas. The NEFC conducts a costing exercise once every five years of the critical activities undertaken by the provinces; this goes in line with their levels of responsibilities, hence, taking into account their characteristics.

Once provincial costs have been established, the national government looks into funding arrangements. Though from a funding perspective, provinces are restricted in what local revenue bases they are allowed to tax. There are limitations on certain taxes mainly because of the issue of duplication and hence, the centralized role of the national government on tax imposed activities. The limitations imposed by the IRC on provinces in revenue raising results in a mismatch between the cost of delivering government services and the financial resources available to provinces to fund those services. This is known as the Fiscal Gap. The graph on the next page shows the fiscal gap for 2021.

Graph 1 Fiscal capacity of Provinces compared to their estimated costs



In order to ensure that the provinces have sufficient funding to undertake their service delivery responsibilities, the national government makes available a series of grants to each province to assist for staffing and recurrent goods and services.

1.2 Reforms on Intergovernmental Financial Arrangements (RIGFA)

The funding flow to the provinces has always been of paramount interest to the national government. Prior to 2009, provinces were receiving funds based on a “Kina per Head” system. In essence, this fiscal arrangement saw few provinces receiving the bulk of funds and others receiving less. The “Fiscal Gap” was not fully covered for a number of provinces. Hence, there were minor flaws that paved way for a non-equitable distribution of funds amongst provinces. Provinces who had larger revenue sources such as mines and other economic activities that could have been taxed were receiving larger revenues which were above what they needed to provide basic services.

Basing on the principle of equal distribution, an Act had to be passed in which the key features would involve a larger revenue sharing arrangement between the different levels of government. Eventually, the old system was reformed under the new inter-governmental financing arrangement approved by Parliament on 16 July 2008 and the *Ordinary Act* passed in 2009. The Reform brought astounding changes; one that focused on revenue sharing based on a percentage of the resources available to the government.

The new system also changed the way funds are being distributed between provinces. The formula used to determine each province's share of the funds is now based on the NEFC's cost estimates. The results, ten years later, is that more funding is going down to all provinces, particularly, those provinces with low fiscal capacity.

1.3 Types of Grants

Over the last decade, the National Government has been providing provinces with three main types of grants, namely:

The staffing grant. Public servant salaries and allowances are funded by the national Government regardless of whether they are provincial or national staff. The single government payroll means that administratively the payments are made directly between the National Government's payroll system and the employee. To maintain budget integrity, each province is provided with a staffing grant that sets out the ceiling that is available for personnel emoluments and the staffing structure of each province is approved by the Department of Personnel Management (DPM). The management of the staffing grant is highly centralised and is managed by the DPM and Department of Treasury (DoT).

Development funding. Capital and human development funding is provided through a range of grants. These are project specific while others are devolved grants provided for a range of activities. The Provincial Services Improvement Program (PSIP) provides each province with K5 million per District. The District Services Improvement Program (DSIP) provided K10 million per District, and most recently the Ward Services Improvement Program (WSIP) will be provided K10, 000. Guidelines for the use of these funds direct that certain percentages must be allocated into particular sectors (health, education, infrastructure, etc.) but the specific projects are left to the discretion of decision making committees in the respective Provinces, Districts, LLGs and Wards.

Recurrent funding (function and administration grants). In order to provide basic services, each level of government requires funding for goods and services. These include items such as fuel in order to undertake patrols or materials for maintenance. The NEFC recognises that without sufficient recurrent funding, service delivery for rural communities is ineffective. The national government provides a set of *Function Grants* that provide extra recurrent funding to those provinces with the lowest fiscal capacities. It is expected that those provinces with high internal revenues are able to fund a larger portion of their own recurrent costs.

Recurrent funding was the focus of RIGFA, and is the main concern of the NEFC. Chapters 2 to 5 of this report outline the process for determining the Function Grants and the amounts for 2022.

1.4 Role of the NEFC

...Being an implementer of the Reforms on Intergovernmental Financing Arrangements (RIGFA) for over a decade, the NEFC's mandate and core functions have been somewhat obscured. The need to get to know the Commission must be foremost. Therefore, this section provides for the role of the NEFC and its principles.

The NEFC provides advice to the government on intergovernmental financing matters in Papua New Guinea. Its role is to recommend how to distribute the function grants amongst the Provinces and LLGs. The Treasurer then makes a determination of how the function grants will be distributed based on the advice provided by the NEFC.

From a technical perspective, the NEFC works to understand the cost pressures each province faces and their respective own-sourced revenues available to them. Using a legislated formula, the NEFC calculates each province and LLG's share. The NEFC follows a number of principles in making its recommendations (*The process of how NEFC allocates the Function Grants is in Chapter (4)*):

- *Funding should follow function.* That is, the level of government that is undertaking an activity should be the level that receives the funding.
- *Own-source revenue should be used to fund service delivery.* The NEFC calculates the needs of each province taking into account the amount of own-source revenue available to the province. It is assumed that the province uses their own-source revenue on recurrent costs, and therefore those provinces that have high revenues receive less function grants.
- *Each province should have an equitable share of funding that is sufficient to run their basic services.*

CHAPTER TWO: EQUALIZATION AMOUNT

Provinces are expected to receive a minimum level of funding annually. The amount that is allocated to provinces is known as the “Equalization” amount. This basically forms the pool of funding for the Function & Administration Grants. The revenue sharing formula is embedded in Section 19 of the *Intergovernmental Relations (Functions and Funding) Act 2009*. Further, the equalization amount is then divided between individual provinces and LLG’s. For the 2022 Fiscal Budget, the Equalization amount is calculated to be **K593.9 million** (*Detailed calculations provided on page.6*).

Since the transitional period, the prescribed percentage has been fixed at 6.57% of the Net National Revenues (NNR). Accordingly, the funding available for provincial & Local Level Governments increases or decreases as a proportion of the NNR with respect to the prescribed percentage. The NNR amount is the total tax revenue received by the national government excluding mining and petroleum tax revenue. RIGFA emphasizes the revenue sharing arrangements between the national government and provincial & local level governments. Reasonably, if NNR is high in one particular year, provincial governments and LLGs will receive more funding. If NNR in a particular year is low, they will receive less funding.

2.1. Calculation of the Equalization Amount- 2022

The *Intergovernmental Relations (Functions and Funding) Act 2009* sets out the formula for calculating the Equalization Amount. As specified above, this forms the funding pool to be distributed on an equitable basis between provincial and local level governments. The NNR is calculated using actual data from the second preceding fiscal year. Accordingly, the 2022 NNR was calculated using data published by the Treasury Department in the 2020 Final Budget Outcome which is usually on or before the 31st of March.

A written estimate of the equalization amount for the subsequent fiscal year is provided to the Secretary for Treasury on or before the 31st of March. The Secretary for Treasury has the power to increase the amount. The Act states the Secretary for Treasury will then notify the NEFC on the increased estimate on or before the 30th of April of the same year. As per legislated requirements, this estimate of the ‘equalization amount’ is a minimum amount and can only be increased and cannot be decreased.

The following formula illustrates section 19 of the Act.

General tax revenue for 2020	-	Mining and petroleum tax revenue for 2020	=	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.

Being highly volatile in nature, the Mining and Petroleum Tax Revenue is usually excluded to maintain stability in the provinces pool of funding and also stabilizes the amount of funding to Provinces and Local-Level-Governments.

Table 1: The following table shows how the NNR amount for 2022 was calculated

Act Definition	Final Budget Outcome equivalents	2019	2020	Difference
General tax revenue	Tax revenue	10,304.3 million	9,223.7 million	-1,080.6 million
MINUS (-)				
Mining and petroleum tax revenue	Mining and petroleum taxes	760.7 million	183.4 million	-577.3 million
EQUALS (=)				
		2021 Budget	2022 Budget	
Net National Revenue Amount		9,543.6 million	9,040.3 million	-503.3 million
Multiplied by (*) 6.57%				
Equalization Amount		627.0 million	593.9 million	-33.1 million

For the 2022 Budget, the minimum funding level for the equalization amount is calculated according to the following formula in Kina million:

Net national revenue for 2020 X 6.57% = NEFC estimate of 2022 equalization amount

K 9,040,300,000 x 6.57% = **K 593,947,710**

The total amount for 2022 (K593.9 million) has decreased by K33.1 million lower than the 2021 total funding amount (K627.0 million). The reduction is primarily due to lower total tax revenue collections in 2020 compared to 2019. Given the decrease in the 2022 total funding, most provinces funding is expected to have some slight decreases in 2022 compared to 2021.

2.2. Apportioning the Equalization Amount between Provincial & Local-level Governments

Equalization Amount

The Ministerial Determination that was issued by the Treasurer splits the equalization amount of **K593.9 million** as follows;

Local Level Share

The Local-level share is the proportion of the equalization amount to be distributed amongst all rural and urban LLGs. As stated also in the Ministerial Determination, the share is about 10.05% of the 2022 Equalization Amount.

Overall, for the 2022 Budget, LLGs will receive a funding of **K59.7 million**.

Provincial Share

The provincial share is the amount remaining after deductions are made for the local level share on the Equalization Amount. The share will be distributed amongst all provinces through Function and Administration Grants.

Available funding for Provincial Governments from Ministerial Determination		
2022 Equalization Amount	K593.9 million	100.00%
<i>(Less) LLG Share</i>	<i>K59.7 million</i>	<i>10.05%</i>
<i>Provincial Share</i>	<i>K534.3 million</i>	<i>89.95%</i>

As shown in the table above, for 2022 Budget, provinces will receive a total funding of **K534.3 million**.

The two components are funded from the equalization amount (EA) and distributed on the basis of need.

CHAPTER THREE: RECOMMENDATIONS

Recommendations on the distribution of Function & Administration Grants to Provinces and LLG's are made to the Treasurer through the Ministerial Determination. For the provinces, this recommendation is disaggregated according to the different service delivery function grants such as health or infrastructure maintenance. Within the provinces overall sectoral ceiling, provinces are allowed to request for minor shifts among functions grants. The NEFC sets a maximum shift no more than 10%. Treasury and NEFC usually hold negotiations with provinces that request changes allowing an agreement to be reached as to the revised split among the function grants.

The Treasurer is then advised of this shift through a negotiated recommendation from both the NEFC and Treasury. If accepted, the Treasurer then makes a determination to formalize the splits amongst the provincial grants for the coming year's fiscal budget.

The results of the NEFC's formula are detailed in this chapter. The following chapters outline the steps of how the NEFC calculates the distribution and includes the data that was used. A more detailed description on the formula is in the NEFC's *Plain English guide to the new system of intergovernmental financing*.

3.1. Provincial distribution

The table below shows the final amounts (in K'000) for each service delivery function grant for each province for 2022.

Table 2: 2022 Function and Administration Grants Determination (K '000).

Province	Health Function Grant	Education Function Grant	Transport Infrastructure Maintenance Function Grant	Primary Production Function Grant	Village Courts Function Grant	Land Mediation Function Grant	Other Service Delivery Function Grant	Administration Grant	Total Provincial Government Grants
Western	4,837.4	3,584.8	5,590.8	1,536.0	132.4	77.0	736.1	339.2	16,833.8
Gulf	5,345.9	4,439.0	6,334.0	2,268.8	481.0	68.6	1,622.0	2,235.4	22,794.5
Central	7,227.7	7,446.0	12,254.7	3,096.7	603.9	96.1	2,894.0	2,272.4	35,891.4
Milne Bay	6,670.1	7,049.1	6,852.5	2,637.8	391.0	70.7	3,306.4	2,040.2	29,018.0
Oro	4,673.3	4,125.2	4,198.9	2,094.7	338.9	70.4	2,008.4	1,196.2	18,706.0
Southern Highlands	5,442.8	7,915.4	6,598.5	1,961.1	579.1	99.2	2,565.1	1,638.1	26,799.3
Hela	6,452.1	4,381.5	4,528.3	1,839.6	384.0	68.7	1,765.2	2,353.7	21,773.1
Enga	5,374.8	8,799.3	10,908.6	4,058.5	997.8	198.4	1,937.6	2,400.3	34,675.2
Western Highlands	2,792.6	1,896.9	2,641.0	911.0	336.3	41.7	499.7	758.2	9,877.5
Jiwaka	5,398.3	7,805.3	11,849.5	1,307.0	401.9	83.6	2,213.7	2,269.7	31,329.0
Simbu	6,782.4	10,755.6	11,469.6	1,964.7	766.6	111.7	3,169.0	3,952.1	38,971.8
Eastern Highlands	7,315.8	11,037.8	17,742.7	2,708.5	646.1	98.7	3,679.2	2,963.6	46,192.4
Morobe	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Madang	9,319.6	8,809.2	12,372.7	3,615.2	535.7	27.5	3,687.0	3,466.3	41,833.4
East Sepik	9,715.6	11,929.8	19,504.2	3,411.9	676.8	71.7	2,908.9	3,504.3	51,723.2
Sandaun	9,813.1	9,386.9	8,710.9	3,770.5	521.7	76.7	2,431.0	3,881.2	38,592.0
Manus	2,267.0	3,509.0	5,753.1	1,810.9	506.9	84.2	1,820.0	2,331.1	18,082.3
New Ireland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
East New Britain	4,178.7	3,920.3	3,915.6	3,350.4	350.0	71.6	950.5	619.8	17,357.0
West New Britain	5,972.5	9,111.1	9,432.1	3,543.0	618.1	188.5	2,673.0	2,267.7	33,806.1
TOTAL	109,580	125,902	160,658	45,886	9,268	1,605	40,867	40,490	534,256

3.2. LLG Distribution

The table below shows the final amounts (in K'000) for the LLG grants by Province for 2022. The Urban and Rural LLGs are shown separately.

Table 3: Local-level Government share by Province for 2022 (K'000)

Province	Urban LLG Grants	Rural LLG Grants	Total LLG Grants
Western	760.2	2,853	3,613
Gulf	146.6	1,354	1,501
Central	0.0	2,042	2,042
Milne Bay	295.4	2,383	2,678
Oro	733.7	1,702	2,436
Southern Highlands	698.7	2,484	3,183
Hela	978.4	1,511	2,489
Enga	243.6	2,663	2,907
Western Highlands	817.8	2,012	2,830
Jiwaka	0.0	1,357	1,357
Simbu	387.3	1,511	1,898
Eastern Highlands	761.3	2,755	3,516
Morobe	2,543.5	4,726	7,269
Madang	871.1	3,815	4,686
East Sepik	670.4	4,214	4,884
Sandaun	503.1	3,777	4,280
Manus	221.2	506	727
New Ireland	416.6	1,147	1,564
East New Britain	915.4	2,662	3,578
West New Britain	571.0	1,683	2,254
TOTAL	12,535.3	47,156	59,692

CHAPTER FOUR: CALCULATING THE FUNCTION GRANTS

In calculating provincial and LLG grants on a needs basis, the NEFC uses a formula that is legislated. This formula has two key steps:

Step 1: Determine the ‘fiscal need’ of each Province and LLG by comparing their estimated costs and assessed revenues;

Step 2: Using the different levels of fiscal need, calculate the share of the equalization pool going to each Province and LLG.

4.1. Summary of Legislative Provisions

Two key pieces of legislations provide the basis for the NEFC to determine how much each provincial and LLG receive as grants.

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 supported by more detailed description 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 assignments 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 LLG grants will be calculated.

4.2. The Framework for Determining Fiscal Needs of Provincial and Local-level Governments

Over the course of the reforms, much clarification had to be put into understanding the fiscal needs of Provinces and LLG's. The underpinning definition of fiscal needs is essentially the difference between the cost of providing the assigned service delivery functions and responsibilities and the revenue available to the provincial and LLGs to pay for these services. Though, in a case where a province or LLG has a strong revenue base, this reflects a favourable fiscal capacity. For all intent, this shows strong assessed revenues against costs. The NEFC assesses this as having a fiscal need equal to zero. That is, it has fiscal capacity to fulfil service delivery functions without additional allocation from the function grant Equalization pool.

The amount that a province and LLG 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 Province and LLGs to pay for these services.

4.2.1 Fiscal Needs Amounts for Provincial Governments

The fiscal needs amount for a provincial government is calculated using the formula:

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

-where

“*Estimated recurrent cost of assigned service delivery functions and responsibilities*” are the estimated recurrent cost for the provincial government in performing its assigned service delivery functions and responsibilities for the fiscal year, including the necessary and incidental costs of administration for 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.

4.2.2 Fiscal Needs Amounts for Local-Level Governments

The fiscal needs amount of each LLG for each fiscal year is calculated using the formula –

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

Where:

“*Estimated recurrent cost of assigned service delivery functions and responsibilities*” are the recurrent cost to the LLG for performing its assigned service delivery functions and responsibilities for the fiscal year, including the necessary and incidental costs of administration of the LLG;

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

Since the inception of the new system, the NEFC has predominantly been assessing LLG fiscal needs against the costs carried out at the District level in proportion to District population. This has been a proxy for the assessment of fiscal needs at the LLG level mainly because of the unavailability of revenue data. Coherently, the NEFC assesses LLG revenues annually as equal to zero.

Urban and Rural Local-Level Governments have different assigned service delivery functions and responsibilities. Though having different revenues available to them, the question lies with how best the NEFC can gather these revenue data and assess using the legislated formula. Eventually the NEFC expects to obtain better information on the revenues of urban and Rural Local-level Governments and would then assess these more accurately.

4.3. Estimating the cost of service delivery

Cost is one of the two key determinants which impacts on provinces' share of the function and administration grants. Each province has differing cost factors due to its unique circumstances.

4.3.1 Roles and responsibilities - The Function Assignment

The reforms to the intergovernmental financial arrangements envisaged 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 LLGs and Provinces. This, in turn, would allow for more accurately estimating the costs of the services they are supposed to provide.

In 2009, the introduction of the *Inter-governmental Relations (Functions and Funding) Act 2009* and the formal gazette of the Function Assignment Determination in June 2009 set out the roles and responsibilities of the Provinces and LLGs. The ultimate aim was to reduce the confusion and to provide certainty about the roles and responsibilities which contributes towards effective planning, budgeting, delivering and monitoring of the activities they are accountable for delivering. More details on the Function Assignment can be found in the Department of Provincial & Local Level Government Affairs publication: *The Handbook to The Determination of Service Delivery Functions and Responsibilities*.

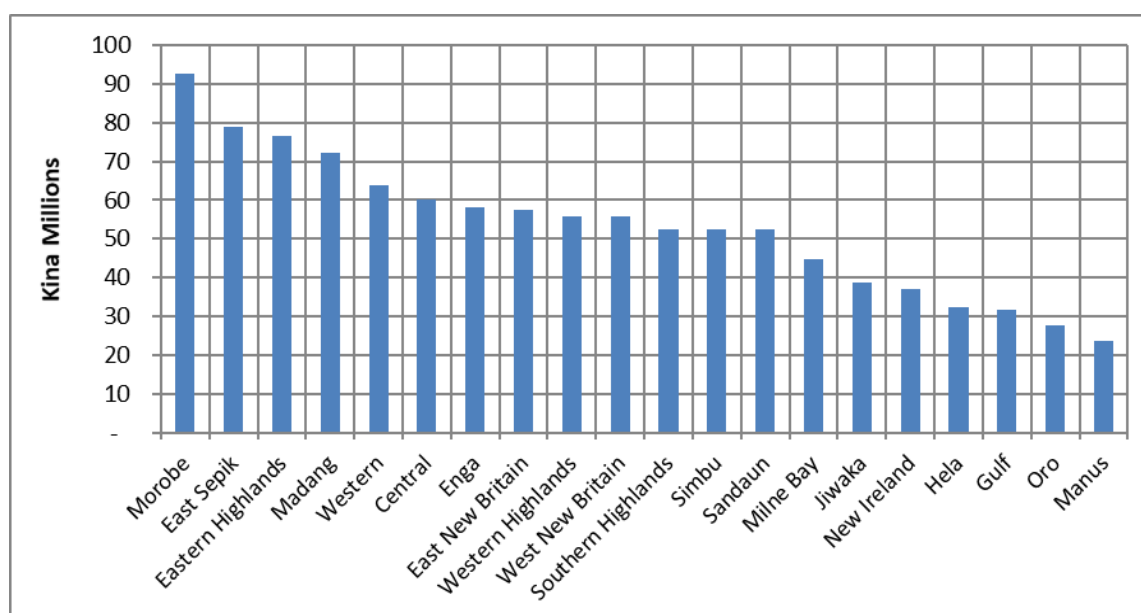
The NEFC's cost estimates are based on how much it would cost to undertake these functions irrespective of whether the Province or LLG is actually undertaking them. This is because the intention is to give the Provinces and LLGs the fiscal ability to deliver on all their responsibilities.

4.3.2 Cost of Service Estimate

The NEFC undertakes a costing exercise of all the functions of provincial governments every five years. This costing provides a basis for determining fiscal needs. In 2015, the NEFC updated this cost estimate, and it is indexed every year between updates to adjust for changing costs as a result of inflation and population growth.

The determination for any year is based on the costs from the second preceding fiscal year. Therefore, for the 2022 determination, the 2020 cost estimate is used. This maintains consistency between revenues and costs.

The graph below outlines the estimated costs for each province in 2020.



Graph 2: 2020 Cost of Service Estimate by Province

4.4. Assessed Revenues

The calculation of the available own-source revenues forms the second part of the formula to determine the fiscal needs for provinces. This need is quantified by calculating the difference between provincial revenues and their costs of assigned service delivery functions and responsibilities. By conforming to the formula, the NEFC is required to collect and assess revenue data for provinces. This process involves provinces extracting revenue data from their PGAS. However, with the introduction of the Integrated Financial Management System (IFMS), most provinces have transitioned into using this system. Like all other systems, flaws are inevitable. With this being the case, the collection of revenue data in 2020 from provinces were to some extent slow, as capacity issues were of concern.

The NEFC recognizes the use of this revenue source when carrying out assessments. 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.

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 2022 distribution year, 2020 revenues were assessed by the NEFC.

The sources of revenue are outlined below:

4.4.1 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 the National Budget Papers.

4.4.2 Goods and Services Tax

Provincial governments receive a Goods and Services Tax (GST) distributions paid through the IRC.

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 section 40 of the *Intergovernmental Relations (Functions and Funding) Act 2009*. 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).

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 for 2022 will be based on 60% of net inland GST collected from the second preceding year (i.e. 2020).

4.4.3 Bookmakers Tax

Bookmakers Tax is also administered by the IRC.

Bookmakers Tax received by provincial governments is 40% of the revenues collected in the province in the second preceding year.

4.4.4 Own-source revenue

These are local taxes, charges, and receipts collected by the provincial administrations, which is the primary revenue base for the provinces. These comprise of:

- 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 2020 (the second preceding year), provinces raised **K66.3 million**¹ from this revenue source. This data is obtained from the PNG Government Accounting System (PGAS) internal revenue electronic summary files held by the Department of Finance. It is well understood that most provinces have transitioned into the Integrated Financial management System (IFMS). The NEFC is aware that not all revenues received by the provincial governments are recorded accurately in PGAS & IFMS.

¹ This excludes Bookmakers Tax

4.4.5 Mining and Petroleum Royalties

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

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 amongst landowners, and 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 2020 (the second preceding year), the NEFC estimates that provinces received **K112.6 million** from royalty and dividend payments.

This data has been sourced directly from mining and petroleum companies and from government agencies (Mineral Resources Authority (MRA) for mining projects, and Mineral Resource Development Company for petroleum projects and also directly from the companies themselves.

Table 4: Actual revenues collected by province in 2020

Province	GST Distributions	Bookmakers Tax	Own Source Revenues & Others	Royalties	Dividends
Western	16,460,000	0	2,079,645	34,000,000	3,888,000
Gulf	4,241,000	0	297,150	0	0
Central	4,978,000	0	10,073,114	0	0
Milne Bay	9,297,000	0	1,694,571	0	0
Oro	4,668,000	0	1,520,298	0	0
Southern Highlands	11,381,000	0	16,915	12,320,000	0
Hela	6,384,000	0	0	0	0
Enga	4,331,000	0	12,085,700	9,359,779	0
Western Highlands	46,980,000	13,000	2,210,934	0	0
Jiwaka	1,042,000	0	0	0	0
Simbu	4,455,000	0	1,602,104	0	0
Eastern Highlands	19,244,000	0	2,896,685	1,554,431	0
Morobe	171,384,000	408,000	12,262,158	3,881,650	0
Madang	21,041,000	842,000	2,601,920	0	0
East Sepik	15,496,000	0	3,542,387	0	0
Sandaun	4,282,000	0	2,945,752	0	0
Manus	2,082,000	0	551,417	0	0
New Ireland	17,092,000	0	919,278	47,633,922	0
East New Britain	37,093,000	0	5,289,905	0	0
West New Britain	14,813,000	10,000	3,686,871	0	0
TOTAL	416,744,000	1,273,000	66,276,803	108,749,782	3,888,000

4.4.6 Assessing revenues

For the purpose of calculating the different funding levels of the different function grants, 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 Projects

- 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

- The 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 2009* (which is 60% of net inland collections).

iv) Bookmakers' Turnover Tax

- 100% of *Bookmakers Tax* distributed under the *Intergovernmental Relations (Functions and Funding) Act 2009*. (Which is 40% of net inland collections)

4.5. Calculating Fiscal Needs of the Provinces

Bringing together the estimated costs and assessed revenues of each province gives a calculation of fiscal needs. The calculation for 2022 is outlined in the below table.

Table 5: Fiscal Needs of Provinces for 2022 (Kina '000)

Provinces	Estimated costs	Assessed revenues	Fiscal needs	% of total fiscal needs
Western	68,756.3	46,643.8	22,112.5	3.2%
Gulf	34,331.8	4,389.6	29,942.3	4.3%
Central	65,518.9	18,372.9	47,146.0	6.7%
Milne Bay	48,261.5	10,144.3	38,117.2	5.4%
Oro	29,999.9	5,428.1	24,571.7	3.5%
Southern Highlands	56,448.3	21,245.5	35,202.9	5.0%
Hela	34,984.6	6,384.0	28,600.6	4.1%
Enga	63,410.1	17,861.7	45,548.5	6.5%
Western Highlands	61,073.2	48,098.5	12,974.8	1.8%
Jiwaka	42,194.9	1,042.0	41,152.9	5.9%
Simbu	56,448.3	5,256.1	51,192.3	7.3%
Eastern Highlands	82,613.1	21,935.9	60,677.2	8.6%
Morobe	99,360.0	181,028.4	0.0	0.0%
Madang	78,135.1	23,184.0	54,951.2	7.8%
East Sepik	85,209.4	17,267.2	67,942.2	9.7%
Sandaun	56,448.3	5,754.9	50,693.5	7.2%
Manus	25,589.7	1,837.2	23,752.4	3.4%
New Ireland	40,546.9	55,658.8	0.0	0.0%
East New Britain	62,537.6	39,738.0	22,799.7	3.2%
West New Britain	61,073.2	16,666.4	44,406.8	6.3%
TOTAL	1,152,941.3	547,937.1	701,784.5	100.0%

4.6. Calculating Individual Province Shares

Once fiscal needs have been calculated, the next step is to apportion the shares of the equalization pool to determine the final amounts going to each provincial government. The calculation of fiscal needs recognises that each province is different, and as such, each province will receive a different share of the equalization amount.

Once the individual province share is calculated the next step is to divide up the total share into service delivery function grants and an administration grant.

For 2021, the individual province share is calculated using the formula:

$$\begin{array}{ccccc} \text{equalization} & & \text{fiscal needs amount of} & & \text{individual} \\ \text{amount for} & & \text{individual province} & & \text{province} \\ \text{provinces} & \times & \frac{\text{total fiscal needs amount}}{\text{of provinces}} & = & \text{share} \end{array}$$

Where –

‘equalization amount for provinces’ means the amount equal to the province share specified in the determination made under Section 17 (1) (a) 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: 2022 Individual Province Share (K'000)

Province	Estimated Fiscal Needs (Estimated costs minus assessed revenues)	Percentage of total fiscal needs	Funding based on percentage of total fiscal needs (b)
Western	22,112.5	3.2%	16,833.8
Gulf	29,942.3	4.3%	22,794.5
Central	47,146.0	6.7%	35,891.4
Milne Bay	38,117.2	5.4%	29,018.0
Oro	24,571.7	3.5%	18,706.0
Southern Highlands	35,202.9	5.0%	26,799.3
Hela	28,600.6	4.1%	21,773.1
Enga	45,548.5	6.5%	34,675.2
Western Highlands	12,974.8	1.8%	9,877.5
Jiwaka	41,152.9	5.9%	31,329.0
Simbu	51,192.3	7.3%	38,971.8
Eastern Highlands	60,677.2	8.6%	46,192.4
Morobe	0.0	0.0%	0.0
Madang	54,951.2	7.8%	41,833.4
East Sepik	67,942.2	9.7%	51,723.2
Sandaun	50,693.5	7.2%	38,592.0
Manus	23,752.4	3.4%	18,082.3
New Ireland	0.0	0.0%	0.0
East New Britain	22,799.7	3.2%	17,357.0
West New Britain	44,406.8	6.3%	33,806.1
Total	701,784.5	100.0%	534,256.0

4.7. Individual Local-level Government Share

The individual rural local-level share is the amount an individual rural LLG receives from the equalisation system.

The LLG share is divided into two amounts: one for urban LLGs, and another for rural LLGs. These are called individual local-level shares.

The amounts for individual urban or rural LLG for the relevant fiscal year are calculated using the formula below:

$$\begin{array}{c} \text{equalization} \\ \text{amount for} \\ \text{urban Local-level} \\ \text{governments} \end{array} \times \frac{\begin{array}{c} \text{fiscal needs amount of individual} \\ \text{urban Local-level Government} \end{array}}{\begin{array}{c} \text{total fiscal needs amount} \\ \text{of urban Local-level} \\ \text{Governments} \end{array}} = \begin{array}{c} \text{individual} \\ \text{Local-level} \\ \text{share} \end{array}$$

Where -

‘equalization amount for urban LLGs’ means the amount estimated by the NEFC to be the urban LLGs’ share of the local-level share specified in the determination made under Section 17 (1) (b) that is in force on 30 April of the immediately preceding fiscal year;

‘Fiscal needs amount of individual urban LLG’ means the fiscal needs amount of that urban LLG for the relevant fiscal year;

‘Total fiscal needs amount of urban LLGs’ means the total of the fiscal needs amounts of the urban LLGs that have fiscal needs amounts greater than zero for the relevant fiscal year.

A similar formula is used to calculate the rural LLG share.

Most rural LLGs 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 LLGs have little or no revenue, they have different fiscal need amounts because they all have different costs.

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

Revenues of rural and urban LLGs have been assessed at zero. This is due to data on these revenues being incomplete and of poor quality. As stated in **sub-section 4.2.2**, given the unavailability of revenue data, the NEFC has sought to use District costs and population as proxies for determining LLG costs. This method of assessing LLG fiscal needs narrows in NEFC’s assessment so as to be permissive with deriving a base cost for both Rural and Urban LLG’s. However, eventually the NEFC expects to obtain better information on the revenues of urban LLGs and will then assess these more accurately. It may not be possible to accurately assess revenues for over 300 rural LLGs in the foreseeable future. Consequently, revenues for rural LLGs may continue to be estimated at zero.

The total LLG share is divided between rural and urban LLGs in the same proportion as provided in the 2009 budget i.e. 79% rural, 21% urban.

The rural LLG share is then further divided into the 300 plus individual LLG amounts, based on district costs and population in each LLG. Considerably, the NEFC understands the nature of the establishments of rural LLG’s. Should new LLG’s be gazetted in the foreseeable future, LLG shares will have to be shared accordingly.

For urban LLGs, their funding is determined as their share of funding based on their assessed fiscal needs².

² Fiscal needs in the context of assessing District costs in proportion with District population.

4.8. A note on calculating the determination

Occasionally revenue data is not available to the NEFC at the time it undertakes its calculations early in the financial year (May). When data is not available, the NEFC makes a forecast of the revenues using historical data (normally based on a 3 year average).

Due to the uncertain nature of forecasting, the calculated estimates may sometimes differ to actual revenues eventually recorded later in the year. Similarly, on occasions, data collected by other government agencies is later revised after the NEFC makes its calculations. The NEFC has a long-standing practice of not changing its recommendations in these circumstances. The NEFC makes its calculations using its best efforts and the data available at the time. This ensures that the calculations are made early in the financial year which then means that Provinces receive their funding ceilings in a timely manner.

4.9. Resource-Rich Provinces & the Funding Arrangements.

Since the inception of RIGFA, the reform has witnessed astounding shifts in the funding arrangements. However, the NEFC has not shifted its attention in advocating for service delivery. The use of provinces own-source revenues has always been of paramount concern. With lessons learnt from the previous “Kina per Head” System, the reform plays a pivotal role in allocating funds for provinces in an “equitable” manner, more so, funding arrangements will have to be made on a needs basis. The NEFC takes into account provincial fiscal capacities when allocating funds. This process involves assessing provincial revenues to weigh out fiscal needs. Where a province fiscal need is equal to zero, subsequently this means the province has the fiscal capacity to accolade service delivery.

This is consistent with the principles of the Inter-governmental financing arrangements where provinces with higher fiscal capacity (*higher revenues to meet cost of services*) to provide for basic service delivery must utilize their internally generated resources to complement government funding.

The *Intergovernmental Relations (Functions and Funding) Act 2009* introduced a five-year transitional arrangement. This included a five-year transitional guarantee whereby provinces would not be worse off than the funding they received in 2008. This basically allowed resource-rich provinces like Morobe, New Ireland and Western to continue receiving grants. The Arrangement ceased in 2016 in which the transitional guarantee funding was last effected in the 2017 Budget. Accordingly, following the 2017 and 2018 Budget, Morobe & New Ireland province became ineligible to receive any function and administration grants. Though ceasing the provincial portion of the grants, Rural & Urban Local-level Governments still continue to receive LLG grants.

Though being robust, the system allows for leniency. In the case of Western Province and most recently Manus, the system allows for grants to be re-allocated to provinces given a sudden decrease in fiscal capacities. As highlighted, function grants are given in proportion to fiscal needs.

CHAPTER FIVE: CONDITIONS ATTACHED TO THE USE OF THE FUNCTION AND ADMINISTRATION GRANTS

In 2020, the NEFC issued a letter to the Secretary for Treasury to remind provinces on the “Conditions of Funding”, purposely on the use of function grants and roll-overs. The subsequent approach would involve the Secretary issuing a directive to provinces highlighting the conditions set-forth in the Budget Expenditure Instructions (BEI). This was a necessary approach as assessments on the Service Delivery Function Grants showed misapplication on the use of these grants.

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.

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 NEFC, determine the conditions over the administration of the following grants; as follows:

- service delivery function grants;
- administration grants;
- rural LLG grants;
- urban LLG grants;
- staffing grants, and allowances for village court officials;
- Other development needs.

The conditions are subject to the provisions outlined under section 66 of the Act.

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 Expenditure Instructions.

The following service delivery function grants will be in operation in 2020;

- Education Service Delivery Function Grant;
- Health Service Delivery Function Grant;
- Transport Infrastructure Maintenance Grant;
- Village Courts Function Grant (Operations);
- Land Mediation Function Grant (*newly established*)
- Village Courts Allowances Grant;
- Agriculture Service Delivery Function Grant;
- Other service delivery Function Grant (*Grant composed of funding for other services sectors such as Community Development, Lands, Commerce, Environment, etc.*).

5.2 Administration Grants

This grant is to fund general overhead costs or meeting the day to day operational costs of the provincial administration.

The Administration Grant **cannot** be used to pay salaries or other personal emoluments, casual wages, or debt payment. This grant is intend to fund the operation of the administration sectors such as the Legal Services; Human Resource Development; Policy, Planning & Research; Internal Audit; Assembly/Parliamentary Services; Office of the Administrator; and LLG Administration.

5.3 Minimum Priority Activities and Performance Indicators

In 2009, the Secretary for Treasury issued Budget and Expenditure Instructions calling for Provinces to adequately fund eleven (11) specific service delivery activities. These eleven activities were identified as a basic provincial responsibility across the nominated five key function grant categories of Agriculture, Education, Health, Transport Infrastructure and Village Courts (all MTDS priority areas) and are known as the Minimum Priority Activities (MPA's).

These MPA's 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 LLG level.

Provincial governments must create identifiable activity codes for each MPA in their respective budgets and request performance reporting from sector managers. The MPAs 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 outreach patrols
- Drug distribution

Transport Infrastructure Maintenance

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

Village Courts

- Operation of village courts
- Supply of uniforms / inspection of village courts

Additionally, there is a set of very specific indicators against which each of these MPAs could be measured.

The full set of MPA's and performance indicators are provided on the following pages.

Minimum Priority Activities and Performance Indicators

The Minimum Priority 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 priority activities which the NEFC monitors and encourages provincial administrations to adequately fund these from their total function grant allocations...** Function grants can still be used for funding other recurrent goods and services activities within that functional area.

Table 7: MPA Performance Indicators

Minimum Priority Activity	Performance Indicator
<u>Health</u> 1. Operation of rural health facilities 2. Drug distribution* 3. Integrated health outreach patrols	i. Total number and names of health facilities ii. Number of Health Facilities open and staffed iii. Health facilities with access to running water in labour ward i. Number of months health facilities stocked with essential supplies in the last quarter 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 5. Supervision by provincial/district officers 6. Operation of district education offices	i. Total number of schools by type ii. Percentage of schools that received basic school supplies before 30th April. i. Number of schools visited by district / provincial education officers i. Number of District Education Offices that provided quarterly performance reports.
<u>Transport Maintenance</u> 7. Road and bridge maintenance 8. Airstrip maintenance 9. Wharves and jetties maintenance	i. Names and approximate lengths of provincial roads maintained ii. Names of bridges maintained 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. Operations of Village Courts	i. Number of village courts in active operation ii. Number of village courts supplied with operational materials iii. Number of inspection to village courts

*It is understood that the distribution of drug supplies is being managed through donor support. Whilst this activity was identified as a minimum priority activity, proper assessment and monitoring of this activity is being considered by the NEFC. In the meantime this should not deter the Province from reallocating the cost previously budgeted for the drug distribution to other areas of priority expenditure.

*It is also understood that the establishment of the TTF has induced provinces to use the Education Function Grants on other activities. The NEFC still maintains its objectivity by encouraging provinces to fund distribution of school supplies as TTF is only a policy and NEC decision and can be changed anytime.

The Land Mediation Function Grant as it was created in 2016 is yet to establish its minimum priority activities and its performance indicators through another consultation process with the key stakeholders such Department of Treasury, Department of Finance, Department of Justice & Attorney General and Provincial Administrations.

5.4 Improving Compliance of Conditions for Funding

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 in August 2012. The Budget and Expenditure Instructions specify:

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

The Department of Treasury, in conjunction with the Department of Provincial and Local Level Government Affairs and the NEFC continue to work with provinces to improve the compliance of these Budget and Expenditure Instructions. The NEFC has undertaken a series of budget workshops with all provinces to further improve budget compliance to use the chart of accounts coding and other budget scorecard criteria.

CHAPTER SIX: IMPLEMENTATION OF PROVINCIAL BUDGETS: ASSESSMENT AND ISSUES

Ensuring that the available funding for goods and services is spent wisely on intended purposes has always been the NEFC's focus. Exclusively, the NEFC plays a pivotal role in being the bridge between the national government and provinces. Though appropriate as it may seem, policies and administrative practices being implemented at the national level have adverse impacts on the sub-national level. The NEFC uses a number of opportunities throughout the year to highlight and assess the inevitable issues and bring together parties to find solutions.

Annually, series of workshops are held by the NEFC bringing together Provincial Administrators and relevant Sector Managers/ Advisors. The 2021 fiscal year, was a difficult year of which the Annual NEFC Regional Workshops were not undertaken due to the Covid-19 pandemic. The NEFC will continue to use these workshops in the coming years as an avenue for provinces to provide assessments of their own performances. The objective of conducting these workshops is also in line with sub-national level issues that may arise as a result of policy inclusions at the national level. The NEFC then engages in higher level forums in an attempt to solve provincial issues. Such forums as PLLSMA and the Inter-Departmental Committee meetings pave way for airing out pertinent issues expressed during the workshops. Coherently, the NEFC has also sought to gain political support in the past by advocating for solutions during the Governor's Conferences.

Furthermore, the NEFC also assists the Department of Treasury and Department of National Planning & Monitoring in carrying out the Second Quarter Budget Expenditure Reviews. These Reviews are conducted as a medium for assessing how provinces effectively implement their budgets.

6.1 Implementation of Budgets and Analysis

Budget Reviews are conducted annually by the Department of Treasury to ensure certainty of provincial expenditures from the first two quarters. Although, the intent of the review is to assess expenditure, the late release of funds has been an ongoing issue and one that impedes the budget implementation process for provinces.

Through the Department of Treasury, a Second-Quarter Budget Review Report was furnished and provided to the NEFC. It was disappointing to know that only 12 Provincial Administrations submitted their Reports for assessment, this included the Autonomous Region of Bougainville.

Table 8: Sector Overview in second quarter.

Agency Type	No. of Agencies	QBR Reporting Status	
		Submitted	Not submitted
Provincial Governments	20	11	9
Autonomous Government	1	1	0
City Commission	1	-	1
Total	22	12	10

Provincial Administrations that attended the Review were: 1. ENB PA, 2. WNB PA, 3. Manus PA, 4. ESP PA, 5. WSP PA, 6. MBP PA, 7. NORTHERN PA, 8. GULF PA, 9. WESTERN PA, 10. EHP PA, 11. SIMBU PA, 12. AUTONOMOUS GOVERNMENT

The Department of Treasury through the Review highlighted key performance indicators for provinces in the second quarter. The MTDP Sectors were the focal points of which discussions were stirred. It was fairly evident that the primary issues raised by the provinces were consistent with the current GoPNG economic outlook.

The implementation of programs at the subnational levels has also been a major challenge which proved ineffective in many provinces as late release of funds still hampers service delivery obligations.

CHAPTER SEVEN: ASSISTING THE REFORM PROCESSES

Since the inception of RIGFA, NEFC has been proactively involved in assisting provinces through various interventions. 2020 was no different from prior years in which the national government yet again embarked on driven policies to adjust the current economic situation of the country. The sub-national level of government rides on these policies using developed strategies and goals. A major impediment in the implementation process is the late release of funds.

The NEFC, through the reform process, advocates to provinces through the regional workshops conducted for each region annually; in recent years, Budget Workshops; Unspent/Rollover Study; Facility Based Funding-Diagnostic Expenditure Review; Personal Emoluments Costs; and most recently, the Public Expenditure & Financial Accountability (PEFA) & the Gender Equity & Social Inclusion (GESI) Mainstreaming.

7.1 INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS) – SUB-NATIONALS CHART OF ACCOUNTS (COA) MAPPING EXERCISE.

The NEFC through its Provincial Expenditure Reviews (PER) has been facing difficulties with obtaining budget, revenue and expenditure reports from provinces as the government is currently undergoing a transitional period from the GoPNG legacy accounting system PGAS to the introduced Integrated Financial Management System (IFMS).

The transition from PGAS to IFMS for the sub - nationals in 2017 was a milestone achievement for the PNG Government in maintaining and restoring confidence in its commitment to delivering basic goods and services to its people. The IFMS introduces an all-in-one user-friendly accounting system that promotes accountability and transparency. However, it also presents new challenges to the scene in terms of budgeting, funding, expenditure and reporting.

Since the initial rollout of the IFMS in 2016, progress to date with the compilation of the PER reports has been slow due to inconsistency in provinces producing and providing expenditure and revenue reports.

Provinces have adopted their own budget practices since the roll-out and this has led to large differences in budgeting practices. As a consequence, expenditure data varied across provinces. The inconsistency as well as lack of activity specific data recording makes the data unsuitable for analysis in conducting the PER.

A Government Financial Statistics Mission conducted in conjunction with the International Monetary Fund (IMF) and relevant PNG financial department and agencies held in (October 16–27, 2017) to follow up on the recommendations from the GFS report (2014) on the initial roll-out of the IFMS noticed that account codes for classifying the payment of;

i) grants to foreign governments and

ii) subsidies to corporations and other sectors are yet to be created

were lumped in the categories;

i) grants to other general government units and

-
- ii) other expense, transfers not elsewhere classified and resulted in incorrect expense classification.

Unlike PGAS, the IFMS has no clearly defined chart of accounts for the sub – nationals, though only at the national level as noticed by the GFS mission report and further reported through the National Governments Quarterly Budget Reviews. The NEFC, as a way forward had to undertake the CoA mapping exercise before progressing with the Provincial Expenditure Reviews.

This has prompted the Commission to undertake a review in consultation with other relevant agencies and technical advisors towards developing the sub-national's IFMS CoA. The establishment of the CoA will aid the sub-nationals in efficient and effective budgeting, monitoring and reporting. In doing so, this will mean the consequential amendment of the Budget Expenditure Instruction (BEI) by Department of Treasury to cater for the IFMS CoA and the phase out of PGAS CoA. Through the establishment of the CoA, a documentation and handbook will be put together to assist the implementation process.

An estimated timeframe for the establishment and roll – out of the new IFMS CoA to pilot provinces will be conducted towards the end of 2022 Fiscal Year.

7.2 . INTERGOVERNMENTAL FINANCING ARRANGEMENT REVIEW (IGFAR)

7.2.1 Background

The review of the current intergovernmental financing systems is a national government priority and agenda to support the decentralization reforms. The Provincial & Local Level Service Monitoring Authority (PLLSMA) at its meeting in Lae on 23 – 24th September 2020, has established a PLLSMA subcommittee on Intergovernmental Financing Arrangement Review (IGFAR) and endorsed the National Economic & Fiscal Commission (NEFC) and the Department of Treasury to chair and co-chair respectively. The PLLSMA sub-committee has been established and this team is comprised of very senior officers from key national departments/agencies. Preparation work on the review has already started.

The IGFA Review will look at the current intergovernmental financing systems, identify key issues and impediments and make appropriate policy recommendations to the national government for an appropriate fiscal decentralization system. This article gives a very brief background, key issues, the main objective of the review, the expected outcomes, the scope and framework and highly possible risks and mitigation options to minimize these risks

7.2.2 IGFA Review Not New

This IGFA Review is not entirely new. A well planned, researched and intensive review in intergovernmental financing arrangement was undertaken by the NEFC from 2002 to 2008. Arising from this review, the Reforms in Intergovernmental Financing Arrangements (RIGFA) were implemented in 2009. RIGFA is reported as the best reforms in intergovernmental financing arrangements in the history of PNG. The current review is an upscale version of RIGFA. While RIGFA addressed function grants or the recurrent funding, this IGFA Review will look at all sub national funding systems (development & recurrent) in a more integrated, cohesive and coordinated in a more holistic manner.

7.2.3 Key Issues

The following and not limited to, are identified as the key issues or inefficiencies in the current intergovernmental financing systems.

- **Inconsistencies – Functions & Responsibilities:** Functions and responsibilities or expenditures assignments not properly mapped for each level government or government funded bodies/institutions at the sub nationals resulting in overlapping, duplication and inconsistencies and confusion as to who should be accountable for funding and performing the assigned functions.
- **Add Hoc and Concurrent Reforms:** Ad-hoc & concurrent institutional, legislative, political, administrative & sectoral reforms (DDAs, PHAs, City Authorities, greater autonomy arrangements, new provinces, LLGs, electoral boundaries etc.).
- **Affordability Issues:** Government cannot adequately fund funding arrangements – late release of funds and not meeting funding commitments.
- **Imbalances & Equity Issues:** Imbalances: Vertical & Horizontal Imbalances Between the national & sub nationals – functions and responsibilities and related funding arrangements. Between province - disparities - cost of providing same level of services, financial, economic, demographic, geographic, infrastructure, education, health, law & justice, provincial & district administrations and others factors.
- **Limited Sub National Revenue Mobilization:** Limited sub national revenue mobilization has made sub nationals to heavily depend on national government funding/transfers to implement their budgets. Heavy reliance on national funding has also promoted incentives in raising provinces' own internal revenues.
- **Fragmented and multiple sub national funding systems:** Parallel fragmented funding systems – not coordinated and integrated (SIPs, Function Grants, PIPs, TFF, Credit Schemes, SLA Agreements...) Development & recurrent funding not integrated.
- **Governance, accountability, monitoring and reporting issues:** Weak, inefficient, ineffective and fragmented governance, accountability, monitoring and reporting systems for different funding systems.

7.2.4. Problem Statement & Major Objective

The PLLSMA Sub Committee has endorsed the following as the key problem statement and major objective of the IGFA Review.

Problem Statement	Fragmentation and inefficiencies in the current intergovernmental financing systems have eroded the effectiveness in contributing to improved service delivery in PNG.
Main Objective	Recalibrate the current intergovernmental fiscal arrangements for an integrated, efficient and effective system that supports the National Government's focus on decentralization reforms.

7.2.5 IGFA Review: Strategic Focus Areas and Expected Outcomes (Benefits)**Table 9: Strategic Focus Areas and Expected Outcomes**

Strategic Focus Area	Action/Activity	Expected Improvement Outcomes/Benefits
Fiscal Decentralization & Revenue Mobilization	<ul style="list-style-type: none"> • Undertake Expenditure Assignment study (who is to do what at all levels of governments and government and sub national institutions (functions and responsibilities) • Revenue Assignment (who is supposed to collect what tax?) Taxing options available for sub nationals to raise their own internal revenue base. • Review current national government multiple fiscal transfer systems • Identify Imbalances (equalization) and also funding for targeted government priority areas. • Sub national borrowing study. • Review fiscal decentralization in the context of greater autonomy for the provinces. • Review Current development partner funding modalities. • Review AROB & NCD funding arrangements 	<ul style="list-style-type: none"> • Clear demarcation of functions and responsibilities between different levels of government, institution and bodies. • Sub national fiscal capacities assessed and national governmental fiscal transfers done based on funds follow function principle. • Proper costings established • Sub nationals empowered to generate internal revenue through devolution of appropriate taxing powers. • An affordable and equitable Intergovernmental fiscal transfer system for equalization and promoting other development priorities. • Financing under greater autonomy arrangements • Funding through service delivery frameworks • Funding for inclusive economic growth. • Sub national borrowing options identified. • Common modalities established in engaging development partners funding.
Integrated Development Planning and Budgeting	Review and unbundle the current planning and budgeting systems and practices at various levels of governments and government sponsored institutions.	Integrated planning and budgeting coordinated in a more cohesive and holistic manner. Development and recurrent budgets fully integrated

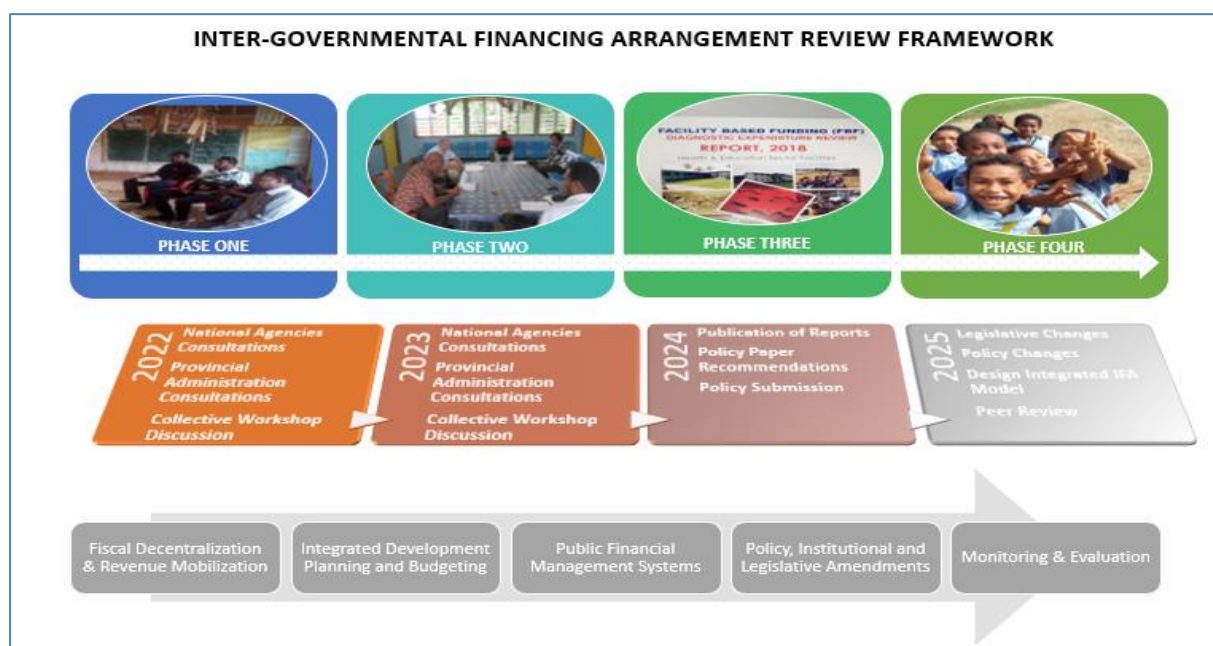
Public Financial Management (PFM)	Review the current PFM platforms used by various government and government sponsored bodies involved in sub national funding	Integrated governance and accountability intergovernmental financing system
Policy, Institutional and Legislative	Review all the policy, institutional and legislative arrangements and frameworks adopted under the current different sub national funding systems.	A fully integrated policy, institutional, legislative and regulatory framework for the integrated fiscal decentralization system.
Monitoring & Evaluation	Review the current monitoring & evaluation systems adopted under different systems of sub national funding.	Integrated monitoring and reporting framework as single integrated fiscal decentralization system.

7.2.6 Scope & Framework

The scope of the work will comprise of five (5) phases. It is estimated that the 5 phases will take 3 to 5 years

Table 10: IGFA Scope and Framework

Phase One	Consultation & Target Studies: A complete review of the current IGFA systems is undertaken through key studies and wider consultation with key stakeholders.
Phase Two	Policy Development : Basing on the findings in phase one, develop and make a major policy recommendation to the National Executive Council (NEC).
Phase Three	Adjust/Modify: Basing on the outcome of the NEC on the policy submission and parliament decision, design, develop and/or modify the current system.
Phase Four	Implementation: Implement the modified and integrated fiscal decentralization system.
Phase Five	Monitor & Reporting: Develop and implement an integrated fiscal decentralization monitoring & reporting system.

Figure 1: IGFA Schematic Framework

7.2.7 Whole Government & Holistic Approach

The IGFA Review is a whole government approach and will be undertaken in a more holistic and cohesive manner. Wider consultation with relevant stakeholders will be a critical part of the review. In order to help achieve this, the Sub Committee to drive the review comprises of senior officers from the following key national departments and agencies. This list is not inclusive as relevant stakeholders can become part of the review committee as and when necessary.

Table 11: PLLSMA Sub-Committee Membership

PLLSMA Sub Committee Membership - IGFA	
1.	National Economic & Fiscal Commission- Chair
2.	Department of Treasury – Co Chair
3.	Department of Provincial & Local Level Government Affairs
4.	Department of Finance
5.	Department of National Planning, Implementation & Monitoring
6.	Department of Prime Minister & NEC
7.	Department of Implementation & Rural Development
8.	Department of Justice & Attorney General
9.	Constitutional Law Reform Commission
10.	National Research Institute
11.	Department of Personnel Management

7.2.8 Potential Risks

The following are very high level potential risks that pose huge challenges to the progress of the IGFar. Therefore detailed risk mitigation strategies and plans will be developed and executed to minimize these risks. There will be other minor risks apart from these major risk areas but these will be managed through the whole review period.

Table 12: Potential Risks to the process of IGFar

Major Risks	Mitigation Action/Options	Expected Outcome
COVID 19	Adopt Non contactable options and safe practices to continue to progress the review	Safe practices adopted & Minimum disruption to the review process.
Lack of Awareness	Develop and implement effective communication strategy and plans with appropriate messages	Stakeholders are aware, participate and give input and support the review.
Lack of Political Support	Develop and implement a political engagement strategy and plans.	Politicians are aware, participate and give support to the review.
Lack of Funding for the Review	PLLSMA Sub Committee to present to Government for adequate funding. Seek Development Partner Support	Funding for the review is secured
Lack of appropriate leadership	PLLSM Sub Committee - Appointment of senior officers from key national department/agencies and sub nationals to drive the review	Effective leadership is provided for the success of the review
Lack of cooperation and engagement from national departments/agencies and sub nationals	Review Committee comprising of senior officers from key national departments and agencies and sub Nationals and Develop and implement an effective engagement strategy & plans involving key stakeholders	Minimum resistance to change. Holistic & Integrated and a whole government approach is adopted for the review.

7.3 2020 NEFC COST OF SERVICES STUDY

The Cost of Service Study (CoSS) was one of NEFC's key priority programs in 2020. This study is undertaken every 5years and forms the corner stone of all activities under its mandate to not only provide independent and objective advice to the government but also make recommendations to NEC and National Parliament on;

- ✓ Economic and Fiscal Policies of the National government
- ✓ Financial arrangements and the allocation of grants from the National government to Provincial and Local level governments

The 4th field study was undertaken over a 4-month period were three (3) Teams comprising of government representatives from Departments of Prime Minister & NEC (PM&NEC), Provincial & Local Level Government Affairs (DPLGA), Treasury (DoT) together with officers from the National Economic & Fiscal Commission who visited at least 1 District in each Province and the 20 provinces throughout Papua New Guinea.

Interviews were conducted with staff from the Provincial Administration including program managers in the Key Sectors such as Administration, Education, Health & HIV, Infrastructure, Primary Production, Law & Order and the National Functions. During each Interviews, information such as the provincial staffing, facility levels and other aspects of the provincial administration operations were obtained.

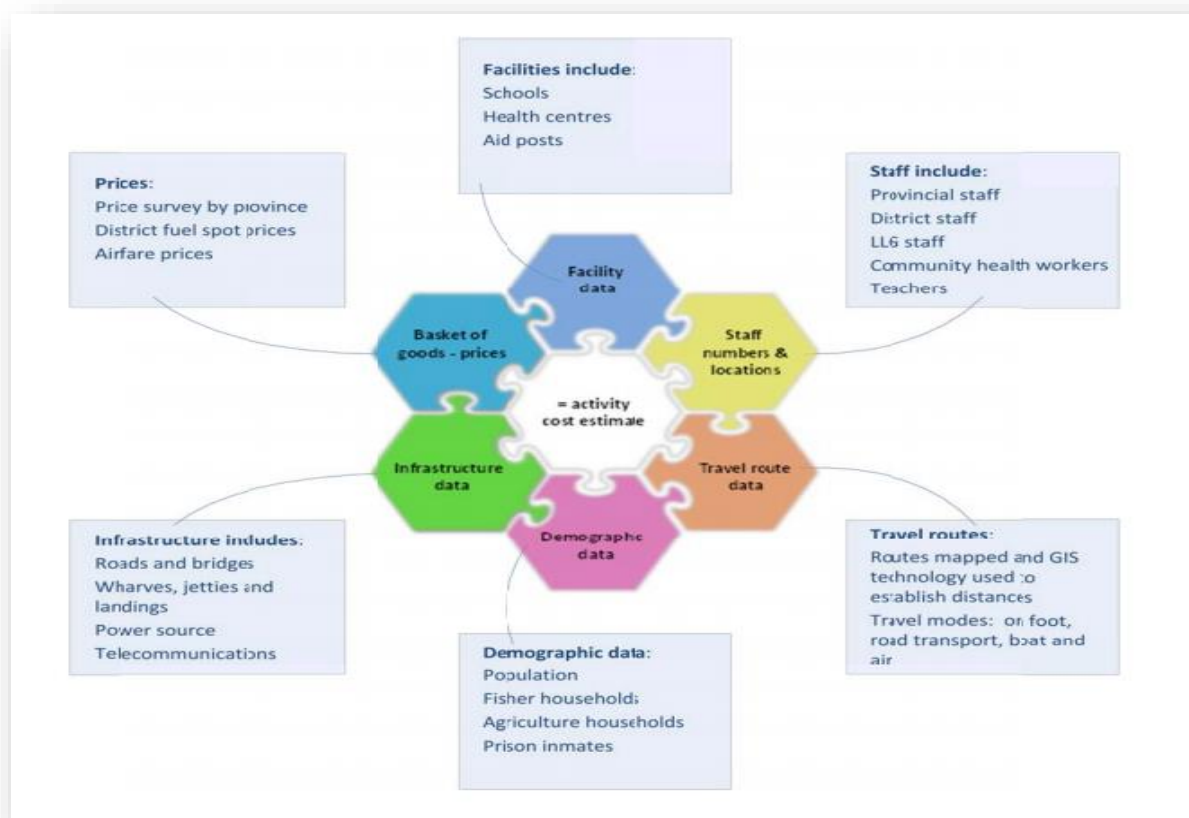
In almost every Province, at least one District was visited while the other District Administrators or district administration staff were brought to the Provincial Capital for individual interviews. These officials were asked to provide a detailed information on service delivery activities within each District Boundary to answer NEFC's District Survey Questions. A mapping exercise was also carried out to identify the locations of each service centre (Schools/Health Centres/Airstrip etc) and its accessibility.

Statistics of Interviewed Sector Heads by Region

Table 13: Statistics of Interviewed Sector Heads by Region

Individuals	Southern	Momase	NGI	Highlands	Total
Administration	27	19	44	30	120
Other Services	23	13	21	39	96
Education	7	7	5	26	45
Health & HIV	10	6	13	19	48
Infrastructure	12	4	3	13	32
Primary Production	24	8	13	19	64
Law & Order	8	4	4	17	33
National Functions	9	5	9	14	37
Total	120	66	112	177	475
Years of Experience	Southern	Momase	NGI	Highlands	Nat_Average
Max	42	48	43	50	50
Min	2.00	1	2	1	1
Mean	17.3	18.6	17.4	15.3	17.2
Gender (% of interviewees)	Southern	Momase	NGI	Highlands	Nat_Average
Male	85.8%	83.3%	66%	85%	80.1%
Female	14.2%	16.7%	34%	15%	19.9%

Figure 2: The schematic diagram summarizing various data that was collected during the Provincial Interviews throughout the duration of the 4th Cost of Service Study.



At the conclusion of this updates, the outcome of the 2020 findings have all gone through an analytical process that compared the results of growing the costs for delivering basic services to the results generated by the indexation approach (combination of CPI & Population growth). Details of this findings will be later published in a separate report for the benefit of the wider audience.

APPENDICES:

APPENDIX A: DETERMINATION APPORTIONING THE EQUALIZATION AMOUNT

APPENDIX B: FUNCTION AND ADMINISTRATION GRANTS DETERMINATION

APPENDIX C: REVISED BUDGET AND EXPENDITURE INSTRUCTIONS

APPENDIX A: DETERMINATION APPORTIONING THE EQUALIZATION AMOUNT

DETERMINATION APPORTIONING THE EQUALIZATION AMOUNT



Inter-Governmental Relations (Functions & Funding) Act 2009

DETERMINATION APPORTIONING THE EQUALIZATION AMOUNT

I, **Hon. Ian Ling-Stuckey, MP, Minister for Treasury**, by virtue of the powers conferred by Section 17 of the *Inter-Governmental Relations (Functions & Funding) Act 2009* and all other powers enabling me, in consultation with the National Economic and Fiscal Commission, hereby make the following determination: -

1. LOCAL-LEVEL SHARE.

For a fiscal year, 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 10.05 per cent of that equalization amount.

2. PROVINCIAL SHARE.

For a fiscal year, the provincial share, being the proportion of the equalization amount of that fiscal year available for distribution amongst Provincial Governments, is the amount remaining after deduction from that equalization amount from the total of the amounts calculated under Clauses 1 for that fiscal year.

3. 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 *Inter-Governmental Relations (Functions & Funding) Act* 2009.

MADE this day of , 2021

Minister for Treasury

Advice on Province and LLG Share Split
2022 Grant Calculation

Available funding for Provincial Governments from Ministerial Determination

Equalisation amount	K593,947,710
(Less) LLG share	59,691,744.9
Amount required to fund individual province guarantees	-
Province Share (funding available to be distributed on basis of fiscal needs)	534,255,965.1

- LLG Share is the total amount to be distributed amongst all the rural and urban LLG's and comprises of 10.05% of the Equalization Amount
- The Province Share is the total amount to be distributed amongst all provinces and comprises of 89.95% of the amount remaining after the deduction from the LLG share of the Equalization Amount.

APPENDIX B: FUNCTION AND ADMINISTRATION GRANTS DETERMINATION



Intergovernmental Relations (Functions and Funding) Act 2009

FUNCTION AND ADMINISTRATION GRANTS DETERMINATION

I, **Hon. Ian Ling-Stuckey, MP, Minister for Treasury**, by virtue of the powers conferred by Section 64 of the *Intergovernmental Relations (Functions and Funding) Act 2009* and all other powers enabling me, 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 GRANT

(1) Service delivery function grants are provided to Provincial Governments to ensure that adequate funding is directed towards to 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 be used to fund salaries or capital development unless the budget allocation 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 patrols;
- (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, primary and secondary education that are within the responsibilities of a Provincial Government, such as:
- (a) The maintenance of schools; and
 - (b) The provision 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 LAND MEDIATION FUNCTION GRANT

- (1) A land mediation function grant must be used to fund operational and maintenance costs (i.e., goods and services) incurred in the land mediation sector.
- (2) Without limiting sub clause (1), a land mediation function grant must be used to fund the operational, training and supervision costs incurred in the land mediation sector.

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

8 PRIMARY PRODUCT FUNCTION GRANT

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

(2) Without limiting Sub clause (1), a primary production 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.

9 OTHER SERVICES DELIVERY FUNCTION GRANTS

Another 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 8, such as business development, community development and environment and conservation.

10 ADMINISTRATION GRANT

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

MADE this day of , 2021

Minister for Treasury

Function Grant Determination 2022

									Total Provincial Government Grants	Urban LLG Grants	Rural LLG Grants	Total LLG Grants	Grand Total
	Health Function Grant	Education Function Grant	Transport Infrastructure Maintenance Function Grant	Primary Production Function Grant	Village Courts Function Grant	Land Mediation Function Grant	Other Service Delivery Function Grant	Administration Grant					
Western	4,837,441	3,584,846	5,590,821	1,535,981	132,434	76,998	736,134	339,159	16,833,815	760,159	2,852,782	3,612,941	20,446,756
Gulf	5,345,868	4,438,992	6,333,977	2,268,788	480,955	68,579	1,621,980	2,235,371	22,794,508	146,592	1,354,163	1,500,755	24,295,263
Central	7,227,735	7,445,950	12,254,670	3,096,742	603,860	96,094	2,893,966	2,272,387	35,891,405	0	2,041,648	2,041,648	37,933,053
Milne Bay	6,670,130	7,049,146	6,852,518	2,637,826	390,988	70,739	3,306,434	2,040,188	29,017,968	295,350	2,382,632	2,677,982	31,695,950
Oro	4,673,343	4,125,166	4,198,898	2,094,658	338,925	70,374	2,008,426	1,196,219	18,706,009	733,681	1,701,939	2,435,619	21,141,629
Southern Highlands	5,442,800	7,915,397	6,598,455	1,961,111	579,122	99,227	2,565,053	1,638,148	26,799,313	698,683	2,484,405	3,183,088	29,982,401
Hela	6,452,100	4,381,452	4,528,275	1,839,640	384,030	68,701	1,765,193	2,353,716	21,773,107	978,415	1,510,768	2,489,183	24,262,290
Enga	5,374,796	8,799,260	10,908,577	4,058,489	997,774	198,356	1,937,634	2,400,341	34,675,228	243,564	2,663,002	2,906,566	37,581,794
Western Highlands	2,792,586	1,896,920	2,640,982	910,970	336,303	41,715	499,743	758,236	9,877,455	817,775	2,012,429	2,830,203	12,707,659
Jiwaka	5,398,289	7,805,265	11,849,521	1,306,996	401,902	83,595	2,213,692	2,269,736	31,328,996	0	1,356,772	1,356,772	32,685,768
Simbu	6,782,385	10,755,610	11,469,650	1,964,742	766,563	111,694	3,168,998	3,952,119	38,971,761	387,266	1,510,923	1,898,189	40,869,950
Eastern Highlands	7,315,783	11,037,839	17,742,673	2,708,530	646,106	98,733	3,679,215	2,963,565	46,192,443	761,330	2,754,760	3,516,090	49,708,533
Morobe	0	0	0	0	0	0	0	0	0	2,543,521	4,725,657	7,269,177	7,269,177
Madang	9,319,596	8,809,219	12,372,745	3,615,179	535,708	27,529	3,687,031	3,466,348	41,833,355	871,106	3,815,007	4,686,113	46,519,467
East Sepik	9,715,568	11,929,829	19,504,198	3,411,905	676,809	71,680	2,908,931	3,504,285	51,723,205	670,411	4,214,072	4,884,483	56,607,687
Sandaun	9,813,141	9,386,921	8,710,904	3,770,471	521,678	76,679	2,431,005	3,881,216	38,592,015	503,144	3,777,040	4,280,185	42,872,200
Manus	2,267,004	3,508,980	5,753,104	1,810,937	506,941	84,190	1,820,024	2,331,131	18,082,310	221,245	505,901	727,146	18,809,456
New Ireland	0	0	0	0	0	0	0	0	0	416,609	1,147,472	1,564,081	1,564,081
East New Britain	4,178,687	3,920,313	3,915,630	3,350,373	350,023	71,572	950,545	619,829	17,356,973	915,419	2,662,282	3,577,701	20,934,674
West New Britain	5,972,522	9,111,128	9,432,111	3,543,002	618,130	188,473	2,673,009	2,267,723	33,806,098	570,997	1,682,824	2,253,822	36,059,919
TOTAL	109,579,773.49	125,902,232.11	160,657,708.64	45,886,339.13	9,268,252.61	1,604,929.05	40,867,014.07	40,489,716.04	534,255,965.15	12,535,266.42	47,156,478.44	59,691,744.86	593,947,710.00

WESTERN PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	4,599,041	4,837,441	238,400
Education Function Grant	3,407,968	3,584,846	176,878
Transport Infrastructure Maintenance Function Grant	5,360,111	5,590,821	230,710
Primary production function grant (Agriculture Function Grant)	1,474,458	1,535,981	61,523
Village Court Function Grant	117,053	132,434	15,381
Land Mediation Function Grant	61,617	76,998	15,381
Other Service Delivery Function Grant	720,754	736,134	15,381
Administration Grant	323,778	339,159	15,381
TOTAL PROVINCIAL GOVERNMENT GRANTS	16,064,781	16,833,815	769,034
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Balimo Urban	115,545	109,452	-6,094
Kiunga Urban	288,758	273,530	-15,228
Daru Urban	398,176	377,178	-20,999
<u>Rural Local-level Government Grants</u>			
Bamu Rural	307,715	288,559	-19,156
Aramia Gogodala Rural	509,132	477,438	-31,695
Fly Gogodala Rural	247,625	232,210	-15,415
Lake Murray Rural	330,120	309,570	-20,551
Nomad Rural	322,560	302,480	-20,080
Kiunga Rural	189,568	178,963	-10,605
Ningerum Rural	212,674	200,776	-11,898
Olsobip Rural	62,234	58,753	-3,482
Star Mountains Rural	196,192	185,216	-10,976
Fly Kiwai Rural	157,612	148,540	-9,071
Fore-Coast Kiwai Rural	113,472	106,941	-6,531
Morehead Rural	233,173	219,753	-13,420
Oriomo-Bituri Rural	152,351	143,582	-8,769
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	3,836,909	3,612,941	-223,968

GULF PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	6,231,751	5,345,868	-885,883
Education Function Grant	5,374,090	4,438,992	-935,099
Transport Infrastructure Maintenance Function Grant	7,712,017	6,333,977	-1,378,040
Primary production function grant (Agriculture Function Grant)	2,859,376	2,268,788	-590,589
Village Court Function Grant	628,602	480,955	-147,647
Land Mediation Function Grant	117,795	68,579	-49,216
Other Service Delivery Function Grant	1,917,274	1,621,980	-295,294
Administration Grant	2,875,176	2,235,371	-639,804
TOTAL PROVINCIAL GOVERNMENT GRANTS	27,716,081	22,794,508	-4,921,573
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Kerema Urban	154,753	146,592	-8,161
<u>Rural Local-level Government Grants</u>			
Central Kerema Rural	133,057	126,064	-6,993
East Kerema Rural	105,218	99,688	-5,530
Kaintiba Rural	103,784	98,329	-5,455
Kotidanga Rural	363,585	344,476	-19,109
Lakekamu-Tauri Rural	106,252	100,667	-5,584
Baimuru Rural	146,104	138,402	-7,702
East Kikori Rural	139,477	132,124	-7,353
Ihu Rural	222,445	210,718	-11,727
West Kikori Rural	109,466	103,695	-5,771
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	1,584,140	1,500,755	-83,385

CENTRAL PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	7,384,554	7,227,735	-156,819
Education Function Grant	7,594,928	7,445,950	-148,978
Transport Infrastructure Maintenance Function Grant	12,489,899	12,254,670	-235,229
Primary production function grant (Agriculture Function Grant)	3,202,594	3,096,742	-105,853
Village Court Function Grant	627,383	603,860	-23,523
Land Mediation Function Grant	100,015	96,094	-3,920
Other Service Delivery Function Grant	2,941,012	2,893,966	-47,046
Administration Grant	2,335,114	2,272,387	-62,728
TOTAL PROVINCIAL GOVERNMENT GRANTS	36,675,501	35,891,405	-784,095
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Rural Local-level Government Grants</u>			
Amazon Bay Rural	86,536	82,256	-4,280
Aroma Rural	218,314	207,516	-10,797
Cloudy Bay Rural	118,750	112,877	-5,873
Guari Rural	53,696	50,759	-2,937
Tapini Rural	88,499	83,659	-4,840
Woitape Rural	203,751	192,606	-11,144
Hiri Rural	196,695	187,093	-9,602
Vanapa Brown Rural	86,608	82,380	-4,228
Kairuku Rural	177,373	168,714	-8,659
Koiari Rural	95,782	91,106	-4,676
Mekeo Rural	145,333	138,238	-7,095
Kuni Rural	29,633	28,187	-1,447
Rigo Central Rural	177,239	168,184	-9,055
Rigo Coastal Rural	298,418	283,171	-15,246
Rigo East Rural	98,929	93,874	-5,054
Rigo North Rural	74,851	71,027	-3,824
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	2,150,406	2,041,648	-108,758

ORO PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	5,242,738	4,673,343	-569,395
Education Function Grant	4,694,561	4,125,166	-569,395
Transport Infrastructure Maintenance Function Grant	4,711,354	4,198,898	-512,456
Primary production function grant (Agriculture Function Grant)	2,521,704	2,094,658	-427,046
Village Court Function Grant	367,395	338,925	-28,470
Land Mediation Function Grant	98,844	70,374	-28,470
Other Service Delivery Function Grant	2,093,836	2,008,426	-85,409
Administration Grant	1,822,554	1,196,219	-626,335
TOTAL PROVINCIAL GOVERNMENT GRANTS	21,552,986	18,706,009	-2,846,976
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Popondetta Urban	774,527	733,681	-40,846
<u>Rural Local-level Government Grants</u>			
Afore rural	290,785	274,552	-16,234
Tufi rural	286,801	270,789	-16,011
Oro Bay Rural	471,595	445,267	-26,328
Safia rural	53,843	50,837	-3,006
Kokoda Rural	168,756	159,692	-9,064
Higaturu Rural	392,772	371,675	-21,097
Tamata Rural	114,319	108,178	-6,140
Kira Rural	22,138	20,949	-1,189
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	2,575,536	2,435,619	-139,916

MILNE BAY PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	7,330,356	6,670,130	-660,226
Education Function Grant	7,677,933	7,049,146	-628,787
Transport Infrastructure Maintenance Function Grant	7,638,501	6,852,518	-785,983
Primary production function grant (Agriculture Function Grant)	3,298,052	2,637,826	-660,226
Village Court Function Grant	453,867	390,988	-62,879
Land Mediation Function Grant	102,178	70,739	-31,439
Other Service Delivery Function Grant	3,337,874	3,306,434	-31,439
Administration Grant	2,323,142	2,040,188	-282,954
TOTAL PROVINCIAL GOVERNMENT GRANTS	32,161,901	29,017,968	-3,143,934
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Alotau Urban	311,793	295,350	-16,443
<u>Rural Local-level Government Grants</u>			
Makamaka Rural	130,015	122,394	-7,622
Daga Rural	96,743	91,072	-5,671
Weraura Rural	207,992	195,799	-12,193
Maramatana Rural	135,921	127,954	-7,968
Huhu Rural	460,892	433,874	-27,018
Suau Rural	161,655	152,179	-9,476
Bwanabwana Rural	108,258	102,409	-5,849
Louisiade Rural	207,535	196,322	-11,213
Yaleyemba Rural	116,693	110,389	-6,305
Murua Rural	91,065	86,145	-4,920
Kiriwina Rural	204,462	193,643	-10,819
Goodenough Island Rural	151,422	143,409	-8,013
West Ferguson Rural	122,656	115,928	-6,727
Dobu Rural	188,977	178,613	-10,365
Duau Rural	140,192	132,503	-7,689
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	2,836,271	2,677,982	-158,289

SOUTHERN HIGHLANDS PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	6,649,342	5,442,800	-1,206,542
Education Function Grant	8,979,993	7,915,397	-1,064,596
Transport Infrastructure Maintenance Function Grant	8,372,781	6,598,455	-1,774,326
Primary production function grant (Agriculture Function Grant)	2,954,733	1,961,111	-993,623
Village Court Function Grant	792,041	579,122	-212,919
Land Mediation Function Grant	170,200	99,227	-70,973
Other Service Delivery Function Grant	3,984,513	2,565,053	-1,419,461
Administration Grant	1,993,013	1,638,148	-354,865
TOTAL PROVINCIAL GOVERNMENT GRANTS	33,896,617	26,799,313	-7,097,304
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Ialibu Urban	181,812	172,223	-9,588
Mendi Urban	555,769	526,460	-29,310
<u>Rural Local-level Government Grants</u>			
East Pangia Rural	105,586	100,466	-5,120
Kewabi Rural	96,911	92,212	-4,699
Wiru Rural	180,838	172,069	-8,769
Ialibu Basin Rural	94,197	89,744	-4,453
Imbonggu Rural	102,964	98,097	-4,867
Lower Mendi Rural	134,349	127,999	-6,351
Erave Rural	175,888	166,144	-9,744
Kagua rural	301,432	284,732	-16,699
Kuare Rural	111,088	104,934	-6,154
Ai ya rural	229,056	216,366	-12,690
Karints Rural	108,347	103,146	-5,201
Lai Valley Rural	174,577	166,196	-8,381
Upper Mendi Rural	108,379	103,176	-5,203
Lake Kutubu Rural	76,163	72,053	-4,110
Mt Bosavi Rural	71,736	67,865	-3,871
Nembi Plateau Rural	119,509	113,061	-6,449
Nipa Rural	230,208	217,787	-12,422
Poroma Rural	199,103	188,360	-10,743
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	3,357,912	3,183,088	-174,824

HELA PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	7,715,057	6,452,100	-1,262,956
Education Function Grant	5,960,148	4,381,452	-1,578,696
Transport Infrastructure Maintenance Function Grant	5,851,372	4,528,275	-1,323,097
Primary production function grant (Agriculture Function Grant)	2,260,626	1,839,640	-420,985
Village Court Function Grant	639,628	384,030	-255,598
Land Mediation Function Grant	98,771	68,701	-30,070
Other Service Delivery Function Grant	2,186,179	1,765,193	-420,985
Administration Grant	3,075,405	2,353,716	-721,689
TOTAL PROVINCIAL GOVERNMENT GRANTS	27,787,185	21,773,107	-6,014,078
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Tari Urban	1,032,886	978,415	-54,471
<u>Rural Local-level Government Grants</u>			
Hulia Rural	237,443	224,784	-12,659
Komo Rural	107,808	102,060	-5,748
Upper Wage rural	85,245	80,700	-4,545
Lower Wage rural	117,769	111,491	-6,279
Mt Sisa Rural	86,306	81,704	-4,601
Awi Lagayu Rural	65,717	62,206	-3,511
Lake Kopiago Rural	195,347	184,912	-10,435
North Koroba Rural	147,212	139,348	-7,864
South Koroba Rural	226,126	214,047	-12,080
Hayapuga Rural	106,116	101,055	-5,060
Pori Rural	88,864	84,626	-4,238
Tagali Rural	62,751	59,759	-2,992
Tebi Rural	67,284	64,076	-3,209
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	2,626,873	2,489,183	-137,690

ENGA PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	3,088,026	5,374,796	2,286,769
Education Function Grant	4,225,722	8,799,260	4,573,539
Transport Infrastructure Maintenance Function Grant	6,825,060	10,908,577	4,083,517
Primary production function grant (Agriculture Function Grant)	955,017	4,058,489	3,103,473
Village Court Function Grant	344,411	997,774	653,363
Land Mediation Function Grant	35,016	198,356	163,341
Other Service Delivery Function Grant	1,610,953	1,937,634	326,681
Administration Grant	1,256,956	2,400,341	1,143,385
TOTAL PROVINCIAL GOVERNMENT GRANTS	18,341,161	34,675,228	16,334,067
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Wabag Urban	132,559	125,568	-6,991
Pogera Urban	124,565	117,996	-6,569
<u>Rural Local-level Government Grants</u>			
Kandep Rural	175,843	167,484	-8,359
Wage Rural	127,057	121,017	-6,040
Ambum Rural	253,043	239,966	-13,077
Kompiani Rural	228,572	216,759	-11,813
Wapi-Yengis Rural	73,390	69,597	-3,793
Wali Tarua Rural	102,508	97,210	-5,298
Lagaip Rural	291,647	276,985	-14,662
Maip Muritaka Rural	121,643	115,527	-6,116
Paiela/Hewa Rural	133,955	127,221	-6,735
Pogera Rural	263,717	250,459	-13,258
Pilikambi Rural	195,831	185,986	-9,845
Wabag Rural	332,307	317,089	-15,218
Maramuni Rural	86,552	82,588	-3,964
Wapenamanda Rural	289,161	276,999	-12,163
Tsak Rural	123,302	118,115	-5,186
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	3,055,653	2,906,566	-143,901

WESTERN HIGHLANDS PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	2,589,102	2,792,586	203,484
Education Function Grant	1,424,838	1,896,920	472,082
Transport Infrastructure Maintenance Function Grant	1,949,137	2,640,982	691,845
Primary production function grant (Agriculture Function Grant)	858,064	910,970	52,906
Village Court Function Grant	328,164	336,303	8,139
Land Mediation Function Grant	37,645	41,715	4,070
Other Service Delivery Function Grant	336,956	499,743	162,787
Administration Grant	725,679	758,236	32,557
TOTAL PROVINCIAL GOVERNMENT GRANTS	8,249,585	9,877,455	1,627,870
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Mt Hagen Urban	863,303	817,775	-45,528
<u>Rural Local-level Government Grants</u>			
Kotna rural	38,156	36,767	-1,390
Mala/Kinjibi Rural	54,997	52,994	-2,003
Dei rural	287,218	276,757	-10,461
Mt Hagen Rural	602,602	582,437	-20,165
Mul Rural	250,174	240,392	-9,782
Baiyer Rural	213,503	205,156	-8,348
Lumusa Rural	89,646	86,141	-3,505
Mt Giluwe Rural	176,798	170,061	-6,737
Lower Kaugel Rural	120,340	115,755	-4,586
Nebilyer Rural	255,714	245,970	-9,745
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	2,952,452	2,830,203	-122,249

JIWAKA PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	6,017,961	5,398,289	-619,672
Education Function Grant	9,133,133	7,805,265	-1,327,868
Transport Infrastructure Maintenance Function Grant	13,620,012	11,849,521	-1,770,491
Primary production function grant (Agriculture Function Grant)	1,484,046	1,306,996	-177,049
Village Court Function Grant	446,164	401,902	-44,262
Land Mediation Function Grant	127,858	83,595	-44,262
Other Service Delivery Function Grant	2,435,003	2,213,692	-221,311
Administration Grant	2,491,047	2,269,736	-221,311
TOTAL PROVINCIAL GOVERNMENT GRANTS	35,755,224	31,328,996	-4,426,228
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>RuralLocal-level Government Grants</u>			
Anglimp Rural	353,176	340,046	-13,130
Kudjip Rural	165,759	159,596	-6,163
Minj Rural	164,555	158,437	-6,118
Koinambe Rural	79,463	75,903	-3,560
Tabibuga Rural	170,871	163,216	-7,656
Kol Rural	146,976	140,391	-6,585
North Waghi Rural	195,353	188,671	-6,682
Nondugl rural	135,136	130,513	-4,623
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	1,411,289	1,356,772	-54,517

SIMBU (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	8,995,686	6,782,385	-2,213,302
Education Function Grant	11,751,596	10,755,610	-995,986
Transport Infrastructure Maintenance Function Grant	12,022,975	11,469,650	-553,325
Primary production function grant (Agriculture Function Grant)	3,016,060	1,964,742	-1,051,318
Village Court Function Grant	821,896	766,563	-55,333
Land Mediation Function Grant	139,360	111,694	-27,666
Other Service Delivery Function Grant	3,279,663	3,168,998	-110,665
Administration Grant	4,477,778	3,952,119	-525,659
TOTAL PROVINCIAL GOVERNMENT GRANTS	44,505,015	38,971,761	-5,533,254
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Kerowagi urban	123,960	117,423	-6,537
Kundiawa Urban	284,866	269,843	-15,023
<u>Rural Local-level Government Grants</u>			
Chuave Rural	69,532	66,435	-3,097
Elimbari Rural	66,023	63,082	-2,941
Siane Rural	64,064	61,210	-2,853
Bomai/Gumai Rural	39,506	37,689	-1,817
Gumine Rural	69,625	66,423	-3,203
Mt Digne Rural	71,195	67,920	-3,275
Karimui Rural	156,344	148,154	-8,190
Nomane Rural	52,073	49,345	-2,728
Salt Rural	137,182	129,996	-7,186
Gena/Waugla Rural	135,108	129,169	-5,940
Lower-Upper Koronigl rural	95,685	91,479	-4,207
Kup Rural	98,731	94,390	-4,340
Mitnande Rural	123,511	117,645	-5,866
Niglkande Rural	84,879	80,848	-4,031
Waiye Rural	141,997	135,252	-6,744
Sinasina Rural	43,440	41,506	-1,934
Suai Rural	77,139	73,705	-3,434
Yonggomugl Rural	59,315	56,675	-2,640
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	1,994,177	1,898,189	-95,988

EASTERN HIGHLANDS PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	7,436,787	7,315,783	-121,003
Education Function Grant	13,941,920	11,037,839	-2,904,082
Transport Infrastructure Maintenance Function Grant	20,162,741	17,742,673	-2,420,068
Primary production function grant (Agriculture Function Grant)	2,769,032	2,708,530	-60,502
Village Court Function Grant	706,608	646,106	-60,502
Land Mediation Function Grant	128,984	98,733	-30,251
Other Service Delivery Function Grant	3,739,717	3,679,215	-60,502
Administration Grant	3,356,826	2,963,565	-393,261
TOTAL PROVINCIAL GOVERNMENT GRANTS	52,242,614	46,192,443	-6,050,171
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Goroka Urban	612,095	579,815	-32,280
Kainantu Urban	191,620	181,515	-10,105
<u>Rural Local-level Government Grants</u>			
Lower Asaro Rural	115,259	109,582	-5,677
Upper Asaro Rural	46,978	44,664	-2,314
Watabung Rural	31,475	29,925	-1,550
Gahuku Rural	228,462	217,555	-10,907
Mimanalo Rural	157,644	150,119	-7,526
Dunatina Rural	103,579	98,537	-5,043
Fayantina Rural	111,814	106,370	-5,444
Kafentina Rural	123,148	117,152	-5,995
Agarabi Rural	102,506	97,469	-5,037
Kamano 1 Rural	101,343	96,364	-4,979
Kamano 2 Rural	60,741	57,757	-2,984
Mt. Michael Rural	112,514	106,836	-5,678
Unavi Rural	53,932	51,210	-2,722
Yagaria Rural	143,912	136,650	-7,263
Lamari Rural	309,186	292,893	-16,292
Yelia Rural	382,109	361,974	-20,135
Tairoa-Gadup Rural	123,833	117,749	-6,084
East Okapa Rural	254,555	241,828	-12,727
West Okapa Rural	102,135	97,152	-4,983
Ungai Rural	81,926	77,929	-3,997
Upper Bena Rural	60,536	57,583	-2,953
Lower Bena Rural	91,948	87,462	-4,486
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	3,703,251	3,516,090	-187,161

MOROBE PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	0	0	0
Education Function Grant	0	0	0
Transport Infrastructure Maintenance Function Grant	0	0	0
Primary production function grant (Agriculture Function Grant)	0	0	0
Village Court Function Grant	0	0	0
Land Mediation Function Grant	0	0	0
Other Service Delivery Function Grant	0	0	0
Administration Grant	0	0	0
TOTAL PROVINCIAL GOVERNMENT GRANTS	0	0	0

LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Wau/Bulolo Urban	278,687	263,989	-14,697
Finschaffen urban	76,390	72,362	-4,029
Lae Urban	2,330,049	2,207,169	-122,880
<u>Rural Local-level Government Grants</u>			
Mumeng Rural	256,714	241,238	-15,476
Waria Rural	123,506	116,061	-7,445
Watut Rural	189,692	178,257	-11,435
Wau Rural	317,453	298,315	-19,137
Buang Rural	99,838	93,819	-6,019
Hube Rural	130,924	123,284	-7,640
Kotte Rural	107,744	101,456	-6,288
Yabim Mape Rural	176,809	166,491	-10,318
Burum/Kuat rural	145,533	137,040	-8,493
Morobe Rural	119,961	112,954	-7,007
Salamaua Rural	103,957	97,884	-6,072
Wampar Rural	453,328	426,848	-26,480
Deyamos Rural	182,770	171,874	-10,896
Komba rural	134,743	126,710	-8,033
Yus Rural	152,208	143,135	-9,074
Selepet rural	135,271	127,207	-8,064
Ahi Rural	424,083	401,467	-22,616
Onga/Waffa Rural	87,721	82,611	-5,110
Umi/Atzera Rural	311,585	293,434	-18,151
Wantoat/Leron Rural	132,730	124,998	-7,732
Kapao rural	117,819	111,051	-6,768
Kome Rural	188,287	177,470	-10,816
Wapi Rural	101,473	95,644	-5,829
Nanima/Kariba rural	121,374	114,401	-6,972
Labuta Rural	95,765	90,298	-5,467
Nabak Rural	67,946	64,067	-3,879
Wain-Erap Rural	143,172	134,999	-8,173
Sialum Rural	166,014	156,626	-9,387
Siassi Rural	128,363	121,104	-7,258
Wasu Rural	100,597	94,908	-5,688
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	7,702,507	7,269,177	-433,330

MADANG PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	9,961,445	9,319,596	-641,849
Education Function Grant	10,681,278	8,809,219	-1,872,059
Transport Infrastructure Maintenance Function Grant	14,191,317	12,372,745	-1,818,572
Primary production function grant (Agriculture Function Grant)	4,043,078	3,615,179	-427,899
Village Court Function Grant	589,195	535,708	-53,487
Land Mediation Function Grant	81,017	27,529	-53,487
Other Service Delivery Function Grant	3,740,519	3,687,031	-53,487
Administration Grant	3,894,247	3,466,348	-427,899
TOTAL PROVINCIAL GOVERNMENT GRANTS	47,182,095	41,833,355	-5,348,740
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Madang Urban	919,603	871,106	-48,497
<u>Rural Local-level Government Grants</u>			
Almami Rural	138,666	173,746	35,080
labu Rural	200,506	72,833	-127,674
Yawar Rural	244,183	305,956	61,773
Ambenob Rural	425,943	405,211	-20,732
Transgogol Rural	165,284	157,239	-8,045
Arabaka Rural	338,823	319,019	-19,804
Josephstaal Rural	221,512	208,565	-12,947
Kovon rural	131,176	123,508	-7,667
Simbai Rural	213,255	200,790	-12,465
Astrolabe Bay Rural	204,811	193,316	-11,495
Naho Rawa Rural	147,957	139,653	-8,304
Rai Coast Rural	425,645	401,755	-23,890
Nayudo rural	99,373	93,796	-5,578
Karkar Rural	260,597	247,686	-12,912
Sumgilbar Rural	187,014	177,748	-9,266
Bundi Rural	152,183	143,458	-8,725
Usino Rural	365,773	344,803	-20,970
Gama rural	112,367	105,925	-6,442
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	4,954,671	4,686,113	-268,559

EAST SEPIK PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	9,934,731	9,715,568	-219,163
Education Function Grant	13,354,387	11,929,829	-1,424,558
Transport Infrastructure Maintenance Function Grant	21,969,779	19,504,198	-2,465,581
Primary production function grant (Agriculture Function Grant)	3,905,021	3,411,905	-493,116
Village Court Function Grant	731,600	676,809	-54,791
Land Mediation Function Grant	126,470	71,680	-54,791
Other Service Delivery Function Grant	3,073,303	2,908,931	-164,372
Administration Grant	4,106,982	3,504,285	-602,698
TOTAL PROVINCIAL GOVERNMENT GRANTS	57,202,273	51,723,205	-5,479,068
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Wewak Urban	643,493	609,557	-33,936
Maprik Urban	64,241	60,854	-3,388
<u>Rural Local-level Government Grants</u>			
Ambunti Rural	308,858	290,644	-18,214
Dreikikir Rural	346,305	325,882	-20,423
Gawanga Rural	180,182	169,557	-10,626
Tunap/Hustein	181,021	170,346	-10,675
Angoram/Middle Sepik rural	404,863	380,299	-24,563
Karawari Rural	226,609	212,861	-13,748
Keram Rural	395,753	371,742	-24,011
Marienberg Rural	332,480	312,308	-20,172
Yuat Rural	205,933	193,439	-12,494
Albiges/Mablep Rural	82,260	78,041	-4,219
Bumbita/Kunai Rural	105,545	100,132	-5,413
Maprik/Wora Rural	107,633	102,113	-5,520
Yamil/Tamaui Rural	97,643	92,635	-5,008
Boikin Rural	82,144	77,723	-4,421
Dagua Rural	87,140	82,450	-4,689
Turubu Rural	94,953	89,843	-5,110
Wewak Islands Rural	88,038	83,301	-4,738
Wewak Rural	160,182	151,562	-8,620
Burui/Kunai Rural	120,067	113,547	-6,520
Gawi Rural	87,144	82,411	-4,732
North Wosera Rural	153,227	144,905	-8,321
South Wosera Rural	201,701	190,748	-10,954
East Yangoru Rural	130,619	123,634	-6,984
Numbor Rural	95,219	90,128	-5,091
Sausso Rural	79,752	75,488	-4,264
West Yangoru Rural	114,453	108,333	-6,120
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	5,177,458	4,884,483	-292,976

SANDAUN PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	11,082,516	9,813,141	-1,269,375
Education Function Grant	10,547,492	9,386,921	-1,160,571
Transport Infrastructure Maintenance Function Grant	9,291,190	8,710,904	-580,286
Primary production function grant (Agriculture Function Grant)	4,096,882	3,770,471	-326,411
Village Court Function Grant	539,812	521,678	-18,134
Land Mediation Function Grant	94,813	76,679	-18,134
Other Service Delivery Function Grant	2,576,076	2,431,005	-145,071
Administration Grant	3,990,019	3,881,216	-108,804
TOTAL PROVINCIAL GOVERNMENT GRANTS	42,218,800	38,592,015	-3,626,785
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Vanimo Urban	367,357	347,984	-19,373
Aitape Lumi Urban	163,799	155,160	-8,638
<u>Rural Local-level Government Grants</u>			
East Aitape Rural	294,683	277,795	-16,888
East Wapei Rural	122,323	115,313	-7,010
West Aitape Rural	218,952	206,404	-12,548
West Wapei Rural	115,445	108,829	-6,616
Maimai Wanwan rural	48,334	45,578	-2,757
Palai rural	164,883	155,479	-9,404
Yangkok Rural	200,326	188,900	-11,426
Nuku rural	295,775	278,905	-16,870
Namea Rural	249,810	234,424	-15,386
Oksapmin Rural	496,502	465,922	-30,580
Telefomin Rural	312,736	293,474	-19,262
Yapsie Rural	243,760	228,747	-15,013
Amanab Rural	270,093	253,677	-16,416
Bewani/Wutung Onei Rural	473,624	444,837	-28,787
Green River Rural	324,640	304,908	-19,731
Walsa Rural	185,099	173,848	-11,250
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	4,548,142	4,280,185	-267,958

MANUS PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	2,250,432	2,267,004	16,572
Education Function Grant	3,479,151	3,508,980	29,829
Transport Infrastructure Maintenance Function Grant	5,696,761	5,753,104	56,343
Primary production function grant (Agriculture Function Grant)	1,794,365	1,810,937	16,572
Village Court Function Grant	501,970	506,941	4,971
Land Mediation Function Grant	82,533	84,190	1,657
Other Service Delivery Function Grant	1,803,453	1,820,024	16,572
Administration Grant	2,307,931	2,331,131	23,200
TOTAL PROVINCIAL GOVERNMENT GRANTS	17,916,595	18,082,310	165,715
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Lorengau Urban	233,562	221,245	-12,317
<u>Rural Local-level Government Grants</u>			
Aua Wuvulu rural	15,091	14,304	-787
Nigoherm rural	19,963	18,921	-1,041
Bisikani/Soparibeu rural	66,073	62,626	-3,447
Pomutu/Kurti/Andra rural	76,303	72,322	-3,981
Lelemadih/Bupichupeu rural	89,149	84,498	-4,651
Los Negros rural	36,140	34,254	-1,885
Nali Sapat/Penabu rural	53,310	50,528	-2,781
Tetidu rural	32,571	30,872	-1,699
Pobuma rural	62,856	59,577	-3,279
Balopa rural	36,367	34,470	-1,897
Rapatona rural	45,924	43,528	-2,396
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	767,309	727,146	-40,163

NEW IRELAND PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	0	0	0
Education Function Grant	0	0	0
Transport Infrastructure Maintenance Function Grant	0	0	0
Primary production function grant (Agriculture Function Grant)	0	0	0
Village Court Function Grant	0	0	0
Land Mediation Function Grant	0	0	0
Other Service Delivery Function Grant	0	0	0
Administration Grant	0	0	0
TOTAL PROVINCIAL GOVERNMENT GRANTS	0	0	0
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Kavieng Urban	439,803	416,609	-23,194
<u>Rural Local-level Government Grants</u>			
Murat Rural	88,881	85,484	-3,397
Lovongai Rural	171,466	164,912	-6,554
Tikana Rural	196,395	188,888	-7,507
Namatanai Rural	136,490	131,050	-5,440
Matalai	61,478	59,028	-2,450
Sentral Niu Ailan Rural	199,066	191,132	-7,934
Konoagil Rural	87,336	83,855	-3,481
Tanir Rural	82,906	79,602	-3,304
Nimamar Rural	170,309	163,521	-6,788
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	1,634,129	1,564,081	-63,260

EAST NEW BRITAIN PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	2,634,824	4,178,687	1,543,863
Education Function Grant	2,685,223	3,920,313	1,235,090
Transport Infrastructure Maintenance Function Grant	2,896,680	3,915,630	1,018,949
Primary production function grant (Agriculture Function Grant)	1,621,247	3,350,373	1,729,126
Village Court Function Grant	164,760	350,023	185,264
Land Mediation Function Grant	40,695	71,572	30,877
Other Service Delivery Function Grant	641,772	950,545	308,773
Administration Grant	496,320	619,829	123,509
TOTAL PROVINCIAL GOVERNMENT GRANTS	11,181,522	17,356,973	6,175,451
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Kokopo/Vunamami Urban	840,556	796,228	-44,328
Rabaul Urban	125,827	119,191	-6,636
<u>Rural Local-level Government Grants</u>			
Central Gazelle Rural	165,044	157,481	-7,562
Inland Baining Rural	157,701	150,475	-7,226
Lassul Baining Rural	79,685	76,034	-3,651
Livuan/Reimber Rural	170,323	162,519	-7,804
Vunadidir/Toma Rural	187,459	178,870	-8,590
Bitapaka Rural	157,639	151,092	-6,547
Duke of York Rural	95,534	91,566	-3,968
Raluana Rural	127,790	122,483	-5,308
Central/Inland Pomio	426,017	401,387	-24,630
East Pomio Rural	155,737	146,733	-9,004
Melkoi Rural	234,438	220,885	-13,554
Sinivit Rural	397,839	374,839	-23,001
West Pomio/Mamusi Rural	282,026	265,721	-16,305
Balanataman Rural	96,174	91,974	-4,199
Kombiu Rural	56,775	54,296	-2,479
Watom Island Rural	16,656	15,928	-727
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	3,773,220	3,577,701	-195,519

WEST NEW BRITAIN PROVINCE (2022 BUDGET GOODS AND SERVICES CEILINGS) - KINA

PROVINCIAL GOVERNMENT GRANTS	2021 Function Grants	2022 Function Grants	Increase/Decrease
<u>Administration and Function Grants Ceiling</u>			
Health Function Grant	5,917,745	5,972,522	54,777
Education Function Grant	8,974,186	9,111,128	136,942
Transport Infrastructure Maintenance Function Grant	9,267,781	9,432,111	164,330
Primary production function grant (Agriculture Function Grant)	3,524,743	3,543,002	18,259
Village Court Function Grant	609,000	618,130	9,129
Land Mediation Function Grant	186,190	188,473	2,282
Other Service Delivery Function Grant	2,636,491	2,673,009	36,518
Administration Grant	2,233,488	2,267,723	34,235
TOTAL PROVINCIAL GOVERNMENT GRANTS	33,349,625	33,806,098	456,473
LOCAL-LEVEL GOVERNMENT GRANTS CEILINGS	2021 LLG Grants	2022 LLG Grants	Increase/Decrease
<u>Urban Local-level Government Grants</u>			
Kimbe Urban	602,787	570,997	-31,789
<u>Rural Local-level Government Grants</u>			
Gasmata Rural	112,009	106,199	-5,809
Gloucester Rural	116,914	110,850	-6,064
Kandrian Coastal Rural	167,176	158,505	-8,671
Kandrian Inland Rural	129,722	122,994	-6,728
Kove/Kaliai Rural	201,369	190,924	-10,444
Central Nakanai Rural	129,414	123,292	-6,122
East Nakanai Rural	234,876	223,765	-11,111
Bali/Witu Rural	104,002	99,082	-4,920
Hoskins Rural	172,650	164,482	-8,167
Mosa Rural	227,038	216,298	-10,740
Talasea Rural	174,697	166,433	-8,264
TOTAL LOCAL-LEVEL GOVERNMENT GRANTS	2,372,652	2,253,822	-110,566

APPENDIX C: REVISED BUDGET AND EXPENDITURE INSTRUCTIONS



DEPARTMENT OF TREASURY Office of the Secretary

Telephone: (675) 312 8736
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Vulupindi Haus
PO Box 542, WAIGANI, NCD

REVISED BUDGET AND EXPENDITURE INSTRUCTIONS

9 August 2011

- 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

These instructions replace all previously issued Budget and Expenditure Instructions and come into effect on the date of issue.

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.

National Government 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. However, medium to long term funding levels largely depend on the overall performance of the economy.

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 has more clearly defined 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 are responsible for ensuring that these Budget and Expenditure Instructions are complied with and must ensure that officers involved with preparing and executing Provincial Budgets 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 2009*, which was passed by Parliament in March 2009. 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 *Intergovernmental Relations (Functions and Funding) Act 2009* 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 *Intergovernmental Relations (Functions and Funding) Act 2009* 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 *Intergovernmental Relations (Functions and Funding) Act 2009* 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 In June 2009, NEC approved a Function Assignment Determination which sets out the responsibilities of provincial and local-level governments. This clarifies the service delivery activities each tier of government is responsible for (assigned functions).
- 4.4 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

- 4.5 Service delivery function grants are only to be used for the recurrent costs of goods and services related to the specific function grant.
- 4.6 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.
- 4.7 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.
- 4.8 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

- 4.9 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

- 4.10 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.
- 4.11 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 use provincial government own source revenues.
- 4.12 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

- 4.13 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.
- 4.14 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

- 4.15 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 needed for day to day operations of the courts.
- 4.16 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 Personnel Emoluments Budget.

Primary Production Function Grant

- 4.17 The Primary Production Function Grant is provided to further the development of subsistence, domestic trade and export commodities in the Province. This was previously known as the Derivation Grant or Agriculture Function Grant.
- 4.18 The Primary Production 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

- 4.19 The Other Service Delivery Function Grant is to provide goods and services funding for functions other than those which have a specific service delivery function grant. This includes business development, community development, natural resource management, sports, environment, disaster management and lands administration.

Administration Grant

- 4.20 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.
- 4.21 This grant is provided for the core costs of the administration such as utilities, stationary and anti-virus programs. The administrative costs of specific sectors, such as health and education, are provided for under the respective service delivery function grants.
- 4.22 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

- 4.23 Local-level Government Grants are provided for *goods and services* directly related to the functions for which rural and urban LLGs are responsible.
- 4.24 Since 2007, there is no longer a separate LLG Secretariat Grant. Secretariat wages, salaries and allowances are to be met out of the Staffing Grant.
- 4.25 Provincial governments are required to specifically budget from their internal revenue for the allowance costs of LLG councillors.

Urban Local-level Government Grant

- 4.26 Urban Local-level Government Grants are provided to fund the functions for which an urban LLG is responsible, 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 have been *required* to specifically fund a set of Minimum Priority Activities (MPAs).
- 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:
- Primary Production**
 - Agriculture Extension
 - Fisheries Extension
 - Forestry Extension
 - Education**
 - Distribution of school materials
 - Supervision of schools by district and provincial officers
 - Operation of district education offices
 - Health**
 - Rural Health Facilities
 - Outreach Health Patrols & clinics
 - Drug distribution
 - Transport Infrastructure Maintenance**
 - Road and bridges maintenance
 - Airstrip maintenance
 - For Maritime provinces – wharves and jetties maintenance
 - Village Courts Operations**
 - Provision of operational materials
- 5.6 The inter-departmental committee overseeing implementation of the reforms to intergovernmental financing arrangements has agreed and endorsed Indicators for MPAs which will serve as the standard performance assessment guide for Provincial Administrations. These indicators are included with this Instruction as “Attachment A”. Explanatory notes including definitions from NEFC are also attached for information and reference.
- 5.7 Provinces will be required to report on their performance against these indicators through the regular quarterly reporting process. This requirement will start with the second quarter review in 2010.

6 Provincial Budgets

- 6.1 Provinces are required to correctly budget for the receipt of National Government Grants for goods and services from the Recurrent Appropriation as well as the Development Budgets. The expenditures of these grants must be aligned to purposes/functions intended and identified programs.
- 6.2 The Provincial Budgets should be endorsed and enacted through an “Appropriation Act” by the Provincial Assembly and submitted in two parts; Part One reflecting expenditure estimates for the approved National Grants for both Recurrent & Developments Grants and; Part Two showing the expenditure estimates under Internal.

- 6.3 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.
- 6.4 Provinces should submit their draft budget for vetting to ensure that they comply with this Instruction soon after the circulation of the preliminary ceiling, given the level of certainty over the final figures that would be approved in the National Budget. Treasury officers within the Provincial Budget Branch will assist in the vetting process of the Provincial Budgets.

Revenue - Correct PGAS Grant Codes

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

Grant Type (Code)	Function Code	Grant Description (Name)
1	1	Administration Grant
1	9	Other Service Delivery Grant
2	1	Staffing Grant
2	4	TSC Teachers' Salaries Grant
2	1	Public Servants Leave Fares Grant
2	4	Teachers' Leave Fares Grant
2	5	Village Court Allowances Grant
3	2	Primary Health Services Function Grant
3	3	Primary Production Function Grant
3	4	Basic Education Function Grant
3	5	Village Court Function Grant
3	6	Transport Infrastructure Maintenance Function Grant
4	7	Rural Local Level Government Grant
5	7	Urban Local Level Government Grant

Projections for Internal Revenue should be realistic and there should be a high degree of certainty for the realisation of those projections. It is advisable to exclude political commitments as well as sector programs that involve financing from uncertain Internal Revenue projections.

Expenditure - Correct PGAS Activity Codes

- 6.6 Provinces must also ensure that programs/activities are established to expend the goods and services grants. As a minimum, this will mean that all Provinces will have to establish, and account for expenditure against, each of the MPAs.
- 6.7 Provinces must ensure that each activity, including each MPA, has its own activity code in their future Budgets submitted to the Department of Treasury, and that these activity codes are consistent with the standard chart of accounts guide, "Attachment B" of this instruction.
- 6.8 Before submitting the Budgets for ministerial approval, Provinces should consult with Budget Division in the Department of Treasury to ensure consistency with the correct chart of accounts for the programs and activities they will fund, including the MPAs.

- 6.9 Before submitting the Budgets for ministerial approval, Provinces should consult with Budget Division in the Department of Treasury to ensure consistency with the correct chart of accounts for the programs and activities they will fund, including the MPAs.
- 6.10 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.
- 6.11 It is now compulsory that a standardized chart of accounts must be used from 2012 budget onwards both under the 200 and 700 series,
- 6.12 The expenditure Code structure to treat the former years grants will be as follows:

Grant Type	Indicator Code	Vote Code
Recurrent Grant	1	27111013101
Development Grant	2	27121013101
Local Level Government	3	27131013101
Former Years	4	27141013101
Former Years	5	27151013101

- 6.13 The details Revenue Code structure are shown as "Attachment C".

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* 1995 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 or fail to report at all.
- 7.3 Provincial governments must report on service delivery, so that the Government is satisfied that the funding provided is being spent for the benefit of the people. 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 2009, the Department of Treasury, with NEFC and the Department of Provincial and Local Level Government Affairs, consulted with Provinces about introducing a range of relevant performance indicators for the MPAs and has introduced the MPA Indicators endorsed by the Inter Departmental Committee as highlighted in section 5.5 above and outlined in Attachment A.
- 7.5 Provinces will be required to report against these indicators from second quarter of 2011.

8 Restrictions on Rollovers

General restrictive approach to Function Grants Rollovers

- 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. In the event that Provinces do not fully spend their Function Grants, they should 'roll-over' the unspent National Government funds to remain in the Provincial Government Grants Account (PGGA) and create specific Revenue Heads in the following year ('200 Series') estimates.
- 8.3 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.
- 8.4 To ensure they are used as intended, unused funds from previous year must be rolled over into one of the following specific revenue votes for current/(budget) year:
 - Administration Health Function Grant Former Year's Appropriation;
 - Other Service Delivery Grant Former Year's Appropriation;
 - Health Function Grant Former Year's Appropriation;
 - Education Function Grant Former Year's Appropriation;
 - Transport Infrastructure Maintenance Function Grant Former Year's Appropriation;
 - Primary Production Function Grant Former Year's Appropriation; and
 - Village Court Operations Function Grant Former Year's Appropriation.
- 8.5 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.

The Department of Treasury will not approve Budgets that fail to clearly roll over unspent function grants into the correct revenue votes.
- 8.6 If a Province continually fails to fully spend its service delivery function grants, Treasury will consider re-allocating the funds to a Province with a better track record.

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, presenting and executing 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 it is considered for approval by the Treasurer.
- 9.3 Furthermore, there are a range of possible sanctions set out in Section 67 of the *Intergovernmental Relations (Functions and Funding) Act 2009*. 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.
 - redirecting funding to Functions with the capacity to effectively spend the funds for service delivery.

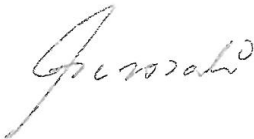
10. Contact Officers

Should you require any further clarification, do not hesitate to contact the following officers;

Lazarus Enker	312 8739
Dessie Kuburam	312 8786
Graham Ararua	312 8784
Robyne Joshua	312 8785
Richard Lucas	312 8787

11. Conclusion

I urge all Provinces to comply with this Budget & Expenditure Instructions for effective and timely approval and implementation of all future Budgets.



SIMON TOSALI
Secretary

Attachment A: Quarterly Performance Reporting - Minimum Priority Activity Indicators
Attachment B: Chart of Accounts Guide for Minimum Priority Areas

Quarterly Minimum Priority Activity Indicators

Minimum Priority Activities (MPAs)	Agreed Indicators
Health	
1. Operation of Rural Health Facilities	<ul style="list-style-type: none"> i. Total Number and Names of all Health Facilities (HFs) ii. No. of Health Facilities (HFs) open & staffed iii. Number of HFs with access to running water in labour ward
2. Outreach Health Clinics and Patrols	<ul style="list-style-type: none"> i. Total number of health clinics and patrols conducted ii. Number of administrative supervision patrols to HFs iii. Number of patrols with specialist medical officers to HFs iv. Number of maternity child health patrols to HFs
3. Drug Distribution	<ul style="list-style-type: none"> i. Number of months HFs stocked with essential supplies in last quarter
Education	
1. Provision of School Materials	<ul style="list-style-type: none"> i. Total number of schools by type ii. % of schools that received basic school supplies before 30 April
2. Supervision by Provincial/ District Officers	<ul style="list-style-type: none"> i. Number of schools visited by district/provincial education officers
3. Operation of District Education Offices	<ul style="list-style-type: none"> i. Number of District Education Offices that provided quarterly performance reports to Provincial Education Officers
Transport Maintenance	
1. Road and Bridge Maintenance	<ul style="list-style-type: none"> i. Names and length of provincial roads maintained ii. Names of bridges maintained
2. Airstrip Maintenance	<ul style="list-style-type: none"> i. Names of rural airstrips maintained
3. Wharves and Jetties Maintenance	<ul style="list-style-type: none"> i. Names of wharves, jetties and landing ramps maintained
Primary Production	
1. Extension Activities for Agriculture, Fisheries and Forestry	<ul style="list-style-type: none"> i. Number of extension patrols and training sessions conducted ii. Number of people who attended extension and training sessions
Village Courts	
1. Operation of Village Courts	<ul style="list-style-type: none"> i. Number of village courts in active operation ii. Number of village courts supplied with operational materials

Chart of Accounts Guide for MPAs

The Provincial Chart of Accounts has 14 digit Coding, i.e.

Sample Chart of Accounts

A			B		C	D			E	F	G					
1	2	3	-	4	5	6	7	-	8	9	10	11	-	12	13	14

- Part A – Digits – 1,2,3 = Division Identification
e.g: 271 – Western Province
- Part B – Digit – 4 = Activity or Project Code
i.e: '1' = Activity (Recurrent Expenditure)
'2' = Project (Development/Capital Expenditure)
- Part C – Digits – 5,6,7 = Cost Centre (Location of Expenditure)
i.e: PHQ, District & Local Level Government
- Part D – Digit – 8 = Grant Code (refer to Section 6.5 of Revised BEI 09, pg 7)
e.g: '1' for Administration Grant
'3' for Function Grants
'4' for Rural LLG Grant
- Part E – Digit – 9 = Function Code (refer to Section 6.5 of Revised BEI 09/10, pg 7)
e.g: '1' for Administration
'2' for Health Function
'3' for Primary Production Function
'4' for Education Function
- Part F – Digits – 10, 11 = Activity/Project/Programme
Numbers – 01 to 99
- Part G – Digits – 12,13,14 = Expenditure Item Code

Eg:

Activity Description:
Correct Vote:

Operations of Kerowagi District Education Office
280 – 1050 – 3210 – 123
i.e. 280 for Simbu Province
'1' for Recurrent Activity
'050' for Kerowagi District
'3' for Function Grant
'2' for Education Function
'10' District Education Office Operations &
'123' Office Materials & Supplies

