







...when aspiration and discipline converge



Raising the Bar

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discipline converge*

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Before we continue a word of thanks to our partner agencies, who include:

- Department of Treasury
- Department of Finance
- Department of Provincial and Local Government Affairs
- National Department of Health
- National Department of Education
- and DFAT (Government of Australia)

THANK YOU TO OUR PARTNERS



Raising the Bar

In July of this year, our athletes join with those from other countries to compete in this year's South Pacific Games in Port Moresby. Champions will be crowned, records will be broken, and we will look for our next champions to celebrate, to join the likes of Dika Toua and Steven Kari who reached the summit at the Commonwealth Games in Edinburgh in 2014.

Like the athletes of old, Toua and Kari raised the bar. They prove to us to all, that Papua New Guineans can compete on the international stage and win gold, the athlete's ultimate crown. In doing so, they pose the question to us as public servants, how high will we set the bar to improve the quality of services we deliver to our people?

The 2013 PER helps us assess our financial performance against the bar of supporting service delivery.



Intergovernmental Fiscal Principles

Principles are what we follow to help chart our path to ‘raise the bar’.

In the same way that an athlete, in striving for success, follows the principles of good nutrition, training, rest and competition, there are also principles to guide us in intergovernmental finance.

As our operating environment continues to evolve it is good to reflect on our direction and the principles that help us chart a course in achieving the aspirations of Government. An overarching objective of Government is the promotion of **equity** through the delivery of basic services to all Papua New Guineans.

I’d like us to reflect on four principles which will help us achieve this...



1. Affordability

The first principle is **affordability**.

An affordable system can be sustained, it offers all parties certainty, and will be less vulnerable to economic fluctuations.

Raising the bar in the area of 'affordability'

Our country is about to enjoy the benefits of new revenue streams from natural resources. How can this be translated in to more funding being directed to support basic services at the subnational levels?

- Does the Net National Revenue (NNR) need to be increased?
- Is there another way to direct and distribute these new revenues through the intergovernmental system?



2. Functional responsibilities

The second principle is a clear understanding of **functional responsibilities**. Understanding ‘who does what’ is of absolute importance.

When we know where responsibility lies, we can then direct resources and develop accountability mechanisms.

Raising the bar in the area of ‘functional responsibilities’

The function assignment determination (FAD) was published in 2009. It needs to be a living document that is reviewed and updated periodically. There are a number of areas to consider, examples include:

- The roles of churches in providing health and education services.
- Responsibilities for key functions such as: rural water supply; maintaining buildings; and procuring essential vehicles and boats.



3. Funding follows function

The third principle is that **funding follows function**. For the service delivery system to work, each level, needs to have access to an appropriate amount of revenue.

Raising the bar in the area of ‘funding follows function’

We need to consider how we can better align the location of funding (access) with the public servants who need to use it to pay for service delivery activities.

- How to make the right amount accessible to rural facilities such as schools and health clinics?
- To achieve this, where can we leverage new technology?
- Can district treasuries be a key ‘enabler’?



4. An effective system of reporting and monitoring

And the fourth principle is the need for an **effective system of reporting and monitoring**. Accountability is at the heart of any effective government bureaucracy.

Raising the bar in the area of ‘effective reporting and monitoring systems’

How can Provincial Administrations develop more effective reporting and monitoring systems across districts and LLGs in their province?

- What information needs to flow between levels? And how do you collect it?
- Is there opportunity for new technology to help us?
- How do provinces then report and interact with key national line agencies? And central agencies?



Fiscal Monitoring in Year Five

PER 2013



Getting the money on time

PER 2013



The late release-late spending relationship

Provinces need a **timely and predictable** warrant/cash release schedule.

Often late spending is related to late release of cash by Waigani.

- In 2010 the release of warrants/cash was very late
- In 2011 it improved
- In 2012 it got worse again
- In 2013 consistency across provinces improved but too much was released late in the year



Late spending by provinces

In 2013;

- 52% of grant spending happened in the last quarter
- 37% of spending from internal revenue happened in the last quarter

***How well does spending late in the year support
the delivery of basic services?***



Predictable timely funding

In 2015, let's remove the uncertainty, let's implement a cash release schedule that gives provinces the funding they are entitled to in a timely and predictable manner.

Month	Warrant / Cash	Process at sub-national	Spend / cheque
Jan			
Feb	40%	Processing	
Mar		Processing	
Apr	30%	Processing	40%
May		Processing	
Jun			30%
Jul	20%	Processing	
Aug		Processing	
Sep	10%	Processing	20%
Oct		Processing	
Nov			10%
Dec			
Total	100%		100%



Fiscal capacity and the importance of internal revenue to
service delivery

PER 2013



The service delivery funding equation

For service delivery activities to happen provinces need to allocate their own internal revenue to sectors to support frontline operational activities. Function grants alone are not enough.

Some provinces have high levels of internal revenue. If they do not allocate appropriate amounts of this in their budgets to support basic services – then basic services will not happen effectively in their provinces.

Funding basic services in PNG has an equation:

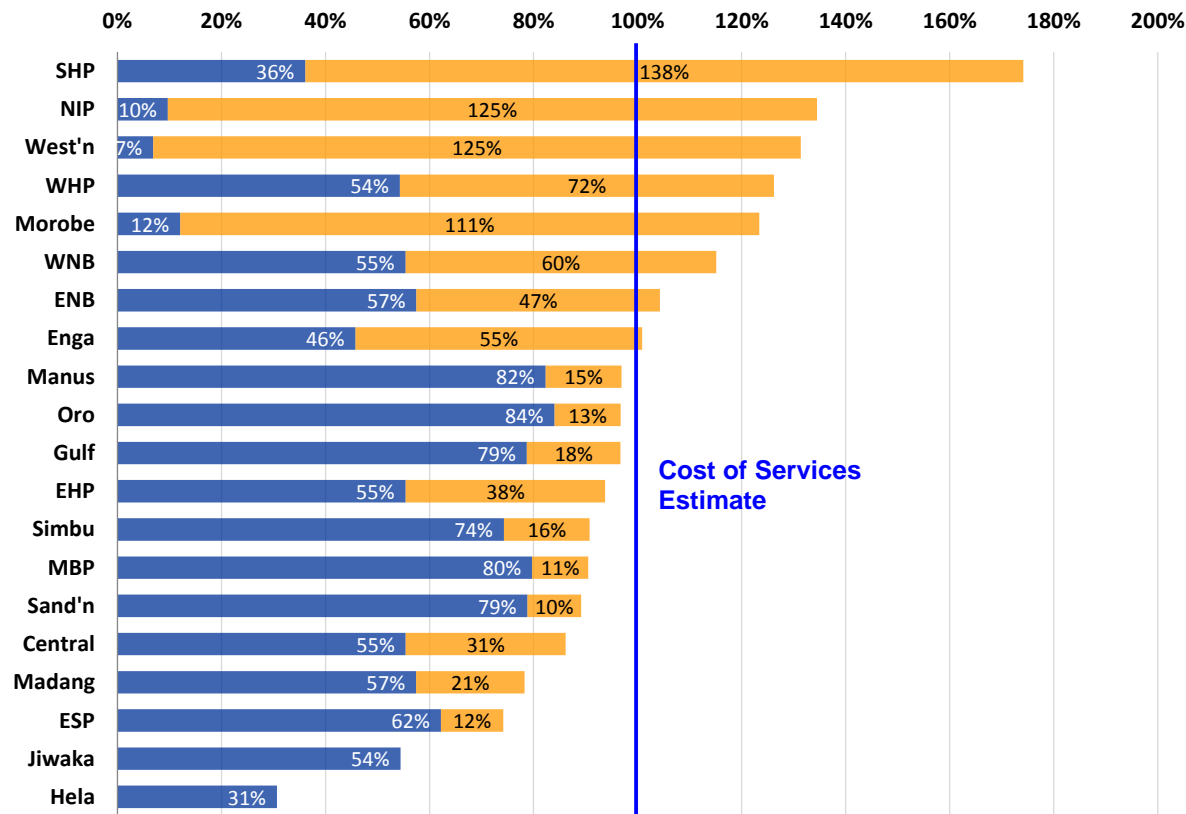
$$\text{Function Grants} + \text{Internal Revenue} = \text{Service Delivery}$$



Function grants alone are not enough

The blue line is where basic services are being funded 100%.

We can see internal revenue (the orange part of the bar) is critical if we truly want to adequately fund basic services.



Is internal revenue supporting service delivery?

Not to the necessary level. For many of the provinces with higher amounts of internal revenue the analysis shows they do not allocate very much to basic service delivery activities.

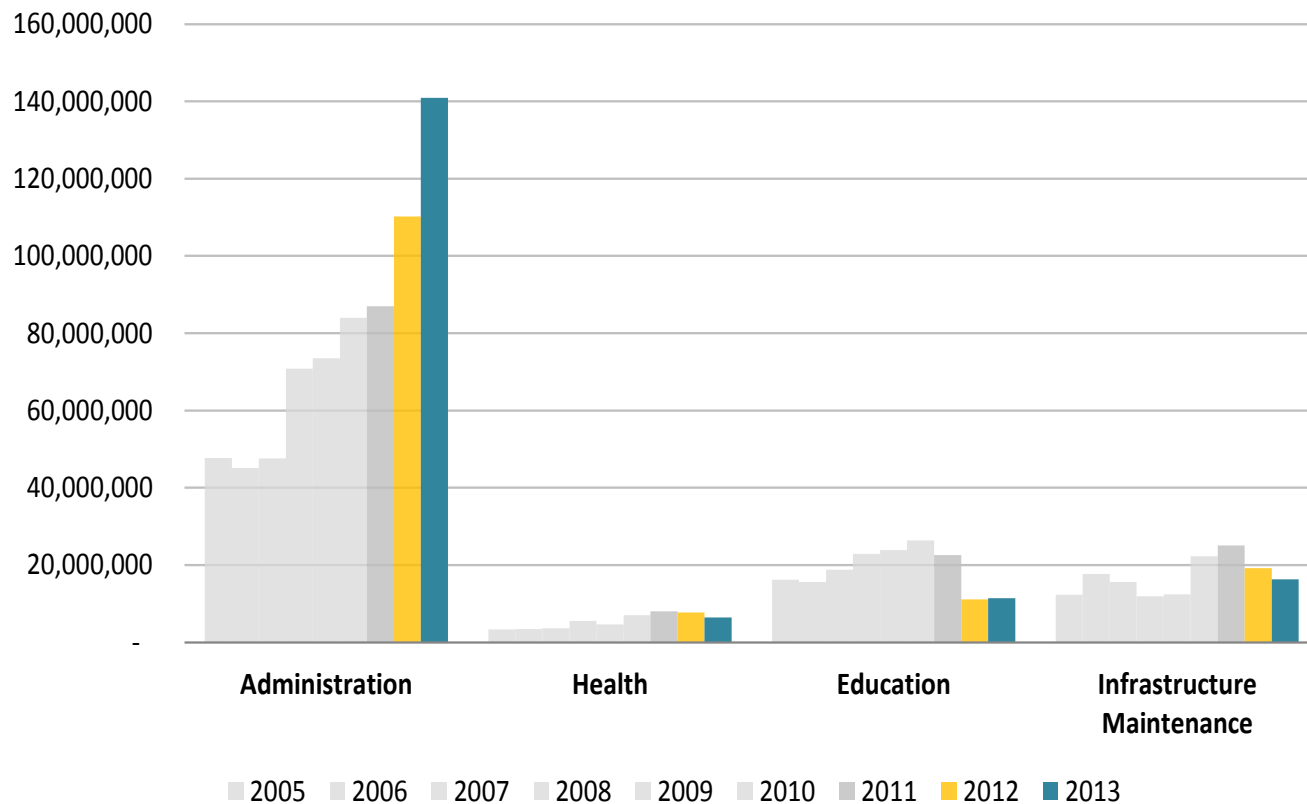
In 2013 it was spent as follows:

- 48% of internal revenue spending was on administration
- 28% was on other sectors or unspecified/non-descript areas
- 12% was on personnel emoluments and capital in priority sectors
- **8%** was on operational funding in **priority sectors**
- 4% was transferred to LLGs



Which operational costs get internal revenue?

When it comes to operational funding, administration gets it first.



An overview of spending results

PER 2013



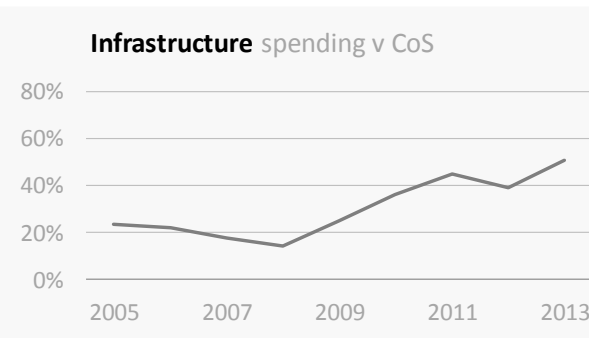
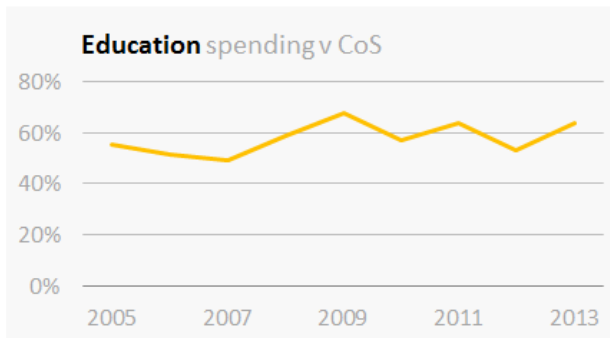
Overall sector spending – the big picture

sector spending v estimated cost

We know that every year it becomes more expensive to deliver the same service due to inflation and increases in demand (population/scope etc.)

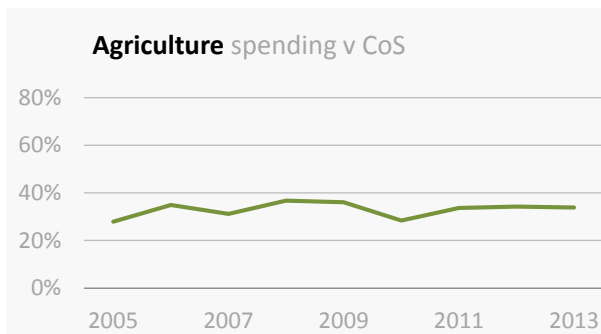
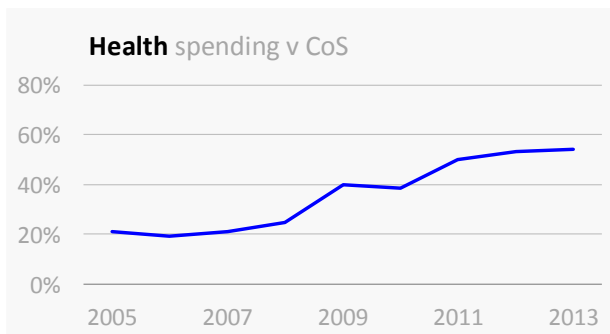
This graph answers the question “are we keeping pace and making progress”.

Education hovering at around 60%



Infrastructure maintenance spending moved upward to just above 50%

Health spending increasing to just over 50%



Agriculture spending is 34%



Are we spending up to our capacity?

This assessment looks at what we are spending on a sector relative to what we could spend (from both grants and internal revenue funding).

In 2013, overall:

In most sectors, provinces spent in the ‘medium range’ relative to what they could spend. This means there is room for improvement – they can spend more.

		Health	Education	Infrastructure Maintenance	Agriculture	Fisheries	Village Court Function Grant	Village Court Allowances
Average Spending Performance Level	2013	Medium	Medium	Medium	Medium	Medium	High	High
	2012	Medium	Medium	Medium	Low	Medium	High	High
	2011	Medium	Medium	Medium	Medium		High	High



Are the grants being spent in the areas intended?

In 2013, the overall assessment is that;

- Function grant spending in most sectors was assessed as good (i.e. “generally on the purposes intended”)
- Education function grant spending was assessed as ‘average’ meaning there is room for improvement

		Health	Education	Infrastructure Maintenance	Agriculture	Fisheries	Village Court Function Grant	Village Court Allowances
Spending Trend	2013	Up	Up	Up	Steady	Up	Up	Up
	2012	Up	Steady	Up	Up	Up	Up	Up
	2011	Up	Up	Up	Up		Up	Up



MPAs – the frontline

In 2013;

- 87% of MPAs had an identifiable vote in provincial budgets
- 32% of MPAs had reasonable budget allocations

(this takes in to account a province's fiscal capacity and the cost estimated necessary to perform that activity in that province)

Overall, these are areas where we need to improve performance:

These votes need to be <u>better identified</u> in provincial budgets	These votes need <u>more money</u> to be allocated to them in the budget
Provision of School Materials	Provision of School Materials & District Supervision
District Education Office Operations	Rural Health Facility Operations & Integrated Health Patrols
Rural Health Facility Operations	Road & Bridge Maintenance
Agriculture Extension	Agriculture and Fisheries Extension
	Village court operational materials



Fiscal Performance by Sector

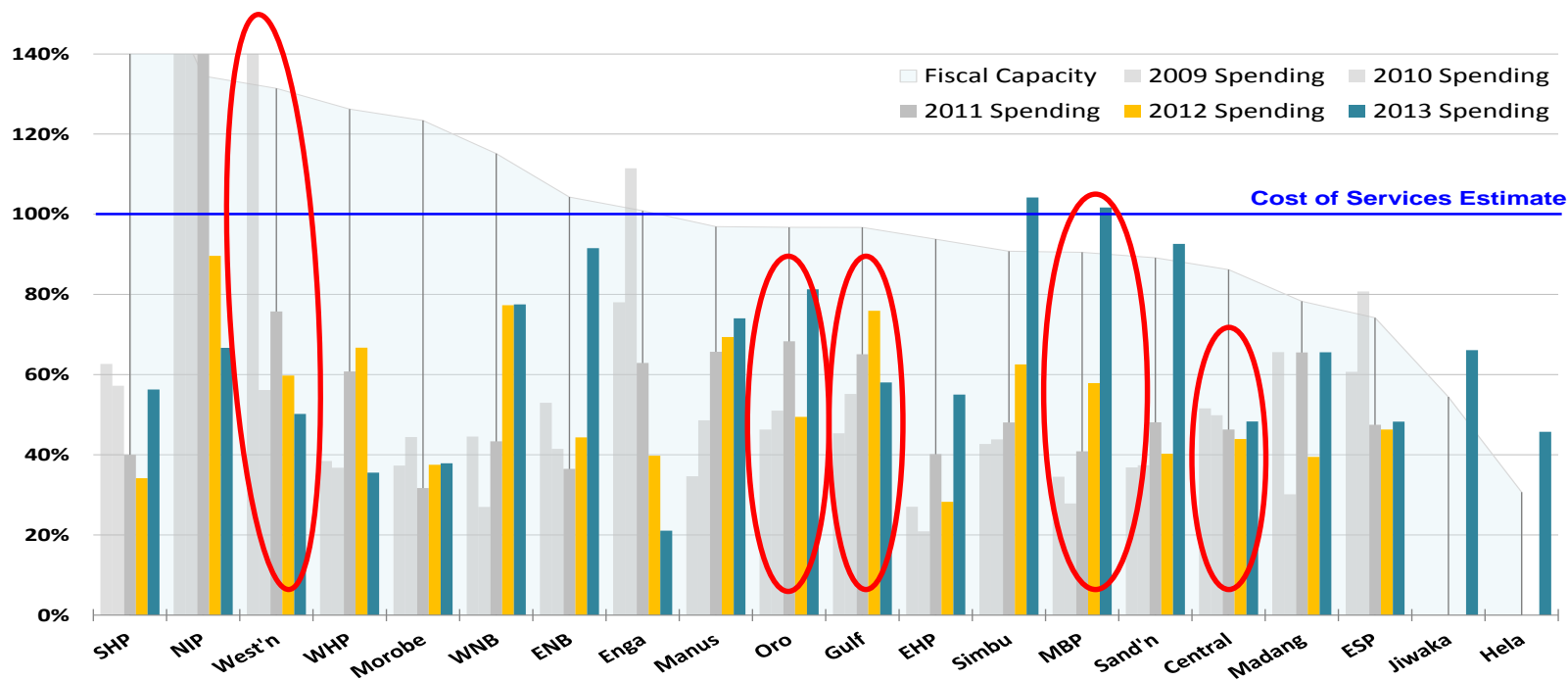
PER 2013



Overview of the Education Sector

Across all provinces:

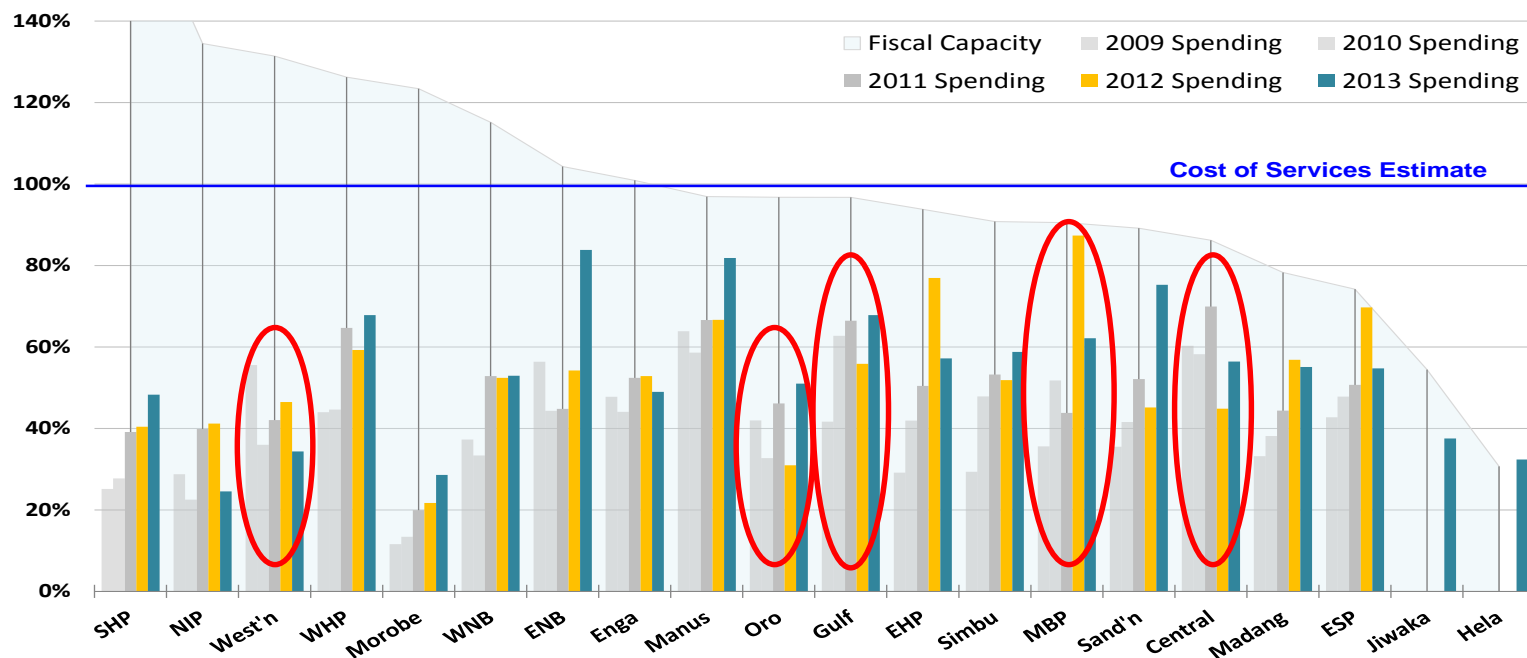
- Provinces that are dependent on function grants continue to show large improvements in spending from earlier years
- Provinces with high levels of internal revenue need to allocate more to basic education



Overview of the Health Sector

Across all provinces:

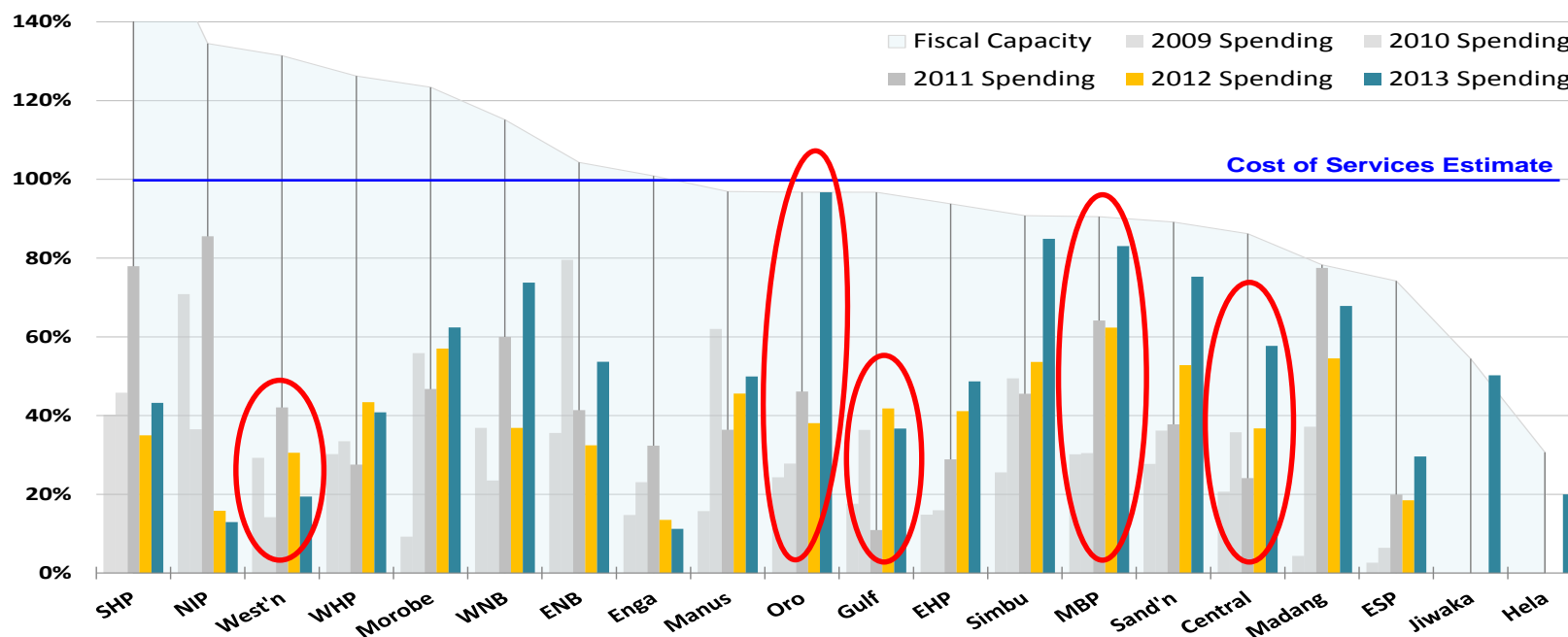
- Again, provinces that are dependent on function grants continue to show large improvements in spending from earlier years
- Provinces with high levels of internal revenue typically need to allocate much more to support rural health



Overview of the Transport Infrastructure Sector

Across all provinces:

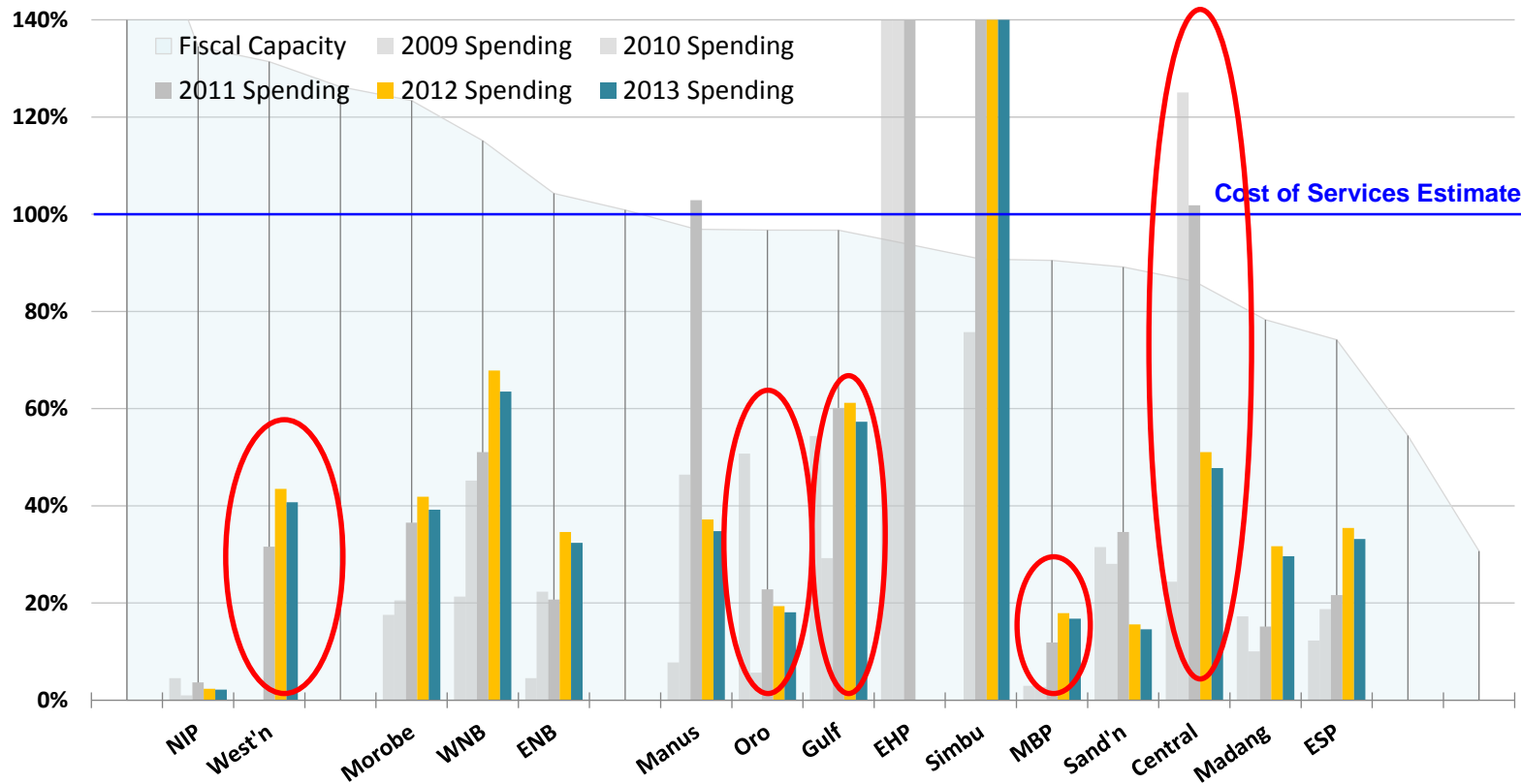
- Once again, many provinces that are dependent on function grants have demonstrated very large improvements in spending from earlier years
- Provinces with high levels of internal revenue typically need to allocate much more to maintain roads, bridges, wharves and jetties



Overview of the Fisheries Subsector

Across all provinces:

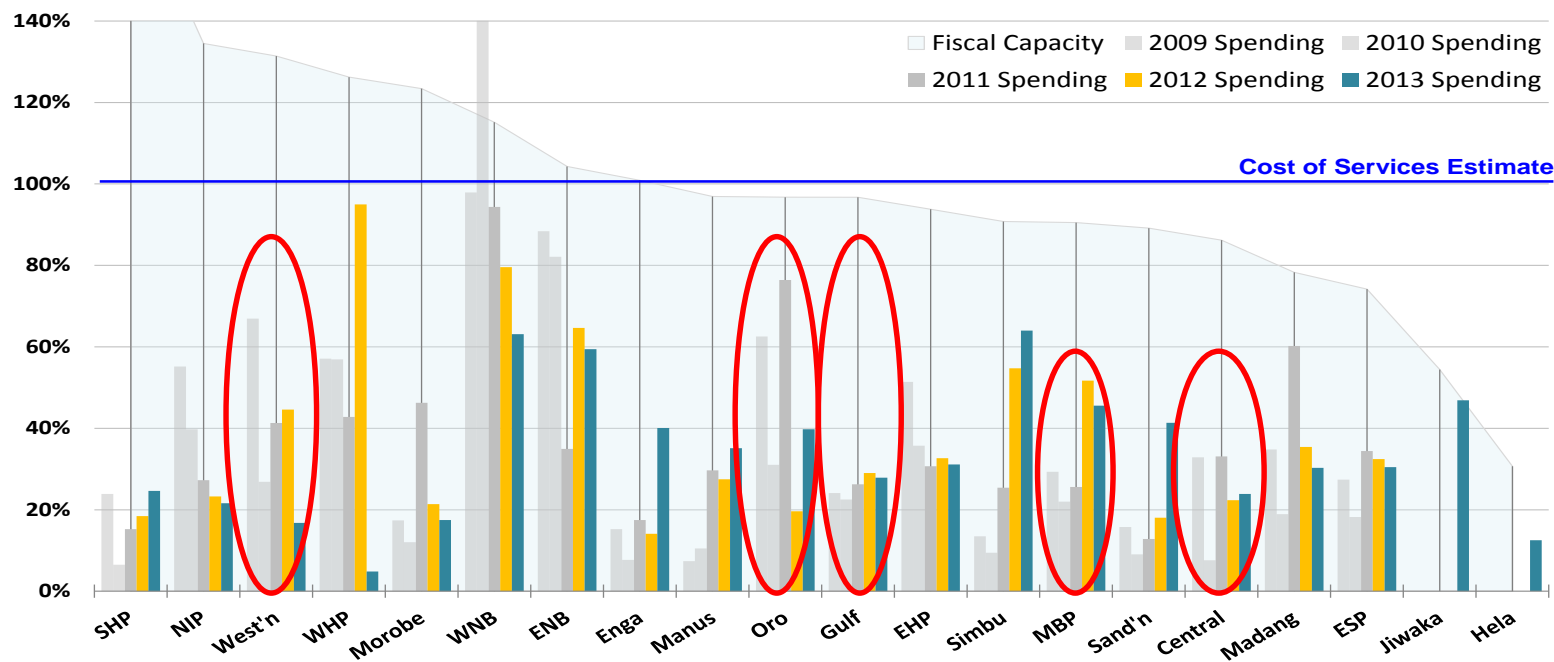
- Most provinces can spend much more to support fishery activities



Overview of the Agriculture Subsector

Across all provinces:

- Provinces that are dependent on function grants have generally demonstrated small improvements in spending
- Provinces with high levels of internal revenue typically do not prioritise agriculture activities



Fiscal Indicators: Measuring how well we are managing our resources with the objective of improving front-line service delivery

THE SCORECARD



Fiscal Indicators

*Sustained fiscal performance
that supports better service delivery*

Ultimately, improving service delivery is a **long-run game**, it's not a sprint it's a challenge over the longer-distance.

The NEFC has developed a methodology for tracking spending on service delivery over many years.

Criteria: there are 32 measures which include:

1. The amount spent on priority sectors
2. Equity (or fairness) of spending across priority sectors
3. The use of internal revenue to support priority sectors & activities
4. The utilisation of function grants
5. The amount unspent
6. Ensuring the spending is on the right things
7. Late spending



The 2013 PER Scorecard

*Fiscal performance
that supports better service delivery*

We have two tables, the first is the annual scorecard, and the second aggregates performance over the last three years. Both are important.

Firstly, our congratulations to **East New Britain** who came first in **The 2013 PER Table**.

Secondly, we commend this years **Top Five** in the sustainability table: **Simbu, Madang, Milne Bay, Manus and East New Britain**.

These provincial administrations sustained a high level of financial discipline over the last three years and demonstrated a high level of commitment to making service delivery happen in their provinces.

Province	2011	2012	2013	Average
1 Simbu	74	70	71	71.5
2 Madang	76	74	61	70.2
3 Milne Bay	76	71	63	70.1
4 Manus	81	68	53	67.3
5 East New Britain	63	59	73	65.4
Central	78	61	54	64
Sandaun	70	54	66	63
Western Highlands	78	67	41	62
Eastern Highlands	65	63	57	62
Jiwaka			60	60
Oro	67	56	54	59
Morobe	61	61	55	59
West New Britain	60	60	53	58
Hela			57	57
East Sepik	62	59	47	56
Southern Highlands	65	42	58	55
Gulf	63	54	46	54
Western	66	50	47	54
Enga	55	51	47	51
New Ireland	72	45	35	51





IN CLOSING

We need aspirational people at every level: in provinces, in districts, at health centres, schools and in our national capital. For we are competing, and the contest is to create a world class rural service delivery system for the 87% of our people that are rurally based.

Let us, as public servants individually and collectively 'Raise the Bar' to better serve our people.

