

National Economic and Fiscal Commission

IT'S MORE THAN NUMBERS

REVIEW OF ALL EXPENDITURE IN 2006 BY PROVINCIAL GOVERNMENTS

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FORWARD

This is the second edition of the Provincial Expenditure Review. The first edition reviewed our performance across provincial Papua New Guinea in the 2005 fiscal year. We now turn our attention to the 2006 fiscal year as part of the ongoing process of reporting and comparing emerging trends in provincial expenditure patterns. .

Why do we do this? Why make the effort to review what has happened? Why not pour all our energy and resources into looking forward? The reason is simple. We know if we don't reflect on what has happened we are unlikely to identify what needs to change so that we make the changes that will deliver improvements. We must reflect, and consider where and how we can improve. If we don't learn from the past we are likely to repeat the same practices again and again. And the services that we need to provide to our people across Papua New Guinea will remain dreams and not reality.

Ultimately we are all interested in improved service outcomes. We want to see improved health care and a healthier population, improved schooling and educational attainment for our children, a road network that is maintained and that enables the flow of people and goods for market, and a developing agricultural sector that provides income for the many. However, these are the outcomes of a range of activities: regular health patrols to rural areas; aid posts that function and are stocked with medical supplies; schools that are maintained and have basic materials and school books; roads that are regularly maintained and not left to degrade; and extension patrols that support agriculture development. These and many other similar activities that support and enable the delivery of services are the responsibility of Provincial Governments with significant funding provided by the National Government.

All these activities need money for the activities to happen. Fuel is needed for transport, medical supplies need distributing, school materials need to be purchased – everything has a cost. These costs are commonly referred to as 'recurrent goods and services'. Without funding for goods and services to support these activities, the improved health, education, transport and income generation outcomes will not occur. These costs must be adequately budgeted for and the money then applied for that purpose. Quite simply, if one does not fund the activity, the activity is not being undertaken.

What we have found is that the pot of money that is made available for these activities is decreasing while the range of activities we are trying to support is increasing. Money that should be allocated to recurrent goods and services is often consumed in staff costs and development activities. But additional staff means that even more recurrent funds are required to effectively support their activities; and increased 'development' (or capital costs) often means additional recurrent funding is then required to support and maintain the new school, road or health clinic.

Funding for recurrent goods and services is the most important priority to achieve service delivery. Without spending on these essential inputs, these outputs (actual services) will not be delivered. It is a little like building a house and having your family move in, but having no money to maintain the house and meet the costs of water and electricity supply and no money to meet the costs of sustaining your family- no money for food, no money for school fees, no money for health care and no money for transport. As we know in our own families, we need to have money on an ongoing basis to keep things going. Service delivery is the same. A building with a nurse, but no money for distributing medical supplies, refrigeration to keep the drugs and vaccines safe for use, money for travel allowance and petrol so the nurse can undertake patrols to communities is not a functioning health service. Basically, without adequate recurrent expenditure on existing activities the level of service delivery will decline; and ironically the more that is invested in additional staffing and new development the faster this erosion will occur.

Please join with me to better understand our progress and how close we are to supporting the Medium Term Development Strategy priority sectors – particularly health, agriculture, education, infrastructure maintenance and the village courts.

Nao Badu

Chairman and CEO

National Economic and Fiscal Commission

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EXECUTIVE SUMMARY

It's More Than Numbers

It's more than numbers. Look through the numbers and you will start to get a picture of where our priorities lie. Do we really believe providing basic health care to the majority of people in rural Papua New Guinea is important? Or do we place a higher value on administration? Do we support the vision of properly educating the 90% of enrolled school children who are at primary level? Or do we place a higher value on the relatively few who can attain a secondary education? These are probing questions, difficult questions – but the numbers don't lie.

Ninety five percent (95%) of people in Papua New Guinea live outside the capital city Port Moresby. Eighty five percent (85%) of people live outside the main urban centres. We are very much a rural based people spread widely throughout our country. The Government's key challenge is delivering core services to people on an ongoing basis. These services include the priority sectors identified in the Medium Term Development Strategy 2005-2010: health, education, agriculture, law and order and transport and building infrastructure maintenance.

We need to meaningfully review our progress in meeting this challenge. How close are we to achieving our aim of delivering these basic priority services throughout Papua New Guinea? What approach can we take to measuring this progress? Do we know what the cost is of delivering these essential services? And do we know how much we are spending compared to what we need to spend? Do we have enough money? And are we spending in the right areas? We know that some Provinces are better off than others. But how wide is the gap between Provinces? And what does this mean in terms of delivering services? These are fundamental questions that we need to ask, and answer.

The 2005 Provincial Expenditure Review (PER), *Cost! Capacity! Performance!* sought to answer these questions in a systematic way using an evidence-based approach. It approached this task by answering three key questions:

COST	How much does it cost to deliver priority services in each Province?
CAPACITY	What is the impact of each Province's resource envelope? (that is all funding including national grants and a proportion of internal revenue)
PERFORMANCE	Does provincial spending support service delivery?

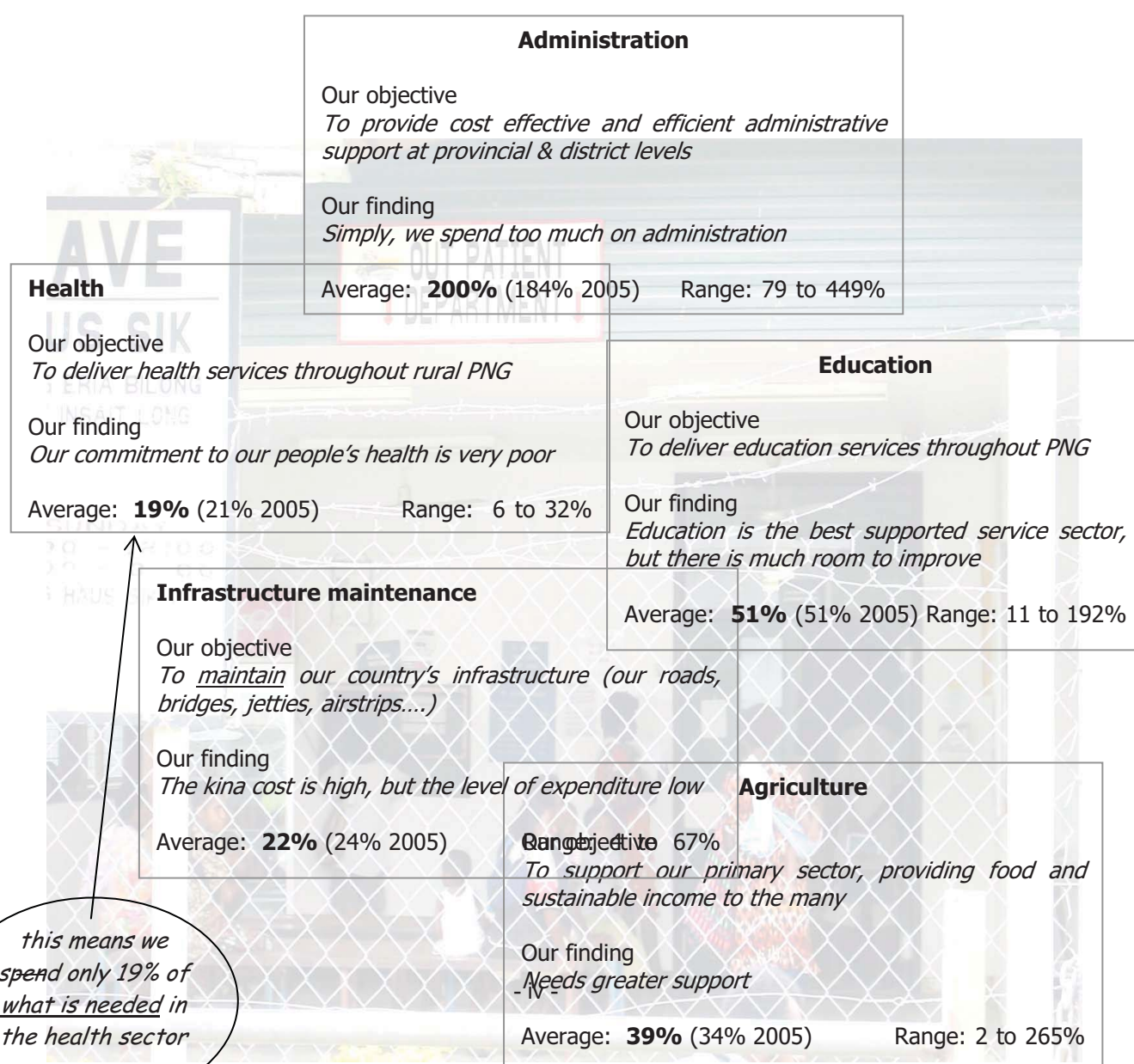
The 2006 Provincial Expenditure Review (PER), *It's More Than Numbers*, builds on this analytical work and by reviewing the data in the same manner enables us to consider the emerging trends. The findings of this review are the first test as to how close we are in achieving our objective of delivering priority services to our people.

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

What are some of the main findings of the review looking across both 2005 and 2006?

- Most Provinces results between 2005 and 2006 have changed little.
- The Provinces showing the best improvement are Western, New Ireland, Central and Western Highlands.
- Southern Highlands and West New Britain have suffered the largest decreases in performance compared to 2006.
- The current level of spending by Provincial Administrations on recurrent goods and services in priority areas is too low and inadequate. The implications are dire for service delivery if this trend continues.
- Between 2005 and 2006, spending on education decreased by more than K3 million and health spending decreased by nearly K1 million. However, infrastructure maintenance spending increased by over K3 million, and administration spending increased by nearly K8 million.

SECTOR BY SECTOR



Are the broad issues established by the 2005 review still apparent?

- Yes, there continues to be a funding gap – that can only be addressed by redesigning the way PNG's resources are shared. The funding gap is the difference between the revenue a Province receives and the amount it costs to deliver all the basic services it has responsibility to provide.
- And yes, there continues to be a priority gap – that can only be addressed by Provinces choosing to spend their available funding on priority sectors. The priority gap happens when a Province has the revenue, but chooses to spend its money on other things – not core services. To address this, Provinces have to choose to spend their funds on basic services and this may mean reducing spending in one area (such as administration) and redirecting it to another (such as health).
- And yes, the current level of spending on recurrent goods and services in priority areas continues to be too low and inadequate. If this trend continues the implications are dire for Government efforts in providing core social services, such as health and education, and for promoting economic development, through a maintained road infrastructure and by developing a vibrant and sustainable agricultural sector.

Can we make progress when the challenge appears so big? Real progress is possible.

Overall:

- The funding gap continues in 2006 and will only be addressed by implementing intergovernmental financing reform that directs more resources to the Provinces that do not have enough of their own resources to meet the cost of delivering core services to their people.
- Provincial Governments and Administrations need to address the priority gap by choosing to reallocate their own spending to support the priority sectors.
- Provinces and central agencies can use the NEFC Cost of Services Study as a guide to how much recurrent funding is required to deliver core services across PNG.
- We need to consider the impact of new infrastructure development. Every new infrastructure development creates ongoing costs. Effectively, new infrastructure development that is not matched with an increased recurrent budget will reduce service delivery.

How does this happen? When we build a new school we need to increase the recurrent budget to support this school year after year to pay for costs like materials and maintenance. If we don't provide increased recurrent funding we are taking funding away from existing schools to cover the new school. The more we do this the worse it gets for all schools.

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

How does this happen? When we employ additional staff they need to be resourced so they can do their jobs such as extension work and health patrols. They need office space, use electricity, often need a computer, need to travel for work (which means travel allowance, fuel costs, car hire, air travel etc) and require recreation leave fares. When we don't increase our recurrent budget to provide for these costs we reduce the amount available to support all our staff – and we thereby reduce their effectiveness. That means less patrols to vaccinate our children from preventable diseases and less extension work to farmers to help improve food security and improve income generation opportunities in our rural communities, for examples.

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

- In overall terms, total spending on health and education decreased by approximately K4 million. How can we expect service delivery to improve in these critical areas when we are reducing spending, even though, like everything in life, the costs keep increasing each year? The reality is that at present, these services are deteriorating.
- However, in overall terms spending on administration grew by nearly K8 million between 2005 and 2006. We need to control and reduce spending in low priority areas. These include administration, projects, and casual wages.
- In 2006 two-thirds of internal revenue expenditure went on non-priority areas such as administration, arrears, and smaller sectors. As much as possible, the provincial resource envelope (both national Government grant funds and internal revenue) should be used to support recurrent spending in priority areas of health, education and infrastructure maintenance.

Spending within sectors must be improved:

- NEFC analysis shows that often secondary education receives more funding than basic education. This means that many children are missing out on the opportunity to have basic education- learning how to read and write and other basic skills.. We need to ensure that elementary, community and primary schools (where 90% of enrolled children attend school) are adequately resourced.
- What systems have we in place to manage teacher leave fares and village court allowances? Spending in this area increased by 63% for teacher leave fares and 80% for village court allowances in 2006 primarily to address a backlog of arrears. There appear to be large differences between Provinces.
- While more Health Services Improvement Program funding was accessed by Provinces for health service delivery in 2006 than 2005, many Provinces seem to ignore this funding source. Provinces should use all means possible to support priority areas.
- Other donor initiatives such as the Road Maintenance and Rehabilitation Project also makes funding available for assisting with recurrent activities, but again not many Provinces are using it to address recurrent transport maintenance needs.

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LIST OF TERMS & DEFINITIONS

Term	Definition
Basic education	Describes education at the primary, elementary and community school levels.
Capital expenditure	Describes spending to acquire or upgrade physical assets such as buildings, roads, and equipment.
Cost	In the context of this report cost refers to what we estimate it will cost not what we actually spend.
Cost of Services Study	Describes an NEFC study that estimated how much it costs to support service delivery within a Province (health, education, etc....) on a district by district basis.
Fiscal capacity	Describes a Province's ability to meet its costs. It is expressed as a percentage and is calculated by dividing <u>estimated costs</u> by <u>available revenue</u> .
Funding Gap	The funding gap is the difference between the <u>revenue</u> a Province receives and the amount we estimate it would <u>cost</u> to deliver all the basic services the Province is required to provide.
Grants	Describes revenue that a Province receives from the National Government. Normally grants are provided to Provinces for a specific purpose. Although some grants, such as the Block Grant, allow provincial discretion on their use.
Internal revenue	Describes all sources of revenue that a Province may receive other than National Government grants and donor funds. The Province makes its own decisions on how to allocate and spend the Internal Revenue it receives through the provincial budget.
Personnel emoluments expenditure	Describes expenditure that relates directly to staffing costs and includes salaries, wages, allowances, retirement benefits and gratuities.
Priority Gap	The priority gap happens when a Province has the revenue, but chooses to spend its money on other things – not supporting core services.
Project expenditure	Describes expenditure on a non-recurrent development activity, often related to a project jointly funded by a donor partner.
Resource envelope	Describes the revenue a Province has available from all sources – grant and internal revenue.
Revenue (provincial)	Describes the money available to a Province, both from national grants and internal revenue
Recurrent goods & services expenditure	Describes spending that is directed to purchasing the regular routine operational supplies and services, transport costs and routine maintenance of buildings and roads. It does not include; personnel emoluments, capital and project costs.

Term	Definition
Service delivery	<p>Describes what the various arms of Government actually do for the people of PNG but more specifically it comprises a range of specific activities. Examples of services delivery activities include:</p> <p>In the area of health; service delivery includes conducting immunisation extension patrols, school visits, and training for village birth attendants. It would also include getting medical supplies from the area stores to the rural health clinics and aid posts.</p> <p>In the area of education; service delivery includes providing basic educational materials and education subsidies to schools. It would also include school supervision.</p>

LIST OF ABBREVIATIONS

Abbrev.	Meaning
200 series	Expenditure from National Government grants
700 series	Expenditure from internal revenue
AP	Aid Post
CoS	Cost of Services Study
DPE	Department of Petroleum & Energy
DoF	Department of Finance
DoM	Department of Mining
DoT	Department of Treasury
FGR	Function Grant Review
GoPNG	Government of Papua New Guinea
GST	Goods and Services Tax
HC	Health Clinic
IRC	Internal Revenue Commission
K	Kina
LLG	Local level Government
MOA	Memorandum of Agreement
MTDS	Medium Term Development Strategy
MV	Motor Vehicle
NEFC	National Economic and Fiscal Commission
PFMA	Public Finance Management Act
PG	Provincial Government
PGAS	PNG Government Accounting System
PNG	Papua New Guinea
PIP	Public Investment Program
SSG	Special Support Grant
TMS	Treasury Management System
VBA	Village Birth Attendants

1 Introduction to the Provincial Expenditure Review

Background to the Review

Since 2002, the NEFC has been at the forefront of producing evidence based analysis that helps us understand the progress in delivering core services throughout Papua New Guinea. The 2006 Provincial Expenditure Review *It's More Than Numbers* develops this understanding further, by combining the analysis, methodology and findings that were presented in two reports from 2005. These were the 2005 Function Grant Review and the 2005 Provincial Expenditure Review *Cost Capacity Performance*.

1.1.1 Purpose and objectives

The purpose and primary objective of this report is to provide an annual evidence-based assessment of provincial performance so that ultimately we all get better at improving service delivery. We do this by;

- employing an expenditure focus,
- comparing expenditure against the Cost of Services Study as an independent benchmark, and
- having due regard to each Province's fiscal capacity

In essence, each year we are painting a picture of what is happening in service delivery across Papua New Guinea.

A second objective is to monitor the application and use of National Government grants in each Province. Is grant money being used effectively for its intended purpose?

In conducting this study, we believe we will help promote the Government's key objectives in service delivery across Papua New Guinea as set out in the Medium Term Development Strategy (MTDS).

Approach and Methodology

The methodology in conducting the provincial expenditure study has developed from the 2005 study *Cost Capacity Performance*. It can best be described in a series of individual points.

- An expenditure focus. If we aren't spending money on core services we are not delivering these core services.
- A recurrent goods & services focus. We have infrastructure, facilities and staff, but what we appear to lack is the ongoing year-on-year funding to ensure the staff in these facilities can do their work and ensure that the roads that are the lifeline for providing these services and enabling economic growth are maintained.
- A focus on both Grant & Internal Revenue. Provinces make budget prioritisation and expenditure choices from two main sources of funds – National Government Grants and Internal Revenue. We review both, and consider their impact on providing core services.
- Drawing together cost, capacity and performance. This provides a more holistic picture of provincial performance.

Cost: The Cost of Services Study estimated the cost, or the amount required to provide basic services in that particular Province.

Capacity: A Province's fiscal capacity is restricted by its resource envelope. The resource envelope is the amount of money both from national grants and internal revenue (revenue) it has available for recurrent purposes from all sources.¹

Performance: Performance is reflected through expenditure – the actual amount that the Province spent during the fiscal year and the area (or sector) they spent it on.

- A benchmarking approach. We need to have a benchmark, an independent measure by which to compare our performance. The Cost of Services Study provides that benchmark. The other benchmark is comparing Provinces against one another.
- Give credit. We erred on the side of giving credit. By that, we mean if we could broadly call expenditure recurrent goods and services on a service sector, we did. We wanted to paint as positive a picture as we could.
- Assessing the trend. In this report, we also introduce a way to evaluate whether we stand a chance of improving service delivery through comparing 2006 expenditure to 2005. If spending in core areas does not increase, service delivery will not improve. If anything, service delivery will further deteriorate.

1.1.2 Adjustment to the Cost of Services estimates

The Cost of Services Study was completed in 2005. The Cost of Services estimates that were established have been adjusted to reflect the changes in prices and provincial populations since that time. What that means is that the cost estimates included in the 2005 review have been increased by both CPI and estimated population growth as it applies to each Province.² This means that when we compare 2006 expenditure we compare it against 2006 costs – which is a more reasonable benchmark. In summary, why do we adjust the Cost of Services estimates?

- Population: Each year the population of each Province increases – the adjustment to the Cost of Services reflects this change. An increased population places even greater demands upon Government for core services. It means more children going to school, more people using roads and more people accessing health services.
- Inflation: Each year the cost of buying goods and services such as fuel and accommodation increases – the adjustment to the Cost of Services reflects this change.
- Revenue: Each year the revenue available to a Province generally increases (normally National Grants increase) – the adjustment to the Cost of Services reflects this change and ensures we reflect fiscal capacity on a reasonable basis.

1.2 Acknowledgement

The NEFC acknowledges the Provinces for their assistance during the review process. We also acknowledge the agencies that partnered with us on the review by providing data. These include: the Department of Finance, the Department of Treasury, the Department of Health *HSIP Secretariat* and the Department of Works *Road Maintenance and Rehabilitation Project*.

¹ Refer to the NEFC Provincial Revenue Report for the fiscal years 2004-2007.

² Population growth is measured as the 1980-2000 average annual growth in each Province

2 Fiscal Capacity

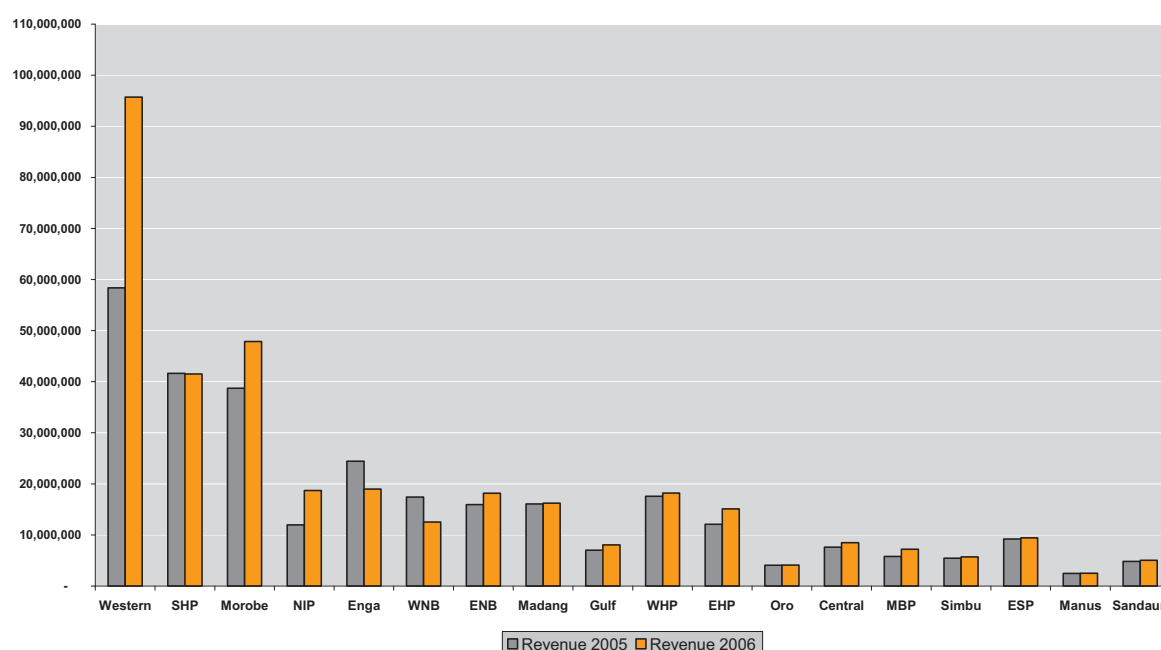
2.1 Provincial Revenue: 2005 to 2006

Provincial Revenue – is a term that describes the money available to a Province, both from national grants and internal revenue

We know that not all Provinces are equal.

Some Provinces have more revenue than others – we often refer to a Province's revenue as its resource envelope. So a Province may get revenue from grants, royalties and other internal revenue such as GST – together this is a Province's resource envelope. This tells us how much Provinces have to spend. Provinces with a high resource envelope relative to their costs are in a better position to allocate funds to support service delivery than those Provinces with a lower resource envelope. Simply put, the richer you are the more able you are to meet your costs.

Graph 1: Comparing Revenue between 2005 & 2006



It can be seen that 2006 revenue levels in most Provinces increased slightly over the 2005 levels. The exceptions were the large increases in Western, New Ireland and Morobe and the large decreases in Enga and West New Britain.

2.2 Fiscal Capacity: Comparing revenue to cost

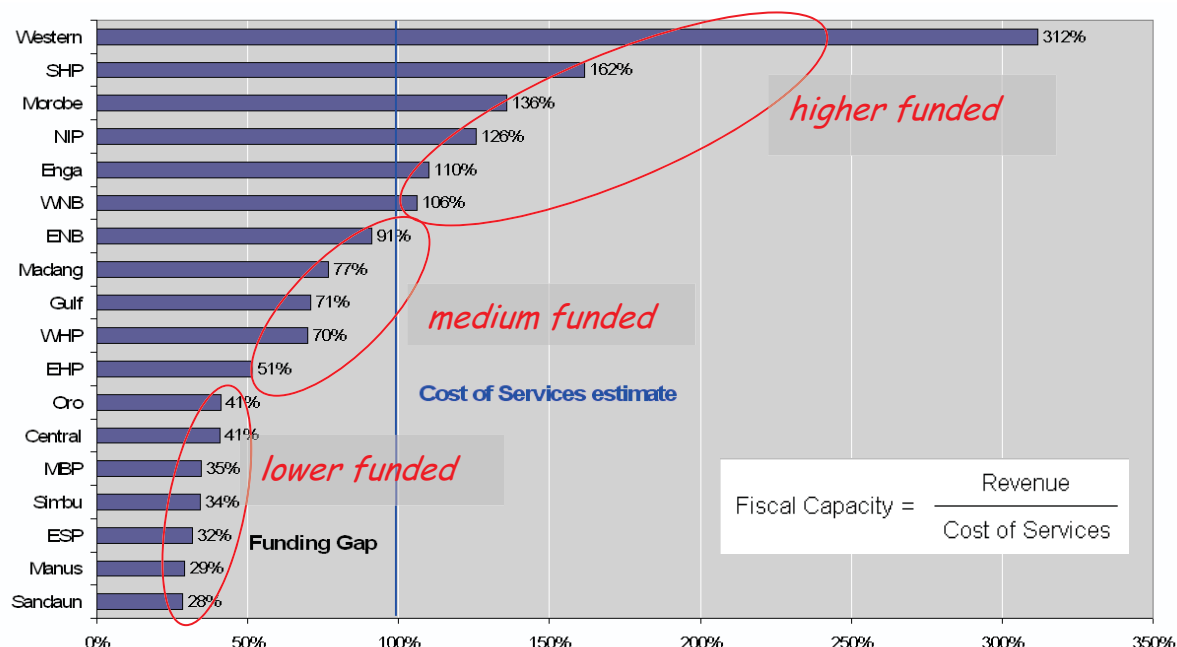
Fiscal Capacity – is a term that describes a Province's ability to meet its costs

Fiscal capacity is simply *revenue* divided by *costs*.

The Cost of Services Study very conservatively estimates how much it costs to deliver a very basic level of core services in each Province across PNG on a district by district basis. Having estimated the cost, we can then compare the revenue available to each Province to meet their estimated costs. So fiscal capacity is calculated by dividing the revenue available in a Province to meet goods and services costs by the estimated cost of providing all core services in the Province.

Graph 2 expresses fiscal capacity as a percentage. If a Province has 100% - that means that it has sufficient revenue from which to meet the estimated costs of delivering all core services to a minimum standard. If the Province has less than 100%, it means that it has less than it requires and is therefore faced with hard decisions to make about where to allocate its limited funds. Most Provinces have less than 100%.

Graph 2: Averaged Fiscal Capacity 2005/2006



Graph 2 tells us that:

- Only six Provinces have 100% or more of the funds they need to deliver core services to a minimum standard.
- 12 Provinces do not have sufficient funding to adequately support service delivery to even a very basic level.
- We have divided the Provinces into three funding groups. High (above 100%), medium (50 to 100%) and low (below 50%). This helps us to analyse expenditure patterns and trends by groupings of like funded Provinces.

A note of caution; even for those Provinces with 100% funding or higher, some of that funding is likely to be directed at personnel emoluments or capital and projects. This effectively reduces the amount that they have available for goods and services. This applies to all Provinces. While we understand this is the reality, it is impossible to predict each Province's approach to allocating its scarce resources. Therefore, we proceed with our analysis accepting this qualification. *The impact of this is that real fiscal capacity is even lower than our projections in the graph above.*

3 Expenditure Overview

3.1 Overview of where the money went in 2006

Where did Provinces collectively spend their revenue in 2006? Where did they spend the National Government Grants and the Internal Revenue that was available to them? Table 3 answers these questions at the highest of levels by providing a numerical overview of where money was spent by broad classifications in 2006.

Table 3: Expenditure Overview Table 2006³

	Administration Sector	MTDS Sectors	LLG Transfers	Other Sectors, Arrears, Unspecified	Total
Internal Revenue					
<i>Goods & Services</i>	45,069,114	39,455,488	13,536,710	53,517,861	151,579,173
<i>Personnel Emoluments</i>	29,024,370	10,385,119	1,001,376	2,213,198	42,624,063
<i>Capital & Projects</i>	10,812,720	41,124,729	812,227	15,792,739	68,542,415
Total Internal Revenue	84,906,204	90,965,336	15,350,313	71,523,799	262,745,651
Grants					
<i>Goods & Services</i>	10,294,284	52,539,396	22,615,443	7,238,314	92,687,437
<i>Personnel Emoluments</i>	12,932,245	23,546,398	13,827,287	791,505	51,097,435
<i>Capital & Projects</i>	3,438,958	11,600,294	500,000	3,616,674	19,155,925
Total Grants	26,665,487	87,686,088	36,942,731	11,646,492	162,940,798
Total					
<i>Goods & Services</i>	55,363,398	91,994,883	36,152,153	60,756,175	244,266,610
<i>Personnel Emoluments</i>	41,956,615	33,931,517	14,828,663	3,004,703	93,721,498
<i>Capital & Projects</i>	14,251,678	52,725,023	1,312,227	19,409,413	87,698,341
Total All	111,571,691	178,651,423	52,293,043	83,170,291	425,686,449

Points of interest include:

- K92 million of K425 million, or 22% of all expenditure went on funding goods and services that support the delivery of core priority services (in MTDS sectors).
- The K60 million expended on 'other sectors, arrears and unspecified' is a highly significant amount.
- Spending on capital & projects was K88 million or 21% of all expenditure. This does not include items funded by SSGs and PIPs.
- Staff (personnel emoluments) related costs are 22% of total expenditure.

³ Refer to Appendix 1 to see what has been included and excluded in the expenditure data analysis.

MTDS Sectors includes; health, agriculture, education, village courts and infrastructure maintenance. LLG Transfer refers to funds that are transferred from the Provincial Administration to LLGs for administrative and other purposes. Other Sectors includes all non-MTDS sectors and other non sector specific costs such as arrears.

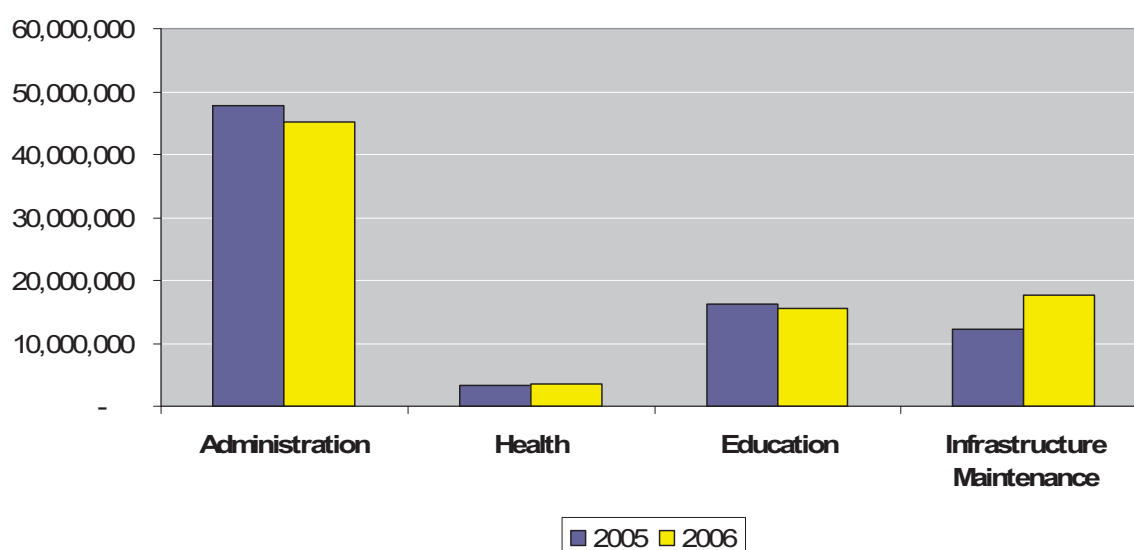
3.2 Internal Revenue – does it impact service delivery?

One of the key motivators for conducting these reviews is to answer the question *is provincial internal revenue spent on service delivery?* And more specifically on recurrent goods and services in the priority service delivery areas. This is because it helps us understand what Provincial Administration's prioritise in their budgeting processes.

Table 3 details the findings of our overall expenditure analysis for all 18 Provinces in 2006.⁴ What we can see is:

- Recurrent goods & services spending from internal revenue on the MTDS sectors health, education, agriculture, village courts and infrastructure contributed 43% (K39 million) of all recurrent goods & services spending in these areas. So the answer is 'yes'. Internal revenue does significantly contribute in an overall sense to service delivery in priority areas.
- However another valid question is *can we do better?*
 - That K39 million is only 15% of all internal revenue expenditure. This tells us that there is significant room for a review and reallocation of spending priorities. Moving more internal revenue into funding recurrent goods and services will better support and enable core service delivery.
 - More internal revenue was used to fund recurrent goods and services in administration (K45m) than on MTDS sectors (K39m).
 - While 58% of all internal revenue is spent on goods and services, less than a quarter of this was allocated to MTDS sectors. In comparison, over half of national grant funding (K53m of K92m) was allocated to MTDS sectors. This reflects the importance of targeting national grant funding to core service delivery areas to ensure that critical services are provided to our people.
 - Some 42% of all internal revenue was expended on personnel emoluments, capital & projects. This is highly significant. It means there is a lesser amount available to fund the ongoing day-to-day costs that enable core services to be delivered.

Graph 4: Expenditure from Internal Revenue in Major Sectors: 2005 to 2006

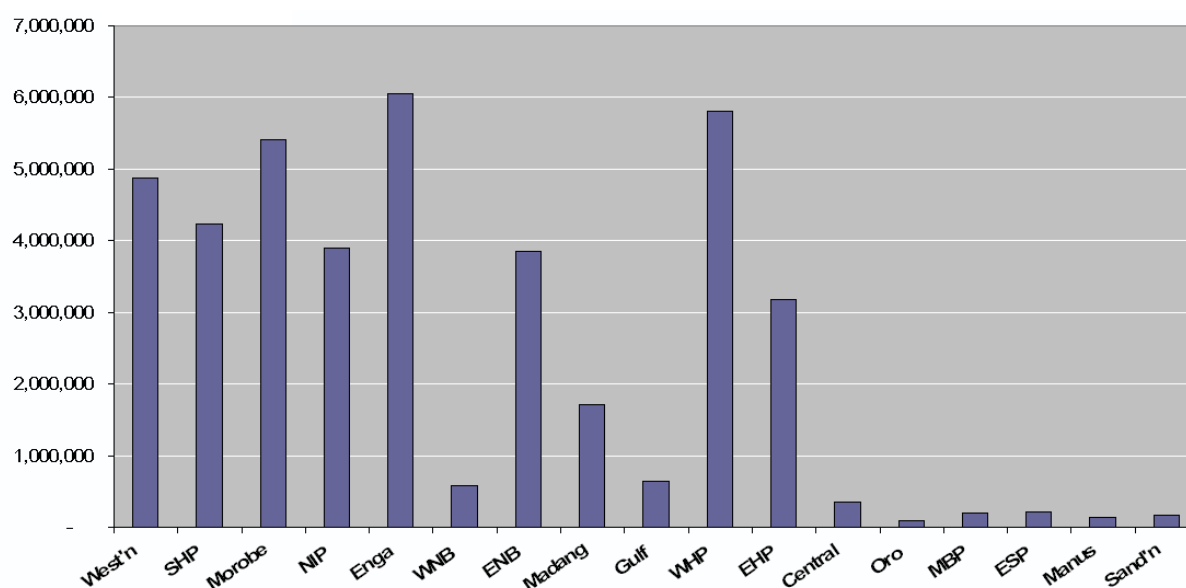


⁴ The table summarises all spending but excludes expenditure from SSG and PIP funds where identifiable.

Graph 4 illustrates spending on recurrent goods and services from internal revenue in the major sectors in 2005 and 2006.

- Administration receives the biggest slice of internal revenue.
- Health receives very little.
- Spending from internal revenue on Infrastructure Maintenance increased significantly.

Graph 5: Expenditure from Internal Revenue in MTDS Sectors by Province in 2006



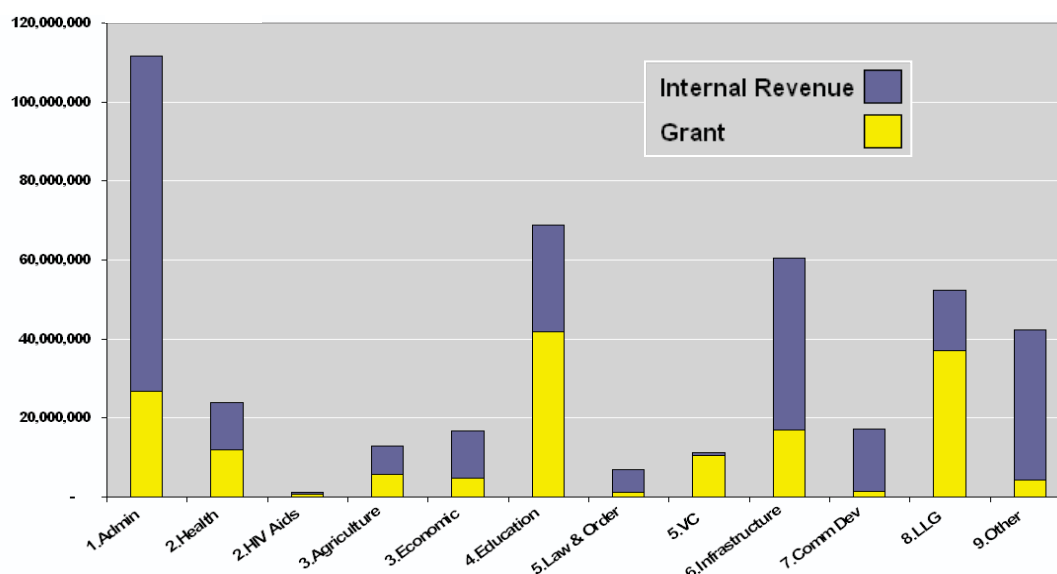
Graph 5 illustrates spending on recurrent goods and services from internal revenue in the MTDS sectors of health, agriculture, education, infrastructure maintenance and village courts in 2005 and 2006.

- Lower funded Provinces spend very little internal revenue in MTDS sectors.
- When a Province has low (or reduced) levels of internal revenue it is applied to administration not the MTDS sectors that provide services.

3.3 Spending from Grant and Internal Revenue

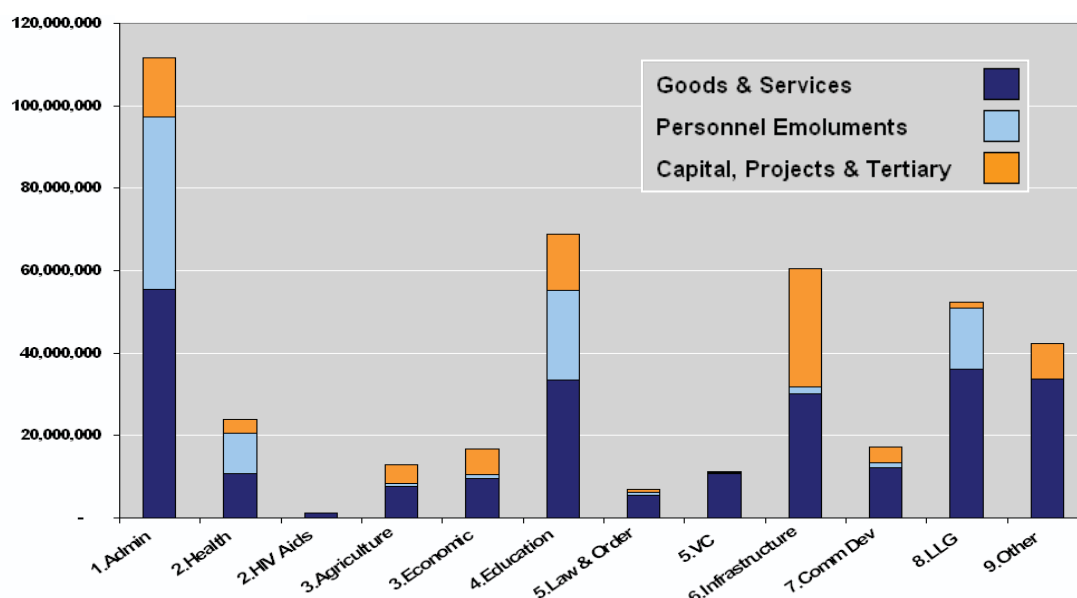
Graphs 6-9 illustrate spending by:

- Source – by grant and internal revenue
- Type – goods & services, personnel emoluments and capital & projects
- Major sectors
- MTDS sectors as a total (combining health, education, infrastructure maintenance and village courts)

Graph 6: Sector Spending by Source in 2006

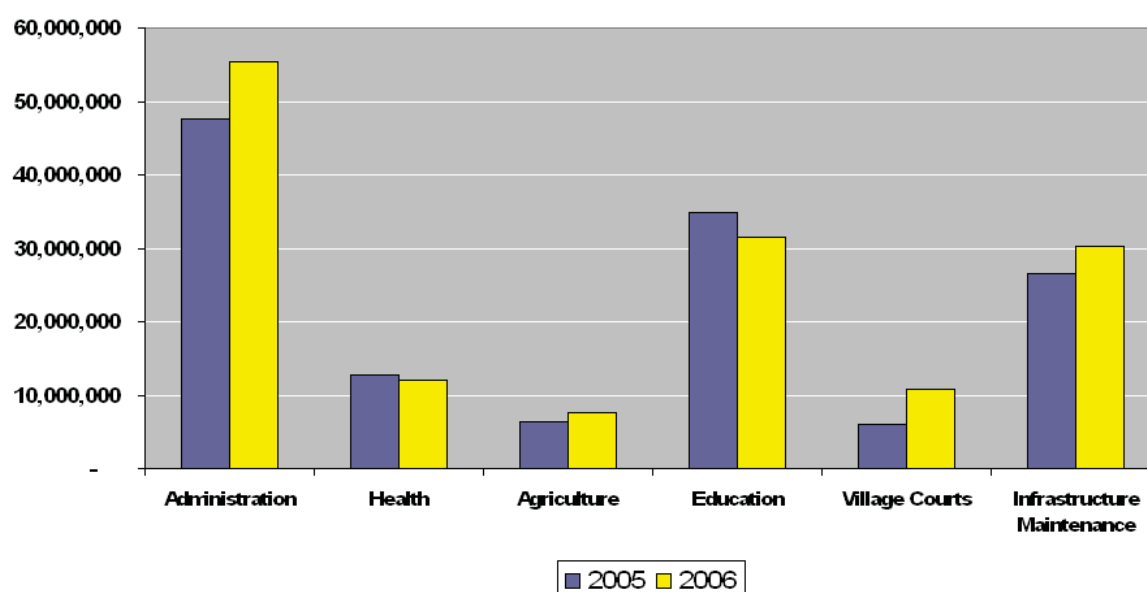
Graph 6 illustrates where all money was spent by Provincial Administrations across major sectors on recurrent goods and services—it splits the spending into that funded by National Government Grant and that funded from provincial internal revenue. You will observe that:

- Administration is the single highest spending area.
- Education is the best supported priority sector followed by Infrastructure Maintenance.
- Health and Agriculture receive relatively low levels of funding.
- Village Courts are mostly funded by grants.

Graph 7: Sector Spending by Type in 2006

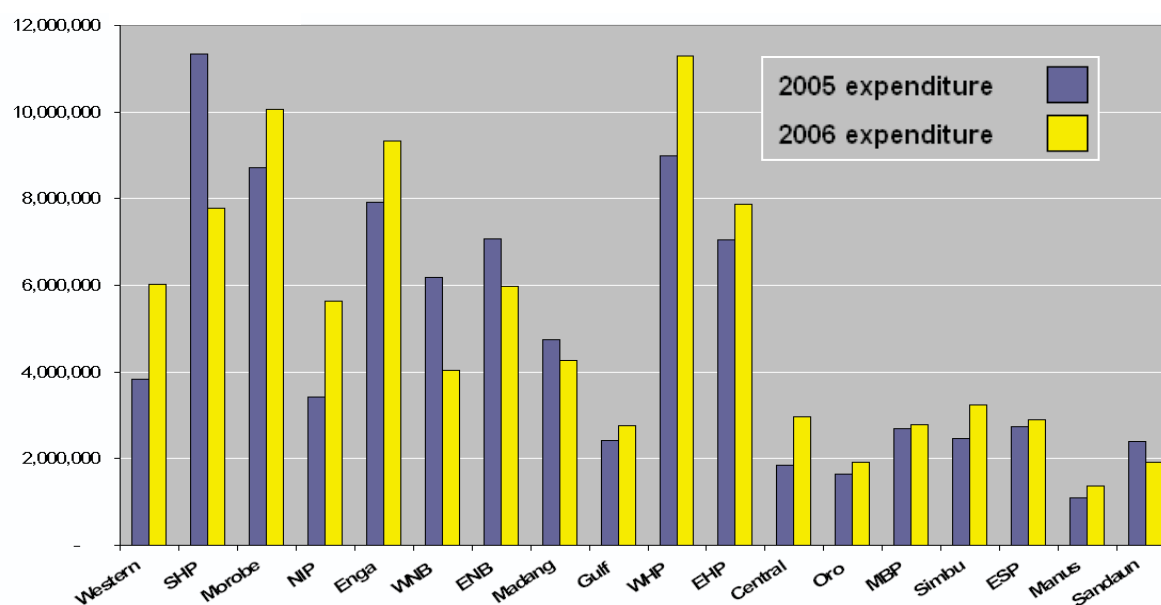
Graph 7 illustrates where money was spent by Provincial Administrations across major sectors—it splits the sector spending into the amounts spent on goods & services, personnel emoluments and capital & projects (and tertiary for education). You will observe:

- Capital spending is highest in Infrastructure Maintenance, Education (including tertiary costs such as scholarships) and Administration.
- Personnel emoluments account for at least 40% of the spending in Health, Administration and Education.

Graph 8: Spending by Sector (National Grants) – 2005 to 2006

Graph 8 illustrates and compares how much was spent on recurrent goods and services in each major sector across all Provinces in 2005 and 2006. You will observe:

- Administration spending increased and remains the sector with the highest spending followed by Education & Infrastructure Maintenance.
- Overall expenditure in Health and Education decreased.
- Spending in Agriculture, Village Courts and Infrastructure Maintenance increased.

Graph 9: MTDS Spending – 2005 to 2006

Graph 9 illustrates spending in MTDS sectors by Province and compares 2005 and 2006.

- Large decreases in Southern Highlands, West New Britain and East New Britain.
- Large increases in Morobe, New Ireland, Enga, Western Highlands, Eastern Highlands, Central and Simbu.

3.4 Timing of Spending

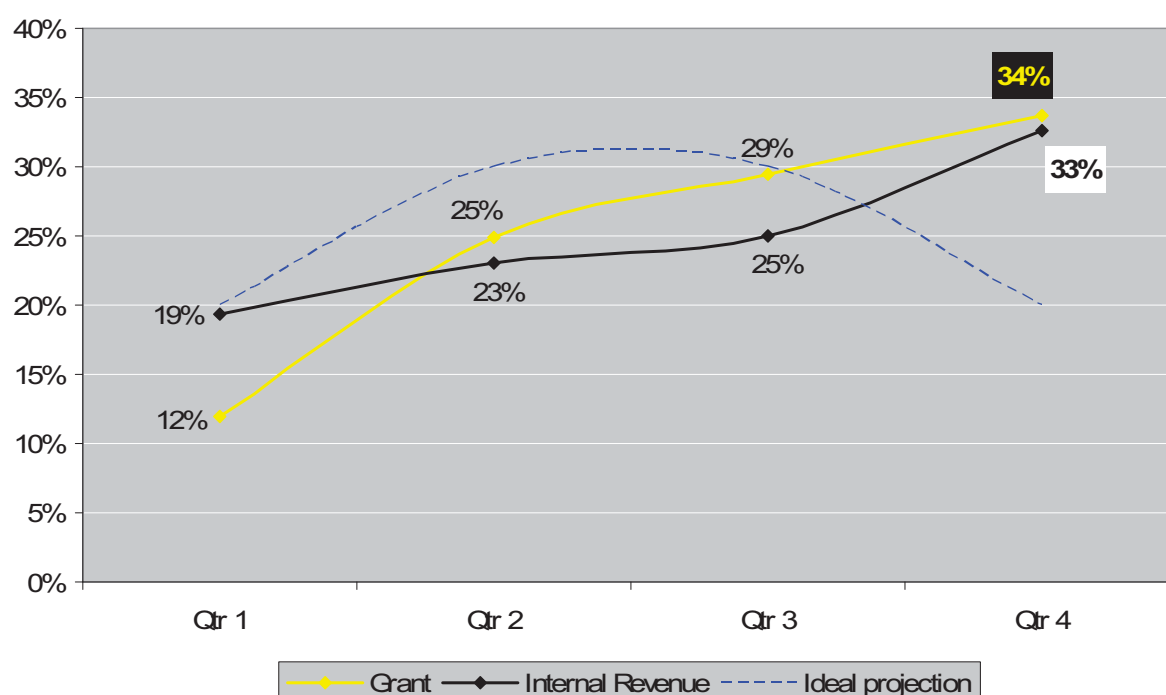
The timing of when money is spent during the year in Provinces is critical to the objective of improving service delivery. Three effects of late spending are:

- Service delivery is delayed, or may not occur.
- There is a significant increase in funds being wasted and/or spent on non-priority areas.
- Unused funds sitting in bank accounts represent a huge cost to the PNG Government and deprive people access to service delivery. Unused funds should be directed to core service delivery.

Delayed Service Delivery

In 2006, a third of both grant and internal revenue expenditure occurred in the final quarter of the fiscal year. When one considers that the Governments' accounts close mid-way through December that means that one third of spending occurred in just over two months. The question is why? Why spend so late when the funds are available in a timely manner? How much service delivery can happen during the year when the spending to support service delivery occurs so late?

Graph 10: The Average Level of Spending in each Quarter⁵



The ideal projection line is a theoretical projection of how overall spending may occur during a fiscal year. A typical spending pattern would start slowly, increase throughout the year as service delivery activities move in to full swing, and taper off toward the end of the year as activities wind down. The pattern of spending in goods & services should mirror the service delivery activities it is there to support and enable.

⁵ Cheques raised to transfer unspent funds at year-end have been removed from this analysis to avoid distortion.

Table 11: Percentage of Spending in each Quarter⁶

Table 11 details the percentage of spending that occurred in each quarter from grant and internal revenue by Province in 2006 and 2005. Please note that most Provinces carried over funds into the following year.

Province	Source	2006 Fiscal Year					2005 Fiscal Year				
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	5%	17%	33%	45%	100%	2%	9%	17%	72%	100%
Central	Internal Revenue	13%	23%	31%	32%	100%	15%	27%	35%	23%	100%
EHP	Grant	9%	24%	20%	46%	100%	16%	24%	25%	35%	100%
EHP	Internal Revenue	17%	21%	28%	33%	100%	14%	19%	21%	46%	100%
ENB	Grant	20%	9%	54%	18%	100%	12%	18%	18%	52%	100%
ENB	Internal Revenue	18%	27%	24%	32%	100%	15%	23%	24%	38%	100%
Enga	Grant	23%	26%	20%	30%	100%	7%	17%	25%	42%	91%
Enga	Internal Revenue	22%	16%	21%	42%	100%	20%	25%	15%	40%	100%
ESP	Grant	7%	35%	38%	20%	100%	3%	50%	19%	28%	100%
ESP	Internal Revenue	Data unavailable				0%	25%	24%	15%	36%	100%
Gulf	Grant	18%	27%	36%	20%	100%	23%	36%	17%	24%	100%
Gulf	Internal Revenue	11%	13%	39%	36%	100%	18%	9%	28%	46%	100%
Madang	Grant	11%	12%	42%	35%	100%	1%	14%	23%	61%	100%
Madang	Internal Revenue	14%	24%	28%	34%	100%	6%	20%	39%	35%	100%
Manus	Grant	11%	28%	25%	36%	100%	26%	35%	23%	16%	100%
Manus	Internal Revenue	Data unavailable				0%	16%	30%	27%	28%	100%
MBP	Grant	14%	21%	29%	35%	100%	3%	23%	22%	52%	100%
MBP	Internal Revenue	29%	26%	16%	28%	100%	9%	31%	33%	27%	100%
Morobe	Grant	3%	21%	33%	43%	100%	12%	15%	24%	49%	100%
Morobe	Internal Revenue	24%	22%	29%	25%	100%	17%	19%	25%	38%	100%
NIP	Grant	5%	32%	25%	38%	100%	14%	20%	20%	46%	100%
NIP	Internal Revenue	23%	29%	24%	24%	100%	13%	19%	38%	30%	100%
Oro	Grant	16%	30%	31%	23%	100%	6%	19%	52%	23%	100%
Oro	Internal Revenue	20%	26%	28%	26%	100%	14%	29%	33%	24%	100%
Sand'n	Grant	3%	18%	43%	37%	100%	4%	11%	23%	62%	100%
Sand'n	Internal Revenue	10%	23%	19%	49%	100%	11%	15%	23%	51%	100%
SHP	Grant	27%	23%	9%	42%	100%	12%	20%	20%	48%	100%
SHP	Internal Revenue	46%	27%	8%	20%	100%	13%	47%	17%	23%	100%
Simbu	Grant	13%	40%	25%	23%	100%	10%	31%	45%	14%	100%
Simbu	Internal Revenue	20%	30%	27%	23%	100%	18%	23%	23%	35%	100%
West'n	Grant	0%	12%	20%	68%	100%	1%	5%	5%	89%	100%
West'n	Internal Revenue	11%	15%	17%	58%	100%	22%	17%	25%	36%	100%
WHP	Grant	15%	35%	31%	19%	100%	9%	19%	18%	55%	100%
WHP	Internal Revenue	12%	27%	42%	18%	100%	15%	35%	22%	27%	100%
WNB	Grant	13%	38%	19%	29%	100%	9%	47%	23%	22%	100%
WNB	Internal Revenue	19%	20%	20%	41%	100%	24%	24%	36%	17%	100%
Average of Grants		12%	25%	29%	34%	100%	9%	23%	23%	44%	100%
Average of Internal Revenue		19%	23%	25%	33%	100%	16%	24%	27%	33%	100%

⁶ The significant difference between the average quarterly spending from grants in 2005 and 2006 reflects that in 2006 unused grant funds that were carried forward, by way of raising a cheque to transfer the amount, have been stripped out of the 2006 expenditure totals. This is a truer representation of actual expenditure.

4 Measuring Performance

4.1 How we Measured Performance

Having analysed how Provincial Governments spent their money, we are now in a position to compare that expenditure against what they need to spend to provide a basic level of service to their people. Did they spend enough in the right areas? Or was the money spent in non-priority areas? Chapter Four addresses these questions. These are set out in three graphs. These are:

- The Provincial MTDS Scorecard – Supporting MTDS Priorities
- The Twin Gaps of Priority & Funding – Supporting MTDS priorities
- Provincial Expenditure Matrix

In the box below is a quick reference on the three forms of measurement that we use and the questions these help to answer.

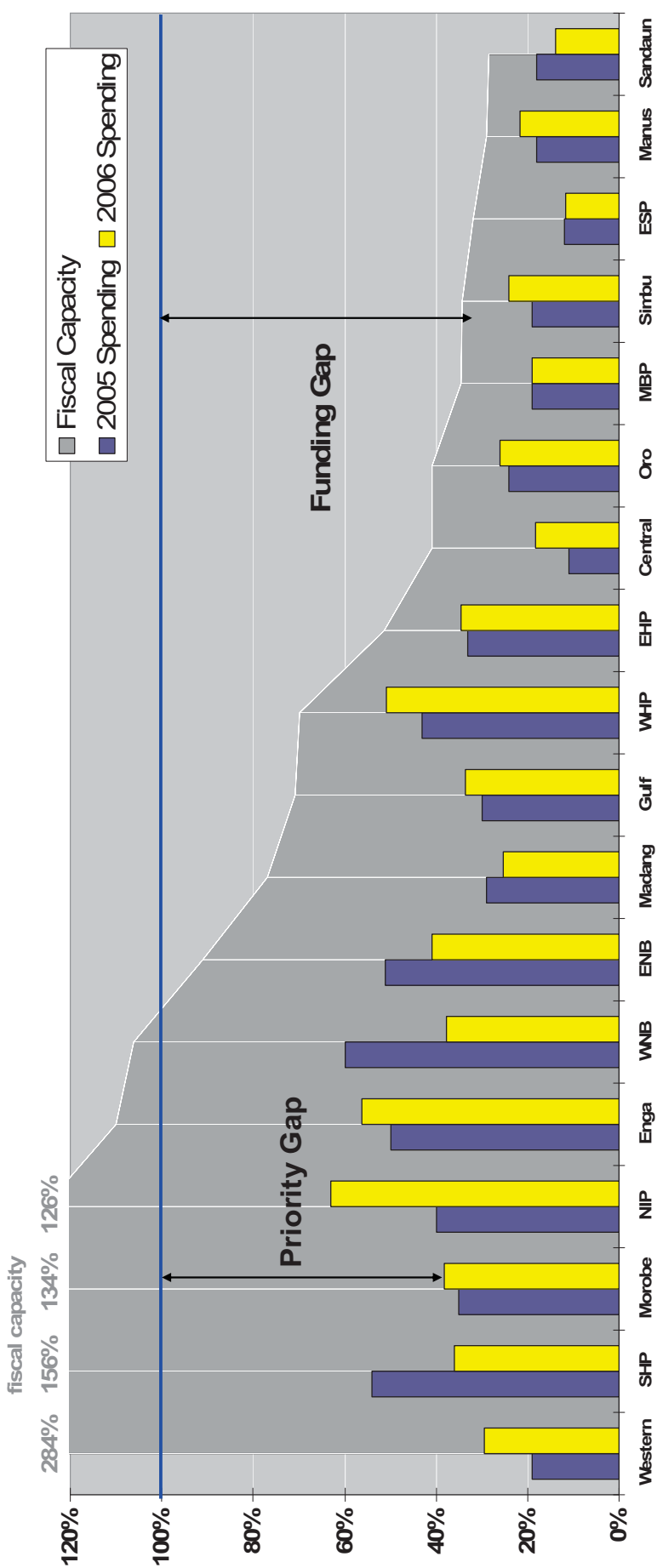
Answering questions about performance

Table / Chart	Helps to answer
Provincial MTDS Scorecard – Supporting MTDS Priorities	<ul style="list-style-type: none"> ▪ How well is each Province supporting the MTDS sectors given its fiscal capacity? ▪ Provinces are ranked according to their fiscal capacity <p>Results can be viewed; either Province by Province, or by group, or overall</p> <p>NB: the results have been adjusted to reflect each Provinces fiscal capacity</p>
The Twin Gaps of Priority & Funding – Supporting MTDS priorities	<ul style="list-style-type: none"> ▪ What can we achieve by redirecting spending to MTDS priority areas? ▪ Do we need more funding?
The Provincial Expenditure Matrix	<ul style="list-style-type: none"> ▪ Did Provinces spend all of their function grant funding? ▪ Did they spending it in a timely manner? ▪ Was it spent appropriately on the things that support service delivery?

4.2 The Twin Gaps of Priority & Funding

Graph 12 draws together all provincial spending on MTDS priorities and compares this with the cost of fully funding the MTDS priorities. Graph 9 demonstrates the twin hurdles we face in improving the delivery of services throughout the Provinces. The first is a matter of provincial choice (that is, something Provinces individually have the power to change by more effectively allocating money to core priorities within their Province) – we call this the priority gap⁷. The second is a matter of funding, many Provinces simply do not have sufficient funding – we call this the funding gap.

Graph 12: Supporting MTDS priorities: 2005 to 2006



⁷ All Provinces allocate some of their spending to staffing and development, this is not taken into account in determining the priority gap.

4.2.1 Comments on the Twin Gaps

- There is a funding gap – that can only be addressed by redesigning the way PNG's resources are shared.
- There is a priority gap – that can only be addressed by Provinces choosing to spend the amount required on priority sectors. This may mean reducing spending in one area (such as administration) and redirecting it to another (such as health).
- The current level of spending on recurrent goods and services in priority areas is too low and inadequate. If this trend continues, the implications are dire for Government efforts in providing core social services, such as health and education, and for promoting economic development, through a maintained road infrastructure and by developing a vibrant and sustainable agricultural sector.
- Most Provinces results between 2005 and 2006 have changed little.
- The Provinces showing the best improvement are Western, New Ireland, Central and Western Highlands.
- Southern Highlands and West New Britain have suffered the largest decreases in performance compared to 2006.

4.2.2 Comments on the results by funding group

- Higher funded Provinces have the ability to do better. Generally they fall well short of adequately funding priority service sectors. They can improve by redirecting money from low priority areas such as the administration sector to service delivery sectors particularly health, agriculture & infrastructure maintenance.
- Medium funded Provinces also need to redirect more spending from low priority areas such as administration to the health & infrastructure maintenance sectors.
- The health & infrastructure maintenance sectors in low funded Provinces require an immediate injection of funding. Provincial budget prioritisation needs to reflect this need.
- Higher funded Provinces spend a much higher proportion of expenditure on staffing and development, which means that even more funding for goods and services is required every year to support new staff and new capital projects.

4.3 The Provincial MTDS Priorities Table ⁸

Graph 8 illustrates how well Provinces are supporting the Governments key MTDS priority sectors – Health, Agriculture, Education and Village Courts. Which sector is best funded and which is worst? To make the comparison fairer we have adjusted the results to reflect that some Provinces have more funding and some have less.

Adjusted: We have adjusted the results to reflect how much each Province can afford given their revenue base and fiscal capacity. So if a Province has only 50% of what is needed, then only 50% is expected to be achieved. As an example: if a Province has a fiscal capacity of 50% and spends 50% of what is necessary on Education per the Cost of Services estimates then their percentage is adjusted to 100% (because they have spent what they could afford) and they would score a 'high'.

The colours illustrate the ranking, high, medium and low, a 'high' score is better as it means the Province is closer to spending an appropriate amount in that sector.

The matrix format of the MTDS Priorities Table enables the reader to review priorities in a number of different ways.

By Province: Follow along the row to see how each Province performed by MTDS sector against the Cost of Services estimate as a benchmark

By Sector: Follow down each column to form a picture of how Provinces performed across that sector

By Funding Group: Look at each funding group to see how each group performed – does more money lead to better performance?

By Trend: Look at the table as a whole to see which MTDS sectors received priority in spending and which didn't.

⁸ We are mindful that some Provinces provided their LLG's with funding well above the level of the national Government grants intended for the LLG's. It is possible that some of these amounts were used to implement provincial service delivery responsibilities. If this is the case, our analysis should have counted that LLG expenditure in order to provide a fair comparison with other Provinces who met all these service delivery costs entirely from their own expenditure. Unfortunately there is no way to identify the purpose for which that additional funding was used.

Graph 13: Provincial MTDS Priorities Table – How well were MTDS Priorities supported given fiscal capacity⁹

Rank by Fiscal Capacity	Province	Average Fiscal Capacity	Health & HIV	Agriculture	Education	Infrastructure
High Funded Group						
1	Western	312%	Low	Medium (L)	Medium	Low
2	SHP	162%	Low	Low	High	Low
3	Morobe	136%	Low	Low	Medium (L)	Low
4	NIP	126%	Low	High	High	Low
5	Enga	110%	Low	Low	High	Low
6	West New Britain	106%	Low	Low	Low (M)	Medium
Medium Funded Group						
7	ENB	91%	Low	Medium	Low (M)	Medium
8	Madang	77%	Low	Low	Medium	Low
9	Gulf	71%	Low	Low	Medium	Medium
10	WHP	70%	Low (M)	High	Low (M)	High (M)
11	EHP	51%	Medium	High	Medium (H)	Medium
Low Funded Group						
12	Central	41%	Medium (L)	Low (M)	High (M)	Low
13	Oro	41%	Low	High (L)	High	Low (M)
14	MBP	35%	Low	Medium (H)	Medium (H)	Low (M)
15	Simbu	34%	Medium	Low	High	Low
16	ESP	32%	Low	Medium (L)	High	Low
17	Manus	29%	Medium (H)	Low (M)	High	Low (M)
18	Sandaun	28%	Low	Low (M)	Medium (H)	Medium

High
Medium
Low

above 80%
between 40-79%
below 40%

(2005 scores in brackets when different to 2006)

The results of Provinces with less funding than they require have been adjusted to reflect their fiscal capacity

⁹ This table illustrates and compares provincial performance in supporting the Governments key MTDS priority sectors – the scores are adjusted to reflect fiscal capacity.

4.3.1 Priorities – the Provincial MTDS Priorities Table

Taking into account the different capacity of Provinces to meet the cost of delivering a similar set of basic services in the core sectors of health, education, agriculture, infrastructure and village courts:

1. Administration – is not included in the 'scorecard' table but continues to be the no.1 priority across all Provinces (no.1 in 2005). Spending in this sector needs to be reduced and controlled. Most Provinces fund this sector at the expense of providing services to their people.
2. Education – remains the no.2 priority across almost all Provinces (no.2 in 2005), but there is still much room to improve with only 5 Provinces spending as much as they could on education. Nonetheless, secondary and tertiary education is often favoured over basic education that would enable more children to learn basic skills (through primary, elementary and community schools).
3. Agriculture – overall continues to be the no.3 priority for medium & lower funded Provinces, but not for higher funded Provinces (with the exception of New Ireland). Overall Agriculture was priority no.3 in 2005.
4. Infrastructure – is the no.4 priority across all Provinces, but Infrastructure Maintenance is expensive and requires greater levels of funding (no.4 in 2005). If left unchecked, hugely expensive rehabilitation costs are certain to occur. Indeed the capital expenditure on infrastructure by some Provinces may represent the major rehabilitation efforts that are required when recurrent maintenance has not occurred. However, we must remember that the cost of rehabilitation is enormous when compared to the cost of routine maintenance.
5. Health – is the last priority of most Provinces (lowest priority overall in 2005). The low levels of spending in health are truly frightening. Primary and preventative health care in the rural areas is identified as a priority and a fundamental requirement in the MTDS but spending levels do not reflect this. Health outcomes will worsen for Papua New Guinea's people and health services will not be delivered without a dramatic increase in health spending.
6. Village Courts – spending on village courts received a significant boost in 2006. This reflects the added funding provided by National Government to address the build-up of unpaid allowances.

4.4 The Provincial Expenditure Matrix

Table 14: Table of Key Performance Indicators

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
1	Spending Trend (both Grant & Internal revenue spending)	Indicates how a Province's spending on recurrent goods and services changed between 2005 and 2006?	Up: 15% (or greater) <u>increase</u> on 2005 Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on 2005	An increase in spending in priority sectors is a good sign and indicates the Province is allocating more priority to the service delivery area. A decrease in spending in priority sectors is bad and always results in a reduction in service delivery.
2	Spending Level Performance (both Grant & Internal revenue spending)	Indicates how much a Province is spending on the sector given how much it is able to spend. The calculation reflects a Province's fiscal capacity.	High: Above 80% Medium: in between 40% - 80% Low: Below 40%	We need to compare our spending against an independent benchmark. So that we know how close we are to adequately funding a sector. We may be increasing spending – but the level may still be low compared to what is required.
3	Unspent % (Function Grant spending only)	The amount of unspent funds at year-end. Calculated against Budget (actual) – per 2008 budget book.	Good: Less than 5% Average: 5 and 10% Not Good: Above 10%	The immediate objective is to spend the function grant funds. A rollover % above 5% indicates poor use of resources.
4	Nature test (Function Grant spending only)	A general high-level assessment of whether the expenditure looks in keeping with the intended purpose	Good: Appears largely in keeping with intention of grant Average: Appears in keeping with intention of grant with some areas that are questionable or uncertain Not Good: Significant areas that are questionable	If funds are not spent in the general function area intended then services cannot be delivered.
5	Salaries & Wages % (Health Function Grant spending only)	Spending on Salaries and Wages is <u>not intended</u> under the Function Grant. Spending on these items above 5% is noted.	Below 5% is deemed immaterial. Above 5% is worthy of note.	Function grants are for 'goods and services'. Personnel without 'goods and services' equals no service delivery.

Table 15: The Provincial Expenditure Matrix

Province	Fiscal Capacity	HEALTH			EDUCATION			INFRASTRUCTURE MAINTENANCE			AGRICULTURE			VILLAGE COURTS		
		Spending Trend	Spending Perf Level	FG Unspent %	No Salaries Test	Spending Trend	Spending Perf Level	FG Unspent %	FG Exp Nature Test	Spending Trend	Spending Perf Level	FG Exp Nature Test	Spending Trend	Spending Perf Level	Spending Trend	Spending Perf Level
Western	1	Up	Low	87%	Not Good	OK	Medium	43%	Good	Down	Low	Average	Up	Medium	Steady	High
Southern Highlands	2	Down	Low	5%	Average	Fail	High	28%	Average	Down	Low	Not Good	Down	Low	Steady	High
	3	Steady	Low	17%	Good	Fail	Medium	0%	Good	Steady	Low	Average	Up	Low	Steady	High
New Ireland	4	Steady	Low	15%	Not Good	Fail	High	0%	Good	Steady	Low	Not Good	Up	High	Up	High
Enga	5	Up	Low	2%	Good	OK	High	15%	Average	Up	Low	Good	Up	Low	Up	High
West New Britain	6	Down	Low	2%	Good	OK	Low	9%	Average	Down	Medium	Good	Steady	Low	Up	High
East New Britain	7	Up	Low	21%	Not Good	Fail	Low	10%	Average	Steady	Medium	Good	Steady	Medium	Up	High
Madang	8	Up	Low	9%	Good	Fail	Medium	2%	Average	Down	Low	Average	Up	Low	Steady	High
Gulf	9	Steady	Low	1%	Good	OK	Medium	0%	Good	Up	Medium	Good	Up	Low	Up	High
Western Highlands	10	Down	Low	2%	Average	Fail	Low	1%	Average	Up	High	Average	Steady	High	Up	High
Eastern Highlands	11	Steady	Medium	10%	Good	Fail	Medium	35%	Not Good	Up	Medium	Average	Down	High	Up	High
Central	12	Up	Medium	12%	Good	OK	High	3%	Good	Up	Low	Good	Down	Low	Up	High
Oro	13	Steady	Low	7%	Good	OK	High	1%	Average	Steady	Low	Good	Up	High	Up	High
Milne Bay	14	Up	Low	0%	Good	OK	Medium	1%	Good	Down	Low	Good	Down	Medium	Up	High
Simbu	15	Steady	Medium	0%	Average	Fail	High	0%	Good	Up	Low	Good	Down	Low	Up	High
East Sepik	16	Down	Low	2%	Not Good	Fail	High	2%	Good	Up	Low	Average	Up	Medium	Steady	High
Manus	17	Steady	Medium	1%	Average	Fail	High	0%	Good	Down	Low	Good	Down	Low	Up	High
Sandaun	18	Up	Low	1%	Good	Fail	Medium	0%	Good	Down	Medium	Average	Down	Low	Up	High

KEY			
Indicates a good level has been achieved	+15% in between	above 80% in between	under 5%
Indicates improvement can be made	-15% in between	below 40% in between	above 5%
Indicates improvement needs to be made	-15% in between	below 40% in between	over 5%

4.4.1 Summary Findings – of the Provincial Expenditure Matrix

The Provincial Expenditure Matrix in Table 4.4 allows us to easily review the findings of the PER by Province and sector. When reading the matrix, remember that Provinces are ordered by their fiscal capacity not by their performance.

Overall – Across Function Grants

		Health	Education	Infrastructure maintenance
Average Unspent	2006	11%	8%	16%
	2005	10%	9%	18%
Average Nature test	2006	Average	Good	Average
	2005	Average	Average	Average

- Overall the unspent or unused amount of the function grants in 2006 was very similar to 2005. Rollover of the infrastructure maintenance function grant was again the highest.
- Overall spending of the function grants in health and infrastructure maintenance generally appeared in keeping with the intention of grants with some areas that were questionable or uncertain.
- Overall spending of the education function grant has improved since 2005 and now rated good suggesting that spending is largely in keeping with intention of grant.

Overall – Across Sectors

- Overall Village Courts was the best performing sector against our KPI's – this is largely due to the high level of funding it attracts, particularly in 2006 with the additional funding allocated to clear arrears.
- Overall Education was the second best performing sector against our KPI's, followed by Infrastructure Maintenance in third. Health and Agriculture came last.

The Best

- Lower funded Provinces performed comparatively better than most medium and higher funded Provinces. Some lower funded Provinces improved their performance over 2005 which is very pleasing.
- Education – another strong showing, although the medium funded group appeared to have a dip in support.

The Worst

- In a number of cases higher and medium funded Provinces were outperformed by lower funded Provinces – this should not be the case.
- Higher and medium funded Provinces have a higher proportion of unused function grant monies – again this should not be the case.
- There are low spending levels in health, agriculture and infrastructure maintenance.
- Significant funding is directed to casual wages in Health – this includes function grant monies that are not intended for this purpose.

PERFORMANCE BY SECTOR

Provincial Governments have a key responsibility to provide basic services to their people. This review focused on the priority MTDS sectors of education, health, infrastructure, agriculture, and village courts. We also reviewed the administration sector which, as suspected, attracts more than its fair share of provincial funding.

Sections 5 – 9 that follow discuss the detailed findings of the review on a sector by sector basis. The sectors discussed are:

5. Education
6. Health
7. Infrastructure
8. Agriculture
9. Village Courts
10. Administration

5 Education focus

“Literacy, basic numeracy and problem solving skills are key determinants of a person’s capacity to take advantage of income-earning opportunities....”

(MTDS 2005 - 2010)



.....how do we make an effective education service happen?

Administer and supervise: the elementary, primary and secondary education systems including vocational schools:

HR: manage teachers

Training: teacher in-service

Subsidy: provide education subsidy to schools (in Qtrs 2 & 4)

Materials: provide basic educational materials and replacement curriculum materials to schools

Maintain: secondary schools

30% How can we adequately educate our children when spending in **12** Provinces averages only 30% of what is required?

K21m is what we spent on teacher leave fares in 2006? An increase of **63%** - how can we best control this area? Could this money be better spent?

5 Provinces significantly decreased their spending compared to 2006, why?

90% of enrolled students are at primary or elementary level – yet in many Provinces spending favours secondary education.

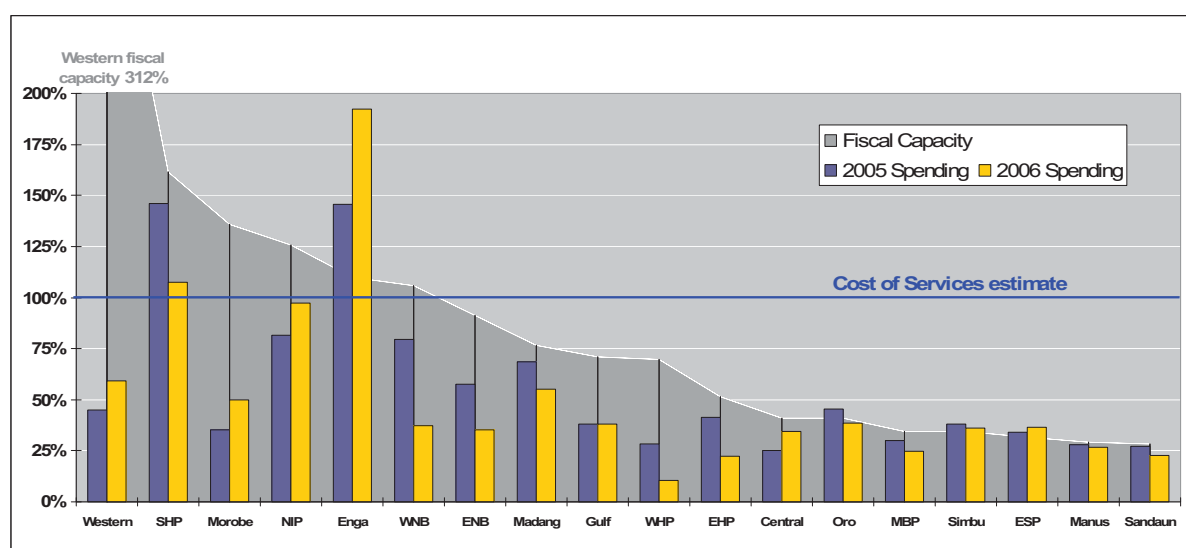
5.1 Education in the Provinces

Providing education to our children throughout Papua New Guinea requires a number of things. We need schools, teachers and other resources. The schools are built and the National Government pays the teachers. But the other resources need to be provided by the Provincial Administration. These include: basic materials, books, school supervision and building maintenance. Without these, the schools cannot operate effectively and children will not get a quality education.

5.2 Against the Benchmark: 2005 to 2006

Graph 16 illustrates the 2005 and 2006 performance of each Province using the Cost of Services estimate as a benchmark. You will observe greater volatility in the spending levels of higher funded Provinces compared to lower funded Provinces. You will also note that 16 of the 18 Provinces fall below (most well below) the minimum expenditure required (blue line).

Graph 16: Education Spending Performance: 2005 to 2006



5.2.1 Performance Overview

- How can we adequately educate our children when spending in 12 Provinces averages only 30% of what is required?
- Overall, however, education remains the best supported MTDS sector.
- Five Provinces significantly decreased their spending compared to 2006 (Southern Highlands, West New Britain, East New Britain, Western Highlands and Eastern Highlands), why did this happen?
- Some 90% of enrolled students are at primary or elementary level – yet in many Provinces, spending favours secondary education.

Data table 5.3 provides a useful snapshot of education expenditure data for the 2005 and 2006 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings from the data table are summarised in the following sections:

5.2.2 Spending 2006 compared to 2005

While overall spending in education between 2005 and 2006 was relatively steady, there were fluctuations within funding groups. These are:

- The higher funded Provinces were mixed – Western, Morobe, New Ireland and Enga spent more while Southern Highlands and West New Britain spent less.
- The medium funded Provinces show a concerning decline in spending (especially West New Britain, East New Britain, Eastern Highlands and Western Highlands).
- Lower funded Provinces were generally consistent with 2005.
- Why did the medium funded group spend less? Some diverted funds for capital projects or teacher leave fares, others reduced their spending from internal revenue, and in at least one case (Eastern Highlands) there were significant levels of unspent funds.

5.2.3 Spending from Internal Revenue

- Education spending from internal revenue was significant (K13.6 million being 43% of all education goods and service spending).
- Predictably, this spending was largely from Provinces with higher levels of internal revenue – that is, the higher funded group.

5.2.4 Spending in comparison to fiscal capacity

- Overall, education remains the best supported MTDS sector.
- When we adjust for the differences in fiscal capacity most Provinces in the higher and lower funding groups maintain their performance levels – achieving ratings of either medium or high.
- However the performance levels of three of the five Provinces in the medium funded group fell between 2005 and 2006.

5.3 Education Data Table

Education Sector									
Province	Cost of Services est.	2005 expenditure (Kina millions)	2006 expenditure	% change	Expenditure Trend	2006 Internal Revenue Exp % of total exp	Spending level achieved v CoS	2005	2006
Western	4.209	1.774	2.496	41%	Up	83%	Medium	Medium	
SHP	5.000	6.837	5.368	-22%	Down	73%	High	High	
Morobe	6.700	2.242	3.355	50%	Up	40%	Low	Medium	
NIP	2.250	1.747	2.190	25%	Up	64%	High	High	
Enga	3.202	4.435	4.198	-5%	Steady	86%	High	High	Note high expenditure on tertiary level - K1.9m
WNB	3.531	2.643	1.313	-50%	Down	16%	Medium	Low	Spending halved - reflecting heavy fall in internal revenue
ENB	4.049	2.219	1.429	-36%	Down	16%	Medium	Low	Expenditure from internal revenue heavily reduced
Madang	3.024	1.974	1.668	-15%	Down	20%	High	Medium	
Gulf	1.933	0.693	0.737	6%	Steady	15%	Medium	Medium	WHP received a 35% increase in its 2006 FG, yet 58% of the function grant was spent on capital items, internal revenue spending decreased and spent on capital items
WHP	5.455	1.475	0.576	-61%	Down	0%	Medium	Low	Large amounts diverted to TLF and unspent
EHP	4.924	1.940	1.097	-43%	Down	1%	High	Medium	
Central	3.826	0.928	1.314	42%	Up	23%	Medium	High	
Oro	1.828	0.788	0.708	-10%	Steady	2%	High	High	
MBP	3.891	1.132	0.964	-15%	Steady	1%	High	Medium	
Simbu	3.740	1.363	1.355	-1%	Steady	0%	High	High	
ESP	4.067	1.328	1.482	12%	Steady	0%	High	High	
Manus	1.499	0.400	0.401	0%	Steady	15%	High	High	
Sandaun	3.710	0.963	0.839	-13%	Steady	0%	High	Medium	
All Provinces	66.838	34.877	31.488	-10%	Steady	45%	13.618		

Key

above 15%	above 25%	above 80%
in-between	in-between	in-between
below -15%	below 10%	below 40%

NB: results have been adjusted to reflect fiscal capacity

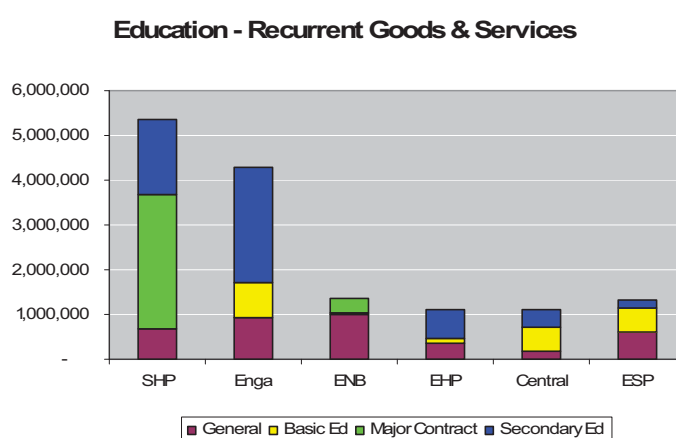
5.4 Drilling down: In what areas do we spend on education?

5.4.1 Overview

The education data table presents the overall spending performance in education of Provinces. But on what specific areas of education did they spend the money? How much spending can be identified in the Government priority area of basic education –that is primary, community and elementary schools? How much was spent on secondary education? And what did the Provinces spend on capital items and tertiary costs? We have selected six Provinces, two from each funding group, and drilled down into their 2006 education spending to get a sample of spending priorities.

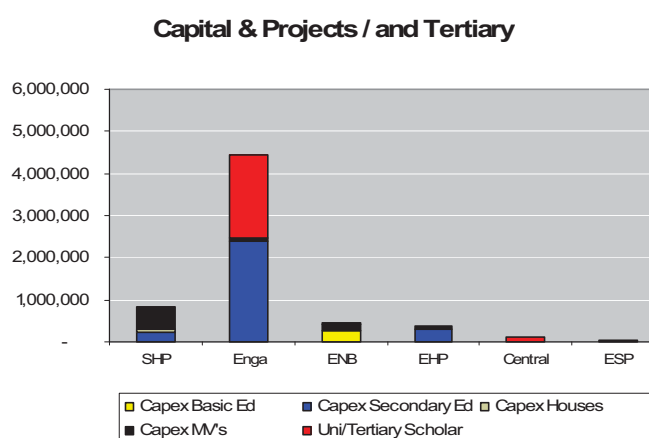
5.4.2 Analysis & Findings

When interpreting the spending performance, we need to be mindful that there are 973,000 enrolled students at elementary & primary in PNG and only 80,700 at secondary level. That means a ratio of 12 to 1. So what does the chart suggest are the Provinces spending priorities? Supporting higher education was clearly a priority in four of the six Provinces.



Relatively speaking, only the two lower funded Provinces demonstrated a commitment to funding basic education through their spending. In the Southern Highlands, it is unclear as to what level of spending occurred in basic education despite high spending in the sector. A large portion of their spending was on a single major contract – but we are not sure what level of schools this was for.¹⁰ In Enga, the highest spender on education in all of PNG only 9% was clearly targeted at basic education. This doesn't seem right, given that approximately 90% of children enrolled at school are at this level. Significant amounts of spending on secondary education (the blue bar) are clearly apparent in four Provinces.

In addition to spending on recurrent goods & services, some Provinces also choose to spend on capital items (such as new classrooms and motor vehicles) and tertiary scholarships. Enga dominates the chart to the right – with high spending in secondary and tertiary scholarships. Three Provinces spent on capital items in higher education, four spent on motor vehicles, and only one on basic education.



¹⁰ It is possible that the major contract to Tried Pacific Limited was directed at basic education – but we are unsure. The SHP Education Adviser was contacted but was unable to clarify this matter.

5.4.3 In summary:

So what can we summarise?

- Support for higher education is clearly apparent in the Provinces sampled for detailed analysis. This is particularly the case in higher funded Provinces.
- Having a higher funding capacity does not necessarily mean the Province spends more on basic education.
- Relative to their capacity, the lower funded Provinces appear to support the Government's priority of basic education.
- Building additional schools or classrooms without increasing recurrent goods & services funding in the Provinces' education sector reduces the effectiveness of education in the Province.

5.5 Drilling down: Why are there anomalies in Teacher Leave Fares?

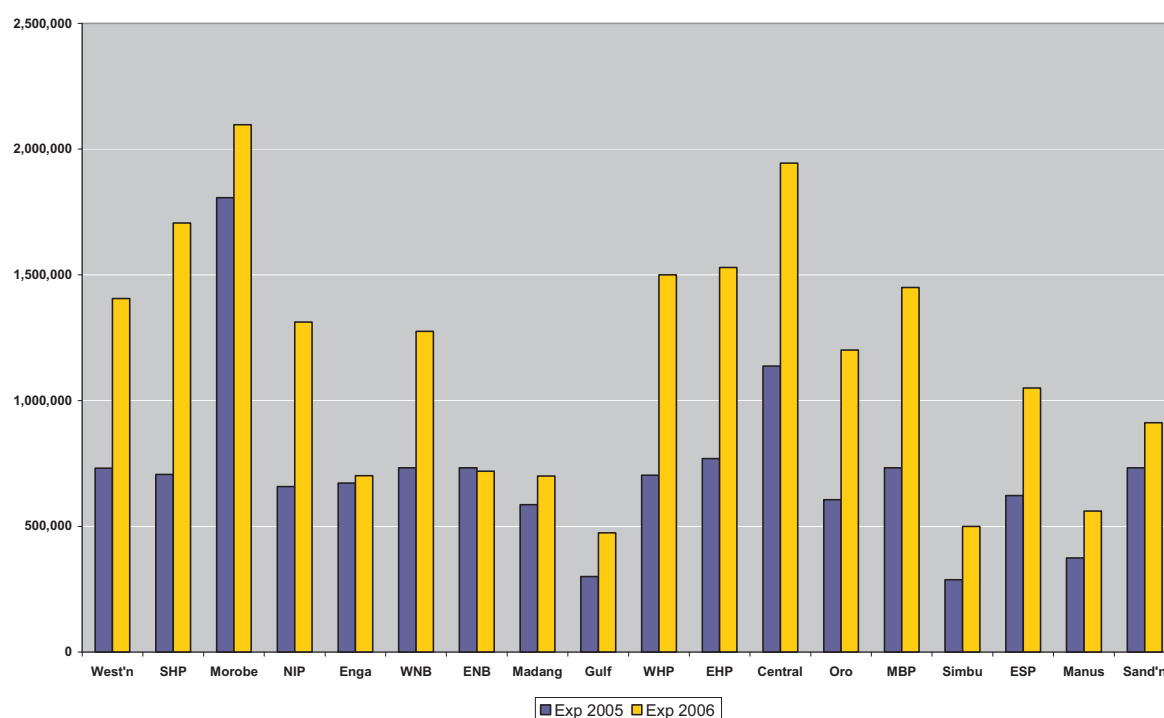
5.5.1 Overview

Each year the National Government provides grant funding to Provinces to meet the cost of teacher leave fares (TLF). Provinces are expected to manage this amount and ensure that teachers within their Province receive the correct entitlement. In 2006, ten Provinces spent considerably more on TLFs than in 2005. Increased spending was also noted in six of the remaining eight Provinces. The Department of Treasury confirmed that additional funding was given to some Provinces to meet TLF arrears.¹¹

5.5.2 Analysis & Findings

Graph 17 illustrates the large variations in the amount spent by each Province for this purpose. NEFC first highlighted this issue in the *2005 Cost Capacity Performance* report. This year we also highlight the high levels of volatility in the expenditure on TLF between 2005 and 2006. We understand from the Department of Treasury that the dramatic increase between years is largely due to the repayment of arrears of outstanding TLFs. However there is still a question of why the expenditure varies so much between like Provinces? Overall expenditure on TLF has increased from K12.9 million in 2005 to K21 million in 2006 – **an increase of 63%**.

Graph 17: Teacher Leave Fares – Comparing expenditure 2005 to 2006



- **Five Provinces doubled** their expenditure on TLF – Southern Highlands, Western Highlands, New Ireland, Oro and Milne Bay.

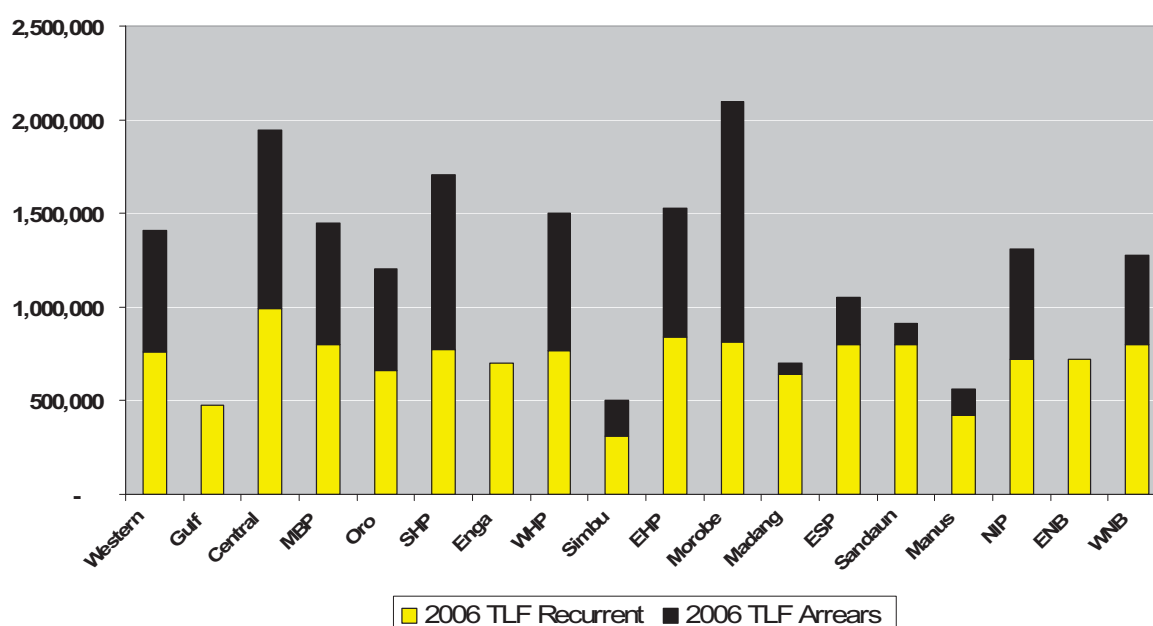
¹¹ Details of which Provinces received additional amounts, and the basis for this, were not available from the Department of Treasury. However we estimated the amount spent by Provinces on TLF arrears and illustrated this in Graph 16 and detailed the amounts in Data Table 17.

- Seven Provinces increased their spending by between 50% and 92% - Western, West New Britain, Simbu, Central, East Sepik, Gulf and Manus.
- The remaining five Provinces had relatively modest increases keeping their expenditure at 2005 levels, although Eastern Highlands have redirected some K1 million from other budget lines (much of which was not education) to fund TLFs.
- Two Provinces, Western and Morobe, made TLF payments from internal revenue.

Opportunities for the Departments of Education and Treasury

1. To clarify how the TLF grants are determined. Are the grants equitable and sufficient in size so that Provincial Administrations can meet their TLF responsibility?
2. Why are there such high differences even between Provinces with similar population & teacher levels?

Graph 18: Estimated split between recurrent spending and arrears on TLFs in 2006



Graph 18 illustrates that nine Provinces appear to have spent large amounts on arrears in 2006.

Table 19: Teacher Leave Fares – A closer look at three Provinces

	Central Province		New Ireland Province		Western Highlands Province	
	2005	2006	2005	2006	2005	2006
Grant	K1m	K1.3m	K0.66m	K1.3m	K0.7m	K1.5m
Expenditure	K1.1m	K1.9m	K0.66m	K1.3m*	K0.7m	K1.5m*
TSC est.	K0.66m		K0.4m		K1m	
Comments	<ul style="list-style-type: none"> Some expenditure on 2003, 2004 2005 arrears Individual leave amounts can be as high as K15,000 per teacher (for a family) 		<ul style="list-style-type: none"> Some expenditure on 2005 arrears Individual leave amounts can be as high as K14,500 per teacher (for a family) <p>* K706,000 was unspent & rolled over to 2007</p>		<ul style="list-style-type: none"> Some expenditure on 2005 arrears <p>* K303,000 was unspent & rolled over to 2007</p>	

In all three Provinces analysed, there was evidence of significant spending on arrears from.

- In two of the Provinces analysed, significant amounts were unspent at year-end. How were these funds spent in 2007?
- Individual teacher leave payments can be as much as K15,000.

Opportunities for Provincial Administrations

1. If we assume that the grants are calculated appropriately, how can we ensure that arrears do not again build up to such high levels? If we don't address this, it is likely in future years the Department of Treasury will again be called upon to allocate millions in additional funding to clear TLF arrears.
2. Are the administrative controls within Provinces for TLF sufficient?
3. Why was so much unspent and carried forward? And how was the carried forward amount then used in 2007?

5.5.3 In summary

TLFs are a significant expenditure item within every provincial budget and we can see that spending levels between Provinces vary considerably. We can also see the level of spending between 2005 and 2006 increased significantly in 12 Provinces. The findings in 2005 and 2006 suggest that this area merits close monitoring by Provincial Administrations, the Department of Education and the Department of Treasury.

Table 20: Teacher Leave Fares – Data Table

	2005- 2007 BUDGET			2005-2006 EXPENDITURE		2006 EXPENDITURE	
	2005 (budget actual)	2006 (budget actual)	2007 (budget)	2005 Expenditure	2006 Expenditure	2006 TLF Recurrent	2006 TLF Arrears
Western	732,400	932,400	787,100	730,652	1,405,911	759,750	646,161
Gulf	866,000	550,000	787,100	300,000	473,953	473,953	-
Central	1,070,500	1,711,800	910,600	1,137,062	1,944,512	990,550	953,962
MBP	732,400	1,450,000	865,600	732,400	1,450,000	799,000	651,000
Oro	605,600	1,205,600	715,700	605,600	1,201,206	660,650	540,556
SHP	706,800	1,706,000	835,400	706,800	1,706,000	771,100	934,900
Enga	672,200	700,900	794,400	672,200	700,900	700,900	-
WHP	703,500	1,500,000	831,400	703,500	1,500,000	767,450	732,550
Simbu	287,800	1,000,000	340,100	287,800	500,000	313,950	186,050
EHP	769,400	769,400	909,300	769,400	1,529,400	839,350	690,050
Morobe	743,700	1,475,600	878,900	1,807,012	2,096,947	811,300	1,285,647
Madang	586,300	700,000	692,900	586,300	700,000	639,600	60,400
ESP	732,400	1,049,600	865,600	622,705	1,049,600	799,000	250,600
Sandaun	732,400	912,000	865,600	732,400	912,000	799,000	113,000
Manus	386,700	602,700	457,000	374,200	560,000	421,850	138,150
NIP	657,800	1,312,800	777,400	657,800	1,312,800	717,600	595,200
ENB	732,400	732,400	859,500	732,400	719,480	719,480	-
WNB	732,400	1,275,400	865,600	732,400	1,275,400	799,000	476,400
TOTAL	12,250,700	19,586,600	14,039,200	12,890,631	21,038,109	12,783,483	8,254,626

- Expenditure on TLF arrears has been derived by using an average of the 2005 and 2007 budgeted grants as a basis. The derived amount was assumed to be the recurrent expenditure in 2006, and anything over that amount was assumed to relate to arrears.

6 Health & HIV AIDS focus

“Investment in primary health care is a fundamental requirement for both social and economic development.....with priority accorded to services in rural areas”

(MTDS 2005 - 2010)



.....how do we make an effective health service happen?

Health programs: deliver in rural areas (disease control, environmental health, family health, nutrition)

Patrols: immunisation extension patrols, school visits, training for village birth attendants

Facilities: operate Government-run rural health facilities and urban day clinics

Maintain: medical and non-medical equipment

Deliver: medical supplies

Staff training: to 8,000 rural health centre staff

Patient transfers: emergency

Water supply: establish & maintain in villages

19% - Provinces only spend 19% of actual costs required (or 29% with HSIP expenditure included)....

6% decline – spending was bad in 2005 it is worse in 2006

K9.8m on casual wages is close to the K12m spent on goods and services

K1.1m more was spent from HSIP funding in 2006

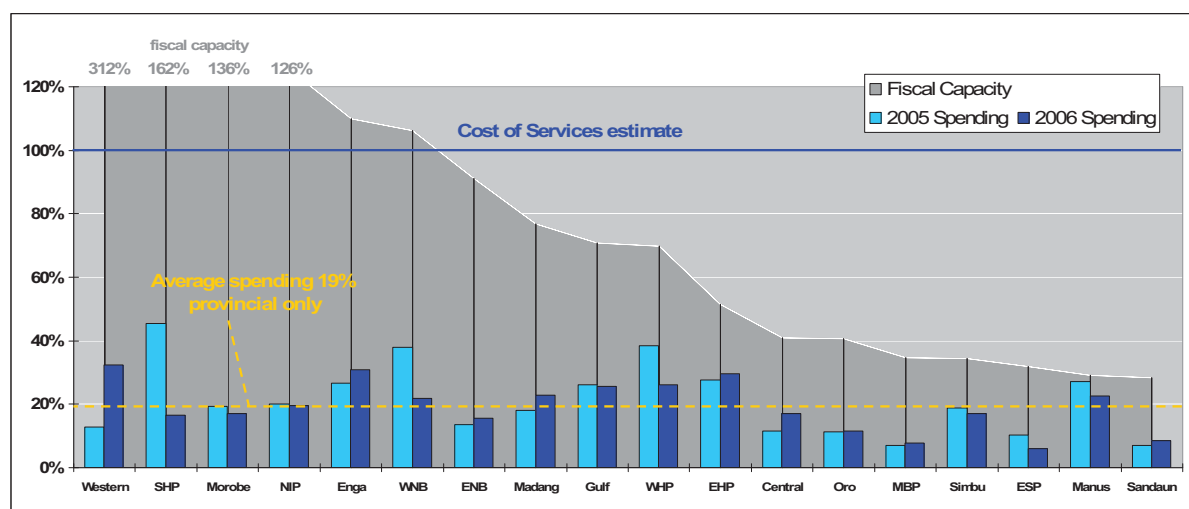
6.1 Health in the Provinces¹²

Providing healthcare to the rural majority throughout Papua New Guinea requires a number of things. We need aid posts and health clinics, community health workers and other resources. The aid posts and health clinics have been built and the National Government pays for the community health workers.¹³ But the community health workers need the 'other resources' that Provincial Administrations are required to provide to carry out the day to day activities involved in healthcare. These include getting the medical supplies to the health facilities, funding the rural health patrols that implement health programs, paying for patient transfers and health facility maintenance. Without these healthcare simply will not happen.

6.2 Against the Benchmark: 2005 to 2006

Graph 18 illustrates the 2005 and 2006 expenditure performance in health of each Province using the Cost of Services estimate as a benchmark. Note that this is expenditure from provincial funds only. Expenditure from HSIP funds is not reflected in this chart.

Graph 21: Health Province-only Spending Performance: 2005 to 2006



6.2.1 Performance Overview

- Overall support for health is very poor.
- Spending was bad in 2005. It is worse in 2006 – there has been a 6% decline.
- On average, Provinces only spent 19% of the actual costs required (or 29% if HSIP expenditure is included)
- Western Province spent 32% of the actual costs required and is the 'best' performing Province in terms of the amount spent in the sector.
- Provinces spent K9.8m on casual wages which is getting close to the K12m spent on goods and services. If these staff are essential, this wage cost should be funded from the national payroll, thereby freeing provincial resources to more adequately support the goods and services that allow health personnel to do their jobs.

¹² Reference to health in this chapter includes costs and expenditure related specifically to HIV Aids.

¹³ There are Provinces meeting costs, sometimes considerable amounts, relating to community health workers.

- HSIP spending in health increased by K1.1m from 2005 to 2006. This funding significantly assists those Provinces who access it.

Data table 6.2 provides a summary of health expenditure data for the 2005 and 2006 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are summarised below:

6.2.2 Spending 2006 compared to 2005

Overall, the spending trend in health between 2005 and 2006 was relatively steady. The very low levels of health spending in 2005 continued in 2006 which is very concerning. Further, the three Provinces (Southern Highlands, West New Britain, and Western Highlands) that performed best in 2005 all declined in 2006. The decline in West New Britain's internal revenue helps explain their reduced health spending. But why did spending in the Southern and Western Highlands decline?

The medium funded group of Provinces continued to perform as well if not better than the higher funded group. Why is spending on health such a low priority, even for those Provinces with the ability to do much better? Lower funded Provinces were generally consistent with their 2005 levels.

6.2.3 Spending from Internal Revenue

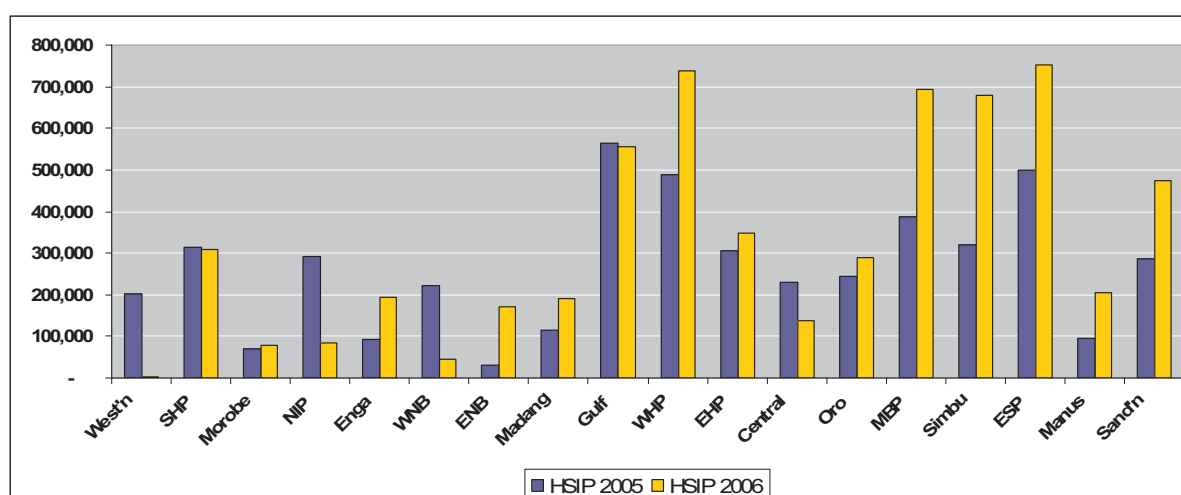
- Health spending from internal revenue was K3.5 million (34% of all health goods and service spending).
- While accepting that spending levels in health are low, internal revenue nonetheless contributes a significant amount in 11 Provinces, with the higher amounts spent by those with the greater financial resources.

6.2.4 Spending in comparison to fiscal capacity

- Overall it is evident that health remains the worst supported MTDS sector.
- The results of the 10 highest funded Provinces showed a poor commitment to health – all achieving low when compared to their capacity.
- When we adjust for the differences in fiscal capacity, most Provinces maintained their 2005 performance levels.
- Western Highlands declined between years, going from medium to low.
- Central improved, moving from low to medium.
- Only Manus achieved a high level, relative to its fiscal capacity.

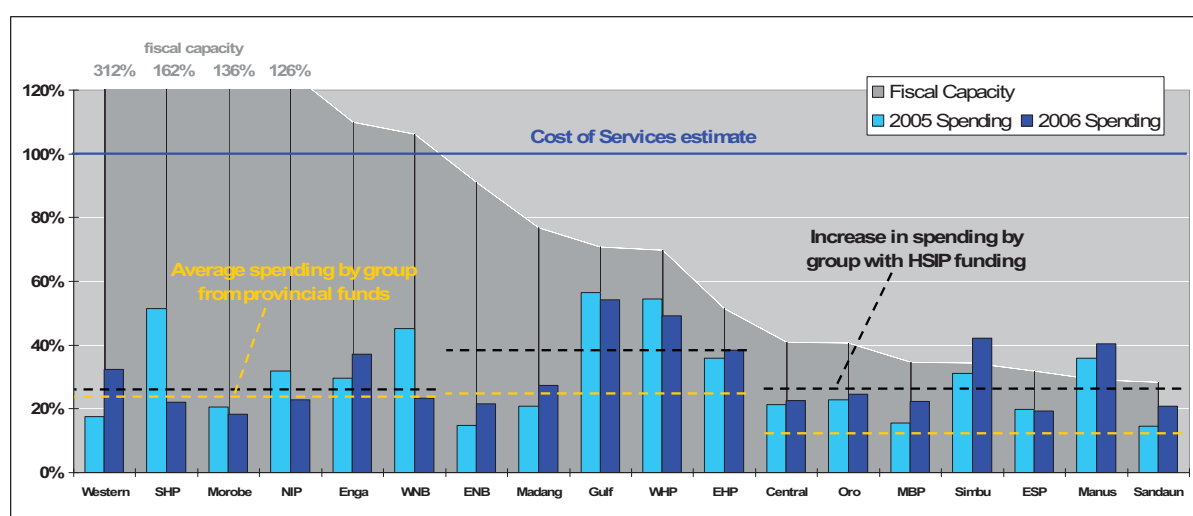
6.2.5 Health Services Improvement Program (HSIP) Funding

As noted in the 2005 review, expenditure from HSIP funds should also be included in the analysis of health expenditure in order to assess whether the actual level of health spending is as low. In this regard, recurrent health spending from HSIP funds increased by K1.1m in 2006. Graph 20 illustrates and compares 2005/2006 spending levels for each Province. Again, note the low spending by higher funded Provinces – why is this?

Graph 22: Health HSIP Spending: 2005 to 2006

Graph 23 combines provincial spending and HSIP funding against the Cost of Services estimate. These results provide a fuller picture of how close we are to adequately supporting basic levels of health spending. The picture remains grim, with the best performing Province (Gulf) only spending 54% of what we conservatively estimate is required, even with HSIP funding:

- Higher funded Provinces do not allocate sufficient funds from their grant and internal revenue and then do not access donor HSIP funding which results in their overall performance being very poor.
- Medium funded Provinces perform better, particularly by accessing HSIP funds and using these to supplement their regular expenditure. In this group, HSIP funding had a high impact.
- Lower funded Provinces also accessed higher levels of HSIP funds and thereby improved their spending support for health.

Graph 23: Health Provincial & HSIP Spending Performance: 2005-2006

6.2.6 Casual Wages

Expenditure on casual wages continues to be highly significant. In 2006, some K9.8 million was spent on casual wages – not far off the K12 million spent on goods and services. It is hard not to conclude that the spending on casual wages is diverting critical funding away from basic goods and services that will support the recurrent activities in the rural health sector. This is specifically the case in Morobe and Madang which account for around three-fifths of overall casual wages spending.

Provinces need to consider the appropriateness of the spending on casual wages, and if these staff are essential, discuss with Treasury the possibility of transferring staff to the Government payroll. If this does not happen, the spending on casual wages will continue to absorb goods and services funding. This is funding that would otherwise be available for spending on such activities as petrol that enables health patrols, childhood vaccinations, training for village birth attendants to help women during child birth and to assist repatriate patients from district health centres to provincial hospitals for treatment.

Opportunities for Provincial Administrations

1. Provinces who are funding community health workers should discuss with the Department of Treasury the possibility of transferring these staff to the Government payroll. This will free up that provincial money to fund the recurrent goods and services that enable health services to take place.
2. Morobe, Madang, East New Britain, West New Britain and Western spend higher levels on health casual wages.

6.3 Church-run Health Services

In conducting this review we have specifically excluded any revenues, costs and expenditure that relate to church-run health facilities. We do however include costs for services that the Provincial Administrations are responsible to meet on behalf of all facilities including church-run facilities – such as delivering medical supplies. This review only considers health related costs and expenditure that are the responsibility of the Provincial Administration.

Health services in the Provinces are provided in a variety of ways. Facilities such as rural health centres and aid posts are run by either the Provincial Administration or by Churches. The Provincial Administrations fund facilities under their management from national grant and internal revenue monies under their budget. The Churches fund facilities under their management from Church grants provided by the National Government.¹⁴

Provincial Administrations have a wider portfolio of health funding responsibilities to meet than the Churches. A straight comparison of funding and facilities will not be a realistic 'apples with apples' comparison. In addition to running the facilities under their management, Provincial Administrations are tasked with the responsibility of implementing the Government's ten health programs within their Province. This includes a range of broader activities than merely managing health facilities. These additional activities include;

- Distributing medical supplies from the regional supply centre to aid posts throughout the Province
- Patient transfers (which can be a substantial cost)
- The maintenance of all health facilities including furniture fittings across PNG (this includes church-run facilities)

There are also other related costs that are not met by the Churches and need to be funded from another source (typically either PHQ, NDoH or LLG's). These include:

- The supply and maintenance of refrigerators, and supply of gas for gas refrigerators
- The maintenance of medical equipment
- The provision of transportation for health centres (patrol vehicles and ambulance)
- The provision of in-service training for staff
- Aid Post maintenance
- Maintenance of health information systems

From our discussions with health officials it appears that the default position is that the Provincial Administration has the primary responsibility but 'if' the Church facility has the ability to perform 'other activities' they do so. We do not know to what extent this happens in practice.

What does seem clear is that Provincial Health (within Provincial Administrations) is funded poorly compared to the Church-run facilities. This topic was analysed and discussed in pages 54-57 of *Cost Capacity Performance* the 2005 Provincial Expenditure Review.

¹⁴ Division 241 of the GoPNG budget, administered by the Department of Health.

6.4 Health Data Table

Health Sector (including HIV)										
Province	Cost of Services est.	2005	2006	% change	Expenditure Trend	Internal Revenue Exp % of total exp	Casual Wages Exp	HSIP Goods & Services	Spending level achieved v Co S	Comments
	(Kina millions)							(Kina millions)	2005	2006
Western	4,626	0.561	1.499	167%	Up	95%	0.566	0.003	Low	Low
SHP	5,565	2.387	0.927	-61%	Down	21%	0.415	0.308	Low	Low
Morobe	5,738	1.049	0.973	-7%	Steady	48%	4.643	0.080	Low	Low
NIP	2,575	0.489	0.506	4%	Steady	73%	0.165	0.084	Low	Low
Enga	3,124	0.787	0.965	23%	Up	27%		0.194	Low	Low
WNB	3,283	1.177	0.721	-39%	Down	11%	0.619	0.045	Low	Low
ENB	2,798	0.362	0.434	20%	Up	61%	0.749	0.737	Low	Low
Madang	4,384	0.751	1.005	34%	Up	31%	1.407	0.191	Low	Low
Gulf	1,949	0.487	0.499	2%	Steady	33%	0.017	0.556	Low	Low
WHP	3,202	1.176	0.840	-29%	Down	0%	0.360	0.737	Medium	Low
EHP	3,954	1.046	1.170	12%	Steady	25%	0.147	0.737	Medium	Medium
Central	2,448	0.271	0.416	54%	Up	0%		0.137	Low	Medium
Oro	2,216	0.236	0.256	8%	Steady	3%		0.288	Low	Low
MBP	4,752	0.320	0.369	15%	Up	7%	0.164	0.695	Low	Low
Simbu	2,689	0.488	0.458	-6%	Steady	0%	0.088	0.679	Medium	Medium
ESP	5,558	0.551	0.329	-40%	Down	38%	0.305	0.751	Low	Low
Manus	1,150	0.298	0.258	-13%	Steady	0%	0.114	0.206	High	Medium
Sandaun	3,925	0.262	0.339	30%	Up	29%	0.061	0.475	Low	Low
				33%						
All Provinces	63,963	12,700	11,963	-6%	Steady	4,091	9,819			
							24% from Grant exp 76% from Internal Revenue exp			

Key			
above 15%	above 25%	below 40%	above 80%
in-between	in-between	below 40%	in-between
below -15%	below 10%	above 40%	below 40%

NB: results have been adjusted to reflect fiscal capacity

7 Infrastructure Maintenance focus

“The rehabilitation and maintenance of PNG’s transport system will enable produce to be moved to markets and goods and services to be delivered to village communities....”

(MTDS 2005 - 2010)

.....how do we make an effective infrastructure maintenance service happen? Activities include:

Maintain: 55-70% of PNGs roads (regular, routine maintenance only (estimated at K10,500 per km for unsealed roads)

Maintain: wharves and jetties (except national ports)

Maintain: rural airstrips

Maintain: minor power houses

Communications: for districts without Telikom

Transport regulation: vehicle registration and licensing; heavy vehicle licensing; small craft safety)

11 Provinces only spent **9%** of the actual costs required

5 Provinces accounted for **96%** of capital spending

RMRP World Bank project had little impact on routine maintenance in 6 Provinces

58% of infrastructure sector spending was from internal revenue **K17.7m**

7.1 Infrastructure Maintenance in the Provinces

Papua New Guinea has an infrastructure network of roads and bridges that enables economic activity and the provision of government services to the people. Maintaining this network in a considered and pragmatic way is essential. Roads that are built and not maintained are an opportunity lost and a massive cost to be incurred in the future. Routine maintenance is fundamental because the cost of the alternative, rehabilitation is truly frightening. Provincial Administrations are responsible for maintaining provincial roads and bridges that make up 60% of the country's road network.

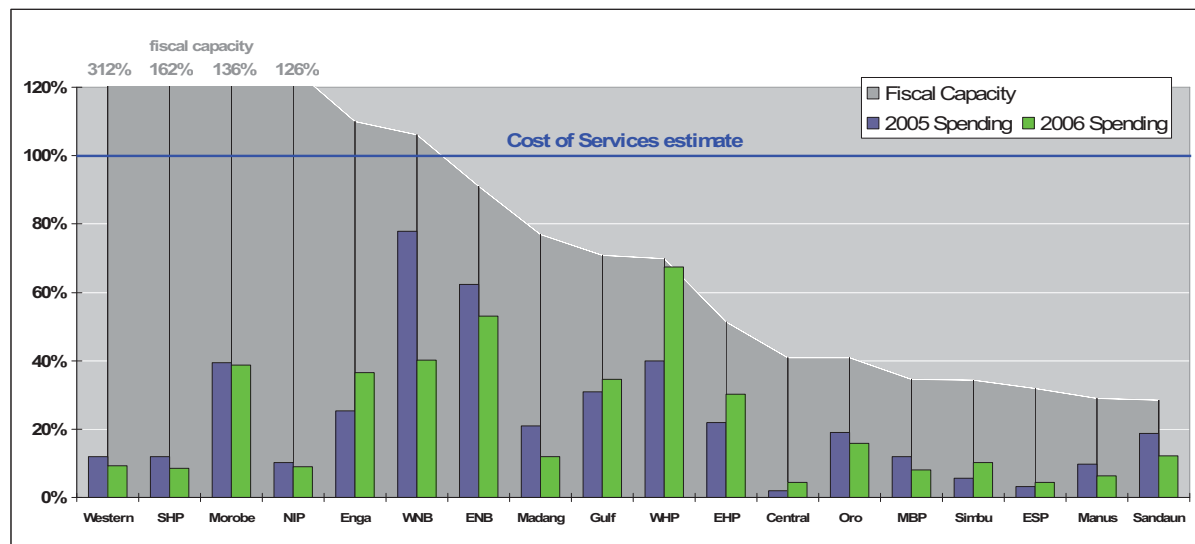
An opportunity to save millions! Having a routine maintenance focus

A sector expert estimated that – “routine maintenance for an unsealed road (on a National Highway) will cost about K6,000/km (per annum) while reconstruction costs about K250,000/km. For sealed roads on a national highway the routine maintenance cost is less, say K4,000/km, while the reconstruction is expensive, say K550,000.”

7.2 Against the Benchmark: 2005 to 2006

Graph 24 illustrates the 2005 and 2006 performance of each Province using the Cost of Services estimate as a benchmark.

Graph 24: Infrastructure Maintenance Spending Performance: 2005 to 2006



7.2.1 Performance Overview

- Individual Provinces showed high volatility in expenditure between years.
- Only 11 Provinces spent an average of 19% of the actual costs required.
- Five Provinces accounted for 96% of the capital spending that occurred (not including PIP and SSG expenditure).

- A very significant 57% (K16.6m) of infrastructure sector spending was from internal revenue.
- Twelve Provinces spent very little or nothing from their grant or internal revenue on infrastructure capital. Capital being new construction, rehabilitation or reconstruction.
- The World Bank RMRP project had a minimal impact on provincial road maintenance (the RMRP project did maintenance in 4 Provinces only)

Data table 7.3 provides a summary of infrastructure maintenance expenditure data for the 2005 and 2006 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are summarised below:

7.2.2 Spending 2006 compared to 2005

Overall, the spending trend in infrastructure maintenance between 2005 and 2006 was relatively steady, although this masks wide variations.

- The most significant increase in spending occurred in Western Highlands– although a note of caution is required when assessing their result. Western Highlands transfer their infrastructure funding to another entity (bank account) making it impossible to conclude whether all or some of the spending was related to infrastructure maintenance.
- The decline in West New Britain's internal revenue may explain their reduction in infrastructure maintenance spending.
- Seven Provinces improved their spending performance over 2005 – East Sepik, Simbu, Central, Eastern Highlands, Gulf, Western Highlands and Enga.
- The spending performance of five Provinces declined since 2005 – West New Britain, Madang, Milne Bay, Sandaun and Manus.
- The spending performance of Western and Southern Highlands Provinces also declined. However, these Provinces spent large capital amounts – it is possible that some of this capital spending was recurrent in nature (being routine maintenance rather than spending on new infrastructure or rehabilitation).
- Morobe, Enga and Gulf also spent a large amount on capital – which may be partly recurrent in nature.
- Spending in 2006 by lower funded Provinces was generally consistent with their 2005 levels. The responsibility to maintain (let alone rehabilitate) provincial transport infrastructure is a heavy burden. Many assets are in poor condition and require much more than routine maintenance. The cost of rehabilitation and reconstruction is many times greater than the cost of routine maintenance.¹⁵ With this knowledge we have a greater understanding of the challenge facing all Provinces, particularly those with a low fiscal capacity.

¹⁵ Routine maintenance for an unsealed road (on National Highway) will cost about K6,000/km (per annum) whilst reconstruction will cost about K250,000/km. For sealed roads on national highways, the routine maintenance cost is less, say K4,000/km, whilst the reconstruction is expensive, say K550,000

7.2.3 Spending from Internal Revenue

- Spending from internal revenue on transport infrastructure was highly significant demonstrating that higher and medium funded Provinces are prioritising this sector by funding infrastructure maintenance from their own revenue sources.
- K17.6 million was spent on maintenance and a further K24.5 million on capital. That is 71% of sector spending came from internal revenue.

7.2.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity, most Provinces maintained their 2005 performance levels.
- The spending performance of one Province improved from medium to high –Western Highlands (see comments earlier in this above).
- The spending performance of two Provinces declined from medium to low –Milne Bay and Manus.

The National Transport Development Plan – 16 National Roads – what about provincial roads?

1. We understand that Government policy is to focus its efforts on 16 major national roads.

It is estimated to cost K1.6 billion to return these roads to good condition and then another K200 million per year every year to maintain them. Currently only K20 million per year is allocated to maintain these roads.
2. Our question is who will pay to maintain the provincial network, particularly roads that are still in a maintainable condition? Surely investing in routine maintenance is worthy to stop their inevitable decline that results in rehabilitation. As we know, rehabilitation is a massive cost.

7.3 Infrastructure Maintenance Data Table

Infrastructure Sector									
Province	Cost of Services est.	2005	2006	% change	Expenditure Trend	2006 Internal Revenue Exp	Capital & Projects Exp	Spending level achieved v CoS	Comments
		(Kina millions)				% of total exp	(Kina millions)	2005	2006
Western	9,718	1,071	0,900	-16%	Down	72%	2,576	Low	Low
SHP	8,127	0,924	0,701	-24%	Down	19%	8,574	Low	Low
Morobe	11,154	4,197	4,306	3%	Steady	81%	5,157	Low	Low
NIP	3,291	0,321	0,299	-7%	Steady	100%		Low	Low
Enga	8,494	2,046	3,104	52%	Up	6%	6,209	Low	Low
VNB	2,534	1,862	1,019	-45%	Down	12%	0,100	Medium	Medium
ENB	6,318	3,753	3,352	-11%	Steady	86%	0,193	Medium	Medium
Madang	7,690	1,539	0,919	-40%	Down	87%	0,050	Low	Low
Gulf	3,354	1,004	1,156	15%	Up	32%	5,229	Medium	Medium
WHP	11,592	4,418	7,822	77%	Up	74%		Medium	High
EHP	12,048	2,533	3,626	43%	Up	74%		Medium	Medium
Central	8,311	0,198	0,366	95%	Up	0%		Low	Low
Oro	2,502	0,455	0,399	-12%	Steady	4%		Medium	Low
MBP	4,676	0,532	0,373	-30%	Down	44%	0,102	Medium	Low
Simbu	5,695	0,301	0,589	96%	Up	0%		Low	Low
ESP	12,940	0,391	0,553	42%	Up	11%	0,493	Low	Low
Manus	2,955	0,276	0,188	-32%	Down	41%		Medium	Low
Sandaun	4,340	0,774	0,526	-32%	Down	0%		Medium	Medium
All Provinces	125,740	26,587	30,197	14%	Steady	17,679	28,682	15% from Grant exp 85% from Internal Revenue exp	
						45%			
						Key			
						above 15%	above 25%	above G&S	above 80%
						in-between	in-between	below G&S	in-between
						below -15%	below 10%		below 40%
						NB: results have been adjusted to reflect fiscal capacity			

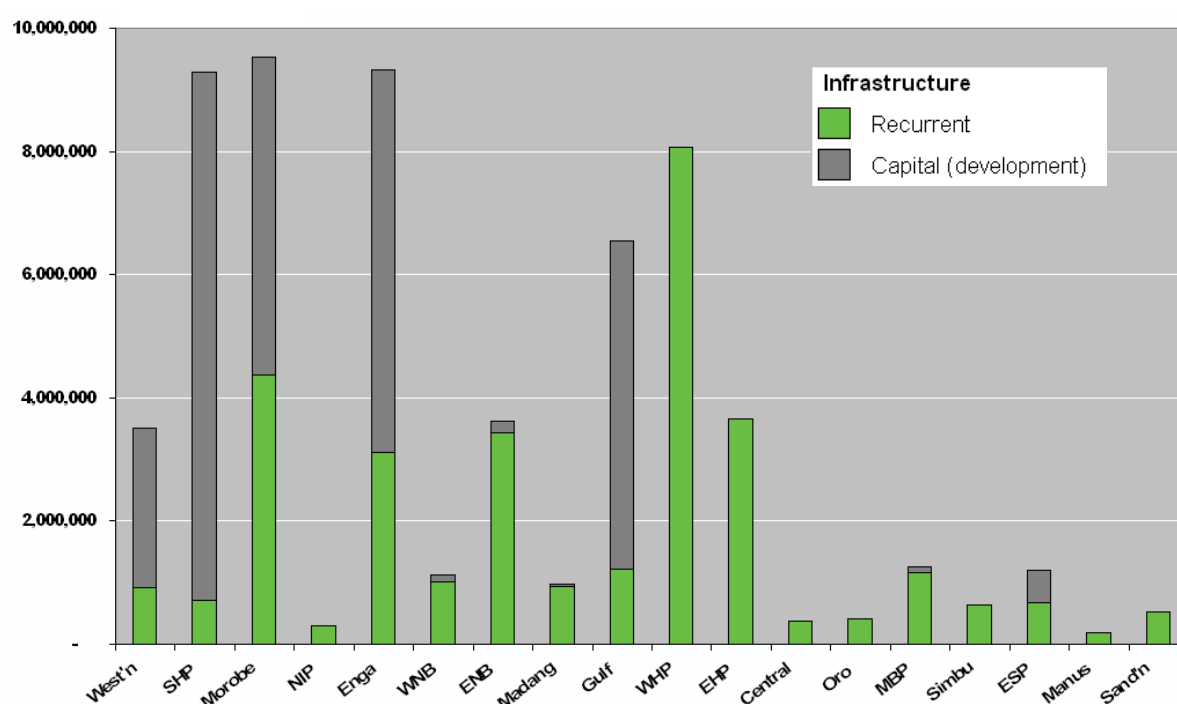
7.4 Drilling down: Recurrent versus Capital

7.4.1 Overview

Drawing the line between recurrent and capital spending in infrastructure is one of the harder analytical assessments that we have to make in assessing provincial expenditure patterns. Quite simply, there is always a degree of judgement involved when conducting such a desk top analysis.

One way to ensure that readers can see the bigger picture is to show both recurrent and capital expenditure on a Province by Province basis. Readers can then consider for themselves the possible impact that any capital spending may have on the sector.

Graph 25: Infrastructure: Recurrent & Capital Expenditure in 2006



- Five Provinces accounted for 96% of the capital spending that occurred (not including PIP and SSG expenditure) – Western, Southern Highlands, Morobe, Enga and Gulf.
- Twelve Provinces spent very little or nothing from their grant or internal revenue on infrastructure capital. Capital being new construction, rehabilitation or reconstruction.
- A note of caution is required when assessing the Western Highlands result. As noted at 7.2.2, Western Highlands transfer their infrastructure funding to another entity (bank account) making it impossible to conclude whether all or some of the spending was infrastructure maintenance related.

7.5 Drilling down: Impact of the Road Maintenance & Rehabilitation Project (RMRP)

7.5.1 Overview

One question that we seek to answer is *what impact do donor projects have on funding recurrent service delivery?* The Road Maintenance and Rehabilitation Project is jointly funded by the World Bank and GoPNG. Commencing in 2003, the project has been extended to 2009. The project seeks to maintain and rehabilitate national and provincial roads and bridges in seven Provinces throughout PNG. These Provinces are:

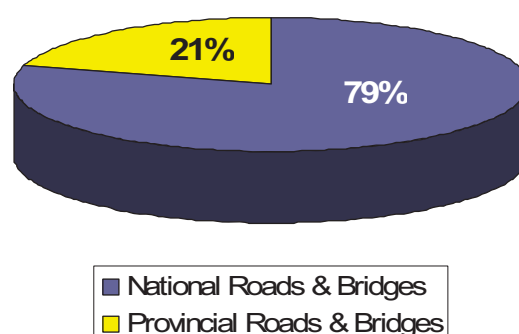
- Central
- East New Britain
- Manus
- Morobe
- Oro
- West New Britain
- Gulf (recent addition)

A project requirement is that if a Province seeks to access the World Bank funds for provincial road maintenance, the Province must contribute 63% - which is a significant proportion for Provinces with limited resources. The biggest take-up has been with East New Britain, Manus and West New Britain.

7.5.2 Analysis & Findings

The RMRP has spent K113 million on civil works between 2003 and 2006. The K113 million spent includes both World Bank loan monies and GoPNG counterpart funds. The counterpart funds are provided by Provinces (for 'provincial' roads and bridges) and by the National Government (for 'national' roads and bridges).

Table 26: RMRP Spending on Civil Works 2003-2006 (including GoPNG funds)



- Provincial roads and bridges received 21% or K23 million.
- National roads and bridges have received the larger share, receiving 79% or K89 million of the monies spent through the project

Most RMRP expenditure is directed at national roads (and bridges) and provincial rehabilitation – not routine maintenance. Although we understand that those provincial roads that are rehabilitated are then maintained.

Table 27: RMRP Provincial Expenditure Table 2003-2006 (excl GoPNG funds)

Province	Road exp Maintenance	Bridge exp Maintenance	CoS estimate	Road exp Rabilitation	Bridge exp Rabilitation	Total exp Rabilitation
Central	522,404		31,784,188	-	-	-
ENB	376,992	143,798	24,105,969	1,373,226	805,268	2,178,494
Manus	-		11,270,002	4,210,226	-	4,210,226
Morobe	189,177		42,452,376	1,787,696	-	1,787,696
Oro	246,675		9,528,119	1,070,106	-	1,070,106
WNB	-		9,561,204	4,362,420	-	4,362,420
	1,335,247	143,798	128,701,858	12,803,675	805,268	13,608,943

Table 27 shows:

- We can summarise that the World Bank project contributed K1.4 million (in loan monies) toward maintenance activities over a 4 year period. This compares to the highly conservative cost of services estimate K128 million. The K1.4 million would have had little impact on the overall need of K128 million.
- K13.6 million, a much higher amount, was spent on rehabilitating provincial roads and bridges in these Provinces.
- What we can see is that the project spent most monies on rehabilitation work, not that of a routine nature. Indeed the project commented that many of the roads are in such poor condition that rehabilitation is necessary, not routine maintenance.

7.5.3 In summary

The RMRP was established to contribute to the transport infrastructure needs in six Provinces (now seven Provinces). But such is the scale of the challenge, the impact of the project is limited as it concerns the necessary routine maintenance that is critical if we are to stop our road network from decaying and placing enormous liabilities on future generations to rehabilitate.

- Only 5% of the project budget was planned for routine maintenance on provincial roads (K9 million of the total project budget of K197 million).
- The RMRP has not been a substitute in meeting the routine maintenance transport infrastructure needs in recipient Provinces. The project budget for routine maintenance on provincial roads was K9 million but only K3.7 million was spent to April 2008.¹⁶
- The project believes that many provincial roads are beyond maintaining and require rehabilitation. This is reflected in the project expenditure which has seen twice the budgeted amount spent on rehabilitation (budget K10 million, expenditure to April 2008 K20.8 million).
- 21% or K23 million of the project's civil works went on Provinces.
- K15 million of that K23 million was World Bank loan monies.¹⁷ With only K1.4 million on routine maintenance and the remaining K13.6 million on rehabilitation.

¹⁶ Latest budget and expenditure amounts provided by the RMRP.

¹⁷ With the balance of approximately K8 million being GoPNG counterpart funding.

8 Agriculture focus

"Papua New Guinea has a long and noble tradition as an agricultural society and primary industries remain the bedrock of the modern day economy."

(MTDS 2005 - 2010)

.....how do we make an effective agriculture service happen?

Extension patrols and farmer training: to support small-holder agricultural development (including food security and livestock)

Agency functions: to national agricultural agencies including commodity boards and National Agricultural Quarantine and Inspection Authority

12 Provinces only spent 14% of the actual costs required

3 Provinces accounted for 88% of capital spending

High volatility in spending between years

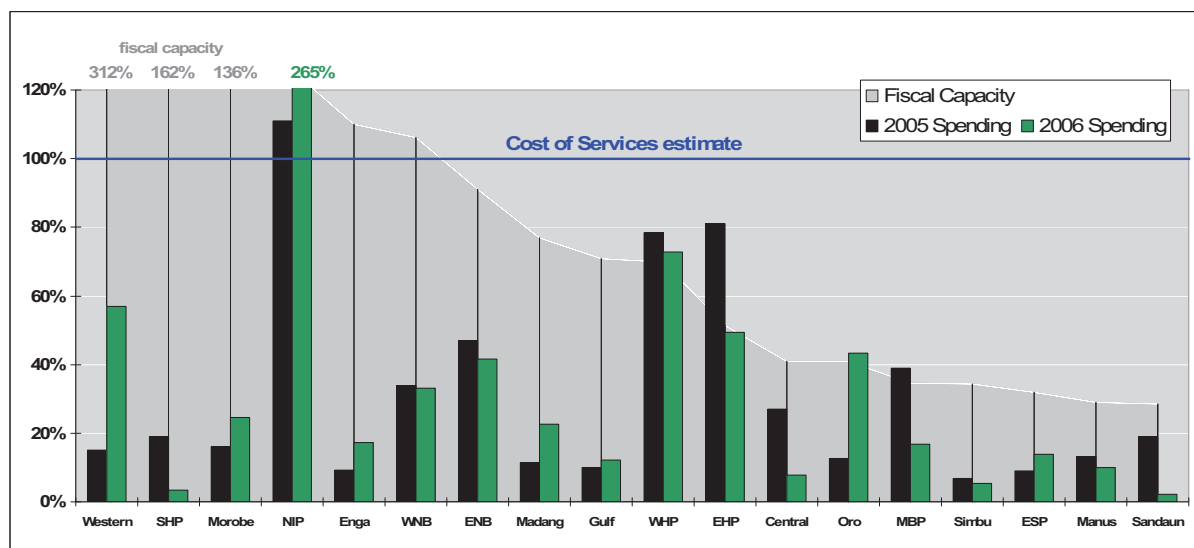
Spending from internal revenue made a significant impact in 4 Provinces

New Ireland spends big

8.1 Against the Benchmark: 2005 to 2006

Graph 28 illustrates the 2005 and 2006 performance of each Province using the Cost of Services estimate as a benchmark. Note that expenditure includes a wide range of recurrent agricultural activities and some project activities that may be recurrent in nature.

Graph 28: Agriculture Spending Performance: 2005 to 2006



8.1.1 Performance Overview

- High volatility in spending between years
- Twelve Provinces only spent on average 14% of the actual costs required.
- Spending from internal revenue made a significant impact in four Provinces.
- Three Provinces accounted for 88% of the capital spending in agriculture.

Data table 8.2 provides a snapshot of agriculture expenditure data for the 2005 and 2006 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are summarised below:

8.1.2 Spending 2006 compared to 2005

- Recurrent goods and services spending in the agriculture sector rose from K6.5 million to K7.6 million.
- The overall spending trend in agriculture was mixed with eight Provinces increasing their spending and seven decreasing their spending. Some of the movements were significant, such as New Ireland's rise and Eastern Highlands fall, and some were relatively minor.
- Even allowing for the fact that we are generous in what we deem to be recurrent agriculture spending, spending in 12 Provinces averaged only 14% of what we estimate is necessary. So there remains room for significant improvement in this sector.

- New Ireland's high expenditure indicates a strong commitment to developing agriculture within the Province. The comments section in Table 8.2 summarises where this expenditure is occurring.
- The Western Highlands also maintained their high 2005 spending level. The majority of the expenditure in the Western Highlands was targeted at coffee production expansion and rehabilitation.
- While agriculture expenditure in the Eastern Highlands declined significantly, it is still evident that a wide range of agriculture activities are being supported.

8.1.3 Spending from Internal Revenue

A significant 47% of sector expenditure was funded from internal revenue. However, five Provinces accounted for K3.2 million of the K3.5 million internal revenue expenditure total: New Ireland, Western, East New Britain, Madang and Eastern Highlands.

8.1.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity most Provinces maintained their 2005 performance levels.
- The spending performance of three Provinces improved: Western, Oro and East Sepik.
- The spending performance of four Provinces declined: Central, Milne Bay, Sandaun and Manus. These are all lower funded Provinces.

Opportunities for Provincial Administrations

1. There is an opportunity for higher and medium funded Provinces such as Western, Southern Highlands, Morobe, Enga, Madang and even West New Britain and East New Britain to better support the agriculture sector and thereby encourage a sustainable income for their people.
2. This is particularly relevant for those Provinces who currently enjoy highly positive revenue streams from mining and petroleum activities. Supporting agriculture will provide more diversified economic opportunities once the mineral resources are gone. Equally importantly, it provides the rural majority with a means of making a livelihood for their families and participating in the economy.
3. New Ireland is an example of a Province that spend significant amounts on agriculture activities.

8.2 Agriculture Data Table

Agriculture Sector										
Province	Cost of Services est.	2005	2006	% change	Expenditure Trend	2006 Internal Revenue Exp	Capital & Projects Exp	Spending level achieved v CoS	Comments	
		(Kina millions)				% of total exp	(Kina millions)	2005	2006	
Higher funded	Western	1.556	0.222	300%	Up	69%		Low	Medium	
	SHP	2.149	0.385	-81%	Down	0%		Low	Low	
	Morobe	2.385	0.364	61%	Up	17%	2.144	Low	Low	
	NIP	0.687	0.725	152%	Up	100%		High	High	
	Enga	1.329	0.116	100%	Up	0%	0.792	Low	Low	
Medium funded	WNB	1.076	0.344	3%	Steady	13%		Low	Low	
	ENB	1.291	0.578	-7%	Steady	89%	0.219	Medium	Medium	
	Madang	1.537	0.167	107%	Up	46%	0.170	Low	Low	
	Gulf	0.889	0.086	26%	Up	0%	1.045	Low	Low	
	WHP	1.372	1.026	-2%	Steady	0%		High	High	
Lower funded	EHP	1.329	1.029	-36%	Down	41%		High	High	
	Central	1.183	0.307	-70%	Down	53%		Medium	Low	
	Oro	0.777	0.093	261%	Up	13%	0.080	Low	High	
	MBP	1.203	0.448	-55%	Down	0%		High	Medium	
	Simbu	0.829	0.054	-20%	Down	0%	0.050	Low	Low	
	ESP	1.634	0.140	62%	Up	13%		Low	Medium	
	Manus	0.530	0.067	-20%	Down	0%		Medium	Low	
	Sandaun	1.664	0.302	-88%	Down	0%		Medium	Low	
All Provinces		23.420	6.452	18%	Up	3.498	4.499	28% from Grant exp 72% from Internal Revenue exp		
		1.144				Key				
		0.1773607				above 15%	above 25%	above G&S	above 80%	NB: results have been adjusted to reflect fiscal capacity
						in-between	in-between	below G&S	in-between	
						below -15%	below 10%		below 40%	

9 Village Courts focus

“...for semi-subsistence village communities the rule of law is an essential requirement for encouraging participation in the market economy.”

(MTDS 2005 - 2010)



.....how do we make an effective village courts service happen?

Allowances: Pay allowances to 13,000 village courts officials, community police and land mediators

Uniforms: Provide flags, badges, uniforms and court forms to village courts

Supervision: Supervise village court operations and undertake audit of financial and court records

Travel: Fund District Court magistrates' travel for appeals

K10.8m spent in 2006 (up from K6m in 2005) – the increase was a push to clear arrears of allowances

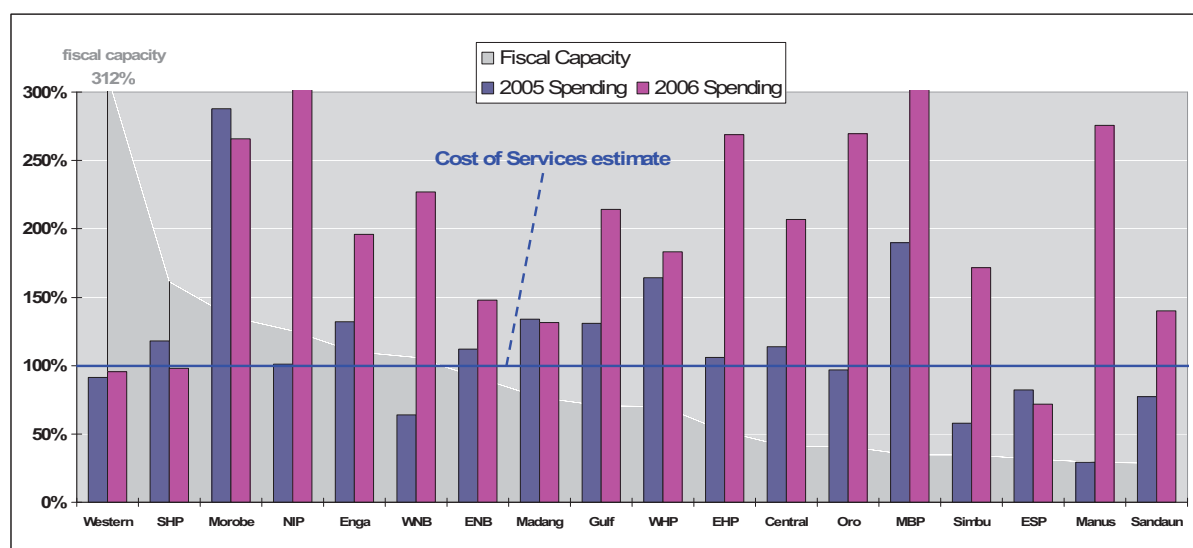
Only **1** Province, East Sepik, spent less than the cost estimate

Spending from **internal revenue** was only **K500,000**

9.1 Against the Benchmark: 2005 to 2006

Before 2005, the system of village courts was widely perceived to be in a state of terminal decline. In 2005, this decline was reversed when the National Government introduced a dedicated grant to pay the salaries of the village court officials. An additional amount was included in the grant in 2006 to meet back pay claims (a similar amount was also directed to the same purpose through the Attorney-General's Department).

Graph 29: Village Courts Spending Performance: 2005 to 2006



9.1.1 Performance Overview

Graph 29 illustrates the 2005 and 2006 performance of each Province using the Cost of Services estimate as a benchmark. In reviewing the chart and data table readers should know that the National Government increased the level of Village Court Allowance Grant from K4 million to K12.5 million in 2006¹⁸. This enabled Provinces to meet back claims and arrears from prior years.

- Some Provinces 'benefited' from significantly increased grant funding and consequential spending increases in the village court sector in 2006: New Ireland, West New Britain, Eastern Highlands, Central, Milne Bay, Simbu and Manus.
- Two of the Provinces (Southern Highlands and Western Highlands) that received the largest increases in allowance grant appropriations failed to spend all the money and spent a proportion on items that appeared to be non-sectoral.

Data table 9.2 provides a snapshot of village court expenditure data for the 2005 and 2006 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are summarised below:

¹⁸ Although the Department of Treasury did not release the whole grant appropriation for every Province.

9.1.2 Spending 2006 compared to 2005

We have already mentioned that spending levels in 2006 increased markedly over 2005. We understand the increases were to assist Provinces to repay outstanding village court allowances. This topic is explored further in section 9.2.

9.1.3 Spending from Internal Revenue

- Spending from internal revenue in the sector was relatively minor at K0.5 million.
- Only four Provinces made any significant expenditure from internal revenue. These were: Western, Madang, West New Britain and Sandaun.

9.2 Drilling down: Estimating Village Court Arrears in 2006

9.2.1 Overview

In 2006, the National Government increased the budget for the Village Court Allowance Grant from the 2005 level of K4 million to K12.6 million, a threefold increase. This was to enable Provinces to repay outstanding village court allowances that had accrued over time. Graph 30 estimates the value of expenditure in 2006 on village court allowance arrears using the 2007 grant level as a guide to what the recurrent amount might be.

- Some Provinces have been allocated more than others to repay arrears.
- In 2007, the National Government established a Village Court Function Grant to complement the Village Court Allowance Grant. It is hoped that by establishing both an allowance grant and a function grant, the village court sector will receive adequate funding support. With appropriate budgeting and expenditure management, this should ensure that arrears do not accrue again.

Graph 30: Estimated Split between recurrent & arrears in Village Courts Spending

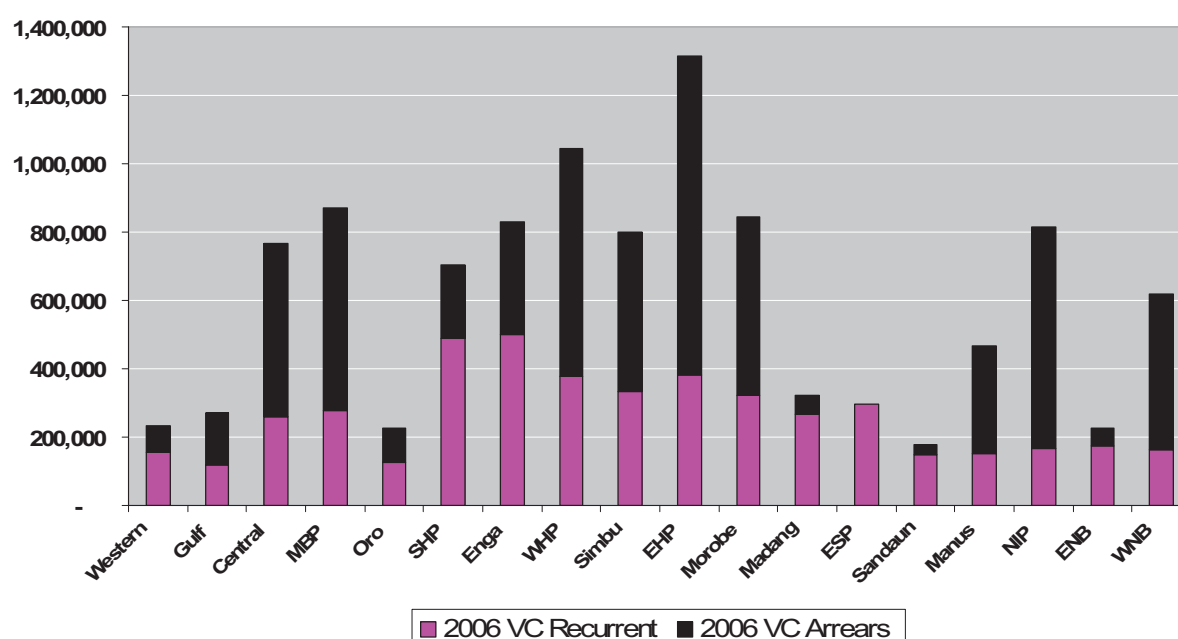


Table 31: Village Court Grant – Data Table

	2007 Budget	2005-2006 EXPENDITURE		2006 EXPENDITURE	
	2007 (budget)	2005 Expenditure	2006 Expenditure	2006 VC Recurrent	2006 VC Arrears
Western	156,800	209,876	232,683	156,800	75,883
Gulf	117,500	156,509	268,598	117,500	151,098
Central	260,100	145,901	765,644	260,100	505,544
MBP	276,800	270,400	870,400	276,800	593,600
Oro	124,300	78,126	226,939	124,300	102,639
SHP	488,100	796,034	704,000	488,100	215,900
Enga	499,300	532,031	831,000	499,300	331,700
WHP	377,600	895,329	1,046,074	377,600	668,474
Simbu	332,200	258,900	798,620	332,200	466,420
EHP	382,000	493,500	1,315,100	382,000	933,100
Morobe	321,200	871,635	845,751	321,200	524,551
Madang	267,600	313,000	323,700	267,600	56,100
ESP	431,900	323,975	297,241	297,241	-
Sandaun	149,600	92,965	177,244	149,600	27,644
Manus	150,800	46,770	467,900	150,800	317,100
NIP	164,900	135,590	815,359	164,900	650,459
ENB	175,000	163,785	227,154	175,000	52,154
WNB	163,000	165,262	618,900	163,000	455,900
TOTAL	4,838,700	5,949,588	10,832,306	4,704,041	6,128,265

9.3 Village Courts Data Table

Village Courts Sector									
Province	Cost of Services est.	2005 expenditure (Kina millions)	2006 expenditure	% change	Expenditure Trend	2006 Internal Revenue Exp % of total exp	Spending level achieved v CoS	2005	
								2005	2006
Western	0.243	0.210	0.233	11%	Steady	57%		91%	96%
SHP	0.720	0.796	0.704	-12%	Steady	0%		118%	98%
Morobe	0.318	0.872	0.846	-3%	Steady	3%		288%	266%
NIP	0.142	0.136	0.815	501%	Up	1%		101%	575%
Enga	0.425	0.532	0.831	56%	Up	3%		132%	196%
WNB	0.273	0.165	0.619	274%	Up	21%		64%	227%
ENB	0.154	0.164	0.227	39%	Up	8%		112%	148%
Madang	0.246	0.313	0.324	3%	Steady	38%		134%	132%
Gulf	0.125	0.157	0.269	72%	Up	0%		131%	214%
WHP	0.572	0.895	1.046	17%	Up	2%		164%	183%
EHP	0.489	0.494	1.315	166%	Up	2%		106%	269%
Central	0.370	0.146	0.766	425%	Up	0%		114%	207%
Oro	0.084	0.078	0.227	190%	Up	2%		97%	270%
MBP	0.149	0.270	0.870	222%	Up	0%		190%	585%
Simbu	0.465	0.259	0.799	208%	Up	0%		58%	172%
ESP	0.413	0.324	0.297	-8%	Steady	0%		82%	72%
Manus	0.170	0.047	0.468	900%	Up	0%		29%	275%
Sandaun	0.126	0.093	0.177	91%	Up	36%		77%	140%
All Provinces	5.484	5.950	10.832	82%	Up	5%			

NB: results have NOT been adjusted

to reflect fiscal capacity. The Village Court Grant is deemed adequate from which to fund the sector activities, therefore an adjustment is not believed necessary.

Key

4.883

0.8206815

above 15%	above 25%	above 200%
in-between	in-between	in-between
below -15%	below 10%	below 75%

10 Administration focus



Control: administration spending tends to grow, we need to control it, **K7m** more was spent on recurrent administration in 2006

.....how do we make an effective administration service happen?

Executive functions: Office of Governor, Deputy Governor, Administrator, Deputy Administrators

Corporate services functions: Budget and revenue collection, Policy and Planning, Human Resources, payroll administration, in-service training, Internal Audit, Legal Services

Operational costs: Includes costs of office furniture, computer repair and routine replacement, fax and photocopiers, stationery, utilities, telephone and vehicles or boats

Supervision and support: for local-level Governments

Maintenance: provincial and district administration building maintenance

3 Provinces decreased their spending on administration

More than **60%** of the Block Grant goes on administration

One-third of all spending from internal revenue was on administration

Double we spend twice as much as is necessary on administration

10.1 Administration in the Provinces

Administration is a necessary cost for every Provincial Administration. However history proves that administration expenditure tends to increase unless a close control is maintained. We will see that some Provinces spend three or four times as much as we estimate is required on administration – while at the same time key sectors such as health and infrastructure maintenance have nowhere near enough funding.

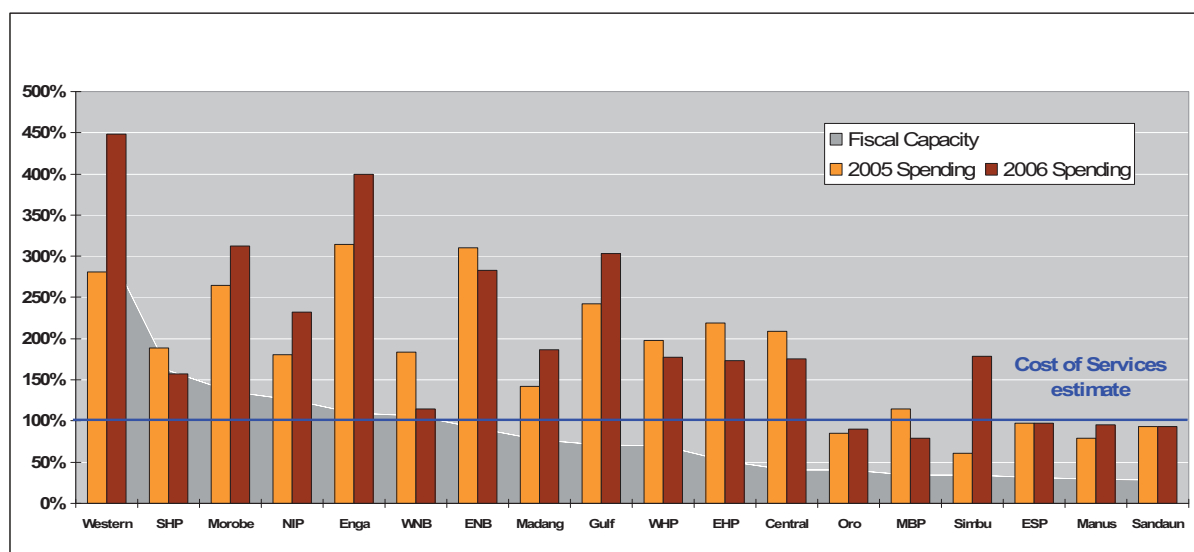
An opportunity to reduce costs

There is a huge opportunity for Provinces to reduce their expenditure on administration and redirect the savings to the priority service delivery sectors.

10.2 Against the Benchmark: 2005 to 2006

Graph 32 illustrates the 2005 and 2006 performance of each Province using the Cost of Services estimate as a benchmark. You will observe greater volatility in the spending levels of higher funded Provinces compared to those of lower funded Provinces.

Graph 32: Administration Spending Performance: 2005 to 2006



10.2.1 Performance Overview

- On average Provinces spent 200% or double the actual administration costs required.
- Administration spending increased by K7 million in 2006.
- Three Provinces, West New Britain, Eastern Highlands and Milne Bay, decreased their spending in 2006. This demonstrates that savings can be made.
- 82%, or K44.6 million, of spending on recurrent goods and services on administration was funded from internal revenue

Data table 10.2 summarises administration expenditure data for the 2005 and 2006 fiscal years. It allows the reader to monitor the trend across the sector and by Province. The main findings are summarised below:

10.2.2 Spending 2006 compared to 2005

- Recurrent sector spending on goods and services rose by K7 million from K47.6 million to K55.3 million. This compares to the Cost of Services study which estimates that K27 million is required.
- High and medium funded Provinces spend up to two times (New Ireland and East New Britain), 3 times (Morobe and Gulf) and four times (Western and Enga) as much as the cost estimate. While most low funded Provinces spend close to what is estimated as necessary.
- The overall spending trend in administration was generally upward, with eight Provinces increasing their spending and three Provinces decreasing their spending. Some of the movements were significant, such as the rise in Western and Simbu and the fall in West New Britain.
- However, what is clear is the priority given to administration. Even Provinces that have very low levels of funding allocate to and spend relatively high proportions on administration, although Provinces that are better off spend well above what is necessary.¹⁹
- It was pleasing to see that West New Britain reduced its expenditure in administration in line with its spending reductions in other service sectors – this would appear to be in response to their reduction in internal revenue in 2006. However, it also indicates that reducing spending on administration is possible. If revenues did not decrease, administration spending could still have been reduced and this funding could have been redirected to core service delivery areas.

10.2.3 Spending from Internal Revenue

- Internal revenue funded 82% of recurrent spending – even in lower funded Provinces internal revenue contributed significantly to administration spending.
- When expenditure on personnel emoluments and capital & projects is included, one-third of all spending from internal revenue is on administration.

¹⁹ Some Provinces centrally pay and record the costs of certain overheads such as utilities and some vehicle related costs. This cost remains in the administration totals. It would be preferable in such instances to allocate the appropriate proportion to the other relevant sectors – however we lack the detailed information necessary to enable us do so.

10.3 Administration Data Table

Administration Sector									
Province	Cost of Services est.	2005	2006	% change	Expenditure Trend	2006 Internal Revenue Exp	Spending level achieved v CoS	Comments	
		(Kina millions)				% of total exp	2005	2006	
Higher funded	Western	1.846	4.900	69%	Up	97%	281%	449%	Significant increases across the board in admin spending
	SHP	1.773	3.144	-12%	Steady	65%	189%	157%	
	Morobe	2.287	5.765	24%	Up	100%	265%	312%	Increased spending in utilities, PA Office, assembly, charters, & legal.
	NIP	1.367	2.346	36%	Up	100%	181%	233%	
	Enga	1.432	4.275	34%	Up	84%	314%	400%	Increased spending in transport (fuel & mtce), office renovation, Gov's Office, and airfare subsidies.
Medium funded	WNB	1.300	2.248	-34%	Down	62%	183%	114%	
	ENB	1.731	5.125	-4%	Steady	86%	310%	283%	
	Madang	1.587	2.140	39%	Up	79%	142%	187%	Increases on consolidated operational costs & Finance & Administration costs
	Gulf	0.818	1.890	31%	Up	81%	242%	303%	
	WHP	1.445	2.724	-6%	Steady	79%	198%	178%	
Lower funded	EHP	1.371	2.867	-17%	Down	64%	219%	174%	Decreased spending in the area of staff housing & building maintenance - despite large increase in Block Grant
	Central	1.263	2.526	-12%	Steady	83%	209%	176%	
	Oro	1.105	0.901	11%	Steady	26%	86%	91%	
	MBP	1.542	1.687	-28%	Down	50%	115%	79%	
	Simbu	1.271	0.737	208%	Up	41%	60%	179%	Increased exp in PA's Office, Gov's Office & vehicle purchases - reflecting large increase in Block Grant
	ESP	2.221	2.070	4%	Steady	63%	97%	97%	
	Manus	1.146	0.866	26%	Up	90%	79%	96%	
Sandaun	1.610	1.441	1.504	4%	Steady	70%	94%	93%	
All Provinces	27.114	47.649	55.363	16%	Up	45.069	181%	200%	

Key
7.715
0.1619069

above 15%
in-between
below -15%

above 25%
in-between
below 10%

below 100%
100%-200%
above 200%

NB: results have been adjusted to reflect fiscal capacity

10.4 Drilling down: Block Grant – where does it go?

10.4.1 Overview

In 2006, the National Government provided a block grant of K20m to Provinces. The block grant is intended to be used for Provincial Government administrative overheads and the costs for other sectors not covered by the function grants. These include Community Development, Law & Order (excluding Village Courts) and Economic (excluding Agriculture). However, Provinces have discretion on how they use the block grant. So where did the block grants get spent in 2006 and how much contributed to service delivery sectors?

10.4.2 Analysis & Findings

Table 33 details analysis of where 11 Provinces spent their block grants during 2006.²⁰

Table 33: Spending from Block Grant 2006

1 Provinces	Block Grant	Admin %	FG Sectors %	Other Sectors %	Total	Health	Education	Infrastructure
Morobe	1,605,600	9%	45%	46%	100%	0%	0%	0%
NIP	124,100	0%	0%	100%	100%	0%	0%	0%
Enga	1,391,800	63%	14%	23%	100%	0%	0%	11%
WNB	115,300	100%	0%	0%	100%	0%	0%	0%
ENB	1,150,000	0%	5%	95%	100%	0%	0%	0%
WHP	820,800	73%	0%	27%	100%	0%	0%	0%
EHP	3,129,000	63%	18%	19%	100%	2%	12%	2%
Oro	399,400	70%	5%	25%	100%	0%	0%	2%
Simbu	1,876,200	100%	0%	0%	100%	0%	0%	0%
ESP	1,447,100	66%	7%	28%	100%	0%	0%	3%
Sandaun	591,000	49%	10%	42%	100%	0%	0%	3%
Manus	113,500	100%	0%	0%	100%	0%	0%	0%
Total	12,763,800							
Average		56%	14%	30%	100%	1%	3%	2%

What we can see is:

- Spending on administration averaged 56% but can be divided into three groups: Provinces that spent nothing or little on administration (three Provinces); Provinces that spent around two-thirds (five Provinces), and Provinces that spent all their block grant on administration and none of the block grant on other service delivery areas not covered by the service delivery function grants (three Provinces).
- Spending on priority service delivery sectors averaged 14%, but little went on the major function grant sectors of health, education and infrastructure.

²⁰ Analysing where Provinces expend their block grant was a challenging task. Provincial budget coding practise varies greatly and clearly identifying where the block grant was allocated and then expended was a matter of some judgement.

- Spending on other service delivery sectors averaged 30%.

One implication of the findings is that if the National Government wants to ensure that a proportion of the Block Grant is dedicated to other service delivery sectors not covered by the service delivery function grants, it needs to have a specific function grant dedicated to 'other service delivery'.

11 Conclusion

The 2006 Provincial Expenditure Review *It's More Than Numbers* provides an evidence-based assessment of provincial performance by comparing cost, fiscal capacity and expenditure across Provinces in the 2005 and 2006 fiscal years.

The results help us see how close we are to achieving our aim of delivering the basic priority services throughout Papua New Guinea? We can see the areas in which we are improving and the areas that require urgent attention if tangible improvement is to be made.

Summary

In summary, how then can we make progress when the challenge appears so big? Real progress is possible:

- The funding gap that was highlighted in the 2005 report remains in 2006 and will only be addressed by implementing intergovernmental financing reform that directs more funding to the low-funded Provinces.
- Provincial Governments and Administrations need to address the priority gap by choosing to reallocate their spending to support the priority sectors, particularly health, basic schooling and transport maintenance.
- Provinces and central agencies can use the NEFC Cost of Services Study as a guide to how much recurrent funding is required to deliver core services across PNG.
- In overall terms, spending across MTDS sectors increased between 2005 and 2006 by 6%. However if we were to remove the amount allocated to address the backlog of village court allowances and adjusted for the impact of inflation and population rises spending decreased by 6% in real terms.

Administration and non-priority areas

- In overall terms, spending within the administration sector increased between 2005 and 2006 by over K7 million (16%). We need to control and reduce spending in low priority areas. These include administration, projects, and casual wages. Some Provinces have shown that reducing spending on administration is possible.
- In 2006, two-thirds of internal revenue expenditure went on non-priority sectors and activities such as administration, arrears, and smaller sectors. The whole provincial resource envelope (both grant funds and internal revenue) should be available for allocation to support recurrent spending in priority areas, not simply national grants.
- There is wide variety of approaches to using the block grant. Some use it all to support administration or non-core service delivery areas.
- Similarly, we need to consider the impact of employing additional staff. Increasing staff numbers places more demand on the recurrent goods and services budget. When we employ additional staff they need to be resourced. They need office space, use electricity, often need a computer, need to travel for work (which means travel allowance, fuel costs, car hire, air travel etc) and recreation leave fares. When we don't increase our recurrent budget to provide for these costs we reduce the amount available to support all our staff – and we reduce their effectiveness. This means less extension visits to our farmers, less health patrols to our families and communities, less road and other transport and building maintenance and less curriculum and other necessary school materials for our children.

Education

- Education spending decreased by K3 million (10%) yet remains the best funded core service delivery sector.
- We need to consider whether our education spending is being targeted to the benefit of the majority of our children. Our analysis shows that high spending in education does not mean that the majority of children benefit. Often secondary education receives more than basic education. We need to ensure that elementary, community and primary schools are adequately resourced.
- What systems have we in place to manage the area of teacher leave fares? Spending in this area increased alarmingly in 2006. The underlying intention of the increased funding and spending was to clear the arrears of teacher leave fares due. We need to properly cost, fund and manage this area so this doesn't happen into the future. There appear to be large anomalies between Provinces.

Health

- Health spending decreased by K700,000 (6%) and remains the worst funded service delivery sector.
- While more HSIP funding was accessed for health in 2006 than in 2005, many Provinces seem to ignore this funding source. Provinces should use all means at their disposal to support priority areas.
- Spending on casual wages continues to be highly significant in some Provinces. Affected Provinces should discuss this matter with the Departments of Treasury and Personnel Management – Community Health Worker salaries are normally a National Government responsibility. This spending is at the expense of such activities as the fuel that enables health patrols, patient repatriations and drug and vaccine distribution and the refrigeration that keeps drugs and vaccines safe to use.

Infrastructure

- Infrastructure spending increased by K3 million (14%) yet the gap between what is spent and what is required remains large.
- Other donor initiatives such as the Road Maintenance and Rehabilitation Project has made some funding available for assisting with recurrent activities but it has been little used.
- Capital spending (rehabilitation and new construction) remains largely restricted to five Provinces – and is supplemented by donor activities such as the World Bank, ADB and AusAID.
- We need to consider the impact of new infrastructure development. New infrastructure development places increasing demand on the recurrent goods and services budget. New infrastructure development that is not matched with an increased recurrent budget year-on-year will reduce service delivery. Roads that are not maintained today, tomorrow or the next year, will become a major rehabilitation cost of the future.

Agriculture

- Agriculture spending increased by K1 million (18%) yet the gap between what is spent and what is required remains large for most Provinces.
- New Ireland's high expenditure, however, indicates a strong commitment to developing agriculture within the Province.

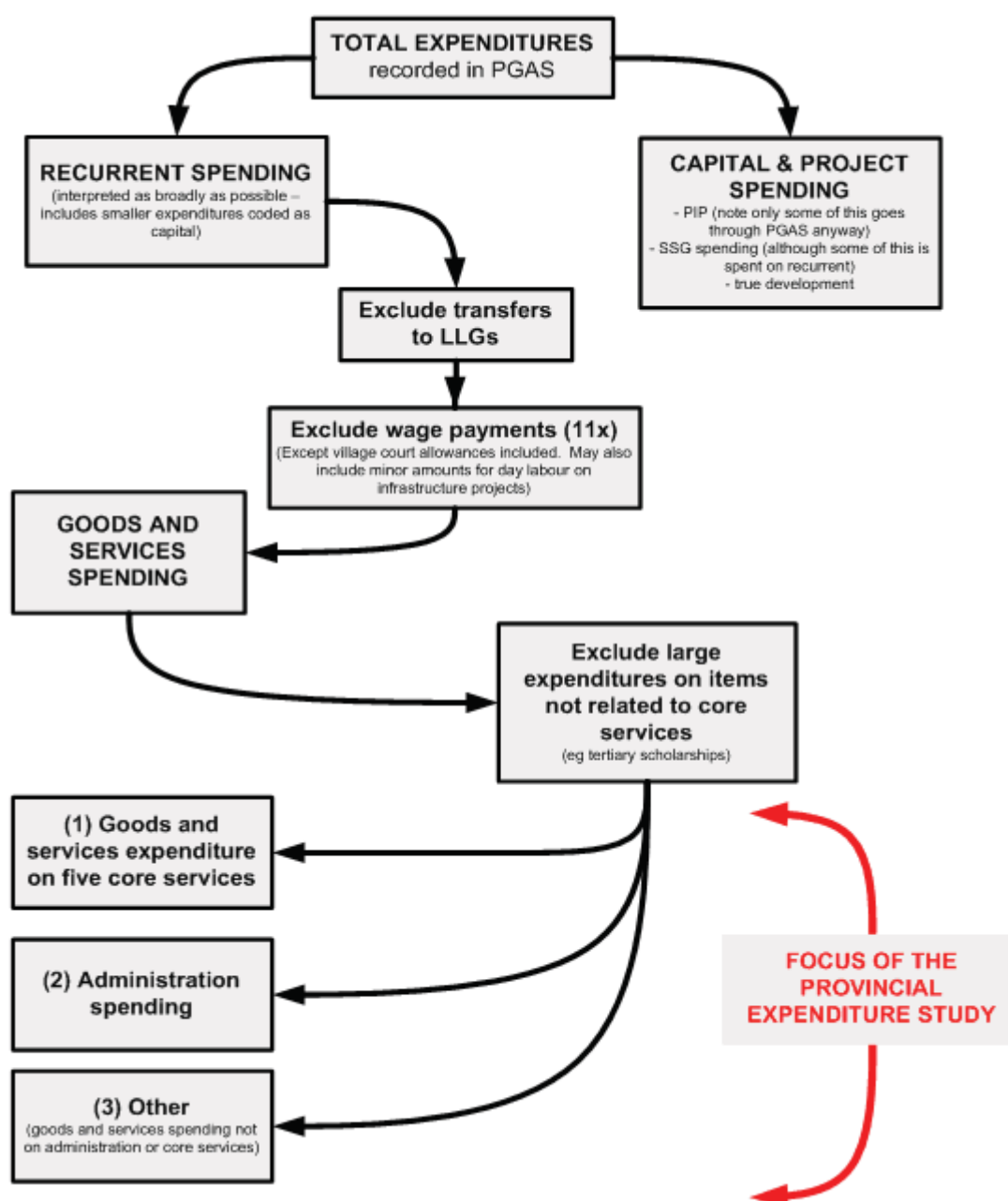
Village courts

- Village Court spending increased by K4.9 million (82%) – with a significant uplift to address a backlog of allowance arrears.
- Like teacher leave fares, what systems have we in place to manage the area of village court allowances? Spending in this area increased alarmingly in 2006. The underlying intention of the increased funding and spending was to clear the arrears of village court allowances. We need to properly cost, fund and manage this area so this doesn't happen into the future. .

Appendix 1: Data – What's In What's Out

Flowchart 34 illustrates what expenditure is included in the provincial expenditure study – and then compared against the cost of services estimates – and what is excluded. To reiterate, we are reviewing expenditure on recurrent goods and services, the spending that supports the delivery of services to our people- not projects, not staffing and not other capital/development expenditures.

Flowchart 34: Data – What's in & What's out



Appendix 2: Understanding the Methodology

The analysis and findings in this report are derived by comparing actual expenditure in a particular sector to the estimated cost for providing services in that same sector, while taking account of a Province's overall fiscal capacity. The four slides that follow work through an example to assist the reader understand this methodology.

Comparing Actual Spending to Cost of Services Estimates (slides 1 and 2)

1. Comparing actual spending to cost estimates

- We need to assess how close a province is to adequately supporting service delivery.
- We do this by comparing what a province spent to what we estimate they needed to spend

– We can calculate this as follows:

$$\text{Sector Performance} = \frac{\text{Actual expenditure}}{\text{Cost}}$$

- The percentage that will result shows how close a province comes to spending what is required to adequately support service delivery

2. Let's look at an example:

Health in Province A:

- Cost: Cost estimate for province for health is **K4 million**
- Capacity: The province has an overall fiscal capacity of **45%**
- Performance: The province spent **K1 million** on health on recurrent goods & services

We can calculate the province's performance in the health sector as follows:

$$\text{Sector Performance} = \frac{\text{Actual expenditure}}{\text{Cost}}$$

therefore $\frac{1,000,000}{4,000,000} = 25\%$

Province A spent 25% of what is required to deliver basic health services. Yet they had the capacity to spend 45% if all sectors were treated equally. Health was a lesser priority

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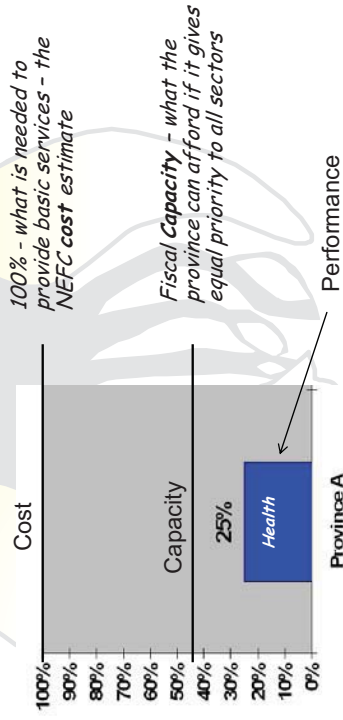
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Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

3. Let's illustrate that example:

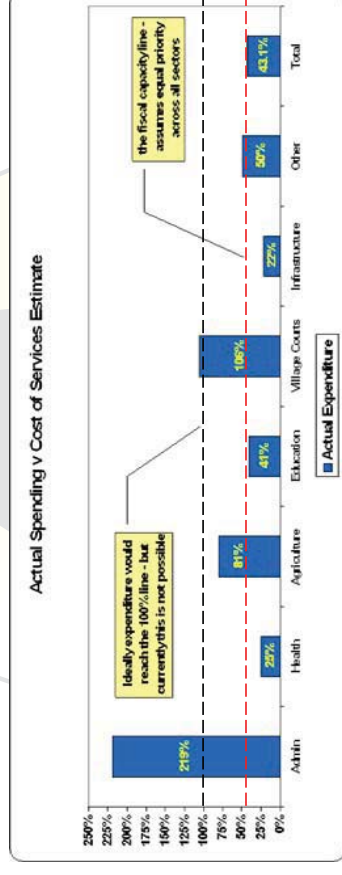
Province A:

- Fiscal capacity = 45%
- Health spending = 25%



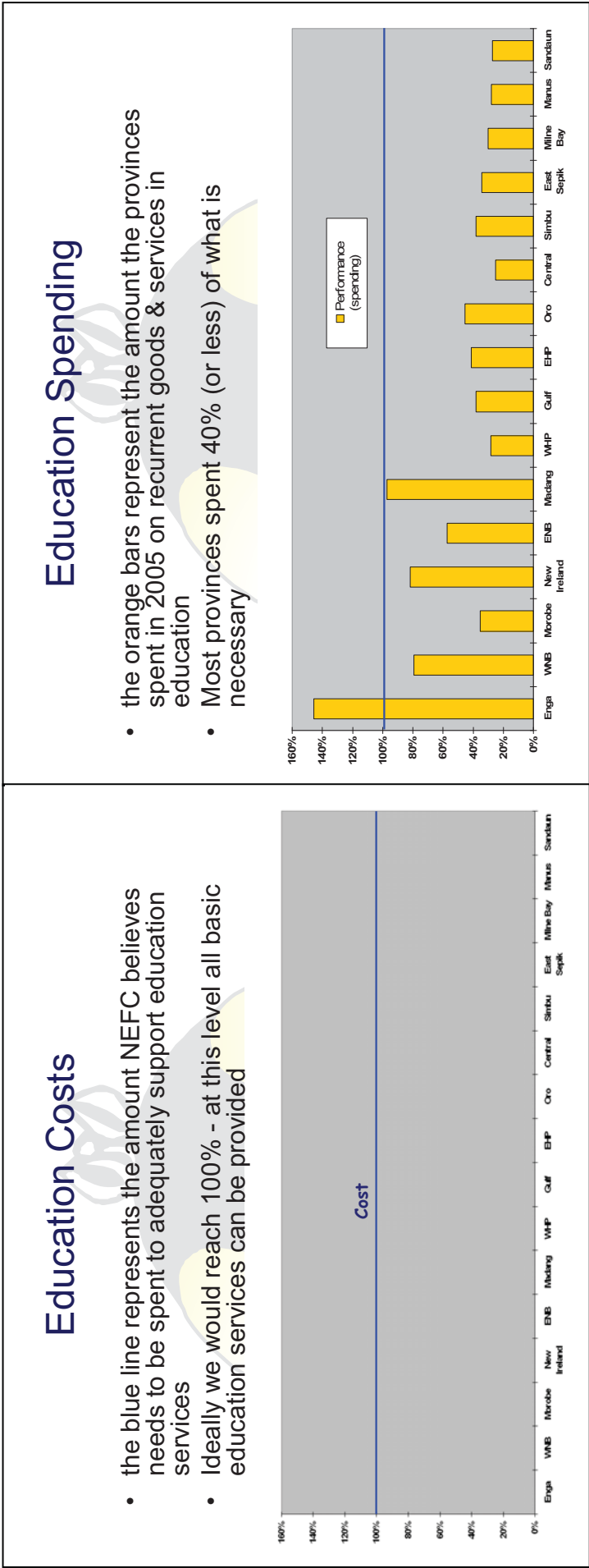
4. Let's expand the example further

- The principle of trade-off
- Remember fiscal capacity is 45% - we can't do everything
- If spending in one sector is greater than 45% then the trade-off is spending in another sector must be less



Much of the analysis and findings in this report are presented in a graphical format that compares results by sector across Provinces. The graphs bring together the three threads of cost, fiscal capacity and spending performance and enable us to review our progress by comparing performance across Provinces. The three slides that follow work through an example to assist the reader understand this methodology.

Performance by all Provinces in the education sector (slides 1 and 2)



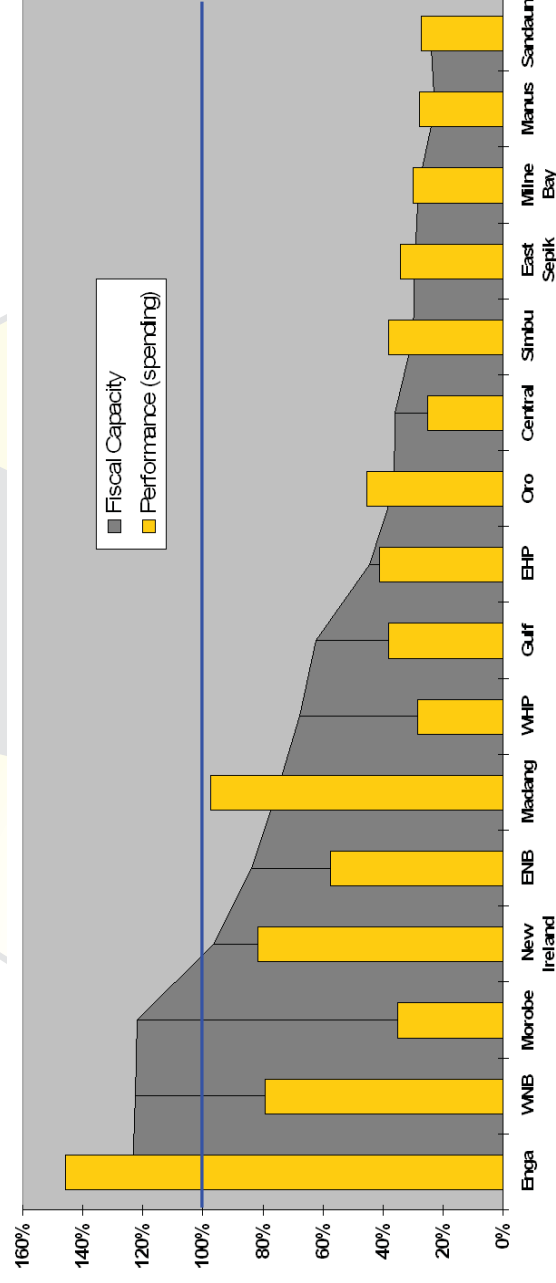
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Performance by all Provinces in the education sector (slide 3)

Education - Fiscal Capacity

- The dark grey background represents the provinces overall fiscal capacity – what can they afford to do
- If they spend above or below this level they are giving a higher or lower priority to other sectors (trade-off)



Appendix 3: A Cautionary Note about the NEFC Costing Study

It may be tempting to assume that by funding Provincial Governments up to the level of the NEFC cost estimates, they should be adequately resourced to meet all their expenditure mandates. That assumption would be incorrect.

The costing study was prepared for the purpose of establishing relativities between Provinces in terms of the cost of their expenditure mandates, as a basis for dividing up a limited pool of funding. Thus it was less important to be accurate about the total quantum than it was to be accurate about the differences between the cost of the same service being delivered in different districts and Provinces.

At the time, the costing study methodology was designed, PNG was experiencing some budgetary stress. It seemed highly unlikely that provincial funding would come even close to the total cost of expenditure mandates in the foreseeable future. Since both funding and actual expenditure had fallen so grossly short of any reasonable levels, it was decided that a conservative approach represented the most appropriate first step in establishing new benchmarks for both funding and expenditure.

A primary objective in designing the methodology was to be extremely conservative in the estimates, so that every single element of the costs could be readily justified. We wanted to be certain that we could confidently assert that any reduction in funding below the level of these estimates would certainly result in a reduction in service levels. We were less concerned with being able to confidently assert that this level of funding would certainly be sufficient for the services to be delivered in full. It was always anticipated that the study would provide a basis to build on in terms of understanding what might be appropriate funding levels, rather than the final answer.

Each activity cost is built up from input costs which are extremely conservatively estimated. As an example, the operating budget for a single health centre or rural hospital is comprised of: the following input items:

- 200 litres of kerosene per year
- 18 litres of bleach
- 120 cakes of soap
- 1 mop
- 1 bucket
- 10 x 13kg gas bottles (to power vaccine refrigerator)
- 1% of capital cost as a building maintenance allowance (based on a construction cost estimates of a standard health centre building design provided by Department of Works).

It was assumed that all rural health centres and hospitals operate without electricity, mains water or telephones. There was no allowance for ancillary staff (eg cleaners). It is assumed that patients provide all bedding and food, and medical equipment and drugs are provided by the National Government.

It would be dangerous to assume that this level of funding would actually be adequate to operate a health centre in accordance with PNG standards, particularly the larger rural hospitals which have 20 or 30 inpatient beds and operating theatres.

Some indication of how significantly the NEFC costing study may have underestimated costs can be gained from looking at the current funding levels for church-run health centres and rural hospitals. On the basis of the NEFC costing, the operating costs of running church health facilities in PNG is less than K5 million. The actual funding currently provided to church health agencies to meet their operating costs (not including the separate salary grant) is K13 million. There is no anecdotal evidence to suggest that church health services have lots of money. Indeed, the opposite is the case. All the evidence is that they do a good job with relatively little resources.

In other words, the actual cost of church health facility operations may well be K13 million, not K5 million. If this is the case, it suggests that the NEFC cost estimates may have underestimated actual costs in the health sector by as much as 60%.

There are some particular areas where substantial costs of service delivery were not included in the study:

No capital costs

No capital costs were incorporated into the costing other than for vehicles, boats and computer equipment. Replacement costs for these assets were allocated over an assumed asset life substantially longer than is usually used.

Provincial Governments do have substantial capital cost responsibilities, especially in relation to roads.

Road rehabilitation and emergency maintenance costs

Provincial Governments are responsible for between 55% and 65% of the nation's road network. The national Transport Development Plan assumes that the cost of rehabilitating degraded provincial roads is a provincial cost responsibility. A rough estimate of the total capital cost for all Provinces is between K7 to K14 billion.

No allowance was made for any capital, rehabilitation or emergency maintenance costs of provincial roads or bridges in the costing study. Only the regular, routine costs of maintenance were included in the costing. The assumed cost was around K10,000 per km per year for a gravel road and K7,000 per km for a sealed road.

No wage costs

No casual wage costs were included in the costing study. It was assumed that all necessary staff would be paid as public servants. In some Provinces it is possible that there are significant numbers of health workers on the casual payroll. If they were to be no longer employed, this may result in the closure of health facilities. More information is needed before any assessment can be made about whether some essential casual wage costs should in some cases be added into the costing estimates, although if these staff are essential, these should be funded separately from recurrent goods and services.

Patient transfers

Cost estimates for the cost of emergency patient transfers were initially developed on the basis of statistics provided by the Department of Health as to the number of patients requiring emergency transfer from rural areas to provincial hospitals. The first cost estimate for this single expenditure item was over K120 million.

Since this cost represented just one element of the health budget, it was felt that such a large number had the potential to distort budgetary decisions by Provinces (ie, that it would justify them spending most of their budget on patient transfers, which the Department advised as already over-prioritised in comparison with preventive expenditures such as adequately funding health centres – which might lessen the need for transfers for far less per capita expenditure). The cost estimates were reduced to around K20 million. Nevertheless, it is recognised that patient transfer expenses are demand-driven and can be very expensive. In determining the cost, it was assumed that transfers were always made by the cheapest possible route. No allowance was made for emergency helicopter flights, for example.

School operating costs

School operational funding is complicated in PNG because it is funded from four different sources. There has been a general assumption that Provincial Governments will contribute a total of around K20 million. The national Government contributes around K35 million and the remaining costs are met by parents and school fund-raising, or are simply not met.

NEFC did not have the resources to undertake any realistic cost estimate of school operating costs. It was therefore assumed that the existing level of funding for school operations is adequate. It is almost certain that this assumption is not correct. It is hoped that this area of the cost estimates can be revised in future using some of the information collected through the NDoE unit costing study.

Curriculum materials

Under the National Curriculum Materials Policy, Provincial Governments are responsible for replacing curriculum materials in schools. It is estimated the total stock of school books needs to be replaced every 3-5 years. There was no information readily available on what this might cost, so NEFC simply omitted this cost from the calculation of the total education cost.

We justified not including this cost on the basis that, in the interests of efficient service delivery, this function should be resumed by the national Government. In the meantime it is likely that donors will fill the gap. However, we are aware that at least three Provincial Governments spent large amounts of funding (in one case almost all their education funding) on this cost in recent years.

Urban services—water supply and sewerage; urban road maintenance

A handful of Provincial Governments in PNG are responsible for providing urban services such as water supply and sewerage. We know that they cannot provide these services on a cost recovery basis, because the PNG Waterboard makes a loss in all areas of its operations except its largest district of Lae, revenue from which is used to cross-subsidise its other operations. No cost estimates for these services were included in the costing study because they are asymmetric responsibilities (ie., only undertaken by some Provincial Government). Road maintenance responsibilities in some of the larger provincial capitals also fall to Provincial Governments because they are beyond the capacity of local Governments.

Appendix 4: Calculating the Spending Performance Level

Throughout this review we refer to the spending level or the spending performance level that a Province achieved for a particular sector. The spending performance level indicates how much a Province is spending on the sector given how much it is able to spend. The level reflects their spending and their fiscal capacity. This example that follows illustrates how this is calculated.

- In which sectors did we calculate the spending performance level?

Calculations are performed on the 5 MTDS sectors of health (including HIV), agriculture, education, infrastructure maintenance and village courts.

- What do the rankings mean – low, medium high?

High means that a Province spent 80% or more in the sector. Medium is between 40% and 79%. Low is below 40%. The calculation is as follows:

$$\frac{\text{Actual expenditure}}{\text{Cost of services estimate (adjusted for fiscal capacity)}}$$

- How did we recognise that not all Provinces are equal?

Simply put, if a Province received only 50% in revenue of what they need to provide a basic level of service in all sectors then the benchmark for the Province would be adjusted to 50% of the cost of services estimate not 100%. In doing this we did not assess and compare it against what it needs to spend but what it can afford to spend.

An example:

Province X has a fiscal capacity of 45%. This means it receives 45% of what it needs to provide basic services throughout the Province. Let's take health as an example and compare the Provinces actual expenditure in health against the NEFC cost of services estimates in health. The calculation in 'A' shows their actual performance without making any adjustment for their fiscal capacity. The calculation in 'B' shows their performance adjusted for their fiscal capacity.

A. Performance without adjustment for fiscal capacity

Actual expenditure	1,045,800			
Cost of services estimate	4,076,867	x 100%	=	26%

B. Performance adjusted for fiscal capacity

Actual expenditure	1,045,800			
Cost of services estimate	4,000,000	x 45%	=	57%

You can see that Province X has spent only 26% of what the NEFC costing study estimates is necessary in health in the Province. However, after adjusting the cost estimate by 45%, being the Provinces fiscal capacity, we can see that the Province achieved a spending level of 57% in the health sector. Whilst this is still well short of the 100% target, it presents a fairer reflection of their performance given their limited capacity. And importantly it enables us to compare Provinces of differing capacity by the same measure.

Appendix 5: 2006 Cost of Services Estimate Table (in Kina)

The following table details the cost estimates from the NEFC Cost of Services Study by sector in each Province. Note: the costs relate to recurrent goods & services only. An adjustment has been made for CPI and population growth.

	Admin	Health/HIV	Agriculture	Education	Village Cts	Infrastructure	Other	Total Cost Estimate
Central	1,263,053	2,448,324	1,182,812	3,826,027	369,912	8,310,703	2,267,869	19,668,701
EHP	1,371,000	3,954,028	1,328,691	4,924,488	489,028	12,047,668	2,525,781	26,640,683
ENB	1,731,255	2,798,391	1,291,163	4,048,554	153,903	6,318,398	2,559,617	18,901,282
Enga	1,432,199	3,123,500	1,328,758	3,202,493	424,537	8,493,843	2,114,660	20,119,990
ESP	2,220,626	5,557,622	1,634,182	4,066,506	413,358	12,940,031	2,699,471	29,531,797
Gulf	818,106	1,948,564	888,550	1,932,761	125,312	3,353,890	1,391,493	10,458,676
Madang	1,586,964	4,383,592	1,536,960	3,023,825	246,092	7,690,360	2,776,494	21,244,287
Manus	1,145,782	1,149,527	530,485	1,499,000	169,867	2,955,371	1,304,820	8,754,853
MBP	1,542,220	4,751,689	1,203,075	3,891,078	148,833	4,675,615	2,292,716	18,505,226
Morobe	2,286,833	5,737,942	2,385,292	6,700,307	318,194	11,154,174	3,731,623	32,314,364
NIP	1,366,826	2,575,034	687,327	2,250,327	141,785	3,290,654	1,920,381	12,232,336
Oro	1,105,370	2,215,960	776,687	1,828,253	84,177	2,502,234	1,587,324	10,100,004
Sandaun	1,609,745	3,925,385	1,684,076	3,710,079	126,376	4,339,913	1,655,152	17,030,726
SHP	1,772,838	5,584,807	2,149,166	5,000,313	720,112	8,126,665	2,716,137	26,070,037
Simbu	1,271,186	2,698,676	828,806	3,740,003	464,957	5,695,301	1,714,636	16,413,565
Western	1,845,774	4,625,540	1,556,037	4,208,612	243,460	9,718,465	2,314,535	24,512,424
WHP	1,444,502	3,202,223	1,372,480	5,455,031	571,534	11,592,294	2,312,370	25,950,435
WNB	1,300,110	3,282,518	1,075,930	3,530,598	272,817	2,534,158	2,256,356	14,252,487
TOTAL	27,114,389	63,963,323	23,420,477	66,838,255	5,484,254	125,739,738	40,141,437	352,701,873

Note: the 2006 Health/HIV cost estimate total of K63.9 million does not include the cost estimates for Church costs relating to Church-run health facilities. The 2005 Health/HIV cost estimate total of K67.1 million did include the cost estimates for Church costs relating to Church-run health facilities.

Appendix 6: 2006 Cost of Services Estimate Table (as a % of total costs)

The following table details the cost estimates from the NEFC Cost of Services Study as a percentage of total costs by sector in each Province. Note: the costs relate to recurrent goods & services only. An adjustment has been made for CPI and population growth.

	Admin	Health/HIV	Agriculture	Education	Village Cts	Infrastructure	Other	Total Cost Estimate
Central	6%	12%	6%	19%	2%	42%	12%	100%
EHP	5%	15%	5%	18%	2%	45%	9%	100%
ENB	9%	15%	7%	21%	1%	33%	14%	100%
Enga	7%	16%	7%	16%	2%	42%	11%	100%
ESP	8%	19%	6%	14%	1%	44%	9%	100%
Gulf	8%	19%	8%	18%	1%	32%	13%	100%
Madang	7%	21%	7%	14%	1%	36%	13%	100%
Manus	13%	13%	6%	17%	2%	34%	15%	100%
MBP	8%	26%	7%	21%	1%	25%	12%	100%
Morobe	7%	18%	7%	21%	1%	35%	12%	100%
NIP	11%	21%	6%	18%	1%	27%	16%	100%
Oro	11%	22%	8%	18%	1%	25%	16%	100%
Sandaun	9%	23%	10%	22%	1%	25%	10%	100%
SHP	7%	21%	8%	19%	3%	31%	10%	100%
Simbu	8%	16%	5%	23%	3%	35%	10%	100%
Western	8%	19%	6%	17%	1%	40%	9%	100%
WHP	6%	12%	5%	21%	2%	45%	9%	100%
WNB	9%	23%	8%	25%	2%	18%	16%	100%
TOTAL	8%	18%	7%	19%	2%	36%	11%	100%

Cost estimates that comprise 10% or more of the provincial total are highlighted in blue

Appendix 7: 2006 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2006. Note: revenues that are tagged for specific purposes other than recurrent goods & services are excluded (these revenues include: LLG grants, salary grants, and development funds). Please note that with Morobe, there is a K5m asset sale within these figures

	National Government Grants (2006 actuals)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
West. Province	3,403,800	3,833,700	43,200,000	45,200,000	64,136	95,701,636
Gulf	2,549,800	510,300	-	4,840,579	148,886	8,049,565
Central	2,642,000	1,280,904	370,668	-	4,175,034	8,468,606
Milne Bay	4,134,100	2,198,700	-	-	873,427	7,206,227
Oro	2,501,500	1,355,400	-	-	266,596	4,123,496
South. Highlands	7,607,100	1,437,408	26,431,823	5,753,622	303,475	41,533,427
Enga	4,145,300	3,174,504	8,817,861	1,111,111	1,712,222	18,960,998
West. Highlands	6,821,000	9,384,204	-	-	1,991,108	18,196,312
Simbu	4,357,800	1,031,700	-	-	323,027	5,712,527
East. Highlands	8,038,400	5,712,996	-	-	1,357,486	15,108,882
Morobe	7,259,200	29,203,599	-	-	11,408,162	47,870,961
Madang	4,966,800	10,176,204	-	-	1,076,693	16,219,697
East Sepik	4,488,300	3,002,100	-	-	1,963,549	9,453,949
Sandaun	2,719,000	1,127,700	-	-	1,193,864	5,040,564
Manus	1,012,100	1,099,404	-	-	411,570	2,523,074
New Ireland	1,772,700	3,783,804	12,476,176	-	663,298	18,695,978
East New Britain	5,524,000	9,239,700	-	-	3,392,849	18,156,549
West New Britain	4,886,300	4,362,504	-	-	3,304,306	12,553,110
TOTAL	78,829,200	91,914,831	91,296,528	56,905,312	34,629,686	353,575,557

This table shows the revenue provincial governments received from different sources in 2006. It does not include revenue that was tied to expenditure of a particular nature, such as development grants. Salary grants are not included. It also does not include LLG grants or the Town Services Grant provided to urban LLGs.

Appendix 8: 2006 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2006 as a percentage of total revenue. Note: revenues that are tagged for specific purposes other than recurrent goods & services are excluded (these revenues include; LLG grants, salary grants, and development funds).

	National Government Grants (2006 actuals)	GST distributions (data)	IRC Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
West. Province	3.6%	4.0%	45.1%	47.2%	0.1%	100%
Gulf	31.7%	6.3%	0.0%	60.1%	1.8%	100%
Central	31.2%	15.1%	4.4%	0.0%	49.3%	100%
Milne Bay	57.4%	30.5%	0.0%	0.0%	12.1%	100%
Oro	60.7%	32.9%	0.0%	0.0%	6.5%	100%
South. Highlands	18.3%	3.5%	63.6%	13.9%	0.7%	100%
Erga	21.9%	16.7%	46.5%	5.9%	9.0%	100%
West. Highlands	37.5%	51.6%	0.0%	0.0%	10.9%	100%
Simbu	76.3%	18.1%	0.0%	0.0%	5.7%	100%
East. Highlands	53.2%	37.8%	0.0%	0.0%	9.0%	100%
Morobe	15.2%	61.0%	0.0%	0.0%	23.8%	100%
Madang	30.6%	62.7%	0.0%	0.0%	6.6%	100%
East Sepik	47.5%	31.8%	0.0%	0.0%	20.8%	100%
Sandaun	53.9%	22.4%	0.0%	0.0%	23.7%	100%
Manus	40.1%	43.6%	0.0%	0.0%	16.3%	100%
New Ireland	9.5%	20.2%	66.7%	0.0%	3.5%	100%
East New Britain	30.4%	50.9%	0.0%	0.0%	18.7%	100%
West New Britain	38.9%	34.8%	0.0%	0.0%	26.3%	100%
TOTAL	22.3%	26.0%	25.8%	16.1%	9.8%	100%

Revenue streams that comprise 10% or more of the provincial total are highlighted in blue