



National Economic and Fiscal Commission

“Step Two: The Ripple Effect”

**THE 2010 PROVINCIAL EXPENDITURE REVIEW
With trend analysis from 2005 to 2010**

(Additional copies of this full report can be downloaded from the NEFC website)

www.nefc.gov.pg

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FOREWORD

In 2012 we elect the men and women that will form a government to lead us for the next five years. As we know, one of government's core functions is to provide a set of basic services across our country, services that positively affect the lives of all people in every province, town and village. These services span education, health care, transport infrastructure, economic enabling, and law and order. These services include schools, health centres, aid posts, roads, jetties, air strips, training in agriculture, and village courts. These are the services that impact the 85% of Papua New Guineans who live their lives in rural settings. But for government to provide these services it costs money.

In 2009 Papua New Guinea commenced a journey of investing more money in supporting front-line services. This investment provides operational funding to support the front-line public servants - the teachers, the community health workers, the agricultural extension officers, the village court officials - that are the means of providing the basic services that our people need. The operational funding also enables our high-value infrastructural assets such as roads, jetties and airstrips to be maintained and to avert their continued degradation. But we are on a journey and in the early stages. It will take time to reach our destination - to see the regeneration of basic services across our country to every province, town and village. In 2009 we saw green shoots of change, we saw evidence that more money was being spent in the right areas on the right things to make basic services happen.

In *Step Two: The Ripple Effect*, the 2010 PER, we look again at our performance and reflect on what we did and how well we did it. And yet, we reflect not for the purposes of assessing dry procedural compliance, no, we reflect because we want to see government services revived in education, health care, transport infrastructure, economic enabling, and law and order, we want a thriving public service in the rural areas that are Papua New Guinea. We're looking for a ripple effect.

So, please join with me again as we track our progress and see whether we did spend our money on basic service delivery activities.

Nao Badu

Chairman and CEO

National Economic and Fiscal Commission

February 2012



EXECUTIVE SUMMARY

“Step Two: The Ripple Effect”

Government is committing more money to support frontline services in provinces that need it most. So we look now for the ripple effect. The ripple effect is multi-directional. It impacts not only provincial administrations but also those levels of government administration further down the supply chain at district and facility level. But importantly, the ripple effect moves laterally and upwards and looks for positive change in central agencies who release the funding and national agencies that provide support to provincial service sectors. We need to see these ripples, these positive changes, together they will result in the improvements that we seek at the front-line of the service delivery chain. They will enable front-line staff to do their work and ensure that the infrastructure that the government has paid millions to put in place is not left to degrade due to poor maintenance.

In ***‘Step Two: The Ripple Effect’*** we not only review the financial performance of provincial administrations in 2010 but we also start to highlight those provincial administrations who are sustaining a high level of financial performance. Ultimately, improving service delivery is a long-run game, it's not a sprint it's a challenge over the longer-distance. In ***‘Step Two: The Ripple Effect’*** we introduce **The Top Five**, a table that looks at which provincial administrations are sustaining a high level of financial discipline over the years 2008 to 2010.

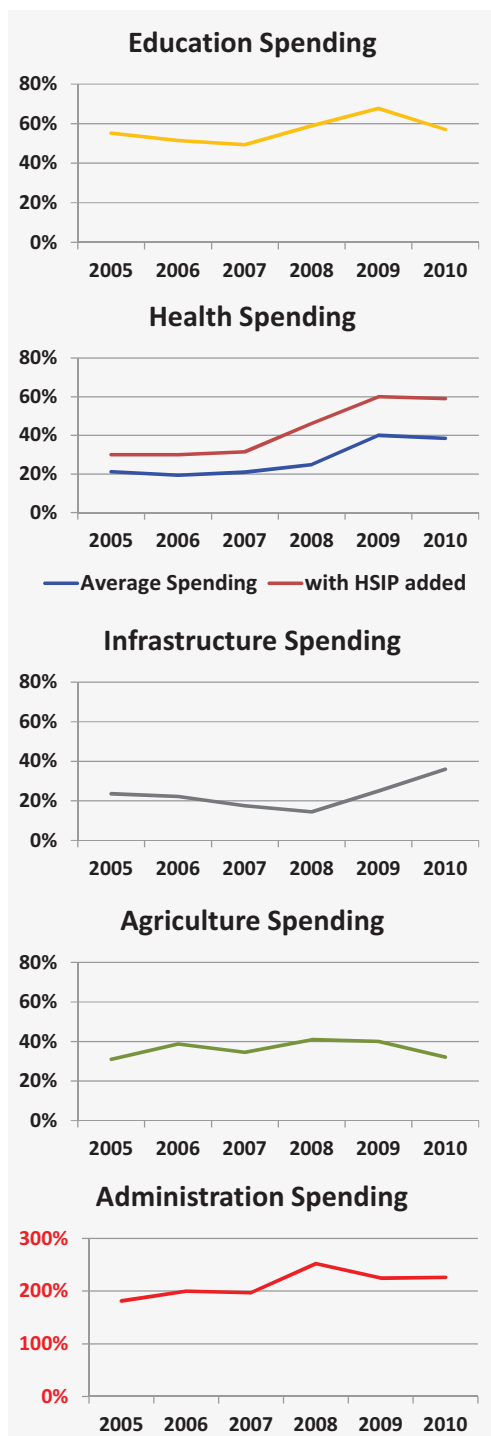
Who are the Top Five in the 2010 PER?

The **Simbu, Sandaun, Central, Manus and Milne Bay** provincial administrations have demonstrated a high level of commitment to making service delivery happen in their provinces. The full table is as follows and is discussed in section 4.1 of this report.

Province	2008	2009	2010	Average
1 Simbu	114	107	124	115
2 Sandaun	120	115	100	112
3 Central	104	109	103	105
4 Manus	114	96	106	105
5 Milne Bay	110	103	102	105
East New Britain	82	98	117	99
Oro	83	113	96	97
New Ireland	101	95	83	93
East Sepik	86	101	91	93
Southern Highlands	76	88	92	85
Western Highlands	60	101	95	85
Western	98	93	62	84
Gulf	56	79	117	84
Morobe	82	68	97	82
Madang	72	81	89	81
Eastern Highlands	85	80	77	81
Enga	70	74	93	79
West New Britain	73	72	70	72

Are we spending more money in the right areas?

The answer is yes. More operational funding is being allocated and spent in the health, education and transport infrastructure maintenance sectors. In 2009 and 2010 significant progress has been made in better funding both health and infrastructure sectors, areas that have historically been grossly underfunded which in turn made the delivery of a rural health service and the maintenance of our expensive infrastructure extremely difficult if not impossible. Many provinces, particularly the low and middle funded groups have now got more significant sums of money for these sectors from which they can plan, budget and implement more meaningful service delivery activity plans.



- In kina terms education spending continues to increase (K60 million in 2010).
- But as a percentage of what is required there has been a dip in 2010 (see graph).
- Higher-funded provinces often prioritise education from their internal revenue.
- Health spending has increased rapidly from 2008 to 2010 (K40 million in 2010).
- HSIP has become a significant contributor in funding operational activities in rural health (K21 million in 2010).
- Higher-funded provinces do not prioritise health. Even their HSIP take-up was poor.
- Spending on transport infrastructure maintenance has improved significantly in 2009 and 2010. Over these two years an extra K37 million has been spent. (K60 million in 2010)
- Higher-funded provinces do not prioritise transport infrastructure maintenance. Why let expensive assets degrade?
- In kina terms agriculture spending increased a little (K12.3 million in 2010).
- But as a percentage of what is required the sector lost ground (see graph).
- Higher-funded provinces do not prioritise agriculture. Only West New Britain who receives a historically large grant spends a lot.
- In kina terms administration spending increased a lot (total K98 million in 2010).
- As a percentage of what is required high and medium funded provinces fund the sector much more than is estimated necessary (see graph).
- Some allocate and spend two, three and four times what is estimated necessary.

Are Minimum Priority Activities being prioritised?

Again, the answer is yes (see summary table below). In 2010 we have analysed MPAs from both a budget and expenditure perspective (refer to section 4.6). We checked to see whether a budget vote was present in each provincial budget and then whether the province spent a reasonable amount on each MPA (subject to their fiscal capacity and the cost estimate for that activity). Seven provinces demonstrated a satisfactory overall level of commitment to the MPA regime whilst another nine had reasonable spending levels in approximately half of the MPAs. This early analysis indicates that the MPA initiative is bedding in and compliance is growing.

Minimum Priority Activities		Exp	Direct	Vote	No vote
Education	1. Provision of school materials	2	13	2	1
	2. Supervision by district/prov staff	14	0	1	3
	3. District education office op's	10	0	1	6
Health	1. Rural health facility op costs	8	1	8	1
	2. Integrated health patrols	5	4	5	4
	3. Medical supply distribution	9	0	2	7
Transport Infrastructure	1. Road & Bridge maintenance	12	0	6	0
	2. Airstrip maintenance	11	0	1	6
	3. Wharf & Jetty maintenance	5	0	2	6
PP	Agriculture Extension Services	6	0	6	6
VC	Operational materials	17	0	1	0
		52%	9%	18%	21%

Which Minimum Priority Activities need greater support?

Our analysis shows that the following six minimum priority activities need to be better defined in the annual budget and meaningfully funded.

- District education office operations
- Integrated health patrols
- Medical supply distribution
- Airstrip maintenance
- Wharf & jetty maintenance
- Agriculture, fisheries and forestry extension services

What problems occurred in 2010?

The major problem that occurred in 2010 was the **lateness of disbursement of national grants** to many provinces. This is a critical activity performed dually by the Departments of Treasury (who issue warrants) and Finance (who release the cash). In 2010 the warrant/cash release was simply too late and too unpredictable. Section 3.4 discusses this aspect in detail and provides both a summary by regions and specific examples of the late release.

The lateness in the release of cash to many provinces contributed to a higher rate of under-spending in national grants in 2010. Our preliminary analysis of 2011 suggests the rate of cash release was better, but nevertheless, we need to provide greater certainty to provinces that they will receive their operational grants in a timely fashion. A standard schedule of warrant/cash release needs to be discussed and agreed between the relevant central agencies and provincial administrations.

Are higher funded provinces putting more money into supporting service delivery?

The answer to this is disappointing. There is not yet sustained evidence of improved spending by the group we call the higher funded provinces - the Western, New Ireland, Morobe, West New Britain and Enga provincial administrations. These provinces have comparatively large amounts of **own-sourced revenue** and their service delivery sectors such as health, education, transport infrastructure and agriculture require sufficient amounts of this own-sourced revenue to be allocated to them as operational funding in the annual budget. Without greater budget allocations targeted at priority activities the delivery of services in these provinces will continue to struggle.

Have we made progress on recurring themes?

In past PER's we have raised several cross-cutting issues and recurring thematic issues that we believe need to be resolved to ensure that the delivery of basic services is not inhibited. It is apt at this time to reflect and ask ourselves have we made progress in resolving these areas.

Transparency of MPAs – all provinces and central agencies agreed to adopt the proposed new standard Chart of Accounts. This will greatly assist all parties in recording and reporting budget and expenditure information. It will also aid the transparency of MPAs.

Parallel systems – donors, AusAID in particular, have contributed funds to provincial administrations in conducting operational activities in the areas of education and health. Whilst this funding is of enormous benefit in making activities happen, there remain challenges to ensure that its existence does not displace government from its responsibilities. A second challenge is to ensure that the administration of the funds is suitably integrated with the government's own financial management system. In 2011 longstanding donor arrangements in both education and health appeared to be transitioning to a new phase. This highlights the danger in government relying on donor program funding for aspects of core service delivery.

District data – significant funding continues to flow to the district level of sub-national government administration. We still need to design and implement a robust and pragmatic system of financial data transfer between the district-provincial-national levels of government to ensure transparency and accountability.

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LIST OF TERMS and 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 necessarily 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 provinces 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.
Goods & Services expenditure	A GoPNG term that refers to operational expenditure/costs. In our analysis goods & services excludes any personnel related expenditure.
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 for 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, sometimes 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 and services expenditure	Describes spending that is directed to purchasing the regular routine operational supplies and services, transport costs and routine maintenance of buildings. 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; it would include 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; it would include 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
BEDP	Basic Education Development Program
CoS	Cost of Services Study
DoF	Department of Finance
DoT	Department of Treasury
DSIP	District Service Improvement Program
ECBP	Education Capacity Building Program
GoPNG	Government of Papua New Guinea
GST	Goods and Services Tax
HSIP	Health Sector Improvement Program
IRC	Internal Revenue Commission
K	Kina
LLG	Local level Government
MTDS	Medium Term Development Strategy
MPA	Minimum Priority Activity
MV	Motor Vehicle
NEFC	National Economic and Fiscal Commission
PFMA	Public Finance Management Act
PGAS	PNG Government Accounting System
PNG	Papua New Guinea
PIP	Public Investment Program
RIGFA	Reform of Intergovernmental Financing Arrangements
SSG	Special Support Grant
TA	Travel Allowance
TMS	Treasury Management System

1 Introduction

1.1 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. In 2006 the NEFC commenced the first in what has become an annual series of reviews that looks at spending across provincial Papua New Guinea. The reviews seek to inform readers of progress and to highlight fiscal issues that may inhibit the provision of services. The reviews are an indicator on how we are doing. The series now includes:

- **Cost! Capacity! Performance! (2005)**
- **It's More than Numbers (2006)**
- **Closing the Gap (2007)**
- **Walking the Talk (2008)**
- **Green Shoots of Change (2009)**

The latest review entitled **Step Two: The Ripple Effect** is the sixth edition in the series and reviews the situation in 2010. The 2010 fiscal year is the second year of implementation of the reformed intergovernmental financing arrangements (RIGFA). More funding is being allocated to provinces and it is being targeted firstly at those who need it most and at the priority sectors of health, education, transport infrastructure, primary production and village courts. These service lines are identified in the medium term development strategy as being fundamental to the improved wellbeing of the rural majority across the country and RIGFA ensures the money is allocated in a targeted manner to more effectively assist the front line services that the government wants to restore and improve.

Step Two: The Ripple Effect provides us with six years of data that has been analysed and is communicated in a style that our readership has become accustomed. With each additional year that is added to this analysis it creates an increasingly clear picture of the spending priorities of individual provincial governments'. Through this data we are better equipped to assess whether we are appropriately supporting the delivery of basic services such as health care for our families and education for our children.

1.1.1 Purpose and objectives

The purpose of this report is to provide an annual evidence-based assessment of provincial expenditure performance. In turn, NEFC aims to stimulate decision makers across all levels of government, civil society and in the development community to focus their attention on what we can all do to ensure that budget and expenditure management processes deliver more essential services to more people more of the time. The provincial assessments are established 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 the prioritisation of service delivery across Papua New Guinea. Where is the improvement in the prioritisation of core service delivery? And where and why is there a lack of improvement?

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? Grants are not provided unconditionally to provinces to be spent on whatever provinces regard as important, but rather to provide some financial assistance to ensure basic and on-going service delivery.¹

A third objective is to explore, discuss and highlight issues that may be a barrier to improving service delivery.

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 and Vision 2050.

Approach and Methodology

The methodology of the provincial expenditure study has developed from the original expenditure study entitled *Cost Capacity Performance (2005)*. The methodology:

- **Has an expenditure focus.** We believe that if we are not spending money on core services, we will not be delivering these core services. It is that simple.
- **Has a recurrent goods and services focus.** We have infrastructure, facilities and staff, but an area for significant improvement is ensuring the adequacy of on-going year-on-year operational 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.
- **Has a focus on the total resource envelope.** 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.
- **Draws together cost, capacity and performance**, providing 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, across all sectors of provincial, district and local-level government service delivery.
 - **Capacity:** A province's fiscal capacity is restricted by its resource envelope. The resource envelope is the amount of money (revenue) it has available for recurrent purposes from all sources.²
 - **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.

¹ Function grants by themselves will not be sufficient to fund the delivery of a minimum level of service across all sectors. Provinces will also need to contribute funds from their own internal revenue.

² Refer to the NEFC Provincial Revenue Report for the fiscal years 2004-2007, as well as the tables in Appendices 7 and 8.

- **A benchmarking approach.** We need to have a benchmark - an independent measure by which to compare our performance. The cost of services study provides an important benchmark. The other benchmark we use is 'context' by comparing provinces performance in relation to each other.
- **To 'give the benefit of the doubt':** In our analysis if there was an element of doubt we would generally exercise that doubt in favour of the provincial administration. A practical example of this is in our classification of service sector expenditure - if we felt expenditure 'could be' 'recurrent goods and services in a priority sector' then we would classify it as such. We wanted to paint as reasonable and positive a picture as we could whilst also accepting the limitations of any desktop analysis.
- **Assessing the trend.** By plotting the trend for 2005-2010 we introduce a way to evaluate where we are spending and whether we stand a chance of improving service delivery. If spending in core areas does not increase, service delivery will not improve. If anything, service delivery will further deteriorate as our efforts are eroded by the combined impact of population growth, rising costs, and a weary and under-resourced workforce.

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.³ This means that when we compare 2010 expenditure we compare it against 2010 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 and more people using roads and 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 provincial administrations for their assistance during the review process. We also acknowledge the agencies that partnered with us on the review by providing data; they include the Department of Finance and the Department of Health.

³ Population growth is measured as the 1980-2000 average annual growth in each province as supplied and recommended by the National Statistics Office.

2 Fiscal Capacity & Revenue

2.1 Provincial Revenue: 2005 to 2010

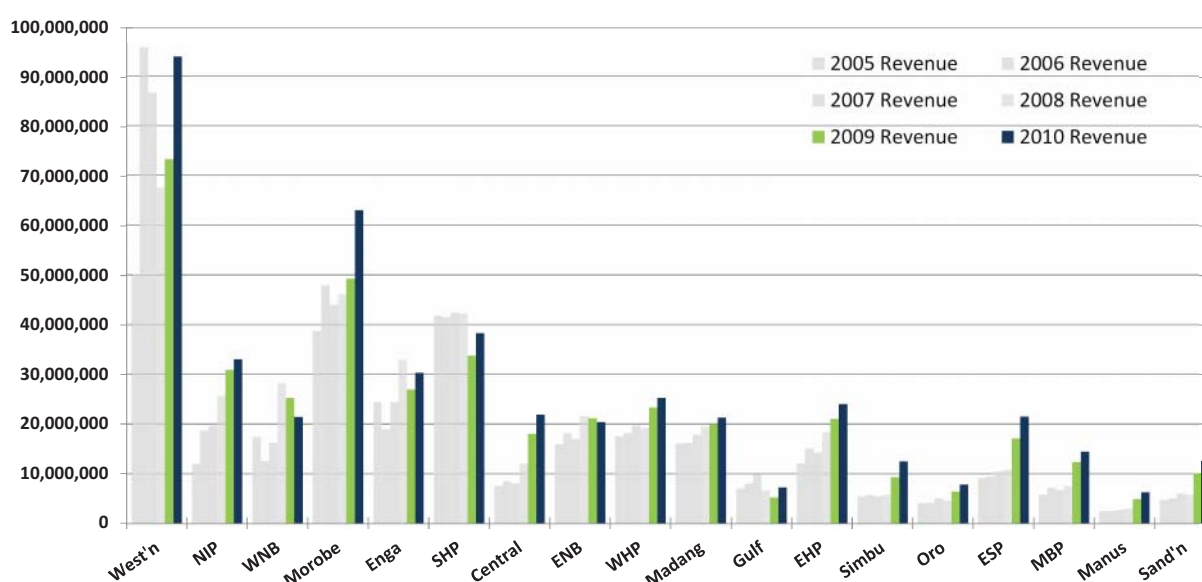
We know that not all provinces are equal.

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

Some provinces have more revenue than others – we often refer to a province's revenue as its resource envelope. A province may earn revenue from grants, royalties, dividends and other internal revenue such as GST – together this is a provinces' resource envelope. This tells us how much money provinces have available to budget and spend up to. 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.

The following graph illustrates the changes in provincial revenues between 2005 and 2010 that are available to provinces for funding recurrent goods and services.

Graph 1: Comparing Available Revenues: 2005 to 2010



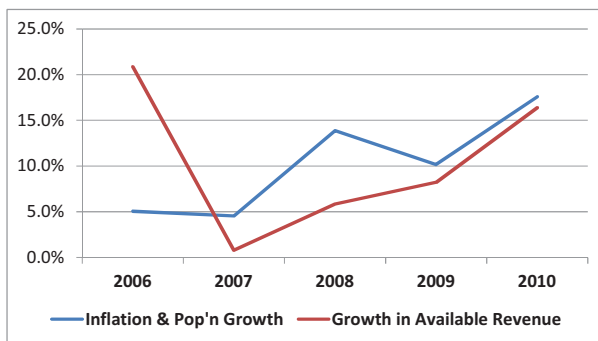
What can we see?

- You will note the impact of the implementation of RIGFA, with increasing funds being made available to lower-funded provinces (those toward the left of the graph).
- The trend in most provinces is of increasing revenues.
- New Ireland has enjoyed highly significant increases each year and this increased level has been sustained.
- Morobe's 2010 revenue increased markedly due to the K17.7 million of royalty income that was received.
- Revenue fluctuations between years are more evident in provinces with revenue from natural resources such as Western, New Ireland, Morobe, West New Britain, Enga and Southern Highlands.

- Revenue streams from natural resources fluctuate and often have a limited life. *When revenues from natural resources fall provinces' that benefited from these revenue streams become reliant on RIGFA.*
- Gulf's available revenues have been reconfirmed in 2010, this includes their dividend income.

Overall untagged⁴ provincial revenues grew by 16% between 2009 and 2010, and 62% over the six year period from 2005 to 2010. The 16% rate of revenue growth between 2009 and 2010 is lower than what is needed to respond to the combination of per diem increases and inflation and population growth for that period which averaged just over 17.6% across provinces. In other words, the cost of delivering the same set of basic services has again grown faster than the growth in revenue that pays for these services. In overall terms, we are still going backwards and need to allocate even more to provinces to support them in improving the delivery of basic services.

Graph 2: Revenue growth versus Increasing Costs



Over recent years the combined impact of population growth and inflation has meant that the *cost of delivering services* has risen at a faster rate than the corresponding *increase in revenues* available to provinces.

So in overall revenue capacity terms we're still going backwards.

What does this mean?

- RIGFA is critical - we need to continue to increase the fiscal capacity of provinces to adequately fund critical service delivery activities.
- If costs continue to increase at a rate quicker than revenues grow more provinces will become reliant on the national government to fund their fiscal gap.

⁴ Untagged provincial revenues refers to grant and internal revenue that is not specifically designated for a purpose other than goods and services. In this sense tagged provincial revenue may include staff related grants and development funds.

2.2 Fiscal Capacity: Comparing revenue to cost

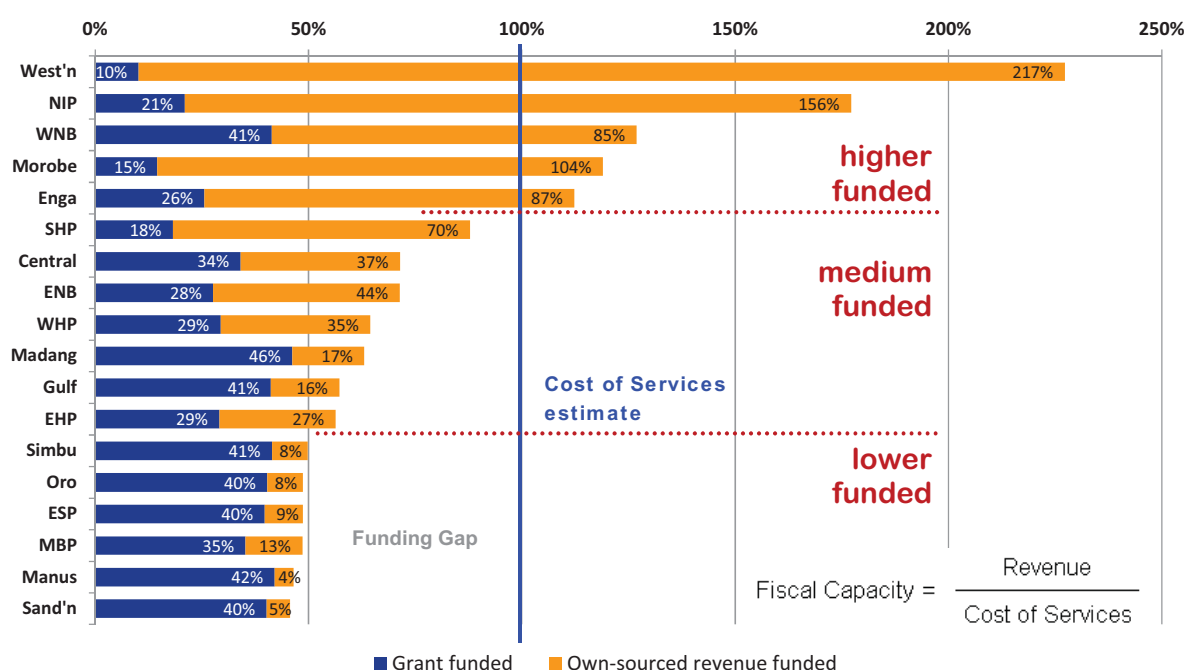
The calculation of fiscal capacity is simply *revenue* divided by *total costs* for a province to deliver basic services.

Fiscal Capacity: is a term that describes a provinces ability to meet its costs

The cost of services study very conservatively estimates how much it costs to deliver a very basic set 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. Fiscal capacity is therefore calculated by dividing the revenue available in a province to meet the recurrent goods and services costs by the estimated cost of providing all core services in that province.

The following graph expresses fiscal capacity as a percentage. If a province has fiscal capacity of 100% - that means that it has sufficient revenue 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 needs and so must face hard decisions about where to allocate its limited funds. Most provinces have less than 100%, with six provinces having less than half of what they need to deliver basic services, even when all their national government grants and internal revenue is taken into account. The blue portion of the bar denotes how much national government grants contribute to that province's fiscal capacity. The orange portion of the bar denotes how much the province can fund from its own revenue sources such as GST and royalties. Typically lower funded provinces are more reliant on grants than higher funded provinces. But, higher funded provinces must make the decision to allocate own-sourced revenues to basic services (and their operating costs).

Graph 3: Fiscal Capacity in 2010 and Levels of Grant Dependence



This graph illustrates:

- Typically lower funded provinces are more reliant on grant funding from the national government.
- Higher funded provinces have revenue from their own sources such as GST.

- In 2010, the second year of RIGFA implementation we see a significant boost to medium/lower funded provinces. In 2008 the average fiscal capacity for the six lowest funded provinces was 30% - in 2010 most provinces have almost 50% of what they need. For the lowest nine the average was 53% in 2010, up from 35% in 2008. These percentages numerate a significant improvement in the fiscal capacity of the lower funded provinces despite large increases in the cost of providing services in Papua New Guinea over recent years.
- 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. RIGFA's impact will likely see most provinces move over the 50% threshold which is a significant milestone in achieving better fiscal equalisation across Papua New Guinea.
- **High:** only five provinces have 100% or more of the funds they need to deliver a minimum set of core services (in prior years six provinces exceeded 100%).
- **Medium & low:** 13 provinces do not have sufficient funding to support service delivery to even a very basic level, with one third of provinces having less than half of what they need to deliver basic services.
- In earlier PER reviews (2006-2008) fiscal capacity (in graph 2) has been an average of revenue against costs over the period i.e. in the 2008 PER it was an average of four years data from 2005 to 2008. The advantage in taking an average is that it removed the impact of volatility in revenues that may occur from year to year. However in 2009 and again in 2010 with the implementation of RIGFA we have been compelled to modify our approach to ensure that we continue to communicate a picture that is meaningful, relevant and as accurate as possible. So in 2010, as in 2009, fiscal capacity is calculated as follows:
 - For the higher funded provinces it remains an average of their fiscal capacity for the last three years - 2008-2010.
 - For all lower and medium funded provinces, having received sometimes very significant increases in their grant funding under RIGFA, we have reported their fiscal capacity per their 2010 year only (i.e. it is not an average). The rationale being that the gains under RIGFA represent a sustainable improvement to their fiscal capacity and that reporting an average would communicate a reduced level of fiscal capacity that would be misleading.
 - Gulf Province: We noted in the 2009 PER **Green Shoots of Change** that Gulf's available revenues appeared to have declined markedly in 2009. For the 2010 PER we investigated this matter and confirmed that Gulf's dividend income is still being paid but recorded differently. The integrity of the Government's intergovernmental system relies upon a full and transparent disclosure of all revenues.

A note of caution on available revenues and fiscal capacity:

The revenue total that we use for calculating fiscal capacity assumes that all funds that are not tagged for another specific purpose (such as staffing grants or development) are available for spending on recurrent goods and services. The reality however is that many provinces will not allocate and spend all of these funds on recurrent goods and services. Some of this revenue will be allocated and spent on staff related costs (such as casual wages) and/or capital, project and development costs (such as major rehabilitation on a road or a new classroom or a new health clinic).

Even for those provinces with 100% funding or higher, some of that funding is likely to be directed at staff related costs and/or capital and projects.

The consequence is that even less money is available for operating costs (goods and services) than reported in our provincial expenditure reports. This reality applies to all provinces. **The impact of this is that real fiscal capacity is even lower than our projections in the graph and the levels of expenditure less than presented as well.** That said - provinces alone have discretion on how these funds are allocated.

3 Expenditure Overview

3.1 Overview of where the money went in 2010

Where did provinces collectively spend their revenue in 2010? Where did they spend the national government grants and the internal revenue that was available to them? The following table seeks to answer these questions at the highest of levels by providing a numerical overview of where money was spent by broad classifications in 2010.

Table 4: Expenditure Overview Table 2010⁵

	Administration Sector	MTDS Sectors	LLG Transfers	Other Sectors, Arrears, Unspecified	Total
Internal Revenue					
<i>Goods & Services</i>	83,952,325	59,905,183	9,743,738	37,596,958	191,198,205
<i>Personnel Emoluments</i>	35,940,712	5,994,704	730,823	847,237	43,513,477
<i>Capital & Projects</i>	39,181,055	91,848,188	1,498,595	20,352,776	152,880,615
Total Internal Revenue	159,074,093	157,748,074	11,973,157	58,796,972	387,592,296
Grants					
<i>Goods & Services</i>	14,091,631	122,502,178	31,690,395	17,143,892	185,428,095
<i>Personnel Emoluments</i>	9,842,162	20,604,569	348,600	340,032	31,135,363
<i>Capital & Projects</i>	13,858,604	24,411,472	6,557,900	10,480,276	55,308,252
Total Grants	37,792,397	167,518,219	38,596,895	27,964,200	271,871,710
Total					
<i>Goods & Services</i>	98,043,956	182,407,361	41,434,133	54,740,851	376,626,300
<i>Personnel Emoluments</i>	45,782,875	26,599,272	1,079,423	1,187,270	74,648,840
<i>Capital & Projects</i>	53,039,659	116,259,660	8,056,495	30,833,052	208,188,866
Total All	196,866,490	325,266,293	50,570,051	86,761,173	659,464,006

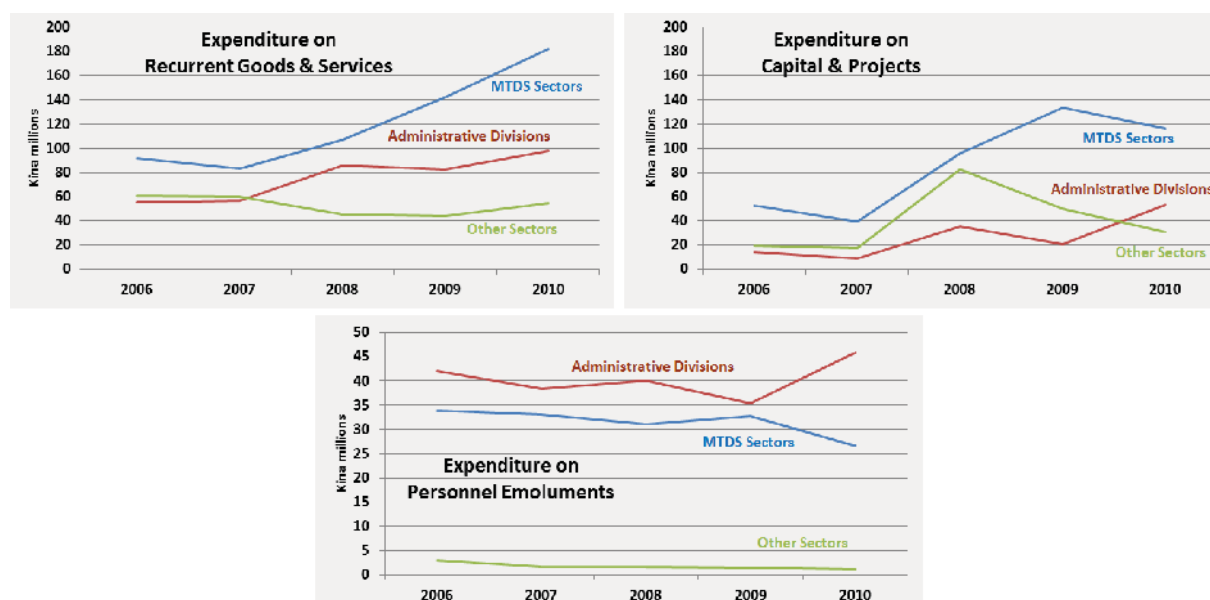
Between 2006 and 2010 overall spending has increased by 55% moving from K425m to K659m, whilst overall there is a clear increase in spending during the period the movements have varied between years.

⁵ Refer to Appendix 1 to see what has been included and excluded in the expenditure data analysis. SSG expenditure that aligns to a sector is now recorded under either *recurrent goods & services* or *capital & projects* – as appropriate.

MTDS Sectors includes; health, agriculture, education, village courts and infrastructure maintenance. LLG Transfers 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.

The following series of graphs illustrates high-level spending trends in goods & services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets; MTDS sectors, administrative (divisions) and other sectors.

Graphic 5: Spending Trends 2006-2010



Comments on the high-level data:

- **Front-line operations in priority sectors:** Operational spending on recurrent goods and services in MTDS sectors has doubled, increasing from K91m to K182m between 2006 and 2010. Much of this increase is due to RIGFA and the significant increase in the amount of function grants received by provinces.
- **Capital & Projects:** Spending by provinces on capital & projects in the MTDS sectors and other sectors increased in earlier years but has dipped more recently. MTDS spending on capital & projects has moved from K53m to K116m between the 2006 and 2010 whilst spending on capital & projects in other sectors has moved from K19m to 31m over this period.⁶
- **Administration:** Most provinces with access to internal revenue heavily favour budgeting and spending this money on their administrative divisions before their provinces supporting service delivery sectors. Spending on both recurrent goods & services and capital & projects has tracked upwards, whilst spending on staff-related costs which were previously decreasing increased sharply in 2010.
- **Staff-related costs (personnel emoluments, but not government payroll):** Have increased in administrative divisions but tracked downward in MTDS and other sectors.⁷

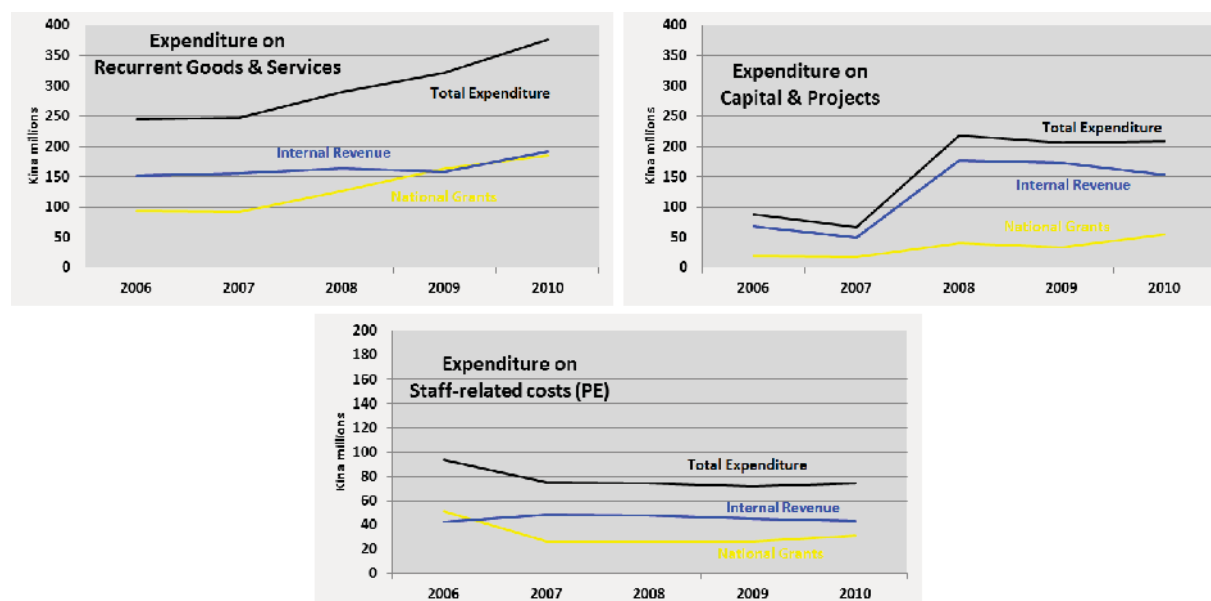
⁶ This is spending through the provincial budget and does not include development spending at the district level through ORD or development spending by other national agencies that bypasses the provincial budget.

⁷ In this context, personal emoluments refer to expenditures incurred by the provincial administration not the central government administered salaries payroll that meets the ongoing salaries costs for most public servants.

3.2 The spending mix, national grants and internal revenue

We know that provinces receive their funding from multiple sources that are commonly grouped and described as national grants and internal revenue. The following series of graphs illustrates high-level spending trends in goods & services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares the spending trend in three subsets; grant spending, internal revenue spending and total (aggregated) spending.

Graphic 6: Spending Mix 2006-2010



Comments on the high-level data:

- **Recurrent Goods & Services:** RIGFA and the increasing amounts of funding committed by the Department of Treasury to provinces, has seen operational spending now funded equally by national grant and internal revenue.
- **Capital & Projects:** Spending from internal revenue continues to be the major funding source for capital needs provided through the provincial budget. The ratio is 3:1 internal revenue v grant.
- **Staff related costs (personnel emoluments, but not government payroll):** These costs and their funding sources have remained relatively constant in recent years.

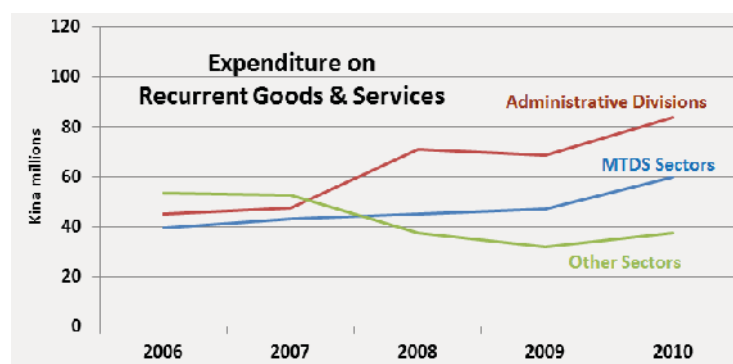
3.3 A look at internal revenue, and does it impact service delivery?

The amount of internal revenue that is applied to recurrent goods and services is a measure of how much provinces prioritise service delivery to their people in their budget and expenditure management decisions. This is particularly true for those provinces with relatively high amounts of internal revenue. For provinces with higher amounts of internal revenue it is critical that they budget and spend significant amounts of this internal revenue on service delivery activities.

If provinces with higher amounts of internal revenue do not allocate internal revenue to support basic service delivery activities then these activities will simply not happen in those provinces.

Spending from internal revenue has increased significantly between 2006 and 2010. It rose from K263 million in 2006 to K388 million in 2010, an increase of 48%.

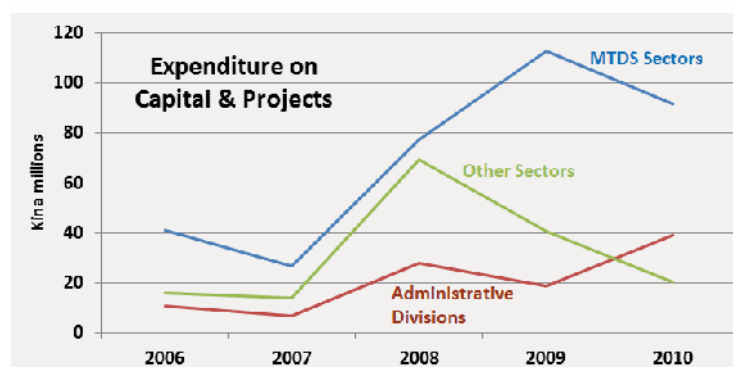
The following series of graphs illustrates high-level spending trends from internal revenue in goods & services, capital & projects and staff-relate costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets; MTDS sectors, administration (divisions) and other sectors.



Spending on the administration is highest.

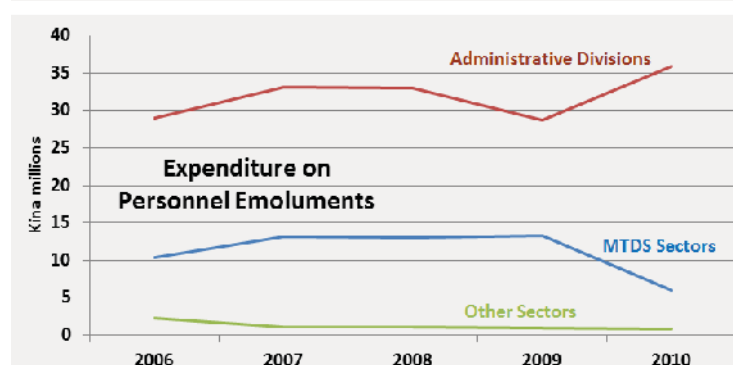
Spending on administration and MTDS sectors continue to track upwards over time.

Spending on 'other' sectors has tended to decrease over time.



Spending on the MTDS sectors is highest.

In recent years spending on MTDS and other sectors has dipped and spending on administration increases. Could the emergence of DSIP development funding at the district level be influencing this change?



Spending on the administration is highest.

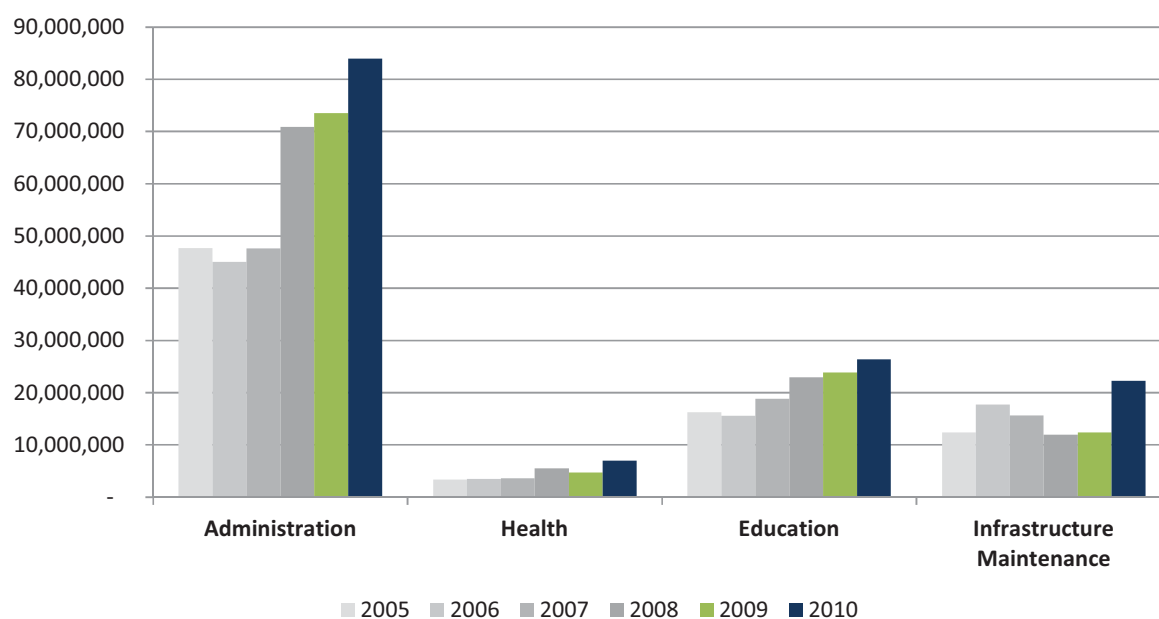
2010 sees a relatively large increase in favour of administration and a corresponding decrease in MTDS sectors.

So did provinces use internal revenue to contribute to service delivery activities?

- Broadly speaking yes, in kina terms the amount of spending on recurrent goods and services from internal revenue in MTDS sectors remained about the same between 2006 and 2009 (between K40 million and K47 million) and then increased more sharply to a high of K60 million in 2010. That K60 million represents 15% of internal revenue spending.
- However with the implementation of RIGFA and the increase in targeted grant funding internal revenue expenditure now comprises a lesser proportion of spending on recurrent goods & services in MTSD sectors. In 2009 and 2010 internal revenue was 33% of recurrent goods & services in MTSD sectors down from 42% in 2008.

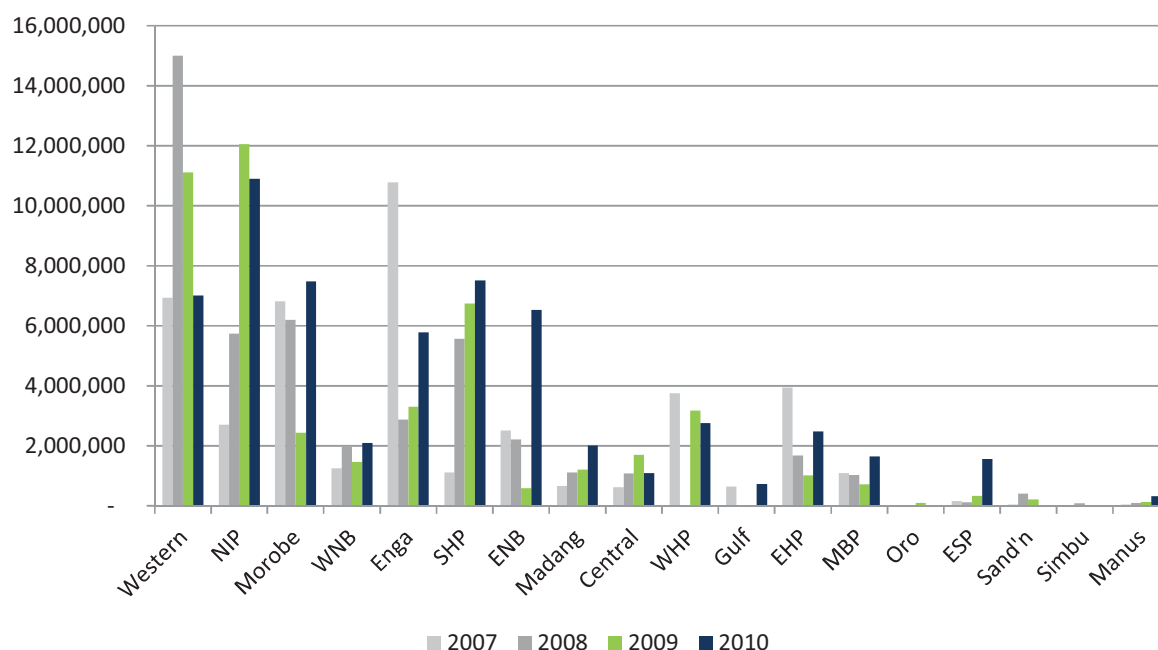
Given that we know service delivery must improve and become more accessible for more families and children, we also ask – can we do better?

- Yes, more internal revenue needs to be appropriated and expended on recurrent goods & services in MTDS sectors.
- To put it in perspective in 2010 the K60 million that was spent on core MTDS activities represents only 15% of all spending from internal revenue by provinces. Clearly there is a need to reallocate a greater proportion to service delivery activities in MTDS sectors.
- In contrast, the administration alone received K159 million or 41% of the internal revenue spending budget.
- More internal revenue was used to fund recurrent goods & services costs in administration (K84 million) than on all MTDS priority sectors (K60 million).
- Reprioritisation: For those provinces with a significant amount of internal revenue there is a need for a reprioritisation to occur in future budgets. If more internal revenue is not directed toward service delivery activities in priority sectors then those activities simply will not occur and services cannot improve.
- A total of 51% of all internal revenue was spent on personnel emoluments and capital & projects. This is highly significant. It means there is less available to fund the critical on-going operational day to day costs that enable core services to be delivered.

Graph 7: Operational spending from Internal Revenue in Major Sectors - 2005 to 2010

The graph above illustrates spending on **recurrent goods & services** from internal revenue in the major sectors for the 2005-2010 fiscal years.

- Administration spending increased and continues to receive the biggest slice of internal revenue.
- Health continues to receive very little support from internal revenue to fund operational costs in the sector.
- Spending levels in education tracks upwards in a gradual manner whilst infrastructure maintenance spending spiked in 2010.

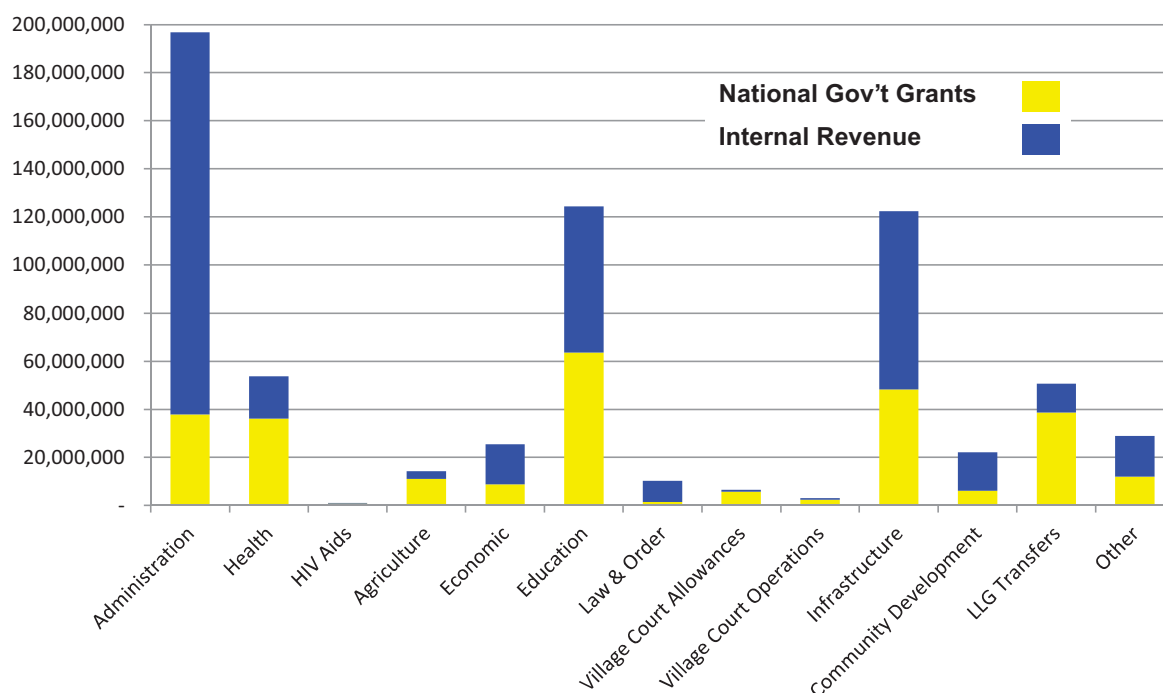
Graph 8: Internal Revenue spending on MTDS sectors - 2007 to 2010

The graph above illustrates spending on recurrent goods and services from internal revenue in the MTDS sectors of health, agriculture, education, infrastructure maintenance, and village courts between 2007 and 2010.

- Lower funded provinces spend very little or no internal revenue in MTDS sectors.

When a province has low (or reduced) levels of internal revenue much of that internal revenue is applied to administration costs and not the MTDS priority service sectors.

- It is pleasing to see New Ireland, Morobe, Southern Highlands and East New Britain provinces spend significantly from internal revenue on certain priority MTDS sectors in 2010.
- It is also pleasing to see some middle and lower income provinces allocate and spend more of their internal revenue on priority MTDS sectors in 2010.
- We note sharp declines in spending by Western on basic services from internal revenue.

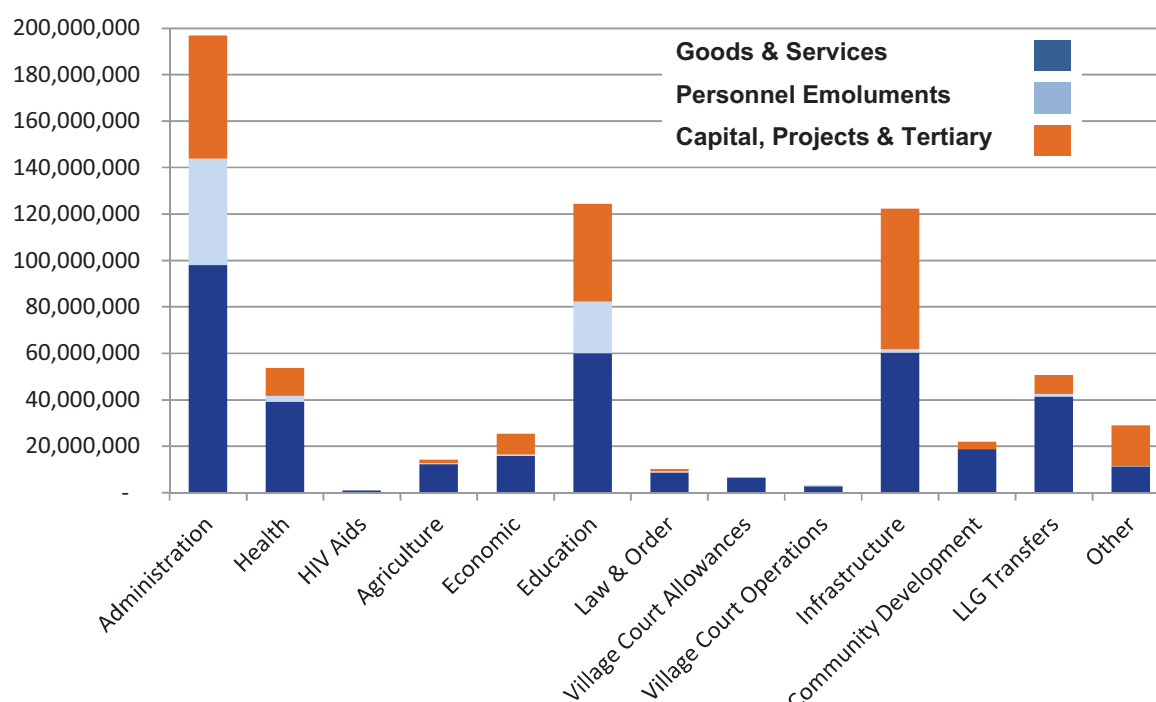
Graph 9: Sector Spending by Source in 2010 (both recurrent & capital)

The graph above illustrates where money was spent by provincial administrations – it splits the sector spending into funding by national government grant and funding from provincial internal revenue. You will observe that:

- The implementation of RIGFA has made a significant difference with additional grant funding impacting the large health, education and infrastructure maintenance sectors.
- Administration remains the single highest spending area.
- Education and infrastructure maintenance are the next best supported priority sectors.
- Whilst health has improved – it remains low relative to what the sector needs to be able to function better.
- Agriculture receives relatively low levels of funding – and little internal revenue support.
- In the law & order sector, village courts are mostly funded by grants whilst internal revenue supports other law & order sub-sectors.

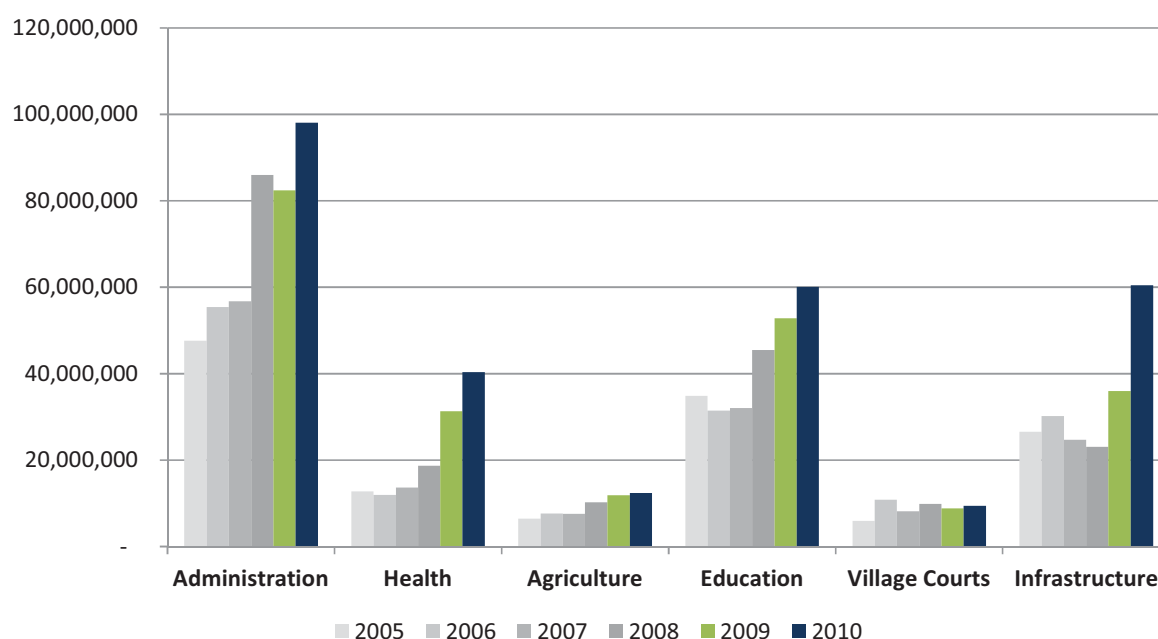
The next three graphs illustrate spending by:

- Type – goods and services, personnel emoluments and capital and projects
- Major sectors
- MTDS sectors as a total (combining health, education, infrastructure maintenance, agriculture and village courts)

Graph 10: Sector Spending by Type in 2010 (both recurrent & capital)

The graph above illustrates provincial administrations spending across major sectors – but this time it splits the sector spending by the amount spent on goods and services, personnel emoluments and capital and projects (and tertiary for education). You will observe:

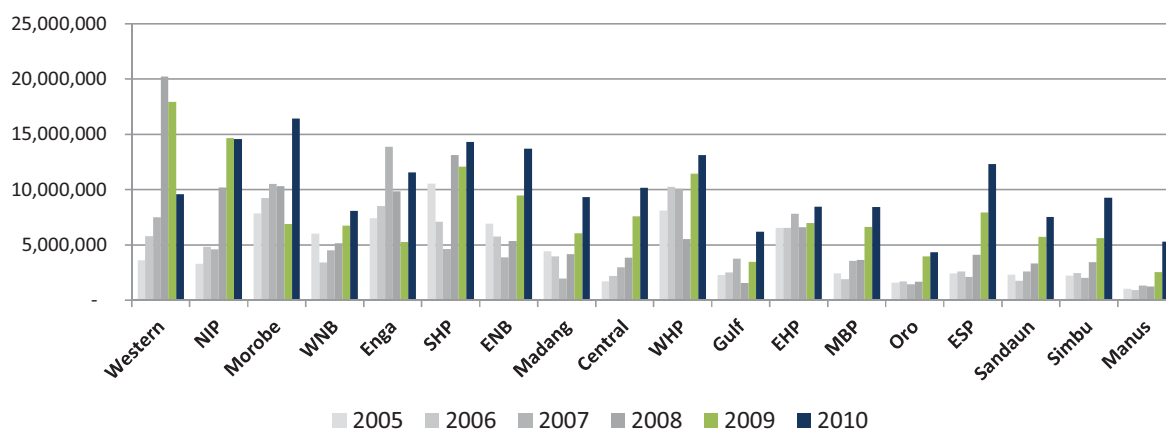
- Capital spending (32% of total spending) is highest in infrastructure maintenance, administration and education. There are also large amounts spent in other.
 - The infrastructure maintenance spending largely refers to transport related activities such as roads and bridges. We know that expensive assets that are not routinely maintained result in huge rehabilitation projects to bring them back up to a usable standard. So part of the capital spending is on rehabilitation, other significant areas of spending are new assets (such as new roads or extending existing roads) and also the purchase of expensive machinery such as bulldozers.
 - Capital spending on education includes building additional facilities such as classrooms, or on rehabilitating existing ones that are badly run-down. In some cases it includes funding tertiary students and tertiary institutions.
- Staff-related expenditure (personnel emoluments) is most significant in administration and education (23% and 18% of their respective sectors).
 - Spending on personnel emoluments does not include the public servants salaries that are paid from the national level. Rather, it includes areas that are budgeted and controlled at the provincial level such as leave entitlements and casual wages for employees that are not on the national payroll.
 - Personnel emoluments expenditure in the administration sector relates mainly to public servants leave fares and politicians allowances. In education it relates mainly to teachers leave fares.

Graph 11: Spending by Sector: 2005 to 2010

The graph above illustrates and compares how much was spent on recurrent goods and services in each major sector across all provinces from 2005 to 2010. You will observe:

- 2010 the second year of RIGFA implementation see continued significant spending increases in the priority large sectors of health, education and infrastructure maintenance.
- Spending on administration continues to rise.

Graph 12: MTDS Spending: 2005 to 2010



The graph above illustrates spending on recurrent goods and services in MTDS sectors by province from 2005 to 2010. The graph is useful for illustrating the following:

- Sixteen provinces showed notable increases in spending in priority sectors, most for the second year in a row.

The increased spending through RIGFA in 2009 has been maintained and increased. Much more is now spent to support priority service delivery sectors.

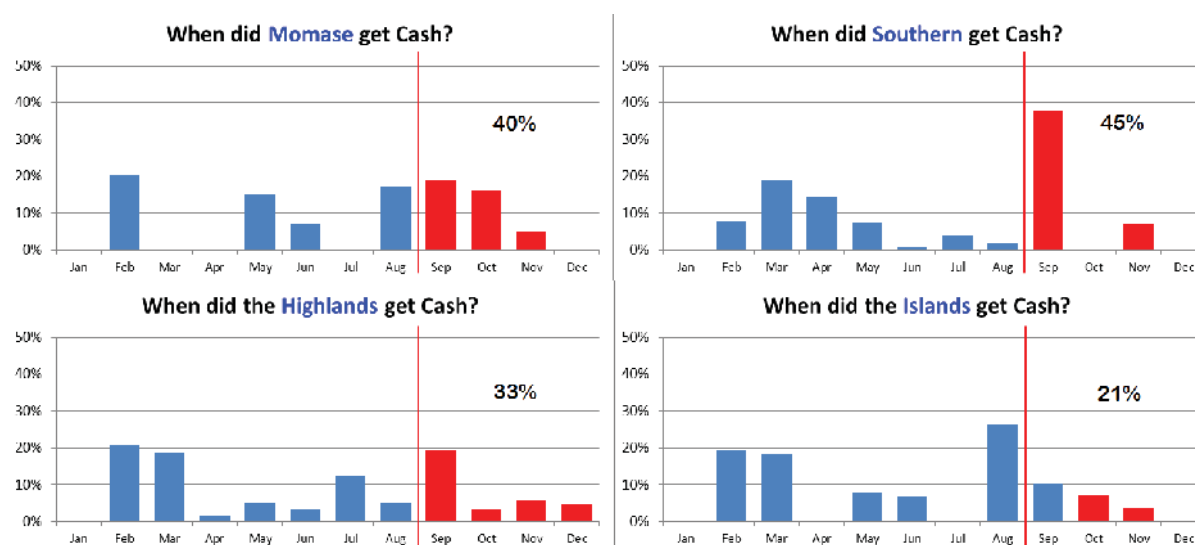
- Of the higher funded provinces New Ireland maintained its higher spending levels.
- In 2010 we see large increases in nine provinces:
 - Morobe, who show a marked improvement in 2010 reversing the decline that was evident between 2007 and 2009
 - Enga, have bounced back from lower spending in 2009
 - East New Britain
 - Madang
 - Central
 - Gulf
 - East Sepik
 - Simbu
 - Manus
- Western's spending on priority sectors decreased markedly.

3.4 Timing of Warrant Issue & Cash Release

Each year we report and monitor on the timing of spending by provinces (see section 3.5). We do this because we know that the timing of when the money is spent is a key factor in determining whether it goes toward supporting the delivery of basic services. However in 2010 we need to take a step backward and review the process of warrant issue and cash release by central agencies. If central agencies release funds late they handicap provinces in their efforts to perform their service delivery responsibilities.

In 2010 central agencies released large amounts of national grants to many provinces very late in the 2010 fiscal year this greatly impeded provinces in their efforts to carry out their functions in an orderly and planned manner.

The graphic that follows illustrates when national grant cash was released to provinces in each of the four regions. The provinces of the southern region (Central, Gulf, Milne Bay, Oro and Western) were the worst impacted with 45% of their funding arriving from September onwards. Almost as badly disadvantaged were the Momase provinces (East Sepik, Madang, Morobe and Sandaun) who received 40% of their funding from September. Perhaps only the provinces of the Islands region (East and East New Britain, Manus and New Ireland) who received 79% of their funding before September were provided national funding in a timely fashion and thus enabling Island's provinces to implement their service delivery programs in a more orderly manner.



When reviewing these graphs we need to remember that some provinces rely almost wholly upon national grant funding for conducting their operations. We also need to remember that getting funds to the province is only the start of the implementation cycle – the provinces own internal financial processes are also often slow and time-consuming and this makes getting funding ‘early’ from the national level even more critical.

Slow cash release: Provinces need certainty on when their funding is going to arrive.

Why was the cash release to Southern and Momase provinces so slow in 2010?

How badly did the delays impact their ability to deliver basic services?

Without timely funding services cannot be delivered, it is that simple.

The service delivery sectors of government need to get their money early and this enables them to implement the plans they have for the year.

Unfortunately the picture is even worse when we look at the timing of cash release from Treasury and Finance to some individual provinces. Eight provinces received between 40% and 76% of their national grants from September onward in 2010.

The table that follows records the percentage of national grant cash that each province received from September onward. Eight provinces were much delayed, seven were in a moderate band, and three were satisfactory.

Very delayed		Moderate		OK	
Sandaun	76%	Western	35%	Simbu	18%
Milne Bay	59%	Madang	29%	East New Britain	17%
WHP	52%	New Ireland	27%	West New Britain	8%
Enga	51%	Oro	27%		
Central	50%	East Sepik	27%		
Morobe	42%	SHP	25%		
Manus	41%	EHP	24%		
Gulf	40%				

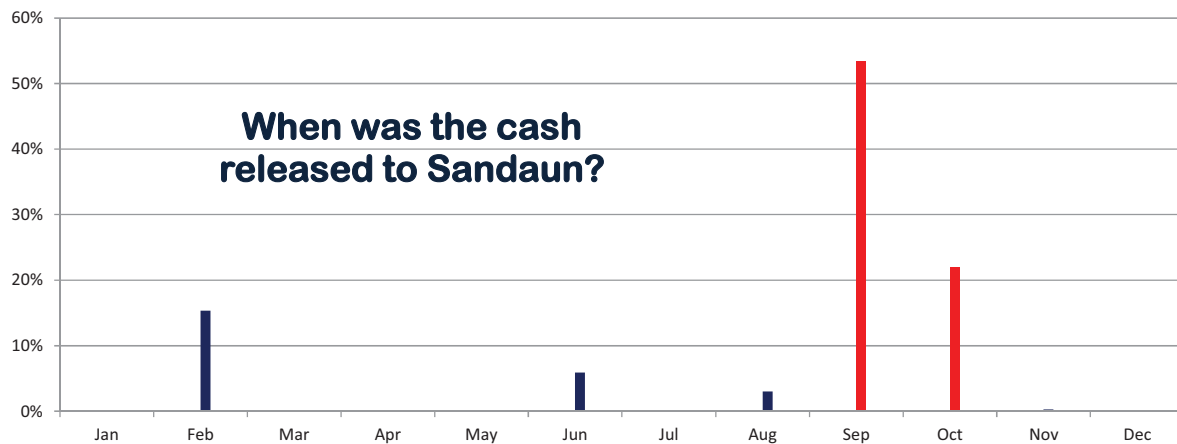
The four graphs that follow illustrate the challenges faced by four provinces who received over half of their national grant funding very late. Interestingly and disappointingly three of the four are strong performers in recent analytical assessments and scorecards. As central agencies we need to support high performing provinces with a timely release of their funds.

Central Province



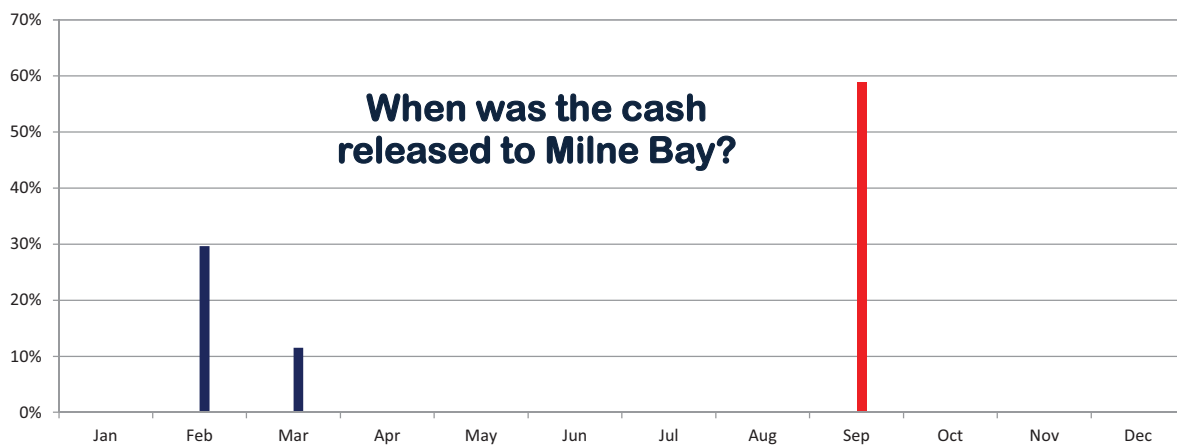
- Central received **50%** of its national grants in September 2010. This was much too late for the province to implement its basic service delivery activities in an orderly manner.

Sandaun Province



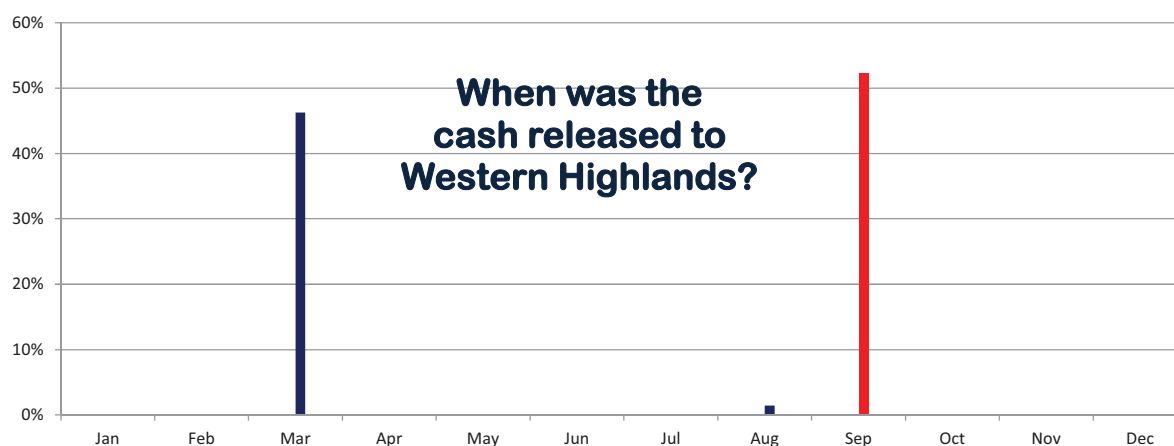
- Sandaun has performed at an excellent level in the PER scorecard in 2008 and 2009. Despite this, in 2010....
- Sandaun received three quarters, **75%**, of its national grants in September and October 2010. Again, this was much too late for the province to implement its basic service delivery activities in an orderly manner.
- Why did this happen?

Milne Bay Province



- Milne Bay has been a strong performer in the PER scorecards in 2008 and 2009.
- Milne Bay received **59%** of its national grants in September 2010. Again, this was much too late for the province to implement its basic service delivery activities in an orderly manner.

Western Highlands Province



- Western Highlands received **52%** of its national grants in September 2010. Again, this was much too late for the province to implement its basic service delivery activities in an orderly manner.

A standard cash release schedule

Can the Departments of Treasury and Finance work with PLLSMA and provinces to establish an agreed cash release schedule that provides provinces with the certainty that they need to implement their annual service delivery plans?

What might a standard cash release schedule look like?

In considering what a standard cash release schedule may look like we must first understand and acknowledge the realities of cash and expenditure management at the sub-national level. Spending requires co-operation and interaction between the provincial treasury who receive the money and the provincial administration finance team who must then liaise with their various sectors and divisions who ultimately make spending decisions based on their annual plans. It may also involve transfers to other sub-national spending levels such as the district level and even the local government and facility levels (such as health centres and schools). On the one hand we must not overly simplify the challenges provinces have in processing spending decisions and yet on the other hand we must devise and maintain a cash release process between the national and sub-national levels that is uncomplicated and predictable and aids planning and implementation.

The table below sets out a possible cash release schedule that could apply to all provinces each year. The table assumes:

- Cash needs to arrive at the province early in the year to enable the spending process to start at sub-national levels. So the size of the releases is larger earlier in the year and diminishes as the year progresses.
- It often takes one or two months (perhaps more if the funds staircase down to lower levels of the sub-national system) to complete the spending process and actually raise a cheque. So by releasing funds early we allow provinces (and sectors) to process the spending during the year to support service delivery activities in a timely way.
- Provincial administrations need predictability in their funding. It is impossible to implement a service delivery program across sectors when the funding is disbursed in an ad hoc manner each year from the national level.

Table 13: Possible cash release schedule

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

3.5 Timing of Spending

The timing of when the money is spent during the year in the provinces is critical to the objective of improving service delivery.

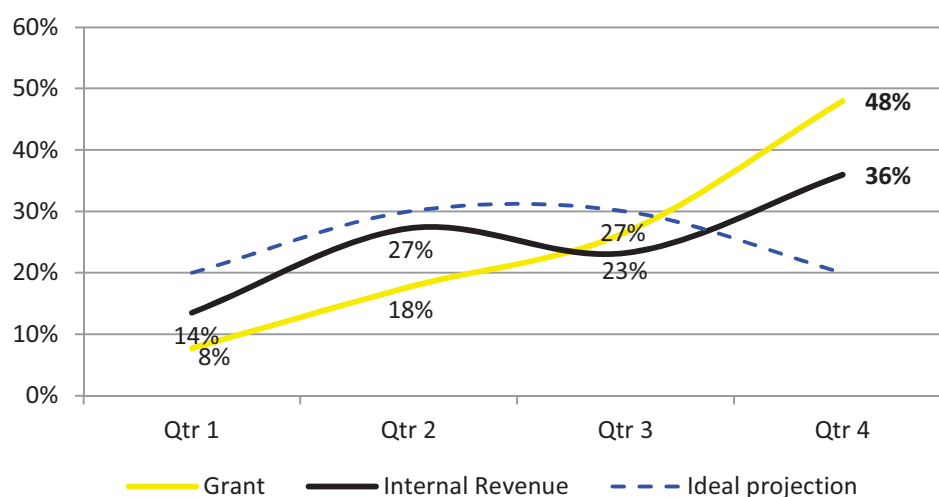
Three effects of late spending are:

- 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 opportunity cost for the PNG Government and deprive people of access to basic services. Unused funds should be directed to the delivery of essential basic services.

Delayed Service Delivery

In 2010, we see more than one third of internal revenue expenditure and almost half grant expenditure occurring in the final quarter of the fiscal year. When one considers that the government's accounts close mid-way through December that means that between one third and a half of spending occurred in just over two months. **We know that the lateness in warrant and cash release by the Departments of Treasury and Finance in 2010 has contributed significantly to this problem.** So, how much service delivery can happen during the year when the spending to support service delivery occurs so late?

Graph 14: The Average Level of Spending in each Quarter⁸



- Spending in the first quarter was very low for the second consecutive year.
- Spending in the 4th quarter of 2010 was even higher than usual.

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 and services should mirror the service delivery activities they are there to support and enable.

⁸ Cheques raised to transfer unspent funds at year-end have been removed from this analysis to avoid distortion.

Table 15: Percentage of Spending in each Quarter

This table details the percentage of spending that occurred in each quarter from grant and internal revenue by province in 2010 and 2009. Information for the 2005-2008 fiscal years is available in the 2008 PER on the NEFC website: www.nefc.gov.pg/publications

Province	Source	2010 Fiscal Year					2009 Fiscal Year				
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Central	Grant	9%	17%	24%	49%	100%	13%	26%	29%	33%	100%
Central	Internal Revenue	12%	21%	25%	42%	100%	10%	19%	21%	50%	100%
EHP	Grant	10%	21%	30%	39%	100%	9%	3%	45%	43%	100%
EHP	Internal Revenue	10%	17%	25%	48%	100%	12%	14%	29%	45%	100%
ENB	Grant	15%	13%	36%	36%	100%	14%	9%	33%	44%	100%
ENB	Internal Revenue	11%	20%	27%	43%	100%	14%	31%	25%	30%	100%
Enga	Grant	5%	21%	17%	56%	100%	16%	28%	27%	29%	100%
Enga	Internal Revenue	6%	15%	23%	56%	100%	19%	14%	24%	43%	100%
ESP	Grant	4%	6%	28%	62%	100%	9%	13%	29%	49%	100%
ESP	Internal Revenue	6%	42%	23%	29%	100%	20%	44%	21%	14%	100%
Gulf	Grant	3%	7%	33%	57%	100%	6%	17%	41%	35%	100%
Gulf	Internal Revenue	24%	56%	14%	7%	100%	21%	47%	33%	0%	100%
Madang	Grant	1%	33%	16%	51%	100%	12%	28%	19%	42%	100%
Madang	Internal Revenue	15%	25%	18%	42%	100%	12%	18%	26%	44%	100%
Manus	Grant	5%	18%	31%	46%	100%	14%	25%	23%	37%	100%
Manus	Internal Revenue	7%	24%	21%	49%	100%	20%	35%	15%	29%	100%
MBP	Grant	7%	22%	13%	57%	100%	9%	15%	31%	45%	100%
MBP	Internal Revenue	9%	18%	35%	39%	100%	17%	32%	26%	25%	100%
Morobe	Grant	6%	10%	37%	47%	100%	0%	26%	27%	48%	100%
Morobe	Internal Revenue	15%	29%	22%	35%	100%	18%	27%	27%	28%	100%
NIP	Grant	7%	5%	37%	51%	100%	6%	26%	40%	28%	100%
NIP	Internal Revenue	11%	19%	29%	41%	100%	8%	37%	35%	20%	100%
Oro	Grant	7%	27%	25%	42%	100%	5%	33%	17%	41%	95%
Oro	Internal Revenue	3%	25%	31%	40%	100%	2%	22%	27%	50%	100%
Sand'n	Grant	1%	24%	23%	51%	100%	6%	29%	18%	48%	100%
Sand'n	Internal Revenue	23%	25%	21%	32%	100%	13%	33%	31%	24%	100%
SHP	Grant	38%	12%	19%	31%	100%	3%	29%	59%	8%	100%
SHP	Internal Revenue	28%	30%	11%	30%	100%	12%	53%	9%	26%	100%
Simbu	Grant	4%	34%	34%	29%	100%	5%	20%	46%	29%	100%
Simbu	Internal Revenue	38%	31%	13%	18%	100%	35%	20%	30%	14%	100%
West'n	Grant	7%	8%	4%	82%	100%	1%	26%	7%	66%	100%
West'n	Internal Revenue	7%	25%	34%	35%	100%	7%	22%	31%	41%	100%
WHP	Grant	7%	29%	40%	25%	100%	2%	34%	19%	46%	100%
WHP	Internal Revenue	9%	36%	28%	28%	100%	0%	40%	20%	39%	100%
WNB	Grant	5%	11%	31%	52%	100%	6%	21%	26%	47%	100%
WNB	Internal Revenue	10%	35%	20%	35%	100%	9%	22%	21%	48%	100%
Average of Grants		8%	18%	27%	48%	100%	8%	23%	30%	40%	100%
Average of Internal Revenue		14%	27%	23%	36%	100%	14%	29%	25%	32%	100%

- Instances where spending exceeds 35% in a quarter are highlighted in bold.
- Red suggests that the timing of spending is out of step with normal service delivery activities, and raises the concern that inefficiencies and 'blockages' may be present and that year-end wastage may be occurring to 'clear the accounts'.

4 Measuring Performance

4.1 The Top Five – Sustaining High Performance

The delivery of basic services happens every year. Providing education, health care, and maintaining infrastructure all require a similar set of annual activities to happen every year. A high performing provincial administration is one that sustains its service delivery efforts and ingrains good practices each and every year. It is possible, but less desirable, to have a haphazard approach to financing service delivery where a good year is followed by a poor year. For service delivery sectors this approach is counterproductive and will not sustain the improvements we all are looking for.

In **‘Step Two: The Ripple Effect’** we are starting to identify those provincial administrations that are demonstrating sustained financial discipline and consistently allocating and spending in the right areas to support the delivery of basic services. **The Top Five table** shows all provinces but highlights the five provinces with the best results over the last three reviewed years – from 2008 to 2010.

Congratulations to the Simbu, Sandaun, Central, Manus and Milne Bay provincial administrations for their commitment to making service delivery happen in their provinces.

Graph 16: The Top Five – Sustaining High Performance

Province	2008	2009	2010	Average
1 Simbu	114	107	124	115
2 Sandaun	120	115	100	112
3 Central	104	109	103	105
4 Manus	114	96	106	105
5 Milne Bay	110	103	102	105
East New Britain	82	98	117	99
Oro	83	113	96	97
New Ireland	101	95	83	93
East Sepik	86	101	91	93
Southern Highlands	76	88	92	85
Western Highlands	60	101	95	85
Western	98	93	62	84
Gulf	56	79	117	84
Morobe	82	68	97	82
Madang	72	81	89	81
Eastern Highlands	85	80	77	81
Enga	70	74	93	79
West New Britain	73	72	70	72

4.2 How we Measured Performance

Having analysed how provincial governments spent their money, we can now 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 Twin Gaps of Priority and Funding Graph – supporting MTDS priorities
- The Provincial MTDS Priorities Table
- Provincial Expenditure Matrix/scorecard
- **The Minimum Priority Matrix**

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

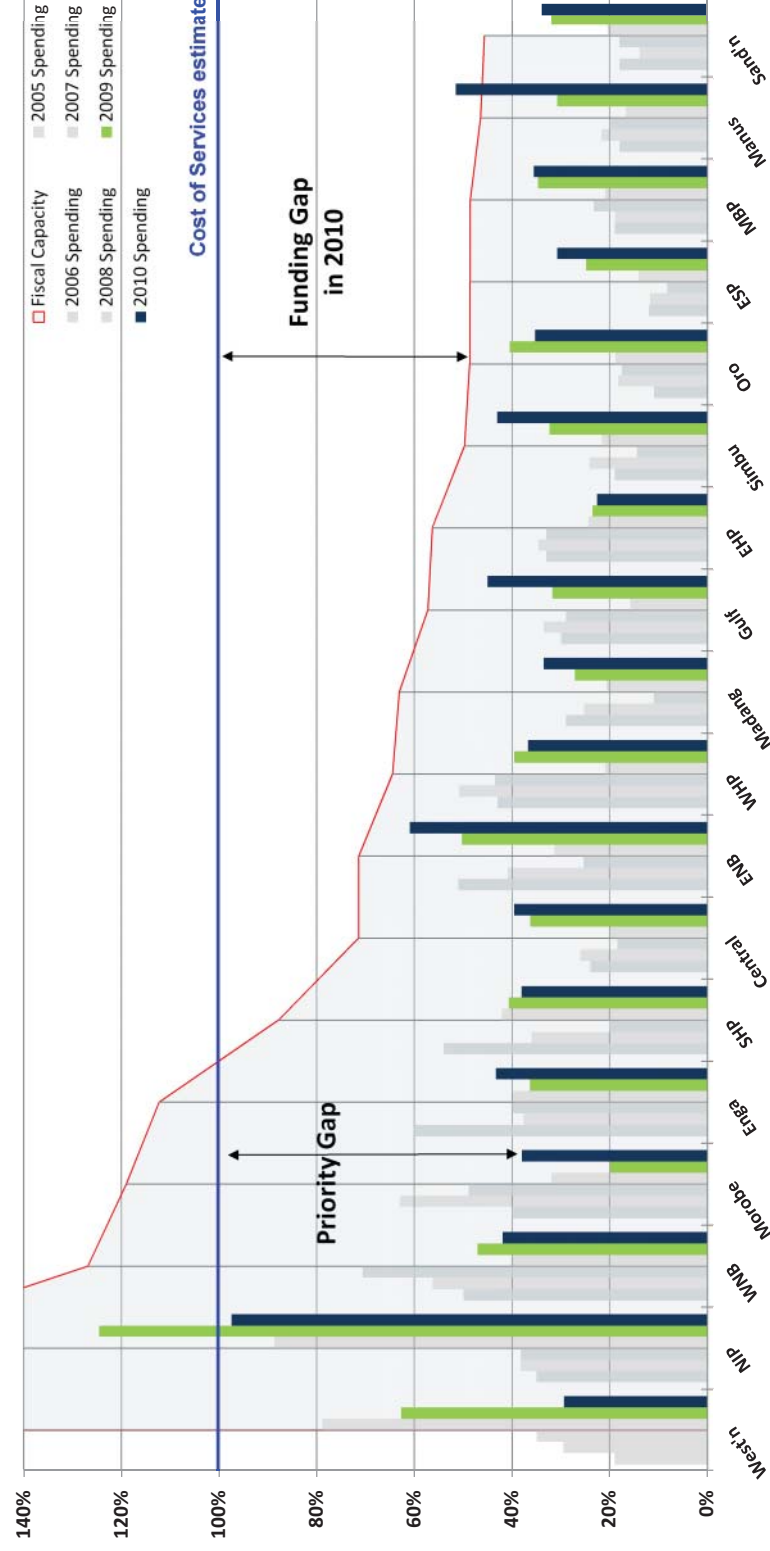
Answering questions about performance

Table / Graph	Helps to answer
The Twin Gaps of Priority and Funding – Supporting MTDS priorities graph	<ul style="list-style-type: none"> ▪ Which provinces can achieve more by redirecting spending to MTDS priority areas? ▪ Which provinces need more funding?
The MTDS Priorities Table	<ul style="list-style-type: none"> ▪ How well is each province supporting the MTDS sectors given its fiscal capacity? ▪ Which sectors are better supported? <p>The provinces are ranked according to their fiscal capacity</p> <p>Results can be viewed; either province by province, or by group, or overall</p> <p>Note: the results have been adjusted to reflect each provinces fiscal capacity (the village court results have not been adjusted)</p>
The Expenditure Matrix/ Scorecard	<ul style="list-style-type: none"> ▪ Did we spend more than last year? ▪ Are we adequately supporting MTDS sectors with our available resources? Or can we do better? ▪ Did we spend all of the function grant funding? ▪ Was it spent appropriately on the things that support service delivery?
The MPA Matrix	<ul style="list-style-type: none"> ▪ Did our spending support the minimum priority activities? ▪ Does our chart of accounts adequately identify the minimum priority activities for budget and expenditure management purposes?

4.3 The Twin Gaps of Priority and Funding

This graph draws together all provincial spending on MTDS priorities and compares this with the cost of fully funding the MTDS priorities. It 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 allocating more money within their province to basic services – we call this the priority gap⁹. The second is a matter of funding, many provinces simply do not have sufficient funding – we call this the funding gap.

Graph 17: Supporting MTDS priorities: 2005 to 2010



⁹ In practice, provinces may allocate some of the funds they have discretion over to staffing, capital and development costs. This is not reflected in the calculation of fiscal capacity nor the priority gap. The assumption is that all untagged funds can be applied to funding recurrent operational activities.

4.3.1 Comments on the Twin Gaps

- There is a **funding gap** - which is being addressed by the implementation of RIGFA (Reform of Intergovernmental Financing Arrangements), the new intergovernmental financing system that has redesigned the way PNG's resources are shared.
- The implementation of the government's intergovernmental financing reforms has started the process of addressing this funding gap. The 2010 GoPNG budget provided an overall 22% increase in recurrent goods and services funding to provincial governments, with an extra K29.3 million distributed to those provinces that need it most – we can see the impact of the increased spending by lower and medium funded provinces.¹⁰
- 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 casual wages and projects) and redirecting it to another (such as health and infrastructure maintenance).
- Provinces need to consider how they allocate and spend their resource envelope. Internal revenue needs to be used to support the delivery of core services.
- 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 disastrous for government efforts in providing core services such as health and education, and for promoting economic development, through a maintained road infrastructure and by developing vibrant and sustainable agricultural, fisheries and forestry sectors.
- We are seeing improvement and change in spending on MTDS sectors. In many cases the gains are small and yet targeting funding to those who need it most is working. We noted:
 - Many lower funded provinces and some medium funded provinces have increased their recurrent spending on MTDS sectors in Kina terms. This is good.
 - Five provinces show a declining trend in their spending on MTDS sectors relative to what is required - West New Britain, Morobe, Southern Highlands, Western Highlands and Eastern Highlands.
 - Cumulative spending on MTDS sectors by New Ireland is high - and yet this masks an inequity between sectors. New Ireland favours spending on education over the other major sectors health, infrastructure and agriculture.

4.3.2 Comments on the results by funding group

- Higher funded provinces all have the ability to do better. No higher funded province is adequately funding all priority services.¹¹ They can improve by redirecting money from low priority areas such as the administration sector and projects to service delivery sectors particularly health, agriculture and routine infrastructure maintenance.

Education remains the priority sector for higher funded provinces.

¹⁰ This excludes transfers to Local level Governments.

¹¹ Whilst New Ireland appears to be spending a sufficient amount to cover the recurrent cost total for MTDS sectors it should be noted that some sectors receive a lot more than others relative to their estimated requirements.

Higher funded provinces also spend a much higher proportion of expenditure on staff related costs and development, which means that even more funding for goods & services are required to support additional (casual) staff and new capital projects.

- **Medium funded** provinces also need to redirect more spending from low priority areas such as administration to agriculture in particular.

However the health, education and infrastructure maintenance sectors also need greater funding support to enable staff to provide basic services.

- In **lower funded** provinces the good news is the increased funding being targeted toward health and education.

Progress is even apparent in improved spending in the maintenance of transport infrastructure.

Agriculture is now the worst supported sector.

4.4 The Provincial MTDS Priorities Table ¹²

The Provincial MTDS Priorities Table that follows illustrates how well provinces are supporting the Governments key MTDS priority sectors – health, agriculture, education, transport infrastructure 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 results: 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 would be 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 meaning 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.

¹² 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 expedient way to identify the purpose for which that additional funding was used.

Table 18: Provincial MTDS Priorities Table in 2010 - How well were MTDS Priorities supported given fiscal capacity¹³

Rank by Fiscal Capacity	Province	Average Fiscal Capacity	Health & HIV	Agriculture	Education	Infrastructure	Op's	Village Courts Allow's
1	Western	227%	Low	Low	Medium	Low	High	Medium
2	New Ireland	177%	Low	Low	High	Low	High	High
3	West New Britain	127%	Low	High	Low	Low	High	High
4	Morobe	119%	Low	Low	Medium	Medium	High	High
5	Enga	112%	Medium	Low	High	Low	High	High
6	Southern Highlands	88%	Low	Low	Medium	Medium	High	Medium
7	Central	71%	High	Low	Medium	Medium	High	High
8	East New Britain	71%	Medium	High	Medium	High	High	High
9	Western Highlands	65%	Medium	High	Medium	Medium	High	High
10	Madang	63%	Medium	Low	Medium	Medium	High	High
11	Gulf	57%	High	Low	High	Medium	High	High
12	Eastern Highlands	56%	Medium	Medium	Low	Low	High	High
13	Simbu	50%	High	Low	High	High	High	High
14	Oro	49%	Medium	Medium	High	Medium	High	High
15	East Sepik	49%	High	Low	High	Low	High	High
16	Milne Bay	49%	High	Medium	Medium	Medium	High	High
16	Manus	47%	High	Low	High	High	High	High
18	Sandaun	46%	High	Low	High	Medium	High	High

High
Medium
Low

above 80%
between 40-79%
below 40%

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

The exception to this is the results for Village Court Allowances. These results have not been adjusted, the VCA grant is assumed to be adequate to meet this cost.

¹³ This table illustrates and compares provincial performance in supporting the Governments key MTDS priority sectors – the scores are adjusted to reflect fiscal capacity.

4.4.1 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. **Improved Prioritisation** in 2010 the general picture is one of improved spending on the priority sectors health, education and transport infrastructure maintenance contrasting with agriculture which is seemingly worse relative to what the sector needs.
2. **Lower funded provinces** show very few low scores – another positive result demonstrated in the 2010 table is the continued absence of ‘low’ scores by the lower funded provinces with infrastructure maintenance showing significant improvement. Again, some provinces showed declined spending in agriculture.
3. **Administration** – is not included in the ‘scorecard’ table but continues to be the no.1 priority across all provinces. Spending in this sector needs to be reduced and controlled. Most provinces fund this sector at the expense of providing services to their people.
4. **Education** – remains the no.2 priority across most provinces (also no.2 in prior years). Only West New Britain scored ‘low’.

Some provinces clearly prioritise education - such as Western, New Ireland and Enga all provinces that again invested very large amounts of recurrent spending in education.

The lower funded group of provinces also demonstrated high spending relative to their capacity.

Spending on secondary (and even tertiary education) is often favoured over basic education that would enable more children to learn basic skills (through primary, elementary and community schools).

5. **Agriculture** – overall has slipped and is no longer no.3 in priority for most provinces, in fact agriculture is **the least well supported sector**.

We see a decline in the spending of seven provinces in 2010. Two thirds of provinces (12) now score ‘low’ - this is disappointing when one considers the fundamental importance of this sector in providing a source of food and income for the many.

Only one of the seven best funded provinces achieved a high score.

6. **Infrastructure** – 2010 sees further signs of tangible improvement in spending. Capital spending was again significant in some provinces and a portion may be recurrent in nature (reflecting the cumulative effect of poor recurrent maintenance). Overall spending on infrastructure maintenance is now no.4 as a priority following closely after the health sector.

We know, infrastructure maintenance is expensive and requires greater levels of funding. If left unchecked, very expensive rehabilitation costs will continue to amass. For this reason the increased spending levels are very welcome.

Of the six lower funded provinces two scored ‘high’ and three scored ‘medium’ indicating that the increased function grant funding is being applied to the sector.

7. **Health** – has moved to a better level of overall funding. Of the big sectors health now ranks no.3 below education.

For the third consecutive year we see significant increases in spending due to the large increase in the level of the national government’s health service delivery function grant.

The health function grant together with the recurrent spending under the Health Support Improvement Programme (HSIP) - a donor led initiative - has been sustained from 2008-2010 and is an additional significant infusion of funds for the health sector in most provinces.

Primary and preventative health care in the rural areas is identified as a priority and a fundamental requirement in the MTDS but spending levels in five of the top six funded provinces clearly does not reflect this. Basic health services are not being delivered to most people in higher funded provinces. This will not change without a dramatic increase in health spending.

8. **Village Courts** – spending in the village courts sector was split into two grants in 2007 with one for allowances and the other for operational requirements. This separation should help ensure funding is appropriately targeted.

The MTDS provincial priorities table illustrates that most provinces spend what the cost of services study estimates is necessary. This is not entirely unexpected, given that the grants are believed to be adequate to meet the sectors basic needs.

Whilst spending on **allowances** was strong, we can see that spending in Southern Highlands and Western is lower than what is estimated necessary.

Spending on **operational costs** was high across all provinces.

4.5 The Provincial Expenditure Matrix

The pages that follow that follow summarise the findings of our analysis on a province-by-province basis. We need to remember that these are fiscal indicators only and they do not provide assurance as to the quality of the expenditure. What we do know however, is that if we aren't spending in the right areas then basic service delivery activities cannot happen effectively.

Table 19: Table of Key Fiscal Performance Indicators

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
CROSS-SECTORAL FISCAL INDICATORS				
1	Timing of 4th Quarter Exp: (National Government Grants)	Indicates whether a province is spending its funds in a timely manner.	Good: Less than 25% Average: between 25 and 33% Not Good: Above 33%	Most national grant funding is targeted at basic service delivery costs and needs to be spent throughout the year to support basic service delivery activities. Experience shows that high spending in the final quarter is less likely to support basic service delivery activities.
2	Timing of 4th Quarter Exp: (Internal Revenue)	Indicates whether a province is spending its funds in a timely manner.	Good: Less than 25% Average: between 25 and 33% Not Good: Above 33%	Timely expenditure supports basic service delivery activities. Experience shows that high spending in the final quarter is less likely to support basic service delivery activities.
3	Internal revenue expenditure % (on recurrent G&S in MTDS sectors)	Indicates the level of prioritisation that the province is giving MTDS sectors from funds over which it has budget discretion.	High: Above 20% Medium: between 10% and 20% Low: Below 10%	Provinces will not be able to provide basic services by using national grant funding alone, grant funding needs to be supplemented with expenditure from internal revenue.
4	Sectoral Equity (across 4 larger MTDS sectors)	Indicates whether the four larger MTDS sectors are receiving a similar amount of funding according to what they need to provide basic services and according to what a province can afford.	Tick: standard deviation below 0.25 Cross: standard deviation above 0.25 (MTDS sectors included in this measure are: agriculture, education, health and infrastructure)	All major sectors need an appropriate level of funding – this indicator helps us to see whether some sectors are receiving more than others subject to what they need.
	MTDS sector prioritised	This indicates which MTDS sector achieved the highest spending level.	This is for information only. No score is awarded.	

Continued.....

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
SECTORAL SPECIFIC FISCAL INDICATORS				
5	Spending Trend (both Grant and Internal revenue spending)	Indicates how a provinces' spending on recurrent goods and services changed between years.	Up: 15% (or greater) <u>increase</u> on the average of 2005-2008 expenditure Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on the average of 2005-2008 expenditure	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 almost always results in a reduction in service delivery.
6	Spending Level Performance (both Grant and Internal revenue spending)	Indicates how much a province is spending on the sector relative to NEFC cost estimates. The calculation takes into account a provinces 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 our spending – but the level may still be low compared to what is required.
6	Unspent % (Function Grant spending only)	The amount of unspent funds at year-end. Calculated against Budget (actual) – per 2009 budget book.	Good: Less than 5% Average: 5 and 10% Not Good: Above 10%	The immediate objective is to spend the function grant funds to deliver services. A rollover % above 10% indicates poor use of resources.
7	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.
8	Salaries and Wages % (Health Function Grant spending only)	Spending on Salaries and Wages is not intended or permitted 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.

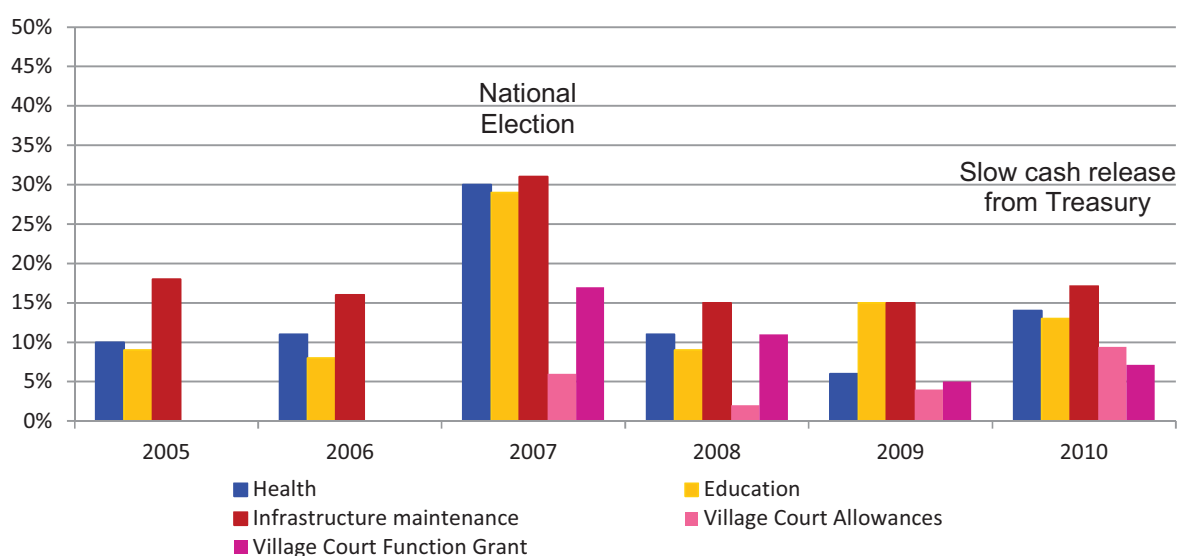
Table 20: The Provincial Expenditure Matrix

Summary Findings – of the Provincial Expenditure Matrix

The Provincial Expenditure Matrix 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 performance not by their fiscal capacity.

Did provinces use the additional function grant funding they received under RIGFA in 2010? Or did they struggle to spend the additional money?

Graph 22: Unspent Function Grant Percentages: 2005 to 2010



- We know that the release of cash from central agencies was very slow and late in 2010. So it is not surprising to see a corresponding increase (albeit small) in the amounts of unspent function grant compared to 2008 and 2009.
- The health function grant was the worst impacted with un-used monies rising from 6% to 14%.
- Despite the increases in under-spending overall we can be pleased that provinces have been able to put the additional funding to good use.

Were the grants spent on the purposes intended?

	Year	Health	Education	Infrastructure maintenance	Village Court Allowances	Village Court Function Grant
Average Nature Test	2010	Good	Average	Average	Good	Good
	2009	Average	Average	Average	Good	Good
	2008	Good	Average	Average	Good	Good
	2007	Average	Average	Average	Good	Average
	2006	Average	Good	Average		introduced 2007
	2005	Average	Average	Average		introduced 2007

- Overall spending of the function grants in health, education and infrastructure maintenance generally appeared in keeping with intention of grants with some areas that were questionable or uncertain.
- Of the larger sectors, spending on health bounced back to 'Good' again which indicates that generally the funds were spent on the purposes intended.
- The education and transport infrastructure function grants were typically well used with two-thirds of the provinces scoring 'Good' in both these sectors.

Do some provinces still spend their health grant on casual wages?

No Salaries Test	2010	4	} number of provinces who fail test
	2009	6	
	2008	5	
	2007	4	
	2006	11	
	2005	10	

- The number of provinces spending the health function grant on casual wages dropped in 2007 and has returned to that low level. This is another very positive result. The number has reduced from 11 to 4 – this is very encouraging and will help ensure that recurrent funding is available to support staff engaged in the delivery of services.

Are we spending to capacity on priority sectors?

		Health	Education	Infrastructure maintenance	Agriculture	Village Court Allowances	Village Court Function Grant
Average Spending Performance Level	2010	Medium	Medium	Medium	Medium	High	High
	2009	Medium	Medium	Low	Medium	High	High
	2008	Medium	Medium	Low	Medium	High	High
	2007	Low	Medium	Low	Medium	High	High
	2006	Low	Medium	Low	Medium	High	introduced 2007
	2005	Low	High	Medium	Medium	High	n/a
Spending Trend	2010	Up	Up	Up	Steady	Up	Up
	2009	Up	Up	Steady	Up	Steady	Steady
	2007/8	Up	Up	Steady	Up	Up	Down
	2006/7	Steady	Steady	Steady	Steady	Down	n/a
	2005/6	Steady	Steady	Steady	Steady	Up	n/a

- Health:** RIGFA has made an impact in this sector. We can see the average spending levels trending upwards between 2008 and 2010 causing an overall movement across the sector from 'low' to 'medium'.

The increased levels of function grant funding being targeted at this sector has ensured that health is starting to receive the priority that the government intends.

- **Education:** Whilst spending on education relative to what is required may have dipped a little since 2005 we do see an upward trend in recent years which is pleasing. Education seems to attract the highest priority from provinces of the three large service sectors (the others being health and transport infrastructure).

On an individual provincial level, some provinces clearly prioritise education very highly.

- **Infrastructure maintenance:** Traditionally spending on routine maintenance has been low, however as with health RIGFA is making an impact with the increased funding reaching lower and medium funded provinces resulting in tangible signs of maintenance activities. [In 2010 the average spending on transport infrastructure moved from 'low' to 'medium' for the first time - which is a very encouraging result.](#)

A continued and increased commitment is critical given the high cost of maintaining transport infrastructure and the enormous cost of rehabilitation.

- **Agriculture:** Spending in agriculture continues to rates 'medium' but only just. Whilst the spending remains 'steady' we can see the overall situation is declining and calls for a concerted effort if we want to reinvigorate this critical economic sub-sector.
- **Village Courts:** Overall village courts continues to be the best performing sector against our KPI's with both Village Court grants achieving high scores, although this is largely due to the high level of funding this area attracts relative to their requirements.

The Best News

- The tangible wins in seeing additional funding reaching the [health and transport infrastructure](#) sectors which has resulted in these historically poorly supported sectors receiving better support and [moving from a 'low' score to a 'medium'](#).
- The [relatively low under-spending rates](#) despite many provinces received large amounts of grant funding very late in the year.
- Most provinces have brought their spending on [casual wages](#) from the health function grant [under control](#) - this is commendable.
- Not only are funds being spent but they are being used properly and in their appropriate sectors. The MPA analysis (in section 4.6) provides additional analytical evidence of the levels of spending on key priority activities.

The Worst

- In a number of cases, higher and medium funded provinces where outperformed again by lower funded provinces – this should not be the case.
- After six years of monitoring we are seeing some provinces display entrenched habits of poor practice. For instance, persistent annual under-spending or persistently high spending in quarter four.
 - The NEFC has published a Trend Databook that collates the individual results for each province on a year-by-year basis in an effort to communicate fiscal impediments to improving service delivery.

The decline in support to the agriculture sub-sector is concerning.

4.6 The Minimum Priority Activity Matrix

The MPA Matrix that follows illustrates how well provinces are supporting the Governments eleven minimum priority activities in education, health, primary production, transport infrastructure maintenance and village courts. Which sector MPAs are receiving the best support and which the worst?

The colours illustrate the level achieved:

- The gold colour indicates a good level achieved
- The silver indicates a moderate level achieved (or uncertain)
- The white with the red font indicates the level is not good

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

By Province:

Follow down a column to see how each province performed in supporting MPAs

By MPA:

Follow across each row to form a picture of how provinces perform in supporting an MPA

By Sector:

Follow across a set of rows to form a picture of how provinces perform in supporting MPAs in a sector. Note big sectors (education, health and infrastructure) have three MPAs each, whilst primary production and village courts have one each.

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

Table 21: Provincial MPA Matrix in 2010 – How well are provinces supporting the 11 MPAs

	Minimum Priority Activities	Western	NIP	WNB	Morobe	Enga	SHP	Central	ENB	WHP	Madang	Gulf	EHP	Simbu	Oro	ESP	MBP	Manus	Sandaun
Education	1. Provision of school materials	Direct	Direct	Exp	Exp	Direct	Direct	Direct	Direct	Direct	No vote	Direct	Vote	Direct	Vote	Direct	Direct	Direct	Direct
	2. Supervision by district/prov staff	Exp	Exp	No vote	Exp	Exp	Exp	Exp	Exp	Exp	Vote	Exp	No vote	No vote	Exp	Exp	Exp	Exp	Exp
	3. District education office op's	Exp	Vote	No vote	No vote	Exp	No vote	Exp	Exp	No vote	Exp	Exp	Exp	No vote	No vote	Exp	Exp	N/A	Exp
Health	1. Rural health facility op costs	Vote	Vote	No vote	Vote	Vote	Vote	Exp	Direct	Exp	Vote	Vote	Exp	Exp	Exp	Vote	Exp	Exp	Exp
	2. Integrated health patrols	Vote	Exp	No vote	Exp	Vote	Vote	Direct	Direct	Direct	Exp	Exp	Exp	No vote	No vote	Vote	Direct	Vote	Direct
Transport	3. Medical supply distribution	No vote	Vote	No vote	Exp	No vote	Exp	Exp	Exp	No vote	No vote	Vote	Exp	No vote	No vote	Exp	Exp	Exp	Exp
	1. Road & Bridge maintenance	Exp	Vote	Vote	Exp	Exp	Exp	Exp	Exp	Exp	Vote	Exp	Vote	Exp	Vote	Vote	Exp	Exp	Exp
	2. Airstrip maintenance	No vote	Exp	No vote	Exp	Vote	No vote	Exp	No vote	No vote	Exp	Exp	Exp	Exp	Exp	No vote	Exp	Exp	Exp
PP	3. Wharf & Jetty maintenance	No vote	No vote	Exp	Exp	N/A	N/A	No vote	No vote	N/A	No vote	Vote	N/A	N/A	Vote	No vote	Exp	Exp	Exp
	Agriculture Extension Services	No vote	Vote	No vote	No vote	Vote	Vote	Exp	Exp	Vote	No vote	Exp	Exp	Vote	Exp	Vote	Exp	No vote	Exp
VC	Operational materials	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Vote	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Exp	Exp
<p>Vote with reasonable exp / or Direct to facility level</p> <p>Vote (low exp)</p> <p>No vote</p>																			
<p>5 5 3 8 5 5 5 10 8 5 4 7 7 5 5 5 11 8 11</p>																			
<p>2 5 1 1 4 3 0 1 1 1 3 3 2 1 3 3 4 0 1 0</p>																			
<p>4 1 7 2 1 2 1 1 2 4 4 1 1 4 3 2 0 1 1 0</p>																			

Key

Vote with reasonable exp
Direct to facility level
Vote (low exp)
No vote

Exp
Direct
Vote
No vote

A vote was identified in the Chart of Account and expenditure was made. 'Reasonable' considers both cost of services estimate & fiscal capacity.
No clear vote identified - but expenditure (or a transfer) was made to either the facility level or district/LLG level which may cover this MPA.
A vote was identified in the Chart of Account and a low amount of exp was made. 'Low' considers both cost of services estimate & fiscal capacity.
No clear vote identified.

Overall did we see support for the minimum priority activities in 2010 the second year of RIGFA implementation? The answer would be yes.

- Seven provinces demonstrated a satisfactory overall level of commitment to the MPA regime in these early stages of RIGFA. These provinces had identifiable budget votes and reasonable spending levels against 8 (or more) of their 11 MPAs.¹⁴

The seven were Sandaun, Milne Bay, Central, East New Britain, Morobe, Manus and Eastern Highlands.

- A further nine provinces had identifiable budget votes and reasonable spending levels in 5-7 of their 11 MPAs.

These nine were Gulf, Enga, New Ireland, Oro, Simbu, Southern Highlands, East Sepik, Western Highlands and Western.

Which provinces did not show support for the minimum priority activities?

- West New Britain showed little evidence in 2010 of seeking to support the eleven MPAs. A concerted effort is required by the provincial administration to improve in this area.
- Four other provinces failed to identify 4 of their 11 MPAs.

The four were Madang, Simbu, Western, Western Highlands.

These 6 MPAs need more focus in future budgets to achieve clearer budget vote identification.

1. District education office operations
2. Integrated health patrols
3. Medical supply distribution¹⁵
4. Airstrip maintenance
5. Wharf & jetty maintenance
6. Agriculture, fisheries and forestry extension services

Were there any interesting findings?

- Provision of school materials: In this education MPA we observed that in 13 provinces there was no evidence of a direct provincial provision of school materials to the schools, however, there were school subsidies paid direct to individual schools. This may suggest that these particular provincial administrations had delegated the function of procuring the basic school materials to the schools themselves.¹⁶

¹⁴ Or in the case of Eastern Highlands who scored 7 and were assessed against only 10 MPAs (there are no wharves or jetties in the Eastern Highlands).

¹⁵ We understand that in 2012 the delivery of medical supplies to health facilities may become an activity managed at the national level with the support of AusAID.

¹⁶ The analysis did not seek to confirm the adequacy of the subsidy amounts for this purpose nor whether subsidies were given to all or even a majority of schools.

- Integrated health patrols: In this health MPA 4 provinces may have funded this activity by either funding the facilities directly, or by directing funding to the district/LLG levels perhaps for this purpose.

The 4 provinces were Central, East New Britain, Milne Bay and Sandaun which we note are all provinces under PPII.

In the 2011 regional workshops facilitated by NEFC all provinces and central agencies committed to the implementation of a new standardised chart of accounts that will promote a better more ready identification of MPAs.

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 attracts more than its fair share of provincial funding.

Sections 5 – 9 discuss the detailed findings of the review on a sector by sector basis. The sectors 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)

5.1 Education in the Provinces

Providing education to our children requires a number of things. We need schools, teachers and other resources. The schools are built and the national government pays the teachers, with the other resources provided by the provincial administration. These other resources include basic materials, school supervision, operation of district education offices and building maintenance. Without these, the schools cannot operate effectively and children will not learn to read and write and improve their life opportunities.

5.2 Minimum Priority Activities in Education

The provision of an effective education service across the country relies on a variety of inputs. The three MPAs selected by the education sector are so critical that they must be supported with operational funding (recurrent goods & services).

MPA 1: Provision of school materials

For individual schools to function they need to receive an annual supply of basic materials for each class and each student.

These costs may include; items such as chalk and writing materials, dusters, exercise books and pens and pencils.

Note 1: Some of these costs may be partly subsidised by other revenue available to the school (such as school fees).

Note 2: In this context the term school supplies does not describe the procurement of text books and other curriculum materials. These are normally funded by the Department of Education in the first instance.

MPA 2: Supervision by district and provincial officers

Provincial and district based staff are required to visit schools on a regular basis for matters relating to inspections and standards. Schools are scattered across every province and for the most part they operate in a highly independent manner. This makes supervisory visits by provincial and district staff a critical monitoring and accountability mechanism through which Government can ensure an acceptable and professional level of education is being delivered across our country.

Costs may include; travel allowance and accommodation (for overnight visits), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs.

MPA 3: Operation of district education offices

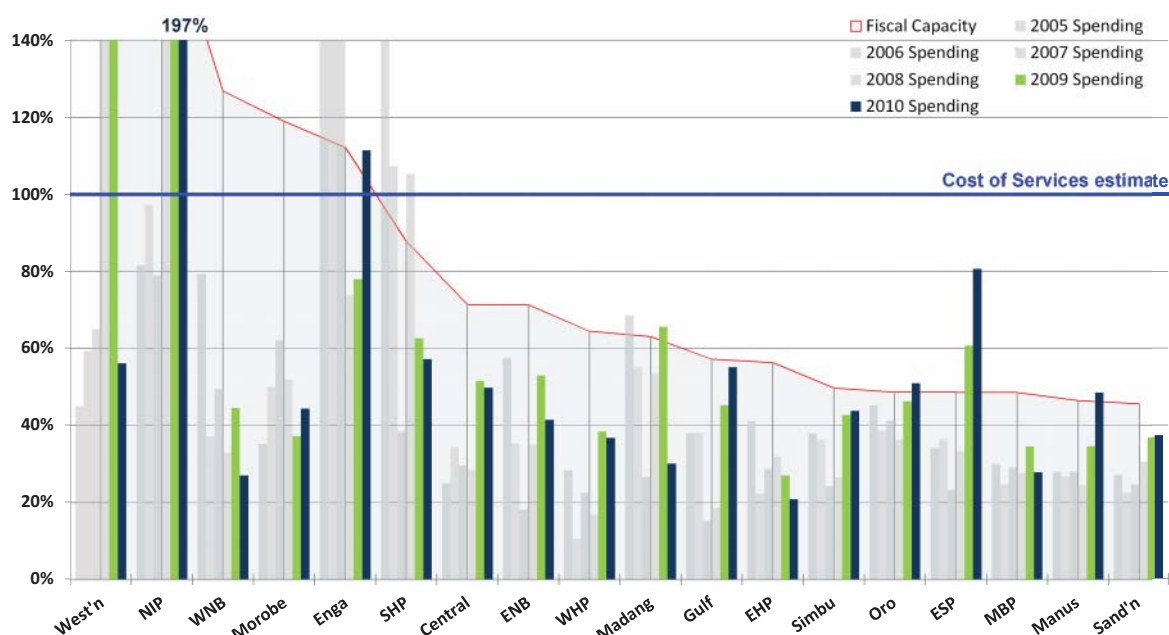
Staff that are based at a district education office require an amount of operational funding to enable them to carry out their administrative activities.

Such costs may include; utilities, stationery, office equipment on-costs and payroll management related costs.

5.3 Against the Benchmark: the 2005 to 2010 trend

The following graph illustrates the 2010 to 2010 performance trend of each province – comparing expenditure against the cost of services estimate as a benchmark. You will observe the greater volatility in the spending levels of higher funded provinces compared to lower funded provinces. Of the 18 provinces 16 continue to fall below (most well below) the minimum expenditure required to deliver a basic education service (blue line).

Graph 23: Education Spending Performance: 2005 to 2010

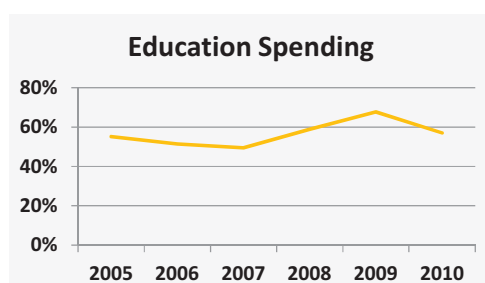


5.3.1 Performance Overview

- Whilst overall education continues to be the best supported MTDS sector by provinces, we need to be mindful that nine, or half, of all provinces spend an average of only 34% of what is necessary to deliver the minimum level of service.

Clearly there is much still to be done to better align provincial budget and expenditure in education.

- RIGFA is making an impact** - education spending by the seven lowest funded provinces has increased from 30% in 2008 to 49% in 2010.



- In kina terms the level of spending has increased, however in percentage terms the overall average compared to what is needed has come down from 67% in 2009 to 61% in 2010. This reflects the impact of inflation and the significance of the increase in per diem costs. The percentage averages should be interpreted carefully.
- A few high spending provinces (such as New Ireland and Enga) markedly inflate the overall average.
- Of the higher funded provinces, New Ireland and Enga continue to spend big in education in 2010.

- In 2010 Western after two years of high spending on education has reverted to its lower levels of 2006 and 2007.
- Of the lower funded provinces, East Sepik clearly prioritised spending in education over other sectors for the second consecutive year.
- Some provinces appear to have much room to improve, these include Western, West New Britain, Morobe, both Western and Eastern Highlands and Milne Bay.

As always, we note that some 90% of enrolled students are at primary or elementary level – yet in many provinces spending favours secondary education.

The education data table provides a snapshot of education expenditure data for the period 2005 to 2010 together with key fiscal indicators. 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:

5.3.2 Spending between 2005 and 2010

- 13 provinces have increased their (kina) spending on education in 2010
- Overall, recurrent spending on education has increased by 10% (from K54 million to K60 million)
- Two higher funded provinces have maintained their strong record of high education spending being New Ireland and Enga. Whilst three higher funded provinces have failed to maintain their high sending in earlier years - being Western, West New Britain and Southern Highlands.
- All the medium and lower funded provinces have increased their spending in 2009 with the exception of Madang and Eastern Highlands.

5.3.3 Spending from Internal Revenue

- Education spending from internal revenue continues to be highly significant (K26 million or 44% of all education goods and service spending).
- Predictably this spending was highest in those provinces with higher levels of internal revenue - however in 2010 ten provinces spent more than K1 million on capital and projects.

5.3.4 Spending in comparison to fiscal capacity

- Overall, education remains the best supported MTDS sector in terms of provincial spending priorities.
- When we adjust for the differences in fiscal capacity, provinces in the lower funded group continue to outperform better funded provinces. This suggests that provinces with access to higher levels of internal revenue need to allocate more to operational costs in education.
- **A high spending level was achieved by eight provinces** - a high spending level was achieved by two higher funded provinces - New Ireland and Enga, and six lower funded provinces - Simbu, Oro, East Sepik, Manus, Sandaun and Gulf.
- Two provinces performed very poorly relative to their fiscal capacity, being West New Britain and Eastern Highlands.

5.4 Education Data Table

Education Sector 2005 to 2010 (recurrent spending)														
Province	Cost of Services estimate	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	2010 Exp	% change versus average	Spending Trend	2010 Internal Revenue expenditure	Capital, Projects & Tertiary	Spending level achieved versus Cost of Services est.	% Function Grant unspent	Function Grant Exp nature
(Kina millions)														
								%		% of total exp	2010	2009	2010	2010
West'n	6.833	1.774	2.496	2.877	9.405	8.027	3.839	-22%	Down	90%	1.532	High	Medium	55% Good
NIP	3.712	1.747	2.190	1.863	6.568	9.311	10.514	143%	Up	86%	4.635	High	High	9% Good
WNB	5.871	2.643	1.313	1.844	1.398	2.104	1.585	-15%	Steady	26%	3.360	Medium	Low	0% Good
Morobe	11.033	2.242	3.355	4.353	3.875	3.289	4.901	44%	Up	60%	7.410	Low	Medium	0% Good
Enga	5.122	4.435	4.198	7.913	2.794	3.263	5.709	27%	Up	86%	11.016	Medium	High	1% Average
SHP	8.642	6.837	5.366	2.038	6.486	4.313	4.945	-2%	Steady	62%	4.419	Medium	Medium	0% Average
Central	6.189	0.928	1.314	1.176	1.285	2.553	3.085	113%	Up	16%	0.365	Medium	Medium	0% Good
ENB	6.411	2.219	1.429	0.769	1.664	2.764	2.659	51%	Up	19%	-	Medium	Medium	7% Good
WHP	8.716	1.475	0.576	1.282	1.088	2.729	3.208	125%	Up	5%	0.492	Medium	Medium	0% Not Good
Madang	4.993	1.974	1.668	0.845	1.934	2.615	1.506	-17%	Down	9%	0.395	High	Medium	49% Average
Gulf	3.124	0.693	0.737	0.307	0.435	1.159	1.724	159%	Up	-	2.608	Medium	High	13% Good
EHP	8.041	1.940	1.097	1.471	1.876	1.737	1.680	4%	Steady	2%	1.575	Medium	Low	19% Not Good
Simbu	6.058	1.363	1.355	0.938	1.178	2.066	2.656	93%	Up	-	0.290	High	High	0% Good
Oro	2.978	0.788	0.708	0.790	0.790	1.110	1.519	82%	Up	1%	0.020	High	High	0% Average
ESP	6.724	1.328	1.482	0.985	1.605	3.198	5.429	216%	Up	20%	-	High	High	22% Good
MBP	6.253	1.132	0.964	1.183	1.275	1.748	1.742	39%	Up	9%	1.016	Medium	Medium	29% Good
Manus	2.431	0.400	0.401	0.439	0.436	0.677	1.181	152%	Up	-	2.817	High	High	10% Average
Sand'n	5.857	0.963	0.839	0.955	1.343	1.779	2.190	87%	Up	-	0.149	High	High	24% Good
All Provinces	108.987	34.877	31.488	32.028	45.437	54.441	60.069	52%	Up	26.387	42.100			

(a)

The highest spending year in Kina

Key

above 15%	above 25%	above K0.35m	above 80%
in-between			in-between
below -15%			below 40%

(a) Includes grant & internal revenue expenditure. ECBP & BEDP goods & services expenditure is **not included** in this total
 (b) ECBP & BEDP (maintenance grants to schools) are AusAID projects that contributed some goods & services expenditure to provinces.
 2010 was the final year of both projects (actual spending data was not available at the time of publication)

NB: spending level results have been adjusted to reflect fiscal capacity

5.4.1 How did we spend?

The tables that follow show us how education monies were spent.

Table 24: Analysis of all Education Spending in 2010¹⁷

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	36,396,449	29%	Recurrent Goods & Services	60,069,048	48%
114	Teachers leave fares	21,640,651	17%	Personnel Emoluments	22,227,984	18%
225	Construction, Renovation....	16,119,399	13%	Capital & Projects and Tertiary	42,099,973	34%
143	Grants and Transfers	14,970,476	12%			0%
223	Feasibility Studies	8,453,751	7%			
	<i>all other codes</i>	26,816,278	22%			
	Total spending from recurrent & capital	124,397,005	100%	Total spending from recurrent & capital	124,397,005	100%

The table above shows us that:

- Other operational continues to be the single largest expenditure item (29%) and can be anything. Three common areas of expenditure are:
 - Education administrative costs at HQ level
 - ‘Subsidies’ or transfers to schools
 - Payments for major school supply contracts
- The transfers generally represent provinces transferring funds to schools or in some cases tertiary institutes (although we have removed large amounts of tertiary spending when identified). Transfers total 12%.
- Teachers leave fares continues to receive high funding – 17% of all spending goes on teachers leave fares. In addition, our analysis over the four years has shown instances of provinces paying teacher leave fares from other codes (such as other operational expenses) – if this occurred in 2010 this would make the 17% even higher. As a percentage of total expenditure on education teacher leave fares has reduced, however in Kina terms it continues to increase year by year.
- At 48% almost half of the spending was on recurrent goods & services – the other 52% of education spending was split between teachers leave fares, capital costs and tertiary funding.

¹⁷ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. But not spending from; PIP and SSG funds, tertiary costs that could be clearly identified, and not teachers salaries.

5.5 Drilling down: Teacher Leave Fares

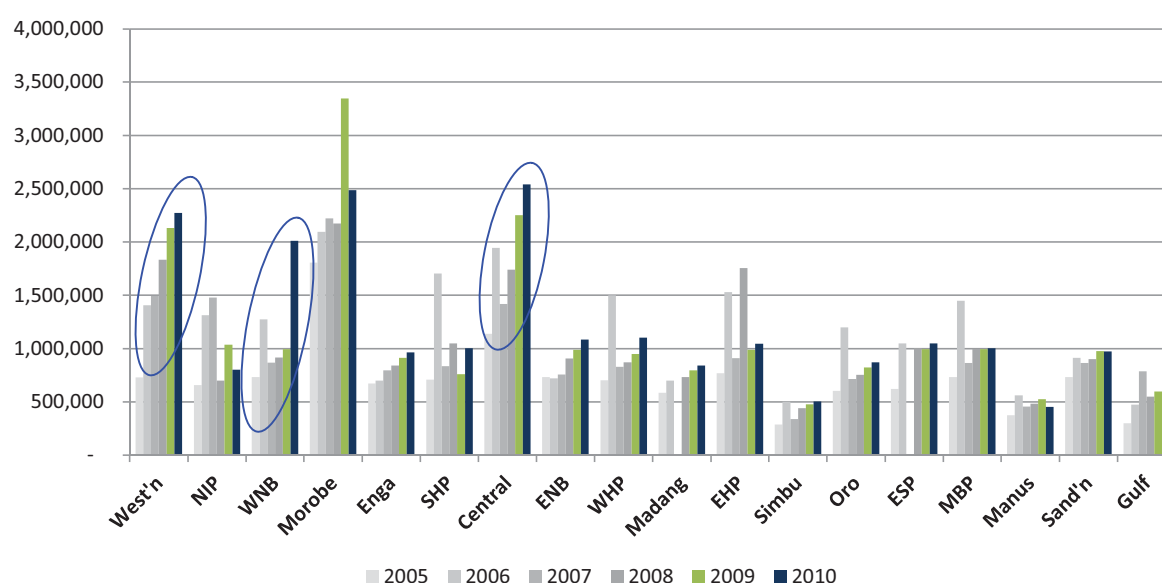
5.5.1 Overview

For a sixth year we continue our focus on teacher leave fares. We know that teachers leave fares is one of the single biggest spending areas in education - as such it deserves our attention and strong management.

Each year the national government provides grant funding to provinces to meet the cost of teacher leave fares. Provinces are expected to manage this amount and ensure that teachers within their province receive the correct entitlement. Spending in 2010 continues the trend of increasing spending levels on teacher leave fares.

When viewing the graph remember that in 2006 the national government allocated an increased allocation of funding to enable select provinces to meet outstanding leave entitlements.

Graph 25: Teacher Leave Fares – Comparing expenditure 2005 to 2010



5.5.2 Spending between 2005 and 2010

- Overall spending levels have moved from K13m...K21m...K15.6m...K18.6m...K20.5m ...**K21.6m** between 2005 and 2010. **So we can see an overall trend of increasing spending on teachers leave fares**
- Three provinces show a trend of significant increases in spending on teachers leave fares: Western, Morobe and Central.
- Two provinces, Western and Morobe, continue to make significant teacher leave fare payments from their internal revenue (K1.8 million and K0.671 million respectively).
- Four provinces appear to spend a lot on teacher leave fares relative to the number of teachers in the province.¹⁸ These provinces are: Oro, Gulf, Central and New Ireland.

¹⁸ This uses teacher numbers from the 2005 cost of services study as a base.

6 Health and 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)

6.1 Health in the Provinces¹⁹

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.²⁰ 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 outreach patrols that implement health programs, paying for patient transfers and maintaining health facilities. Without these elements healthcare does not happen.

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 mandated to meet on behalf of all facilities including church-run facilities - such as delivering medical supplies.

6.2 Minimum Priority Activities in Rural Health

The provision of rural health services across our country relies on a variety of inputs. The three MPAs selected by the health sector are so critical they are not negotiable.

These include funding the health facilities scattered across the country that provide a base for our health professionals and a place for us as patients to attend when in need. It also includes funding the outreach patrols that move from village to village and proactively attend to the health needs of all Papua New Guineans in their own locality. And finally even the best of care by trained professionals is rendered ineffective without the basic drugs and medical supplies which is why funding for the distribution of drugs and medical supplies was selected.

MPA 1: Operation of rural health facilities

Keeping the doors open has become something of a catch-cry in the health sector. It seems eminently sensible that providing a rural health service cannot take place if the doors to our rural health facilities are closed. To stay open they need a basic level of operational funding without which they simply cannot function.

Costs may include; diesel for vehicles and zoom for boats, non-medical supplies such as cleaning products, basic building maintenance costs.

Note: Some costs may be met from other revenue streams such as HSIP. These may include; the maintenance of medical equipment and radios.

¹⁹ Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

²⁰ There are provinces meeting costs relating to community health workers.

Continued.....

MPA 2: Integrated rural health outreach patrols

At the heart of our country's health service are outreach patrols. These patrols move from village to village, both day-patrols and overnight patrols, with trained medical personnel from the facility taking their skills and medical resources to the people they serve. Yet these patrols can only happen if facilities have the money to pay for the operational costs involved.

Costs may include; travel allowance and accommodation (for overnight visits), carriers (to carry medical supplies), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs. In some instances airfares may also be incurred to get health personnel to remote locations.

MPA 3: Drug distribution

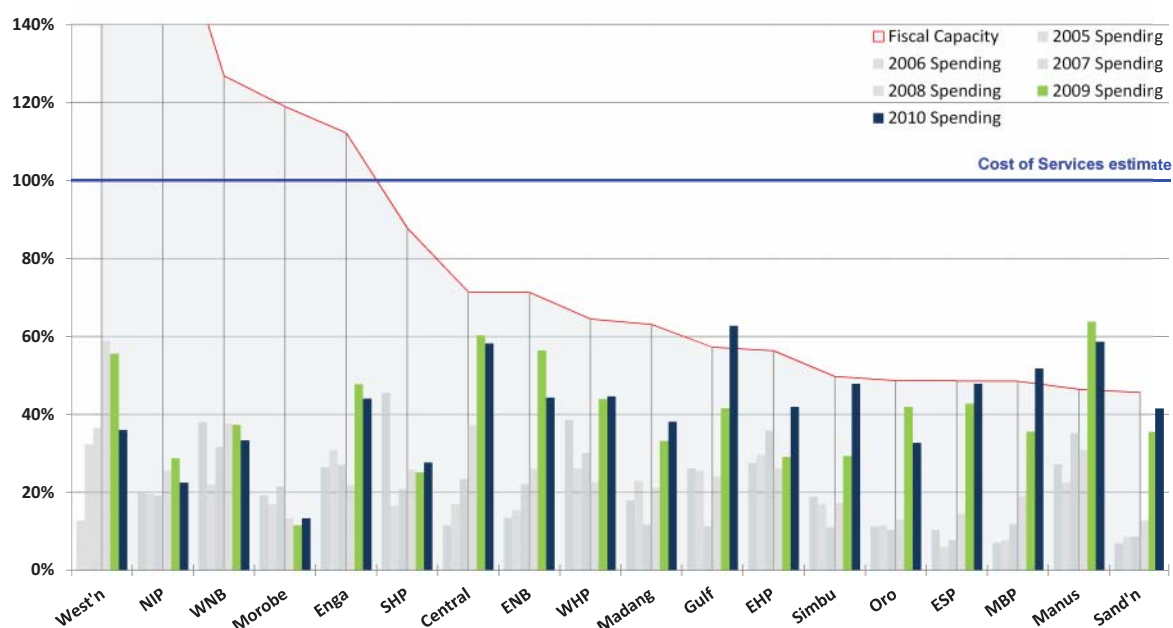
Provinces are tasked with the responsibility to get the medical supplies from the provincial headquarters to the numerous health facilities spread across their province. Ask yourself this question – what can a doctor or a nurse do if they don't have ready access to basic medical supplies? The answer is truly frightening and life threatening for the 85% of our people who are rurally based. And yet many facilities across PNG do not have regular access to basic medical supplies. This is why 'drug distribution' was selected as an MPA.

Costs: The exact nature of the costs involved will vary depending on how the province chooses to distribute the medical supplies. If provincial staff distribute the supplies the costs may include; travel allowance and accommodation, carriers (to carry medical supplies), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs. In some instances airfreight charges may also be incurred to get the supplies to remote locations. If however the job is outsourced out to a contractor, the costs will be

6.3 Against the Benchmark: the 2005 to 2010 trend

The following graph illustrates the 2005 to 2010 expenditure performance in health of each province using the cost of services estimate as a benchmark.

Graph 26: Health Spending Performance: 2005 to 2010 (not including donor funds)



Note that this is expenditure from provincial funds only, expenditure from the Health Sector Improvement Program (HSIP) funds are not reflected in this graph.

6.3.1 Performance Overview

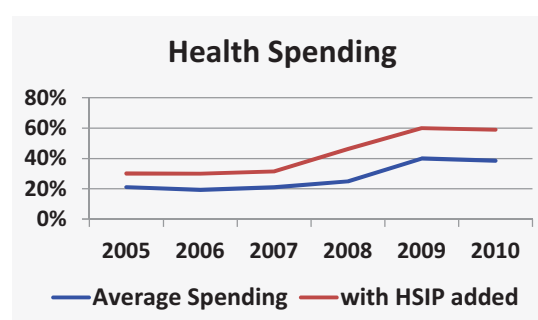
- **We see another significant increase in health spending in 2010 due to RIGFA.** Note the taller bars in many provinces.
- **All 18 provinces increased their health spending** - this is highly encouraging.
- Provinces now spend on average 42% of the actual costs required – up from 25% in 2008. So whilst we have a long way to go 2010 builds on 2009 and consolidates the progress in health spending.
- Gulf spent 63% of what is necessary to deliver a basic health service, Manus 59% and Central spent 58% of what is required. So in 2010 these three are the 'best' performing provinces in terms of the amount spent in the sector. We also noted the strong spending by Simbu, East Sepik and Milne Bay.
- The decline in spending on casual wages in 2010 is marked and encouraging. A reduction in the use of the provincial health budget on casual wages increases the fiscal space for increased spending on operational costs that actually make services happen. The question now becomes do provinces that create this fiscal space actually reallocate the money to recurrent goods and services for the health sector?
- HSIP spending in health continues to rise. Spending rose to K21 million in 2010 from K17.4 million in 2009. This funding significantly assists those provinces that access it (refer to section 6.3.5).

The health data table (section 6.4) provides a snapshot of health expenditure data for the period 2005 to 2010 together with key fiscal indicators. 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:

6.3.2 Spending between 2005 and 2010

Overall, the spending trend in health between 2005 and 2010 has seen an increase, in the amount spent in 2008, 2009 and 2010 as we saw the full implementation of RIGFA.

The targeted funding provided under RIGFA has gone some way to addressing the apparent reluctance of provinces to prioritise the funding of basic health services.



As the graph to the right indicates, spending relative to costs has steadied in 2010 with the impact of inflation and per diem increases negating the increased kina spending.

The low funded group of provinces continue to outperform both the high and medium funded groups relative to their capacity. However there are signs of progress in the medium funded group and this has been maintained in 2009 and 2010.

6.3.3 Spending from Internal Revenue

- Health spending from internal revenue was K7.3 million (18% of all health goods and service spending). This is an increase of K2 million on the 2009 amount.
- Internal revenue did contribute a reasonable sum in five provinces.

Provinces with access to internal revenue (high and medium funded provinces) need to allocate much more funding to recurrent goods and services in health. Only with this support will we see a significant increase in the delivery of rural health services in these provinces.

6.3.4 Spending in comparison to fiscal capacity

- 2010 sees a continuation of the marked improvement in health spending. The health sector is no longer the worst supported.
- With that note of optimism we must however remind ourselves of the challenge to ensure that this increased spending is being made in the right areas.

A recent district case study revealed that health facilities in one province rely almost solely on user fees as their source of operational funding. The implications of this are chilling, it highlights that in this instance Government funds were not making their way to the facility level to enable them to provide the service that is required and expected.

- Higher funded provinces are continuing to show a poor commitment to health – with five of the six achieving low when compared to their capacity. Enga is the only remaining exception and recorded a score of 'medium'.
- 2010 sees even more improvement in the spending performance of lower funded provinces whilst medium funded provinces have maintained their 2009 improvement. RIGFA is clearly having a tangible impact. Three more provinces moved to a higher spending threshold and all provinces increased their spending in Kina.

How did we spend? The tables that follow show us how health monies were spent.

Table 27: Analysis of all Health Spending in 2010²¹

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	15,324,689	28%	Recurrent Goods & Services	40,279,824	73%
143	Grants and Transfers	7,450,790	14%	Staff-related costs (PE)	2,431,603	4%
225	Construction, Renovation....	7,326,184	13%	Capital & Projects	12,108,195	22%
128	Routine Maintenance	3,922,860	7%			
125	Transport and Fuel	3,159,520	6%			
	<i>all other codes</i>	17,635,579	32%			
	Total spending from recurrent & capital	54,819,622	100%	Total spending from recurrent & capital	54,819,622	100%

²¹ These amounts include health spending (including HIV/AIDS) from both National Grants and Internal Revenue on goods and services, personnel emoluments and capital and development. But does not include spending from HSIP, PIP and non-specified SSG funds, nor does it include doctors, nurses and health workers on the national payroll.

We can see that:

- **Item 135:** 'Other operational expenses' which can include almost anything is the highest single spending item at K15.3 million or 28% of total health spending (K15.2 million in 2009). It includes health administrative costs at HQ level and it is common practise to allocate an amount to this expenditure item for nondescript 'general expenses'. However given the varied coding practises employed by provinces this code can also include large sums of capital spending.
 - **Item 143:** This vote typically records funds transferred to another level of government, be it to a district, a local level government or directly to a health facility. In 2010 three provinces transferred large amounts to lower levels under item 143 - being East Sepik, Milne Bay and East New Britain.
 - **Item 225:** Spending on construction was again significant for the third year in succession but has declined from the 2009 high. In 2010 capital spending was 13% or K7.3 million down from K11 million in 2009.
 - **Item 128:** In 2010 routine maintenance appeared in the Top 5 for the first time. Spending on routine maintenance in health is welcome and often supports an aspect of MPA 1 being the 'Operation of Rural Health Facilities'. Maintaining health facilities is a critical aspect of the NDoH policy of *keeping the doors open*.
 - **Travel items:** Health spending is spread across many item codes reflecting the very detailed nature of provincial health budgets. We would expect to see a high level of travel related costs in rural health reflecting spending to support critical activities such as the distribution of medical supplies, supervision and perhaps integrated health outreach patrols. Travel allowance (item 121) and transport & fuel (item 125) which is a first indicator of spending on such activities each represent about 5% to 6% of spending in 2010.
-
- **Items 111 or 112:** Historically some provinces spent large amounts on casual wages. This had the unwanted consequence of reducing the amount of operational funding allocated to health in those provinces. In 2010 we see casual wages has disappeared from the Top 5 list – this is encouraging and suggests that regular health staff have been appropriately transferred to the permanent payroll administered by the national government. Critically it means that the provincial budget can be allocated to supporting these staff operationally rather than paying their wages.

6.4 Health Data Table

Health Sector (including HIV Aids) 2005 to 2010 (recurrent spending)																		
Province	Cost of Services estimate	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	2010 Exp	% change versus average	Spending Trend	2010 Internal Revenue expenditure	Casual Wages	Capital & Projects	HSP recurrent	Spending level achieved versus Cost of Services est.	% Function Grant unspent	Function Grant Exp nature		
(Kina millions)																		
								%		% of total exp				2009	2010	2010		
Higher funded	West'n	7.406	0.561	1.499	1.781	3.266	3.412	2.664	32%	Up	82%	0.042	0.671	0.448	Medium	Low	50%	Not Good
	NIP	4.078	0.489	0.506	0.519	0.786	0.974	0.918	46%	Up	24%	0.062	-	0.623	Low	Low	40%	Good
	WNB	5.274	1.177	0.965	1.097	1.488	1.638	1.760	42%	Up	62%	0.605	1.590	0.510	Low	Low	15%	Average
	Morobe	9.173	1.049	0.973	1.289	0.919	0.875	1.229	20%	Up	25%	0.317	0.080	1.681	Low	Low	2%	Good
	Enga	4.919	0.787	0.721	0.884	0.809	1.948	2.168	143%	Up	22%	-	2.385	2.100	Medium	1%	Good	
Medium funded	SHP	9.299	2.387	0.927	1.229	1.775	1.932	2.577	59%	Up	23%	0.309	1.640	3.138	Low	Low	1%	Good
	Central	4.000	0.271	0.256	0.597	1.074	1.909	2.330	275%	Up	13%	-	2.028	1.841	High	High	12%	Good
	ENB	4.280	0.362	0.434	0.645	0.856	2.033	1.897	180%	Up	9%	-	0.010	0.310	Medium	Medium	0%	Good
	WHP	4.857	1.176	0.840	1.007	0.856	1.833	2.169	106%	Up	2%	0.015	0.440	1.023	Medium	Medium	12%	Average
	Madang	7.112	0.751	1.005	0.534	1.112	1.916	2.711	194%	Up	1%	0.020	-	0.472	Medium	Medium	39%	Good
Lower funded	Gulf	3.157	0.487	0.499	0.231	0.564	1.073	1.980	317%	Up	-	-	0.120	1.195	High	High	0%	Good
	EHP	6.015	1.046	1.170	1.475	1.234	1.504	2.521	101%	Up	32%	0.064	1.038	2.353	Medium	Medium	14%	Average
	Simbu	4.136	0.488	0.458	0.312	0.553	1.025	1.980	313%	Up	-	-	0.270	0.220	High	High	0%	Good
	Oro	3.571	0.236	0.416	0.241	0.345	1.219	1.168	219%	Up	-	0.125	-	0.822	High	Medium	0%	Average
	ESP	9.764	0.551	0.329	0.452	0.953	3.077	4.669	630%	Up	5%	-	-	1.187	High	High	22%	Good
Lower funded	MBP	7.376	0.320	0.369	0.589	1.074	2.200	3.819	495%	Up	21%	0.060	1.837	1.377	Medium	High	8%	Good
	Manus	1.923	0.298	0.258	0.422	0.422	0.956	1.128	188%	Up	2%	-	-	0.479	High	High	13%	Good
	Sand'n	6.234	0.262	0.339	0.354	0.600	1.813	2.591	493%	Up	-	0.109	-	1.314	High	High	29%	Good
All Provinces	102.574	12.700	11.963	13.657	18.685	31.336	40.280	120%	Up	7.327	1.729	12.108	21.092					
(a)																		
(b)																		
Key																		
above 15% in-between below -15%																		
above 25% above K0.35m above K1.5m above K1m																		
above 80% in-between below 40%																		
below 5% in-between above 10% Not Good																		
The highest spending year in Kina																		

(a) Includes grant & internal revenue expenditure. HSP goods & services expenditure is **not included** in this total

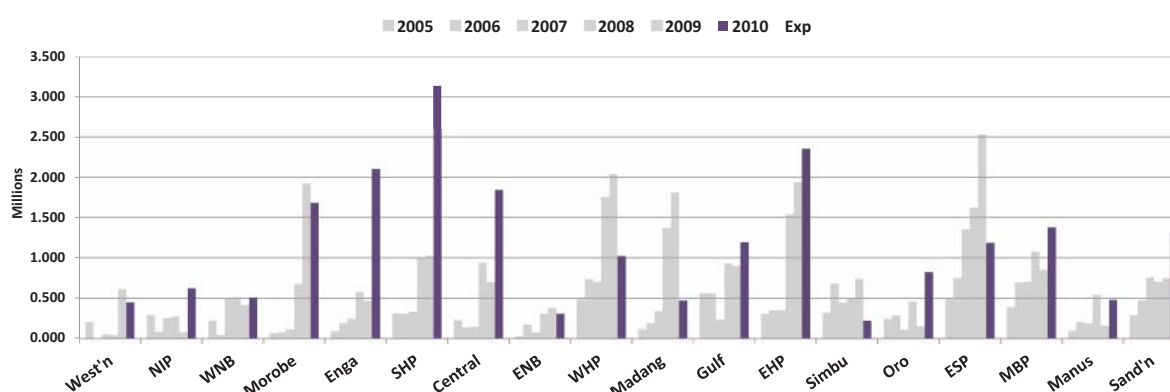
(b) HSP is a donor mechanism for funding the health sector. This is the amount spent on goods & services expenditure at the provincial level

NB: spending level results have been adjusted to reflect fiscal capacity

6.5 Parallel Funding: Health Services Improvement Program

The increasing amounts of recurrent health spending through the HSIP facility is a story that has run for three consecutive fiscal years - from 2008-2010. **HSIP spending has moved from only K4.7 million in 2005 to K21 million in 2010.** This represents a massive increase in both kina and percentage terms. To put this in context, recurrent HSIP spending on health is 52% of the amount contributed by provincial administrations from both grants and internal revenue combined. We can see that operational spending through the HSIP facility has become a highly significant contributor to the health sector at the provincial level.

Graph 28: Health HSIP Spending: 2005 to 2010



- Between 2005 and 2010 HSIP spending has gone from:
 - K4.8m...K6m...K7m...K14.8m...K17.4m...**K21m**
- We have seen a steep increase in HSIP spending between 2008 and 2010.
 - Ten provinces have utilised more than K1 million each of HSIP operational funds during 2010.
 - Three of the provinces who used large amounts in previous years significantly decreased their HSIP spending in 2010 - they were Western Highlands, Madang and East Sepik.
- Whilst three provinces significantly decreased their use of HSIP funds in 2010, there is little evidence to suggest a general decline in the desire of the other 15 provinces in accessing this important source of recurrent funding.
- Southern Highlands used the most (K3.1 million) while Simbu used the least (K220,000).

The HSIP health funding mechanism has become an increasingly relevant contributor in helping provincial health teams meet their recurrent operational needs at the sub-national level. The enormous increase in spending through the HSIP facility starting in 2008 and continuing in 2009 and 2010 confirms the growing contribution and traction that the mechanism has achieved.

The table that follows shows the funds received by provinces via the HSIP facility from 2008 to 2010. We are advised that whilst it is not possible to discretely identify how these funds are then spent it is reasonable to assume that the funds were expended on the purposes intended under the individual arrangements with contributors (government & donors).

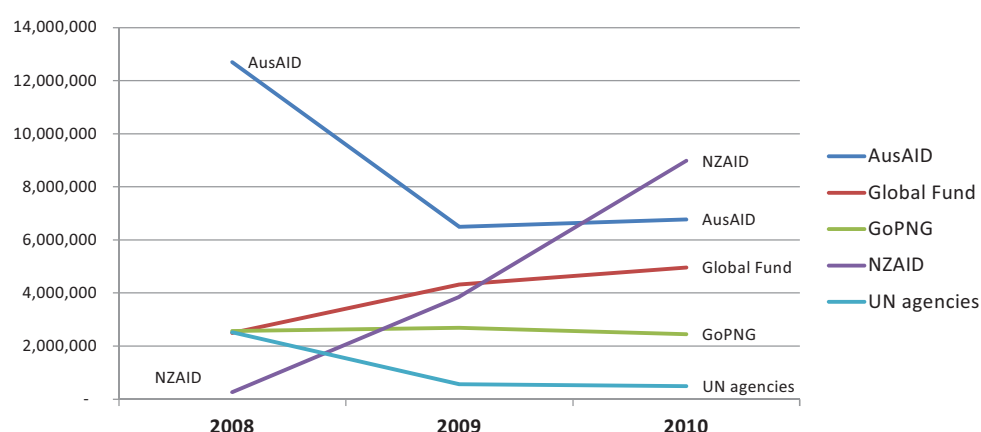
Who funded the HSIP facility from 2008 to 2010?²²

Source	2008	2009	2010
AUSAID - HSIP Operational	10,909,989	6,294,313	4,118,789
AUSAID - Others	1,785,373	200,001	2,651,483
GAM	-	20,001	-
Global Funds - Malaria	2,494,678	3,914,359	4,969,148
Global Funds - HIV/AIDS	-	407,081	-
GoPNG - HSIP	2,580,091	1,497,343	2,448,326
GoPNG - Other		1,193,326	
NZ AID	267,180	3,858,440	8,983,419
UNICEF	2,474,005	500,620	479,007
UNFPA	50,000	66,092	14,102
WHO	-	77,401	-
Interest Received	-	-	16,900
Others	1,033,329	276,101	857,340
Total Receipts	21,596,653	18,307,087	24,540,524

We can see that:

- In 2010 approximately three quarters (74%) of funds received are for what we might call *traditional HSIP purposes* (from the Government of Papua New Guinea, AusAID and NZAID). This is an increase on 2009 where approximately two thirds was in this category. These funds are available to be used by provinces on a relatively broad range of recurrent health activities.
- 20% is from the Global Fund and mainly used for the procurement and distribution of bed nets to combat malaria (a similar percentage to 2009).

Graph 29: Funding trends in HSIP from 2008 to 2010?

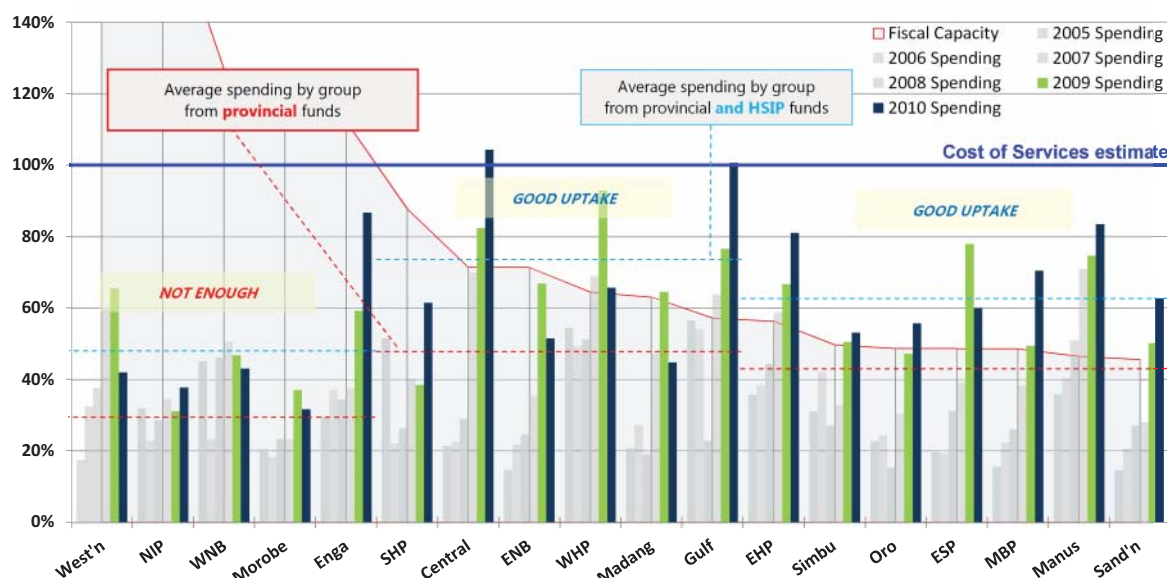


- The graph above highlights the relative decline in funding from AusAID & UN agencies. Conversely we see a rise in funds from NZAID and the Global Fund.

²² The HSIP mechanism also expends money centrally from NDoH in Port Moresby, the funding in this table relates only to the money expended directly at the provincial level.

One of the more relevant questions is whether it is appropriate to compare this expenditure against the cost of services study benchmark. By doing this are we comparing apples with apples? The answer is a cautious yes. We do think it is appropriate to paint a picture that includes this spending against the cost of services study benchmark. Whilst it may not be a perfect comparison, nevertheless, we need to paint as comprehensive a picture as possible of the funding that each province is accessing and using for the provision of health services.

Graph 30: The impact on Health spending of HSIP funding: 2005 to 2010



The graph above adds provincial spending from grants and internal revenue together with recurrent spending through the HSIP facility and compares the result against what is estimated necessary to deliver a basic set of health services to people. These results provide a fuller picture of how close we are to adequately supporting basic levels of health spending. With the implementation of additional funding via RIGFA and with more than half of all provinces accessing significant amounts of HSIP funding the overall picture is improving.

- In 2009 and 2010 ten provinces spent 60% or more of what we conservatively estimate is required to deliver a minimum service (in 2008 - only six).
- In 2010 provinces spent on average 63% of the actual costs required – a small increase on the average of 60% in 2009.
- **Higher funded provinces:** As a group higher funded provinces continue to do poorly and are outperformed by low and medium funded provinces. They do not allocate anywhere near enough from their grant and internal revenue resources, nor do they access HSIP funding which results in their overall performance being very poor.

Averages: with HSIP 48%, without HSIP 30%

- **Medium funded provinces:** Tend to perform better, particularly by accessing HSIP funds and using these to supplement their regular expenditure. In this group, HSIP funding continues to have a high impact.

Averages: with HSIP 68%, without HSIP 42%

- **Lower funded provinces:** Also accessed higher levels of HSIP funds and thereby improved their spending support for health. It is pleasing to see that whilst lower funded provinces continue to access significant amounts of HSIP funding the implementation of RIGFA and the increase in health function grants sees government funding re-establishing itself as the primary source of recurrent health funding in lower funded provinces.

Averages: with HSIP 69%, without HSIP 49%

Update: 2011 a year of transition for HSIP?

As we have seen, over recent years HSIP has gained greater relevance and importance as a means of supporting provinces with operational funding for rural health service delivery activities. Nevertheless, it is understood that in 2011 little if any new funding has been released to the sub-national level and the situation for the 2012 fiscal year is unclear.

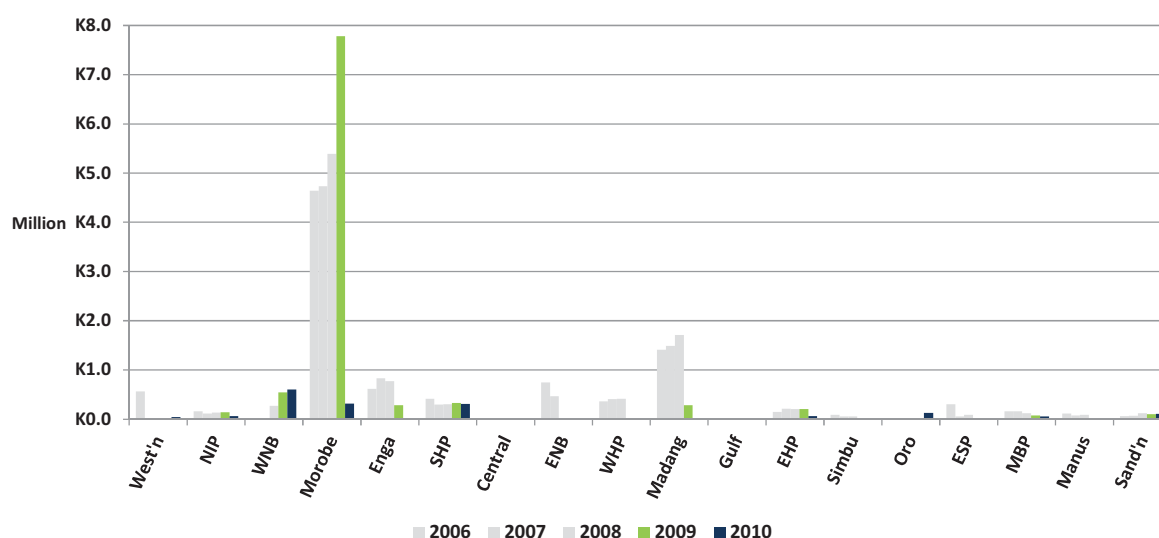
This high-lights the fragile nature of parallel systems largely funded by donor resources.

6.6 Drilling down: Health Casual Wages

6.6.1 Overview

In 2010 expenditure on casual wages reduced significantly from K9.8 million in 2006 to K1.7 million in 2010. This represents a significant and positive realignment of spending. Why do we want to see spending on casual wages decrease? The payment of salaries and wages for community health workers are a national government responsibility. When provincial administrations meet that cost they are effectively absorbing goods and services funding that would otherwise be available for spending on such things as fuel that enables health patrols, childhood vaccinations, training for village birth attendants to help women during child birth and to assist transfer patients from district health centres to provincial hospitals for treatment.

Graph 31: Spending on Health Casual Wages: 2006 to 2010



6.6.2 Spending between 2006 and 2010

- Overall spending on casual wages has decreased greatly between 2006 and 2010 moving from K9.8m...K9.0m...K9.7m...K9.7m...**K1.6m**

This is a significant and positive change in spending practices.

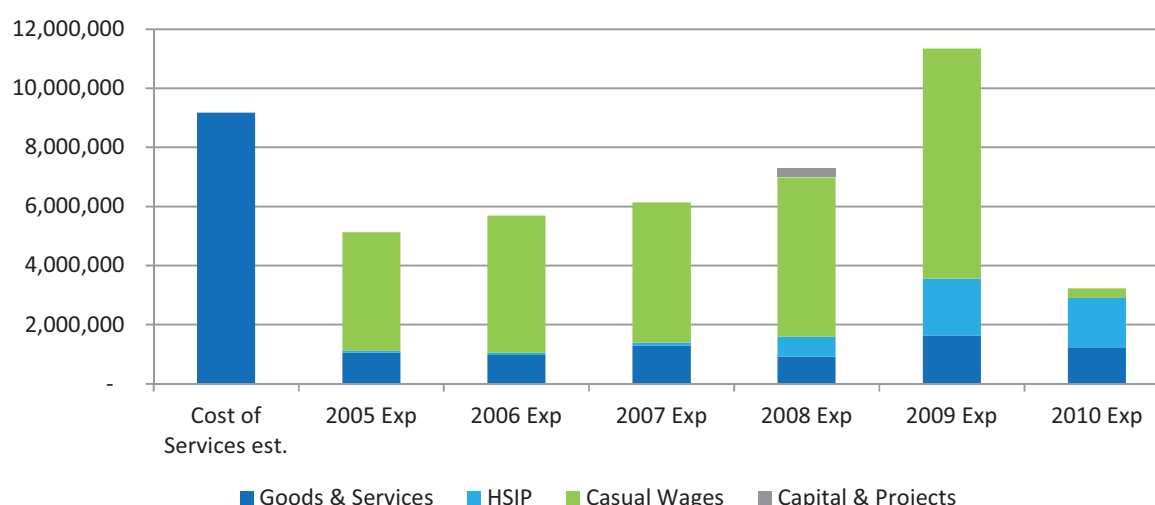
- Spending by the three largest historic spenders on casual wages has decreased or stopped dramatically in 2010 - Morobe, Enga and Madang.

The Case of Health in Morobe

Since 2005 when we began monitoring provincial spending on an annual basis Morobe Province has spent a large amount each year on casual wages to health workers. As explained above, community health workers are a national government responsibility.

Interestingly, despite spending this large amount on casual wages, Morobe relied mainly on their health function grant to fund the health sectors operational needs. Little internal revenue was allocated to the provincial health budget to meet the sectors large operating costs of providing a health service across this large province.

Graph 32: Health spending in Morobe Province: 2005 to 2010



Comments on the above graph

- In 2010 Morobe reduced their spending on casual wages to a very small amount - on the face of it this was a good step because it freed up money to reallocate to operational costs.²³
- Despite freeing up some K7.5 million Morobe did not reallocate any of this money to the recurrent goods and services budget for operational costs in 2010.
- In 2009 and 2010 Morobe did access HSIP funds to supplement the health function grant yet without allocating some of the provinces large internal revenue this meant the health sector received only 32% of what it needed to provide a basic level of health care to the rural majority.
- This means that rural health in Morobe that serves more than 539,000 people was funded K2.28 per head in operational funding to run the delivery of rural health services. How much health care can be provided at K2.28 per person?
- Or another way to look at it is that Morobe has a network of 42 health centres (plus a further 197 aid posts) throughout the province. These facilities need funding to ensure they receive medical supplies, that they keep the clinic doors open and are able to conduct outreach patrols to the villages. How much of the K1.2 million was used to meet these costs that are the frontline of rural health service delivery?

²³ We assume that the community health workers previously paid from the provincial budget have now been placed on the national payroll.

- I think we can see that with this large population to serve and a large network of facilities to support, K1.2 million is nowhere near enough. The NEFC estimate of health costs for Morobe is K9.1 million.

If provinces with higher amounts of internal revenue do not allocate internal revenue to support basic service delivery activities then these activities will simply not happen in those provinces.

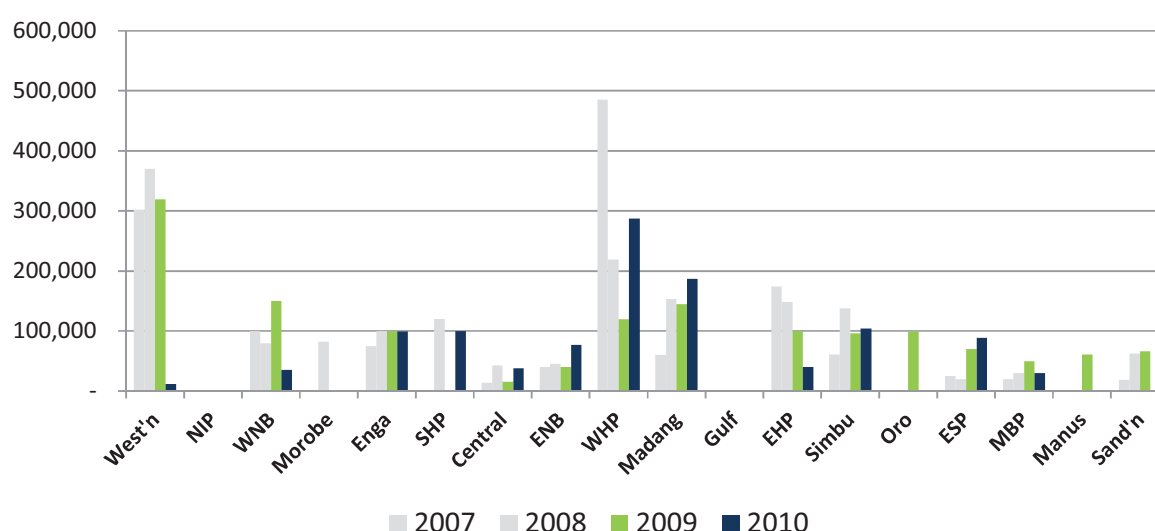
6.7 Drilling down: Spending on HIV/AIDS

6.7.1 Overview

Since the 2007 review we have included spending on HIV/AIDS within the health spending totals. In this edition we again drill down into the HIV/AIDS spending to make transparent how much provincial administrations spend in this critical area. We know that preventing the spread of HIV/AIDS and caring for those affected by HIV/AIDS is an enormous challenge in our country and around the world. It is an area we must make major efforts to meaningfully address. So what funds are provincial administrations allocating and spending to contribute to this effort?

The following graph details the expenditures that were itemised as spending on HIV/AIDS.

Graph 33: Spending on HIV/AIDS: 2007 to 2010



We can see that:

- Specific spending on HIV/AIDS slowly declines from K1.3m...K1.6m...K1.4m...**K1.1m**
- Now only five provinces spent K100,000 or more (down from eight in 2009):
 - Enga, Southern Highlands, Madang, Western Highlands and Simbu
- Spending declined markedly in five provinces between 2009 and 2010.
 - Western, West New Britain, Eastern Highlands, Oro and Manus
- Twelve provinces have allocated something to HIV/AIDS in each of the three years.
- Ten provinces appear to have spent little or nothing directly on HIV/AIDS.
 - Little: Western, West New Britain, Central, Eastern Highlands, Milne Bay, Sandaun
 - Nothing: New Ireland, Morobe, Oro, Manus and Gulf

HIV AIDS

All provinces need to allocate more money to support targeted activities that help in preventing the spread of HIV/AIDS. While much of the work on determining which level of Government is responsible for what activities in what sectors reveals that the National Government is largely responsible for prevention and treatment activities concerning HIV/AIDS, provinces have a significant responsibility in mainstreaming HIV/AIDS into all their work and for raising awareness. However, without funding, these activities will not happen.

Provincial Administrations need to understand what other government agencies such as the National Department of Health and National AIDS Council secretariat and what other non-government and faith-based organisations are doing (or could do) and how these organisations can partner with the province to address this growing and enormous challenge.

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)

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 critical. Roads that are built and not maintained are an opportunity lost and a massive cost to be incurred in the future. Routine maintenance is essential because the cost of the alternative, rehabilitation is alarming. Provincial administrations are responsible for maintaining provincial roads and bridges that make up 60% of the countries road network.

7.2 Minimum Priority Activities in Transport Infrastructure

The provision of an effective transport infrastructure network across our country relies on a variety of inputs. The transport infrastructure sector selected funding the maintenance of the following critical infrastructure assets as MPAs; roads, bridges, airstrips, wharves and jetties. As we can see in the box above, the cost not to maintain these assets is appalling and a sad legacy to pass on to our children.

MPA 1: Road and bridges maintenance

Infrastructural assets such as road and bridges need regular maintenance. If they are not maintained they deteriorate quickly and the cost to restore them to an acceptable condition becomes truly frightening. We end up paying up to 130 times the cost simply because we chose to ignore maintaining these assets – that’s the difference between routine maintenance and rehabilitation. This is why we must prioritise road maintenance, and why we must think very carefully before we build new roads and ask *“can we afford to maintain the new roads we propose building?”*

Costs may include; contractors to carry out maintenance work.

MPA 2: Airstrip maintenance

Many remote locations throughout our country are reliant on their rural airstrip for accessibility to major urban centres and enabling services. The airstrip may be the only means by which a critically ill patient can be evacuated or a medical team received, or it may be the primary means for receiving resources such as medical and school supplies. Maintaining rural airstrips can be a relatively affordable cost – yet it must be discretely funded in the budget.

Costs may include; normally smaller payments to individuals or groups to carry out maintenance activities such as grass-cutting.

MPA 3: Wharf and jetty maintenance

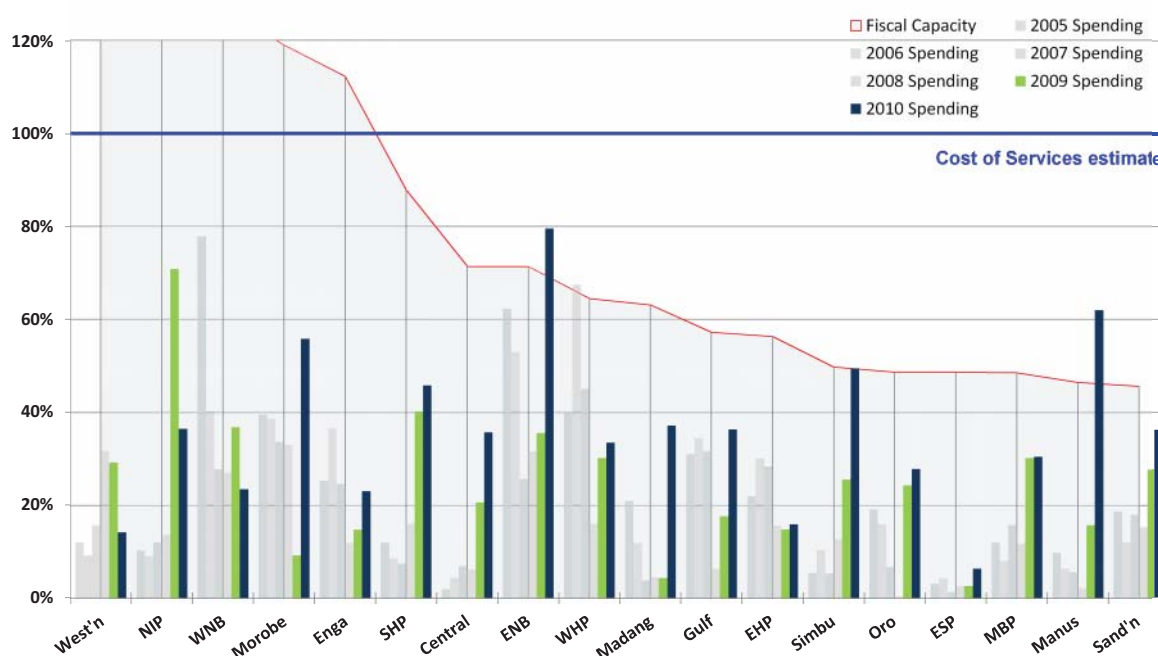
For provinces by the sea and major rivers, wharves and jetties are a critical part of their supply chain. These infrastructural assets enable the movement of people, produce and supplies between locations in a cost-effective manner.

Costs may include; contractors to carry out maintenance work.

7.3 Against the Benchmark: the 2005 to 2010 trend

This graph illustrates the 2005 to 2010 performance of each province using the cost of services estimate as a benchmark.

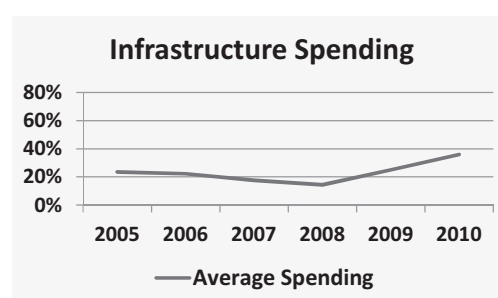
Graph 34: Infrastructure Maintenance Spending Performance: 2005 to 2010



NB: This graph should read in conjunction with the chapter on 'Recurrent v Capital' (section 7.5)

7.3.1 Performance Overview

- With six years of data we are seeing an overall tangible increase in spending on the maintenance of our valuable transport infrastructure assets in a number of provinces.
- The average across all 18 provinces was that spending in 2010 reached 36% of what is required compared to 25% in 2009 and only 14% in 2008. So there is a sense of progress but it's from a very low base. RIGFA will continue to contribute greater amounts of funding to this sector in future years but higher and medium funded provinces need to prioritise maintenance from their own resources.
- Overall there still remains a huge gap between what we spend and what we need to spend – the truth is we are spending nowhere near enough to maintain provincial roads and infrastructure assets. The implications of this are enormous. A road network that is not maintained will decline and become a massive cost to rehabilitate. Who will meet that cost?
- In 2010 a significant 18% of recurrent infrastructure sector spending was from internal revenue. This is trending downward from 35% in 2009 and 52% in 2008.



- In 2010 ten provinces spent very little or nothing from their grant or internal revenue on infrastructure capital (that is, new construction, rehabilitation or reconstruction). Given the low levels of spending on road & other transport related maintenance, the fact that relatively few new roads are being constructed can be viewed as a positive sign.
- Four provinces accounted for 76% of the capital spending that occurred (not including PIP). These are Southern Highlands, Enga, Milne Bay and East Sepik.
 - Southern Highlands alone spent K21 million (K27.5 million in 2009) or 35% of all spending on capital.

The infrastructure data table provides a snapshot of infrastructure expenditure data for the period 2005 to 2010 together with key fiscal indicators. 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:

An opportunity to save millions! How do we achieve a routine maintenance focus?

Read the following numbers carefully. Each year we re-iterate this point, in 2006 a sector expert estimated that:

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

7.3.2 Spending between 2005 and 2010

In overall terms, the declining spending trend in infrastructure maintenance that was observed between 2005 and 2008 has been reversed in 2009 and 2010.

- Over this period, recurrent spending has moved from K26.6m...K30.1m...K23.8m...K23m...K35.5m...**K60.4m** - a sharp rise in 2010.
- Recurrent spending by the 12 lower and medium funded provinces has almost doubled for the second consecutive year. Going from K10 million in 2008 to K20 million in 2009 to K38 million in 2010. This increase is highly encouraging, as are the clear signs of lower funded provinces making use of the additional funding to address specific maintenance needs.
- It can be argued that such is the nature of infrastructure maintenance that provinces need a budget allocation of a certain minimum amount to enable them to commence a meaningful maintenance plan of their stock of assets. With the implementation of RIGFA, and larger function grants, lower funded provinces previously starved of maintenance funding are now in a position (funding-wise) to plan and implement maintenance activities within the province.²⁴
- New Ireland's large program of infrastructure maintenance in 2009 appears to have slowed considerably in 2010.
- Western, New Ireland, West New Britain, Enga, Eastern Highlands and East Sepik show low levels of spending on infrastructure maintenance in 2010.

²⁴ This does not seek to discount the other potentially significant challenges that a province may have in reviving its erstwhile moribund infrastructure maintenance capacity, such as; a lack of skilled contractors within the province and/or a lack of project management experience and expertise within the provincial administration itself.

- Four provinces, Southern Highlands, Milne Bay, Enga and East Sepik, spent large amounts on what appeared to be capital in nature - it is possible that some of this capital spending was recurrent in nature (being routine maintenance rather than spending on new infrastructure or rehabilitation).²⁵

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.²⁶

There is a strong appeal to spend on 'new development' - the building of a new road or bridge inspires a positive view of the future and the economic and livelihood opportunities that flow. But the recurrent maintenance implication of every new road that is built is very significant. Our analysis finds that there are nowhere near enough funds allocated to recurrent maintenance budgets to ensure existing roads are maintained, let alone that additional new roads might be adequately maintained. Every new road represents a new maintenance obligation for us and future generations of Papua New Guineans. If we do meet this maintenance obligation, the state of this new asset will degrade and we will then be faced with the massive cost of rehabilitation.

7.3.3 Spending from Internal Revenue

- Spending from internal revenue on infrastructure was highly significant, particularly with higher and medium funded provinces (with the exception of Central)
- Of the lower funded provinces, Milne Bay and Gulf spent notable amounts on capital & projects in infrastructure in 2010.
- In 2010 K22.3 million of recurrent spending on maintenance was from internal revenue (2009 K12.4m, 2008 K11.9m)
- Internal revenue funded K50.6 million or 83% of capital spending in 2010 (down from 2009 K68 million and 2008 K52.7 million).
- Overall, 60% of sector spending came from internal revenue (2009 67%).

7.3.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity, five provinces improved their 2008 performance levels moving from low to medium – New Ireland, Southern Highlands, Western Highlands, Milne Bay and Oro.
- Saundau and Simbu increased their spending and remained at the medium level.
- The other 11 provinces remain in the low level.

²⁵ Refer to section 7.4

²⁶ 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 highway the routine maintenance cost is less, say K4,000/km, whilst the reconstruction is expensive, say K550,000

7.3.5 How did we spend?

The tables that follow show us how infrastructure monies were spent.

Table 35: Analysis of all Infrastructure Spending in 2010²⁷

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	36,199,918	30%	Recurrent Goods & Services	60,436,029	49%
225	Construction, Renovation....	27,060,394	22%	Staff-related costs (PE)	1,378,352	1%
128	Routine Maintenance	16,799,737	14%	Capital & Projects	60,596,812	50%
226	Substantial & Specific Maintenanc	14,088,187	12%			
143	Grants and Transfers	8,404,458	7%			
	<i>all other codes</i>	19,858,500	16%			
	Total spending from recurrent & capital	122,411,193	100%	Total spending from recurrent & capital	122,411,193	100%

This table shows us that:

- Spending under items 225 and 226 are to be expected, and it is interesting that spending under item 128 Routine Maintenance now features in the 2010 top 5.
- Item 143: Significant examples included the transfers made by Morobe and East New Britain of infrastructure grants to local level governments in 2010.
- Item 135: Note the prevalent use of the ubiquitous 'item 135' in infrastructure spending. This seems particularly unnecessary given the sector has a number of descriptive item codes to choose from. Spending under this item continues to rise.
- As is discussed elsewhere in this chapter, expenditure under these items may be either recurrent or capital in nature. So the item description alone is generally not sufficient for assessing the true nature of the expenditure. But you will see that our desktop analysis attributes a clean 50/50 split between recurrent and capital spending on infrastructure in 2010. This varies to 2009 when 32% was recurrent and 67% to capital. Remember however, four provinces dominate the capital expenditure total, so capital spending is not spread evenly across all provinces.

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.

This may cost K1.6 billion to return these roads to good condition and then another K200 million per 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? This routine maintenance will prevent an otherwise inevitable decline that results in rehabilitation- a cost many ten's and even hundreds of times more expensive.

²⁷ These amounts include spending from both *national grants* and *internal revenue* on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

7.4 Infrastructure Maintenance Data Table

Infrastructure Sector 2005 to 2010 (recurrent spending)															
Province	Cost of Services estimate	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	2010 Exp	% change versus average	Spending Trend	2010 Internal Revenue expenditure	Capital & Projects	Spending level achieved versus Cost of Services est.	% Function Grant unspent	Function Grant nature	
										% of total exp	2010	2009	2010		
(Kina millions)															
								%							
Higher funded	West'n	14.120	1.071	0.900	1.603	3.775	2.004	-10%	Steady	40%	3.051	Low	Low	16%	Not Good
	NIP	4.731	0.321	0.299	0.417	3.066	1.728	87%	Up	43%	2.035	Medium	Low	37%	Good
	WNB	3.722	1.862	1.019	0.743	1.250	0.875	-24%	Down	50%	0.446	Low	Low	0%	Average
	Morobe	16.095	4.197	4.307	3.922	4.401	1.356	148%	Up	42%	3.064	Low	Medium	0%	Good
	Enga	12.015	2.046	3.104	2.195	1.199	1.637	2.776	37%	Up	10%	6.683	Low	Low	0%
Medium funded	SHP	12.495	0.924	0.701	0.648	4.500	5.722	242%	Up	65%	21.440	Medium	Medium	1%	Average
	Central	11.694	0.188	0.366	0.603	0.613	2.223	4.179	424%	Up	-	Low	Medium	2%	Good
	ENB	8.779	3.753	3.352	1.695	2.342	2.895	6.984	149%	Up	0.796	Low	High	7%	Good
	WHP	16.406	4.418	7.822	5.449	2.205	4.557	5.490	13%	Steady	-	Medium	Medium	14%	Average
	Madang	11.132	1.539	0.919	0.307	0.415	0.444	4.139	472%	Up	-	Low	Medium	82%	Average
Lower funded	Gulf	4.907	1.004	1.156	1.111	0.255	0.782	1.784	108%	Up	0.791	Low	Medium	0%	Good
	EHP	17.261	2.533	3.626	3.563	2.241	2.332	2.751	-4%	Steady	2.654	Low	Low	69%	Good
	Simbu	8.077	0.301	0.589	0.320	0.857	1.884	3.995	406%	Up	0.090	Medium	High	0%	Good
	Oro	3.590	0.455	0.399	0.177	0.014	0.798	0.999	172%	Up	-	Medium	Medium	1%	Not Good
	ESP	18.290	0.391	0.553	0.184	0.404	0.445	1.171	197%	Up	4.940	Low	Low	27%	Not Good
	MBP	6.628	0.532	0.373	0.772	0.651	1.835	2.019	143%	Up	14.070	Medium	Medium	37%	Good
	Manus	4.194	0.276	0.188	0.176	0.078	0.606	2.600	883%	Up	0.387	Low	High	4%	Average
	Sand'h	6.153	0.774	0.526	0.814	0.784	1.565	2.227	150%	Up	0.150	Medium	Medium	12%	Good
All Provinces	180.287	26.587	30.198	24.696	23.128	35.948	60.436	115%	Up	22.302	60.597	(b)			
(a)															
Key															
The highest spending year in Kina															

(a) Includes grant & internal revenue expenditure.

(b) Capital & Projects

NB: spending level results have been adjusted to reflect fiscal capacity

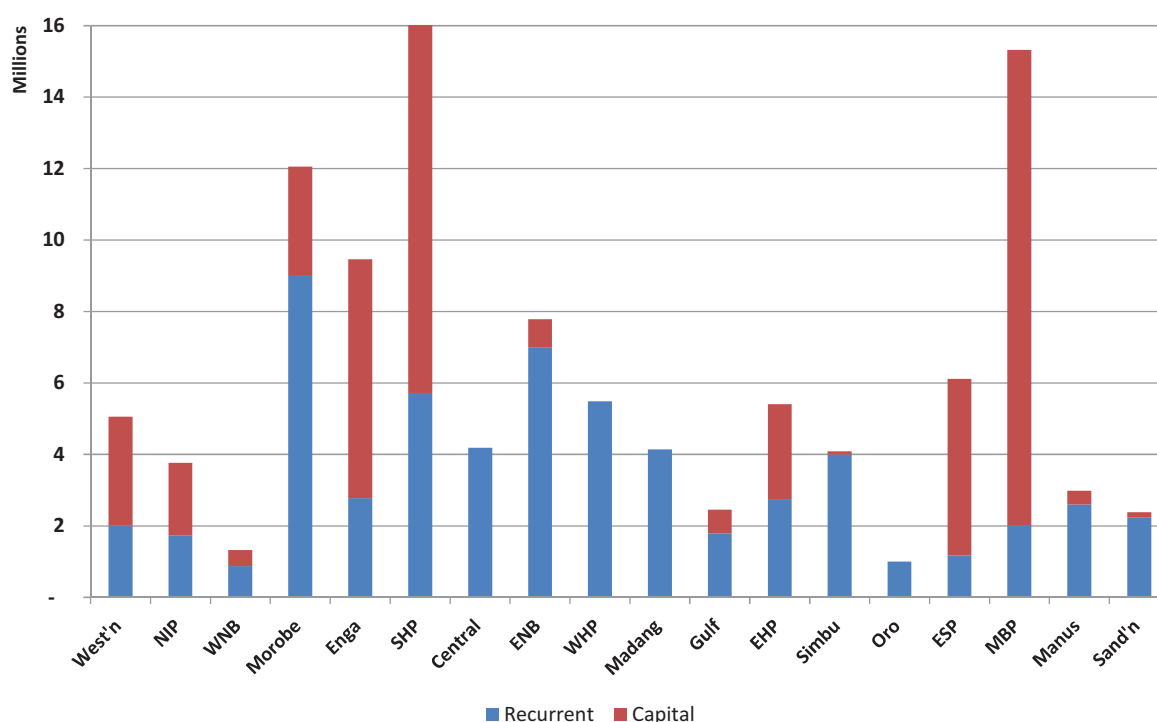
7.5 Drilling down: the Recurrent v Capital Puzzle

7.5.1 Overview

The recurrent versus capital (or maintenance versus rehabilitation/reconstruction) divide is something of a puzzle! Drawing the line between recurrent and capital spending in infrastructure is one of the harder analytical assessments that we have to make in undertaking this review.

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. The graph below shows all spending on infrastructure by provinces, both recurrent and capital, but excludes PIP funded expenditure which is clearly development (capital) in nature.

Graph 36: Infrastructure Expenditure: Recurrent & Capital in 2010 (SSG incl.)²⁸

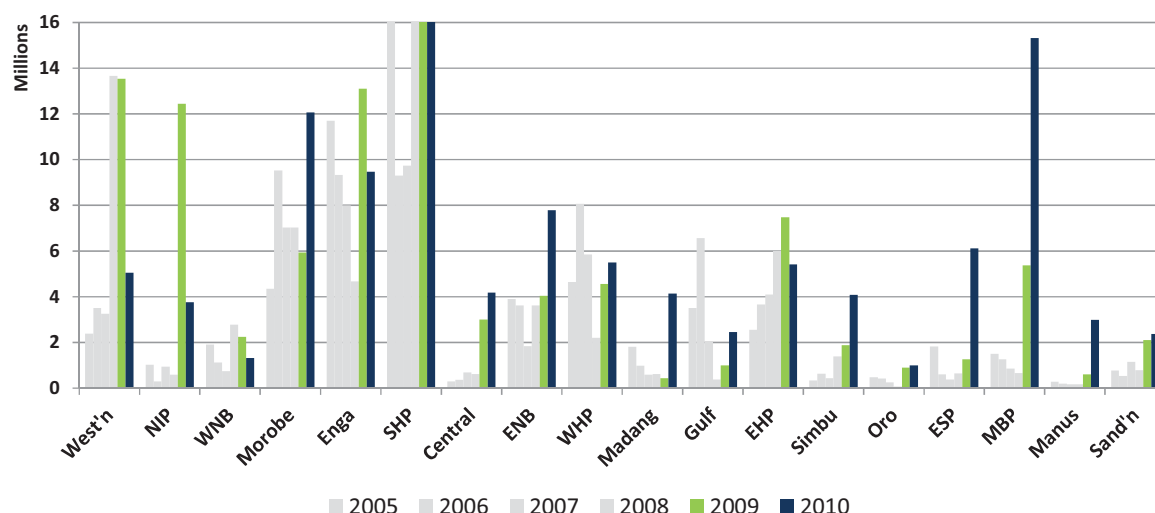


- As before, certain provinces dominate capital spending with Southern Highlands, Morobe, Enga, Western and Eastern Highlands again all high capital spenders.
- Obviously the massive amount spent by Southern Highlands dominates the graph. It does invite the question as to just where and how well this sizable amount has being spent.
- In 2010 Milne Bay made a heavy capital investment of K13.3 million. This amount included the; foreshore project, North Coast Road, Misima Roads, and large spending on various wharves.
- East Sepik's capital spending was the long-running 'stormwater drainage project'.

²⁸ Some PIP expenditure may be included in the expenditure. SSG expenditure on infrastructure has been included on the basis that this *might* be recurrent (however unlikely).

- Half of the 18 provinces spent relatively low amounts or nothing from their grant or internal revenue on infrastructure capital.

Graph 37: Infrastructure Spending: Recurrent & Capital 2005 to 2010 (SSG incl.)



The graph reveals that:

- In 2010 total spending on the infrastructure sector (both recurrent and capital) is higher than in previous years (K122 million in 2010 up from K113 million in 2009).
- However, even if we assumed that all infrastructure spending was on routine maintenance (which is clearly an unrealistic assumption) only two provinces spend close to what is necessary over the five year period.

Those two provinces are Southern Highlands and Enga, who have, over the period 2005-2010, allocated and spent enough money to maintain their infrastructure. Does the state of infrastructure (roads and bridges etc) in these provinces suggest that is indeed the case?

- If roads and bridges in the Southern Highlands and Enga are not being maintained how is that money being used?
- Is infrastructure spending on new roads and bridges, rather than maintaining existing ones?
- Or is the state of roads so poor that major costly rehabilitation work is required? If that is true, then some roads, airstrips and bridges are not being maintained.
- Or is this spending on something else?
- Overall sector spending in 11 provinces increased in 2010.
- Western and New Ireland who had been spending heavily in recent years have reduced their spending on infrastructure.
- Whilst we can see the green shoots of increasing spending within the sector the level is mostly low compared to what is required. The cost of services study estimates the average amount required per year to undertake basic maintenance is K10 million per province (although the range is wide between K3.6 million and K18.3 million per province)
- Green shoots of increased spending can be seen in Central, East New Britain, Madang, Simbu, East Sepik, Milne Bay and Manus.

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)**

8.1 Agriculture in the Provinces

The Medium Term Development Strategy identifies promoting the primary sector as the Governments ‘first and foremost’ priority in economic growth.²⁹ Agriculture is at the heart of economic activity across Papua New Guinea and offers income producing opportunities for the many, not just the few.

Activities such as extension patrols and farmer training are the way we ‘walk the talk’. This is real service delivery in this sector. If we aren’t providing this on-the-ground support to our small-holder farmers how can we say that we are promoting a sustainable and growing agriculture sector?

8.2 Minimum Priority Activities in Agriculture

The provision of services to the agriculture sector relies on trained agriculture officers visiting farming communities (often in remote locations) to offer advice and guidance on best practice.

MPA: Extension Activities

At the heart of our country’s agriculture service are extension patrols. These patrols move throughout the rural area, both day-patrols and overnight patrols, with trained agriculture officers who are normally based at the District Office taking their skills and knowledge to advise the farmers across their province. Yet these extension patrols can only happen if extension officers have the money to pay for the operational costs involved.

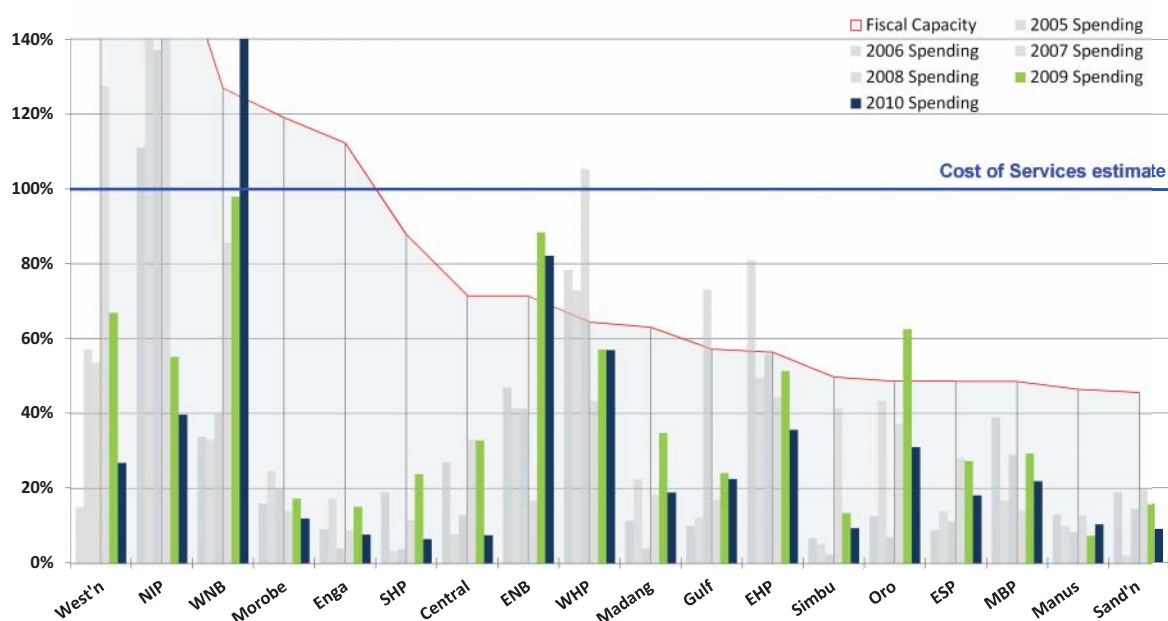
Costs may include; travel allowance and accommodation (for overnight visits), fuel (for both vehicles and boats), and in some instances vehicle/boat hire costs. In some instances airfares may also be incurred to get agriculture personnel to remote locations.

²⁹ The primary sector is generally accepted to include; agriculture, fisheries, livestock and forestry.

8.3 Against the Benchmark: the 2005 to 2010 trend

The graph that follows illustrates the 2005 to 2010 performance trend for 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 38: Agriculture Spending Performance: 2005 to 2010



8.3.1 Performance Overview

- In 2010 DPM significantly increased the per diem rates for public servants on official travel. The impact of this single-cost increase is significant for many sectors and particularly those in the area of primary production like agriculture. Many agriculture service delivery activities rely heavily upon outreach patrols to visit farmers on-site - this involves travel costs which included per diems. This cost increase means it costs much more for agriculture staff to do their work in 2010 than it did in 2009.
- Despite some volatility, spending trends are emerging. Overall, there is a gentle upward trend in agriculture spending year by year from K6.4m...K7.6m...K7.6m...K10.2m...K11.9m...**K12.3**.
- In 2009 the lower 12 provinces spent on average only 23% of what is required to meet the actual costs of a basic service in 2010 this was down to 17%.
- Only three provinces spent more than 50% of what is estimated necessary to provide a basic agriculture service (in 2009 there were 7 provinces in this group).
- West & East New Britain and Western Highlands spent the most relative to what is needed.
- Spending from internal revenue made a relatively significant impact in three provinces (i.e. over K300,000); being Western, East New Britain and Morobe (down from seven provinces in 2009).
- K1.4 million was capital expenditure (down from K2.7m in 2009 and K6.2m in 2008).

The agriculture data table provides a snapshot of agriculture expenditure data for the period 2005 to 2010 together with key fiscal indicators. 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:

8.3.2 Spending 2005 to 2010

- Recurrent goods and services spending in the agriculture sector has remained relatively steady moving gradually upwards from K6.5 million in 2005 to K12.3 million in 2010.
- The overall spending trend in agriculture was mixed with nine provinces increasing their spending and four decreasing their spending.
 - A falling trend in: Western, New Ireland, Southern Highlands and Central
- In recent only three provinces have displayed a strong spending commitment to agriculture being West and East New Britain and the Western Highlands.
- New Ireland who in the past have indicated a strong ongoing commitment to developing agriculture within the province appear to have reprioritised and spent very little from internal revenue in 2009 and 2010 on agriculture.
- Agriculture as a priority is now 'low' relative to fiscal capacity in eleven provinces. This is disappointing, whilst it can be partly explained by the increased per diem costs it also indicates that provinces need to allocate much more in their budgets to this core economic sector. Agriculture is an economic activity that has a broad reach and impacts 'the many' in the rural areas by providing a sustainable cash crop.

8.3.3 Spending from Internal Revenue

A total of 20% of sector expenditure was funded from internal revenue with three provinces accounting for most of this; they are Western, East New Britain and Morobe.

8.3.4 Spending in comparison to fiscal capacity

- When we adjust for the differences in fiscal capacity one province (Gulf) improved and seven provinces declined. So 2010 saw a general decline in spending performance.
- The spending performance of one province improved: Gulf
- The spending performance of seven provinces declined: Western, New Ireland, Central, Madang, Eastern Highlands, Oro and East Sepik.

8.3.5 How did we spend?

The tables that follow show us how agriculture monies were spent.

Table 39: Analysis of all Agriculture Spending in 2010³⁰

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	6,258,334	44%	Recurrent Goods & Services	12,346,401	87%
143	Grants to Public Authorities	2,576,306	18%	Staff-related costs (PE)	443,162	3%
124	Operational materials & supplies	815,119	6%	Capital & Projects	1,450,680	10%
144	Grants to Individuals & NGO's	766,000	5%			
121	Travel and Subsistence Exp's	731,719	5%			
	<i>all other codes</i>	3,092,765	22%			
	Total spending from recurrent & capital	14,240,243	100%	Total spending from recurrent & capital	14,240,243	100%

We can see that:

- Spending from item 135 comprised 44% of all expenditure – down from 72% in 2008. The general nature of the codes accurately reflects the underlying spending - it is a wide mix, from extension work to project related and everything in between.

Item 135 (operational expenses) is a catch-all spending bucket that allows provinces the maximum flexibility in spending.

- One travel related code (item 121) is present in the Top 5. The absence of such costs in earlier years was odd given that extension work is at the heart of agriculture service delivery.
- Item 144: reflects Western Highlands spending as follows:

Coffee Rehabilitations	144	Grants to Individuals & NGO's	100,000
DPI Coffee Rehabilitation	144	Grants to Individuals & NGO	195,000
Ecolivestock Development & Ext	144	Grants to Individual and NGO	64,000
Livestock Development & Extens	144	Grants to Individual & NGO	110,000
Potato & Vegetable	144	Grants to Individuals & NGO	195,000
Potatoe & Vegetables	144	Trainings & Staff Development	100,000

- Capital spending continues to drop.

³⁰ These amounts include spending from both *national grants* and *internal revenue* on goods and services, personnel emoluments and capital and development. But not spending from PIP and unspecified SSG funds.

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)**

9.1 Background to Village Courts

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 allowances of the village court officials.

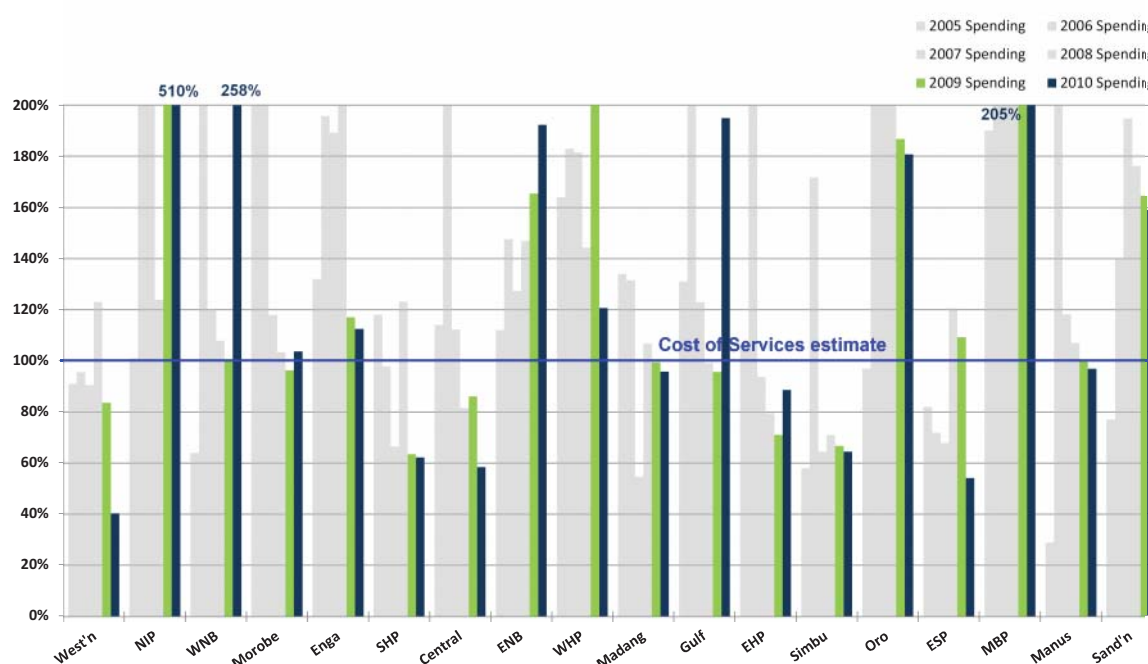
In 2006, an additional amount was included in the grant to meet back pay claims (a similar amount was also directed to the same purpose through the Attorney-General's Department). The 2006 PER provides commentary and analysis on the increased funding and expenditure for arrears in 2006.

In 2007, the national government established a *village court function grant* to provide some support to the operational costs of maintaining village courts and to complement the *village court allowance grant*. With careful management, this should ensure that arrears do not accrue again.

With the change in the way the national government funds the sector our analysis looks at the allowances and operational costs separately.

9.2 Against the Benchmark: VCAs the 2005 to 2010 trend

Graph 40: Village Court Allowances Spending Performance: 2005 to 2010³¹



9.2.1 Performance Overview: Allowances

The graph above illustrates the 2005 to 2010 performance of each province using the cost of services estimate as a benchmark. The high expenditure levels in 2006 are the national government increasing the level of village court allowance grant from K4 million to K12.5 million³². This enabled provinces to meet back claims and arrears from prior years.

- Enga's high spending in early years appears to have reduced to a level close to the cost of service estimate in 2009 and 2010. Western Highlands also reduced in 2010.
- Gulf's spending rose markedly in 2010.
- Some provinces appear to consistently spend more than the cost of services estimate this includes New Ireland, East New Britain, Oro, Mine Bay and Sandaun.
 - This may indicate that their real costs are higher than what was estimated
 - Or, it may indicate that provinces feel the allowance levels are too low and that provinces are electing to pay their officials a higher amount than normal.

³¹ In 2008 village court allowance grants equalled the cost of services estimate of K5m. Because of this we have not compared spending against provincial fiscal capacity.

The cost of services estimate was based on the number of village court officials as at 2005. We understand that the actual numbers have varied/increased significantly since then and this will be reflected in a future updated cost of services study.

³² Although in reality the Department of Treasury did not release the whole grant appropriation for every province.

The village courts data table provide snapshots of village courts expenditure data for the period 2005 to 2010 together with key fiscal indicators on allowances. 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:

9.2.2 Spending Trend: 2005 to 2010

Over this period, recurrent spending has moved from K5.9m...K10.8m...K5.5m...K7.6m...K6.4m...**K6.5m** - the 2006 high reflects the additional funding provided by Treasury to meet the cost of accumulated arrears of allowances.

If we set the 2006 aside, the overall trend suggests that spending on village court allowances has steadied.

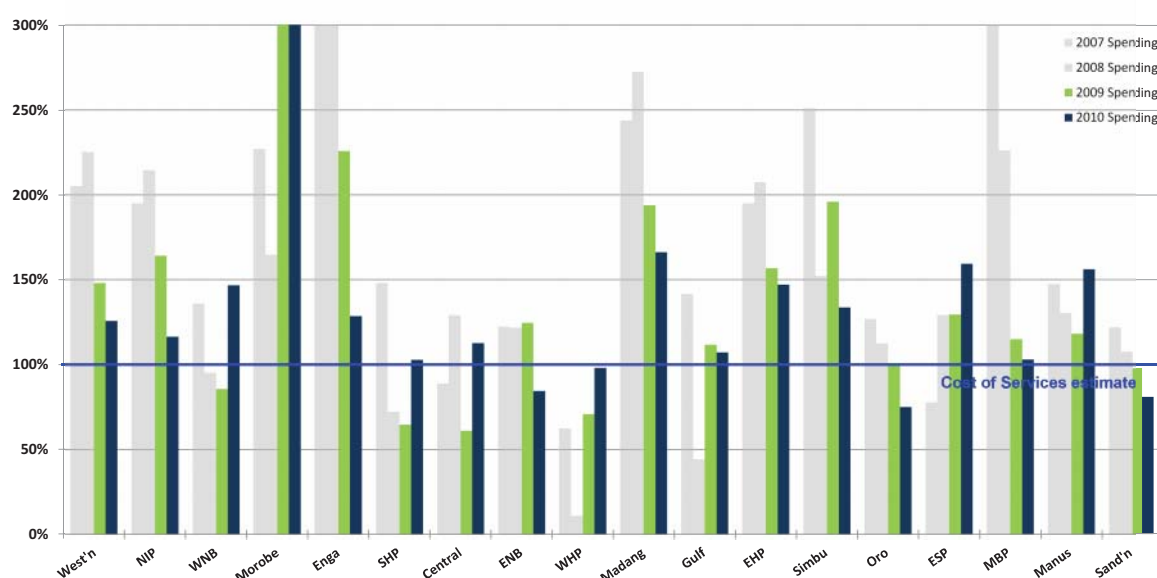
9.2.3 Spending from Internal Revenue

Spending from internal revenue in the sector was relatively minor at K0.87m. Only three provinces spent internal revenue on village court allowances were; New Ireland, East New Britain and Eastern Highlands.

9.3 Against the Benchmark: VC operational costs the 2005 to 2010 trend

In 2007, the national government established a village court function grant to provide some support to the operational costs of maintaining village courts and to complement the village court allowance grant. With careful management, this should ensure that arrears do not accrue again.

Graph 41: Village Court Function Grant Spending Performance: 2007 and 2010



9.3.1 Performance Overview: Function Grant (on operational costs)

The graph illustrates the performance of each province from 2007 to 2010 using the cost of services estimate as a benchmark.

- Most provinces (15) again spent 100% or more of what the cost of services study estimated was required. This is positive and demonstrates that funding is being allocated and expended in the area.
- Whilst spending increases in kina the spending trend tends to be either steady or downward when compared against the estimated cost of services. This is mainly due to the cost adjustments that are made each year to the estimates.

The village court operational costs data table provides a snapshot of village courts expenditure data for the period 2007 to 2010 together with key fiscal indicators. 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:

9.3.2 Spending from Internal Revenue

- Spending from internal revenue on village court operational costs is low at K464,000.
- With only three provinces contributing more than K50,000 from their internal revenue to the sector. Being; Western, West New Britain and East Sepik.

9.3.3 How did we spend?

The tables that follow show us how village court operational monies were spent.

Table 42: Analysis of all Village Courts Operational Spending in 2010³³

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	1,194,666	40%	Recurrent Goods & Services	2,863,922	96%
124	Operational materials & supplies	542,402	18%	Staff-related costs (PE)	118,170	4%
125	Transport and Fuel	325,969	11%	Capital & Projects	4,000	0%
121	Travel and Subsistence Exp's	292,865	10%			
143	Grants to Public Authorities	121,165	4%			
	<i>all other codes</i>	509,026	17%			
	Total spending from recurrent & capital	2,986,093	100%	Total spending from recurrent & capital	2,986,093	100%

The table shows us that:

- In 2010 the highest percentage of spending was classified as other operational expenses (item 135), however this has reduced as a percentage from 60% in 2007 to 40% of total sector spending in 2010.
 - Item 135 is a catch-all spending bucket that allows provinces the maximum flexibility in spending.
- Travel related costs are in the top-5, with TA (item 121) and transport & fuel (item 125) together comprises 21% of total spending.
- There was almost no capital spending.

³³ These amounts include spending from both *national grants* and *internal revenue* on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

9.5 Village Courts Data Table - Operational Costs³⁴

Village Court Sector - Operations: 2007 to 2010 (recurrent spending - not allowances)												
Province	Cost of Services estimate	2007 Exp	2008 Exp	2009 Exp	2010 Exp	% change versus average	Spending Trend	2010 Internal Revenue expenditure % of total exp	Capital & Projects	Spending level achieved versus Cost of Services est.	% Function Grant unspent	Function Grant Exp nature
		(Kina millions)										
West'n	0.152	0.213	0.266	0.194	0.192	-15%	Steady	34%	-	High	1%	Not Good
NIP	0.045	0.055	0.069	0.058	0.053	-14%	Steady	25%	-	High	24%	Average
WNB	0.222	0.207	0.165	0.165	0.325	82%	Up	49%	-	High	1%	Good
Morobe	0.100	0.137	0.114	0.501	0.405	62%	Up	-	-	High	4%	Good
Enga	0.126	0.533	0.381	0.235	0.162	-58%	Down	6%	-	High	1%	Good
SHP	0.231	0.207	0.117	0.117	0.237	62%	Up	-	-	Medium	8%	Good
Central	0.141	0.087	0.141	0.073	0.158	59%	Up	-	-	High	0%	Good
ENB	0.076	0.063	0.071	0.079	0.064	-10%	Steady	15%	-	High	23%	Good
WHP	0.298	0.129	0.026	0.184	0.293	159%	Up	10%	-	High	1%	Good
Madang	0.057	0.078	0.100	0.078	0.094	11%	Steady	32%	-	High	20%	Good
Gulf	0.046	0.041	0.015	0.041	0.049	52%	Up	-	-	High	5%	Good
EHP	0.092	0.111	0.135	0.112	0.135	14%	Steady	-	-	High	2%	Good
Simbu	0.100	0.154	0.107	0.150	0.134	-3%	Steady	-	-	High	0%	Good
Oro	0.051	0.043	0.043	0.043	0.039	-10%	Steady	-	0.004	High	0%	Good
ESP	0.158	0.081	0.152	0.167	0.252	89%	Up	46%	-	High	19%	Good
MBP	0.087	0.368	0.155	0.086	0.089	-56%	Down	32%	-	High	19%	Good
Manus	0.075	0.073	0.074	0.073	0.116	59%	Up	37%	-	High	0%	Good
Sand'n	0.081	0.067	0.067	0.067	0.066	-3%	Steady	-	-	High	1%	Good
All Provinces	2.136	2.647	2.196	2.425	2.864	19%	Up	0.504	0.004			

(a)

Key

above 15%	above 25%	above K0.35m	above 80%
in-between			in-between
below -15%			below 40%

The highest spending year in Kina

(a) Includes grant & internal revenue expenditure.

³⁴ Including expenditure from the function grant

10 Administration focus

The administrative divisions of Provincial Governments have a central role to play in identifying and removing the impediments to service delivery within their own province.

10.1 Administration in the Provinces

Administration is a necessary cost for every provincial administration. However history illustrates that administration expenditure tends to increase unless a close control is maintained. We will see that some provinces spend 3 or 4 times as much as we estimate is required on administration – while, at the same time, essential sectors such as health and infrastructure maintenance have nowhere near enough funding to deliver even a basic level of service.

The Administration Divisions

Executive functions

- Office of Governor
- Deputy Governor
- Provincial Administrator
- Deputy Administrators

Corporate services functions

- Budget and revenue collection
- Policy and Planning
- Human Resources
- Payroll administration
- In-service training
- Internal Audit
- Legal Services

Supervision and support

- District administration and local-level governments

Maintenance

- Provincial and district administration building maintenance

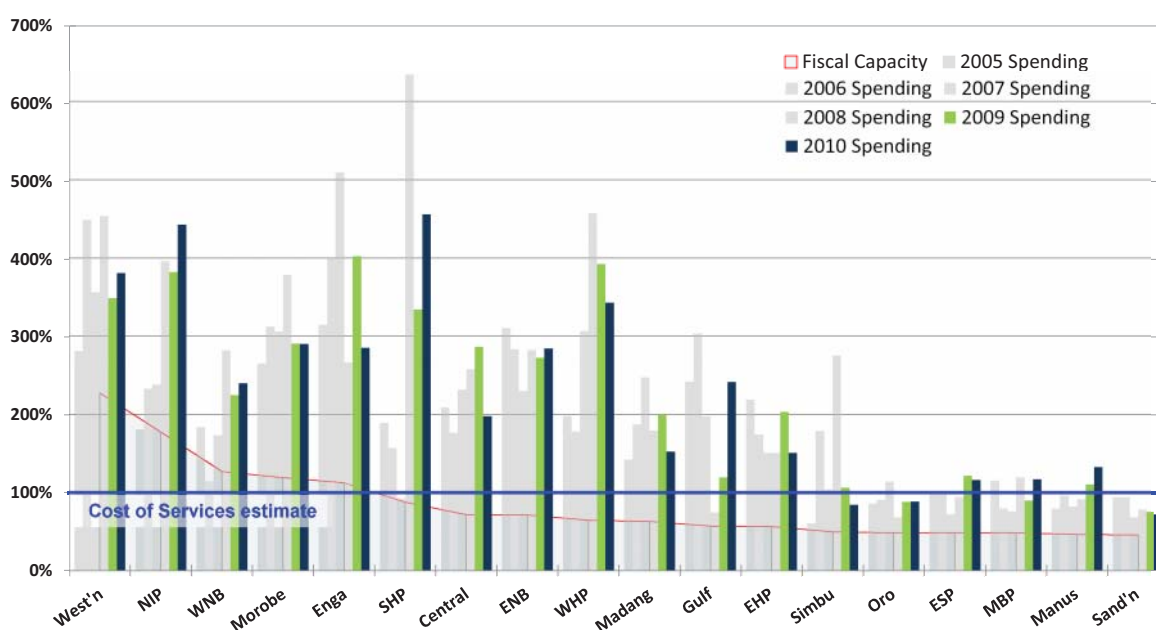
An opportunity to reduce costs

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: the 2005 to 2010 trend

The graph that follows illustrates the 2005 to 2010 performance of each province using the cost of services estimate as a benchmark. You will see greater volatility in the spending levels of higher funded provinces compared to those of lower funded provinces.

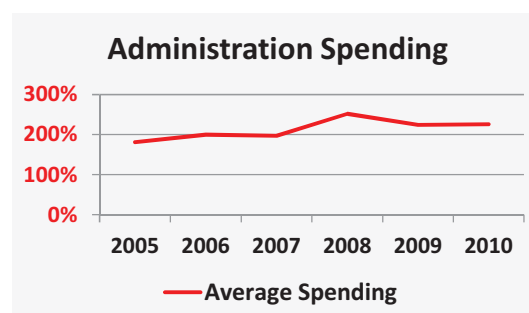
Graph 43: Administration Spending Performance: 2005 to 2010



10.2.1 Performance Overview

- In 2010 provinces spent on average 226%, on average provinces spend more than twice the actual administration costs estimated to be required.

The graph to the right illustrates that overall the trend on administration spending relative to what is estimated necessary is relatively steady.



- In kina terms administration spending between 2009 and 2010 increased by 19% - spending has moved from K47m...K55m...K56m...K85m...K82m...**K98m**.

Most of the increased spending between 2009 and 2010 was in provinces with higher levels of internal revenue (the top six).

- The encouraging signs are some provinces have reduced their spending in 2010 - Enga, Central, Madang and Simbu. The other real positive is the example set by lower-funded provinces who continue to manage the budgets without excessive spending on administration.

- Some provinces spend three or four times as much as what is estimated necessary of administration – such as Western, New Ireland, Southern Highlands and Western Highlands. There is a real opportunity to better manage administration spending and to reallocate more money to front line services. **This is called creating fiscal space and allows provinces to redirect funding to better support front-line services.**
- 86% K84 million, of spending on recurrent goods and services on administration was funded from internal revenue (2009: 83%, K69 million).

The administration data table provides a snapshot of administration expenditure data for the period 2005 to 2010 together with key fiscal indicators. 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:

10.2.2 The impact of Consolidated Expenditure³⁵

One of the explanations offered in response to the high spending levels on administration is that a part of the administration expenditure is actually a consolidated or combined cost which relates specifically to a variety of sectors – not just the administration sector. An example of this could be electricity that is paid as a total under one vote, yet it specifically relates to buildings occupied by staff from other sectors such as health and education in addition to administration staff. In 2008 we analysed and illustrated the possible impact of these consolidated costs to see if it painted a significantly different picture of provinces administration spending performance.³⁶

We found that even when we discounted the administration spending in these provinces by such consolidated expenditure the provinces concerned still spend well above the cost of services estimate, and prioritise administration much higher than service delivery

The analysis suggests that whilst some provinces do spend significant sums on consolidated costs, this does not explain the high priority spending on the administration sector.

10.2.3 Spending from Internal Revenue

- Internal revenue funded 86% of recurrent spending – even in lower funded provinces internal revenue continues to contribute significantly to administration spending. So for many provinces administration costs are funded largely by internal revenue.
- When expenditure on staff-related costs and capital and projects is included 41% of all spending from internal revenue is on administration.

³⁵ 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.

³⁶ Refer to the 2008 Provincial Expenditure Review *Walking the Talk* available on the NEFC website.

10.2.4 How did we spend?

The tables that follow show us how administration monies were spent.

Table 44: Analysis of all Administration Spending in 2010³⁷

The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	61,709,256	31%	Recurrent Goods & Services	98,043,956	50%
112	Casual Wages	12,268,564	6%	Staff-related costs (PE)	45,782,875	23%
111	Salary & Allowances	11,085,937	6%	Capital & Projects	53,039,659	27%
114	Leave fares	10,406,459	5%			
121	Travel and Subsistence Exp's	10,251,930	5%			
	<i>all other codes</i>	91,144,344	46%			
	Total spending from recurrent & capital	196,866,490	100%	Total spending from recurrent & capital	196,866,490	100%

We can see that:

- Total spending on administration - being goods & services, staff-related costs and capital & projects - has increased markedly between 2009 and 2010 moving from K137m to 198m. In the context of Papua New Guinea's development this is disappointing we need to make allocating and spending more funds on the delivery of basic services as our priority.
- There has much similarity in the break-up of spending in recent years in administration. The expenditure items and their proportions remain relatively constant.
- Staff related items 111, 112 and 114: Spending on staff-related costs remains steady 23% of all administration spending but increased by K10.3 million. (note this IS NOT the regular staff payroll this is staff-related costs such as; allowances, leave fares and casual wages)
- Item 135: The highest single item of spending is still other operational expenses was 31% (29% and 2008 and 2009). This item is a catch-all spending bucket that allows provinces the maximum flexibility in spending.
- Items 121: This item is travel related costs.
- Spending on capital & projects between 2008 and 2010 has moved from K35m...K19m...**K53m**.
 - This spending covers a variety of items such as; the construction (or improvement) of office buildings & staff houses including new district centres and new vehicles.

³⁷ These amounts include spending from both *national grants* and *internal revenue* on goods and services, personnel emoluments and capital and development. But not spending from PIP and SSG funds.

10.3 Administration Data Table

Administration Sector 2005 to 2010 (recurrent spending)

Province	Cost of Services estimate	2005 Exp	2006 Exp	2007 Exp	2008 Exp	2009 Exp	2010 Exp	% change versus average	Spending Trend	2010 Internal Revenue expenditure	Capital & Projects	Spending level achieved versus Cost of Services est.
(Kina millions)												
										% of total exp	2010	2009
Higher funded	West'n	2,857	4,900	6,909	10,034	8,541	10,872	41%	Up	99%	2,236	348%
	NIP	2,070	2,346	3,408	6,446	6,868	9,157	106%	Up	98%	1,359	382%
	WNB	2,005	2,248	2,369	4,416	3,902	4,810	67%	Up	97%	0,794	224%
	Morobe	3,607	5,765	7,310	10,330	8,735	10,467	34%	Up	100%	0,705	290%
	Enga	2,190	4,275	7,640	4,509	7,522	6,243	6%	Steady	90%	2,429	402%
Medium funded	SHP	3,006	3,144	1,730	13,869	8,151	13,703	131%	Up	93%	21,311	334%
	Central	1,949	2,526	3,041	3,842	4,680	3,855	19%	Up	70%	2,935	286%
	ENB	2,554	5,125	4,897	5,727	6,070	7,256	40%	Up	99%	0,109	272%
	WHP	2,233	2,724	4,621	7,808	7,367	7,653	53%	Up	88%	8,448	392%
	Madang	2,500	2,140	4,099	3,399	4,159	3,800	14%	Steady	66%	0,132	199%
Lower funded	Gulf	1,292	1,890	1,683	0,732	1,291	3,119	94%	Up	62%	3,266	119%
	EHP	2,159	2,867	2,145	2,453	3,631	3,250	21%	Up	56%	0,868	203%
	Simbu	1,993	0,737	1,362	4,137	1,743	1,674	-19%	Down	64%	0,190	106%
	Oro	1,690	0,901	1,313	0,893	1,271	1,489	39%	Up	37%	0,014	88%
	ESP	3,403	2,070	1,657	2,471	3,484	3,946	67%	Up	58%	2,387	121%
	MBP	2,361	1,687	1,214	2,176	1,793	2,751	71%	Up	64%	2,106	89%
	Manus	1,695	0,866	0,975	1,236	1,641	2,242	93%	Up	61%	3,750	110%
	Sand'n	2,441	1,441	1,141	1,488	1,568	1,757	23%	Up	40%	-	75%
All Provinces		42,005	47,649	55,363	56,765	82,417	98,044	50%	Up	83,952	53,040	

(b)

Key

above 15%	above 50%	above K1m	up to 100%
in-between			100% to 200%
below -15%			over 200%

The highest spending year in Kina

(a)

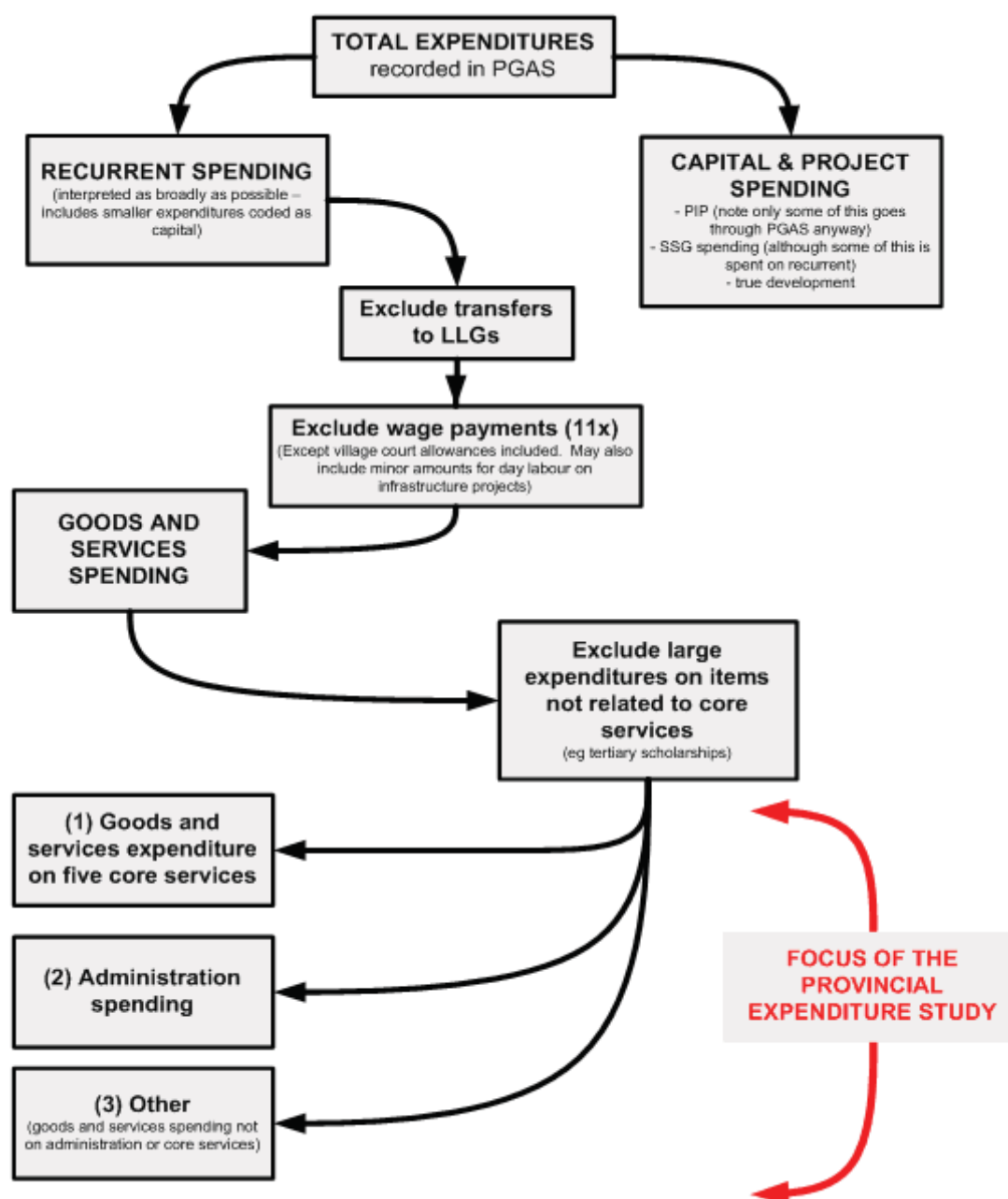
(a) Includes grant & internal revenue expenditure. It does not include capital & projects nor personal emoluments.

(b) The capital & projects amounts are in addition to the amounts in (a)

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

The following diagram illustrates what expenditure is included in the provincial expenditure study – and then compared against the cost of services estimates – and what is excluded. It is important to be clear that we are reviewing expenditure on recurrent goods and services, the spending that supports the delivery of services to our people.

Flowchart 45: Data – What’s in and What’s out³⁸



³⁸ SSG expenditure was excluded from the initial PER in 2005. Since then, we have increasingly sought to record SSG expenditure under the appropriate sector and to classify it as either *recurrent goods & services* or *capital & projects* – whichever is appropriate.

The move to a more inclusive approach has been driven by our desire to paint as full a picture as is possible. SSG expenditure that cannot be meaningfully classified is excluded.

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:

$$\text{Sector Performance} = \frac{\text{Actual expenditure}}{\text{Cost}} = \frac{1,000,000}{4,000,000} = 25\%$$

therefore

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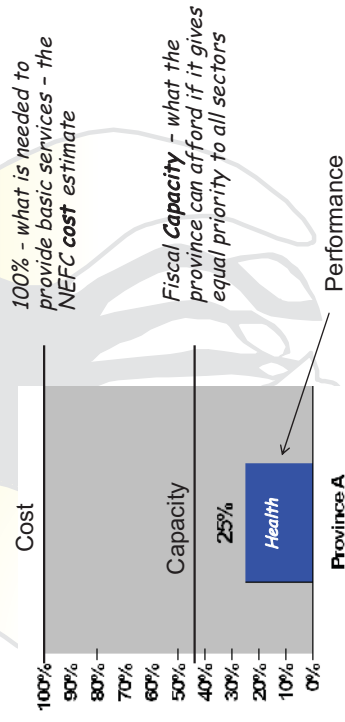
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Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

3. Let's illustrate that example:

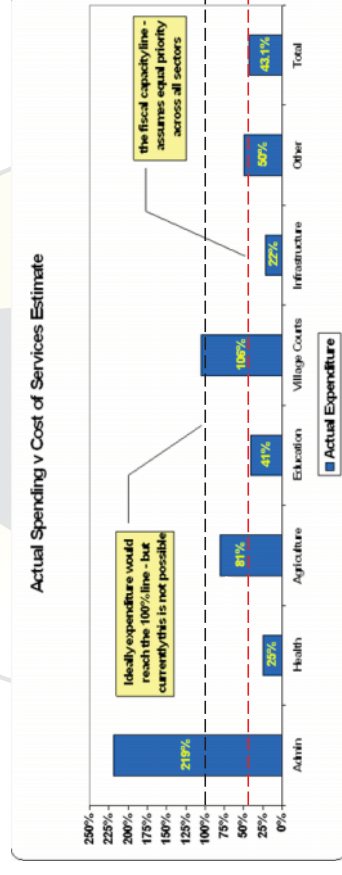
Province A:

- 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

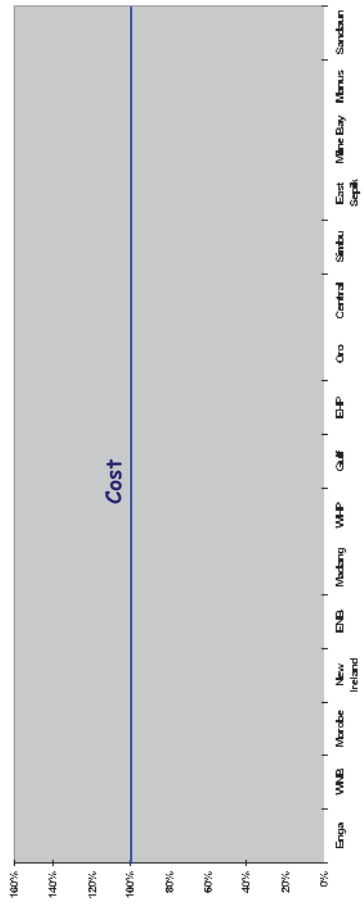


Much of the analysis and findings in this report are presented in a graphical format that compares results by sector across provinces. The graphs bring together the three threads of cost, fiscal capacity and spending performance and enable us to review our progress by comparing performance across provinces. 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)

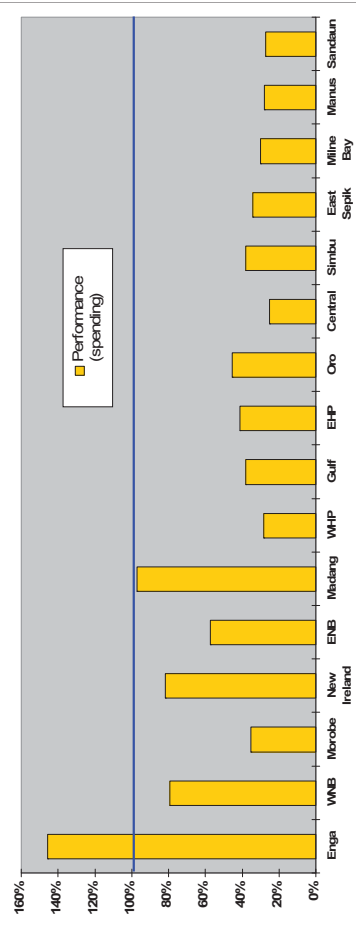
Education Costs

- the blue line represents the amount NEFC believes needs to be spent to adequately support education services
- Ideally we would reach 100% - at this level all basic education services can be provided



Education Spending

- the orange bars represent the amount the provinces spent in 2005 on recurrent goods & services in education
- Most provinces spent 40% (or less) of what is necessary



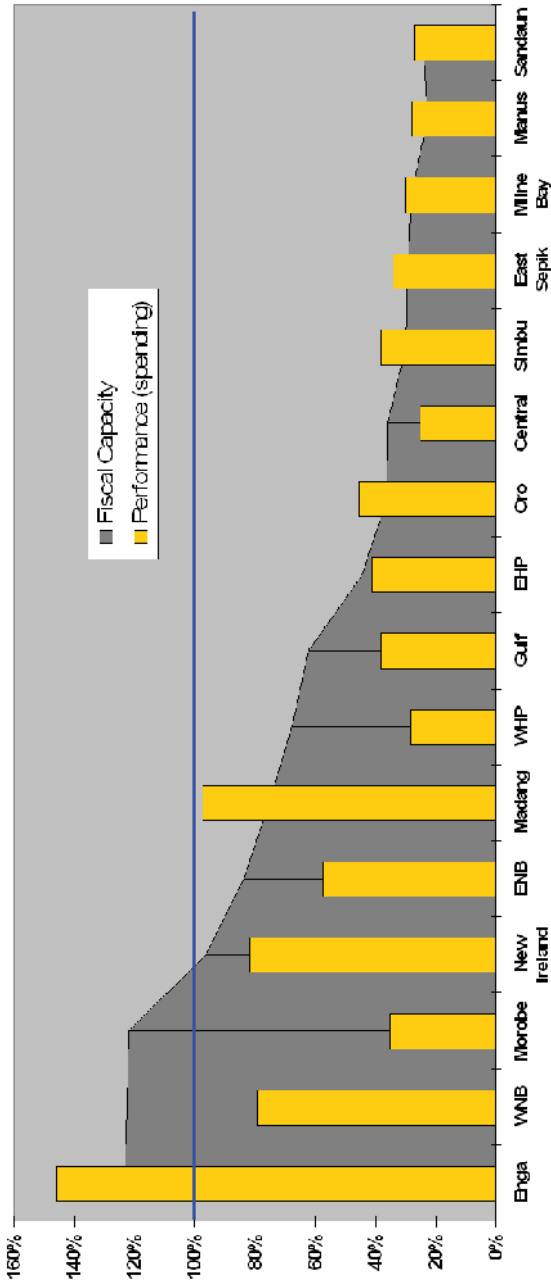
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Performance by all provinces in the education sector (slide 3)

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 (e.g. 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 being 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 are flush with 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 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, in particular 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.

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 (i.e. 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 (i.e. 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: How we Calculate 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: 2010 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 and services only. An adjustment has been made for CPI and individual province population growth.

	Admin	Health/HIV	Agriculture	Education	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	1,948,849	4,000,338	2,273,095	6,188,868	390,155	140,525	11,694,126	4,026,044	30,662,002
EHP	2,159,065	6,014,622	2,254,687	8,041,171	621,872	91,768	17,260,527	6,199,048	42,642,761
ENB	2,553,774	4,279,884	2,210,412	6,410,741	144,969	76,081	8,778,712	4,120,062	28,574,635
Enga	2,190,019	4,918,830	2,325,035	5,122,268	487,354	126,077	12,014,722	3,506,073	30,690,378
ESP	3,403,048	9,763,603	2,998,295	6,724,293	442,992	157,857	18,290,010	2,396,215	44,176,313
Gulf	1,292,499	3,156,910	1,640,743	3,123,928	142,557	45,726	4,907,034	2,759,301	17,068,699
Madang	2,500,278	7,112,200	2,979,946	4,992,622	311,493	56,700	11,131,679	4,651,142	33,736,060
Manus	1,694,594	1,923,221	914,367	2,430,539	173,334	74,563	4,193,734	2,076,399	13,480,751
MBP	2,360,794	7,375,866	2,247,336	6,252,569	128,817	86,825	6,627,626	4,580,684	29,660,518
Morobe	3,607,049	9,173,352	4,384,366	11,033,132	375,426	99,531	16,095,380	6,023,792	50,792,029
NIP	2,069,895	4,078,347	1,304,493	3,711,936	164,836	45,292	4,731,068	3,281,038	19,386,905
Oro	1,689,631	3,571,221	1,513,270	2,978,451	74,483	51,331	3,589,823	2,558,886	16,027,096
Sandaun	2,441,032	6,233,794	3,067,799	5,857,063	104,300	81,094	6,152,873	3,579,495	27,517,450
SHP	3,006,220	9,298,876	3,915,824	8,642,031	903,671	230,647	12,495,057	5,125,487	43,617,814
Simbu	1,992,800	4,136,451	1,425,665	6,058,135	574,685	100,288	8,076,625	2,720,693	25,085,342
Western	2,856,815	7,405,519	2,909,724	6,832,629	210,507	152,208	14,120,363	4,593,464	39,081,229
WHP	2,233,001	4,857,251	2,307,707	8,716,310	527,045	298,035	16,405,731	3,783,076	39,128,156
WNB	2,005,310	5,273,675	2,007,740	5,870,610	188,838	221,573	3,721,957	4,061,494	23,351,196
TOTAL	42,004,673	102,573,962	42,680,506	108,987,297	5,967,335	2,136,121	180,287,046	70,042,392	554,679,333

Appendix 6: 2010 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 and services only. An adjustment has been made for CPI and population growth.

	Admin	Health/HIV	Agriculture	Education	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	6.4%	13.0%	7.4%	20.2%	1.3%	0.5%	38.1%	13.1%	100%
EHP	5.1%	14.1%	5.3%	18.9%	1.5%	0.2%	40.5%	14.5%	100%
ENB	8.9%	15.0%	7.7%	22.4%	0.5%	0.3%	30.7%	14.4%	100%
Enga	7.1%	16.0%	7.6%	16.7%	1.6%	0.4%	39.1%	11.4%	100%
ESP	7.7%	22.1%	6.8%	15.2%	1.0%	0.4%	41.4%	5.4%	100%
Gulf	7.6%	18.5%	9.6%	18.3%	0.8%	0.3%	28.7%	16.2%	100%
Madang	7.4%	21.1%	8.8%	14.8%	0.9%	0.2%	33.0%	13.8%	100%
Manus	12.6%	14.3%	6.8%	18.0%	1.3%	0.6%	31.1%	15.4%	100%
MBP	8.0%	24.9%	7.6%	21.1%	0.4%	0.3%	22.3%	15.4%	100%
Morobe	7.1%	18.1%	8.6%	21.7%	0.7%	0.2%	31.7%	11.9%	100%
NIP	10.7%	21.0%	6.7%	19.1%	0.9%	0.2%	24.4%	16.9%	100%
Oro	10.5%	22.3%	9.4%	18.6%	0.5%	0.3%	22.4%	16.0%	100%
Sandaun	8.9%	22.7%	11.1%	21.3%	0.4%	0.3%	22.4%	13.0%	100%
SHP	6.9%	21.3%	9.0%	19.8%	2.1%	0.5%	28.6%	11.8%	100%
Simbu	7.9%	16.5%	5.7%	24.2%	2.3%	0.4%	32.2%	10.8%	100%
Western	7.3%	18.9%	7.4%	17.5%	0.5%	0.4%	36.1%	11.8%	100%
WHP	5.7%	12.4%	5.9%	22.3%	1.3%	0.8%	41.9%	9.7%	100%
WNB	8.6%	22.6%	8.6%	25.1%	0.8%	0.9%	15.9%	17.4%	100%
TOTAL	7.6%	18.5%	7.7%	19.6%	1.1%	0.4%	32.5%	12.6%	100%

Appendix 7: 2010 Provincial Revenue Table (in Kina)

The following table details the provincial revenues in 2010. Note: revenues that are tagged for specific purposes other than recurrent goods and services are excluded (these revenues include; LLG grants, salary grants, and development funds).

	National Government Grants (2010 actuals)	GST distributions (IRC data)	Mining and Petroleum Royalties (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
Central	10,454,600	750,360	6,777,160	3,927,080		21,909,200
Eastern Highlands	12,408,100	10,275,490	1,356,780			24,040,370
East New Britain	7,899,400	8,516,550	3,981,090			20,397,040
Enga	6,917,900	465,050	5,337,120	17,579,370		30,299,440
East Sepik	17,542,800	2,035,980	1,918,330			21,497,110
Gulf	7,030,600	196,860	38,930		2,505,000	9,771,390
Madang	15,578,200	4,035,490	1,676,580			21,290,270
Manus	5,672,900	224,020	372,010			6,268,930
Milne Bay	10,455,400	2,544,070	1,406,420			14,405,890
Morobe	7,717,300	30,786,290	6,759,590	17,722,190		62,985,370
New Ireland	3,903,600	2,247,030	1,270,900	25,563,350		32,984,880
Oro	6,466,900	1,237,380	103,360			7,807,640
Sandaun	11,052,100	317,100	1,195,450			12,564,650
Southern Highlands	7,962,000	653,370	166,580	29,528,660		38,310,610
Simbu	10,398,100	661,580	1,425,190			12,484,870
Western	4,209,300	2,897,970	364,130	46,800,000	39,600,000	93,871,400
Western Highlands	11,514,200	11,965,910	1,760,060			25,240,170
West New Britain	6,989,400	5,560,390	8,877,430			21,427,220
TOTAL	164,172,800	85,370,890	44,787,110	141,120,650	42,105,000	477,556,450

Appendix 8: 2010 Provincial Revenue Table (as a % of total revenue)

The following table details the provincial revenues in 2010 as a percentage of total revenue. Note: revenues that are tagged for specific purposes other than recurrent goods and services are excluded (these revenues include; LLG grants, salary grants, and development funds).

	National Government Grants (2008 actuals)	GST distributions (data)	(IRC Royalties)	Mining and Petroleum (Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
Central	47.7%	3.4%		30.9%	17.9%	0.0%	100%
Eastern Highlands	51.6%	42.7%		5.6%	0.0%	0.0%	100%
East New Britain	38.7%	41.8%		19.5%	0.0%	0.0%	100%
Enga	22.8%	1.5%		17.6%	58.0%	0.0%	100%
East Sepik	81.6%	9.5%		8.9%	0.0%	0.0%	100%
Gulf	72.0%	2.0%		0.4%	0.0%	25.6%	100%
Madang	73.2%	19.0%		7.9%	0.0%	0.0%	100%
Manus	90.5%	3.6%		5.9%	0.0%	0.0%	100%
Milne Bay	72.6%	17.7%		9.8%	0.0%	0.0%	100%
Morobe	12.3%	48.9%		10.7%	28.1%	0.0%	100%
New Ireland	11.8%	6.8%		3.9%	77.5%	0.0%	100%
Oro	82.8%	15.8%		1.3%	0.0%	0.0%	100%
Sandaun	88.0%	2.5%		9.5%	0.0%	0.0%	100%
Southern Highlands	20.8%	1.7%		0.4%	77.1%	0.0%	100%
Simbu	83.3%	5.3%		11.4%	0.0%	0.0%	100%
Western	4.5%	3.1%		0.4%	49.9%	42.2%	100%
Western Highlands	45.6%	47.4%		7.0%	0.0%	0.0%	100%
West New Britain	32.6%	26.0%		41.4%	0.0%	0.0%	100%
TOTAL	34.4%	17.9%		9.4%	29.6%	8.8%	100%

