



National Economic and Fiscal Commission

‘BETWEEN THE LINES’

THE 2015 PROVINCIAL EXPENDITURE REVIEW With trend analysis from 2011 to 2015

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DISCLAIMER

This work is a product of the National Economic and Fiscal Commission. The analysis, findings, interpretations and conclusions expressed are based on data obtained from various sources, primarily the provincial accounting data collected and provided to the National Economic and Fiscal Commission by the Department of Finance. These records are yet to be audited. Due to the nature of the exercise, the National Economic and Fiscal Commission does not guarantee the findings and requests users to exercise caution when relying solely on the data, analysis, findings, interpretations and conclusions contained in this report.

FORWARD



It is with great pleasure that I present the National Economic and Fiscal Commission (NEFC) 'Provincial Expenditure Review' (PER) report which reflects a vital component in the financing system of "Effective Reporting and Monitoring". The Expenditure Review produces comparative analysis on how provinces are spending adequately on the basic delivery services of education, health, transport infrastructure, primary production and village courts priority sectors identified in the medium term development plan (MTDP) 2011-2015. The expenditure results in the respective sectors provide vital information to

Sub-National level governments on how well they have utilized available funding to expend on activities that supports basic service delivery in the provinces.

Since the implementation of the new system of funding to Provincial and Local Level Governments in 2009, the NEFC has been tracking the expenditures of goods and services operational (recurrent) funding of the National Government Grants through the Papua New Guinea Government Accounting System (PGAS) Data for all provinces primarily to see how each province spend using sector funding appropriations and also taking into consideration fiscal capacity, cost and budget allocation of funds to the basic service delivery activities. *The PER analysis is based on a benchmarking approach where:*

- 1. It compares actual spending against the cost necessary to deliver the sector services for respective provinces.*
- 2. It reflects each province's ability (fiscal capacity) to meet those cost of services in the basic delivery sectors.*

Although the analysis is reviewed through the fiscal terms of budget, costs and spending only and do not give assurance as to the quality of the expenditure, the analysis however provide valuable information that if we aren't spending in the right areas then basic service delivery activities cannot happen effectively.

With the current implementation of government policies such as the Tuition Fee Free subsidy in the education sector, free Health Care policy and the Provincial Health Authority in the health sector; the NEFC continues to produce such reports like the Provincial Expenditure Review to remind all decision and policy makers that adequate funding and expenditure must continue and effectively implemented in the vital areas of basic service delivery sectors.

In the 2015 PER analysis, The National Economic and Fiscal Commission experienced setbacks in a timely data collection but however would like to thank the Department of Finance (Information Technology and Provincial & District Financial Management Divisions), Department of Treasury (Budget Co-ordination and Budget Operation Divisions) and the Provincial Administrations for their continuous assistance over the years in providing required data sets for the expenditure analysis.



Hohora Suve
Chairman and CEO
National Economic and Fiscal Commission

February 2018

EXECUTIVE SUMMARY

"Between the Lines"

The 2015 PER (Performance Expenditure Review) is the eleventh publication of the expenditure analysis series which provides a desktop analysis of provincial government spending. The focus of the PER continues to be on the provision of Public Goods and Services on the part of provincial administrations by examining spending of the recurrent budget. Due to the limitations of the provincial PGAS system and bottlenecks preventing the flow of funds to service delivery points, the PER focuses on expenditure from the viewpoint of the provincial administration although the NEFC is exploring new ways to capture expenditure at the front lines of service delivery namely, rural health centres, schools and district administrations who would typically administer the provision of services including maintenance of roads, wharves, jetties and bridges.

In 2015, the NEFC also undertook one of its major work activities in updating the Cost of Services¹ (CoS) which usually takes a five (5) year interval to update cost of activities in various basic service delivery sectors. With the update of the 2015² cost of services and as one of the vital data used in the provincial expenditure analysis, *it is timely and vital that the NEFC re-emphasizes on the key components used in analysing provincial expenditure. The three components are:*

1. **COST** – How much it costs to deliver priority services in each province.
2. **CAPACITY** – The ability of each province to meet the cost of services in the basic delivery sectors.
3. **PERFORMANCE** – Provincial spending to support basic service delivery.

Therefore in simple terms, in order for a province to see effective service delivery outcomes whether in fiscal or tangible terms it is important that they know how much it cost to deliver a service, the fiscal capacity³ to meet the intended cost of service so that appropriate budgeting is allocated against its service delivery activities and so adequate spending is implemented to achieve the desired activity outcome areas.

Key findings of the PERs are that whilst some trends are remarkably consistent, others are not. It is evident that spending trends at the sub-national level can vary, depending on a number of factors including the relevant sector nature of budgeting and spending priorities. Provinces continue to spend inadequately from their function grants and internal revenues particularly in the first two quarters on Goods and Services, including provinces that have comparatively larger internal revenues. Provinces with larger internal revenues also seem less likely to spend on key sectors other than Administration.

¹ Cost of Services - Describes the NEFC study that estimated how much it costs to support service delivery within a province (health, education, etc....) on a district by district basis.

² 2015 Cost of Services – means an update of the cost of services by the NEFC in 2015 on the basic service delivery sectors.

³ Fiscal Capacity - Describes a province's ability to meet its costs. It is expressed as a percentage and is calculated by dividing available revenue by estimated costs.

A key bottleneck continues to be the late release of warrants from the Department of Treasury (DoT) which often leads to a delay in cash authorisations by the Department Finance (DoF) or vice versa which affects the access of funds for service delivery. Although cash release delays hinder on resource-scarce provinces such as Simbu, Oro and Gulf, they do not explain why resource-rich provinces continue to stall their spending until later in the year.

Through the *Provincial Expenditure Review Report* and various publications such as *The Cost of Services Study*, *Revenue Reports* etc., the National Economic and Fiscal Commission is committed to achieving its mandate, by providing advice to government on the fiscal aspects of the decentralised system.

Summarised findings of the 2015 PER

Who leads the 2015 sustainability ladder?

The PER sustainability table (Figure 1) below illustrates the position of provinces that show a commitment to sustained improvement in service delivery. Provincial administrations of Simbu, Central, Milne Bay and Sandaun continue to rank in the top five positions on the sustainability table. Gulf province joined the top five in 2015.

Figure 1: The PER sustainability Ladder in 2015

Province	2013	2014	2015	Average
1 Simbu	71	72	70	71.0
2 Central	54	79	61	64.7
3 Milne Bay	63	60	55	59.3
4 Sandaun	66	50	58	58.0
5 Gulf	46	70	58	58.0
East New Britain	73	46	52	57
Manus	53	63	53	56
West New Britain	53	50	52	52
Oro	54	56	45	52
East Sepik	47	61	46	51
Madang	61	42	50	51
Hela	57	54	41	51
Morobe	55	38	56	50
Eastern Highlands	57	31	51	46
Southern Highlands	58	31	45	45
Western Highlands	41	44	48	44
Enga	47	36	44	42
Jiwaka	60	31	31	41
Western	47	33	38	39
New Ireland	35	41	39	38

- The 2015 PER Score-card is on page 81 of the report

Expenditure Overview in 2015 – results from PGAS

It is vital that each year when conducting the PER, it is intended to find out how provinces use their funding source available to fund the MTDP sectors and other sectors activities. The following table and charts show how provinces spent using both the National Grants and Internal Revenues and on which activity. This shows how the spending pattern reflects on which activities that they consider as 'priority'.

Figure 2: Table over viewing expenditure in 2015⁴

	Administration Sector	MTDP Sectors	LLG Transfers	Economic, Law & Order and Com. Dev.	Other Sectors, Arrears & Unspecified	Total
Internal Revenue						
<i>Goods & Services</i>	134,099,739	54,079,433	7,579,335	44,889,081	27,155,919	267,803,507
<i>Personnel Emoluments</i>	27,116,916	3,597,705	755,255	1,205,421	96,372	32,771,669
<i>Capital & Projects</i>	14,410,490	67,438,806	1,472,288	9,287,111	2,376,201	94,984,894
Total Internal Revenue	175,627,145	125,115,944	9,806,877	55,381,613	29,628,492	395,560,071
Grants						
<i>Goods & Services</i>	65,890,708	276,769,307	2,997,131	26,605,950	49,421,636	421,684,732
<i>Personnel Emoluments</i>	10,585,298	33,435,809	-	132,719	-	44,153,826
<i>Capital & Projects</i>	8,972,144	69,944,085	-	5,794,416	22,322,869	107,033,514
Total Grants	85,448,151	380,149,201	2,997,131	32,533,085	71,744,505	572,872,072
Total						
<i>Goods & Services</i>	199,990,447	330,848,740	10,576,466	71,495,030	76,577,556	689,488,238
<i>Personnel Emoluments</i>	37,702,214	37,033,515	755,255	1,338,140	96,372	76,925,496
<i>Capital & Projects</i>	23,382,634	137,382,890	1,472,288	15,081,527	24,699,070	202,018,409
Total All	261,075,295	505,265,145	12,804,008	87,914,697	101,372,998	968,432,143

In 2015, the total expenditure was K968 million. Part of total expenditure has been on the introduction of development funding, notably the PSIP. Compared to the two previous years' expenditure, there was an overall decrease in spending during this period and the movements have varied between years.

The following series of graphs illustrate high-level spending trends on goods and services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets:

1. MTDP sectors
2. Administrative divisions
3. Other sectors

⁴ Refer to Appendix 1 to see what has been included and excluded in the expenditure data analysis. PIP, PSIP and SSG expenditure that aligns to a sector is now recorded under either *recurrent goods & services* or *capital & projects* –as appropriate.

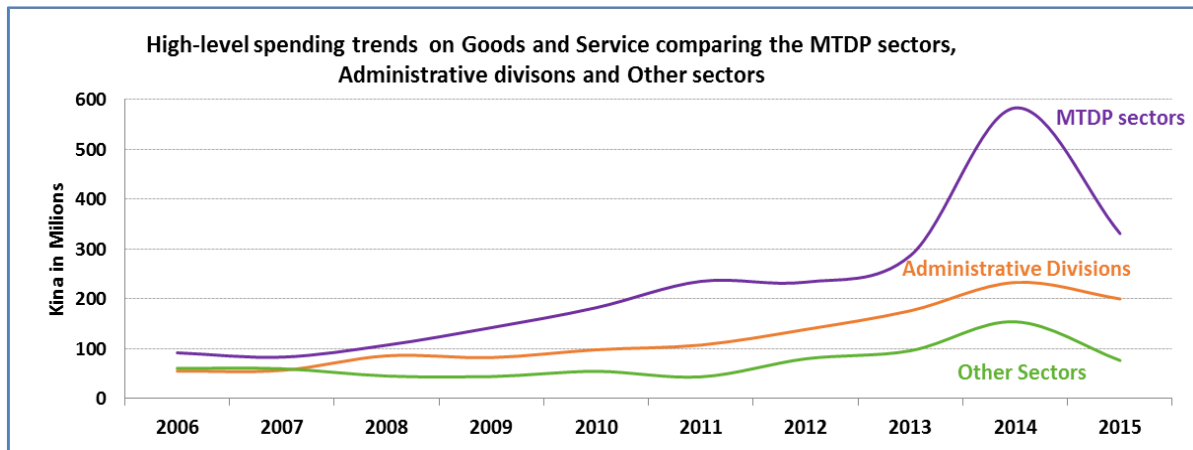
MTDP Sectors includes; rural health and HIV/AIDS, agriculture and fisheries, education, village courts and transport infrastructure maintenance.

LLG Transfers refers to funds that are transferred [or paid on behalf of the LLG] from the provincial administration to LLGs for administrative and other purposes.

Economic, Law & Order and Community Development do not include agriculture and fisheries or village courts (both are recorded under MTDS – see above).

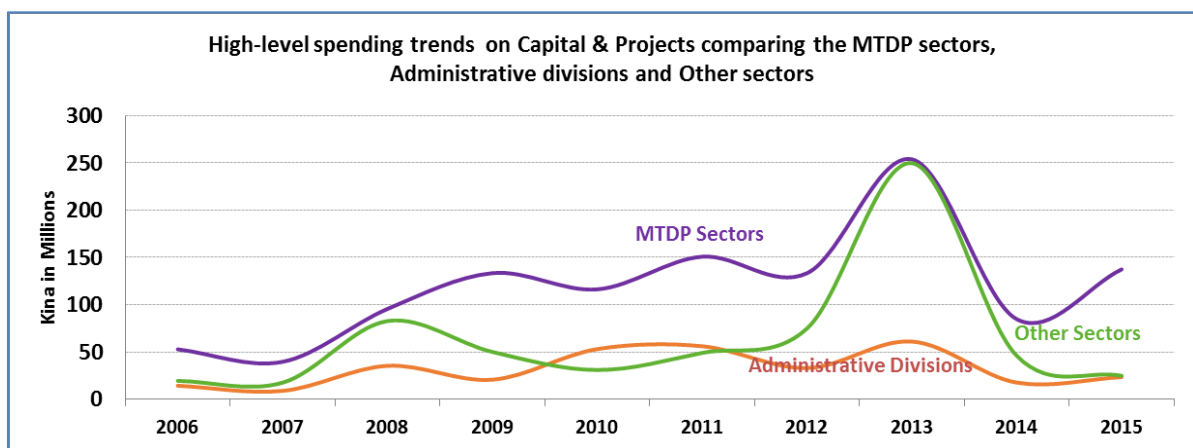
Other Sectors includes all non-MTDP sectors and other non-sector specific costs such as arrears.

Figure 3: Spending on Goods & Services



Spending on MTDP sectors rose sharply largely due to RIGFA but in 2015 the expenditure dropped to K331 million. This is due largely to the down turn in the country's economy. Spending on both administration and other sectors also moved downwards in 2015 after increasing steadily in earlier years.

Figure 4: Spending on Capital & Projects⁵

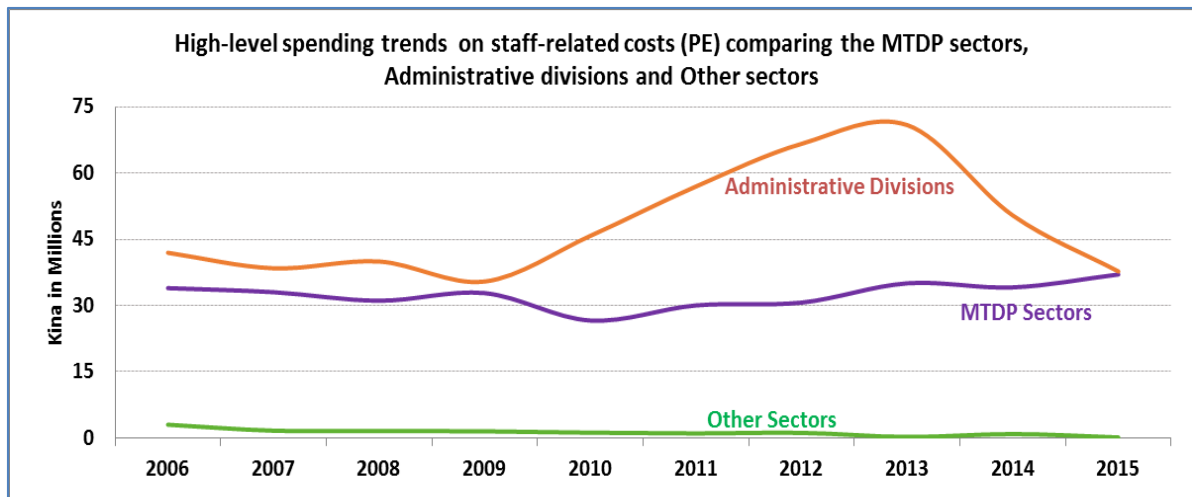


Provincial level capital spending on MTDP and other sectors reached high levels in 2013 and declined in 2014 due to the introduction of PSIP and a possible increase of capital spending from both SIP and PIP funding sources. However in 2015, capital expenditure in the MTDP sectors moved upwards. Spending trends really depend on the nature⁶ of expenditure. Capital spending in administration and other sectors remained below K20 million in 2015.

⁵ This is spending through the provincial budget and does not include development spending at the district level through DIRD or development spending by other national agencies that bypass the provincial budget.

⁶ Nature of expenditure is looking at how provinces spend on whether recurrent (operational)/capital activities taken into consideration the funding sources used. It is vital that provinces use appropriate funding sources towards intended purposes. "funding follows functions"

Figure 5: Spending on staff-related costs⁷



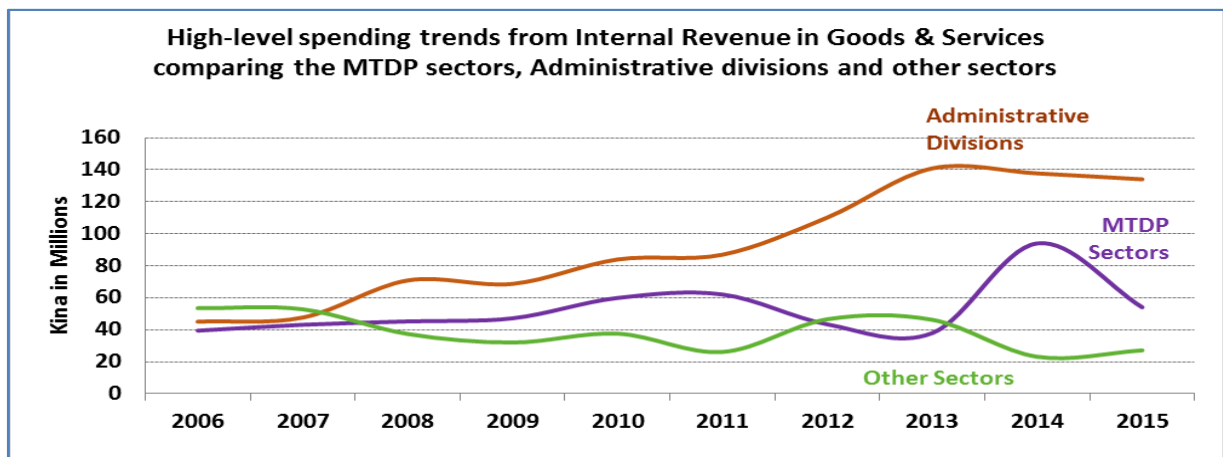
Spending on staff-related costs in the administrative areas decreased in 2015 to the amount of K37.7 million. Spending on MTDP sectors continued to increase steadily over recent years. Other sectors spending continue to remain low over these years.

A look at internal revenue and its impact on service delivery

The appropriate amount of internal revenue that is budgeted and expended towards the recurrent goods and services is a measure of how much provinces prioritise service delivery to their people. 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 more significant amounts of this internal revenue on service delivery activities.

In 2015, the overall internal expenditure was K396 million. The following series of graphs illustrates high-level spending trends from internal revenue on goods & services, capital & projects and staff-related costs (personnel emoluments) across all provinces. Each graph compares spending in three subsets; MTDP sectors, administration (divisions) and other sectors.

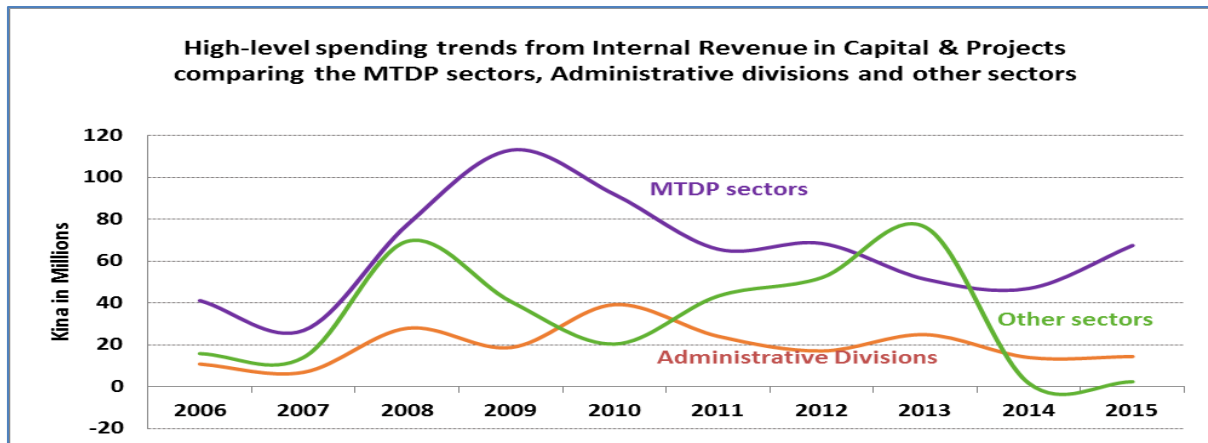
Figure 6: Spending on Goods & Services



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

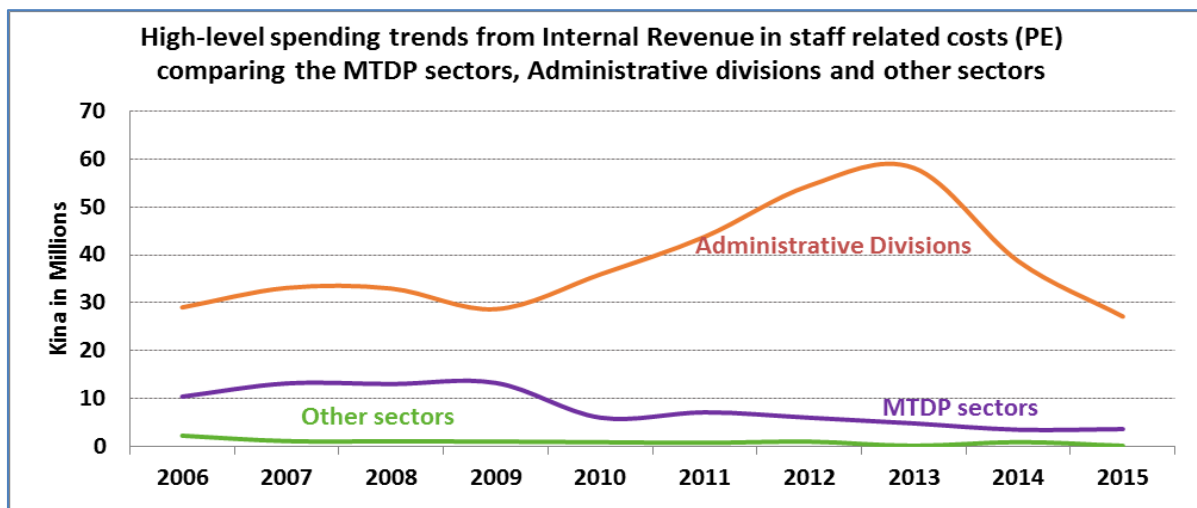
Administration spending which increased steadily to 2013 declined in 2014 and 2015. Spending on MTDP sectors increased in 2014 from 2013 but later decreased in 2015 whilst spending on other sectors slightly increased in 2015.

Figure 7: Spending on Capital & Projects



Capital spending from internal revenue on MTDP sectors has increased in 2015 from 2014. Capital spending on other sectors slightly moved upwards in 2015 after a fall in 2014 expenditure, whilst in administration there was a steady declining trend.

Figure 8: Spending on Staff-related Costs



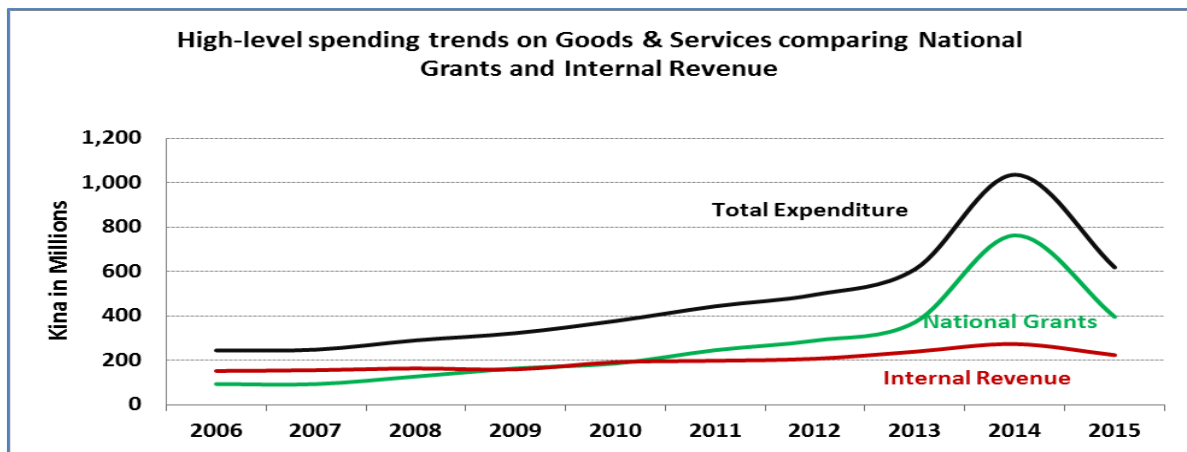
Administration division spending on non-salary staff costs from internal revenue dropped in 2014 and 2015. This is a good sign as provinces are ensuring that public servants at the sub-national level are put on the government pay-roll system. Spending on MTDP sectors and other sectors showed a slow steady expenditure trend since 2011.

The spending mix, national grants and internal revenue

Provinces receive their funding from two sources, functional grants from the national government and the provinces' own internal revenue. The following series of graphs illustrate high-level spending trends on: goods and services; capital and projects; and staff-related costs (personnel emoluments) across all provinces. Each graph compares the spending trend in three subsets:

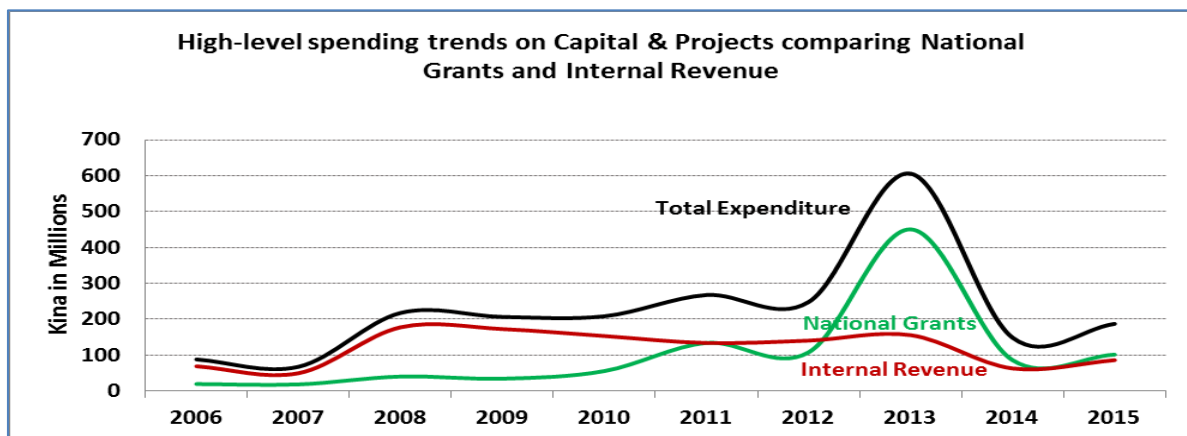
1. Spending from national grants
2. Spending from internal revenue
3. Total aggregate spending

Figure 9: Spending on Goods and Services



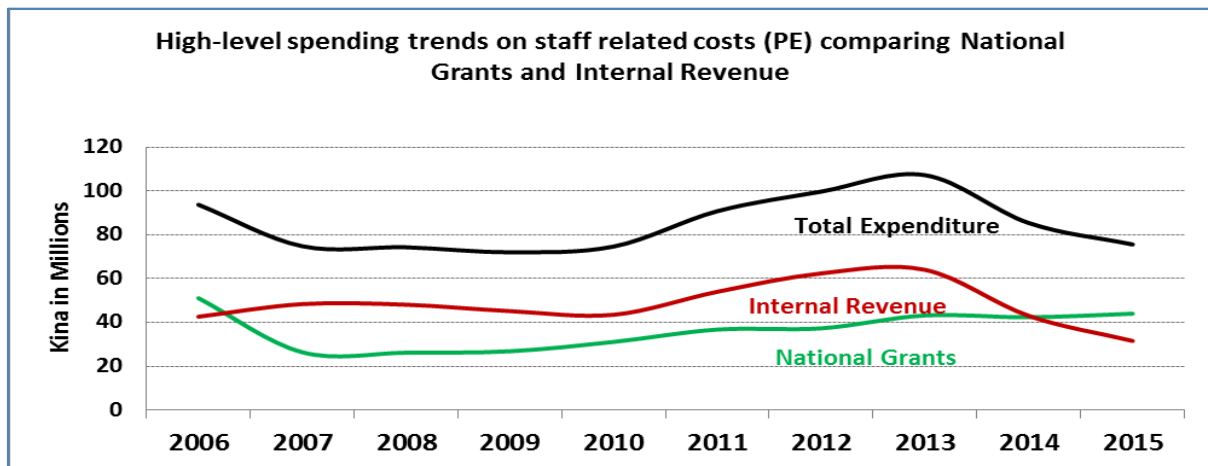
With the country's downturn in its economy, operational spending from grants decreased in 2015. Spending from internal revenue dropped slightly and total spending in 2015 was K689 million.

Figure 10: Spending on Capital & Projects



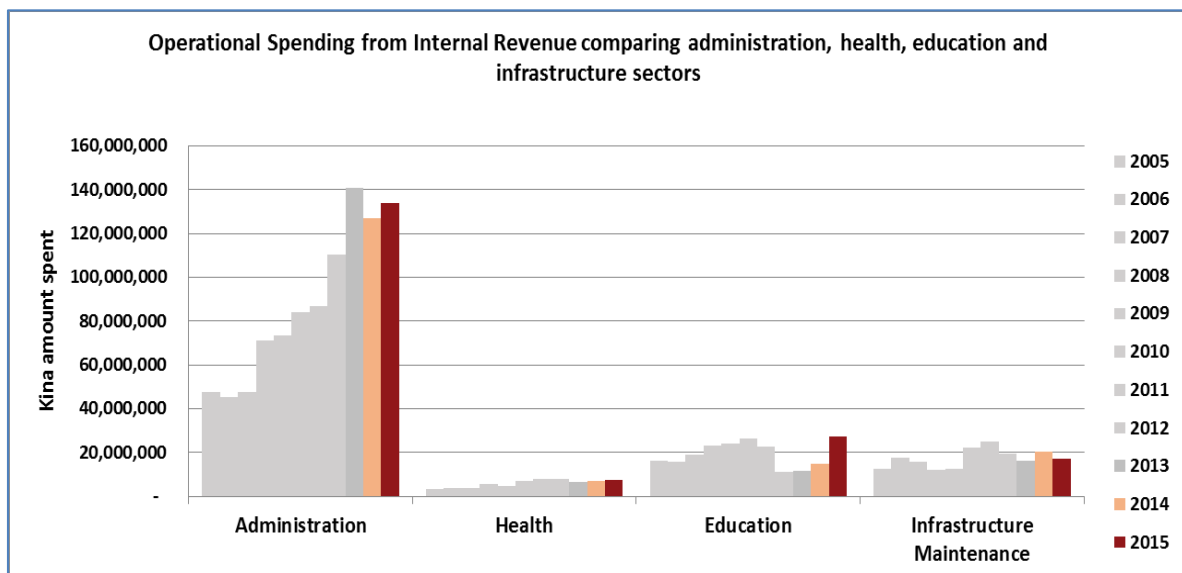
Total spending in this area surged in 2013 mainly due to development grants, notably PSIP. There was a decrease in 2014 but later increased in 2015. Capital spending on internal revenue showed a downward trend in 2014 and then had a small steady increase in 2015.

Figure 11: Spending on Staff related Costs



Spending on non-salary staff costs by provinces moved downwards in two consecutive years due to the huge decrease in internal revenue spending. Spending from grants continued to increase steadily in 2015. Spending from internal revenue decreased in 2014 and 2015.

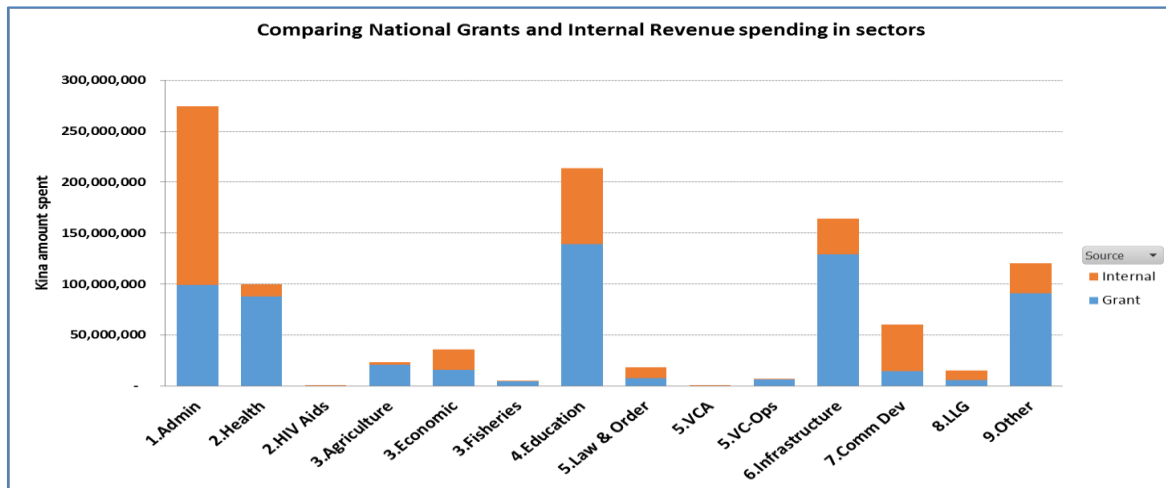
Figure 12: Operational spending from internal revenue in major sectors from 2005 to 2015



The graph above illustrates spending on recurrent goods & services from internal revenue in the major sectors for the 2005-2015 fiscal years.

Spending in administration continues to increase whilst priority sectors of service delivery are not getting sufficient funding support from internal revenue. In 2015, there was an increase in the education sector whilst health and infrastructure expenditure remained below K20 million. There is a need for provincial administrations to consider equitable budgeting and expenditure across all sectors for efficient service delivery.

Figure 13: Sector spending by source in 2015 (recurrent only)

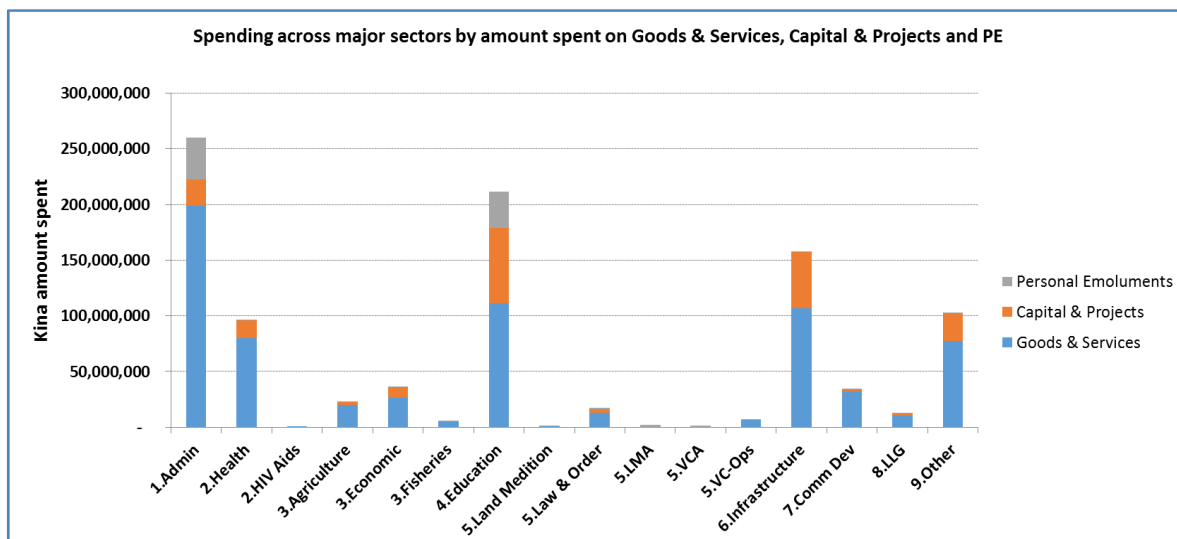


The graph above illustrates the recurrent spending by provincial administrations – it splits the sector spending into funding by national government grant (blue) and funding from provincial internal revenue (orange). As indicative with the following;

- The implementation of RIGFA has made a significant difference with additional grant funding impacting the large health, education and infrastructure maintenance sectors as well as agriculture. Smaller amounts are visible in the areas of fisheries, village courts and LLG. Administration remains the single highest spending area both from the national grant and internal revenue.
- In kina terms, infrastructure maintenance and education are the next best supported priority sectors with reasonably visible amounts allocated from internal revenue. Health funding has improved but is mainly grant dependent. Funding for primary production sub-sectors of agriculture and fisheries still need support especially from internal revenue funding component. Sectors of law & order and village courts are mostly funded by grants however in 2015 the law & order sector had support from the internal revenue.

NB: This chart does not include expenditure from PSIP, LLGSIP, PIP or SSG.

Figure 14: Sector spending by type in 2015 (recurrent goods and services, capital & projects and personnel emoluments)



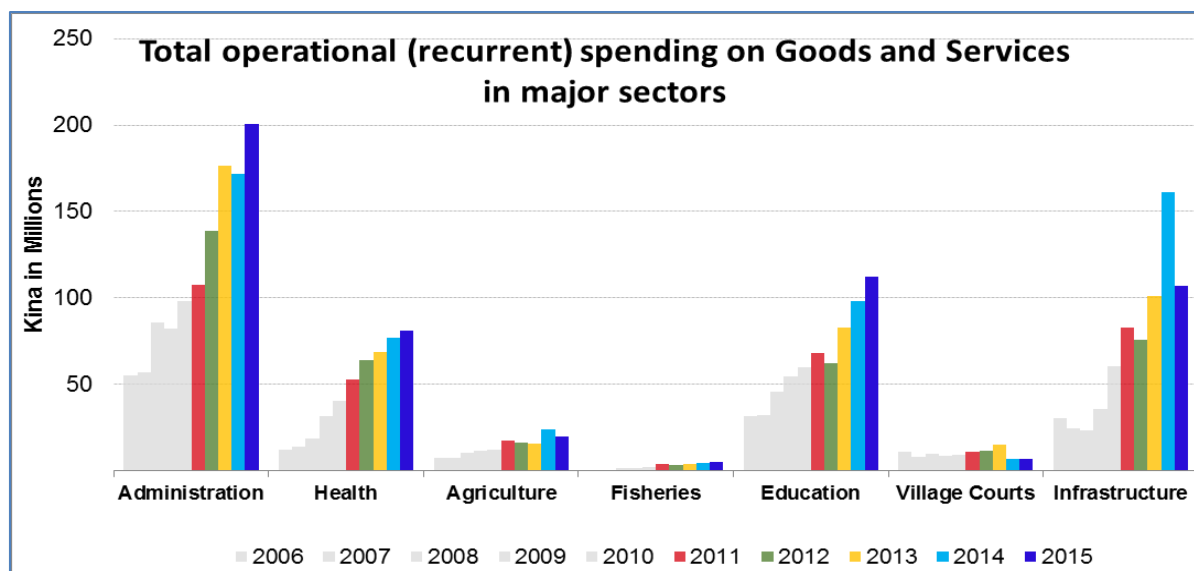
The graph (Figure 14) in the previous page illustrates provincial administrations spending across major sectors – but this time it splits the sector spending by the amount spent on goods and services and personnel emoluments (excluding salaries).⁸ As indicative with the following;

The spread of expenditure and proportions across sectors remains relatively similar between years. Staff-related expenditure (personnel emoluments) is most significant in administration and education.

1. 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.
2. Personnel emoluments expenditure in the administration sector relates mainly to public servants' leave fares and politicians' allowances. In the education sector, it relates mainly to teachers' leave fares.

In 2015 PER, 'capital & projects' excludes tertiary, SIP, SSG, and PIP because of the growing size and relevance of dedicated funding streams for capital activities.

Figure 15: Spending trend by sector: 2006 to 2015



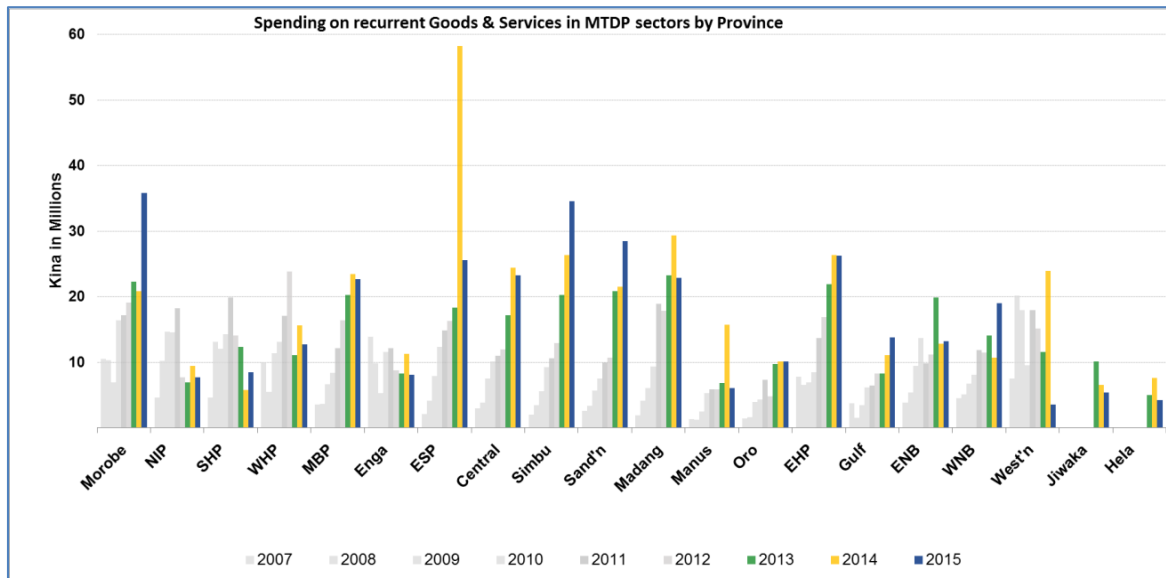
The graph above illustrates and compares how much was spent on operational (recurrent) goods and services in each major sector across all provinces from 2006 to 2015. As indicative with the following;

- Spending on rural health continues to track upward which is highly encouraging and gives this vital sector funding to better support rural health services. However, for provinces with high internal revenue should consider appropriate amount of funding support towards this critical service delivery sector.

⁸ Most salaries for provincial public servants and teachers are paid from the national level and are not included in this provincial expenditure data.

- Spending in education also continue to track upward and like health should also consider internal revenue support from provinces. Spending in agriculture and infrastructure maintenance experienced drops in 2015. Support is required in the primary production subsectors of agriculture & fisheries and also village courts sector. Spending on administration continues to rise each year.

Figure 16: MTDP spending trends: 2007 to 2015



The above graph on spending trends illustrates spending on recurrent goods and services in MTDP sectors by province from 2007 to 2015.

Nine provinces showed either notable increases or sustained spending levels in priority sectors. There were large increases in Morobe, Simbu, Sandaun and West New Britain. Increases were also noted in East New Britain, Gulf, Eastern Highlands, Oro and Southern Highlands.

East Sepik, Manus and Western provinces all had huge drops in their spending compared to 2014. Explanations on decreases are further discussed in the sector performance write-up of this report. The four highest funded provinces all reduced their spending except for Morobe which increased its spending.

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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 the NEFC study that estimated how much it costs to support service delivery within a province (health, education, etc....) on a district by district basis.
Fiscal capacity	Describes a province's ability to meet its costs. It is expressed as a percentage and is calculated by dividing <u>available revenue</u> by <u>estimated costs</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 that a 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 occurs when a province has the revenue, but chooses to spend its money on other things which do not support 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 – both from grants and internal revenues.
Revenue (provincial)	Describes the money available to a province, both from national grants and internal revenues.
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 as reflected through a range of specific activities. Examples of services delivery activities include:</p> <ul style="list-style-type: none">– 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.– In the area of education; it would include providing basic educational materials and education subsidies to schools. It also includes school supervision.

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
DIRD	Department of Implementation and Rural Development
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
LLGSIP	Local level Government Service Improvement Program
MTDP	Medium Term Development Plan
MPA	Minimum Priority Activity
MV	Motor Vehicle
NEFC	National Economic and Fiscal Commission
PFMA	Public Finance Management Act
PGAS	PNG Government Accounting System
PHA	Provincial Health Authority
PNG	Papua New Guinea
PNGDSP	Papua New Guinea Development Strategic Plan
PLLSMA	Provincial Local Level Services Monitoring Authority
PIP	Public Investment Program
PSIP	Provincial Service Improvement Program
RIGFA	Reform of Intergovernmental Financing Arrangements
SSG	Special Support Grant
TA	Travel Allowance

1 Introduction

Background to the review

Over the years, the NEFC has been producing the provincial expenditure analysis based on the PGAS and other relevant data sources such as revenue, cost of services, etc. primarily to give an understanding on the progress of basic service delivery throughout Papua New Guinea. In 2006, the NEFC produced the first provincial expenditure review called *the Cost! Capacity! Performance!* And this highlights the key components that each Sub-National government should consider in delivering effective service delivery across Papua New Guinea. The reviews seek to inform readers of the sectors expenditure progress made and to highlight fiscal issues that may hinder the provision of services. Each year, the expenditure reviews illustrate provinces spending pattern and how well they are progressing in improving basic service delivery.

The 2015 fiscal year is the seventh year since the implementation of the reformed intergovernmental financing arrangements (RIGFA) in 2009. Based on the new financing system, readers must understand that more funding is being allocated to provinces and it is being aimed firstly at those provinces who need it most (provinces with low internal revenue) and at the priority sectors of health, education, transport infrastructure, primary production and village courts. These priority sectors are identified in Vision 2050 and the Medium Term Development Plan 2011-2015 as being important to improve the quality of life for all citizens both in the urban and rural areas of PNG and thus the new financing system ensures that money is equally allocated amongst Sub-National governments as to assist and contribute to an effective improved front line service delivery.

Purpose and objectives

The purpose of this report is to provide an annual evidence-based assessments of provincial expenditure performance in the priority sectors. Like previous years' assessment, the 2015 results aim to encourage decision makers across all levels of government, civil society and in the development community to ensure that proper budget and expenditure management systems and processes must be followed for effective service delivery. The provincial expenditure assessments are based on:

- ***Using an expenditure focus (2015 PGAS data);***
- ***Comparing expenditure against the Cost of Services Study (2015 CoS Update) as an independent benchmark; and***
- ***Considering each province's fiscal capacity in 2015.***

As the NEFC analyse expenditure reviews annually, it sees that the prioritisation of service delivery across Papua New Guinea and the monitoring of the implementation and use of national government grants and internal revenue in each province is vital therefore the following questions are still essential for decision makers and public servants (implementers) to consider:

- Where is the improvement in the prioritisation of core service delivery? Where and why is there a lack of improvement?

- Is grant money being used effectively for its intended purpose? Function 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 occurs.⁹
- Are internal revenues from provinces used to adequately support the delivery of minimum priority areas (MPAs)?
- Discuss and highlight issues that may be a barrier to improving service delivery.

In conducting this review, the NEFC is confident that it somehow addresses and assists by promoting the government's key objectives in service delivery across Papua New Guinea identified in the Medium Term Development Plan 2011-2015 and Vision 2050.

Approach and methodology

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

- **An expenditure focus:** Adequate spending of funds on basic services will lead to an improve service delivery in the priority sectors
- **An operational (recurrent) goods and services focus:** To ensure an effective and on-going operation of existing infrastructure, facilities and staff, sufficient operational funding have to be allocated and expended on to ensure continuity in the frontline service delivery.
- **A focus on the total resource envelope:** Effective service delivery equals to an adequately use of two main funding sources – National Government Grants and Provincial Internal Revenue. Provinces should consider adequate funding from the sources when formulating budget prioritisation on expenditure programs and activities.
- **A benchmarking approach:** Like any other studies/reviews, a benchmark is required- an independent measure by which to compare provincial performance. The cost of services study provides an important benchmark. The other benchmark used is 'context' by comparing provinces performance in relation to each other.
- **To 'give the benefit of the doubt':** In this analysis, if there is an element of doubt it would generally exercise that doubt in favour of the provincial administration. A practical example of this is in the classification of service sector expenditure. If the nature of the expenditure 'could be' 'recurrent goods and services in a priority sector' then it would be classified as such.
- **Assessing the trend:** By looking at the sector trend for 2011-2015, it is easy to identify the progress of spending patterns and whether there is a chance of improving service delivery.

Limitations of scope

The PER reviews the performance of all provinces with the following exceptions:

- **Autonomous Region of Bougainville:** Bougainville has a special arrangement with the Government which falls outside the normal system of intergovernmental transfers.

⁹ 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.

- **National Capital District:** The PER has a focus on the delivery of government services to the rural majority. So as an urban centre NCD is presently outside the scope of the review.

Adjustment to the cost of services estimates

The original cost of services study was carried out in 2005 and last updated in 2015. The cost of services estimates that have been established are adjusted each year to reflect the changes in prices and provincial populations since that time. What this means is that the cost estimates included in the 2015 update study are now increased annually by both CPI and estimated population growth.¹⁰ This means that when comparing 2015 expenditure it is compared against 2015 costs – which is a more reasonable benchmark. In summary, the cost of services estimates is adjusted based on the following;

- **Population:** Each year, the population of each province generally increases so the adjustment to the cost of services reflects this change. An increased population places even greater demands upon government for basic 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 that it reflects fiscal capacity on a reasonable basis.

This report shows comparative illustrations on the vital components of assessing the Provincial Expenditure:

- a. **Cost:** The cost of services study conducted by the NEFC that 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.
- b. **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.¹¹
- c. **Performance:** Performance is reflected through expenditure – the actual amount that the province spends during the fiscal year and the area (or sector) they spent it on.
- d. **Timing of funds:** It is vital to see how funds are expended timely on service delivery activities in the priority sectors.

The desired outcome of the PER report is to promote **Transparency and Accountability** on how goods and services funds are expended and managed in the priority sectors.

¹⁰ Population growth is measured as the 2000-2011 average annual growth in each province as supplied and recommended by the National Statistics Office.

¹¹ Refer to the NEFC Provincial Revenue Report for the fiscal years 2013-2015. The NEFC published an updated Provincial Revenue Report in 2018 that covered the period 2008-2015.

2. Cost of Services

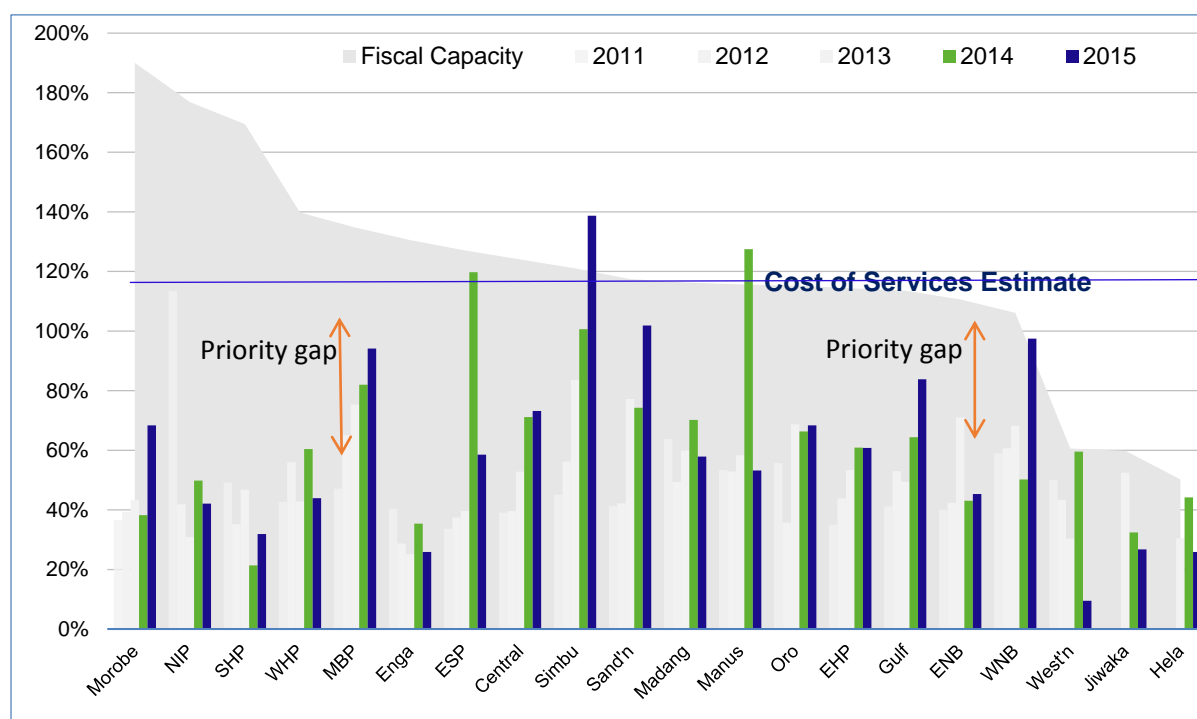
Cost of Services: describes NEFC study that estimated how much it costs to support service delivery within a province (health, education, etc....) on a district by district basis.

The cost of services study was undertaken by the NEFC back in 2005 as part of a various analytical work done to notify the basis of the new intergovernmental financing system.¹² The main reason for conducting the study was to find out the cost of delivering core services in each province so that appropriate funding will be allocated towards implementing the activities in the service delivery sectors. The second update of the CoS was carried out in 2010 and the current update was conducted in 2015.

The intention of the CoS is to set a benchmark for assessing¹³ how much has to be spent and on what'.

The graph below (Figure 17) shows: cost of services as a benchmark (blue line at 100%), overall provincial spending (both function grants and internal revenue spending on operational (recurrent) expenses and fiscal capacity (grey area).

Figure 17: Comparing spending and fiscal capacity with cost of services estimate: 2011 to 2015



¹² The study is very conservative and estimates how much it costs to deliver a basic set of services on a district by district basis in each province across Papua New Guinea.

¹³ Refer to 2005 PER Cost! Capacity! Performance! detailed explanation

The graph (Figure 17) on the previous page illustrates;

- ‘Priority gap - occurs when a province has the revenue, but chooses to spend its money on other things which do not support core services.
- In 2015, with the available fiscal capacity at least eleven (11) provinces managed to increase their overall operational spending towards meeting the cost of service delivery. Simbu is the only province that expend over the cost of services benchmark and its fiscal capacity.
- Milne bay, Sandaun and West New Britain provinces also increased their spending to meet their cost of meeting the service delivery activities in 2015. Resource rich provinces like Morobe, New Ireland, Southern Highlands, Western Highlands and Enga still have to increase their expenditure reference to the available revenue sources and also considering the cost of service delivery activities in each MTDP sectors.
- Overall observation from the graph results, one might have in mind in analysing the theoretical and practical nature of how the relations of Cost, Capacity and Performance might affect each other:-
 - Graph Figure 18 depicts, 17 provinces have the fiscal capacity to meet its cost of services. However, the timely release of national funds/internal revenue and the reality of having all revenue sources available are very important to deliver services on time per budget.
 - For instance, if there is a late release of national grant warrants and internal revenue, this will eventually affect delivery of services and thus might reflect results as the graph illustrated.

The impact of timeliness¹⁴ of national government funds and also late spending from the internal revenue can also be contributing factors towards inconsistency of spending trend and thus the priority gap variance.

The 2015 CoS updated information for respective provinces reference to sector specific is shown in Appendix 5 of this report.

¹⁴ Timeliness of warrant releases and spending performance information per quarter is discussed in chapter 7 of this report: Issues and Challenges.

3. Fiscal Capacity & Revenue

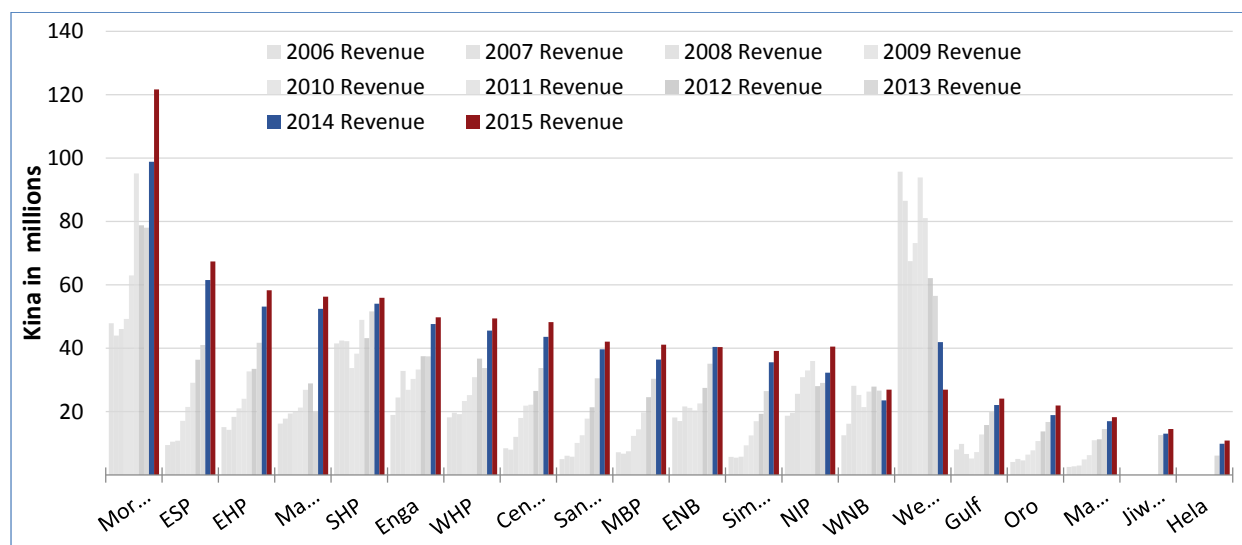
Provincial Revenue: is the term that describes the money available to a province, both from the national grants and internal revenue.

Provincial revenue: 2006 to 2015

In order for service delivery to be implemented, Sub- Nationals Governments have to be aware of their fiscal capacity as a province to effectively deliver services. The information on different revenue sources should be directed towards its intended sector responsibilities as outlined in the ¹⁵Function Assignment Determination.

The following graph illustrates the changes in provincial revenues between 2006 and 2015 that were available to provinces for funding recurrent (operational) goods and services.

Figure 18: Comparing available revenues: 2006 to 2015



The above graph includes the inclusion of new provinces of Hela and Jiwaka into the intergovernmental financing system in 2013. The order of provinces based on their 2015 available revenue.

Provinces such as East Sepik, Eastern Highlands, Madang, Central, Milne Bay, Sandaun and Simbu have a low capacity of raising their own internal revenue which has been notable since the implementation of RIGFA in 2009; increased funding from the national grants (goods and services) has been made available to those provinces that needed the most. Hence in 2015, some of these provinces continue to receive increase national grants funding. There is a trend of increasing revenues in a majority of provinces, but not all.

¹⁵ The Determination of Service Delivery Functions and Responsibilities document prepared through PLLSMA and signed by the Governor General in 2009 outlines a mechanism for assigning recurrent (operational) service delivery functions and responsibilities to Provincial and Local Level Governments basically to clarify the administrative functions in improving the delivery of government services.

A declining pattern of revenues is visible in Western Province since 2011 and continued to drop in 2015, resulting from the drop of royalties' collection which is one of the major 'own source' internal revenue for the province. In 2015, Morobe province recorded an increase in revenue again due to high GST collections.

Provinces such as Morobe, Southern Highlands, New Ireland and to an extent West New Britain and Enga have a high own source internal revenue raising capacity which shows a total revenue fluctuation between years. It is also evident that, if these provinces internal revenue drops they will become dependent on the RIGFA system where national grants will be allocated to them to fund service delivery activities just like Western province.

A note of caution on available revenues and fiscal capacity

The revenue total that is used for calculating fiscal capacity assumes that all funds that are not allocated 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 is likely to be allocated and spent on staff related costs (such as casual wages) and/or capital, project and development costs (i.e. such as major rehabilitation on a road or a new classroom or a new health clinic).

The 2015 revenue data is derived from two sources: i) the actual internal revenue collected and used in the NEFC's grant calculation process and ii) the total provincial grants of each province in 2015.

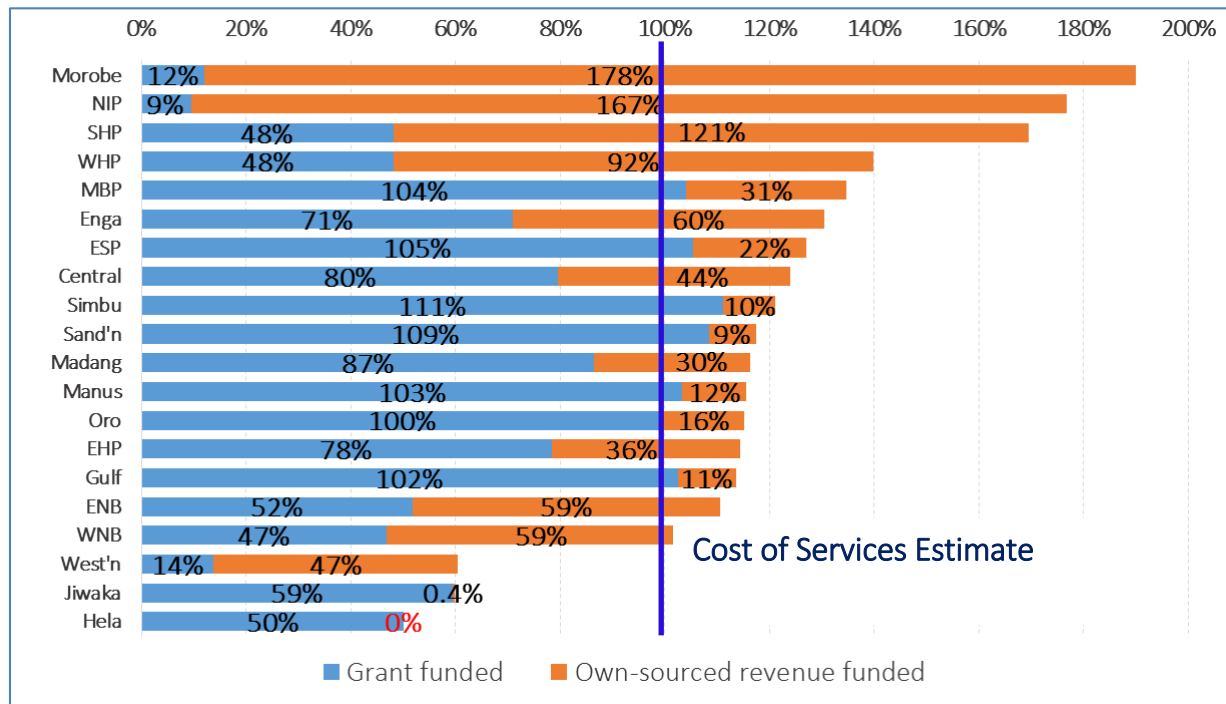
Fiscal capacity: comparing revenue to cost

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

Fiscal capacity of a province is simply *Revenue* divided by *Total Costs*. By knowing the fiscal capacity envelope, provinces can use available revenue sources to deliver basic services.

Since 2009, when RIGFA was implemented it addressed the shortfall in operational (recurrent) funding. As noted from the above graph and also evident in previous PER series, provinces with low internal revenue have been getting increased national grants so that they have the capacity to meet the estimated cost of delivering basic services in a fiscal year.

Figure 19: Graph on fiscal capacity by source in 2015



The above graph depicts the thin blue line as the cost of services estimates, the blue bar represents national grants and the orange bar is the province own source revenue (such as GST, bookmakers, royalties). Both revenue sources (national grants to province and provincial own source (internal) revenue makes up the province fiscal capacity that can be used to fund basic delivery services.

Seventeen provinces have sufficient funding from the revenue sources to meet their basic service delivery responsibilities. Higher funded provinces have revenue from their own sources, such as GST, bookmakers and resource royalties. Usually, the lower funded provinces are much more reliant on grant funding from the national government. Refer to the notes on how fiscal capacity is calculated.¹⁶

¹⁶ In earlier PER reviews (2006-2008) fiscal capacity (in Figure 19) 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 since 2009 with the implementation of RIGFA we have modified our approach to ensure the analysis is as meaningful and relevant as possible. So, since 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. This mitigates the impact of the annual fluctuations in own sourced revenues experienced by resource rich provinces.

For all other provinces, having received sometimes very significant increases in their grant funding under RIGFA, we have reported their actual fiscal capacity (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 unhelpful and misleading.

4. Measuring Performance

PERFORMANCE BY SECTOR

Provincial governments have a key responsibility to provide basic services to their people. This review focuses on the priority MTDP sectors of education, health, infrastructure, primary production (agriculture and fisheries sub-sectors) and village courts. The administration sector is also reviewed.

This section gives detailed sectorial findings in;

1. Education
2. Health
3. Infrastructure
4. Primary Production (Agriculture & Fisheries)
5. Village Courts Operations & Allowances
6. Administration

4.1 Education Sector

Stated in both the MTDP 2011-2015 and PNGDS 2010-2030 plans, the Goal in the education sector is “to achieve a better future by promoting and enhancing integral human development”.

Providing education learning activities to children requires a number of things. Schools, teachers and other resources are needed. 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.

Funding sources for education in the Provinces

Funding for subnational education comes from a variety of sources. The three major sources of funding available to fund basic education services at the subnational level are:

- Education Function Grants to Provinces (K108.8 million appropriation in 2015)
- Provincial Internal Revenue (K27.0 million spent in 2015)
- National Subsidies Direct to Schools (K650.0 million in 2015).¹⁷ The Government’s free education policy has been extended up to Year 12 students and technical vocational schools there by removing parental fees as a core pillar of funding for schools.

SCHOOL FEES & COMPONENTS OF TFF¹⁸

1. Scope of TFF

A grant covering the maximum fee limits set by the National Education Board is paid by the National Government for the learning needs of students attending registered Elementary, Primary, Secondary and Vocational Schools and Inclusive Education Resource Centres and FODE and also approved and registered Permitted schools. All employees of the Department of Education must comply with this policy and the accompanying TFF Implementation Guide.

2. TFF has three (3) Components

- Cash Administration Component 40% - Cash grants are paid directly to school accounts registered with the DoE.
- Infrastructure Component 30% - Grant to schools for the provision of infrastructure – both for routine works and new capital works. This component will be held in Trust by District Treasuries and released to schools (with a corresponding District Service Improvement Program component where provided) based on scope of works and quotes.

¹⁷ The quantum of national subsidy paid directly to schools has grown considerably since 2010 as government seeks to expand its policy of ‘free education’. There is a growing need to clarify functional and funding responsibilities to promote a clear understanding of what the various funding source should pay for. TFF budget figures for 2015, amount inclusive of trust accounts.

¹⁸ Abstract from Education TFF policy guide: The TFF policy and funding will remain a national function, whilst implementation, monitoring and reporting will be provincial and district administrative functions.

- Teaching and Learning Component 30% - Government will assist in the provision of teaching and learning materials. This includes consumables and capital assets, equipment and curriculum materials. This component will be centrally managed through the regions.

Minimum priority activities in education

To implement an effective provision of education services across the country, various programs and activities under the education sector must be appropriately budgeted for and expended on given the availability of the funding sources. Thus, there are also three MPAs identified and selected by the education sector that are so critical and must be supported with operational funding (recurrent goods & services).

Costing for the MPAs¹⁹

MPA 1: Provision of school materials

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 do 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

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

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

For basic service delivery to happen, the NEFC sees that if adequate funding is allocated in these three MPAs, schools across the country will at least have the following;

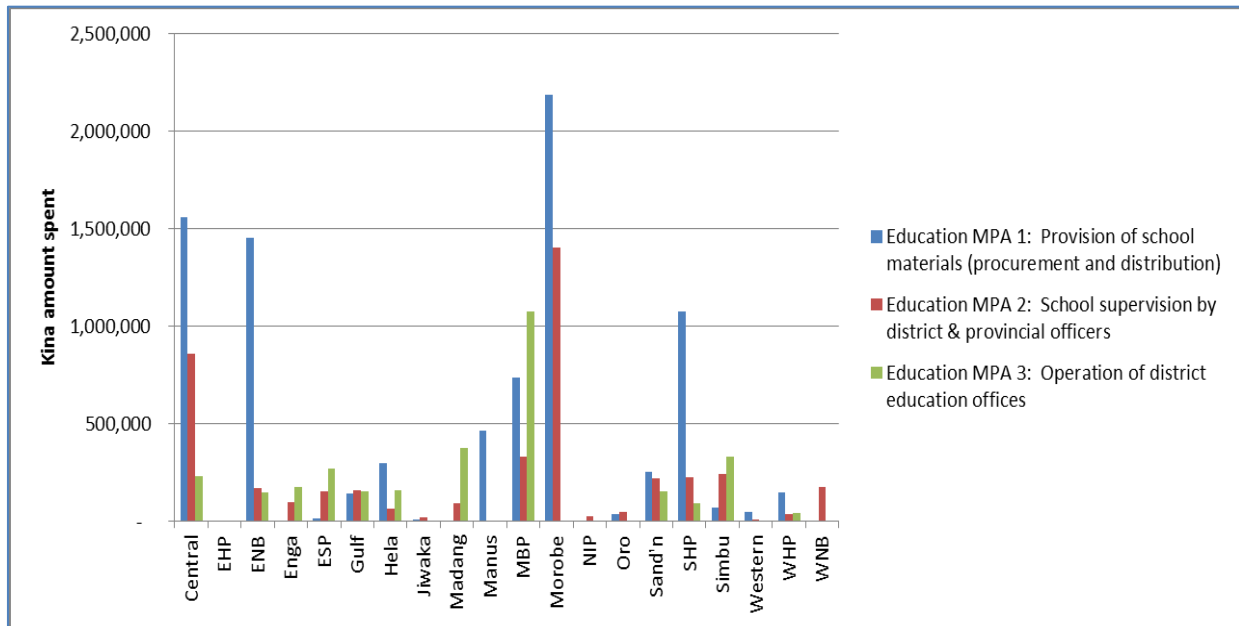
1. *An annual supply of basic materials for each class and each student.*
2. *Regular schools visits by provincial and district officers on matters relating to inspections and standards for basic and secondary level of education.*
3. *Adequate operational funding for district education office staff to carry out their administrative activities.*

The efficient implementations of the MPAs are also in line with the strategies of PNGDS plan 2010-2030 of; ensuring a universal education access for PNG's development, building student's education capacity and efficient procurement & distribution of school materials and supplies.

¹⁹ Costing for other education sector service delivery activities are listed and identified in the NEFC cost of services report 'The Thin Blue Line'.

Are minimum priority activities (MPAs) in education being prioritised?

Figure 20: Education sector MPA spending in 2015



The above graph shows provinces supporting the MPAs in the education sector in 2015. Morobe spent a total of K3.58 million on MPAs 1 and 2, with sufficient funding support from the provincial internal revenue. However, the province should consider equal funding across the MPAs. Central spent a total of K2.64 million on MPAs 1, 2 and 3. With the available funding sources in the sector, the province should consider an appropriate funding allocation.

Milne Bay, Morobe and ENB provinces spent K2.13 million, K1.76 million, and K1.39 million respectively on MPAs 1, 2 and 3. The other fourteen (14) provinces had little support towards the MPAs (below K1.0 million), where New Ireland (K21 thousand), Jiwaka (K27 thousand), Western (K53 thousand) and Oro (K84 thousand) being the least provinces to spend in kina amounts. EHP is the only province with no MPA support.

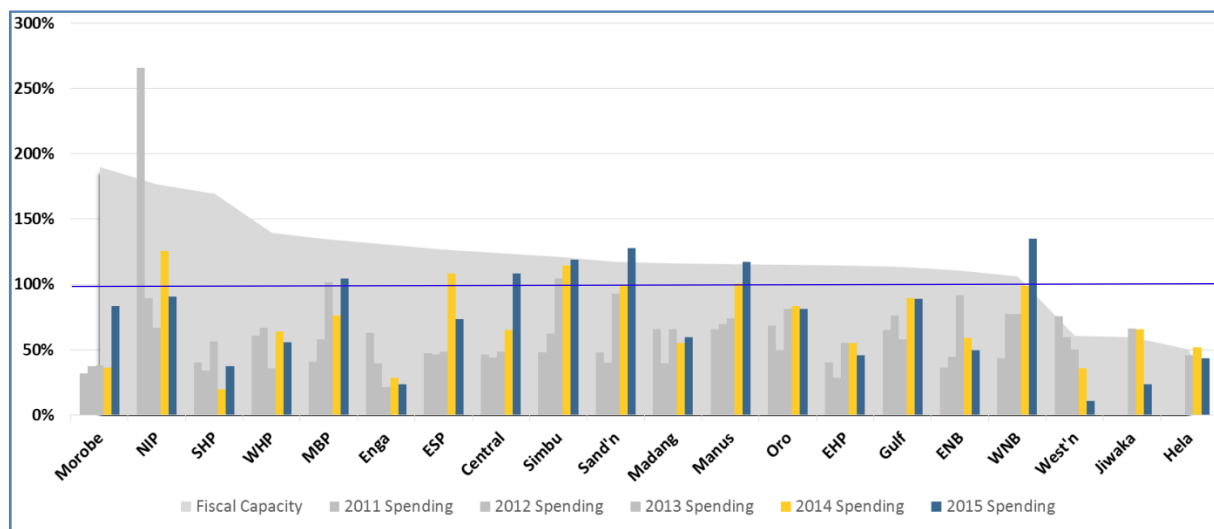
Based on the sector spending performance, all provinces should consider their fiscal capacity especially funding sources in the sector, the overall sector cost of activities so that appropriate budget allocation towards MPAs and other intended service delivery activities are adequately funded and this will see improvements in the overall sector spending performance.

Education spending against the benchmark

Performance by Province

The following graph (figure 21) illustrates the 2011 to 2015 performance trend of each province – comparing expenditure against the cost of services estimate as a benchmark. The trend of greater volatility in the spending levels of higher funded provinces compared to lower funded provinces continues to be observed.

Figure 21 Spending performance on education from 2011 to 2015



The graph above illustrates provincial spending by comparing against the fiscal capacity and the cost of services benchmark. In 2015 the expenditure results shows that Six (6) provinces – WNB, Manus, Sandaun, Simbu, Central and Milne Bay spent over the cost of services line, that is with the respective provinces’ fiscal capacity and sector cost estimate these provinces managed to spend accordingly. Morobe province, though below the CoS line, showed an improvement in 2015 expenditure which they spend K12.95 million from their internal revenue to support the education function grant amount.

New Ireland showed a decrease of expenditure in 2015, however the fall was just under the CoS line. SHP showed a slight increase but still have to improve in their expenditure given the high level of fiscal capacity they have. Major drops in 2015 education expenditure were; Western (79%), Jiwaka (59%) and ESP (34%). Provinces that need improvements are; Western, Jiwaka, SHP, Enga, EHP, ENB, Madang

Figure 22: Table of recurrent spending on education from 2005 to 2015 (Kina millions)

Education	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Recurrent G&S	34.9	31.5	32.0	45.4	54.4	60.1	67.8	62.4	82.9	98.2	112.3
annual % change		-10%	2%	42%	20%	10%	13%	-8%	33%	18%	14%

The above Table (Figure 22) shows the overall expenditure both from National Education Function Grants and expenditure supported from the internal revenue. It shows an increase of 14% from 2014.

Figure 23: Table below shows provinces spending on education from internal revenue in 2015 (kina millions)

Province	4.Education
Central	1,002,062
EHP	-
ENB	280,249
Enga	-
ESP	100,000
Gulf	-
Hela	760,000
Manus	245,606
Madang	-
MBP	80,000
Morobe	12,948,948
NIP	4,019,676
Oro	-
Sand'n	-
SHP	-
Simbu	-
West'n	443,860
WHP	432,000
WNB	6,724,674
Total	27,037,074

Spending from Internal Revenue

Under the intergovernmental financing system, provinces are expected to allocate and spend their province's internal revenue on basic services, including rural education services. This is particularly relevant for provinces with higher proportionate amounts of internal revenue who receive smaller education function grants. If these provinces do not spend on rural education – their children will not receive the basic education they require. This has enormous implications for the child, the family, the community and the nation.

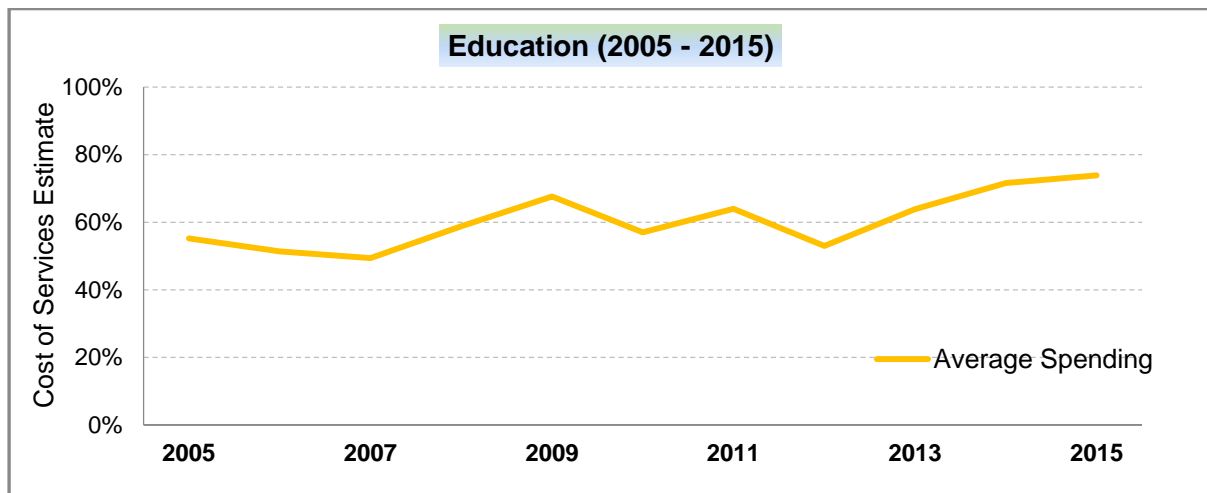
The above table shows that out of 19 provinces²⁰, only eleven (11) provinces managed to use their internal revenue to support the education sector operational (recurrent) activities. Morobe and West New Britain were the top two provinces that spent K12.95 and K6.72 million respectively. Provinces with high internal revenue should proportionally spend a reasonable amount to support the function grant component for service delivery in the education sector. Overall, a total of K27.0 million from the provinces internal revenue was spent to assist the implementation of the education sector operational (recurrent) programs and activities.

Is more money spent in the right areas?

The graph (Figure 24) on the next page shows the average spending trend of operational funding in the MTDP sector of education. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. There is an increasing average spending trend in the education sector.

²⁰ Jiwaka does have internal revenue component to expend on therefore no expenditure results shown

Figure 24: Average spending versus cost of services benchmark for Education sector



Since 2013, spending on education continued to increase in Kina terms but relative to cost, provinces overall spent about 74% of what is necessary to fund rural education service in 2015.

Spending in comparison to fiscal capacity

Figure 25: Table comparing total percentage spending on education and fiscal capacity in 2015.

Province	% Total Spending on Education	FC
Morobe	16%	190%
NIP	21%	177%
SHP	12%	169%
WHP	9%	140%
MBP	21%	135%
Enga	52%	131%
ESP	16%	127%
Central	16%	124%
Simbu	22%	121%
Sand'n	24%	117%
Madang	15%	116%
Manus	19%	116%
Oro	20%	115%
EHP	17%	114%
Gulf	16%	114%
ENB	11%	111%
WNB	26%	106%
West'n	7%	61%
Jiwaka	18%	60%
Hela	13%	50%

The table shows the total percentage on Education operational spending for each province compared to their fiscal capacity. Results from the table shows that, provinces still have to spend appropriately towards the sector in terms of recurrent (operational) programs and activities.

Do note that; the percentage derived is looking at how provinces prioritize education against all other MTD sectors and administration spending in 2015 in comparison to fiscal capacity.

PGAS item coding analysis

Figure 26: Table analysing all education spending in 2015²¹

EDUCATION						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other operational expenses	56,867,781	27%	Recurrent Goods & Services	111,297,179	53%
242	Capital transfers	37,501,533	18%	Staff-related costs (PE)	32,461,570	15%
114	Leave fares	32,005,107	15%	Capital & Projects	67,891,631	32%
225	Construction, renovation....	21,152,290	10%			
143	Grants and transfers	17,276,859	8%			
	<i>all other codes</i>	46,846,810	22%			
	Total spending from recurrent & capital	211,650,380	100%	Total spending from recurrent & capital	211,650,380	100%

The table above shows how education funds were spent per the PGAS item coding. The top three largest expenditure items that had an amount over K25.0 million were;

- Other operational expenses – item 135, an amount of K56.87 million spent.
- Capital transfers – item 242, an amount of K35.50 million spent.
- Leave fares – item 114, an amount spent of K32.0 million spent.













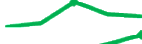







The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.

The Education data table (Figure 27) on the next page shows a five (5) year trend of expenditure 2011 –2015²² for provinces. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

²¹ These amounts include spending from both national grants and internal revenue on goods and services, personnel emoluments and capital and development. They do not include spending from PIP, PSIP, SSG funds nor tertiary costs that could be clearly identified, and not teachers' salaries.

²² The 2015 expenditure is compared against the 2015 cost of services.

Figure 27: Education data table

Province	Cost and Spending						% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as % of CoS
	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.			
Morobe	17.52	3.83	4.93	5.31	5.55	14.59	163%		83%
NIP	5.04	10.80	3.72	2.95	6.03	4.57	-24%		91%
SHP	9.78	3.79	3.46	3.74	1.40	3.67	162%		37%
WHP	11.67	5.80	6.98	2.22	4.33	6.50	50%		56%
MBP	6.78	2.80	3.63	6.81	5.53	7.07	28%		104%
Enga	8.90	3.53	2.37	1.34	1.97	2.08	6%		23%
ESP	10.54	3.50	4.32	4.81	11.68	7.72	-34%		73%
Central	6.73	3.14	2.97	3.49	5.09	7.30	43%		108%
Simbu	7.83	3.19	3.89	6.93	8.23	9.32	13%		119%
Sand'n	7.71	3.09	2.83	6.95	8.03	9.84	23%		128%
Madang	10.77	3.58	3.22	5.71	5.19	6.42	24%		60%
Manus	2.49	1.75	1.55	1.76	2.60	2.91	12%		117%
Oro	4.10	2.23	1.59	2.79	3.11	3.33	7%		81%
EHP	14.31	3.54	2.70	5.62	6.12	6.57	7%		46%
Gulf	3.76	2.23	2.45	2.00	3.35	3.35	0%		89%
ENB	8.33	2.56	2.98	6.58	4.61	4.13	-10%		50%
WNB	6.46	2.79	4.35	4.65	6.42	8.73	36%		135%
West'n	7.73	5.67	4.52	4.05	3.13	0.81	-74%		10%
Jiwaka	6.13	0.00	0.00	3.25	3.48	1.43	-59%		23%
Hela	4.46	0.00	0.00	1.91	2.35	1.93	-18%		43%
Total	161.06	67.81	62.45	82.89	98.19	112.26		Average	74%

4.2 Rural Health and HIV AIDs sector

Health in the provinces²³

Stated in both the MTDP 2011-2015 and PNGDS 2010-2030 plans, the Goal in the health sector is “to have an efficient health system which can deliver an internationally acceptable standard of health services”.

Providing healthcare to the rural majority throughout Papua New Guinea is reliant on the coordinated implementation of health programs and activities. Aid posts, health clinics, community health workers and other resources are needed in the country. The aid posts and health clinics have been built and the national government pays for the staff and community health workers.²⁴ 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 the provision of 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 service delivery will not happen.

Like previous years analysis, this review excluded any revenues, costs and expenditure that relate to church-run health facilities. However, included are 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.

Funding sources for rural health services in the provinces

The introduction of the PHA initiative presents Papua New Guinea with a dual modality of rural health service delivery management. The traditional approach has seen rural health services managed by the Provincial Administrations whilst the new approach will see rural health services included under the new Provincial Health Authorities (PHA). The funding streams under the two approaches can be summarised as follows:

Traditional Structure | Under Provincial Administration Management

- Health Function Grants to Provinces (K98.8 million appropriation in 2015).
- Provincial Internal Revenue (K7.2 million spent in 2015).
- Church Health Services Operational Grants (K25.7 million appropriation in 2015).²⁵
- Health Services Improvement Program [HSIP].²⁶

²³ Reference to health in this chapter includes costs and expenditure related specifically to HIV AIDS.

²⁴ There are provinces meeting costs relating to community health workers.

²⁵ Church Health Services Operational Grants are paid to Church Health Service providers not to provincial administrations.

²⁶ The HSIP SWAP mechanism was reviewed and redesigned in 2011/2012 after many years of operation and has become a significant contributor of funding for recurrent operational purposes. The new design modality is being implemented.

Provincial Health Authorities

Funding sources for rural health will need to be clarified on a case-by-case basis. Pre-existing allocated funding sources from the health function grant and from HSIP (as it recommences) may be available subject to the agreement reached at the sub-national levels and subject to Department of Treasury disbursement requirements. If any funding is required from provincial internal revenue, each PHA will need to bid through the normal provincial budget decision-making process.

In 2015, it is still unclear what additional funding sources, if any, have been created and allocated specifically to meet any increased operational costs due to the newly created PHA structures. This highly increases the risk of service delivery funding being diverted to meet administrative costs.

However, it is relevant to note that the PHA is not directly accountable to the provincial administration, but rather it has a reporting line to the Minister of Health. The intention of the PHA is to be responsible for both the provincial hospital and for rural health services within the province.

Minimum priority activities in rural health

To implement the provision of rural health services across the country, various health programs and activities must be budgeted for and effectively expended given the availability of the funding sources. Amongst the vital health programs and activities, there are three MPAs selected by the health sector that are so critical.

Costing for the MPAs²⁷

MPA 1: Operation of rural health facilities – *provides a base for the front-line health professionals and a place for patients to attend when seeking medical assistance.*

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.

MPA 2: Integrated rural health outreach patrols – *appropriate funding allows scheduled outreach patrols conducted from village to village and proactively attend to the health needs of all Papua New Guineans across the country.*

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 – *Funding for the distribution of drugs and medical supplies to all operating rural health facilities is essential so that front-line health workers can effectively deliver medical treatment to patients at given point of time.*

²⁷ Costing for other health sector service delivery activities are listed and identified in the NEFC cost of services report 'The Thin Blue Line'.

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 according to the contractual arrangement.

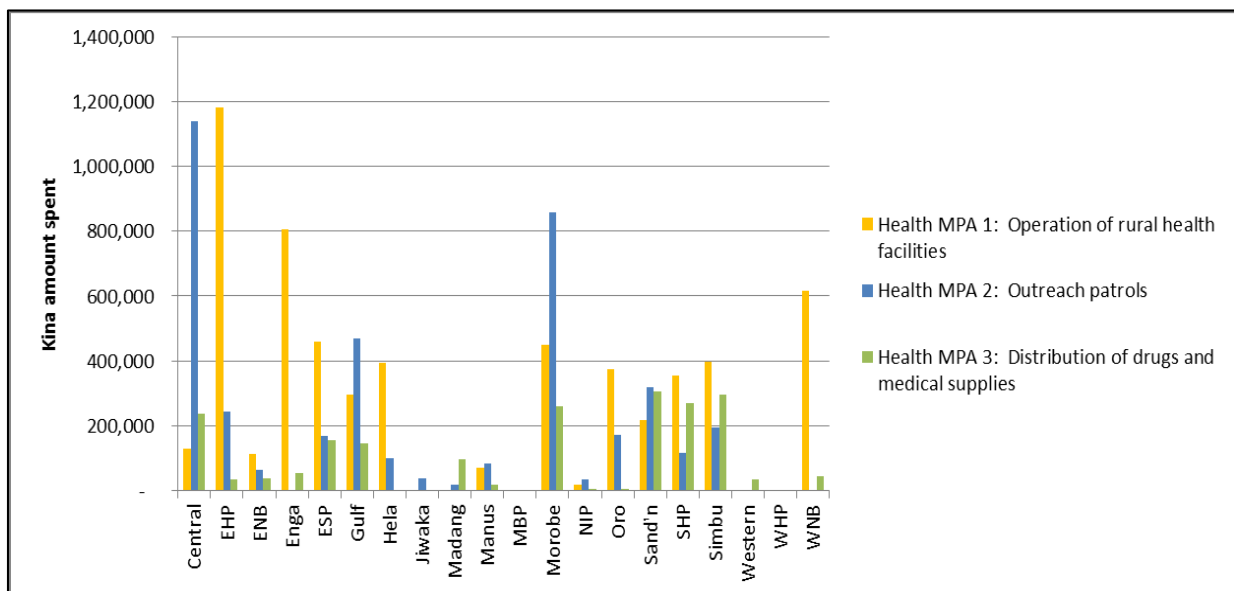
For basic rural health service delivery to happen, adequate funding has to be allocated to these three MPAs, to ensure rural health sector across the country will have;

1. *Enough operational funding for rural health facilities to function and provide treatment to the 87% of the rural population.*
2. *Integrated health and outreach patrols are conducted according to the health standards.*
3. *An effective medical supplies distribution from Provincial headquarters to various health centres and aid posts in the province.*

The efficient implementations of the MPAs are also in line with the strategies of PNGDS plan 2010-2030 of; accurate health diagnosis and treatment, upgrading health facilities to improve quality of health service delivery and efficient procurement & distribution of medical drugs and supplies.

Are minimum priority activities (MPAs) in rural health being prioritised?

Figure 28: Health sector MPA spending in 2015



The above graph shows provinces supporting the MPAs in the health sector in 2015. Morobe spent a total of K1.57 million on MPAs 1, 2 and 3 with sufficient funding support from the provincial internal revenue. However, the province could consider an equal funding across the MPAs.

Central spent a total of K1.51 million on MPAs 1, 2 and 3. With the available funding sources in the sector, the province could consider an appropriate funding allocation. Eastern Highlands province spent K1.46 million towards supporting MPAs 1, 2 and 3.

The other fifteen (15) provinces had little support towards the MPAs (below K1.0 million). Whereas, Western (K34 thousand), Jiwaka (K36 thousand) and New Ireland (K56 thousand) being the least provinces to spend in kina amounts.

Milne Bay and Western Highlands are PHA provinces which the health function grant was transferred to the Provincial Health Authority. There was no detailed expenditure to identify if the two provinces expended on minimum priority activities.

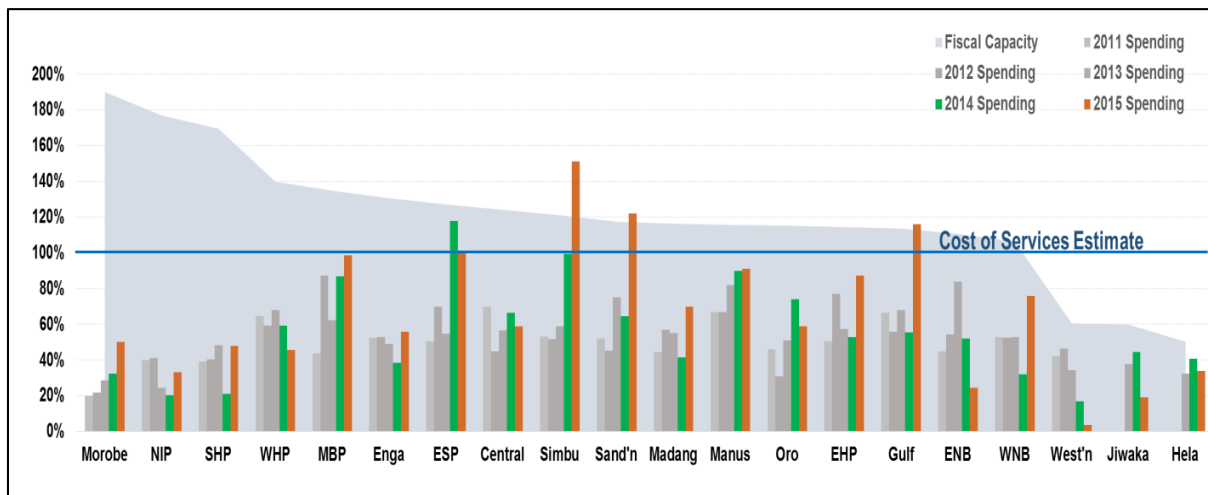
Based on the sector spending performance, all provinces should consider their fiscal capacity especially funding sources in the sector, the overall sector cost of activities so that appropriate budget allocation towards MPAs and other intended service delivery activities are adequately funded and this will see improvements in the overall sector spending performance.

Rural health against the benchmark

Performance by Province

The following graph illustrates the 2011 to 2015 expenditure performance in health for each province using the cost of services estimate as a benchmark.

Figure 29: Spending performance in health from 2011 to 2015 (not including donor funds).



The above graph shows that In 2015, five (5) provinces namely Simbu, Sandaun, Gulf, Milne Bay and East Sepik spent appropriate amounts towards basic health services. Morobe, New Ireland, Southern Highlands, Enga provinces that have high internal revenue had increased expenditure compared to 2014. However; with the fiscal capacity that these provinces have, they still have to budget and spend appropriate amount of funds towards the sector.

Grant dependant provinces – Madang, Eastern Highlands and West New Britain showed increased expenditure in 2015. With consideration of both fiscal capacity and cost, these provinces also have to appropriately fund a reasonable amount towards the sector.

From the graphical illustration, seven provinces had a decrease in health expenditure compared to 2014 where Western spent K366,685 and Jiwaka K693,971 being the two provinces who spent under a million kina on health services in 2015.

According to the table below, there was a 5 per cent increase in overall expenditure from 2014.

Figure 30: Table of recurrent spending on health from 2005 to 2015 (millions).

Health	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Recurrent	12.7	12.0	13.7	18.7	31.3	40.3	52.9	64.0	69.0	77.2	81.0
annual % change		-6%	14%	37%	68%	29%	31%	21%	8%	12%	5%

Figure 31: Table showing provinces spending on health from internal revenue in 2015 (kina in millions)

Province	2.Health
Central	410,000
EHP	-
ENB	130,978
Enga	-
ESP	50,000
Gulf	-
Hela	-
Manus	33,560
Madang	-
MBP	-
Morobe	4,714,745
NIP	949,129
Oro	-
Sand'n	-
SHP	-
Simbu	-
West'n	265,474
WHP	-
WNB	724,421
Total	7,278,307

Spending from Internal Revenue

Under the intergovernmental financing system, provinces are expected to allocate and spend their province's internal revenue on basic services, including rural health services. This is particularly relevant, for provinces with higher proportionate amounts of internal revenue who receive smaller health function grants. If these provinces do not spend on rural health – their people will not receive the health service they require.

The above Table shows that out of 19 provinces²⁸, only eight (8) managed to use their internal revenue to support the health sector operational (recurrent) activities. Morobe spent K4.71 million, in this sector, the highest amount among all the provinces.

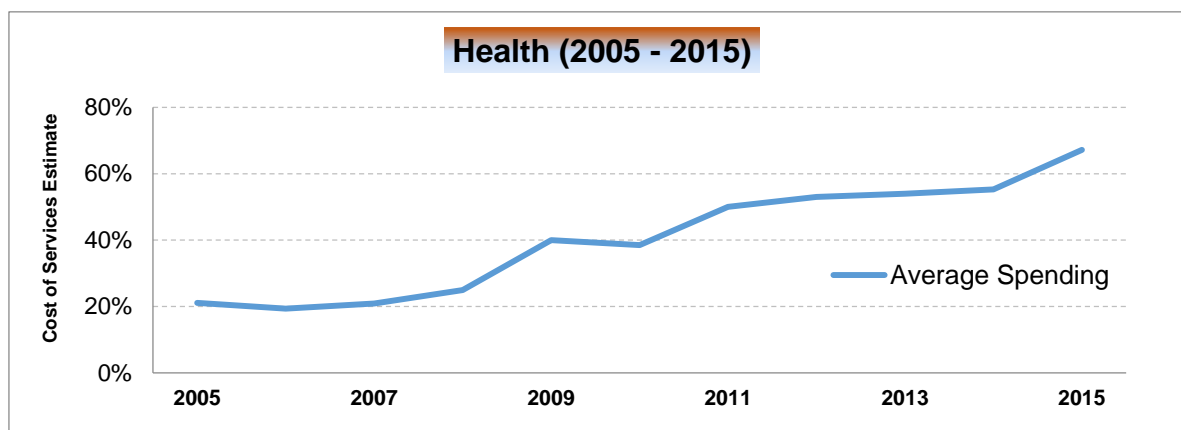
Results from the table also indicate that it is vital that provinces with higher internal revenues should at least spend a reasonable amount towards assisting the health sector basic service delivery activities. Overall, a total of K7.3 million from the provinces' internal revenue was spend to assist the implementation of the health sector operational (recurrent) programs and activities.

²⁸ Jiwaka does have internal revenue component to expend on therefore no expenditure results shown.

Is more money spent in the right areas?

The graph below shows the average spending trend of operational funding in the MTDP sector of health. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. There is an increasing average spending trend in the health sector.

Figure 32: Average spending versus cost of services benchmark for Health sector



Since 2011, spending on health continues to increase in Kina terms but relative to cost, provinces overall spend about 67% of what is necessary to fund a rural health services.

Spending in comparison to fiscal capacity

Figure 33: Table comparing total percentage spending on health and fiscal capacity in 2015

Province	% Total Spending on Health	FC
Morobe	6%	190%
NIP	8%	177%
SHP	5%	169%
WHP	2%	140%
MBP	14%	135%
Enga	9%	131%
ESP	16%	127%
Central	11%	124%
Simbu	20%	121%
Sand'n	24%	117%
Madang	16%	116%
Manus	12%	116%
Oro	17%	115%
EHP	13%	114%
Gulf	29%	114%
ENB	4%	111%
WNB	9%	106%
West'n	2%	61%
Jiwaka	9%	60%
Hela	13%	50%

The table shows the total percentage on health/Hiv&Aids operational spending for each province compared to their fiscal capacity. Results from the table shows that, provinces still have to spend appropriately towards the sector in terms of recurrent (operational) programs and activities.

Do note that; the percentage derived is looking at how provinces prioritize health against all other MTDP sectors and administration spending in 2015 in comparison to fiscal capacity.

PGAS item coding analysis

Figure 34: Table analysing all health spending in 2015²⁹

Health						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	41,974,982	43%	Recurrent Goods & Services	80,891,874	83%
143	Grants and Transfers	13,317,670	14%	Personnel Emoluments	409,390	0%
128	Routine Maintenance	6,477,047	7%	Capital & Projects	15,976,167	16%
225	Construction, Rev&Improvements	5,644,917	6%			
125	Transport and Fuel	5,434,736	6%			
	<i>all other codes</i>	24,428,079	25%			
	Total spending from recurrent & capital	97,277,430	100%	Total spending from recurrent & capital	97,277,430	100%

The above Table shows how health funds were spent as per the PGAS item coding. The two largest expenditure items were;

- Other operational expenses – item 135, an amount of K41.97 million spent.
- Grants and Transfers – item 143, an amount of K13.32 million spent.

The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.

The health data table (Figure 35) on the next page provides a snapshot of health expenditure data for the period 2011 to 2015. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

²⁹ 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. The table does not include spending from HSIP, PIP, PSIP, and non-specified SSG funds, nor does it include doctors, nurses and health workers on the national payroll.

Figure 35: Health & HIV data table

Cost and Spending									
Province	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.	% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as % of CoS
Morobe	11.43	2.00	2.61	3.68	4.54	5.75	27%		50%
NIP	5.05	1.78	1.85	1.18	1.06	1.67	57%		33%
SHP	6.32	3.98	4.96	3.89	1.82	3.02	66%		48%
WHP	3.93	3.44	4.57	3.13	2.97	1.79	-40%		46%
MBP	6.01	3.54	6.40	4.86	7.35	5.93	-19%		99%
Enga	5.86	2.82	3.29	3.26	2.75	3.28	19%		56%
ESP	7.60	5.42	6.06	5.08	11.87	7.64	-36%		100%
Central	7.55	3.06	3.05	4.10	5.23	4.46	-15%		59%
Simbu	5.63	2.41	2.93	3.55	6.49	8.51	31%		151%
Sand'n	8.27	3.56	3.28	5.84	5.42	10.08	86%		122%
Madang	9.14	3.46	5.18	5.36	4.38	6.38	45%		70%
Manus	1.89	1.40	1.45	1.90	2.27	1.72	-24%		91%
Oro	4.36	1.80	1.30	2.29	3.59	2.56	-29%		59%
EHP	5.78	3.32	5.22	4.15	4.15	5.04	22%		87%
Gulf	4.47	2.30	2.27	2.95	2.60	5.19	99%		116%
ENB	5.68	2.10	2.79	4.61	3.10	1.38	-55%		24%
WNB	5.00	3.05	2.70	2.91	1.91	3.79	99%		76%
West'n	9.93	3.41	4.09	3.23	1.72	0.37	-79%		4%
Jiwaka	3.65	0.00	0.00	1.36	1.75	0.69	-60%		19%
Hela	5.05	0.00	0.00	1.64	2.23	1.72	-23%		34%
Total	123	52.87	64.00	68.96	77.20	81.0		Average	67%

Drilling down: health casual wages (itemized in PGAS)

Spending between 2006 and 2015

Figure 36: Spending on casual wages in rural health from 2006 to 2015 (kina millions)

Casual Wages	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	9.8	9.0	9.7	9.7	1.6	2.2	2.2	1.7	1.1	0.3
annual % change		-8%	8%	0%	-84%	38%	1%	-24%	-37%	-69%

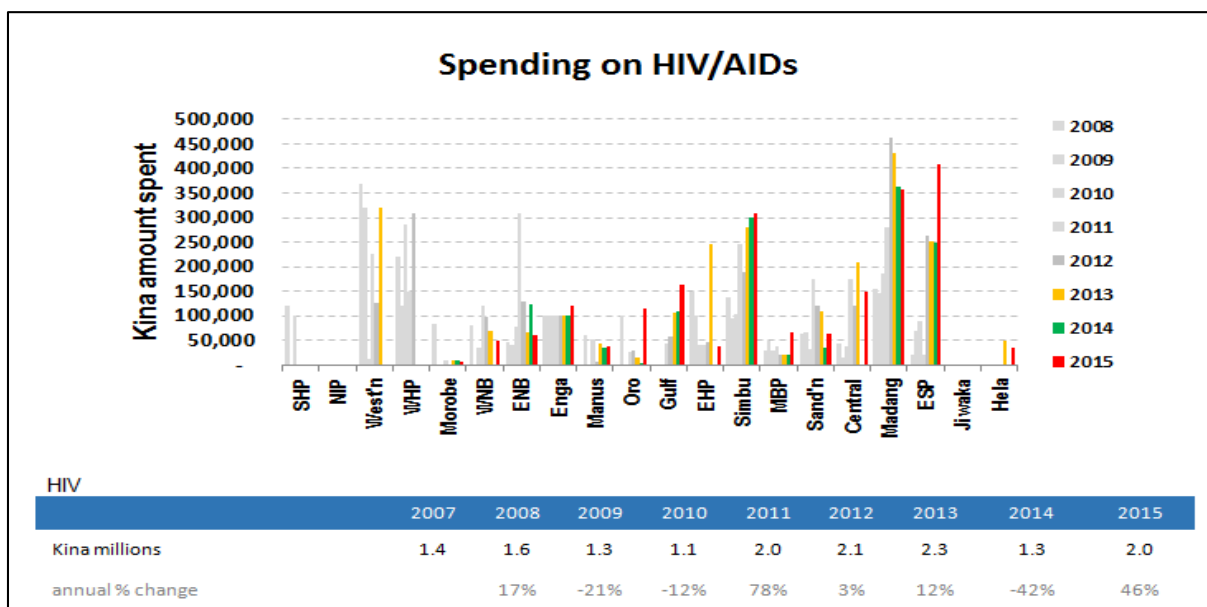
The above table shows a three year decreasing trend of casual wages, starting from 2013. This is a positive outlook because operational health function grant is not intended for casual wages unless it's tied under major programs and activities.

Drilling down: spending on HIV/AIDS

Vision 2050 (53) identifies HIV/AIDs as one of the cross-cutting issues that *"has the potential to undermine the economic and social advancement of PNG development prospects"*. All responsible levels of government are expected to appropriately budget and expend on cross-cutting issues that might hinder the country's economic advancement.

Prevention of the spread of HIV/AIDs and caring for those affected by HIV/AIDs is a huge challenge in PNG and around the world, hence major efforts are required to meaningfully address this area. Since the PER review of the 2007 fiscal year, spending on HIV/AIDS has been included within the health spending totals. In 2015, monitoring and identification of spending progress on HIV/AIDS to see how much provincial administrations spend in this critical area continued. Results on the following graph (figure 37) show that fourteen (14) provinces expended on HIV/AIDs using both function grant and internal revenue funding sources. The table below the chart shows kina amount spent in millions. There was an increase in 2015 expenditure compared to 2014.

Figure 37: Spending on HIV/AIDS from 2008 to 2015 and Table of spending on HIV/AIDS from 2007 to 2015 (millions)



4.3 Transport and Infrastructure Sector (Maintenance)

Transport and Infrastructure maintenance in the provinces

To ensure that service delivery reaches the rural population of Papua New Guinea, there must be establishments of transport & infrastructure networks of roads, bridges, airstrips, wharves and jetties to enable economic activity and the provision of government services to reach the people. Maintaining the sector networks are critical to enable and create pathways in achieving service delivery activities in other MTDP sectors of health, education, primary production etc... As indicated in the MTDP 2011-2015, like rehabilitation maintenance programs require effective sector prioritization and continuous support so that the conditions of infrastructure assets are well maintained and thus providing platform as service enablers.

With the current economy situation on cash flow, re-building new roads, bridges, airstrips, wharves and jetties but not maintaining them is an opportunity 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, bridges, airstrips, wharves and jetties that make up 60% of the country's transport infrastructure network. The Goal of the sector outlined in the PNG development strategic plan (PNGDSP) 2010-2030 is *"Establish a transport network that links all of PNG"*, which will ensure effective service delivery system. The PNGDSP 2010-2030 also identifies contributing factors to PNG's poor transport system and lack of periodic maintenance is one of them. Therefore, it is vital that sub-nationals should appropriately budget and expend on routine maintenance of these transport infrastructure assets.

Funding sources for transport infrastructure maintenance in the provinces

Funding for sub-national transport infrastructure maintenance comes from a variety of sources. The two major sources of funding available to fund routine maintenance at the sub-national level are:

- Transport Infrastructure Maintenance Function Grants to Provinces (K139.4 million appropriation in 2015)
- Provincial Internal Revenue (K17.6 million spent in 2015)
- There are other funding streams present, intended primarily for capital purposes, such as: substantial maintenance, rehabilitation, reconstruction and new development.³⁰

Minimum priority activities in transport infrastructure

To implement an effective provision of transport infrastructure network across our country, there must be appropriate allocation budgeted from available funding sources towards the various programs and activities in the sector. Hence, the transport infrastructure sector also identified and selected funding for the maintenance of the following critical infrastructure assets as MPAs: roads and bridges; rural airstrips; and wharves and jetties.

³⁰ Capital funding streams presently include: PSIP, DSIP, LLGSIP, SSG, and PIP's. Provincial internal revenue also often funds capital projects. Capital works are by their nature expensive and quite different to routine maintenance activities.

Costing for the MPAs³¹

MPA 1: Road and Bridge Maintenance

Costs may include contractors to carry out maintenance work.

MPA 2: Airstrip Maintenance

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

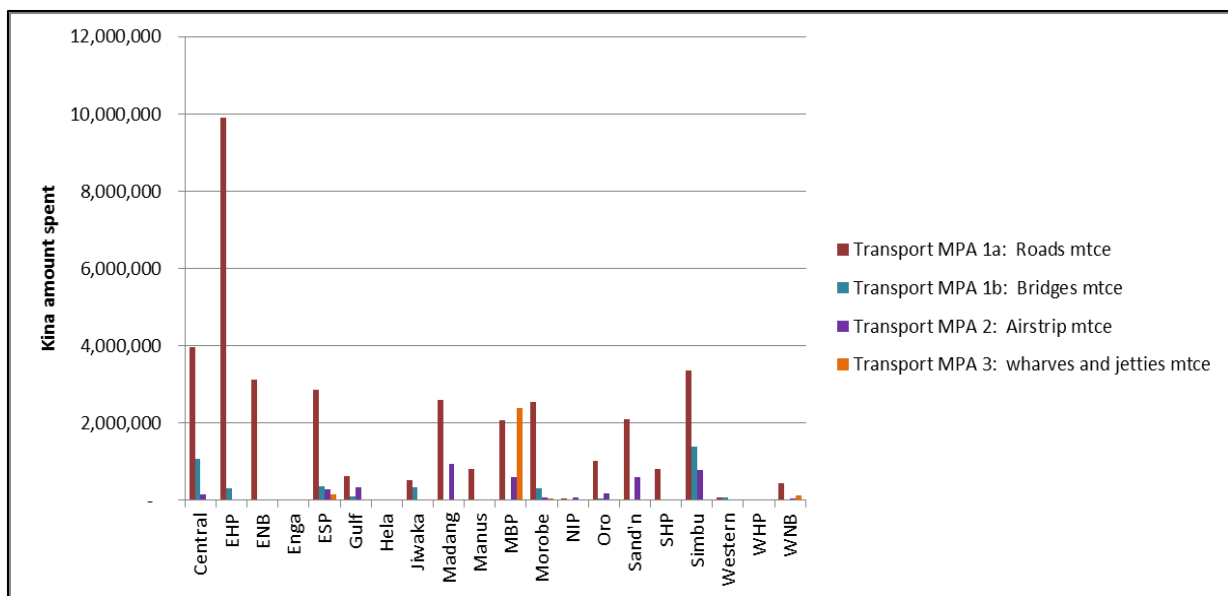
MPA 3: Wharf and Jetty Maintenance

Costs may include contractors to carry out maintenance work.

Having a well maintained transport and infrastructure is vital for service delivery in provinces therefore; NEFC sees that adequate funding should be allocated for these three MPAs.

Are minimum priority activities (MPAs) in transport infrastructure maintenance being prioritised?

Figure 38: Transport infrastructure maintenance sector MPA spending in 2015



The above graph shows that provinces spending focus is on MPA 1 (especially roads) in the transport infrastructure maintenance sector in 2015. The following amount spent on each of the MPAs is total spending for all the provinces.

- MPA 1a roads maintenance – K36,795,934
- MPA 1b bridges maintenance – K3,966,435
- MPA 2 airstrip maintenance – K4,033,998
- MPA 3 wharves and jetties – K 2,682,973

WHP and Enga are the two provinces with no MPA support. Western Highlands is the only province that transfers the transport infrastructure maintenance function grant to an engineering company.

³¹ Costing for other transport & infrastructure maintenance sector service delivery activities are listed and identified in the NEFC cost of services report 'The Thin Blue Line'.

For the benefit of the people accessing the services, it is vital that detail records of budget and expenditure transactions should be reported back to the provincial administration for accountability and monitoring purposes basically to see if basic service delivery activities in the sector are being implemented.

Hela spent only K12, 000 on roads maintenance. New Ireland is one of the highest internal revenue provinces, however has not been supporting adequately towards the sector.

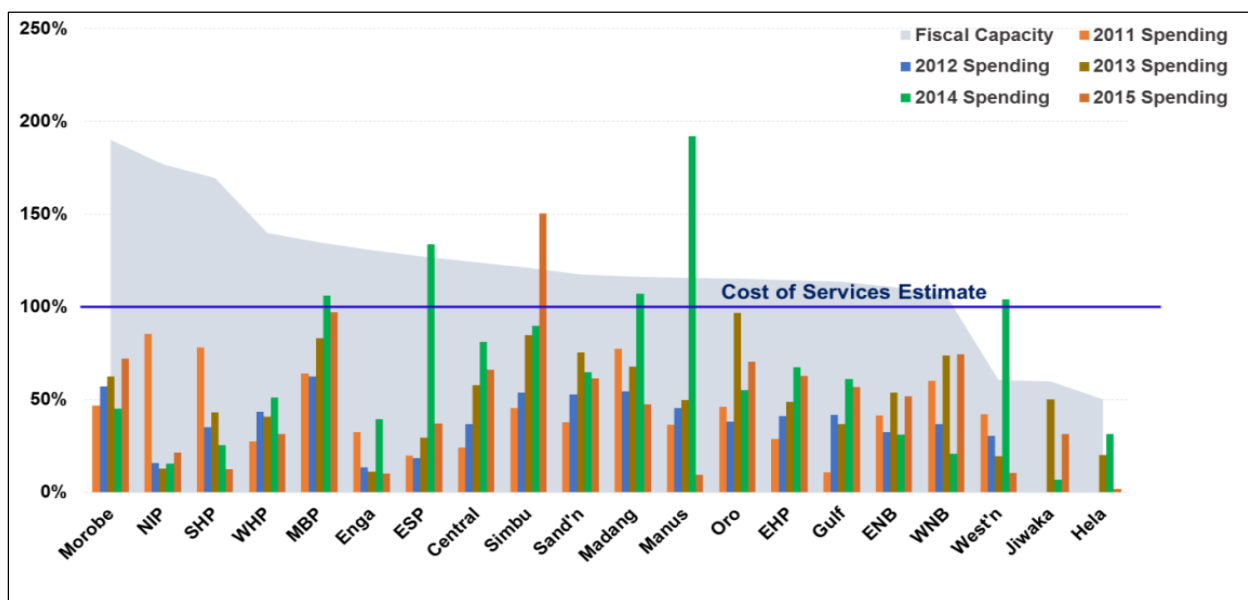
Based on the sector spending performance, all provinces should consider their fiscal capacity especially funding sources in the sector, the overall sector cost of activities so that appropriate budget allocation towards MPAs and other intended service delivery activities are adequately funded and this will see improvements in the overall sector spending performance.

Spending on transport infrastructure maintenance against the benchmark

Performance by Province

This graph illustrates the 2011 to 2015 performance of each province using the cost of services estimate as a benchmark.

Figure 39: Spending performance in transport infrastructure maintenance from 2011 to 2015



The above graph illustrates that in 2015, huge expenditure decreases were recorded in Manus, East Sepik, Madang, Western and Hela provinces mainly because for Manus and Western provinces there was no support or little from the internal revenue compared to 2014 results.

For grant dependant provinces like East Sepik, based on PGAS a total of K8.7 million warrant authority was posted which may have resulted in the recurrent expenditure of K8.03 million. Also about K2.6 million of the Transport and Infrastructure function grant was spent on government office/housing maintenance which was coded under administration sector. As for Madang, a total of K8.05 million warrant authority was posted in PGAS which an amount of K7.29 million was spent on recurrent expenses. Hela province spent K2.7 million on capital and projects.

Morobe, New Ireland, Oro, East New Britain, West New Britain and Jiwaka showed increased spending in 2015 compared to 2014, though still below the cost of services benchmark and fiscal capacity. In 2015, Simbu is the only province that spent over the cost of services benchmark and also meeting its fiscal capacity to spend. Comparing 2015 to 2014 expenditure; the overall decrease in operational (recurrent) expenditure was by K54 million. The main reasons are explained above.

There is a compelling need to code with care and accuracy in budget preparation process and in the PGAS accounting system.

Support for the sector over time: 2005 to 2015

Figure 40: Recurrent spending on transport infrastructure maintenance from 2005 to 2015 (kina millions)

Infrastructure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	26.6	30.2	24.7	23.1	35.9	60.4	82.8	75.9	101.3	161.1	107.1
annual % change		14%	-18%	-6%	55%	68%	37%	-8%	33%	59%	-33%

The above table shows the trend of transport and infrastructure maintenance expenditure over the years. There was a decrease in expenditure by 33% in 2015 compared to the preceding year.

Figure 41: Table showing provinces spending from internal revenue on transport infrastructure maintenance in 2015 (kina in millions).

Province	6.Infrastructure
Central	-
EHP	152,605
ENB	4,513,969
Enga	-
ESP	-
Gulf	-
Hela	-
Manus	-
Madang	-
MBP	918,386
Morobe	10,871,026
NIP	314,549
Oro	-
Sand'n	-
SHP	-
Simbu	-
West'n	31,244
WHP	17,870
WNB	781,917
Total	17,601,566

Spending from internal revenue

Under the intergovernmental financing system, provinces are expected to allocate and spend their province's internal revenue on basic services, including maintaining transport infrastructure. This is particularly relevant for provinces with higher proportionate amounts of internal revenue who receive smaller transport infrastructure maintenance function grants. If these provinces do not spend on maintenance – the expensive assets will degrade and need to be rehabilitated or replaced at enormous cost to government.

The above table shows that out of 19 provinces³², only eight (8) managed to use their internal revenue to support the transport & infrastructure sector operational (recurrent) activities. Morobe at least spend a reasonable amount of K10.9 million, the highest among all the provinces.

³² Jiwaka does have internal revenue component to expend on therefore no expenditure results shown.

The table also shows that it is vital that provinces with higher internal revenue should at least spend a reasonable amount towards assisting the transport & infrastructure sector basic service delivery activities. Overall, a total of K17.6 million from the provinces' internal revenue was spend to assist the implementation of the transport & infrastructure sector operational (recurrent) programs and activities.

The Table below (Figure 42) shows the trend of internal revenue expenditure from 2005 to 2015. There was a decline in expenditure by 20 per cent in 2015 compared to 2014.

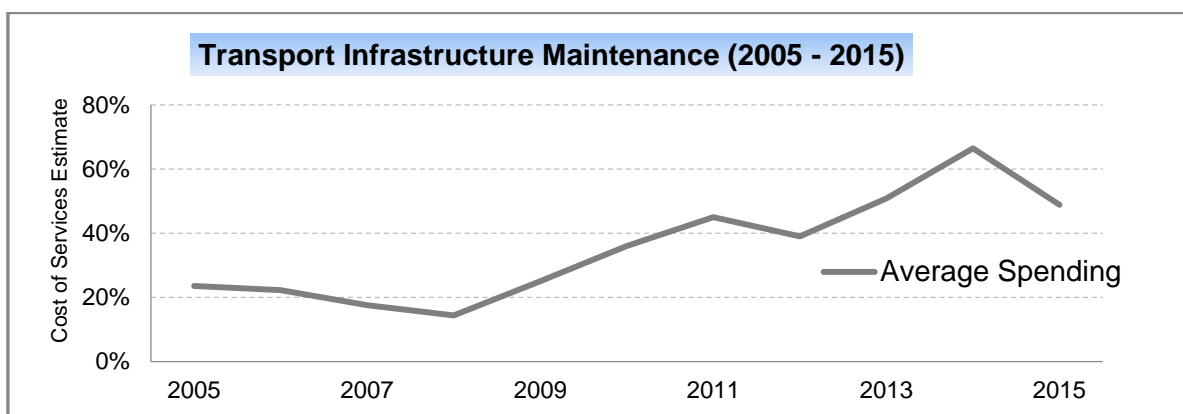
Figure 42: Table of Recurrent Goods and Services spending from internal revenue on transport infrastructure maintenance from 2005 to 2015 (Kina millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	13.4	19.0	15.6	11.9	12.4	22.3	25.0	19.2	16.3	22.0	17.6
% change		42%	-18%	-24%	4%	80%	12%	-23%	-15%	35%	-20%

Is more money spent in the right areas?

The graph below shows the average spending trend of operational funding in the MTDP sector of transport & infrastructure maintenance. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. In 2015, the transport & infrastructure sector had a decreasing trend in average spending on maintenance.

Figure 43: Average spending versus cost of services benchmark for Transport infrastructure maintenance sector



As vital transportation modes of service delivery, appropriate funding in routine maintenance of roads, bridges, rural airstrips, wharves & jetties should continue annually. In 2015, there was a decrease in routine maintenance. Relative to cost, provinces spend about 49% in transport infrastructure maintenance.

Spending in comparison to fiscal capacity

Figure 44: Table comparing total percentage spending on transport infrastructure maintenance and fiscal capacity in 2015

Province	% Total Spending on Transport Infrastructure	FC
Morobe	15%	190%
NIP	6%	177%
SHP	11%	169%
WHP	6%	140%
MBP	18%	135%
Enga	16%	131%
ESP	17%	127%
Central	21%	124%
Simbu	35%	121%
Sand'n	14%	117%
Madang	17%	116%
Manus	21%	116%
Oro	26%	115%
EHP	32%	114%
Gulf	21%	114%
ENB	37%	111%
WNB	11%	106%
West'n	13%	61%
Jiwaka	45%	60%
Hela	16%	50%

The table shows the total percentage on transport infrastructure operational spending for each province compared to their fiscal capacity. Results from the table shows that, provinces still have to spend appropriately towards the sector in terms of recurrent (operational) programs and activities.

Do note that; the percentage derived is looking at how provinces prioritize transport infrastructure maintenance against all other MTD sectors and administration spending in 2015 in comparison to fiscal capacity.

The Provincial administrations when formulating their provincial budget must adequately budget using both the national sector grants and provincial internal revenue. Transport and Infrastructure sector is the main service delivery enabler because it links and provides networks connection through roads, bridges, airstrips, wharves and jetties that ensures service delivery happens in the remote rural areas of PNG.

PGAS item coding analysis

Figure 45: Table analysing all transport infrastructure spending in 2015

Infrastructure						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
128	Routine Maintenance	51,385,457	33%	Recurrent Goods & Services	106,695,704	68%
225	Construction, Renovation....	31,351,201	20%	Personnel Emoluments	818,804	1%
135	Other Operational Expenses	25,585,220	16%	Capital & Projects	50,431,874	32%
226	Substantial & Specific Maintenance	17,465,581	11%			
143	Grants and Transfers	12,707,675	8%			
	<i>all other codes</i>	19,451,247	12%			
	Total spending from recurrent & capital	157,946,382	100%	Total spending from recurrent & capital	157,946,382	100%

The Table (Figure 45) shows how transport & infrastructure funds were spent per the PGAS item coding. The three largest expenditure items were;

- 1 Routine Maintenance – item 128, an amount of K51.4 million spent.
- 2 Construction, Renovation – item 225, an amount of K31.4 million spent.
- 3 Other Operational Expenses – item 135, an amount of K25.6 million spent.

The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.

Drilling down: the Operational (recurrent) versus Capital expenditure

Overview

Over the years, the PER analysis have been keeping track on how provinces expend on operational (recurrent) versus capital (or maintenance versus rehabilitation/reconstruction). Drawing the line between recurrent and capital spending in infrastructure is one of the harder analytical assessments that have to be made in undertaking this review. In Papua New Guinea it is known that 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 planned routine maintenance.³³ The table below shows expenditure by province from both national grant and internal revenue funding sources. ³⁴In 2015, the total amount of money spent on capital & projects and development was about K73.7 million with 59% of this was spent on recurrent expenses.

Figure 46: Transport infrastructure sector table showing capital & projects and development funds spending in 2015 (kina millions)

6.Infrastructure									
Province	Grant Capital & Projects	PSIP	SSG	Grant Total	Internal Capital & Projects	DSIP	LLGSIP	Internal Total	Grand Total
EHP	9,092			9,092		300,000	3,499,291	3,799,291	3,808,383
ENB					7,522,457			7,522,457	7,522,457
Enga	12,765,129			12,765,129	1,433,944			1,433,944	14,199,073
ESP	269,831	337,100		606,931					606,931
Gulf	2,937,317			2,937,317					2,937,317
Hela	2,363,495	920,831		3,284,326	350,000			350,000	3,634,326
Jiwaka	804,653			804,653					804,653
Madang	971,680			971,680					971,680
Manus	2,757,552			2,757,552					2,757,552
MBP	15,136	2,904,826		2,919,962	184,329			184,329	3,104,290
Morobe		26,453		26,453	3,118,535			3,118,535	3,144,988
NIP		3,628,450	4,678,295	8,306,746					8,306,746
Oro	1,612,329			1,612,329					1,612,329
Sand'n	927,102	4,387,025		5,314,127					5,314,127
SHP	3,600,000	500,000	1,865,372	5,965,372	2,000,000			2,000,000	7,965,372
Simbu	873,000			873,000					873,000
West'n	1,730,839	194,248		1,925,086	60,000			60,000	1,985,086
WHP					708,897			708,897	708,897
WNB	1,263,591			1,263,591	2,152,966			2,152,966	3,416,557
Grand Total	32,900,746	12,898,932	6,543,668	52,343,346	17,531,128	300,000	3,499,291	21,330,419	73,673,765

Recurrent v Capex 2015	
Recurrent	107.1
Capital	73.7
The recurrent mix	59%





















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.

³³ To get a sense of the cost relativities, in 2006 routine maintenance for an unsealed road (on national highway) would cost about K6,000/km (per annum) whilst reconstruction would 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.

³⁴ Central Province did not spend any amounts on capital & projects/development on the infrastructure sector.

Figure 47: Transport infrastructure maintenance data table

The infrastructure maintenance data table below provides a snapshot of transport & infrastructure expenditure data for the period 2011 to 2015. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

Province	Cost of Services 2015 Estimate	Cost and Spending					% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as % of CoS
		2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.			
Morobe	18.59	8.24	9.43	11.03	8.65	13.38	55%		72%
NIP	5.62	4.43	0.83	0.72	0.94	1.21	29%		22%
SHP	8.54	10.67	4.20	3.40	2.17	1.07	-51%		13%
WHP	11.83	4.95	8.36	4.70	6.37	3.74	-41%		32%
MBP	7.56	4.66	4.37	6.22	8.61	7.34	-15%		97%
Enga	13.89	4.26	1.70	1.50	5.74	1.39	-76%		10%
ESP	21.55	3.99	3.62	6.18	30.27	8.03	-73%		37%
Central	14.16	3.09	4.63	7.77	11.85	9.37	-21%		66%
Simbu	9.73	4.03	4.66	7.88	9.01	14.62	62%		150%
Sand'n	8.21	2.55	3.72	5.67	5.29	5.05	-4%		62%
Madang	15.33	9.45	7.49	9.95	17.01	7.29	-57%		48%
Manus	5.12	1.67	2.04	2.39	9.95	0.48	-95%		9%
Oro	4.01	1.81	1.36	3.70	2.28	2.82	23%		70%
EHP	20.65	5.46	7.54	9.53	14.28	12.98	-9%		63%
Gulf	5.88	0.59	2.20	2.06	3.71	3.34	-10%		57%
ENB	12.65	3.98	3.68	6.51	4.08	6.54	60%		52%
WNB	4.84	2.45	1.65	3.53	1.08	3.60	233%		74%
West'n	16.48	6.51	4.41	3.00	17.41	1.74	-90%		11%
Jiwaka	9.64	0.00	0.00	4.55	0.67	3.03	350%		31%
Hela	4.80	0.00	0.00	0.99	1.69	0.09	-94%		2%
Total	219.08	82.78	75.89	101.28	161.06	107.13		Average	49%

4.4 Primary Production Sector

Agriculture and fisheries in the provinces

Papua New Guinea has a dual economy³⁵ where bulk of the economy activity comes from the subsistence farming sector. The PNG development strategic plan 2010-2030 stated that *“agricultural development will directly contribute towards a reduction in poverty, provide food security and will deliver other economic benefits for the country”*. However, reported in the MTDP 2011-2015, the agriculture sector’s contribution to PNG GDP has declined. Therefore, it is vital to support the on-going operational activities of the sub-sector in terms of budget and expenditure annually.

The Medium Term Development Plan also identifies promoting the primary sector as the Governments ‘first and foremost’ priority in economic growth.³⁶ Agriculture and fisheries is at the heart of economic activity across Papua New Guinea and offers income producing opportunities for the many, not just the few. Also identified in the Economic outlook for PNG 2016 and beyond (BPNG report), primary production sector construct the major components of PNG’s diversified GDP base therefore with available funding that provinces have, they should consider a sufficient amount of money be spent on the activities in the sector.

Activities such as extension patrols and fisher/farmer training are vital for many people in the most remote areas of PNG. These service delivery activities in this sector provides support for both subsistence living for ordinary Papua New Guineans in rural areas and also contributes to the growth of the country’s economy.

Minimum priority activities in primary production

The provision of services to agriculture and fisheries relies upon trained extension officers visiting farming and fisher communities (often in remote locations) to provide advice and guidance on good practice.

Costing for the MPAs³⁷

MPA: Extension Activities

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 or air charter costs may also be necessary to get agriculture personnel to remote locations.

³⁵ PNG has a dual economy comprising of a formal (corporate based sector) and a large informal sector (primary sector/ subsistence farming)

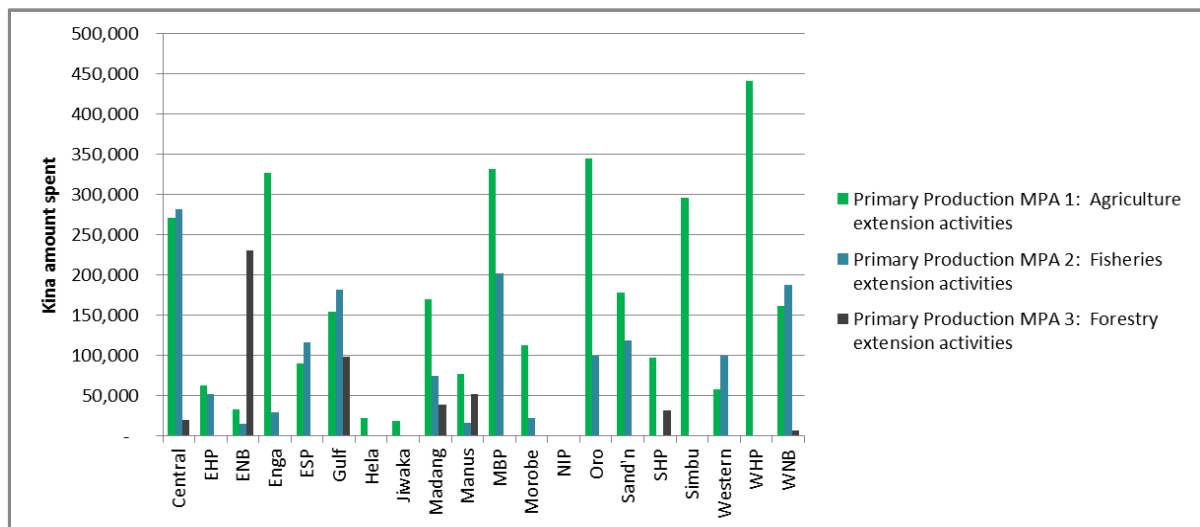
³⁶ The primary sector is generally accepted to include: agriculture, fisheries, livestock and forestry.

³⁷ Costing for other transport & infrastructure maintenance sector service delivery activities are listed and identified in the NEFC cost of services report ‘The Thin Blue Line’.

Both sub sectors of the Primary production are important for an individual whose income is based on cash crop or fishing and also contributes overall to the economy growth of the nation – adequate funding is required to fund these sectors.

Are minimum priority activities (MPAs) in primary production being prioritised?

Figure 48: Primary production sector MPA spending in 2015



The above graph shows what provinces spent in 2015 to support the MPAs in the primary production sector. As the graph depicts, MPA support in extension activities was below K450 thousand, in all the provinces. The following amount spent on each of the MPAs is total spending for all the provinces.

- MPA 1 agriculture extension activities – K3,243,870 .
- MPA 1 fisheries extension activities – K1,496,481.
- MPA 3 forestry extension activities – K 477,335 .

Hela, Jiwaka, Eastern Highlands, Manus, Morobe, East Sepik, Southern Highlands and Western provinces have to improve their spending support towards the MPAs. New Ireland is the only province with no MPA support.

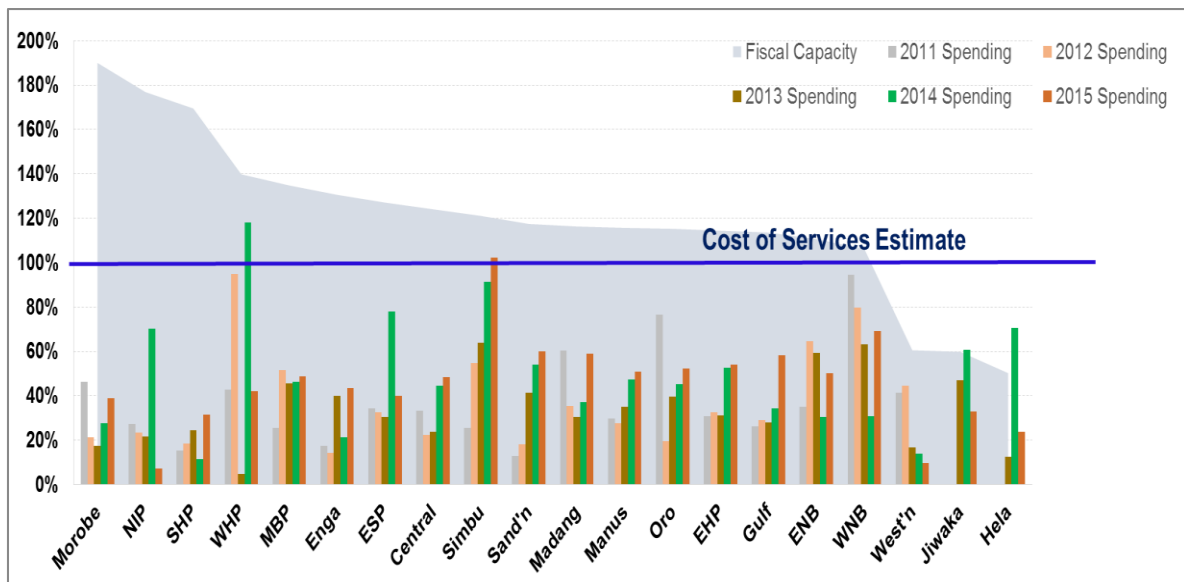
Based on the sector spending performance, all provinces should consider their fiscal capacity especially funding sources in the sector, the overall sector cost of activities so that appropriate budget allocation towards MPAs and other intended service delivery activities are adequately funded and this will see improvements in the overall sector spending performance.

Agriculture spending against the benchmark³⁸

Performance by Province

The graph that follows illustrates the 2011 to 2015 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 as well as some project activities that may be recurrent in nature.

Figure 49: Spending performance in agriculture from 2011 to 2015



The above graph illustrates that In 2015, fourteen (14) provinces have shown increased expenditure with West New Britain, East New Britain, Gulf, Madang and Enga showed sufficient improvements compared to 2014 expenditure results. Even though Simbu had a 2% decrease in expenditure from 2014, it is the only province that spends just above the cost of service estimate benchmark and its fiscal capacity.

Resource rich provinces like Morobe, Southern Highlands and Enga increased their expenditure in agriculture but however still have to fund sufficient amount of funds towards the primary production sector given their level of fiscal capacity. New Ireland, Western Highlands, East Sepik, Western, Jiwaka and Hela provinces have decreased expenditure in 2015, compared to 2014.

The overall operational (recurrent) expenditure in agriculture decreased by K3.62 million in 2015 compared to 2014. Since Primary Production is the vital sector in PNG's economy, hence provinces must appropriate adequate amounts from the available funding sources to support the agriculture sub-sector.

³⁸ In 2012 we have reworked the numbers and separately analysed the Agriculture and Fisheries sub-sectors. We believe each sub-sector is vital as an income earning activity to the rural majority and deserving of focus. Where budget vote descriptions include both agriculture and fisheries we have typically assigned them to agriculture – however this is not as pervasive as one might think. We hope in time, provinces will continue to improve budget visibility by fine tuning their budget coding and descriptors for the benefit of all readers.

Figure 50: Table of recurrent goods and services spending on agriculture from 2005 to 2015 (kina millions)³⁹

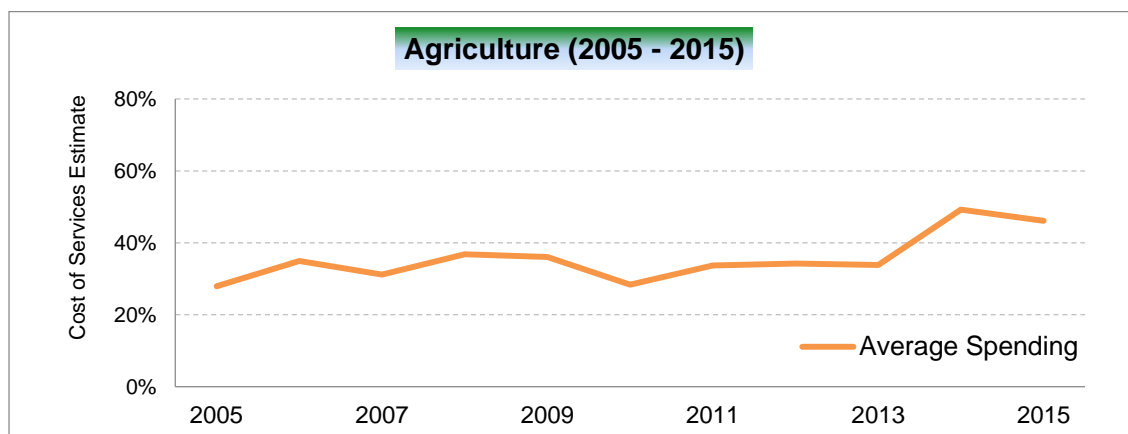
Agriculture											
Recurrent G&S	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	6.5	7.6	7.6	10.1	11.8	12.3	17.2	16.3	15.8	23.6	19.98
% change		18%	0%	32%	18%	4%	40%	-5%	-3%	50%	-15%

The above table shows the trend in expenditure for agriculture over the years, overall expenditure in agriculture sector decreased by 15% in 2015 from 2014.

Is more money spent in the right areas?

The graph below shows the average spending trend of operational funding in the MTDP sector of primary production, agriculture. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. In 2015, there was a decreasing trend in average spending in the agriculture sub-sector.

Figure 51: Average spending versus cost of services benchmark for Agriculture sub-sector



About 87% of the people live in rural areas of PNG in which subsistence farming (agriculture, fisheries, livestock, and forestry) remains an important activity for daily income for the majority of the rural population. This sector also contributes largely to PNG's economy gross domestic product (GDP) annually. As can be seen from the above graph, provinces spent about 46% of what is required in 2015. It has been noted that such amount is spent in training and extension activities to assist farmers produce.

³⁹ Normally we would include the function grant appropriation in the 'spending in kina' chart' to enable readers to see the relative impact of national government funding. However at this time provinces receive a single primary production grant from government which is intended to supplement spending on both agriculture and fisheries so the grant line is excluded to avoid confused messages.

Spending in comparison to fiscal capacity

Figure 52: Table comparing total percentage spending on agriculture and fiscal capacity in 2015

Province	% Total Spending on Agriculture	FC
Morobe	1%	190%
NIP	1%	177%
SHP	1%	169%
WHP	1%	140%
MBP	3%	135%
Enga	1%	131%
ESP	3%	127%
Central	3%	124%
Simbu	4%	121%
Sand'n	5%	117%
Madang	4%	116%
Manus	3%	116%
Oro	6%	115%
EHP	3%	114%
Gulf	4%	114%
ENB	2%	111%
WNB	3%	106%
West'n	2%	61%
Jiwaka	9%	60%
Hela	3%	50%

The table shows the total percentage on Agriculture operational spending for each province compared to their fiscal capacity. Results from the table shows that, provinces still have to spend appropriately towards the sector in terms of recurrent (operational) programs and activities.

Do note that; the percentage derived is looking at how provinces prioritize agriculture against all other MTD sectors and administration spending in 2015 in comparison to fiscal capacity.

The above table depicts that though the provinces had the fiscal capacity to spend in this sub-sector, very minimum was actually spent in agriculture, thus highlights the need to improve funding to this sector.

PGAS item coding analysis: Agriculture

Figure 53: Table analysing all agriculture spending in 2015⁴⁰

Agriculture						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other operational expenses	11,112,457	48%	Recurrent Goods & Services	19,975,857	86%
143	Grants and transfers	2,141,423	9%	Personnel Emoluments	451,355	2%
121	Travel and subsistence exp's	1,774,816	8%	Capital & Projects	2,671,123	12%
125	Transport and fuel	1,642,624	7%			
124	Office Materials & Supplies	1,024,970	4%			
	<i>all other codes</i>	5,402,045	23%			
	Total spending from recurrent & capital	23,098,335	100%	Total spending from recurrent & capital	23,098,335	100%

The above Table (Figure 53) shows how primary production funds were spent in agriculture sub sector per the PGAS item coding. The three largest expenditure items are;

1. Other Operational Expenses – item 135, an amount of K11.1 million spent,
2. Grants and Transfer – item 143, an amount of K2.1 million spent,
3. Travel and Subsistence expenses – item 121, an amount of K1.7 million spent,

The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.

⁴⁰ 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, PSIP and unspecified SSG funds.

The agriculture data table below provides a snapshot of expenditure data for the period 2011 to 2015. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

Figure 54: Agriculture data table

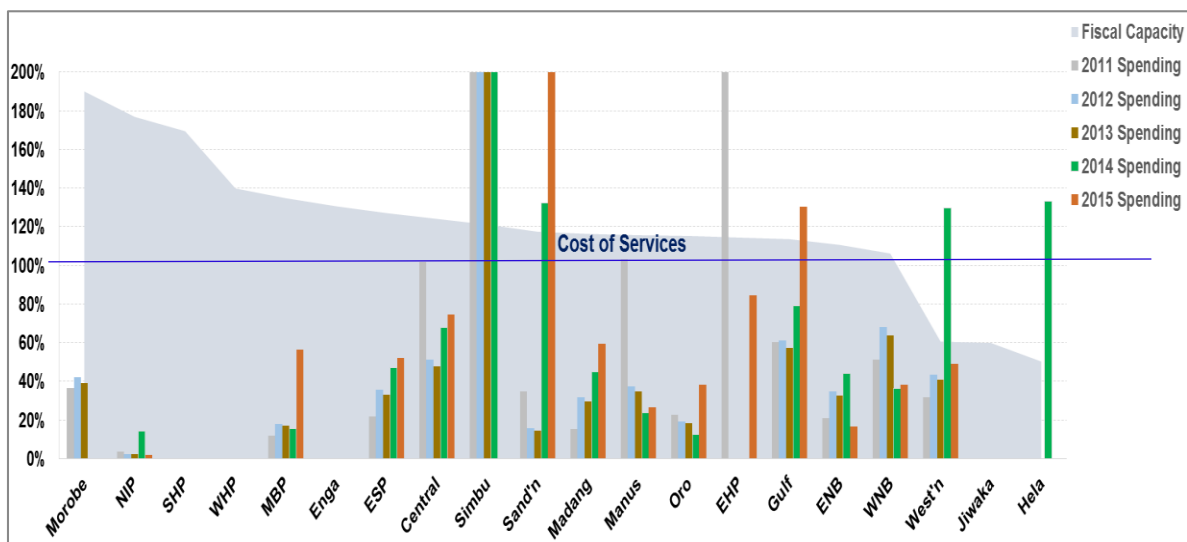
Cost and Spending									
Province	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.	% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as % of CoS
Morobe	4.18	2.22	1.00	0.87	1.48	1.63	10%		39%
NIP	1.51	0.39	0.34	0.34	1.20	0.11	-91%		7%
SHP	1.80	0.65	0.64	0.56	0.28	0.57	102%		31%
WHP	1.48	1.08	2.14	0.07	1.72	0.62	-64%		42%
MBP	2.32	0.63	1.32	1.24	1.37	1.13	-18%		49%
Enga	2.35	0.45	0.35	1.06	0.60	1.03	70%		44%
ESP	3.18	1.13	1.12	1.12	3.11	1.27	-59%		40%
Central	2.43	0.82	0.58	0.67	1.34	1.17	-13%		48%
Simbu	1.53	0.40	0.82	1.03	1.59	1.56	-2%		102%
Sand'n	3.11	0.43	0.59	1.43	2.03	1.87	-8%		60%
Madang	3.53	1.97	1.30	1.19	1.57	2.08	32%		59%
Manus	1.01	0.30	0.29	0.39	0.57	0.51	-10%		51%
Oro	1.84	1.27	0.35	0.75	0.92	0.96	3%		52%
EHP	2.24	0.76	0.81	0.83	1.51	1.21	-20%		54%
Gulf	1.67	0.47	0.48	0.49	0.66	0.97	47%		58%
ENB	1.83	0.85	1.22	1.20	0.66	0.91	37%		50%
WNB	2.11	2.07	1.66	1.41	0.75	1.46	96%		69%
West'n	2.78	1.32	1.29	0.52	0.47	0.27	-43%		10%
Jiwaka	0.84	0.00	0.00	0.50	0.70	0.28	-60%		33%
Hela	1.61	0.00	0.00	0.18	1.10	0.38	-65%		24%
Total	43.35	17.20	16.29	15.84	23.64	19.98		Average	46%

Fisheries spending against the benchmark⁴¹

Performance by Province

The graph that follows illustrates the 2011 to 2015 performance trend for each province using the cost of services estimate as a benchmark. Note that expenditure includes a wide range of recurrent fisheries activities and some project activities that may be recurrent in nature. In the PNGDSP 2010-2030, “*developing a valuable fisheries sector is a high priority in PNG*”. Therefore, it is vital that the Maritime Provinces and provinces that encourage aquaculture as a source of income generating must appropriately budget and expend on operational and extension activities to support local domestic fisheries.

Figure 55 Graph on spending performance in fisheries from 2011 to 2015



The above graph illustrates that the expenditure for Maritime Provinces and those who expend on fisheries for cash income. Sandaun, Gulf, Eastern Highlands, Madang and Milne Bay provinces increased expenditure in the fisheries sub sector in 2015 compared to 2014. New Ireland and other maritime provinces need to allocate sufficient funding from the internal revenue towards fisheries given their level of fiscal capacity. Even though Simbu has been performing well in the last four years (spending over 200%), however in 2015 the province spent only K16,400 on fisheries operational activities. Since Primary Production is the vital sector in PNG’s economy, provinces must appropriate adequate amounts from the available funding sources to support the fisheries sub-sector.

⁴¹ Understandably land-locked provinces in the Papua New Guinea highlands have no recorded fishery communities (they may have very small inland fishery communities) and hence no costs associated with sub-national government fishery services. Accordingly we have removed these highland provinces from the performance charts to avoid meaningless comparisons.

Figure 56: Table of recurrent goods and services spending on fisheries 2008 to 2015 (kina millions)

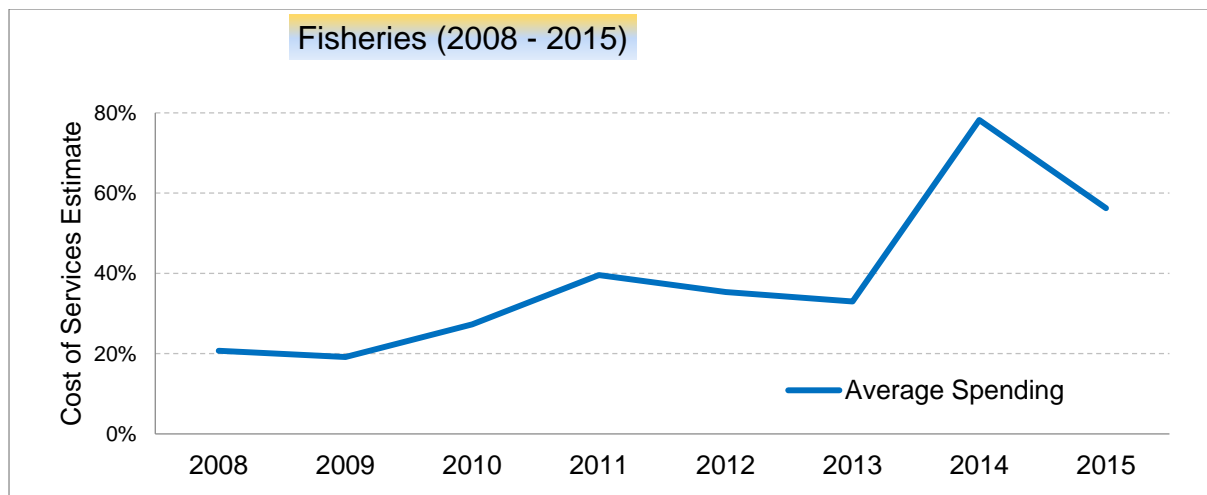
Fisheries								
Recurrent G&S	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	1.6	1.5	2.1	3.8	3.2	3.8	4.7	4.84
% change		-4%	44%	75%	-15%	19%	24%	3%

The above table shows the trend in expenditure on fisheries over the years. In 2015, the overall expenditure in fisheries increased by 3% from 2014.

Is more money spent in the right areas?

The graph below shows the average spending trend of operational funding in the MTDP sector of primary production: fisheries. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. In fisheries sub-sector the average spending trend decreases in 2015.

Figure 57: Average spending versus cost of services benchmark for Fisheries sub-sector



For coastal and river communities, fishing is a vital source of food security and income. In 2015, there was a decrease in spending where provinces spend about 56% relative to cost. Hence there was an improvement in 2014 but thus declined in 2015. Results indicate that more needs to be committed to support training and extension activities.

Spending in comparison to fiscal capacity

Figure 58: Table comparing total percentage spending on fisheries and fiscal capacity in 2015

Province	% Total Spending on Fisheries	FC
Morobe	0%	190%
NIP	0%	177%
SHP	0%	169%
WHP	0%	140%
MBP	2%	135%
Enga	0%	131%
ESP	1%	127%
Central	1%	124%
Simbu	0%	121%
Sand'n	3%	117%
Madang	1%	116%
Manus	1%	116%
Oro	1%	115%
EHP	0%	114%
Gulf	2%	114%
ENB	0%	111%
WNB	1%	106%
West'n	2%	61%
Jiwaka	0%	60%
Hela	0%	50%

The table shows the total percentage on Fisheries operational spending for each province compared to their fiscal capacity. Results from the table shows that, provinces still have to spend appropriately towards the sector in terms of recurrent (operational) programs and activities.

Do note that; the percentage derived is looking at how provinces prioritize fisheries against all other MTDP sectors and administration spending in 2015 in comparison to fiscal capacity.

As the results indicated, Maritime Provinces still have to spend adequately to fully fund the service delivery activities in the Primary Production – fisheries sub sector. The graph in figure 55 depicts all provinces having the fiscal capacity to meet the cost of service delivery but however are not doing so. Again similar cases like other MTDP sectors, timing of national funds release would be one of the hindrances.

PGAS item coding analysis: Fisheries

Figure 59: Table analysing all fisheries spending in 2015⁴²

Fisheries						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	2,207,754	43%	Recurrent Goods & Services	4,836,385	95%
121	Travel and Subsistence Exp's	812,876	16%	Personnel Emoluments	51,327	1%
125	Transport and Fuel	491,906	10%	Capital & Projects	198,166	4%
128	Routine Maintenance	374,275	7%			
143	Grants and Transfers	353,600	7%			
	<i>all other codes</i>	845,468	17%			
	Total spending from recurrent & capital	5,085,878	100%	Total spending from recurrent & capital	5,085,878	100%

The above Table (Figure 59) shows how primary production funds were spent in fisheries sub sector as per the PGAS item coding. The only largest expenditure item is; Other Operational Expenses – item 135, an amount of K2.2 million spent. The other four items however had an expended amount of over K350 thousand. The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.

⁴² 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, PSIP and unspecified SSG funds.

The fisheries data table below provides a snapshot of expenditure data for the period 2011 to 2015. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

Figure 60: Fisheries data table

Cost and Spending									
Province	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.	% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as % of CoS
Morobe	0.51	0.20	0.25	0.18	0.00	0.00			0%
NIP	0.74	0.03	0.02	0.06	0.13	0.01	-90%		2%
SHP	0.07	0.00	0.00	0.00	0.00	0.00			0%
WHP	0.00	0.81	0.10	0.00	0.00	0.00			
MBP	1.26	0.16	0.26	0.42	0.26	0.71	173%		56%
Enga	0.00	0.00	0.00	0.00	0.00	0.00			
ESP	0.67	0.14	0.26	0.21	0.40	0.35	-13%		52%
Central	0.44	0.46	0.25	0.32	0.39	0.33	-15%		75%
Simbu	0.00	0.03	0.06	0.12	0.10	0.02	-84%		
Sand'n	0.44	0.09	0.04	0.47	0.44	1.20	174%		272%
Madang	0.64	0.10	0.23	0.23	0.37	0.38	2%		59%
Manus	0.63	0.55	0.22	0.08	0.16	0.17	4%		27%
Oro	0.39	0.07	0.06	0.07	0.05	0.15	209%		38%
EHP	0.06	0.07	0.00	0.14	0.00	0.05			85%
Gulf	0.50	0.29	0.32	0.18	0.48	0.66	36%		130%
ENB	0.60	0.11	0.20	0.42	0.30	0.10	-66%		17%
WNB	0.97	0.43	0.62	0.68	0.39	0.37	-3%		38%
West'n	0.70	0.21	0.32	0.17	1.10	0.34	-69%		49%
Jiwaka	0.00	0.00	0.00	0.00	0.00	0.00			
Hela	0.07	0.00	0.00	0.00	0.10	0.00	-100%		0%
Total	8.69	3.76	3.21	3.76	4.66	4.84		Average	56%

4.5 Village Courts Sector

Background to village courts

Law and order issues in the rural areas of PNG contribute to the overall crime rate of the country and therefore enforcement is also required at that level. In 2007, the national government established a village court function grant to contribute towards the operational costs of maintaining village courts and to complement the village court allowance grant so that any law and order issue that arises from the rural level can be addressed.

Village court operational spending over time: 2007 to 2015

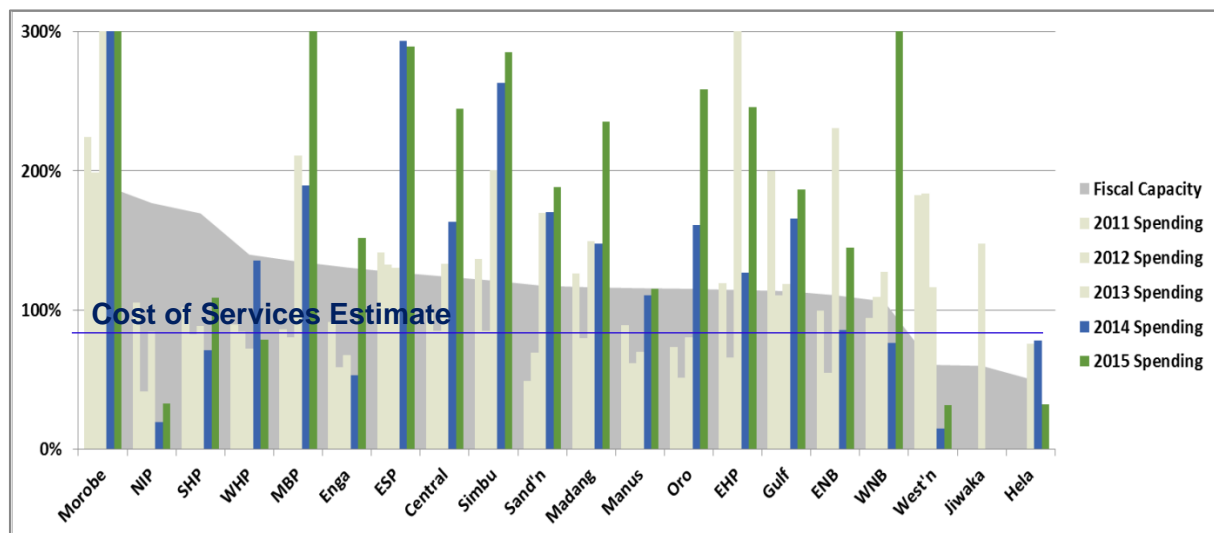
Papua New Guinea's traditional system of village based officials and 'village courts' requires an appropriate amount of operational funding to maintain its operations. In 2007, the national government established a village court function grant to contribute toward the operational costs of maintaining village. The table below shows that in 2015, the recurrent expenditure increased by 18% from 2014.

Figure 61: Table of operational spending on village courts from 2007 to 2015 (kina millions)

VC Ops									
VC operations	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	2.6	2.2	2.4	2.9	2.7	3.3	6.0	5.55	6.55
% change		-17%	10%	18%	-7%	23%	83%	-8%	18%

Observations on provincial performance: Village courts operations

Figure 62: Spending performance in village courts operation from 2011 to 2015

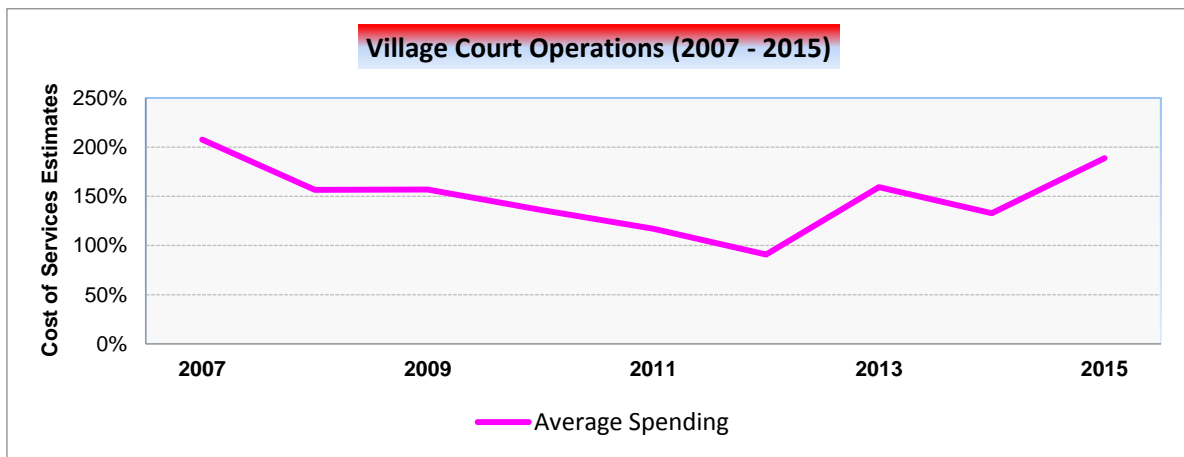


The above graph shows that in 2015, the overall recurrent expenditure in village courts operation was K6.55 million. Morobe, Milne Bay, East Sepik, Central, Simbu, Sandaun, Madang, Oro, Eastern Highlands, Gulf, East New Britain and West New Britain provinces spent over the cost of services benchmark and the fiscal capacity. Only four (4) provinces which are New Ireland, Western Highlands, Western and Hela had a lower expenditure amount. Jiwaka did not spend anything on village courts operation for two consecutive years.

Is more money spent in the right areas?

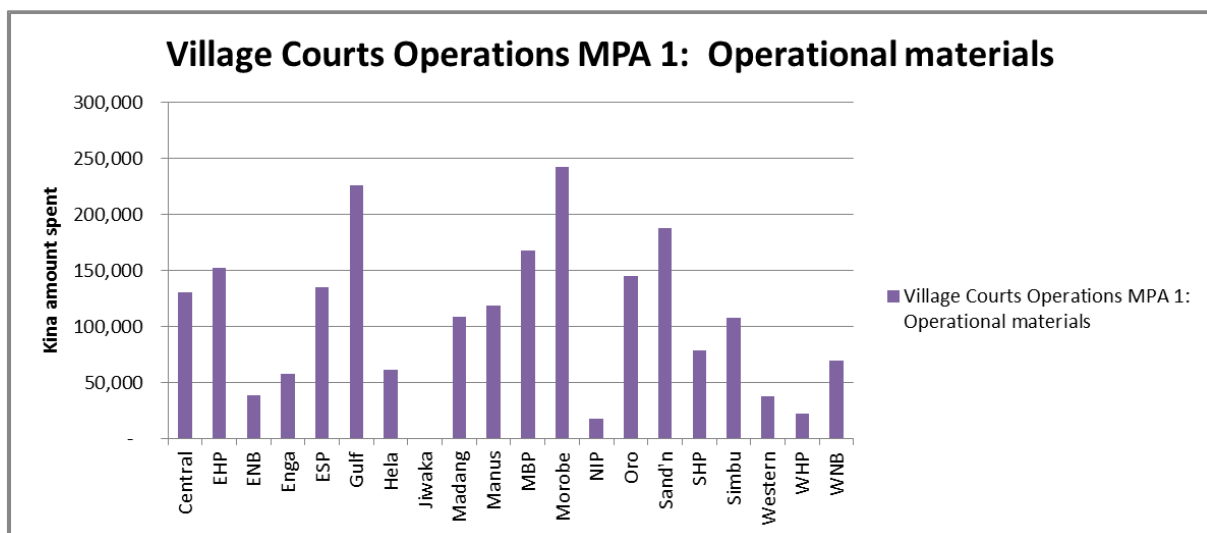
The graph below shows the average spending trend of operational funding in the village courts sector on operations. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. In 2015, the average spending was 189% compared to the sector cost.

Figure 63: Average spending versus cost of services benchmark for Village Courts (operations) sector



Are minimum priority activities (MPAs) in village courts operations being prioritised?

Figure 64: Graph on Village courts operation sector MPA spending in 2015



The above graph shows that provinces are supporting the MPA in the village courts sector in 2015 but however still have to appropriate funds adequately. East New Britain, Enga, Hela, New Ireland, Southern Highlands, Western, Western Highlands and West New Britain provinces recorded low spending. Jiwaka is the only province with no MPA support.

The MTDP 2011 – 2015 indicates “law and order problem poses a great challenge to PNG’s development and implementation of the long-term plan”.

To address law and order in the country, the PNGDSP 2010 – 2030 identified and stated strategies that will help ensure a safe society. Initiatives such as the use of village courts peace officers and traditional law enforcement measures were said to be ways that can prevent crime in rural local settings. Therefore, provinces should consider appropriate fund allocation towards assisting village courts operations annually. The sector Goal in both strategic plans is *“Provide a safe, secure and stable environment for all citizens, visitors, communities and businesses to conduct their affairs freely”* so adequate funding at all levels of government is required.

PGAS item coding analysis: Village Courts Operations

Figure 65: Table analysing all village courts operational spending in 2015⁴³

Village Court FG						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other Operational Expenses	2,607,938	38%	Recurrent Goods & Services	6,551,800	94%
143	Grants and transfers	1,235,835	18%	Personnel Emoluments	179,556	3%
124	Office Materials & Supplies	1,087,267	16%	Capital & Projects	213,930	3%
121	Travel and Subsistence Exp's	507,140	7%			
125	Transport and Fuel	446,397	6%			
	<i>all other codes</i>	1,060,708	15%			
	Total spending from recurrent & capital	6,945,286	100%	Total spending from recurrent & capital	6,945,286	100%

The table above shows how village courts funds were spent in operational expenses as per the PGAS item coding. The three largest expenditure items were;

1. Other Operational Expenses – item 135, an amount of K2.6 million spent.
2. Grants and Transfer – item 143, an amount of K1.2 million spent.
3. Office Materials & Supplies – item 124, an amount of K1.08 million spent.

The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.





















Cautionary Note: Land Mediation Operations and Land Mediation Allowances Function Grants

The National Executive Council (NEC) of the PNG government in 12th June 2014 noted and approved content of Policy Submission number 230/2013: The approved NEC decision is in regards to the establishment of Land Mediation Function Grant (FG) and Land Mediation Allowances grant in accordance to Section 64 of the Intergovernmental Relation (Funding and Functions) Act 2009 to take effect in 2015 and onwards. However; the reporting of the expenditure especially on the Land Mediation FG will be captured in the 2016 PER because this is when the calculation of the sub sector funding allocation was derived using the intergovernmental financing grant calculation process.

The village courts: operations data table on the next page provides a snapshot of expenditure data for the period 2011 to 2015. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

⁴³ 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, PSIP and SSG funds.

Figure 66: Village courts data table: Operations

Cost and Spending									
Province	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.	% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as % of CoS
Morobe	0.13	0.24	0.33	0.76	0.65	0.45	-30.85%		341.6%
NIP	0.12	0.05	0.05	0.11	0.03	0.04	34.53%		32.6%
SHP	0.16	0.26	0.25	0.17	0.15	0.18	16.30%		108.7%
WHP	0.12	0.29	0.24	0.13	0.25	0.10	-62.04%		78.4%
MBP	0.16	0.08	0.14	0.39	0.38	0.49	31.08%		307.8%
Enga	0.19	0.13	0.21	0.26	0.22	0.29	35.12%		151.8%
ESP	0.21	0.24	0.35	0.37	0.91	0.61	-33.37%		289.5%
Central	0.17	0.15	0.17	0.29	0.39	0.42	8.61%		244.8%
Simbu	0.18	0.15	0.14	0.36	0.51	0.50	-0.94%		285.4%
Sand'n	0.25	0.04	0.11	0.29	0.31	0.47	48.18%		188.0%
Madang	0.15	0.08	0.17	0.34	0.37	0.36	-1.44%		235.1%
Manus	0.22	0.07	0.11	0.14	0.24	0.26	8.64%		115.0%
Oro	0.12	0.04	0.04	0.07	0.15	0.31	101.41%		258.4%
EHP	0.16	0.12	0.13	1.05	0.30	0.40	34.30%		245.9%
Gulf	0.14	0.10	0.16	0.18	0.28	0.26	-5.84%		186.6%
ENB	0.12	0.08	0.06	0.28	0.11	0.17	51.65%		144.6%
WNB	0.17	0.23	0.22	0.27	0.18	1.10	519.52%		652.7%
West'n	0.18	0.30	0.39	0.26	0.04	0.06	56.27%		31.4%
Jiwaka	0.08	0.00	0.00	0.20	0.00	0.00			0.0%
Hela	0.31	0.00	0.00	0.09	0.11	0.10	-5%		31.9%
Total	3.36	2.67	3.30	6.03	5.55	6.55		Average	197%

Village court allowances over time: 2005 to 2015

As a society that is rurally based, Papua New Guinea relies heavily upon its indigenous system of village based officials and 'village courts'. Remunerating these officials for their service is an important element that recognises their important contribution to society and sustains the institution. In 2005, the national government introduced a dedicated grant to pay the allowances of the village court officials to duly carry out their duties.

The expenditure trend in village courts allowances started to fall in 2014 and 2015 due to the implementation of New Policy on Village Courts (VC) Officials in accordance with the NEC Decision No. 285/2013 made on VC Officials & Land Mediators allowances to be paid through the PNG Government Payroll.

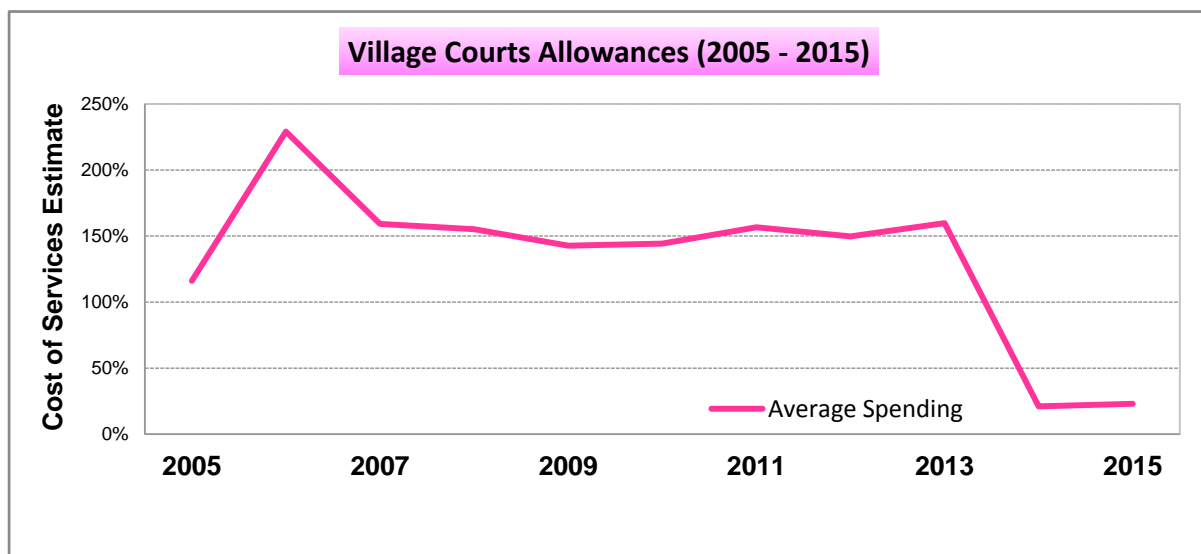
Figure 67: Table of village court allowances spending from 2005 to 2015 (kina millions)

VCA											
VCA allowances	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kina millions	5.9	10.8	5.5	7.7	6.4	6.5	8.2	8.5	9.1	1.2	1.3
% change		82%	-49%	39%	-16%	2%	26%	3%	8%	-87%	8%

Is more money spent in the right areas?





















The graph below shows the average spending trend of operational funding in the village courts sector on allowances. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. There was a decreasing expenditure trend in village courts allowances because payments are now paid directly to VC officials' individual account.

Figure 68: Graph on average spending versus cost of services benchmark for Village Courts (allowances) sector



The village courts allowances data table on the next page provides a snapshot of expenditure data for the period 2011 to 2015. It is a key reference table for the sector allowing the reader to monitor the five year trend by province.

Figure 69: Village courts data table: Allowances

Cost and Spending									
Province	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.	% change in expenditure between '14 and '15	Trend	Spending from Recurrent G&S as %
Morobe	0.42	0.40	0.55	0.48	0.00	0.00			0%
NIP	0.17	0.77	0.88	0.87	0.06	0.06	12%		37%
SHP	0.47	0.58	0.56	0.56		0.20			42%
WHP	0.30	1.31	1.46	0.89		0.29			98%
MBP	0.33	0.31	0.32	0.32	0.00	0.10			31%
Enga	0.65	0.96	0.89	0.88		0.01			1%
ESP	0.45	0.48	0.61	0.53	0.00	0.00			0%
Central	0.35	0.30	0.32	0.57	0.20	0.26	30%		73%
Simbu	0.45	0.38	0.38	0.43	0.43	0.04	-91%		8%
Sand'n	0.23	0.17	0.15	0.22	0.00	0.10			44%
Madang	0.39	0.32	0.33	0.45	0.45	0.00	-100%		0%
Manus	0.20	0.17	0.24	0.21	0.00	0.00			0%
Oro	0.19	0.14	0.13	0.09	0.00	0.08			40%
EHP	0.45	0.44	0.53	0.55	0.00	0.00			0%
Gulf	0.30	0.46	0.44	0.42	0.00	0.00			0%
ENB	0.18	0.19	0.22	0.27	0.00	0.00			0%
WNB	0.19	0.51	0.27	0.62	0.00	0.14			74%
West'n	0.19	0.34	0.19	0.31	0.06	0.02	-64%		12%
Jiwaka	0.19	0.00	0.00	0.26		0.00			0%
Hela	0.40	0.00	0.00	0.20	0.00	0.00			0%
Total	6.50	8.23	8.46	9.12	1.20	1.30		Average	23%

4.6 Administration Sector

Administration in the provinces

Administration cost is necessary for every provincial administration. However; based on previous year's expenditure reviews, it clearly shows that administration expenditure tends to increase unless a close control is maintained. It will be noted that some provinces even spend more than the cost of services estimate that is required on administration. At the same time, essential sectors such as education, health, transport infrastructure maintenance and primary production have nowhere near enough funding to deliver the basic level of services. Listed below are functions of the administration divisions.

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

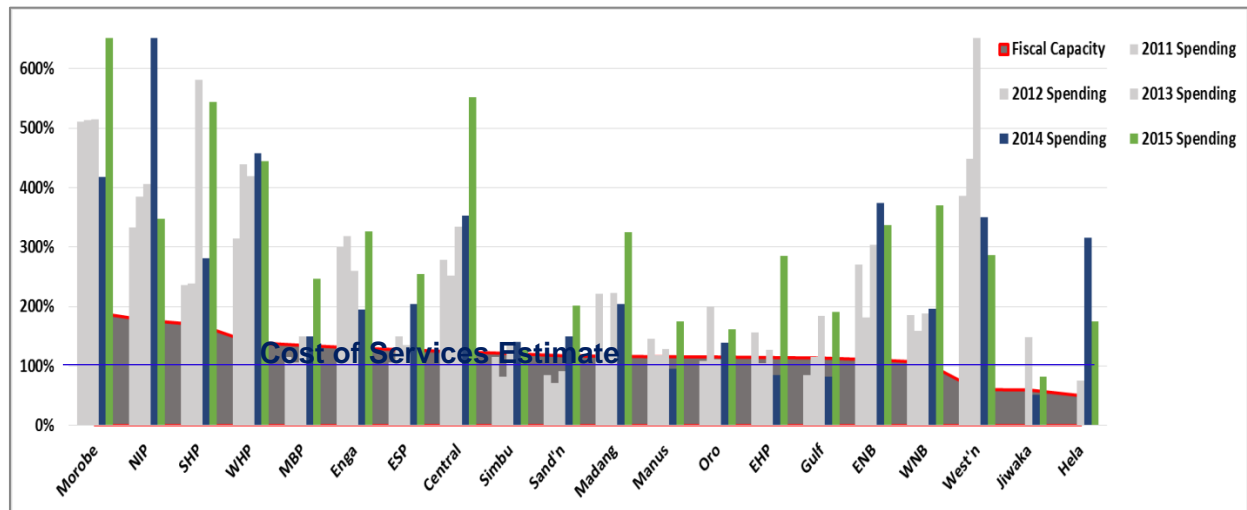
- Provincial and District Administration Building Maintenance

The administration spending against the benchmark

Performance by Province

The graph that follows illustrates the 2011 to 2015 performance of each province using the cost of services estimate as a benchmark. It can be observed greater volatility in the spending levels of higher funded provinces compared to those of lower funded provinces. This means that provinces tend to spend more on administrative activities than the MTDP sectors

Figure 70: Spending performance in administration from 2011 to 2015



The graph illustrates administration spending well above the cost of services benchmark and provinces fiscal capacity. Jiwaka is the only province which has a low expenditure of K1.47 million.

Support for the administration divisions over time: 2005 to 2015

The various areas of provincial administration are necessary and provide an essential enabling service for local levels. However, expenditure in this area needs to be carefully managed to ensure it does not displace the public services that provinces are mandated to deliver. The table below shows a 17% increase in administration spending in 2015 compared to 2014.

This is called creating fiscal space, and allows provinces to redirect funding to better support front-line services.

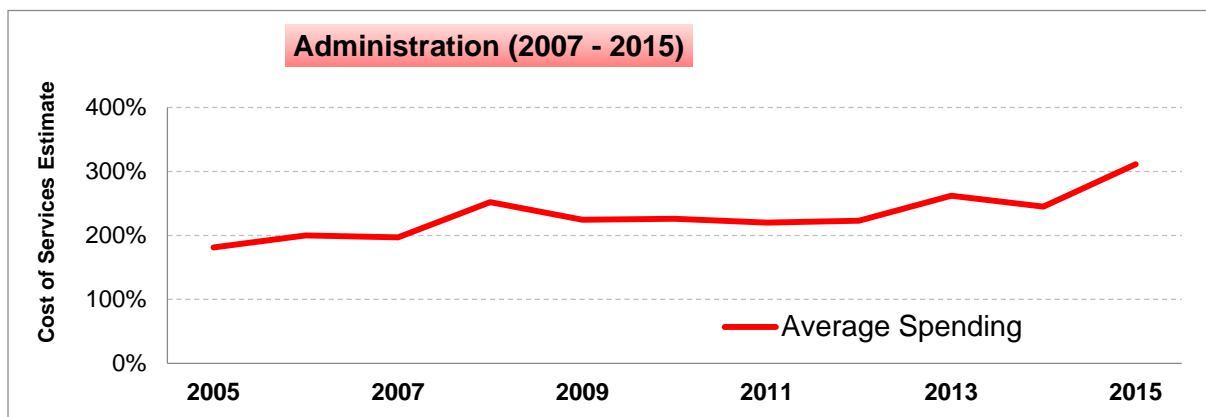
Figure 71: Table shows amount of all recurrent spending on the administration divisions from 2005 to 2015 (kina millions)

Admin											
G&S	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total (millions)	47.6	55.4	56.8	86.0	82.4	98.0	107.5	138.7	176.3	171.9	200.6
% change		16%	3%	51%	-4%	19%	10%	29%	27%	-2%	17%
Exp. from internal rev.		45.0	47.6	70.8	68.7	83.9	86.9	110.2	141.0	126.8	134.1
% from internal rev.		81%	84%	82%	83%	86%	81%	79%	80%	74%	67%

Is more money spent in the right areas?

The graph below shows the average spending trend of operational funding in the Administration division. It is important that all provinces (both high and low funded) properly manage their national operational funds and the internal revenue in terms of planning and budgeting so that service delivery activities can be effectively implemented in the priority sectors. Comparing administrative divisions to the MTDP sectors, it clearly shows that provinces are still spending more on administration.

Figure 72: Average spending versus cost of services benchmark for Administration sector



Provinces need to control their spending on administration. Controlling administration spending will free funds for service delivery. Some provinces, notably provinces rich in resources and GST, spend up to seven times what is estimated necessary. In 2015, relative to cost, provinces spent about 311% in administration activities. This is relatively high and reduces funds available for the delivery of basic services in other sectors.

Spending in comparison to fiscal capacity

Figure 73: Table comparing total percentage spending on administration and fiscal capacity in 2015

Province	% Total Spending on Administration	FC
Morobe	38%	190%
NIP	34%	177%
SHP	26%	169%
WHP	20%	140%
MBP	23%	135%
Enga	14%	131%
ESP	24%	127%
Central	34%	124%
Simbu	13%	121%
Sand'n	18%	117%
Madang	32%	116%
Manus	28%	116%
Oro	20%	115%
EHP	27%	114%
Gulf	16%	114%
ENB	32%	111%
WNB	21%	106%
West'n	39%	61%
Jiwaka	18%	60%
Hela	29%	50%

Percentage of operational spending in administration divisions for all provinces is over 10% in 2015.

Do note that; the percentage derived is looking at how provinces prioritize administration against all other MTDP sectors spending in 2015 in comparison to fiscal capacity.

PGAS item coding analysis: Administration Divisions

Figure 74: Table analysing all administration division spending in 2015⁴⁴

Admin						
The 5 Largest Spending Areas (by item)				The Split by Category		
Item #	Item Description	Amount	%	Category Description	Amount	%
135	Other operational expenses	106,850,383	41%	Recurrent Goods & Services	198,781,855	76%
121	Travel and Subsistence Exp's	14,583,649	6%	Personnel Emoluments	37,702,214	15%
143	Grants and Transfers	12,100,985	5%	Capital & Projects	23,382,634	9%
122	Utilities	10,547,479	4%			
125	Transport and Fuel	10,419,192	4%			
	<i>all other codes</i>	105,365,015	41%			
	Total spending from recurrent & capital	259,866,703	100%	Total spending from recurrent & capital	259,866,703	100%

The table above shows how administration funds were spent per the PGAS item coding. The five largest expenditure items are;

1. Other Operational Expenses – item 135, an amount of K106.85 million spent.
2. Travel and Subsistence Expenses – item 121, an amount of K14.58 million spent
3. Grants and Transfers – item 143, an amount of K12.1 million spent.
4. Utilities – item 122, an amount of K10.5 million spent.
5. Transport and Fuel – item 125, an amount of K10.4 million spent.

The split category shows the amount spent in the recurrent goods & services, staff related costs (PE) and capital & projects.

The impact of Consolidated Expenditure⁴⁵

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 analysis was illustrated if possible impact of these consolidated costs painted a significantly different picture of provinces administration spending performance.⁴⁶ It was identified that even the administration spending was discounted 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.

⁴⁴ 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, PSIP and SSG funds.

⁴⁵ 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.

⁴⁶ Refer to the 2008 Provincial Expenditure Review *Walking the Talk* available on the NEFC website.

The administration data table below provides a snapshot of administration expenditure trend for the period 2011 to 2015.

Figure 75: Administration data table

Cost and Spending									
Province	Cost of Services 2015 Estimate	2011 Exp.	2012 Exp.	2013 Exp.	2014 Exp.	2015 Exp.	% change in expenditure between '14 and '15	Trend	Spending from G&S as % of CoS
Morobe	5.19	20.20	28.40	30.37	26.74	41.15	54%		793%
NIP	2.12	7.56	8.73	9.84	17.33	7.38	-57%		348%
SHP	2.69	7.78	10.22	16.30	8.55	14.62	71%		543%
WHP	2.46	7.69	14.11	8.07	9.53	10.94	15%		444%
MBP	3.07	2.98	3.31	4.97	5.37	7.55	41%		246%
Enga	2.81	7.20	9.39	8.22	6.68	9.18	37%		326%
ESP	4.50	3.95	6.76	6.49	10.68	11.50	8%		255%
Central	2.68	5.95	7.38	10.43	11.98	14.78	23%		552%
Simbu	3.86	2.53	2.64	4.73	5.18	4.88	-6%		127%
Sand'n	3.73	2.28	2.46	3.35	5.91	7.52	27%		202%
Madang	4.30	6.07	5.52	10.67	10.57	13.96	32%		325%
Manus	2.28	2.70	2.60	3.02	2.41	3.99	65%		175%
Oro	2.01	2.00	4.04	2.40	3.26	3.25	0%		162%
EHP	3.48	3.71	4.26	5.53	4.01	9.91	147%		285%
Gulf	2.45	1.20	2.85	4.85	2.33	4.70	101%		192%
ENB	3.03	7.57	5.79	10.35	13.83	10.19	-26%		337%
WNB	2.81	4.07	4.57	5.78	6.49	10.41	60%		370%
West'n	3.04	12.09	15.69	27.33	14.22	8.72	-39%		287%
Jiwaka	1.78	0.00	0.00	2.24	0.84	1.47	76%		83%
Hela	2.60	0.00	0.00	1.32	6.04	4.56	-25%		175%
Total	60.88	107.52	138.72	176.26	171.94	200.64		Average	311%

5. The Provincial Expenditure Matrix and 2015 Score-card

The pages that follow summarise the findings of our analysis on a province-by-province basis. It must be remembered that these are fiscal indicators only and they do not provide assurance as to the quality of the expenditure. What needs to be known is however, that if spending is not happening in the right areas then basic service delivery activities cannot happen effectively. **The criteria highlighted in pale yellow were new in 2012.**

Figure 76: Table of Key Fiscal Performance Indicators

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
CROSS-SECTORAL FISCAL INDICATORS				
1	Revenue Disclosure Penalty	Indicates that a Province is not disclosing all relevant revenue streams.	Issue: Applies to Provinces that persist in failing to disclose and make visible relevant income streams.	The system of intergovernmental financing in Papua New Guinea relies on full disclosure of all relevant provincial revenue streams. Non-disclosure is a form of cheating the system.
2	Treasury Grant Release Rate	Indicates the percentage of function grants that the Department of Treasury released to a province in the period Sept-Dec.	Not Good: more than 25% in the period Sept-Dec	Provinces need their funding in a timely predictable manner to allow them to implement their service delivery programs during the year.
	Limited Compensatory Adjustment	Indicates whether NEFC has applied an adjustment to partially compensate a Province for the late release.	Yes: indicates an adjustment has been applied Blank: no adjustment	This limited adjustment acknowledges that the late release of funds impedes provincial performance.
3	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.
4	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.

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
5	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.
6	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 <u>need</u> to provide basic services and according to what a province can <u>afford</u> .	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.	
SECTORAL SPECIFIC FISCAL INDICATORS				
7	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 2008-2011 expenditure Steady: in between +/- 15% Down: 15% (or greater) <u>decrease</u> on the average of 2008-2011 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.
8	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.
9	Unspent % (Function Grant spending only)	The amount of unspent funds at year-end. Calculated against Budget (actual) – per 2013 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.

#	Key Performance Indicator	Description	KPI Measure	Why is this important?
10	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.
11	MPA Support	A specific assessment that looks at whether a province has <i>discrete votes</i> for each MPA and spends <i>appropriate</i> amounts in support of each MPA. NB: <i>Appropriate</i> in this context considers two factors; fiscal capacity and cost estimate.	Good: Appropriate levels of expenditure are visible in most MPAs within the sector Average: In-between Limited: There is limited evidence of discrete spending and/or appropriate levels of spending on MPAs in the sector	MPAs are critical activities vital to service delivery. They require appropriate levels of visible discrete funding and spending.
12	Salaries and Wages % (Health Function Grant spending only)	Spending on Salaries and Wages is <u>not intended</u> 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.

Absorbing a lot of quantitative information is difficult. To make this easier, the matrix typically groups the results into three groupings that can be described as good, average, and poor. These measures are set within the operating context.

Assessment Level	Score descriptions
This indicates a good result	High Good Up
This indicates a mixed yet somewhat positive result	Average Steady
This indicates a poor result	Low Not Good Limited Down Fail

Figure 77: The 2015 Provincial Expenditure Matrix & Scorecard

Sector	Assessment Criteria	Central	EHP	ENB	Enga	ESP	Gulf	Hela	Jiwaka	Madang	Manus	MBP	Morobe	NIP	Oro	Sand'n	SHP	Simbu	West'n	WHP	WNB
	Rank by Score	2	10	8	16	13	3	17	20	11	7	6	5	18	14	4	15	1	19	12	9
	Score	61%	51%	52%	44%	46%	58%	41%	31%	50%	53%	55%	56%	39%	45%	58%	45%	70%	38%	48%	52%
	Fiscal Capacity Rank	8	14	16	6	7	15	20	19	11	12	5	1	2	13	10	3	9	18	4	17
	Fiscal Capacity %	124%	114%	111%	131%	127%	114%	50%	60%	116%	116%	135%	190%	177%	115%	117%	169%	121%	61%	140%	106%
Cross Sectoral	Revenue Disclosure Penalty																				Issue
	Treasury Grant Release Rate (Sept-Dec)	38%	30%	38%	29%	41%	38%	42%	42%	35%	38%	38%	38%	38%	43%	41%	38%	38%	38%	42%	38%
	Compensation, Late Release, Timing Nat. Grants	35%	17%	35%	15%	39%	35%	41%	41%	28%	35%	35%	35%	35%	42%	39%	35%	35%	35%	41%	35%
	Reworked - Timing: % Nat Grant spending in 4th Quarter	17%	61%	40%	40%	40%	33%	36%	37%	42%	17%	37%	36%	43%	48%	38%	30%	26%	38%	22%	32%
	Limited Compensatory Adjustment Apply?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Timing: % Nat Grant spending in 4th Quarter	26%	73%	61%	47%	65%	51%	62%	63%	58%	26%	57%	56%	66%	83%	62%	46%	39%	58%	37%	49%
	Timing: % Int Rev spending in 4th Quarter	36%	56%	32%	31%	19%	30%	25%	n.a.	46%	28%	50%	33%	41%	49%	28%	5%	28%	20%	35%	41%
	Internal revenue spending: % on MTDS	11%	2%	19%	0%	1%	0%	21%		0%	15%	7%	29%	27%	0%	0%	0%	0%	9%	2%	22%
	Equity across four large MTDS sectors	0.26	0.18	0.13	0.20	0.30	0.28	0.18	0.07	0.09	0.47	0.26	0.20	0.37	0.13	0.37	0.15	0.24	0.03	0.10	0.31
	MTDS sector prioritised	Education				Health/HIV	Health/HIV				Education	Education		Education		Education					Education
Rural Health	Spending Trend	Down	Up	Down	Up	Down	Up	Down	Down	Up	Down	Down	Up	Up	Down	Up	Up	Up	Down	Down	Up
	Spending Performance Level	Medium	High	Low	Medium	High	High	Low	Low	Medium	Medium	High	Medium	Low	Medium	High	Medium	High	Low	Medium	Medium
	Function Grant Unspent %	23%	18%	43%	27%	13%	13%	32%	68%	34%	68%	0%	45%	56%	54%	53%	32%	34%	81%	56%	44%
	Function Grant Spending Nature Test	Average	Average	Average	Average	Average	Average	Average	Not Good	Average	Not Good	-	Average	Not Good	Not Good	Not Good	Average	Average	Not Good	Not Good	Average
	MPA Support	Average	Average	Average	Average	Average	Average	Average	Limited	Limited	Average	Limited	Average	Limited	Average	Average	Average	Average	Limited	Limited	Average
	No Salaries Test	OK	OK	OK	OK	Fail	Fail	Fail	OK	OK	OK	-	OK	OK	Fail	OK	OK	OK	OK	-	OK
Education	Spending Trend	Up	Up	Steady	Steady	Down	Steady	Down	Down	Up	Up	Up	Up	Down	Steady	Up	Up	Up	Down	Up	Up
	Spending Performance Level	High	Medium	Medium	Low	Medium	High	Medium	Low	Medium	High	High	Medium	High	Medium	High	Low	High	Low	Medium	High
	Function Grant Unspent %	10%	22%	30%	18%	22%	3%	33%	51%	53%	13%	22%	29%	48%	33%	41%	25%	26%	38%	18%	34%
	Function Grant Spending Nature Test	Good	Average	Average	Average	Average	Good	Average	Not Good	Not Good	Good	Average	Average	Average	Average	Average	Average	Average	Average	Average	Average
	MPA Support	Good	Limited	Average	Average	Limited	Average	Average	Limited	Average	Average	Average	Average	Limited	Limited	Average	Average	Average	Limited	Limited	Limited
Infrastructure Maintenance	Spending Trend	Down	Down	Up	Down	Down	Down	Down	Up	Down	Down	Down	Up	Steady	Up	Steady	Down	Up	Down	Down	Up
	Spending Performance Level	Medium	Medium	Medium	Low	Low	Medium	Low	Low	Medium	Low	Medium	Medium	Low	Medium	Medium	Low	High	Low	Low	Medium
	Function Grant Unspent %	11%	22%	29%	13%	17%	30%	54%	26%	17%	66%	18%	16%	72%	38%	37%	27%	26%	70%	6%	61%
	Function Grant Spending Nature Test	Good	Average	Average	Average	Not Good	Average	Not Good	Average	Average	Not Good	Average	Average	Not Good	Average	Average	Average	Average	Not Good	Average	Not Good
	MPA Support	Good	Good	Average	Limited	Average	Good	Limited	Average	Average	Average	Average	Limited	Limited	Average	Average	Limited	Good	Limited	Limited	Average
Primary Production	Spending Performance Level, Agriculture	Medium	Medium	Steady	Medium	Medium	Medium	Low	Low	Medium	Medium	Medium	Low	Low	Medium	Medium	Low	High	Low	Medium	Medium
	Spending Performance Level, Fisheries	Medium	Steady	Low	n.a.	Medium	High	Low	n.a.	Medium	Low	Medium	Low	Low	Low	High	n.a.	Low	Medium	n.a.	Low
	Function Grant Unspent %	10%	41%	42%	33%	20%	11%	31%	6%	41%	59%	32%	47%	77%	31%	46%	25%	26%	43%	56%	47%
	Function Grant Spending Nature Test	Good	Not Good	Average	Average	Average	Good	Average	Good	Average	Not Good	Average	Not Good	Not Good	Average	Not Good	Average	Average	Average	Not Good	Average
	MPA Support, Agriculture & Fisheries	Average	Average	Average	Limited	Average	Good	Average	Limited	Average	Average	Average	Limited	Limited	Average	Average	Average	Average	Average	Limited	Average
Village Courts	Spending Performance Level	High	High	High	High	High	High	Low	Low	High	High	High	High	Low	High	High	High	High	Low	Medium	High
	Function Grant Unspent %	3%	40%	47%	2%	7%	15%	29%	0%	57%	53%	28%	26%	38%	6%	26%	22%	26%	63%	44%	50%
	Function Grant Spending Nature Test	Good	Not Good	Not Good	Good	Good	Average	Average	Not Good	Not Good	Average	Average	Average	Average	Good	Average	Average	Average	Not Good	Not Good	Not Good

6. Issues and Challenges

In any work environment or even in an individual daily life's routine there are obstacles that hinder progress in achieving a set goal. However, one must take a positive view on what's best for the concern majority. This also applies to service delivery mechanism/systems set in place for implementation.

As outlined in the 2012 PER "Government Money Arteries & Services", there are blockages in the service delivery system that slows down or stop the effective process of implementing the delivery of goods and services to the vast population especially the 87% of the people who lives in rural areas across the country. One of the on-going issue is how timely are the release of warrants? If large amount of function grant warrants are released towards the end of the fiscal year (that is; third and fourth quarter) this will then contribute to late spending on planned budgeted activities for service delivery.

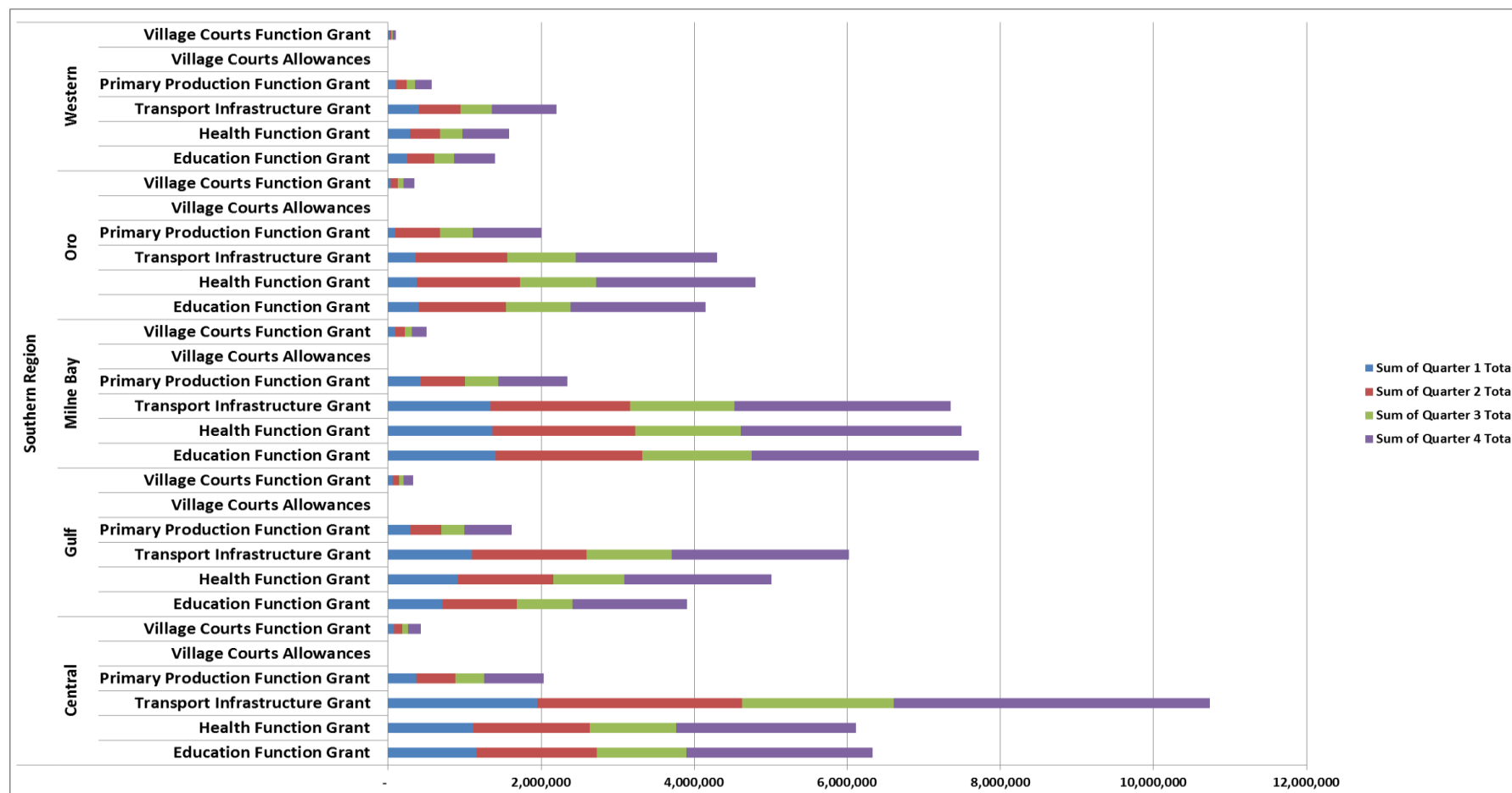
One of the system's vital process is to ensure that services are been delivered on time. Is the flow of funds from the National level and also to the Sub-national levels then on to various service delivery sectors for implementation timely? For this to happen, the two key National Government agencies responsible for funding allocation and releases are; The National Department of Treasury (NDoT) which is responsible for releasing the warrant authority as per the approved funding appropriation in the National Budget of a fiscal year, whilst the National Department of Finance (NDoF), based upon the warrant authority released by NDoT, is responsible for releasing the cash equivalent component.

2015 Warrant Release Information

The following graphs show the warrant release information for respective provinces specifically on the function grants. The graphs clearly illustrate that more of the FG warrant release are towards the third and fourth quarters. Some of the possible impacts of late release of Function Grants warrants are:

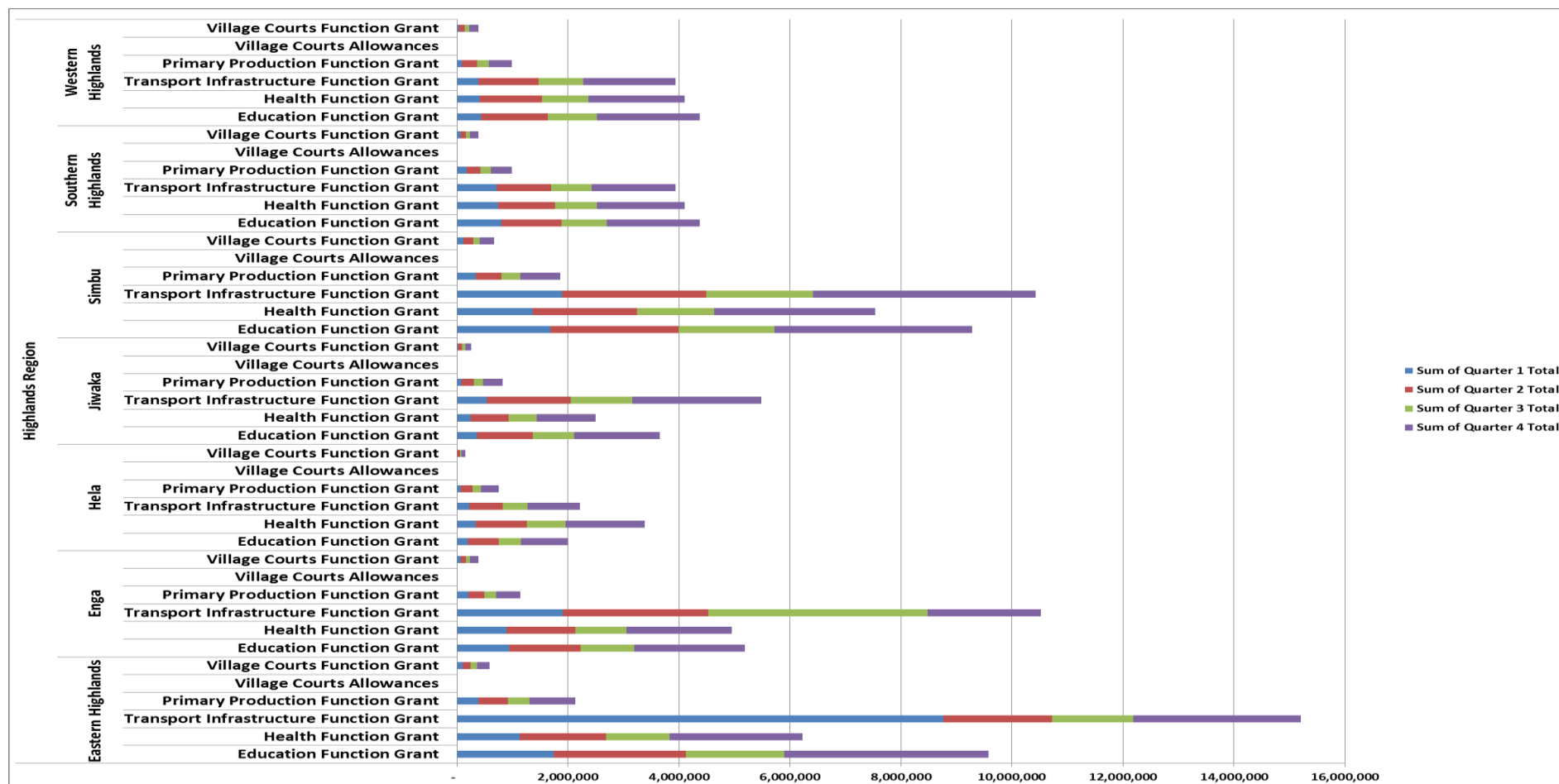
1. First and second quarter service delivery activities that are planned and budgeted for are delayed.
2. Using development funding – there is a tendency of provinces that are dependent on function grants to use whatever available development funds for recurrent (operational) expenditure to deliver services.
3. Increase spending towards the end of third and fourth quarter is questionable, whether these funds are used for minimum priority activities or intended service delivery activities in the MTDP service delivery sectors.

Figure 78: Graph showing Southern Region Provinces – Function Grants Warrant Release per Quarter in 2015



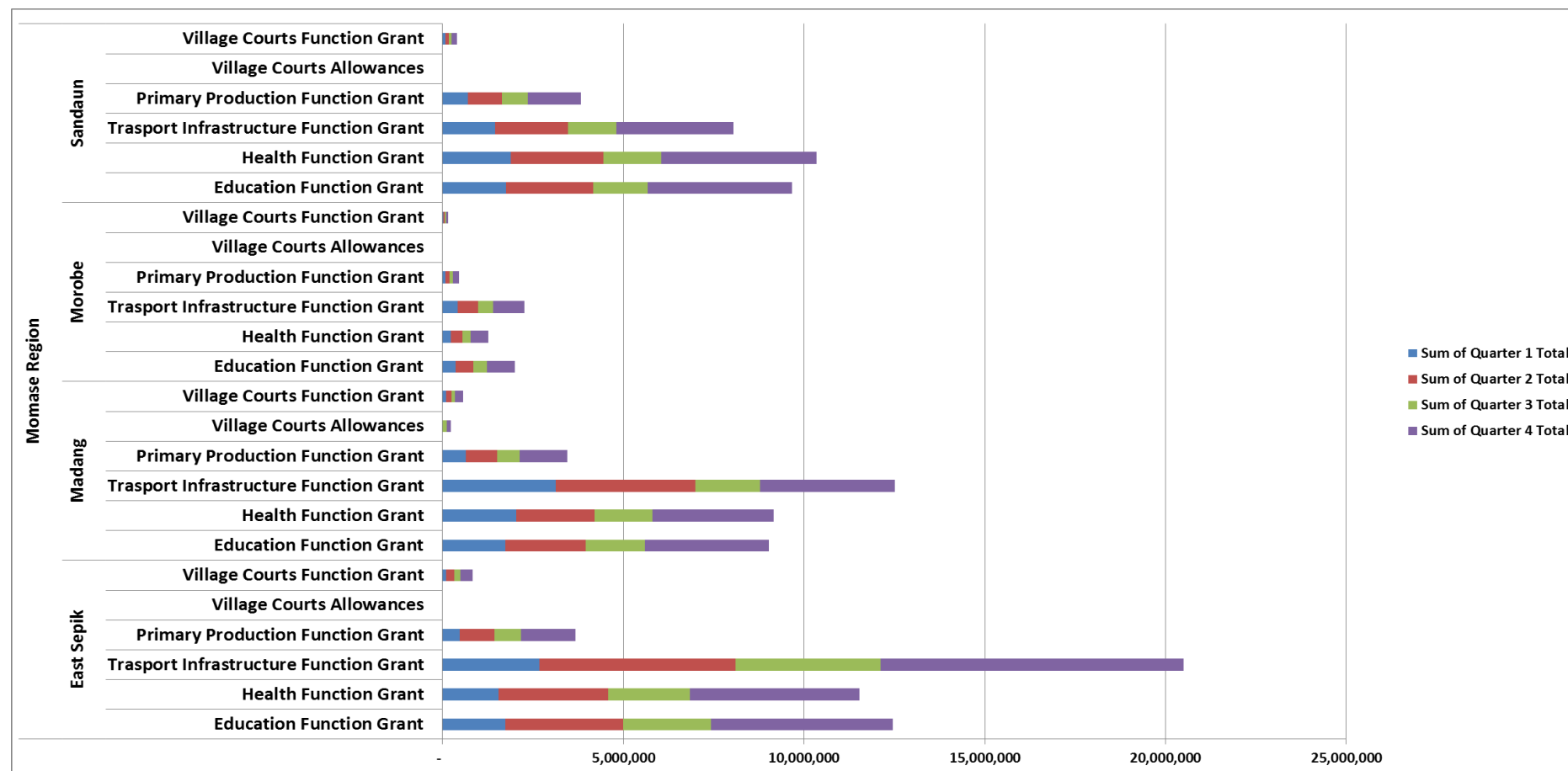
- Central, Gulf, Milne Bay and Western provinces received 38% of total function grant release in the fourth (4th) quarter.
- Northern (Oro) province received 43% of its function grant in the fourth (4th) quarter.

Figure 79: Graph showing Highlands Region Provinces – Function Grants Warrant Release per Quarter in 2015



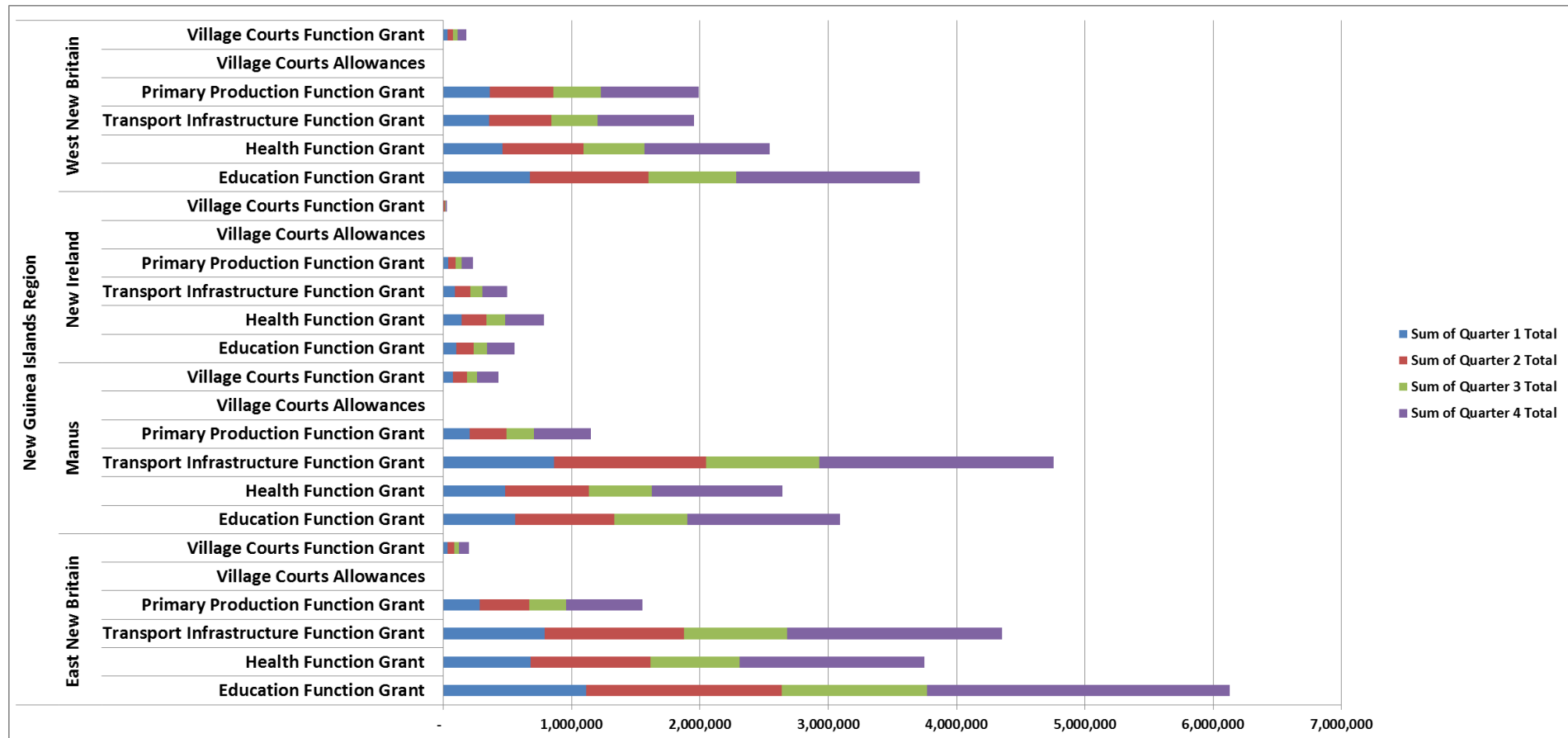
- WHP, Hela, Jiwaka provinces recorded 42% of the total function grant as released in the fourth (4th) quarter.
- Simbu 38%, SHP 38%, EHP 30% and Enga 29% had their total function grants released in the fourth (4th) quarter respectively.

Figure 80: Graph showing Momase Region Provinces – Function Grants Warrant Release per Quarter in 2015



- East Sepik , Sandaun and Morobe provinces had 38% of total function grant released in the fourth (4th) quarter while 35% of function grant for Madang was released in the same quarter.

Figure 81: Graph showing New Guinea Islands Region Provinces – Function Grants Warrant Release per Quarter in 2015



- East New Britain, Manus, New Ireland and West New Britain provinces all recorded 38% of total function grant as released in the fourth (4th) quarter.

2015 timing in expenditure per quarter

The NEFC has been analysing provincial spending since 2005. The data collated enables the reader to identify trends in spending patterns and to provide greater insight as to the connection and linkages between good spending habits and desirable outcomes in improved service delivery.

The tables below detail how much provincial spending took place in each quarter between 2005 and 2015 from national grants and internal revenue.

Figure 82: Spending from **national grants** by quarter 2005 to 2015

GRANT

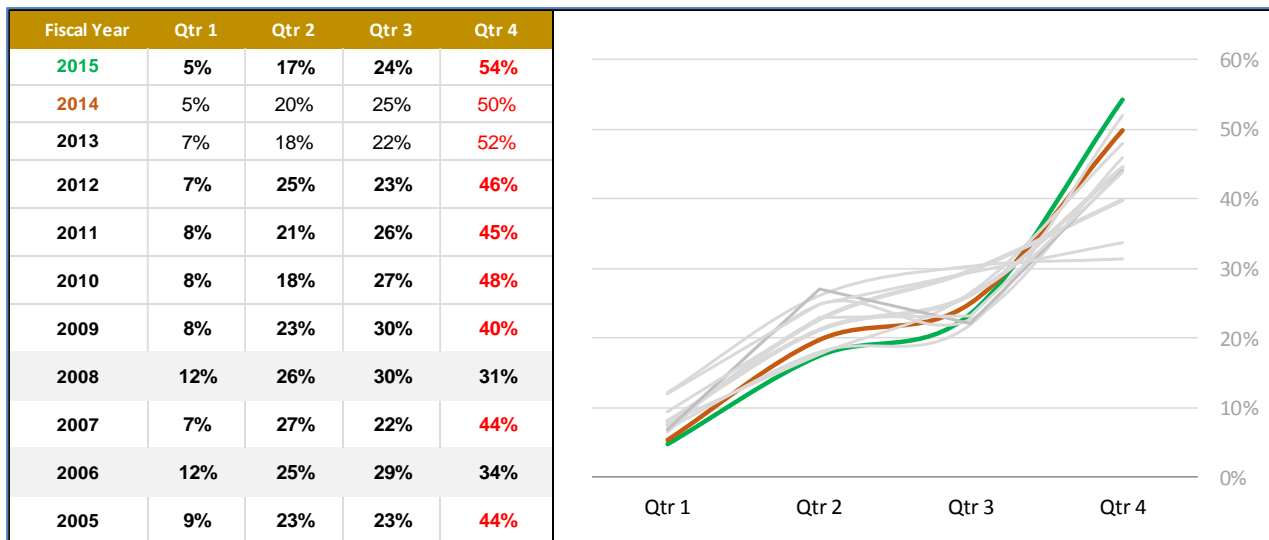


Figure 83: Spending from **internal revenue** by quarter 2005 to 2015

INTERNAL REVENUE

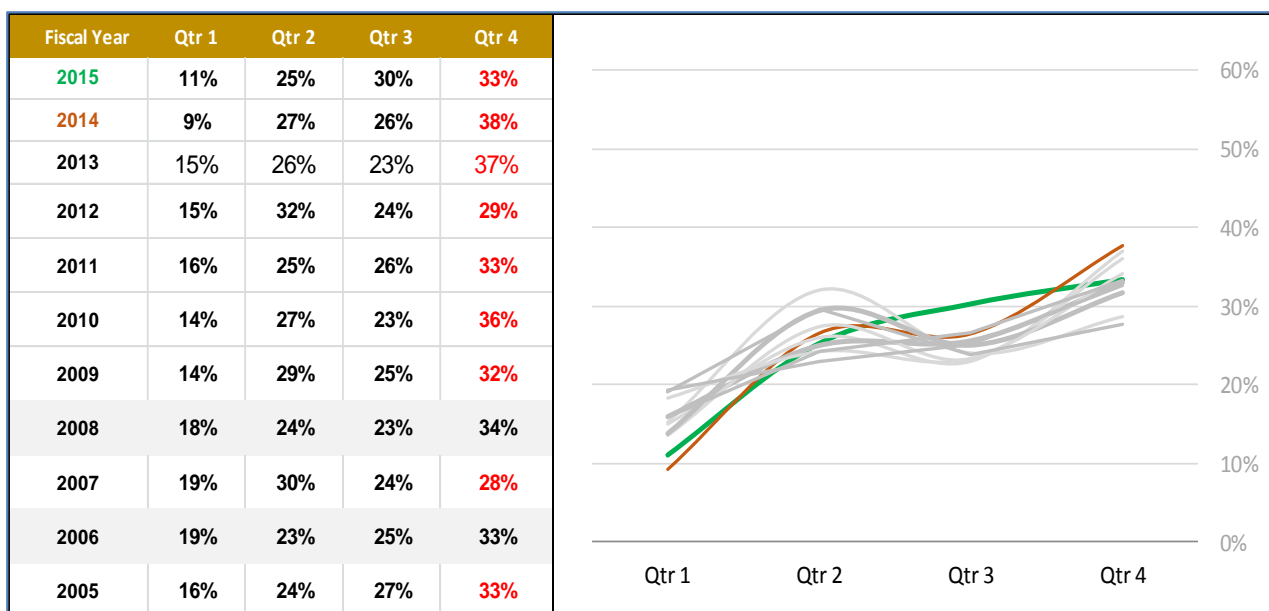
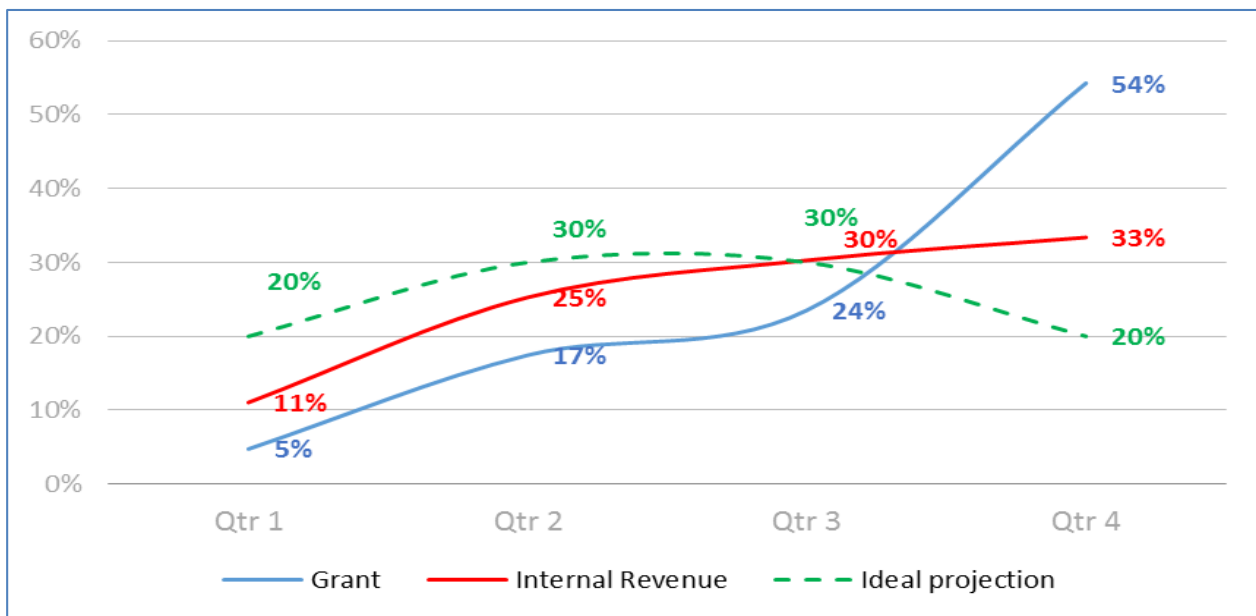


Figure 84: Graph on the average level of spending in each quarter⁴⁷



In 2015, 54% of grant expenditure and 33% of spending from internal revenue occurred in the final quarter of the fiscal year. When one considers that the government accounts close mid-way through December, that means that more than a half of grant spending and more than one third of internal revenue spending occurred in just over two months. So, how much service delivery can happen during the year when the spending to support service delivery is delayed and occurs so late?

- Spending in the first quarter was very low for the fifth consecutive year.
- Spending in the 4th quarter of 2015 recorded very high.

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 into 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.

⁴⁷ Cheques raised to transfer unspent funds at year-end have been removed from this analysis to avoid distortion.

Predictable timing of Warrant Release

The NEFC does understand the current economic/financial situation of the country but it believes that a standard warrant/cash release scheduled is required so that annual planned service delivery activities are carried out effectively in a fiscal year.

Figure 85: Predictable timing of Warrant Release

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%

The table above 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 reduces as the year progresses.
- It often takes one or two months (perhaps more if the funds goes down to lower levels of the sub-national system) to complete the spending process and actually raise a cheque. So by releasing funds early, it allows 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 difficult to implement a service delivery program across sectors when the funding is disbursed in an ad hoc manner each year from the national level.

7. Conclusion and Way Forward

In conclusion, each basic service delivery sector expenditure patterns should be properly managed through the following:

1. The available funding source (makes up the fiscal capacity to adequately spend)
2. Knowing the Estimated cost of service delivery activities per sector
3. Adequate sectoral spending pattern (kina amount spent)

Funding follows functions is one of the main objectives of the new system of intergovernmental financing which illustrates available amount of funding for each Sub-National level relating to the actual recurrent cost of implementing services/activities. For instance; a province is said to have available revenue sources to spend in a fiscal year and to see effective service delivery to happen, there should be a well preferred provincial budget formulation where it outlines appropriate funding sources budgeted against each sector programs and activities (considering the sectoral cost) and that will eventually result in adequate spending amount in basic services.

A way forward on accountability and transparency in service delivery; ***Focus on Expenditure (Monitoring)***

To maintain the integrity of the new financing system, there are established Acts, Regulations and Instruments to guide National and Sub-National levels of government.

The Public Finance Management (PFM) Act 2016 of Papua New Guinea outlines the responsibility of financial bodies to undertake in order to maintain transparency and accountability in the financial system of Papua New Guinea. It relates to the Financial Management Manual (FMM) where from every Act outlined in the PFM, it spells out in the FMM. Note that; if there is an amendment made to the act, there is always a correspondence Finance Instruction issued and it should also reflect in the FMM of Papua New Guinea.

Responsible government agencies such as the Auditor General Office (AGO) establishes a major role in ensuring that all government spending agencies (national/provincial/LLG) are guided by the financial instructions/regulations under section 114 of the Organic Law on Provincial and Local – Level Governments on how to report on financial expenditures within the fiscal year budget. Internal Audit Units and Audit Committees are meant to be established and AGO is responsible to ensure that the committees are effectively functioning in all levels of government (more importantly in the sub-national level where more funding now are streaming down for implementation for recurrent/development activities.

The primary responsibility of an agency is to effectively implement policy within its financial limits laid down by the Government.

Cash Flow

There are two types of cash flow for expenditure:

1. Statement of fund flow

It is prepared for the following purposes;

- a. To determine the amounts for which warrant authorities (WA) should be issued by DoT
- b. To ensure that commitments are planned
- c. To monitor dis-commitments against planned commitments

- d. It shows the estimated commitment for each month of the year under each vote (item under an activity or project) against the annual estimate of expenditure.
- e. Preparation of the Statement of Fund Flow is important because WA issued on this basis set the ceiling within which funds can be committed, and commitment is the first and most important point of expenditure control.

2. Statement of Expenditure Outflow

- This statement is prepared for the following purposes;
 - a. To determine the amounts of monthly cash ceilings (separately from salary, Department of Works items, and other items) to be issued by the Department of Treasury for each Implementing agency.
 - b. To plan expenditure month by month.
 - c. To monitor actual expenditure against planned expenditure.
- It shows the estimated disbursement by cheque/cash for each month under each vote against the annual estimate of expenditure.
- Statement for Expenditure Outflow is important for planning and controlling cash.

Both the Fund Flow and Expenditure Outflow statements are prepared for each vote against approved annual expenditure in the budget. Therefore, the yearly total should be the same in both statements. However, there may be differences in any month because of delay in supplies or submissions of claims by suppliers.

The Statement of Fund Flow deals with the projection of fund requirements for commitment whereas the Statement of Expenditure Outflow deals with the projection of expenditure or actual payment likely to arise in a year.

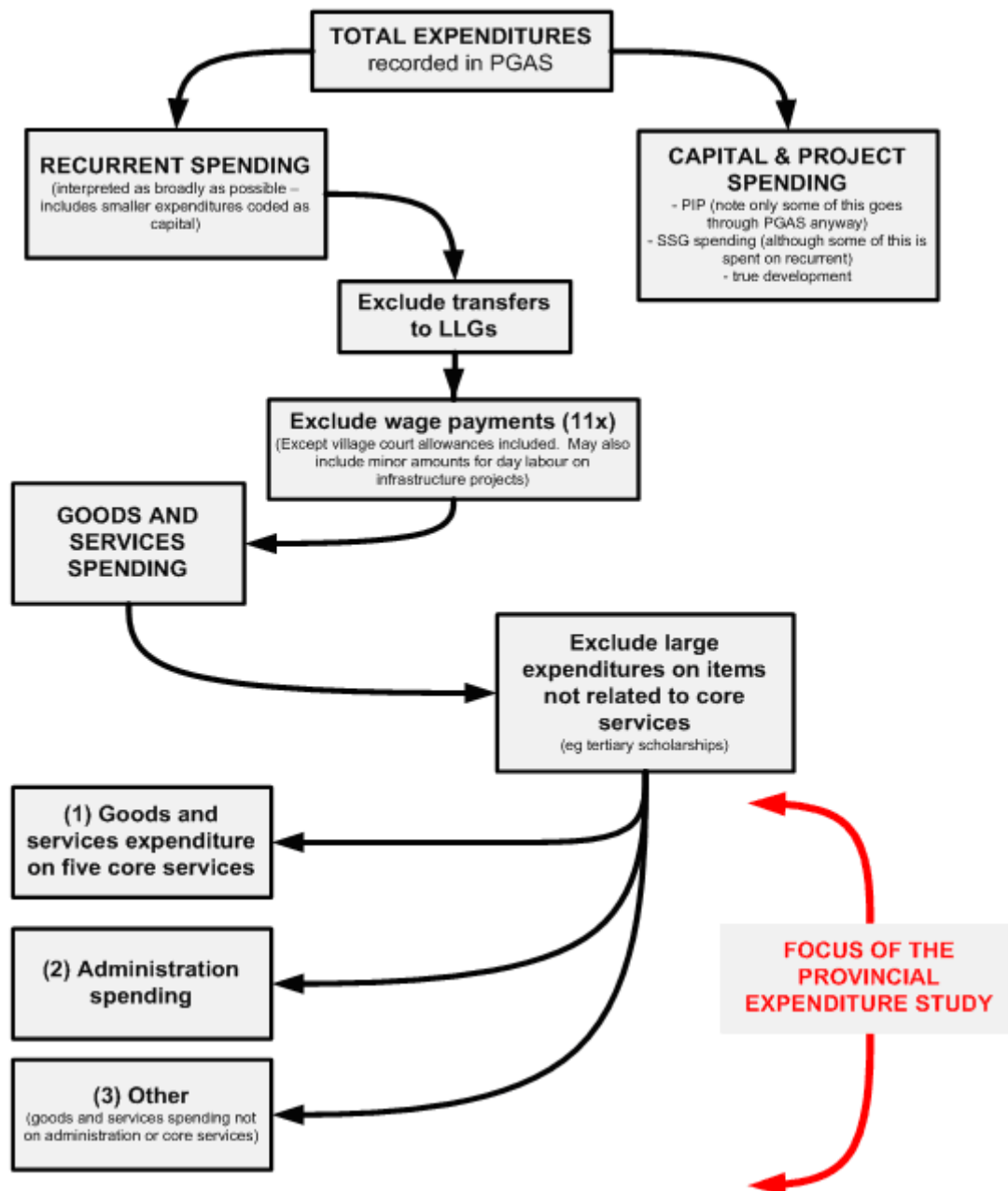
Apart from the PFM Act, other Financial Instructions (FI) issued by the Department of Finance, Budget Expenditure Instructions (BEI) and Chart of Accounts codes (CoA) are vital documents to consider when formulating budget, authorizing payments and expending accordingly.

The government of Papua New Guinea financial system is governed by the Public Finance Management Act procedures. Thus, all levels of government offices must comply with the regulations of the act to maintain the integrity of the system.

Appendix 1: Data: what's in and 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 the expenditure reviewed is on recurrent goods and services, the spending that supports the delivery of services to our people.

Figure 86: Showing what data is included and what isn't⁴⁸



⁴⁸ 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:

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

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

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

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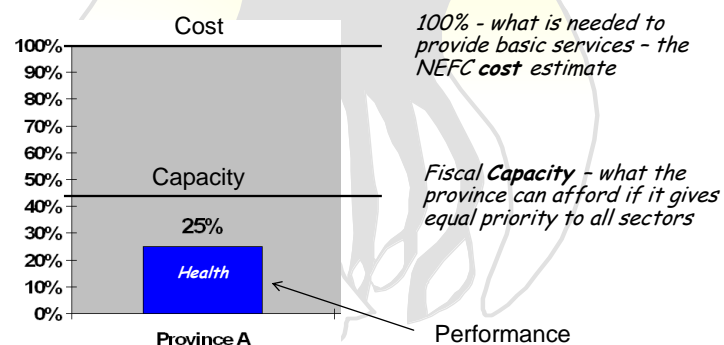
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Comparing Actual Spending to Cost of Services Estimates (slides 3 and 4)

3. Let's illustrate that example:

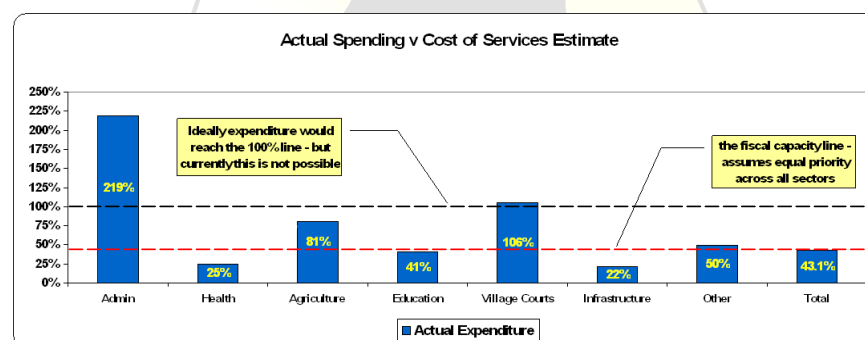
Province A:

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



4. Let's expand the example further

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

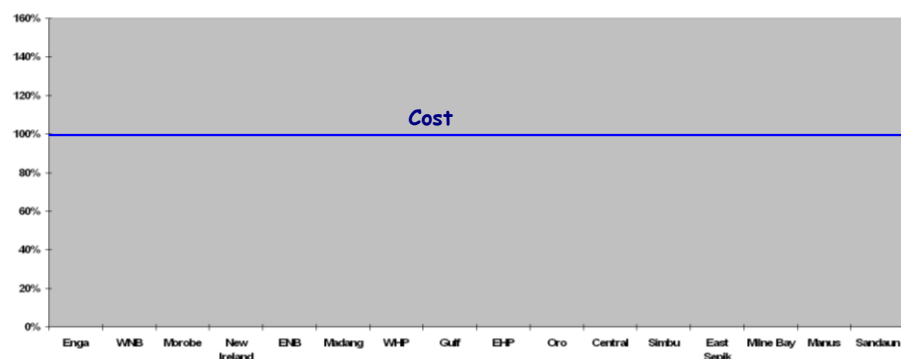


Much of the analysis and findings in this report are presented in a graphical format that compares results by sector across provinces. The graphs bring together the three threads of cost, fiscal capacity and spending performance and enable us to review our progress by comparing performance across provinces.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

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

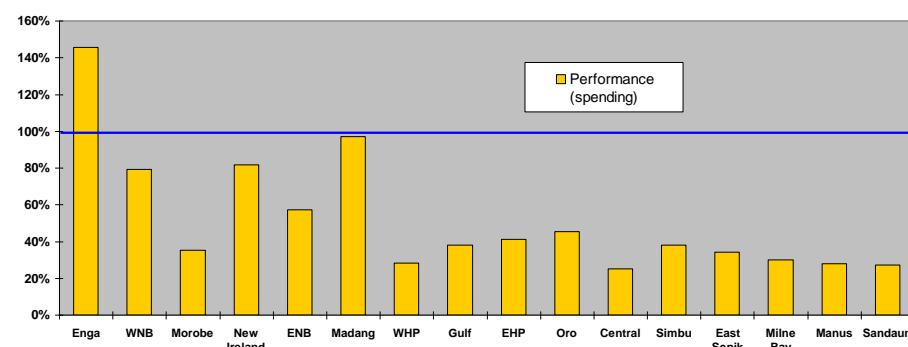
Education Costs

- 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



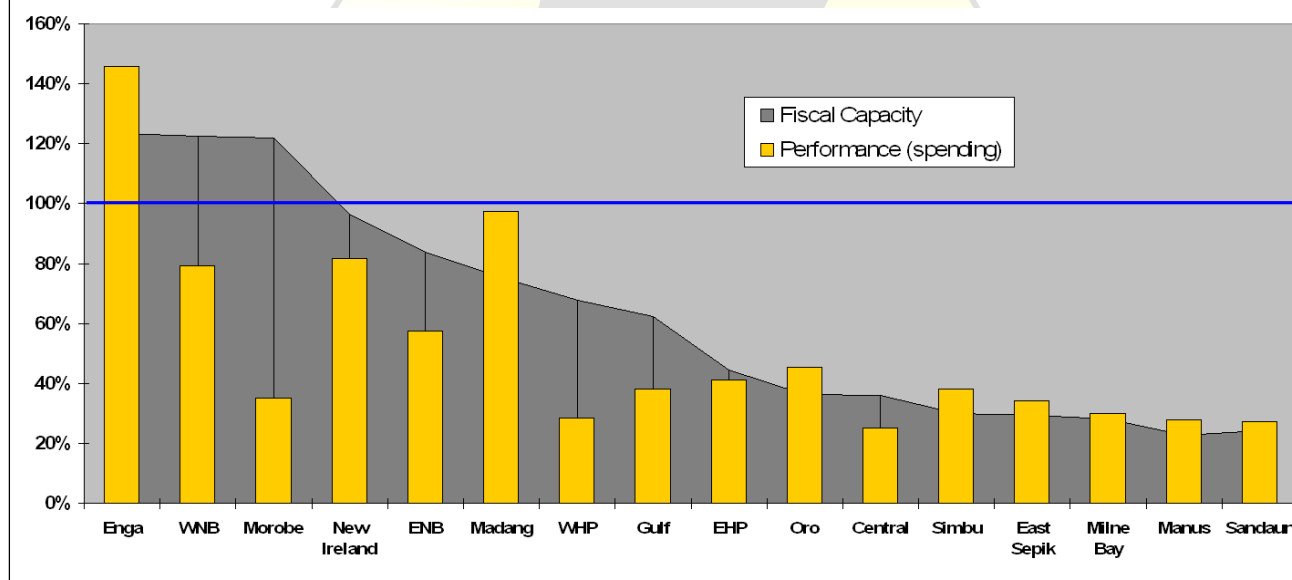
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Performance by all provinces in the education sector (slide 3)

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:

1. 200 litres of kerosene per year
2. 18 litres of bleach
3. 120 cakes of soap
4. 1 mop
5. 1 bucket
6. 10 x 13kg gas bottles (to power vaccine refrigerator)
7. 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 incorrect 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%.

The following 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.

The 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.

The justification for not including this cost is 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, it is known 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 it has been referred 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 one can 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 can one 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 it was not assessed and compared 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. 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 <u>without</u> adjustment for fiscal capacity				
Actual expenditure	1,045,800			
Cost of services estimate	4,076,867	x 100%	=	26%
B. Performance <u>adjusted</u> for fiscal capacity				
Actual expenditure	1,045,800			
Cost of services estimate	4,000,000	x 45%	=	57%

It can be seen 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, it can be seen 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 one to compare provinces of differing capacity by the same measure.

Appendix 5: Cost of services estimate table 2015 (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.

Province	Admin	Health/HIV	Agriculture	Fisheries	Education	VC Allowance	VC Operations	Infrastructure	Other	Total Cost Estimate
Central	2,679,497	7,548,227	2,426,281	442,655	6,731,902	353,542	172,013	14,159,682	4,807,329	38,878,473
EHP	3,478,994	5,777,897	2,238,395	61,061	14,306,319	446,967	161,473	20,650,805	3,903,948	50,964,798
ENB	3,025,610	5,676,833	1,826,399	598,787	8,326,485	176,865	116,409	12,646,786	4,725,057	36,520,443
Enga	2,811,607	5,859,351	2,352,302	-	8,903,183	653,070	192,348	13,893,483	3,440,669	38,106,014
ESP	4,504,693	7,601,345	3,180,893	666,096	10,538,415	450,584	209,024	21,545,617	5,015,828	53,046,399
Gulf	2,454,440	4,472,713	1,671,849	504,070	3,763,417	303,170	139,921	5,877,795	2,560,638	21,243,944
Hela	2,600,059	5,051,618	1,612,583	66,050	4,458,841	396,543	314,906	4,803,812	2,424,266	21,662,628
Jiwaka	1,777,028	3,645,084	842,009	-	6,134,582	189,498	82,072	9,641,353	1,984,210	24,295,835
Madang	4,300,453	9,138,262	3,526,786	636,608	10,774,499	388,982	153,632	15,325,760	4,790,695	48,399,069
Manus	2,275,514	1,888,530	1,012,456	627,263	2,489,094	202,220	224,446	5,123,160	2,561,248	15,776,667
MBP	3,066,156	6,009,794	2,317,120	1,258,094	6,778,983	327,286	159,805	7,559,136	4,312,530	30,530,810
Morobe	5,187,558	11,431,028	4,175,964	513,959	17,522,698	424,003	130,915	18,588,997	6,584,857	64,046,021
NIP	2,120,903	5,053,570	1,510,617	740,597	5,043,109	169,741	117,070	5,618,493	3,275,094	22,908,596
Oro	2,005,256	4,357,798	1,836,413	390,826	4,102,069	193,709	119,966	4,013,569	2,403,493	19,032,271
Sandaun	3,725,361	8,265,033	3,114,300	442,231	7,707,000	230,904	248,174	8,209,313	4,362,495	35,862,580
SHP	2,689,705	6,321,015	1,804,302	69,762	9,782,093	471,639	162,785	8,538,806	3,237,966	33,008,311
Simbu	3,858,364	5,627,076	1,525,442	-	7,829,425	447,004	176,408	9,730,685	3,135,497	32,329,903
Western	3,038,701	9,928,126	2,781,829	699,041	7,733,238	185,287	182,408	16,482,212	4,132,778	44,464,580
WHP	2,464,274	3,932,767	1,484,370	-	11,674,623	298,985	123,519	11,825,941	3,524,902	35,329,381
WNB	2,812,119	5,003,378	2,111,037	973,309	6,457,733	185,616	168,382	4,839,953	3,808,300	25,386,518
TOTAL	60,876,293	122,589,445	43,351,347	8,690,407	161,057,707	6,495,615	3,355,676	219,075,357	74,991,801	700,483,648

Appendix 6: Provincial revenue table 2015 (in Kina)

The following table details the provincial revenues in 2015. 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).

Province	National Government Grants (2015 actuals)	GST distributions (IRC data)	Bookmakers Tax (IRC Data)	Mining and Petroleum Royalties (MRA data/Company data)	Mining and Petroleum Dividends (MRDC data)	Own-Source Revenue (PGAS)	Total Revenue
Central	30,939,452	1,982,650	-	-	-	15,306,114	48,228,216
Eastern Highlands	39,939,083	14,988,544	393,344	-	-	2,974,631	58,295,602
East New Britain	18,932,834	17,414,427	206,994	-	-	3,839,907	40,394,162
Enga	27,062,629	1,280,870	-	17,151,787	1,833,442	2,421,158	49,749,886
East Sepik	55,882,300	8,529,203	-	-	-	2,984,653	67,396,156
Gulf	21,774,798	231,758	-	-	1,762,000	359,159	24,127,715
Hela	10,873,947	-	-	-	-	-	10,873,947
Jiwaka	14,444,317	-	-	-	-	90,000	14,534,317
Madang	41,879,036	11,610,768	1,024,757	-	-	1,771,097	56,285,658
Manus	16,294,722	1,192,935	-	-	-	759,909	18,247,566
Milne Bay	31,798,224	7,126,909	-	-	-	2,222,147	41,147,280
Morobe	7,717,200	95,697,484	1,015,626	1,825,212	-	15,428,853	121,684,375
New Ireland	2,170,000	7,624,881	-	25,236,717	-	5,483,640	40,515,238
Oro	18,940,909	2,268,375	-	-	-	724,693	21,933,977
Sandaun	38,936,427	1,358,545	-	-	-	1,814,381	42,109,353
Southern Highlands	15,887,605	10,364,024	-	17,767,783	9,320,000	2,590,075	55,929,487
Simbu	35,954,413	1,583,630	-	-	-	1,601,654	39,139,697
Western	6,143,633	7,000,712	-	9,300,000	-	4,477,634	26,921,979
Western Highlands	17,023,883	26,818,248	1,423,693	-	-	4,123,017	49,388,841
West New Britain	11,878,634	11,909,316	-	-	-	3,152,696	26,940,646
TOTAL	464,474,046	228,983,279	4,064,414	71,281,499	12,915,442	72,125,418	853,844,098
