



Consolidated Budget Operating Rules

February 2015

Contents

1. Overview:	3
1.1 Introduction to the CBORs	3
1.2 Purpose of the CBORs	3
1.3 Fiscal Framework	3
1.4 Role of Government Agencies and Provincial Administrations	3
1.5 Role of Departments of Treasury and National Planning and Monitoring	4
1.6 Budgetary Compliance	4
2. General Rules:	5
2.1 Budget Funding	5
2.2 Budget Circulars	5
2.3 Budget Expenditure Ceilings and Funding Caps	5
2.4 Budgeting Policy	5
2.5 Integrated and Multi-year National Budgets	6
2.6 Sector Approach to Budgeting	6
2.7 Performance Indicators	6
2.8 Overseas Development Assistance	6
2.9 National-Subnational Funding Approach	6
2.10 Project Loans	7
2.11 Public Service Housing	7
2.12 Consultants and Professional Service Providers	7
2.13 Organisational Reviews	7
2.14 Transfer of Funds between Appropriation Items	8
2.15 Special Appropriation Institutions	8
2.16 Commercial Statutory Agencies	8
2.17 Two-stage Budget Approval Process – features of Budget Business Case	8
2.18 Budget Approved Infrastructure Projects	9
3. Agency Specific Rules:	10
3.1 Department of Environment and the Office of Climate Change	10
3.2 Police	10
3.3 Corrective Institutional Services	10
3.4 Border Development Authority	10

1. Overview:

1.1 Introduction to the CBORs

- 1.1.1 The new Consolidated Budget Operating Rules (CBORs) is another step forward in managing public sector budgeting in Papua New Guinea.
- 1.1.2 These **budgeting rules** will be the Government's authoritative source for national departments, statutory authorities and provincial administrations (agencies) to effectively manage and control public expenditure throughout the financial year and in the preparation of Budget submissions.
- 1.1.3 The CBORs also contains ongoing Budget Non-Financial Instructions issued by the Government to improve agency performance, accountability and transparency.

1.2 Purpose of the CBORs

- 1.2.1 The CBORs have two primary objectives:
 - To support the government's fiscal framework by ensuring that public expenditure is controlled to improve efficiency and minimise waste and duplication; and
 - To provide guidance and incentives for government agencies and provincial administrations to manage their spending well and provide services that are value for money for all the people of Papua New Guinea.
- 1.2.2 In addition, the Departments of Treasury and National Planning and Monitoring will seek to streamline budget processes to reduce administrative costs and improve public sector efficiency and effectiveness.

1.3 Fiscal Framework

- 1.3.1 The Government's fiscal policy objectives are set out in the Medium Term Debt Strategy, the Medium Term Fiscal Strategy and *the Fiscal Responsibility Act 2013*. These ensure:
 - affordable and sustainable public finances that support confidence in the economy and promotes equity and fairness in the delivery of government services; and
 - a clear link between the allocation of government resources and the policies, plan and priorities of the Government of Papua New Guinea.

1.4 Role of Government Agencies and Provincial Administrations

- 1.4.1 The budgeting rules under the CBORs seek to assist agencies to manage their expenditure well and deliver services at the best possible price.
- 1.4.2 Overtime the CBORs will be the source of all fiscal management and budget policy management information. For example providing guidance on how money is treated over the forward estimates or how agencies could offset the cost of new spending proposals.

- 1.4.3 The CBORs will also set out the framework for reporting capital project performance.
- 1.4.4 All agencies are required to comply with the budget operating rules contained in the CBORs.

1.5 Role of Departments of Treasury and National Planning and Monitoring

- 1.5.1 The Departments of Treasury and National Planning and Monitoring will be responsible for the design of the CBOR **budgeting rules**. These will be updated annually, for endorsement by Budget National Executive Council.
- 1.5.2 Budget reporting on the financial performance of agencies, including the Budget non-financial instructions, is the responsibility of the Department of Treasury.
- 1.5.3 From 2015, the Quarterly Budget Review process conducted under the *Public Finances (Management) Act 1995* will now include compliance reporting for the CBORs and the Budget non-financial instructions.
- 1.5.4 Compliance reports will be provided to the Central Agency Coordination Committee and the Budget Ministers (the Treasurer and Ministers for National Planning and Monitoring and Finance). The template setting out the details on the performance report will be provided through the Quarterly Budget Review Budget Circular.
- 1.5.5 Performance reporting on the progress of capital projects is the responsibility of the Department of National Planning and Monitoring.
- 1.5.6 Copies of the CBORs will also be available on the Department of Treasury website.

1.6 Budgetary Compliance

- 1.6.1 The CBORs will also include guidance on the Government's budget policies and plans to assist agencies in the preparation of budget submissions.
- 1.6.2 This will allow the Departments of Treasury and National Planning and Monitoring to assess budget submissions against the **budgeting rules** as a 'first screen' in the Budget process. Agencies with non-compliant budget submissions will be requested to re-submit.
- 1.6.3 All queries relating the CBORs should be directed in the first instance to the Budget Coordination Unit of Department of Treasury.

2. General Rules:

2.1 Budget Funding

- 2.1.1 All funding proposals must go through the Budget process and comply with the requirements of the Budget Circular issued by the Department of Treasury, in consultation with Department of National Planning and Monitoring, by 30 May each year.
- 2.1.2 All ongoing funding proposals must go through the Budget process and comply with the requirements of the Budget Circular issued by the Department of Treasury, in consultation with the Department of National Planning and Monitoring, by 30 June each year.
- 2.1.3 All cash flows must be submitted by December together with the implementation reports for the current year.
- 2.1.4 Proposals to be funded outside the Budget process that is urgent, unforeseen and unavoidable must be vetted by the Departments of Treasury and National Planning and Monitoring and the Ministerial Economic Committee before being considered by the National Executive Council. All unused

2.2 Budget Circulars

- 2.2.1 Budget Circulars will be issued by the Department of Treasury in consultation with the Department of National Planning and Monitoring.

2.3 Budget Expenditure Ceilings and Funding Caps

- 2.3.1 The Departments of Treasury and National Planning and Monitoring will issue annual budget expenditure ceilings and funding caps to agencies for inclusion in budget submissions.
- 2.3.2 The operational ceilings and capital funding caps will be issued via Budget Circulars and in sufficient time for agencies to develop their policy program for the budget year and prepare budget submissions. Agencies must adhere to operational and capital expenditure thresholds.

2.4 Budgeting Policy

- 2.4.1 The Government's budgeting policy requires agencies to manage two types of expenditure
 - Operational – ongoing running costs for agencies are funded from operational budgets, including personnel emoluments, goods and services and the ongoing maintenance costs of capital projects.
 - Capital – for new investment projects and programs.
- 2.4.2 Agencies requesting new capital works funding for projects must comply with the two-stage approval process, where applicable.
- 2.4.3 Agencies requesting new capital works funding must be able to demonstrate their operational budget has the capacity to fund the cost of ongoing maintenance.

2.5 Integrated and Multi-year National Budgets

- 2.5.1 Agencies will prepare one integrated budget submission, containing both operational and capital expenditure, for consideration in the Budget process.
- 2.5.2 Budget submissions must be signed-off by the Agency Head and the relevant Portfolio Minister and submitted by the due date. Agencies must provide copies of the budget submission to the Departments of Treasury and National Planning and Monitoring.
- 2.5.3 Operational and capital expenditure figures must reflect **multi-year budgeting**, including the Budget and three forward years (forward estimates). Agencies are reminded that these forward estimates are to be the basis of Agencies forward planning and must accurately reflect the expected expenditure profile.
- 2.5.4 Funding bids for forward estimates by agencies should exceed multi-year expenditure ceilings only by exception. Funding bids will only considered where a detailed submission is provided to support the funding estimate.
- 2.5.5 Ongoing projects or programmes have a timeline for completion. Requests for funding beyond a projects dated implementation must have detailed justification and show cause.

2.6 Sector Approach to Budgeting

- 2.6.1 A sectoral approach will be used to determine the budget allocations for each agency.
- 2.6.2 Each sector must complete a sector plan with a sector agreed list of prioritised capital projects. The total funding bid of the sector plan must not exceed the allocated funding cap.
- 2.6.3 Agencies are required to align their capital projects to the sector plans before providing their budget submission to the Departments of Treasury and National Planning and Monitoring.

2.7 Performance Indicators

- 2.7.1 All funding requests for new capital works projects must include performance indicators, linked to the Sector target and Sector goals, defining the expected outcomes.

2.8 Overseas Development Assistance

- 2.8.1 All overseas development assistance is to be facilitated through the Department of National Planning and Monitoring to ensure alignment with the National Policy Framework.

2.9 National-Subnational Funding Approach

- 2.9.1 National agencies will no longer be funded for projects that do not have nation-wide impacts. All sub-national projects are to be funded through the Service Improvement Programs (SIPs).
- 2.9.2 Agencies are to ensure that any budget request for additional operational funding (above the allocated ceiling) aligns with the Government's devolved National-Subnational funding model.

2.10 Project Loans

2.10.1 All proposed project loans must be vetted by the Departments of Treasury and National Planning and monitoring prior to entering into any loan negotiations with the lender.

2.10.2 Agencies should note that there will be a 12-month pause on new government loans, commencing 1 January 2015.

2.10.3 Every new loan to be negotiated must come under a chartered agreement between GoPNG and the concerned bank.

2.11 Public Service Housing

2.11.1 From 2015, the Government will no longer provide separate funding for agency specific public housing projects.

2.12 Consultants and Professional Service Providers

2.12.1 The Government requires agencies to phase out their reliance on long term consultancies engaged in the long term management of government agencies.

2.12.2 The Government is concerned with the percentage of Agencies Budgets continually been taken up by consultancy fees, as such it requires agencies to report, via their budget submission, on the number, cost and duration of all consultancies to be engaged for periods greater than six months or with a total value exceeding K150, 000 per annum (including all fees, allowances and gratuities).

2.12.3 The report should include:

- details of the specific task and timeframe to be undertaken by the consultant;
- explanation as to why the task cannot be undertaken by agency staff;
- details on the steps currently being taken by the agency to address any skills gap and to reduce its reliance on external consultants; and
- Details (including duration and cost) of all existing consultancy and/or professional service contracts the agency has in operation at the time of its budget submission.

2.13 Organisational Reviews

2.13.1 The Government has noted that agencies are undertaking regular, costly and time consuming organisational reviews.

2.13.2 From 2015, all organisational reviews intended for consideration by the Department of Personnel Management must be submitted by 31 March of the year they are to be considered.

2.13.3 Agencies should contact the Department of Personnel Management for further details on the information to be submitted to comply with this budget rule.

2.14 Transfer of Funds between Appropriation Items

2.14.1 Agencies are to report all funding transfers between appropriation items in their current year quarterly reports and Budget submission. The reports are also to include any transfers within PBS and IFMS approved by the Secretary of the Department of Treasury. The Department of Treasury will provide copies of the quarterly reports to the Office of the Auditor General.

2.15 Special Appropriation Institutions

2.15.1 Currently, special appropriation institutions such as the National Parliament and Judiciary Services are appropriated separate to the Budget process. However, separate appropriation does not exempt these institutions from their estimates being scrutinised in the Budget process. All Special Appropriation Institutions must provide details of their Budget estimates to Budget Screening Committee prior to the Government finalising their annual appropriation.

2.16 Commercial Statutory Agencies

2.16.1 Commercial Statutory Agencies (CSAs) are established to give them a measure of independence from the Government and the capacity to compete on an equal footing with the private sector. Unless the government determines otherwise, these entities are also given the capacity to be self-funding from their own revenue and expected to meet all normal outgoings (e.g. for legal costs).

2.16.2 Portfolio agencies are not to provide additional funds to CSAs to meet emerging circumstances without National Executive Council approval. Agencies are also to ensure relevant CSAs meet the requirements of the *Public Finances (Management) Act 1995*, including the provision of quarterly reports to the Department of Treasury.

2.17 Two-stage Budget Approval Process – features of Budget Business Case

2.17.1 A Budget Business Case must be completed once an agency has obtained ‘Initial Concept Approval’ from the Government to fund their new capital project.

2.17.2 The Budget Business Case should assist decision-makers during the ‘Final Government Approval’ stage and provide details of the costs and benefits of undertaking the new project.

2.17.3 The key features of the Budget Business Case are as follows:

Description of why the project is needed. A customer focused explanation of the problems that are to be solved by the project. The description will be supported by direct linkages to the Government’s overarching and sectoral policy statements. The proposal must detail and quantify the benefits of undertaking the project.

Objective and Scope. A detailed description of what is to be delivered by the project. It also provides the basis for measuring progress/delivery. The scope will detail the limitations or boundaries of the project both in a physical and/or operational sense and describes what the funding will be used for. The scope will be sufficiently detailed that it will provide a foundation for a clear and accurate costing of the components leading to delivery and also ensure there is no uncertainty about what is outside of the project scope.

Stakeholder Identification. The identification of all parties with a direct interest in the successful delivery of the project and the type of benefit each party will receive. This will also be useful in identifying the potential for community and/or industry contribution.

Summary of project options. The inclusion of options should demonstrate what happens in the absence of the project proceeding, the “do nothing” option, and compare this to at least two but preferably three alternative but realistic approaches to satisfying the project need.

Critical Assumptions or Limitations. Project relevant variables that directly affect delivery of the project should be identified. The focus should be on the variables the project is most sensitive to and the risks these present. In turn this informs the development of appropriate strategies to support the timely and effective delivery of the project.

Social and Environmental Analyses. These provide the context in which the project will deliver benefits. The objective is to ensure that the policy implications of a project are considered. The social component will often be linked to the expectations and interests of the identified Stakeholders. The environmental component will indicate how the project meets and/or addresses society’s expectations in this area.

Economic and Financial Analyses. These are intended to deliver a **quantified assessment** of the benefit that will flow from the project. Typically this will be through the use of a Benefit/Cost analysis that identifies all the potential benefits associated with a project. These are then matched against the sum of all project related costs e.g. land acquisition and compensation payments are to be included. Costs will include the whole-of-life costs (both capital and operational) required to deliver the project.

Procurement Strategy. The strategy will identify an optimum procurement approach that will deliver the best ‘value for money.’ It will document the effective allocation of project delivery risks and be structured to minimise project lifecycle costs.

Budget Analysis and Funding Strategy. This will allow for an understanding of the financial implications of the options on the Government’s financial objectives. It will identify the operating budget (revenue and expenses) over the project’s lifecycle and highlight potential cash-flow concerns. In particular the Funding Strategy will consider the details of any alternative sources of funding such as user charging etc.

Implementation and Timing. A delivery related timeline for the project that highlights sequencing and timing issues that need to be managed. In particular this will provide decision makers with an understanding of the extent of pre-construction activities and lead-times that need to be addressed. This provides a framework for managing expectations both in the physical delivery of the project as well as the drawdown of resources.

Recommendations. This should be a brief and clear statement identifying the preferred options and summarising the reasons for its selection. The recommendations **will not** introduce new material but be based on the information and evidence discussed earlier in the Business Case.

2.18 Budget Approved Infrastructure Projects

2.18.1 Infrastructure projects approved through the Budget must only be implemented in consultation with the Department of Works. Agencies may only seek private sector implementation or supervision involvement where the Department of Works agrees it has capacity constraints and is unable to assist within the required timeframe.

- 2.18.2 The project must be fully scoped and meet Department of Works approved industry standards before a project is implemented.
- 2.19.2 In the event that the Department of Works does not have the capacity to implement a project, it is to forward an advice stating so, to the Department of National Planning and Monitoring, prior to an agency engaging alternative assistance from the private sector.

3. Agency Specific Rules:

3.1 Department of Environment and the Office of Climate Change

- 3.1.1 The Department of Environment and the Office of Climate change are charged with the responsibility of providing advice and education to agencies on options to better manage their consumption of utilities to reduce costs, beginning in 2015.
- 3.1.2 The Department of Environment and the Office of Climate Change will report annually, via their budget submissions, on the success of this new responsibility.

3.2 Police

- 3.2.1 The Government is concerned about the cost that is incurred in running official vehicles during unofficial hours. As such all Police operational vehicles are to be kept at Police Stations for official use after hours. Official vehicles are not to be taken home for officer's use after official hours.

3.3 Corrective Institutional Services

- 3.3.1 The Government is concerned about the excessive cost of hiring vehicles during CIS operations. The Government also notes the difficulties faced by the CIS, in being charged with contempt of court, when it is unable to present prisoners in time for court sittings.

The CIS is to use departmental or jail vehicles to conduct CIS operations whenever possible, instead of hiring vehicles.

- 3.3.2 The CIS is to obtain up-to-date copies of the court sittings schedule to allow for proper forward planning.
- 3.3.3 The CIS is to report to Budget Screening Committee each year on the cost of hiring vehicles to transport prisoners until such time as these costs have been significantly reduced.

3.4 Border Development Authority

- 3.4.1 Consistent with the Government's previous policy position, no government funding, either by way of appropriation or loan guarantee, will be provided for any commercial operation of the Border Development Authority until a comprehensive feasibility study of PNG Maritime Ltd has been undertaken and provided to the Budget Screening Committee.

- 3.4.2 The feasibility study should include alternative means of improving sea transport services.
- 3.4.3 The Border Development Authority must also demonstrate it consulted with the PNG Maritime Safety Authority while conducting the feasibility study.