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BUDGET CIRCULAR 6/2009

28 July 2009

CIRCULAR LETTER TO:

All Heads of Departments and Heads of Statutory Authorities

ALLOCATION OF 2010 RECURRENT BUDGET CEILINGS AND PREPARATION OF 2010 RECURRENT BUDGET SUBMISSIONS - NATIONAL DEPARTMENTS AND STATUTORY AUTHORITIES

1. PURPOSE

This Budget Circular is intended to:

1. advise National Departments and Statutory Authorities (agencies) of the 2010 Recurrent Budget Ceilings;
2. advise agencies of the policy framework underpinning the 2010 Budget;
3. provide guidance to agencies on the form and content of their 2010 Recurrent Budget Submissions; and
4. seek 2010 Recurrent Budget Submissions by close of business **12 August 2009**.

2010 Development Budget Ceilings and instructions for completing 2010 Development Budget Submissions will be provided separately by the Department of National Planning and Monitoring.

It is important that all Heads of Departments and Statutory Authorities ensure that the agency's obligations to provide a Submission on time are met and that the officers responsible for preparing their agency's 2010 Budget Submission are provided with a copy of this Budget Circular and read it closely to ensure all requirements are met.

2. STRUCTURE OF BUDGET CIRCULAR

This Budget Circular includes the following information to assist agencies to formulate and submit their 2010 Budget Submissions:

- *Section 3* provides details on the **2010 Budget ceilings**;
- *Section 4* outlines the **key dates** for the 2010 National Budget;
- *Section 5* provides the **policy principles** driving the formulation of the 2010 National Budget and the priority funding areas based on the Government's development policies;
- *Section 6* details the instructions to formulate and submit 2010 **Recurrent Budget Submissions**; and
- *Section 7* provides details of **Key Contacts** within the Department of Treasury (Treasury) and the Department of Finance (Finance).

3. 2010 BUDGET CEILINGS

The 2010 Budget Ceilings have been set to enable the Government to meet both its targets under the *Medium Term Fiscal Strategy 2008-2012* (MTFS) and the requirements of the *Fiscal Responsibility Act 2006* that the Budget be in balance over the term of the Government. The ceilings seek to meet these objectives using the latest forecasts of Government revenue and expenditure for 2010 and the medium term.

- For **National Departments**, the following Recurrent Budget ceilings have been provided:
 - **A total Budget ceiling** for your agency. This is a “hard” ceiling, meaning that the total funding requested in your agency's 2010 Recurrent Budget Submission should not be more than this ceiling. The total ceiling for your agency is provided in Table BC at Attachment A to this Budget Circular.
 - **Program/Activity ceilings** for each Program and Activity. These are provided as “soft” ceilings – you may adjust funding between these ceilings, however, your agency's 2010 Recurrent Budget Submission should provide justification where you do so. The program/activity ceilings for your agency are also provided at Attachment A to this Budget Circular.
 - **Staff ceilings.** Given the devolution of Human Resource functions, a preliminary staff ceiling has not been provided for the 2010 Budget. However, your agency's 2010 Recurrent Budget Submission must include your agency's existing staffing structure (including staff on strength, vacancies and unattached officers) and proposed structure and evidence that staffing levels are within your personnel emoluments ceiling for 2010 and will remain within this ceiling throughout 2010.

For **Statutory Authorities** and other single line agencies, ceilings will continue to be provided as a single figure.

4. KEY DATES FOR THE 2010 NATIONAL BUDGET

For all agencies, the following dates apply:

- **12 August 2009** – the due date for agencies to submit their 2010 Recurrent Budget Submissions.
- **7 – 25 September 2009** – Budget meetings between agencies and the Budget Screening Committee (BSC). These meetings are held to provide agencies the opportunity to present and discuss their 2010 Budget Submission with senior officials from central agencies. Details of BSC meetings, including dates, time, venue, and format and structure, will be provided in August.
- **10 November 2009** – 2010 Budget tabled in Parliament.

5. PRINCIPLES GUIDING THE FRAMING OF THE 2010 NATIONAL BUDGET

The 2010 Budget will be framed against a background of reduced revenue due to the Global Financial Crisis and increased expenditure pressures. Consequently, there will be limited opportunities for increasing funding. Agencies should consider these constraints when preparing 2010 Budget Submissions.

5.1 The Budget Strategy Paper

The 2010 Budget Strategy Paper (BSP) is the key document establishing the broad principles that guide the 2010 Budget process. The BSP establishes the economic and fiscal parameters for the 2010 Budget and draws on the Government's key high level medium term policy.

Using the latest forecasts of revenue and expenditures, the BSP provides for the following broad fiscal parameters that underpin the 2010 Budget Ceilings:

- Total revenue and grants is estimated to be **K5,959.0 million**.
- Total expenditure and net lending is expected to be **K5,959.0 million**.
 - Total recurrent expenditure is estimated to be **K4,050.6 million**.
 - Total development expenditure is estimated to be **K1,908.4 million**.
- A balanced Budget is projected for 2010.

The BSP can be accessed from the Treasury website (www.treasury.gov.pg).

5.2 The Medium Term Fiscal Strategy 2008-2012

The key policy document that informs the BSP is the MTFS. The MTFS provides a responsible, prudent and sustainable framework for the Government to manage its fiscal resources. The MTFS lays out the following three key fiscal rules to assist the Government with achieving sustainable economic growth through correct management of its resources:

- keeping ongoing expenditure in line with normal, sustainable revenues;

- using additional windfall mineral revenue to pre-fund public investment projects and repay debt and other liabilities; and
- limiting the amount of actual public investment expenditure sourced from windfall revenues to a maximum of 4 per cent of GDP in any one year, in order to promote macroeconomic stability and minimise inflationary pressures. It is expected that there will be no additional mineral revenue available in 2010 to fund additional priority expenditure or one-off investment projects.

The MTFSS can be accessed from the Treasury website (www.treasury.gov.pg).

5.3 The Medium Term Development Strategy 2005 – 2010

While the MTFSS provides the framework for determining how much to spend, a key policy document guiding the Government's decisions on what to spend money on is the Medium Term Development Strategy (MTDS).

The MTDS promotes fiscal sustainability as an important Government objective. It aims to strengthen public expenditure management by providing a framework to prioritise the use of fiscal resources (including borrowing) and encourage the cost-effective implementation of programs.

The MTDS identifies the following seven key expenditure priorities for the period from 2005 to 2010:

- Rehabilitation and Maintenance of Transport Infrastructure;
- Law and Justice;
- Primary Health Care;
- Basic Education;
- Promotion of Income Earning Opportunities;
- Development-oriented Informal Adult Education; and
- HIV-AIDS Prevention.

When preparing 2010 Budget Submissions, agencies should ensure that they have aligned and referred to the MTDS expenditure priorities. The Government's contribution to these expenditure priorities in 2009 was 53.0 per cent. This is significantly higher than the contributions of 41.0 per cent and 40.5 per cent in the 2007 Budget and 2008 Budget respectively. Analysis of fixed commitments in the Development Budget is currently being undertaken to determine the Government's development expenditure levels for 2010 whilst achieving a balanced budget.

Further information on the key expenditure priorities can be obtained from the Department of National Planning and Monitoring.

6. INSTRUCTIONS FOR COMPLETING 2010 RECURRENT BUDGET SUBMISSIONS

6.1 Format

All agencies are required to prepare a 2010 Budget Submission and submit it to Treasury by **12 August 2009**. Where an agency does not lodge a submission, or lodges it late, that agency will not be allowed to present to the BSC.

Agencies must ensure that the 2010 Budget Submission they lodge with Treasury is their final submission. If an agency tries to present a different submission to the BSC from the one that was submitted to Treasury, it will be rejected and the original submission will be considered.

6.1.1 *Electronic (Flat file) Budget Submissions*

Agencies are required to lodge a diskette containing an electronic flat file of their 2010 Recurrent Budget Bids for uploading into the Planning and Budgetary System (PBS).

Instruction on how to complete the hard and electronic copies of your agency's 2010 Budget Submission was provided during the 2010 Budget Workshop held earlier this month. Instructions are also included in the PNG Budget Manual. Diskettes will be provided to agencies containing all of the forms that must be completed electronically.

Officials requiring further assistance in the preparation of 2010 Budget Submissions should contact the relevant officers identified in Section 8 below.

6.1.2 *Written Budget Submissions*

In addition to the electronic submission discussed above, agencies will also be required to provide a written 2010 Budget Submission outlining planned expenditure for the coming year. The submission should be consistent with the Budget structure in Volume 2 (Parts 1 and 2) of the 2009 Budget papers. In addition to submitting an electronic copy (diskette) of 2010 Recurrent Budget Submissions, all agencies must also submit a signed hard copy and four (4) photocopies of their 2010 Recurrent Budget Submission and all attachments.

The written submission should include the following information:

- For **National Departments** only - use Section A of Table 2 (included at Attachment B to this Circular) to present a summary table by Program, including each Activity under **each existing Program**. Where the agency proposes funding for Programs and Activities that is different from the ceilings (refer to Section 3), a clear justification should be provided. Where the agency is proposing to deliver **new policy** in 2010, including announced priorities such as Australia-Papua New Guinea Partnership for Development initiatives and other announced infrastructure investments, enter the details in Section B of Table 2, including an outline of the new policy/activity proposed, a clear justification for the new policy/activity, information on how it relates to the Government's MTDS key expenditure priorities and how it will be funded.

- For **National Departments and Statutory Authorities** - use Table 3 (included at Attachment B to this Circular) to present a summary table of total expenditure by Line Items. Information should be provided, to the nearest thousand Kina for:
 - 2008 (actual expenditure as shown in the final public accounts);
 - 2009 (current appropriation); and
 - 20010 (the funding sought in your agency's Budget Submission).

Agencies are reminded that there will be minimal additional funding available in 2010. The fact that an agency has a new establishment or structure does not automatically mean that funding will be provided for additional positions in the establishment.

6.1.3 Supporting Justification

National Departments should provide a short written justification under each *Program*, explaining why that Program should continue to be supported with funding, and how it relates to the Government's MTDS funding priorities. Where the agency is seeking additional funding to deliver new policy through new programs, a detailed written justification should be provided outlining the additional expenditure, how it will be funded and explaining how it relates to the Government's spending priorities.

Statutory Authorities and National Departments that receive a 'one-line' grant will also need to provide written justification, explaining why their current level of funding should be maintained, and how the services they deliver relate to the Government's priorities.

These justifications should be included in the final columns of Tables 2 and 3.

The Appropriation Acts require agreement from Treasury to move funds *between* Programs, and there is no guarantee that this agreement will always be provided. National Departments should therefore give careful consideration to structuring their Budget Submissions for funding against particular *Programs* to ensure that they minimise instances where funds have to be moved throughout the year.

6.2 Preparation of 2010 Budget Submissions within the Ceilings Allocated

6.2.1 Guidance to Agencies on Meeting Budget Ceilings

6.2.1.1 General Guidance

The Budget Ceilings provided are the **maximum** levels of funding that will be available to agencies to continue operating at current policy settings. Where agencies need to find savings to stay within the ceiling, they should look to find them from:

- reductions in operating costs (particularly in head/regional office administration);
- non-core or low priority areas; and
- reductions in non-service delivery activities (e.g. advertising, vehicles, travel, security, non-outsourced cleaning, non-essential telecommunications, etc).

Budget Ceilings allocated may be revised (i.e. adjusted up or down) should there be changes to revenue estimates arising from movements in economic parameters.

6.2.1.2 Aligning Corporate Plans with the Budget

Some agencies have indicated to Treasury that they are *under-funded* because they are not allocated the funds they have requested to carry out the work areas identified in their corporate planning documents. Agencies should be aware that there is limited funding available and that Government allocates funding on the basis of *whole of government* expenditure priorities and its policy objectives.

The Budget is the Government's money plan for the year and the Government expects agencies to work within what is affordable for PNG. All agencies should ensure that the tasks identified in their Corporate Plans and Annual Management Plans are achievable **within** the funding allocated to them through the National Budget. Agencies should adjust their work plans (including Corporate Plans and Annual Management Plans) to ensure that they are able to operate **within** the Budget Ceilings allocated.

6.2.2 Court award and arrears

There are a number of items that are no longer funded through the Department of Finance (Finance). In developing 2010 Recurrent Budget Submissions, agencies are required to make sufficient provision for these items within the total agency ceiling. In particular:

- Payments associated with the cost of any court awards against an agency or out of court settlements are the responsibility of the agency. These items are no longer paid centrally.
- Agencies are responsible for all outstanding charges for goods and services (i.e. arrears). Agencies have been responsible for all arrears since 31 March 2003 and have been funded accordingly. Funding for arrears will not be considered under any circumstances. Agencies should ensure that they manage their affairs, using the funding available, to minimise the accrual of arrears.

6.2.3 Fixed / Unavoidable Costs

Costing of recurrent items should be undertaken on the basis of *Programs/Activities* for National Departments and delivery of services for Statutory Authorities. However, a distinction should be made between those costs that are *fixed* (or unavoidable) and those costs that are *variable* (that is, costs where there is a choice about how much an agency spends).

Fixed costs are those costs that are unavoidable and must be paid, at least in the short term. Where Treasury is of the view that sufficient provision has **not** been made to meet all fixed costs, then reductions will need to be made elsewhere in an agency's funding to ensure that the Budget Ceilings are maintained.

Fixed costs include:

- Salaries, wages and allowances for permanent employees;
- Contract Officer gratuities, education subsidies, housing subsidies and other provisions as contained in existing contracts;
- Utilities charges and building/office rentals;

- Consultancy fees as per contracted agreements. Consultants should only be contracted to assist in delivering a Program (for National Departments) or a service (for Statutory Authorities) that is consistent with the priority funding areas outlined by the Government;
- Membership fees for international organisations, where membership is critical to that agency being able to undertake its operations;
- Authority to Pre-Commit (APC). All agencies must ensure that ongoing contracts with authorised APCs that involve expenditure in the Budget year are identified and adequately costed; and
- Memorandums of Understanding (MOU), Memorandums of Agreement (MOA) and other contractual arrangements under development projects that have any recurrent expenditure due in the Budget year.

6.2.4 New Recurrent Policies

Where agencies are proposing new activities, they should be within the 2010 Recurrent Budget ceiling, and clearly identified and listed in order of priority in Section B of Table 2 at Attachment B to this Circular. There must be a full justification for the new policy, including how it aligns with the Government's MTDS key expenditure priorities and how it will be funded. The cost of the new policy should be agreed with Treasury before being included in the 2010 Recurrent Budget Submission. Where costs are one-off or non-ongoing, this should also be identified.

National Executive Council (NEC) approval is required for all new major policy proposals. While Treasury may agree on the costs of delivering a program, this does not constitute agreement that the program should be funded. Whether or not a new policy is agreed will depend on the outcome of the 2010 Budget process.

6.2.5 Personnel Emoluments and Staffing Resources

An increase of three per cent has been included in the Budget Ceiling for personnel emoluments for each agency (Attachment A). This increase is for known and anticipated wage indexation under various industrial awards, including the *Public Employees Association Agreement*. This increase is **not** for additional staffing positions.

Agencies **should indicate** in their 2010 Recurrent Budget Submission any financial implications of annual automatic increment progression expected in 2010 for Public Servants. This cost is the only allowable increase above the personnel emoluments ceiling for 2010. Agencies should refer to the Department of Personnel Management Circular Instruction No. 36 of 2007 for further information on incremental progression, including the new Performance Based Salary Structure.

A key requirement under the devolution of Human Resource functions is managing and maintaining staff numbers **within** the budget funding for personnel emoluments in 2010. All agencies must include as part of its 2010 Recurrent Budget Submission the agency's existing staff structure (including staff on strength, vacancies and unattached officers) and proposed structure and evidence that staffing levels are within the personnel emoluments ceiling for 2010 and will remain

within this ceiling throughout 2010. That is, any planned increase in personnel emoluments expenditure in an activity due to recruitment or restructuring must be offset from a decrease in staffing expenditure in another activity.

In addition, to assist government cash flow estimation, agencies should provide information to Treasury in relation to the level and timing of contract gratuities and expected leave fares for the following year.

Each agency must also advise Treasury of the number of casuals it currently employs and explain how these casuals assist in the delivery of key services.

6.2.6 Annual Return on Trust

Section 19(3) of the *Public Finances (Management) Act 1995* (PFM Act) requires each Departmental Head responsible for managing trust accounts to provide a return for each trust account before the commencement of the following financial year.

Agencies that have trust accounts should use Attachment C to this Circular to provide a return for *each* trust account they operate or have responsibility for. All returns must be included in the 2010 Budget Submission.

Each return should detail an *estimate* of the balance of the trust account and the expected receipts and payments to be made to or from the account over the 2010 financial year.

Officials requiring further assistance in the preparation of Trust Estimates should contact the relevant officer identified in Section 8 below.

6.2.7 Expenditures in the Provinces

National Departments and Statutory Authorities should advise each Province of expenditures they are proposing to undertake in that Province in 2010. This information should be provided to Provinces as soon as possible, as it will assist Provinces in formulating their own 2010 Budget Submissions.

6.2.7 Internal Audit

Under Section 9 of the PFM Act and Finance Instruction 02/2008, National Departments, Provincial Governments and specified Statutory Authorities are required to establish internal audit units and audit committees.

To assist compliance with the PFM Act, all agencies are strongly encouraged to separately identify in their 2010 Recurrent Budget Submissions the personnel emolument funding and goods and services funding that will be allocated from within 2010 Recurrent Budget Ceilings to resource their Internal Audit Unit.

7. CONTACTS FOR THE 2010 NATIONAL BUDGET

If clarification is required in relation to any section of this Circular, or if your agency requires any further information or assistance in preparing their 2010 Budget Submissions, please contact the following officers:

7.1 Recurrent Budget (Treasury)

Economic & Infrastructure Sector	Mr Ropit Botong	312 8781
Social Sector	Ms Ruth Veapi	312 8780
Law & Order Sector	Mr Ravu Paku	312 8780
Administrative Sector	Mr Rudolph Aigili	312 8737
Provincial Sector	Mr Lazarus Enker	312 8739

7.2 Electronic (flat file) Budget Submissions (Finance)

Information & Communication Technology Division	Mr Paul Murray	328 8498
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7.3 Trusts (Finance)

Trust Accounting, Public Accounts	Mr Ralph Joromo	328 8602
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Important Note

I seek your co-operation in ensuring your agency provides Treasury and Finance with accurate information in the format provided in this Budget Circular by the due date so that the 2010 Budget process can be conducted successfully.

In addition, I request that this Circular and attachments be provided to the relevant officers in your agency as soon as possible after receipt. This will ensure that your agency has more time to formulate its 2010 Budget Submissions and to clarify any issues with Treasury or Finance.

Simon Tosali

Acting Secretary
Department of Treasury

Attachments:

- A. 2010 Recurrent Budget Ceilings Allocated to Your Agency (**Table BC**)
- B. 2010 Budget Submission Table Formats (**Tables 2 and 3**)
- C. Format of Trust Information Required (**Table 4**)