



**DEPARTMENT OF TREASURY
Office of the Secretary**

**Telephone: (675) 312 8812
Facsimile: (675) 312 8804**

**Vulupindi Haus
PO Box 542, WAIGANI, NCD**

BUDGET CIRCULAR 4/2012

6 July 2012

CIRCULAR LETTER TO:

Heads of Departments and Heads of Statutory Authorities

**INDICATIVE 2013 RECURRENT BUDGET CEILINGS AND PREPARATION OF
2013 RECURRENT AND DEVELOPMENT BUDGET SUBMISSIONS - NATIONAL
DEPARTMENTS AND
STATUTORY AUTHORITIES**

1. PURPOSE

This Budget Circular is intended to:

1. inform National Departments and Statutory Authorities (agencies) of the indicative 2013 Recurrent Budget ceilings;
2. advise agencies on the policy framework underpinning the 2013 Budget;
3. provide guidance to agencies on the form and content of their 2013 Recurrent and Development Budget submissions; and
4. seek 2013 Recurrent Budget Estimate submissions by close of business (COB) **3 August 2012**

It is important that all Agency Heads ensure that the agency's obligations to provide a submission on time are met and that the officers responsible for preparing their agency's 2013 budget submission are provided with a copy of this Circular, read it closely and ensure that they comply with all the requirements of the Circular.

Please contact Budget Division in the Department of Treasury (Treasury) if you need help in understanding this Circular (contact details are at the end of this Circular).

Please contact the Department of National Planning and Monitoring if you need help in preparing your Development Budget submission (contact details are at the end of this circular).

2. STRUCTURE OF BUDGET CIRCULAR

This Circular includes the following information to assist agencies to formulate and submit their 2013 Recurrent Budget Estimate submissions:

- *Section 3* provides details on the indicative **2013 Recurrent Budget ceilings**;
- *Section 4* outlines the **key dates** for the 2013 National Budget;
- *Section 5* provides the **policy principles** driving the formulation of the 2013 National Budget and the priority funding areas based on the Government's development policies, plans and objectives;
- *Section 6* details the instructions to formulate and submit 2013 **Recurrent Budget Estimate submissions**;
- *Section 7* details the instructions to formulate and submit 2013 **Development Budget Estimate submissions**.
- *Section 8* provides details of **Key Contacts** within Treasury, the Department of Finance (Finance) and the Department of National Planning and Monitoring (DNPM);
- *Attachment A* refers to the 2013 Recurrent Budget Ceilings (**Table 1**);
- *Attachment B* refers to the 2013 Budget Submission Tables (**Tables 2 and 3**);
- *Attachment C* refers to the Options for increasing revenue and reducing reliance on the Recurrent Budget (**Table 4**);
- *Attachment D* refers to the Format of Trust Information required (**Table 5**);
- *Attachment E* refers to the format for responses to the Non-Financial Instructions identified in the 2012 Volume 1 Budget Papers (pages 53-55); and
- *Attachment F* refers to agency specific Non-Financial Instructions identified in the 2012 Volume 1 Budget Papers (pages 56-59).

NON COMPLIANCE WITH ANY ELEMENT OF THIS CIRCULAR WILL RESULT IN 2013 BUDGET APPROPRIATIONS AUTOMATICALLY BEING LIMITED TO THE CEILINGS IDENTIFIED IN THE SUBMISSION

3. 2013 BUDGET CEILINGS

2013 Recurrent 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 indicative 2013 recurrent ceilings seek to meet these objectives using the latest forecasts of Government revenue and expenditure for 2013 and over the medium term.

Future forecasts of Government revenue and expenditure, in particular in the forthcoming Budget Strategy Paper (BSP) and Mid Year Economic and Fiscal Outlook (MYEFO) may require amendments to these ceilings, but for the purposes of preparing Recurrent Budget Estimate submissions, these indicative ceilings must be used.

- **Personnel Emoluments** (Item 111 – Salaries & Allowances) for National Departments have been determined using 2012 as a base and increased by 7.5 per cent as agreed by PEA for National Departments. Statutory Authorities and other one-line agencies that receive a Grant (Item 143 – Grants/Transfers to Public Authorities) for the recurrent budget had an increase of 6% in 2013 for its Salaries & Allowances component. Because of the Item 143 Grant, in instances where Treasury does not have credible information of a Statutory Authority's Salaries and Allowances component, the agency would have to bid for its increase. Statutory Authorities are therefore advised to provide an Itemised expenditure break-up during its budget submission for 2013.
- **Goods and Services** have been kept at the 2012 agency level in line with the Governments Overall Revenue Estimates for 2013. Agencies will have to bid for any increases it foresees in 2013.
- For **National Departments**, the following indicative 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 2013 Recurrent Budget Estimate submission must not be more than this ceiling. The total ceiling for your agency is provided in Table 1 at Attachment A to this 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 2013 Recurrent Budget Estimate submission needs to provide justification where you make adjustments. The program/activity ceilings for your agency are also provided at Attachment A to this Circular;
 - **Staff ceilings.** 2013 Recurrent budget submissions must include your agency's staffing structure as funded in the 2012 budget (including approved establishment, staff on strength, funded and unfunded vacancies and unattached officers) and proposed structure together with evidence that staffing levels are within your personnel emoluments ceiling for 2013 and will remain within this ceiling throughout 2013. Where staff on strength exceeds funded positions you should explain how you propose to get personnel emolument expenditure under control.

For **Statutory Authorities** and other single line agencies, ceilings are provided as a single figure, however Itemised Expenditure is required.

4. KEY DATES FOR THE 2013 NATIONAL BUDGET

For all agencies, the following deadlines apply:

- **29 June 2012** – deadline date for agencies to submit new projects' 2013 Development Budget Estimate submissions to DNPM. Please confirm deadlines with DNPM.
- **3 August 2012** – deadline date for agencies to submit 2012 Recurrent Budget Estimate submissions to Treasury.
- **3 – 21 September 2012** – Budget meetings between agencies and the Budget Screening Committee (BSC). The BSC comprises Deputy Secretaries of Central

Government Agencies and is chaired by the Deputy Secretary (Budget & Financial Management) of Treasury. BSC members represent the Departments of PM & NEC, Justice & Attorney General, Finance, National Planning & Monitoring, Personnel Management and Provincial and Local Level Government Affairs. BSC meetings provide agencies with the opportunity to briefly present and discuss their 2013 budget submission. There will be a time limit on BSC presentations as in 2012. The BSC makes recommendations to the Central Agencies Coordinating Committee. Details of BSC meetings, including dates, time, venue, and format and structure, will be provided in August.

- **13 November 2012** – 2013 National Budget tabled in Parliament.

5. PRINCIPLES GUIDING THE 2013 NATIONAL BUDGET

The 2013 Budget will be framed against a background of fiscal responsibility and constraint due to increased expenditure pressures and noting that significant national budget revenue from LNG is not expected for some years. Consequently, there will be limited opportunities for increasing funding. Agencies should consider these constraints when preparing 2013 Recurrent and Development Budget submissions.

5.1 The Budget Strategy Paper

The 2013 Budget Strategy Paper (BSP) is the key document establishing the broad principles, strategy and fiscal parameters guiding the 2013 budget process. The BSP is scheduled to be released at the end of July and Treasury will provide further advice closer to the release date. It will be available on 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 Medium Term Fiscal Strategy 2008-2012 (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.
- 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 minimize inflationary pressures.

The MTFS can be accessed from www.treasury.gov.pg.

5.3 Medium Term Development Plan (MTDP) 2011 - 2015

While the MTFS provides the framework for determining how much to spend, MTDP is a five year action plan to implement the Development Strategic Plan (DSP) 2010 – 2030. The MTDP is an accountable plan for investment and sets out the sector strategies, targets, deliverables and projected cost to implement. It provides the basis for effective monitoring of the inputs, outputs, outcomes and impact of sectoral performance.

The MTDP 2011 – 2015 focuses on:

- Unlocking land for development,
- Improving law and order,
- Establishing quality national transport corridors that connect rural populations to markets and services,
- Improving primary and secondary education,
- Improving higher and technical education,
- Improving health outcomes, and
- Providing key public utilities such as electricity, communication, clean water and sanitation.

The priorities and directions provided in the MTDP will guide the development of sector policies, plans and monitoring processes. The MTDP provides economic development frameworks and performance indicators that will enable policy proposals to be prioritised and closely monitored.

When preparing 2013 budget submissions, agencies should ensure their submission is aligned with the expenditure and sector *deliverables* outlined in the MTDP, however, this must be done within existing resourcing.

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

6. INSTRUCTIONS FOR PREPARING 2013 RECURRENT BUDGET SUBMISSIONS

6.1 Format

All agencies are required to prepare a 2013 recurrent budget submission and submit it to Treasury by **Friday 3 August 2012**. Where an agency does not lodge a submission, or lodges it late, that agency will not be invited to present to BSC.

Agencies must ensure that the 2013 budget submission lodged is their final submission. If an agency tries to present a different submission to BSC from the one that was submitted to Treasury, it will be rejected and the original submission will be considered.

Instructions on how to complete the hard and electronic copies of your agency's 2013 budget submission are in the PNG Budget Manual.

6.1.1 Electronic (Flat file) Budget Submissions

Agencies are required to lodge a diskette containing an electronic file of their 2013 recurrent budget submissions for uploading into the Planning and Budgetary System (PBS). Further information will be provided to those agencies piloting the Integrated Financial Management System (IFMS) - these agencies must still lodge a diskette containing an electronic flat file of their 2013 Recurrent Budget bids for uploading into the PBS).

Diskettes will be provided to agencies containing all the forms that must be completed electronically.

Diskette training will occur in either late June or early July. For more information contact the relevant Budget Division officer listed at the end of this Circular.

6.1.2 Written Budget Submissions

In addition to the electronic submission, agencies are required to provide a hardcopy of their 2013 budget submission outlining planned expenditure for the coming year. The submission should be consistent with the budget structure in Volume 2 (Parts 1 A & B and Part 2) of the 2012 Budget Papers. In addition to submitting an electronic copy (diskette) of 2013 Recurrent Budget submissions, all agencies must also submit a signed hard copy and four (4) photocopies of their 2013 Recurrent Budget submission and all attachments to Treasury.

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**.
 - a. Where funding for programs and activities is different from the ceilings (refer to Section 3), a clear justification should be provided.
 - b. Where the delivery of **new policy** in 2013 is being proposed, including announced priorities such as Australia-Papua New Guinea Partnership for Development initiatives and other priority new policy, these details must be entered in Section B of Table 2. The details required include an outline of the new policy/activity proposed, a clear justification for the new policy/activity, information on how it relates to the MTDP (2011-2015), DSP (2010-2030), Vision 2050 and other key expenditure and development priorities and how it will be funded, including details of savings proposed.
 - c. Where an increase in funding is being requested in order to implement an NEC Decision, you must include in your 2013 recurrent budget submission a copy of the relevant NEC Decision(s).
- 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:
 - 2011 (actual expenditure as shown in the final public accounts);
 - 2012 (current appropriation); and
 - 2013 (the funding sought in your agency's budget submission).

Agencies are reminded that there will be minimal additional funding available in 2013. The fact that an agency has a new establishment or structure or policy to implement does not automatically mean that additional funding will be provided for additional positions in the establishment or policy implementation.

- For **National Departments and Statutory Authorities** – a reminder that an outcome of the 2013 National Budget deliberations was that agencies are required to report back to the 2012 BSC on options to:
 - increase revenue, including but not limited to, increased fees charged for services provided; and
 - reduce recurrent budget funding reliance.

Agencies should use Table 4 (Attachment C) to this Circular to provide this information.

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 MTDP (2011-2015), DSP (2010-2030), Vision 2050 and development priorities. Where the agency is seeking additional funding to deliver new policy through new programs, agencies must provide the required information in a detailed written justification outlining the additional expenditure, how it will be funded and explaining how it relates to the Government's spending priorities.

6.1.2 Written Budget Submissions above.

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 2013 Budget Submissions within the Ceilings Allocated

6.2.1 Guidance to Agencies on Meeting Budget Ceilings

6.2.1.1 General Guidance

The indicative 2013 Recurrent 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).

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. Inclusion of a program in a corporate plan does not commit the Government to funding the program.

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 Arrears

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 must 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 believes sufficient provision has **not** been made to meet all fixed costs, then reductions will be recommended to BSC to be made elsewhere in an agency's funding to ensure that the ceilings are maintained, and fixed costs met.

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;
- 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;
- 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 2013 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 MTDP, DSP, Vision 2050 and key expenditure and development priorities and how it will be funded. The cost of the new policy must be agreed with Treasury before being included in the 2013 recurrent budget submission although this will not constitute Treasury endorsement of the new policy. Where costs are one-off or non-ongoing, this should also be identified.

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 funded will depend on the outcome of the 2013 Budget process.

Where an increase in funding is being requested, resulting from an NEC Decision this year, you must include in your 2013 Recurrent Budget submission a copy of the corresponding NEC Decision.

6.2.5 Personnel Emoluments and Staffing Resources

Award increases that are still subject to negotiation can be referenced in the text of your submission, but the anticipated costs of any increase in terms or conditions **should not be included** in your submission at this time. The impact of any increases will be costed by Treasury and presented to BSC for consideration on a whole of government basis.

Please note that in the context of award increases subject to negotiation, the 7.5% Salary Adjustment signed under the Memorandum of Agreement (MoA) for Salaries, Allowances & Benefits in the Public Service 2011 to 2013 made between the Department of Personnel Management (DPM) and the Public Employees Association (PEA) is captured under Item 111 'Salaries and Allowances' in the 2013 Budget Ceilings for eligible agencies as seen in Table 1.

Agencies **should indicate** in their submission the financial implications of annual automatic increment progression expected in 2013 for Public Servants. Agencies should refer to the DPM Circular Instruction No. 36 of 2007 for further information on incremental progression, including the new Performance Based Salary Structure. As no ceiling has been provided to agencies for increment progression, this cost must be separately identified and may be in addition to your Item 111 ceiling.

A key requirement under the devolution of Human Resource functions is managing and maintaining staff costs **within** the budget funding for personnel emoluments. All agencies must include as part of their submission the agency's 2012 funded staff structure (including approved establishment, staff on strength, vacancies and unattached officers) and proposed structure and evidence that staffing levels are within the personnel emoluments ceiling for 2013 and will remain within this ceiling throughout 2013. 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 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 Redundancies

Agencies should specify and bid for the cost of any planned redundancies in 2013. As no ceiling has been provided to agencies for redundancies at this time, this cost must be separately identified and may be in addition to your Item 141 ceiling, however, your submission must demonstrate a quantifiable and separately identified reduction to your ongoing payroll costs. Where an agency receives funding in 2013 for redundancies, Treasury will create a separate activity under the agency's vote for

this appropriation. Treasury will only release a warrant once the appropriate documents have been received.

6.2.7 Retirement and Retrenchment

Agencies should specify and bid for the cost of any planned retirement and retrenchment payments in 2013. As no ceiling has been provided to agencies for retirement and retrenchment payments at this time, these costs must be separately identified and may be in addition to your Item 141 ceiling. Where an agency receives funding in 2013 for retirement and retrenchment costs, Treasury will create a separate activity under the agency's vote for this appropriation. Treasury will only release a warrant once the appropriate documents have been received.

6.2.8 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 D to this Circular to provide a return for *each* trust account they operate or have responsibility for. All returns must be included in the 2013 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 2013 financial year.

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

6.2.8 Expenditures in the Provinces

National Departments and Statutory Authorities should advise each Province of expenditures they are proposing to undertake in that Province in 2013. This information should be provided to Provinces as soon as possible, as it will assist Provinces in formulating their own 2013 budget submissions.

6.2.9 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 2013 recurrent budget submissions the personnel emolument funding and goods and services funding that will be allocated from within 2013 recurrent budget ceilings to resource their Internal Audit Unit.

6.2.10 Non Financial Instructions

A letter dated 4 January "Outcome of the 2012 Recurrent Budget" and subsequent a letter dated 22 May 2012 "Compliance with 2012 Non-Financial Instructions" to Agencies MUST be referred to.

In the 2012 Budget, the Government announced a range of Non-Financial Instructions to improve accountability and transparency. Agencies are required to report on their delivery of these measures to the Budget Screening Committee.

All agencies are required to report on Trust Fund Management, Consultants and professional Service Providers and Off Budget Income. The BSC will not consider submissions which fail to provide this information and the ceilings identified in this circular will be automatically applied.

Trust Accounts

The Government requires agencies to report in the Budget process on public monies held in trust accounts managed or controlled by Government of PNG entities including statutory authorities and departments. In preparing these reports agencies are required to:

- i. Identify the expected balance of the trust account as at 30 August 2011;
- ii. Identify and reconcile movements in the trust account balance up to 30 August 2011;
- iii. Project movements in the trust account balance for the remainder of the 2011 year;
- iv. Provide a detailed Budget describing how the funds held in trust are to be expended;
- v. Provide details of interest earned on trust accounts; and
- vi. Identify the legal authority for the creation and continuing operation of the trust account

Consultants and Professional Services

The Government noted the contribution of consultants and professional service providers to the management of Government agencies. The Government is concerned at the long term nature and cost of many of these consultancy arrangements and has decided that agencies will report in the Budget Process identifying any consultancy exceeding six months or K150,000 total value (including all fees, allowances and gratuities);

- i. Details of the specific task and timeframe the consultant is expected to undertake;
- ii. Why the task cannot be undertaken by agency staff;
- iii. Details of steps taken by the agency to address any skills gap and to reduce the reliance on external consultants; and
- iv. Details (including duration and cost) of all consultancy or professional service contracts, entered into by the agency in 2011 and 2012.

Off-Budget Income

The Government will work to ensure that proposed expenditure is externally scrutinised and is consistent with Government priorities. Agencies with income earned through providing government services (e.g. immigration permits, work

permits, licenses and the like) are required to submit to the Budget Screening Committee a complete budget identifying:

- i. Recurrent Budget revenue;
- ii. Development Budget revenue; and
- iii. Non-Budget funded revenues

7. INSTRUCTIONS FOR COMPLETING 2013 DEVELOPMENT BUDGET SUBMISSIONS

7.1 *Format of an Agency's 2013 Development Budget Submission*

All agencies must submit their Development Budget submissions in a Project Formulation Document (PFD). A PFD contains all the information necessary for DNPM to make an in-depth appraisal of the programme or project. Submissions should be fully scoped and designed and show a clear linkage to the Medium Term Development Plan (MTDP) sector *deliverables* detailed in the MTDP. The 2013 Development Budget is the third annual budget of the Medium Term Development Plan (MTDP) 2011-15.

New projects in the 2013 Public Investment Programme (PIP) will be limited to those appraised and processed by DNPM. Submissions which are recurrent in nature, e.g. taskforces are not eligible for funding under the Development Budget.

All agencies must submit their new projects' Budget submissions to DNPM by **29th June 2012**. All agencies should *prioritise* submissions. Every submission cannot be funded.

With respect to donor-funded projects, only those projects for which the Government has already negotiated loans/grants or signed MoUs/MoAs with Donors by **29th June 2012** will be considered for funding and commencement in 2013.

7.2 *Ongoing Development Projects*

For ongoing projects, all agencies are asked to prepare Budget Submissions.

For ongoing projects that will continue to be funded in 2013, all agencies must submit accurate expenditure Estimate for the period beyond 2013, especially in regard to the counterpart funding requirements of donor-related programs and projects. Forward Estimate of expenditure over the life of the project are also required for inclusion in the 2012–2015 PIP and for the development of the Medium Term Resource Framework 2011-2015.

Funding is not guaranteed for ongoing projects in the 2013 PIP. An assessment will be made on the progress to date and whether reporting requirements under the Public Financial Management Act have been complied with. However, all agencies should clearly highlight *contractual obligations* in their submissions. It is Government's desire to complete ongoing projects.

7.3 *Donor Funded Projects (Recurrent and Development Budget)*

Donor-funded projects are subject to the normal government planning and budgeting processes.

For donor funded projects, all submissions are to be presented in the relevant Budget forms accompanied by all the appropriate attachments. It is important that:

- appropriate details and break-up of the components are shown,
- accurate expenditure Estimate for the life of the project especially *counterpart funding* requirements are shown,
- appropriate percentages for reimbursements are correctly reflected in the Estimate,
- cash (GoPNG direct) and non cash (donor/loan) components of the projects are clearly indicated,
- the submission includes a break-up at the item level by donor code.

In addition, all agencies are urged to provide a full description of the projects objectives for 2013, including their contribution to the sector *MTDP deliverables*, especially for new donor-funded projects, for inclusion in the budget documents.

Items of expenditure covered by loan agreements and MOUs must be clearly identified on the budget submission forms, including the percentage of each item that is reimbursable. For a given fiscal year, the receipts on the financing side must match the total donor-funded expenditure that is appropriated in the budget.

Total costs, whether Government or donor, within PNG or offshore, must be included in the budget. Loan agreements and MOUs often provide for direct payments to suppliers.

Amounts intended to be paid in this manner (offshore payments) must also be included in the budget Estimate under the appropriate votes, identified by donor, with the amount or percentage of Estimate offshore payment. It is not permissible to allow offshore payments when there is no budget appropriation to cover such payments under the relevant vote during the year.

Donor codes are entered after each line item. When entering the donor code, care must be taken to include the correct number to indicate the source of funds:

0. Government
1. Asian Development Bank
2. World Bank
3. European Union – Grant only
4. IFAD
5. OECF
6. JICA
7. New Zealand Aid
8. AusAID
9. Other donors including UNDP, EU (loans only), France, KFW, Kexim, etc.

It is very important that the correct vote number and donor codes are used because errors at this stage will produce incorrect reports in the General Ledger (Oracle) and the PBS.

7.5 Recurrent Impacts from Development Budget

Agencies should examine all Development projects, whether funded by the Government or aid donors, and identify current or future recurrent Budget

requirements. Future funding requirements should be identified separately in the text of the agency's recurrent Budget submission.

8. CONTACTS FOR THE 2012 NATIONAL BUDGET

If clarification is required, or if your agency requires further information or assistance, please contact:

8.1 Recurrent Budget (Budget Division, Treasury)

Economic & Infrastructure Sector	Mr Ropit Botong	312 8781
Social Sector	Ms Ruth Veapi	312 8753
Law & Order Sector	Ms Maryanne Maspok	312 8855
Administrative Sector	Ms Maryanne Maspok	312 8855
Provincial Sector	Mr Ruth Veapi	312 8739

8.2 Electronic (flat file) Budget Submissions (Finance)

Information & Communication Technology Division	Mr Jacob Yafai	328 8182
----------------------------------------------------	----------------	----------

8.3 Trusts (Finance)

Trust Accounting, Public Accounts	Cathy Ali	328 8602
-----------------------------------	-----------	----------

8.4 Development Budget (DNPM)

Economic Sector	Ms Monica Lopyui	328 8505
Infrastructure Sector	Mr Kelly Kabilo	328 8557
Social Sector	Ms Ilma Gani	328 8572
Law & Justice & Administrative Sectors	Mr Siboney Reuben	328 8509
Police & Defence	Mr Willie Kumanga	328 8510
HIV/AIDS & Climate Change	Mrs. Rhoda Yani	328 8506

.....
Simon Tosali

Secretary

Department of Treasury

Attachments:

- A.** 2012 Recurrent Budget Ceilings Allocated to Your Agency (**Table 1**)
- B.** 2012 Budget Submission Table Formats (**Tables 2 and 3**)
- C.** Options for increasing revenue and reducing recurrent budget reliance (**Table 4**)
- D.** Format of Trust Information Required (**Table 5**)