



**Outline of Improved System of
Intergovernmental Financing
Visit to XXXX, June 2008**

Overview of the improved intergovernmental financing system and what it means for you

Difference between current (Organic
Law grants) and improved system

➤ **Organic Law = kina-per-head grants**

Vs.

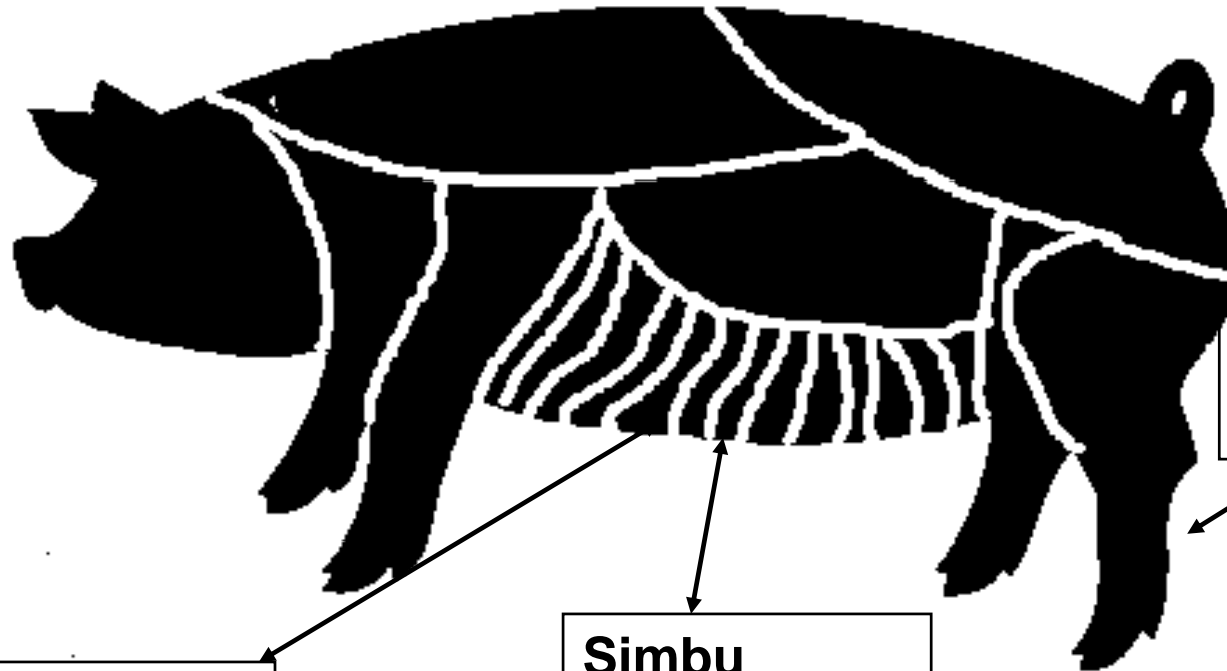
➤ **Improved system = needs determined grants**

“Need” is the difference between:

- how much it **costs** the Provincial Government to perform service delivery functions that have been assigned to it
- **less** the amount the Provincial Government already has from other revenue sources* (but only 50% of royalties)

At present, the pig is being divided very unfairly- update for individual province and using 2006 figures

Western
485 kina/head



New Ireland
114 kina/head

Sandaun
24 kina/head

Simbu
16 kina/head

Objective of proposed new system

- To reduce the difference between each Provincial Government's costs and how much revenues they have.
- We will not get everyone to 100% of the cost of basic services being met, but we will by 2013 have every Province at a minimum of 70% of their needs met.
- To **share** what funding is available **equitably**
- Long term aim is to bring all provinces to a **similar level of fiscal capacity** to meet recurrent costs of delivering a similar set of basic services to their people

A new pig!

- How much will you get in 2009?
 - How much extra this is compared to 2008?
 - A 40% increase on 2008 for Provincial Governments
- have data on all provinces available on a hand out, if requested

Outline of improved system

1. No province receives less under new system
2. Funding follows function
3. Tax-sharing arrangements
4. An equalisation system distributes grants according to need
5. A focus on improving service delivery
6. Better transparency and accountability

1. No one receives less in new system

- There is a guarantee that no province receives less.
- The new system is only concerned with the recurrent goods and services budgets.
- When second vote happens on the Organic Law amendments for fully implementing the new system, Provinces will also be able to raise more revenue.

2. Funding follows function

- Provincial and Local Level Services Monitoring Authority (PLLSMA) is clarifying functions across all tiers of government in all service sectors to make clear which level of Government is responsible for what activities in all service sectors.
- This will result in a Governor-General's determination on functions by the end of 2008.

3. Tax sharing arrangements

- **GST-** Provinces receive the amount based on **actual** distributions from 2007- no longer incorrect forecasts.
- **Derivation grant-** current formula of distribution is the same, with guidance provided about using this for core agriculture service delivery
- **Bookmakers tax-** 100% reverted back to Province that collected it.
- **Royalties-** existing arrangements in MOAs govern but also note only half of royalties are taken into account in calculating fiscal needs

No province receives less under improved system!

4. Equalisation System

- An equalisation system to fund grants to Provincial Governments and Local-level Governments exists.
- These grants are based on need, not kina per head.
- **After all guarantees are paid so that no one receives less**, the difference is made available for sharing on the basis of need.

The long term aim is to ensure provinces have a **similar level of fiscal capacity** to meet the recurrent costs of delivering a similar set of basic services to their people

5. Better service delivery outcomes

- Extra funds will introduce programme conditions in the function grant.
- Function grants will exist for infrastructure, health, education, village courts and agriculture (derivation grant). Current block grant will comprise an 'administration grant' and an 'other service delivery function grant'.
- **Individual grant sizes can be negotiated by Provinces.**

6. Better accountability arrangements

- NEFC/Treasury/PLLSMA will **monitor performance** with actions including:
 - quarterly budget reviews
 - publishing warrant data
 - annual provincial expenditure reports
 - a NEFC Fiscal Report published in November

Practical implications of new system

➤ Practical implications for provinces include:

(a) Identify new revenue lines to account for ‘other’ service function grant

(b) Provinces can negotiate the size of individual function grants

(c) Provinces are consulted on what conditions might attach to service delivery function grants. These will be issued by Treasurer later in 2008.

(d) The focus of provincial bids to BSC concern staffing and the development budget



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Where we are now

- o Amendments to *Organic Law on Provincial Governments and Local level Governments*- 1st vote Feb, 2nd vote for April
- o *Intergovernmental Relations (Functions and Funding) Bill*- new Act of Parliament that sets out the detail. Vote expected in quarter two
- o Recruiting advisors to support implementation for 2009 budget and a Governor General's determination on functional assignment in 2008
- o Developing a national communications strategy for implementation after the 2nd vote
- o Grant calculation process for 2009 budget has started