BRIEF INFORMATION PAPER

The Board & Management of
KUMUL PETROLEUM HOLDINGS LTD
P.O Box 143 Port Moresby 121 NCD

Cc: ***Secretary***
Department of Personnel Management
Secretary
Department of Treasury
Secretary
Department of Finance

KONEBADA PETROLEUM PARK AUTHORITY
PO Box 614, Vision City
Port Moresby, NCD

Date: February 25th, 2019

File No_____

SUBJECT: PUBLIC SECTOR ORGANISATIONAL REFORMS; TRANSFER MANAGEMENT OF KONEBADA PETROLEUM PARK AUTHORITY UNDER KUMUL PETROLEUM HOLDINGS LIMITED

1. PREAMBLE:

1.1 Establishment of Konebada Petroleum Park Authority (KPPA)

Konebada Petroleum Park Authority is a statutory authority established by an Act of Parliament called KPPA Act 2008 *(as amended 2009)*. KPPA being a statutory authority is subject to Regulatory Statutory Authorities (Appointments to Certain Offices) Act 2004, the Public Services Management Act 1995, the Public Finance Management Act and the Constitution.

Konebada Petroleum Park Authority is the authority responsible to provide an appropriately managed and serviced industrial precinct for the establishment and operation of large scale green fields petroleum processing and energy projects which add value to the petroleum resources of Papua New Guinea.

Konebada Petroleum Park Authority is managed and overseen by KPPA Board pursuant to *Section* 9 of the *KPPA Act 2008*. KPPA Board was sworn into office in 2016 by the then Minister for Petroleum and Energy, Hon. Nixon Duban MP. Prior to *KPPA Act 2008*, the administration of the Park Authority was run by the Konebada Petroleum Park Authority Working Group. This was due to the act being passed and was never gazetted in accordance with its preamble to come into operation. On March 21st 2012, the then Head of State, Sir Michael Ogio, published a notice of commencement for the KPPA Act to come into operation. Subsequently on March 23rd 2012, a notice was published in the

National Gazette No G109 of 2012 gazetting the effectiveness of the KPPA Act 2008 and KPPA as a Authority.

1.2 KPPA Management and Staff:

On August 2009 under the supervision of the Department of Petroleum and Energy (DPE), KPPA submitted the proposed functional and management structure of KPPA to the Chairman of the Salaries Conditions and Monitoring Committee (SCMC), Department of Personal Management (DPM). SCMC and the Department of Personal Management in a response letter dated 26th March 2010 approved the functional and organisational structure being consistent with the KPPA Act 2008 (as amended 2009) and further rejected KPPA's proposal to align the structure to the Public Service Performance Based Salary Structure (PBSS). KPPA was recognised and established as a semi-commercial organisation.

SCMC approved KPPA organisational structure consists of up to 80 positions and being consistent and compliant with the KPPA Act 2008.

The staff celling at the time when KPPA was forced out of their office in mid June 2017 and culmination to its abolishment on November 17, 2017 is 29 staff and 2 consultants according to listings by KPPA Accounts.

1.3 Current Status Quo of Konebada Petroleum Park Authority.

Konebada Petroleum Park Authority formally ceased its functional operations on November 17th 2017 following **NEC Decision No. *NG 57/2017.*** The National Executive Decision was to abolish Konebada Petroleum Park Authority and transfer all its financial powers back to Finance Department and Assets back to the Department of Petroleum and Energy.

On February 1st, 2018 under the subject *Public Sector Organisational Reform*, the NEC in their special meeting 01/2018 and **Decision No. 15/2018** approved to reaffirm their decision for the amalgamation and abolishment of KPPA to continue with following amendment;

- KPPA not to be abolished
- KPPA Board to be investigated
- Portions of land sold by KPPA to be re-acquired by the Minister for Lands & Physical Planning and APEC immediately

The 2019 National Budget Policy Directions under Non-Financial Instructions, Vol 01, Economic and Development Policies issues specific policy directions to transfer the management of Konebada Petroleum Park Authority (KPPA) under Kumul Petroleum Holdings Ltd (KPHL) and policy under Department of Treasury. This is fitting and appropriate since Konebada Petroleum Park Authority is under review for merger and amalgamation in 2019 by the Public Sector Organisational Reform Committee (PSORC).

The amalgamation and merger of KPPA with Kumul Petroleum Holdings Ltd is an important expenditure efficiency measure to improve and solidify states participation in all future and prospective LNG Gas downstream Projects.

2. PURPOSE

The purpose is to:

I. Highlight to the Kumul Petroleum Holdings Management the operational status of Konebada Petroleum Park Authority.

II. Inform the Management of Kumul Petroleum Holdings on policy directions affecting the functions and operations of Konebada Petroleum Park Authority.

III. Request Kumul Petroleum Holdings Management to commence consultation with Secretary, Department of Personnel Management as Chair of Public Sector Organisational Reform Committee (PSORC) to facilitate transition of management and qualified staff of Konebada Petroleum Park Authority under Kumul Petroleum Holdings Ltd; and to liaise with Treasury Department to make funding available for all Petroleum Park development operations and administrative functions.

3 FACTS AND CONSIDERATION

3.1 Introduction

Following NEC Decision NG57/2017, Chief Executive Officer of Konebada Petroleum Park Authority, Mr. Donald Valu and the Board failed to notify staff members on the NEC Decision. Staff members were off payroll since May 2017 up to and until the NEC Decision to abolish KPPA on 17th November 2017.

Konebada Petroleum Park Authority Trust Account (A/C# 12434650) with ANZ Bank was subsequently closed by Finance Department (Trustee) on January 22nd 2018 with Finance Department taking full control of all financial operating functions and powers of KPPA as the trust fund custodian of the Authority.

3.2. Staff of the Authority

Staff of Konebada Petroleum Park Authority were without employment when the Petroleum Park Authority ceased formal operations in January 2018. Konebada Petroleum Park Authority has no operational office or an office allocation under National Government Office Allocations.

3.2. Assets of the Authority

KPPA has 1000 hectares of Greenfield land for the purpose of developing the Industrial Petro Chemical Downstream Industries. In 2017 a total of 200 hectares of land held by KPPA was declared as a special economic zone by the then Minister for Department of Lands and Physical Planning, Hon. Benny Allen under the Authority of KPPA. KPPA has by far sold or leased 10 % of the 200 hectares of land declared under the special economic zone with little or no financial records of the proceeds of the land dealings (rentals, lease or sale proceeds) of all land transactions conducted so far.

Konebada Petroleum Park Authority (KPPA) through its Subsidiary has:

I) 5 x Non-Conventional Hydro-Carbon Development Licenses containing approximately 282 trillion cubic feet of gas that is worth billions of US dollars in the global energy market; and

II) 2 x Oil and Gas Exploration Licenses of greenfield areas whose commercial value is yet to be determined subject to explorations that are yet to be carried out and determined under the provisions of the Oil and Gas Act.

4. Matters surrounding Konebada Petroleum Park Authority.

Konebada Petroleum Park Authority (KPPA) is currently non-functional despite KPPA Act 2008 (as amended 2009) being still effective. The Authority ceased all operations (operations and administration) in January 2018 when the financial controller (Department of Finance) closed all expired trust accounts on the 31st of December 2017. Konebada Petroleum Park Authority has been operating under Trust Accounts since its transition from KPPA Working Group into KPPA in 2012 ignoring various financial directions from Finance Department to migrate the Trust Account into an Operating Account status.

The Chief Executive Officer and the Board of Konebada Petroleum Park Authority (KPPA) has so far ignored and or grossly failed to comply with mandatory and statutory instructions from Finance Department to provide audited financial reports, financial statements and audits on the funds of the Authority and its financial dealings for years ending 2014, 2015, and 2016 as well as the audited tax returns of the Authority with IRC.

The Financial Controller is now pursuing its mandated and statutory obligations to prosecute the Chief Executive Officer of Konebada Petroleum Park Authority under the Public Finance Management Act.

4 CONCLUSION.

Konebada Petroleum Park Authority (KPPA) is non-operational with all development plans and funding arrangements being stagnant. It is feasible and imperative that all future development plans of the Petroleum Park Authority is progressed and feasibility managed by Kumul Petroleum Holdings Ltd with administrative support from the former technical and administration staff from the Petroleum Park Authority.

It is also feasible and fitting to migrate all qualified staff (technical and administration) under the management of Kumul Petroleum Holdings Ltd to progress the 2019 National Budget, Vol 01, Economic and Development Policies.

Further, any delays or failure to implement policy directives may result in detrimental consequences such as abuse of land usage in the petroleum park.

5 RECOMMENDATIONS.

It is recommended that:

i. Kumul Petroleum Holdings Ltd make note of the brief as presented.

ii. Kumul Petroleum Holdings Ltd Management proceed to issue appropriate directions to Department of Personnel Management to update on the status of transition plans for the reforms on the management of KPPA under KPHL in compliance with direction # 5 of Decision No. 15/2018 dated February 1, 2018.

iii. Kumul Petroleum Holdings Ltd to seek NEC approval to transfer KPPA *Policy* under Department of Treasury and KPPA *Management* under Kumul Petroleum Holdings Ltd (KPHL) to progress 2019 National Budget, Vol 01, Economic and Development Policies and issue directions on Assets of the Authority and the future employment prospects of KPPA employees as a result of *NEC Decision No. NG 57/2017* – Abolish Konebada Petroleum Park Authority and the latter *NEC Decision No. 15/2018* to investigate the board and executive management of Konebada Petroleum Park Authority.

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Z A Z E O M B I
Executive Manager Operations & Infrastructure
Konebada Petroleum Park Authority

Enclosures:

The following relevant and supporting documents are attached for further information relating to the brief beforehand.

i. NEC Decision (NG 57/2017) to abolish the Authority dated November 17, 2017.

ii. NEC Decision (15/2018) to reinstate the Authority and investigate the Board dated February 1, 2018 (direction#5 noted).

iii. Extract pages of 2019 National Budget, Vol 01, Economic and Development Policies; Section 9.2.2 Public Sector Reform_Mergers of National Departments and Agencies.

iv. Draft copy of Statutory Business Paper for Minister's endorsement and further submission.

Enclosure i: NEC Decision (NG 57/2017) to abolish the Authority dated November 17, 2017

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NATIONAL EXECUTIVE COUNCIL NEC06-1 COPY PAPUA NEW GUINEA

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PAPUA NEW GUINEA GOVERNMENT

NATIONAL EXECUTIVE COUNCIL

Decision No: **NG57/2017** **Special Meeting No:** **NG06/2017**

Subject: **2018 NATIONAL BUDGET**

On 17th November 2017, Council:

1. noted the content of Policy Submission No. NG50/2017;

2. approved total expenditure of **K14,717.8 million** (including K1,024.6 million in grants and K593.9 million in loans) and a Budget deficit of K1,987.3 million or 2.48 per cent of projected GDP for 2018;

3. noted the estimated tax, non-tax revenue and grants to be collected in 2018 as set out below:

Table 10: 2018 Total Revenue and Grants (Kina Million)

	2018 Budget
Tax Revenue	9,639.4
Non-Tax Revenue	2,066.7
Grants	1,024.6
Total Revenue and Grants	**12,730.7**

Source: Department of Treasury

4. noted the recommendations as outlined in *Policy Submission No. NG51/2017* to improve taxation policy objectives and administration that will contribute to a modern, robust and efficient tax system that is able to support the financing requirements of the 2018 Budget and medium term economic and social development needs;

5. approved an additional funding of K19.0 million, bringing the total funding for the Internal Revenue Commission (IRC) to K105.0 million for the 2018 Budget. This additional work is expected to raise K600.0 million in 2018. IRC's total collection in 2018 is expected to be around K7.4 billion;

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Enclosure i: NEC Decision (NG 57/2017) to abolish the Authority dated November 17, 2017

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approved an additional K5.0 million on top of the K65.5 million budget allocation to undertake a revenue recovery exercise through the post clearance audit and cargo clearance process. This is expected to bring an additional K155.0 million in 2018. Total collections expected from PNG Customs Service (PNGCS) in 2018 are around K1.8 billion;

7. approved and directed all heads of State Owned Enterprises to remit all dividends set out in 2018 Budget:
   (i) Kumul Petroleum Holdings Limited, K300.00 million;
   (ii) Kumul Consolidated Holdings Limited, K100 million;
   (iii) Ok Tedi, K200.0 million;
   (iv) Bank of PNG, K150.0 million;
   (v) National Fisheries Authority, K400.0 million;
   (vi) Motor Vehicle Insurance Limited, K25.0 million; and
   (vii) National Gaming Board, K75.0 million.

8. approved and directed the Department of Finance to work with the Department of Treasury to review and amend all respective legislation that allows agencies to collect fees and charges to enable the required remittance of funds into CRF;

9. approved the immediate transfer of funds from the National Fisheries Authority (K400.0 million), National Gaming Control Board (K75.0 million), Mineral Resources Authority (K30.0 million), National Maritime Safety Authority (K10 million), Conservation Environment Protection Authority (K10 million) and Kumul Consolidated Holdings Limited (K40 million) to an account where the sole signatory is the Treasurer, with a view to remitting funds to the WPA on the first business day of 2018;

10. noted that a number of fiscal and economic risks such as the exchange rate and slow economic growth could threaten the implementation of the Budget. In particular, failure to progress the revenue reforms will affect economic development in 2018 and over the medium term;

11. noted that a number of revenue items are one-off; thus, expenditure reflects this fact by avoiding the locking in of expenditure into multi-year expenditure items;

12. directed the Departments of Personnel Management, Finance, Treasury and National Planning and Monitoring to immediately establish the OSPEAC Secretariat (to be housed in the Department of Treasury) to continue:

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Enclosure i: NEC Decision (NG 57/2017) to abolish the Authority dated November 17, 2017

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(i) working on all government Personnel Emoluments issues;

(ii) conducting an exercise on possible merging of agencies outlined in Table 8 below:

Table 8: Merging Agencies

Agency	Merged Into
Border Development Authority	Department of National Planning & Monitoring, Treasury and Department of Provincial and Local Level Government Affairs.
Konebada Petroleum Park Authority to be abolished	Funds to be transferred to Miscellaneous and Assets to Department of Petroleum & Energy.
PNG Science Secretariat	Department of Higher Education, Research, Science & Technology.

Source: Department of Treasury

and

(iii) improving the ALESCO payroll system with stringent access and controls.

13. directed that no new agencies be created without consulting the Department of Treasury and Department of National Planning & Monitoring;

14. directed agencies to look at cost cutting measures for efficiency and to limit expenditures on utility bills, vehicle purchases and travel;

15. directed the Department of National Planning & Monitoring to update NEC on Monitoring and Evaluation of activities under the capital budget and, specifically, on projects that are 50% or more complete, as well as the implementation of guidelines regarding SIPs. All projects will be approved by central agencies to ensure their alignment with the Medium Term Development Plan (MTDP) 2/3 as well as financial sustainability;

16. noted the K8.1 billion in Committed Undisbursed (Undrawn) Loan Balances that cost between K15 million and K30 million in commitment fees annually;

17. directed all Government agencies currently pursuing financing directly from multilateral, bilateral or other financial institutions to cease and refer everything to the Department of Treasury;

18. directed the Department of Treasury to take the lead and continue the process (approved in NEC Decision No. NG13/2017) with assistance from the Office of the State Solicitor and other relevant State Agencies that may be co-opted from time to time for the issuance of the inaugural Sovereign Bond for Papua New Guinea in 2018;

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19. approved the *Centralized Borrowing Policy* for implementation commencing 01st January 2018;

20. approved the Budget Strategy Paper and the Medium Term Fiscal Strategy, inclusive of the Medium Term Debt Strategy as the guide for the medium term fiscal path;

21. directed the Secretary for the Department of Treasury to prepare the detailed 2018 Budget for tabling in Parliament on 28th November 2017; and

22. directed the First Legislative Counsel to prepare the Appropriation Bills including the following, in accordance with the approved drafting instructions:

    (i) *Income Tax (2018 Budget) (Amendment) Bill 2017*;
    (ii) *Income Tax (2018 Budget) (Amendment) Regulations 2017*;
    (iii) *Oil and Gas (2018 Budget) (Amendment) Bill 2017*;
    (iv) *Goods and Services (2018 Budget) (Amendment) Bill 2017*;
    (v) *Customs Tariff (2018 Budget) (Amendment) Bill 2017*;
    (vi) *Excise (2018 Budget) (Amendment) Bill 2017*; and
    (vii) *Tax Administration (2018 Budget) (Amendment) Bill 2017*.

I Certify the above to be a correct record of the Decisions reached by the National Executive Council

PETER O'NEILL, CMG Chairman

ILAGI VEALI, MBE, MPS Secretary, NEC

Date: 21st November 2017

Distribution: PRIME MINISTER/MINISTER FOR JUSTICE & ATTORNEY GENERAL/DEPUTY PRIME & MINISTER FOR TREASURY/MINISTER FOR NATIONAL PLANNING/MINISTER FOR FINANCE & RURAL DEVELOPMENT/TREASURY/NATIONAL PLANNING & MONITORING/FINANCE/INTERNAL REVENUE COMMISSION/PNG CUSTOMS SERVICE/FIRST LEGISLATIVE COUNSEL/PMNEC/ JUSTICE & ATTORNEY GENERAL/

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Enclosure ii: NEC Decision (15/2018) to reinstate the Authority and investigate the Board dated February 1, 2018 (direction#5 noted)

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PAPUA NEW GUINEA GOVERNMENT

NATIONAL EXECUTIVE COUNCIL

Decision No: 15/2018 Special Meeting No: 01/2018

Subject: PUBLIC SECTOR ORGANISATIONAL REFORMS

On 01st February 2018, Council:

1. noted the content of Policy Submission No. NG66/2017;

2. noted the status of the following NEC Decisions: 145/2013; 173/2013; 280/2016; 68/2017; 99/2017 and 168/2017 relating to the amalgamation and abolishment of certain organisations as outlined in Appendix 1 and Appendix 2, attached;

3. approved to re-affirm these Decisions for the amalgamation and abolishment of these organisations to continue but with the following amendments:

Decision No.	Reform Actions	New Direction (supersedes earlier direction)
280/2016	Abolish Konebada Petroleum Park Authority and transfer policy functions to Treasury and management functions to Petroleum & Energy	• KPPA not to be abolished. • KPPA board to be investigated. • Portions of land sold by KPPA to be re-acquired by the Minister for Lands & Physical Planning & APEC immediately.
280/2016	Amalgamate the National Coordination Office of Bougainville Affairs to PM&NEC	• Not to amalgamate as it has an important function.

4. directed the Secretary for the Department of Personnel Management, as Chair of PSORC, to give effect to these NEC Decisions, and to provide transition plans and three monthly updates to the NEC on the status of the transition plans for the reforms; and

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Enclosure ii: NEC Decision (15/2018) to reinstate the Authority and investigate the Board dated February 1, 2018 (direction#5 noted)

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5. directed the Secretary for the Department of Personnel Management as Chair of PSORC, to fully consult the relevant agencies and other stakeholders engaged in the implementation of reforms.

I Certify the above to be a correct record of the Decisions reached by the National Executive Council

PETER O'NEILL, CMG Chairman

ILAGI VEALI, MBE, MPS Secretary, NEC

Date: 16th February 2018

Distribution: PRIME MINISTER/MINISTER FOR JUSTICE & ATTORNEY GENERAL/MINISTER FOR PUBLIC SERVICE/DEPUTY PRIME MINISTER & MINISTER FOR TREASURY/MINISTER FOR NATIONAL PLANNING/MINISTER FOR FINANCE/PERSONNEL MANAGEMENT/TREASURY/NATIONAL PLANNING & MONITORING/FINANCE/PMNEC/JUSTICE & ATTORNEY GENERAL/

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Enclosure iii: Extract pages of 2019 National Budget, Vol 01, Economic and Development Policies; Section 9.2.2 Public Sector Reform_Mergers of National Departments and Agencies

2019 NATIONAL BUDGET

VOLUME 1
ECONOMIC AND DEVELOPMENT POLICIES

For the year ending 31st December 2019

PRESENTED BY

HON. CHARLES ABEL, MP

DEPUTY PRIME MINISTER AND MINISTER FOR TREASURY

ON THE OCCASION OF THE PRESENTATION OF THE 2019 NATIONAL BUDGET

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Enclosure iii: Extract pages of 2019 National Budget, Vol 01, Economic and Development Policies; Section 9.2.2 Public Sector Reform_Mergers of National Departments and Agencies

9.2 PUBLIC SECTOR REFORM

The Government will build on past reforms by continuing to drive existing reform initiatives and look for further reform opportunities to improve the efficiency and effectiveness of the public service and create an environment that is conducive for private sector investment and growth.

The Government's Vision 2050 strategy envisages further devolution of responsibilities from the National Government to the Provinces. In parallel, the MTDP III aims to secure the future through inclusive sustainable economic growth. This will ensure improved targeting of resources to priorities to enhance the lives of our people.

In this respect, the 2019 Budget focuses on establishing a number of key reforms that are consistent with these high-level policy objectives and targets.

In 2019, the Government will refocus its attention on accomplishing new service delivery standards by trimming excessive spending and resource wastage, and redirecting funds to key priority impact projects at all levels of Government in the areas of Health, Education, Infrastructure and Law & Order.

9.2.1 Equitable Resource Allocations to Provincial Governments

The intergovernmental financing system focuses on ensuring that the total revenue of the provinces and the costs of delivering a minimum set of basic services are taken into consideration when determining the grants for the Provincial and Local Level Governments. Under this system, the *Intergovernmental Relations (Functions and Funding) Act 2009* sets out the revenue sharing formula among National, Provincial and Local-level Governments.

The amount that is allocated to the sub-national levels of the Government annually is referred to as the Equalisation Amount. This mainly becomes the pool of funding for the Functional Grants and is the minimum level of funding that the Provincial and Local Level Governments can expect to receive.

The Equalisation Amount is contingent on a set proportion of Tax Revenue, excluding variable mining and petroleum taxes, and which is referred to as Net National Revenue available to the National Government each year. This is to provide greater certainty for provincial and local-level governments, provided that it is a revenue sharing arrangement and the calculation of the equalisation amount will be responsive to the revenues received by the National Government.

The legislation indicates that the current equalisation amount is 6.6 per cent of Net National Revenues (NNR). The NNR amount is the total tax revenue received by the National Government excluding mining and petroleum tax revenue. The NNR calculations for the 2019 Grant distributions further exclude GST and Bookmakers Tax transfers to provinces, since these were already assessed as part of provinces fiscal capacities. This process involved subtracting K463.2 million (*sum of both GST & Bookmakers Tax*) from K9,141.4 million[28].

For the 2019 Fiscal year, the Equalisation Amount has increased by K15.4 million, a slight increase from K547.3 million in 2018 to K562.7 million. The increase is essentially due to the improved total tax revenue collections in 2017 compared to 2016.

The following table shows how the NNR amount for 2019 was calculated (Kina, Million).

[28] Tax Revenue – 2017 FBO report.

Enclosure iii: Extract pages of 2019 National Budget, Vol 01, Economic and Development Policies; Section 9.2.2 Public Sector Reform_Mergers of National Departments and Agencies

Act Definition	Final Budget Outcome equivalents	2016	2017	Difference
General tax revenue*	Tax revenue	8,421.6	8,678.2	*256.6*
MINUS (-)				
Mining and petroleum tax revenue	Mining and petroleum taxes	92.0	113.6	*21.6*
EQUALS (=)				
		2018 Budget	2019 Budget	
Net National Revenue Amount		8,329.6	8,564.6	*235.0*
Multiplied by (*) 6.57%				
Equalization Amount		**547.3**	**562.7**	***15.4***

Source: National Economic and Fiscal Commission (NEFC)
*excludes GST and BTT transfers to Provinces.

The minimum funding level for the equalisation amount in 2019 is calculated according to the following formula (Kina million):

Net National Revenue (2019)	*(X)*	*6.57%*	=	*NEFC estimate of 2019 equalisation amount*
(K8,564,6)	*(x)*	*6.57%*	=	*(K562,7)*

9.2.2 Mergers of National Departments and Agencies

A recently endorsed *NEC Decision No.15/2018* reaffirms a range of earlier cabinet decisions regarding the amalgamations and abolishment of various organisations. This NEC decision is currently being implemented by the newly established Public Sector Reform Organisational Team (PSORT). This team is comprised of departmental heads of Prime Minister & NEC, Personnel Management, Finance, Treasury and Justice and Attorney General.

This Group will be re-tasked as an ongoing strategic committee overseeing the actual amalgamation work carried out by OSPEAC. OSPEAC will then report to PSORT. Both groups/committees will be resourced sufficiently from existing departmental resources to effectively carry out its assigned duties, including the amalgamation exercise.

The amalgamation of agencies is an important expenditure efficiency measure to improve the productivity of the public service. This policy will help in achieving the Government's aim of rightsizing the public service and providing service delivery in a more coordinated and cost efficient manner.

The proposed mergers for 2019 are as follows:

Table 33: Merging Agencies

Agency	Merged into
Coastal Fisheries Development Agency	National Fisheries Authority
National Economic Fiscal Commission	Department of Treasury
National Aids Council Secretariat	Department of Health
National Coordination of Bougainville Affairs	PM & NEC
Integrated Financial Management System (IFMS)	Finance and ICT
National Tripartite Consultative Council	Department of Labor and Industrial Relations.
National Narcotics Bureau	Department of Justice and Attorney General (DJAG)
Office of Urbanization	Department of Lands
Border Development Authority	Department of National Planning and Monitoring, Treasury and Department of Provincial and Local Level Government Affairs (DPLGA)
Department of Public Enterprise	Department of Treasury

Enclosure iii: Extract pages of 2019 National Budget, Vol 01, Economic and Development Policies; Section 9.2.2 Public Sector Reform_Mergers of National Departments and Agencies

Agency	Merged into
PNG Research Science and Technology Secretariat	Department of Higher Education Science and Technology
Konebada Petroleum Park Authority	Abolish the agency, Policy to be under Treasury and management under Kumul Petroleum

Source: Department of Treasury

9.2.3 Budget Reforms

The Government will continue to undertake reforms to improve budgeting processes to enhance its effectiveness and efficiency in order to contain wastage and derive value for money given constrained financial resources against substantial needs for development spending and improved service delivery.

Significant progress has been made in recent years, including implementation of the "Two Stage Budget process" which allows for rationalisation of high cost public service proposals early in the budget process. The Government will further strengthen the integration of the former development and recurrent budgets to prevent funding duplication and ensure expenditures from both components of the budget are aligned by establishing an inter-departmental committee.

The committee, to be co-chaired by the Department of National Planning and Monitoring (DNPM) and Department of Treasury (DoT), will comprise relevant state departments and agencies to appraise and oversee the technical, financial and accountability aspects of new projects.

The Government will continue to introduce reforms with the aim of improving the efficiency in allocation of public funds and, at the same time, improving the integrity and efficiency of the budget process and reporting arrangements.

9.2.4 Management of Manpower and Personnel Emolument Ceilings

The Government has taken measures to reduce the increasing cost of PE to ensure the cost savings can be redirected to other priority areas. An equally important outcome will be to have a public service that is responsive to service delivery and development needs.

The Government will continue to support measures to establish mechanisms to control costs and institute efficiencies with agencies in performing their roles and functions.

A key initiative which the OSPEAC has undertaken since 2016 and which will continue in 2019 is to establish an accurate PE budget. A number of issues will be addressed in 2019. In this respect, agencies have not provided Treasury with correct manpower data as the Department of Personnel Management does not have a master file, making it difficult to assess staff on strength.

The Alesco system generates manpower data but this varies from fortnight to fortnight. Approval of new agency structures and entering these new structures into the Alesco system without reference to budget ceilings has added to the lift in payroll costs. There are also inconsistencies in staffing data between agencies and DPM over established structures, staff on strength and funded vacancies, and these inconsistencies are not monitored on a fortnightly basis. The growth in off-line payments remains a concern.

Importantly, the ALESCO payroll system currently does not have the capability to load annual approved budgets for target checking against the annual appropriations by specific agencies. The Payroll is processed in isolation to IFMS and reports are sent to the Department of

Enclosure iv: Draft copy of Statutory Business Paper for Minister's endorsement and further submission

Bounded Separately