

FMM 02.10 Sub-National Entities Financial Arrangements

10.1 Authority

- Public Finances (Management) Act 1995 (PFMA)
- Organic Law on Provincial Governments and Local-level Governments, 1998 (the 'Organic Law')
- Provincial Government Administration Act 1997
- Local level Government Administration Act 1997
- District Development Authority Act 2014

10.2 Minimum Responsibilities

National Government core agencies provide policy, financing ceilings, system support, and audit oversight.

Provincial Assemblies, LLG Councils and DDA Boards approve plans, budgets and annual reports.

Provincial Administrators, District Administrators are departmental heads under the PFMA and are accountable for execution and control.

Provincial and District Finance Managers maintain books, operate the approved finance system and enforce internal controls.

10.3 Non-mandatory Guidance

Sub-national administrations (Provincial Governments and Local-level Governments) are fully subject to the PFMA and all Financial Instructions and Manuals issued under it. In practice, this means provincial and local authorities must adhere to the same PFM standards and rules as national agencies.

10.3.1 Distinct Responsibilities of Sub-National Governments

While sub-national governments operate under the same PFMA framework, their responsibilities and powers in public finance differ from those of national departments. Provincial Governments and LLGs are not just spending agencies, they also have governing councils with authority to plan budgets, raise certain revenues, and manage funds for local service delivery.

They maintain their own financial management processes (e.g. provincial budgets, provincial warrants, and local revenue collection) in accordance with the law. The PFMA (Part IX) sets out specific provisions for provincial/LLG finance administration, recognising the broader role of sub-nationals.

Sub-national governments exercise a degree of autonomy in managing day-to-day finances through their Provincial Treasuries and District Treasuries. However, these local treasuries remain part of the integrated national financial system. The PFMA makes the Secretary of Finance (Departmental Head) responsible for overseeing Provincial and District Treasuries (PFMA Section 70(1)).

Each Provincial Treasurer is charged with ensuring that “public moneys in the Provincial Treasury are managed and released strictly in accordance with law.” In other words, provinces control their own spending processes (such as issuing warrants for payments out of the provincial treasury), but they must do so under the supervision of the Department of Finance and in line with the PFMA and FMM guidelines. Notably, the PFMA defines public moneys to include all funds received by a Provincial or Local-level Government (whether from national grants or local revenue). This means that once funds (from any source) are in the hands of a sub-national government, they are legally public funds and must be safeguarded and used according to the PFMA’s requirements.

10.3.2 Budgeting and Approval Process

Sub-national governments have a formal budget process that parallels the national budget cycle, but with important distinctions. Each Provincial Government must prepare an annual budget projecting its own-source revenues, intergovernmental grants, and proposed expenditures for the coming fiscal year.

As part of the responsibilities under the National Budget, the Treasurer (Section 23) not later than 6 months before the end of a fiscal year, as part of the annual budget process, issue to provincial and LLGs a budget calendar. These budgets are passed by the respective Provincial Assemblies or LLG councils.

Section 141 of the OLPGLLG stipulates that a Provincial Government must submit its draft budget (appropriation law) to the Treasurer for approval. In practice, the provincial appropriation law passed locally does not take effect until it is endorsed by the Treasurer and this oversight ensures provincial

budgets are aligned with national fiscal policy and legal requirements. If a province fails to obtain timely approval for its budget, the organic law also provides for the deemed approval of the provincial/LLG appropriations after 60 days. This provision prevents government shutdown at sub-national level while reinforcing the requirement for prompt budget approval by the Treasurer. Aside from such emergency authority, no public money can be expended by a Provincial or Local Government without a valid appropriation or other legal authorisation.

Once approved, a provincial budget is executed by the Provincial Treasury. The province operates its own warranting process to release funds to departments and services under its jurisdiction. Essentially, after the national budget allocates transfers (grants) to the province and the province's own revenues are projected, the province issues warrants (spending authorisations) to its agencies in line with its appropriations. This process is similar to the national warrant system but is managed locally through the Provincial Treasury and administration.

10.3.3 Revenue-Raising Powers and Commercial Activities

Unlike national departments, sub-national governments have legislatively defined revenue-raising powers and may engage in commercial activities. Within the limits of the OLPGLLG and national tax laws, Provincial Governments can levy and collect specific local taxes, fees, and charges to fund their budgets. In practice, provincial revenue is relatively limited and largely comes from a share of national taxes plus local sources. For example, provinces receive a portion of the national Goods and Services Tax (GST) collected in their jurisdiction (currently 60% of GST on domestic sales in the province) and a portion of bookmakers' taxes. They may also receive royalties from mining or petroleum projects in their area as provided by national resource laws.

Own-source revenues of provinces include various fees and licenses (such as liquor licensing fees, motor vehicle registration fees, local market fees, court fines) as well as income from any business ventures or property they own.

Local-level Governments similarly collect fines, fees and charges (e.g. trading licenses, land rents, etc.) where empowered by law. All such revenues must be paid into the Provincial Government's General Revenue Fund or Local Government accounts, and are considered public funds to be budgeted and spent according to the appropriations and PFMA.

Sub-nationals do not have unlimited taxing power, they can only impose those taxes or charges authorised by the OLPGLLG or other Acts, and major revenue sources remain national. Still, the ability to generate and retain some revenues distinguishes provincial finances from national agencies that rely entirely on central government appropriations.

Sub-national governments also have the capacity to operate commercial enterprises or investments but these are considered to be subsidiary statutory bodies and still subject to the PFMA.

Many provinces maintain business arms or invest in companies (for instance, provincial development corporations, commercial ventures in agriculture, transport, real estate, etc.) to generate income. The PFMA recognises this reality and places safeguards on sub-national commercial financial activities.

Section 66 of the PFMA governs how Provincial or Local-level Governments may invest funds that are not immediately needed and there are requirements to publish investments within 30 days of the end of each quarter within a fiscal year, the full and complete details of each and every investment made or existing in that quarter by the classes of investment.

Another area of financial power is borrowing and debt. National departments cannot borrow money on their own, but a Provincial Government can take on certain loans or debts, subject to strict conditions. Section 67 of the PFMA allows sub-national authorities to borrow with Treasurer approval. These provisions ensure that sub-nationals do not accumulate unsustainable debt or contingent liabilities that could affect national fiscal stability.

10.3.4 Oversight, Accountability and Governance

All sub-national finances are subject to independent audit. The PNG Constitution and OLPGLLG mandate the Auditor-General to audit the accounts of Provincial Governments and LLGs annually (similar to the audit of national departments).

Each province and LLG must prepare annual financial statements and submit them for audit. According to OLPGLLG Section 114, provincial administrations are required to produce an annual statement of their financial position and affairs, and the PFMA Section 71 adds that the content of these statements

must meet the specifications of the Financial Instructions, the Finance Management Manual included.

Further Information	frcd@finance.gov.pg
Version	1.0
Date Issued	30 June 2025