

FINANCE MANAGEMENT MANUAL



Volume 7 - Department of Treasury Budget Manual



issued by Department of Treasury

General Budget
Operating Rules

Steps to complete a
Budget Submission

Budget cycle and
timelines

Government of PNG

Financial Management Manual

Volume 7

Department of Treasury Budget Manual

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This manual is issued under the authority of the Secretary for Treasury and is intended as a standard guide for all government entities in fulfilling their budgetary responsibilities. It is to be read in conjunction with the *Public Finances (Management) Act 1995* and related legislative instruments. The Department of Treasury will periodically review and update this manual to ensure its continued alignment with evolving policy directives, legislative amendments, and institutional reforms. Users are advised to consult the official Treasury website and budget officers for the latest budget circulars, templates, and supplementary guidance materials. Feedback on the Budget Manual is welcome and may be directed to the Budget Coordination and Analysis Division at the contact details above.

The Finance Management Manual is designed to assist agencies in complying with the various public financial management legislations and to also assist department heads in development a framework for the financial management of their agency.

Section 117 of the PFMA states that the Finance Departmental Head may issue Financial Management Manuals, not inconsistent with this Act, for instruction and guidance on the implementation of any matter for the better control and management of public moneys and public property.

Volume 1 discusses the principles underpinning public financial management in PNG.

Volume 2 discusses PNG's Public Financial Accountability and Governance.

Volume 3 discusses Procedures and Control of Public Accounts and establishes the policy and instructions.

Volume 4 discusses Financial Reporting.

Volume 5 discusses Internal Controls and Internal Audit.

Volume 6 is an Elected Member's Guide to PNG PFM.

Volume 7 (this volume) is the Department of Treasury Budget Manual that discusses the budget process for National and Sub-national entities and the requirements.

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FMM 07.1 Introduction and Purpose

1.1 Purpose of This Volume

The National Budget is the Government’s principal policy and financial instrument for directing the allocation and management of public resources in accordance with its national development objectives. It plays a pivotal role in the delivery of essential public services, the advancement of critical infrastructure, and the promotion of inclusive and sustainable economic growth across Papua New Guinea.

This Budget Manual is issued by the Department of Treasury as a standard guide to all government entities in fulfilling their budgetary responsibilities. It defines the national budget process cycle, outlines the governing legal and institutional frameworks, clarifies the roles and responsibilities of key stakeholders, and provides detailed technical instructions for the preparation, submission, implementation, and monitoring of annual budget estimates.

1.2 Scope

This manual covers the full budget cycle: planning, formulation and approval, execution, and monitoring and evaluation. It addresses both the recurrent budget (administered by the Department of Treasury) and the development budget (coordinated by the Department of National Planning and Monitoring). It also addresses the budget process at the sub-national level, including provincial governments, district development authorities, and local-level governments.

The manual does not replace the Public Finances (Management) Act 1995 (PFMA), the Fiscal Responsibility Act 2006, or any other legislative instrument. Where there is any inconsistency between this manual and the governing legislation, the legislation prevails.

1.3 Intended Audience

This manual is intended as an operational and procedural reference for all public and statutory bodies:

- National departments, statutory authorities, and constitutional offices;

- Provincial governments, district development authorities, and local-level governments;
- Provincial Health Authorities (PHAs);
- The Autonomous Bougainville Government (ABG);
- Donor-funded project implementing units aligned with the Government’s development agenda; and
- Development partners and other stakeholders involved in PNG’s public financial management.

1.4 The 2026 Edition

The 2026 edition of the Budget Manual reflects the integration of recent public financial management reforms and policy developments introduced under the following frameworks:

- Medium-Term Development Plan (MTDP, 2023–2027);
- Medium-Term Fiscal Strategy (MTFS);
- 13-Year Fiscal Plan;
- Medium-Term Debt Strategy (MTDS);
- Intergovernmental Financing Arrangement Act (IGFA);
- Public Finances (Management) Act reforms;
- Integrated Financial Management System (IFMS) rollout; and
- Reforms on Non-Tax Revenue Agencies (NTRAs), Gender Equality, Disability and Social Inclusion (GEDSI), and Climate-Responsive Budgeting.

1.5 How to Use This Volume

This volume is organised into the following chapters:

- Chapter 1 Introduction and Purpose (this chapter);
- Chapter 2 Legal and Policy Framework;
- Chapter 3 The Budget Cycle Process;
- Chapter 4 Institutional Roles and Responsibilities;
- Chapter 5 Budget Execution: Detailed Procedures;
- Chapter 6 Compliance, Enforcement, and Additional Requirements;
- Chapter 7 Supporting Documents and Templates;
- Chapter 8 Sustainability, Fees and Service Delivery;
- Chapter 9 Multi-year Commitments and Authority to Pre-Commit;

- Annexes Abbreviations and Glossary.

1.6 Fiscal Discipline and Strategic Trade-offs

Given the limitations on available public resources, the Budget must be formulated with a clear understanding of competing demands. Rigorous prioritisation is required to ensure that the allocation of funds delivers maximum value for money. Trade-offs are inevitable for example, between sectors (funding healthcare infrastructure versus rural transport networks) or within a sector (funding new hospitals versus maintaining existing health infrastructure). Decisions must be informed by principles of efficiency, equity, fiscal responsibility, and long-term socio-economic impact. Budget formulation and implementation must prioritise compliance, including with procurement rules, and seek to avoid accumulating arrears and liabilities.

1.7 Financing Budget Deficits

Where projected expenditures exceed forecasted revenues, the Government may resort to financing the deficit through borrowing. While public borrowing can be appropriate for productive capital investments that yield long-term returns, it is not a sustainable mechanism for funding recurrent expenditures. The Medium-Term Debt Strategy (MTDS), developed in accordance with the Medium-Term Fiscal Strategy (MTFS), establishes the policy parameters for responsible borrowing and aims to manage public debt in a manner that minimises fiscal risk and reduces the cost of debt servicing over time.

Borrowing ties up future recurrent budgets in increased interest payments and debt servicing. It is not sound fiscal management to cover recurrent spending through borrowing. In general, borrowing should only be undertaken to fund capital projects that generate a rate of return higher than the interest rate on the loan.

Since 2020, the Government has undertaken a series of fiscal consolidation measures by amending the Fiscal Responsibility Act to ensure that it can:

- Increase its options to mobilise and generate revenue domestically;
- Improve efficiency and effectiveness of public expenditure; and
- Gradually reduce long-term reliance on foreign capital and external financing.

Nonetheless, the fiscal environment remains vulnerable to external and internal risks, including:

- Fluctuations in global commodity prices;
- Climate-induced natural disasters; and
- Continued upward pressure on the public sector wage bill.

1.8 Sources of Government Financing

The Government of Papua New Guinea derives its funding from four principal sources:

1.8.1 Tax Revenue

Taxation remains the Government's primary source of income. Major categories include:

- Direct taxes: personal income tax, corporate tax, mining and petroleum taxes, dividend withholding tax, and gaming tax;
- Indirect taxes: Goods and Services Tax (GST), excise duties, and levies; and
- Trade taxes: import duties, export duties, and excise on imported goods.

1.8.2 Non-Tax Revenue

Non-tax revenues are derived from:

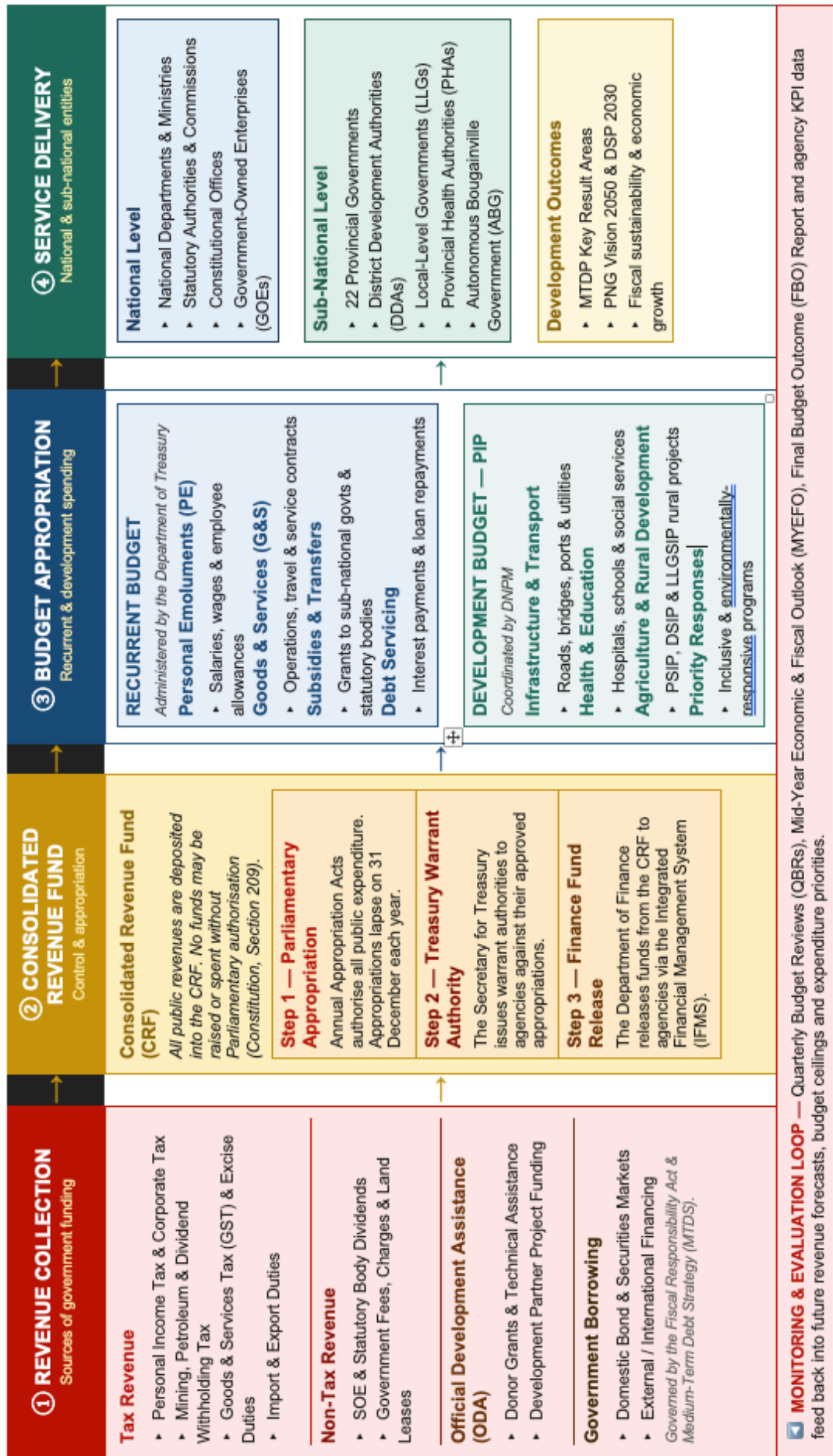
- Dividends from State-Owned Enterprises and statutory bodies; and
- Fees and charges levied by government agencies (e.g., land leases, licensing fees, passport issuance, and administrative services).

1.8.3 Official Development Assistance (ODA)

Donor-funded grants and technical assistance constitute a critical supplementary source of development financing. These resources are usually tied to specific projects and subject to stringent performance and reporting requirements.

1.8.4 Borrowing

When revenues fall short of funding requirements, the Government may borrow from domestic and international sources. Borrowing decisions are governed by the Medium-Term Debt Strategy and must comply with the debt management provisions of the *Fiscal Responsibility Act 2006* and the *Loans and Guarantees Act 2000*. Refer to Volume 3 for further details on borrowings.



FMM 07.2 Legal and Policy Framework

The planning, formulation, execution, and monitoring of the National Budget of Papua New Guinea are governed by a comprehensive legal and constitutional framework. This ensures that all public resources are managed transparently, efficiently, and within the rule of law. The framework sets the boundaries for fiscal discipline, appropriation control, revenue collection, and institutional accountability.

2.1 Constitutional Foundation

The legal authority to prepare and implement the Budget derives primarily from Section 209 of the Constitution, which states that no public funds may be raised or expended except under an appropriation made by an Act of Parliament.

This foundational principle is reinforced through a suite of enabling laws, which operationalise budget management, procurement, borrowing, reporting, and financial oversight.

2.2 Key Legislative Instruments

The principal Acts governing the budget process are:

2.2.1 Public Finances (Management) Act 1995 (PFMA)

The PFMA governs financial management, procurement processes, internal controls, and audit requirements across all government entities. It establishes the responsibilities of departmental heads as accountable officers and sets out the rules for expenditure, trust accounts, and financial reporting.

2.2.2 Annual Appropriation Acts

The Appropriation Acts provide the legal authority to spend and reallocate public money each year through three annual appropriations Acts: General Public Service, Judiciary Services, and National Parliament. All public spending must be authorised by Parliament through these Acts.

All appropriations automatically lapse on 31 December, unless explicitly re-appropriated. Agencies must ensure that planned expenditures are executed within the financial year, subject to the terms and limits of the appropriation.

2.2.3 Fiscal Responsibility Act 2006

The Fiscal Responsibility Act mandates publication of key fiscal reports and adherence to long-term fiscal targets. It promotes transparency and accountability in national budgeting and guides the preparation of key fiscal reports including the Budget Strategy Paper (BSP), the Mid-Year Economic and Fiscal Outlook (MYEFO), and the Final Budget Outcome (FBO).

2.2.4 Inter-Government Relations (Functions and Funding Financing) Act of 2009

This Act regulates fiscal transfers between the National Government, provincial governments, and local-level governments. It defines service delivery responsibilities across government tiers and establishes equitable systems to ensure that resources are distributed fairly.

2.2.5 Loans and Guarantees Act 2000

This Act regulates government borrowing, guarantees, and debt ceilings.

2.2.6 National Procurement Act 2018

This Act governs procurement thresholds, competitive bidding, and contract award processes.

2.2.7 Organic Law on Provincial Governments and Local-Level Governments

This law outlines sub-national fiscal responsibilities and funding transfers.

These laws function in concert to ensure that the budget process is legally grounded and subject to checks and balances at both the executive and parliamentary levels.

2.3 Authorised Use of Public Funds

All public spending must be authorised by Parliament through the annual Appropriation Acts. The Department of Treasury cannot issue any warrants or release funds without this legal mandate (Constitution, Section 209).

Once the budget has been formally appropriated by the National Parliament, the Minister for Treasury may give written permission to the Department of Treasury to issue warrants to agencies, allowing them to draw funds from the Consolidated Revenue Fund.

The Department of Treasury is legally bound to authorise expenditure through the issuing of warrant authorities, whilst the Department of Finance is authorised to release funds based on warrants issued by the Department of Treasury.

2.4 Obligations of Departmental Heads

Agency heads, as accountable officers under Section 5 of the PFMA, bear primary responsibility for the lawful and effective management of public resources.

Their obligations include:

- Ensuring that funds are used solely for appropriated purposes;
- Preventing over-expenditure and over-commitment;
- Maintaining accurate and auditable records;
- Protecting public assets and inventory;
- Collecting and promptly remitting all fees, charges, and revenue;
- Reviewing fees annually and submitting reports to Treasury; and
- Submitting quarterly financial and performance reports.

Non-compliance with these obligations may result in administrative penalties, surcharge orders, or prosecution, depending on the nature of the breach (PFMA, Section 114A).

2.5 Rules Governing Fees and Charges

Under Sections 209 and 210 of the Constitution, all taxation, borrowing, and spending must be authorised through Acts of Parliament, and all public money - including fees and charges - must be deposited into the Consolidated Revenue Fund, unless otherwise permitted by law.

Further information on Fees and Charges and the approach to budgeting this is provided in Volume 3 of this FMM.

2.6 Guiding Policy Frameworks for Budget Formulation

The formulation of the National Budget is guided by five overarching policy frameworks:

2.6.1 The Medium-Term Fiscal Strategy (MTFS)

The MTFS sets out the Government's three-to-five-year fiscal priorities and is required by the Fiscal Responsibility Act. It outlines targets for revenue, expenditure, and debt, ensuring annual budgets stay within fiscally responsible parameters over the medium term.

2.6.2 Medium-Term Debt Strategy (MTDS)

The MTDS ensures that government borrowing is affordable and sustainable. It offers a risk-conscious framework for financing deficits, controlling debt levels, and managing repayment obligations over time.

2.6.3 Medium-Term Development Plans (MTDPs)

During budget formulation, MTDPs are critical in guiding agency submissions and resource allocation. Government departments and implementing agencies develop their project proposals (both Public Investment Program and recurrent budgets) based on MTDP targets. Treasury uses these plans to assess the strategic relevance and expected impact of proposed expenditures, ensuring that approved budgets directly contribute to national development objectives.

2.6.4 13-Year Budget Repair Plan

This fiscal roadmap runs from 2021 to 2034 and was introduced to manage post-COVID recovery. It focuses on reducing budget deficits, strengthening revenue, controlling public debt, and restoring long-term fiscal sustainability. During budget formulation, it helps shape expenditure ceilings and debt strategies, ensuring development ambitions are pursued within realistic financial limits.

2.6.5 PNG Development Strategic Plan (DSP) 2010–2030

The DSP defines the long-term development aspirations of Papua New Guinea, including becoming a middle-income country and enhancing inclusive growth.

When Treasury begins budget formulation, it references the DSP to ensure all fiscal policies and investment decisions align with this overarching vision.

2.7 Parliamentary Oversight and Consultation

The budget process is subject to oversight by the Plans and Estimates Committee, a bipartisan body of Parliament. This committee plays a pivotal role in maintaining constitutional accountability by:

- Requiring formal consultations before the budget is finalised;
- Evaluating fiscal targets;
- Providing input into the Strategic Budget Committee (SBC) process; and
- Releasing a public statement during parliamentary debate on appropriations.

Parliamentary consultation with the Plans and Estimates Committee is conducted prior to the commencement of the SBC and before the final passage of the Budget. The meeting prior to SBC is to seek the committee's views on the Budget's broad framework, as stipulated by law, before the presentation of the Budget on the floor of Parliament.

Although the Committee is required to review the budget before it is tabled, it can only advise and give its opinion; it does not have the power to amend budget estimates. The Chairman of the Plans and Estimates Committee may speak on behalf of the Budget on the floor of Parliament.

FMM 07.3 The Budget Cycle Process

The National Budget process comprises four interdependent stages. Each stage collectively ensures that public funds are allocated, utilised, and accounted for in a manner that is consistent with national priorities, fiscal responsibility, and legislative requirements.

The four stages are:

1. Budget Planning;
2. Budget Formulation and Approval;
3. Budget Execution; and
4. Monitoring and Evaluation.



3.1 Budget Planning

The planning process of the National Budget begins in May each year. It establishes the foundation for the formulation of the annual budget, including ceiling development and resource prioritisation. This phase is led by the Department of Treasury, in collaboration with the Department of National Planning and Monitoring (DNPM) and the Department of Finance, with inputs from other central agencies.

Budget planning must be informed by realistic macroeconomic forecasts, grounded in national policy priorities, and implemented within the available fiscal envelope.

3.1.1 Strategic Alignment

All elements of the National Budget must align with Papua New Guinea's long-term and medium-term policy frameworks. Treasury and DNPM ensure that all budget submissions are evaluated for consistency with national strategies. The key policy frameworks guiding budget planning are detailed above.

3.1.2 Budget Ceilings

Budget ceilings define the maximum level of recurrent funding each agency is permitted to include in its annual submission. The Department of Treasury releases budget ceilings based on:

- Macroeconomic and revenue projections;
- Fiscal risks and debt service obligations;
- Rolling MTDPs and NEC policy priorities; and
- Any one-off, recurrent, or sunset program adjustments.

Agencies must prepare their submissions within these ceilings using the IFMS system.

The Budget Ceiling Circular is usually issued in July and includes:

- Agency-specific ceilings;
- Submission guidelines;

- Technical templates;
- Invitations to make development budget submissions; and
- Instructions regarding GEDSI, climate resilience, non-financial instructions, and performance reporting.

There is no guarantee of prior-year funding continuity, and agencies must:

- Stay within staffing ceilings;
- Reallocate internally where pressures exist; and
- Justify all new funding requests with supporting documentation.

3.2 Timeline and Coordination

3.2.1 Process for Provincial Governments

Provincial governments receive their budget ceilings via the IFMS system.

- Immediately after the National Budget is passed, the Department of Treasury issues a circular to all provincial administrators, District Development Authority CEOs, and local-level government presidents to prepare and submit their budgets to Treasury for the Treasurer's approval.
- Provincial governments and local-level governments must, by legislation, submit their budgets to the Minister for Treasury for approval before budget execution.
- Provinces and LLGs must submit their cash flows and work plans for the release of warrants.
- Warrants are released via the Department of Finance for funds remittance to the respective provincial and LLG operating accounts.
- Budget packs in IFMS are released for budget execution at the sub-national levels.
- DDAs submit budgets to Treasury for chart of accounts maintenance and conformity purposes before budget packs are released for execution.

3.2.2 Process for National Departments and Statutory Authorities

The Department of Treasury and the Department of National Planning and Monitoring conduct early consultations with national departments and statutory authorities, including:

- Revenue agencies (IRC, Customs, BPNG);
- Sector leads (Health, Education, Infrastructure); and
- Development partners (via DNPM).

This ensures inter-agency alignment across all sectors and provides fiscal certainty for planned expenditures. Once ceilings are released, agencies should commence preparation of their budget submissions.

3.2.3 Offsets and Savings

To maintain fiscal discipline, agencies are required to identify offsetting savings within their approved ceilings if they propose any new activities or cost increases.

Offsetting savings involve internal reallocation of funds to finance new priorities, achieved by:

- Cancelling or deferring lower-priority activities;
- Reducing under-performing or non-core functions;
- Withholding recruitment (with DPM coordination); and
- Consolidating administrative overheads.

The following do not constitute valid savings:

- Cutting donor counterpart funding without agreement;
- Reducing verified salary obligations; and
- Using “anticipated under-expenditure” to justify new spending.

Only documented, realistic, and policy-compliant savings will be accepted.

Treasury enforces this principle rigorously to protect fiscal integrity.

Government agencies that practice sound budget management, transparent re-prioritisation, and strategic alignment with national goals are more likely to secure funding and may receive additional flexibility or supplementary allocation during Strategic Budget Committee (SBC) and NEC review meetings.

3.3 Budget Formulation and Approval

Budget formulation is the structured process by which the Government translates national development priorities into a coherent and fiscally sustainable expenditure plan. It begins with the issuance of the Budget Ceiling Circular - typically in July - and culminates in the passage of the National Budget by Parliament in November.

3.3.1 Budget Submission Process

Following the release of the Budget Ceiling Circular, all national departments, statutory authorities, constitutional offices, and sub-national governments are required to prepare and submit their annual budget proposals in accordance with the detailed instructions provided. Submissions are due by the date stipulated in the circulars, typically by mid-August.

Each agency must upload their budget entries into the IFMS. Agencies must also submit a signed hard copy of the budget submission.

If an agency seeks funding above the approved ceiling, it must submit a separate annex justifying the request. All submissions must use the official templates issued with the circular. Budget proposals must be program-based, aligned to sector priorities, with clear references to intended outputs, cost drivers, and performance indicators.

Requests for additional funding beyond the ceiling must demonstrate strong alignment with:

- Key Result Areas (KRAs) of the Medium-Term Development Plans;
- Enabling economic activity and revenue generation;
- Gender Equality, Disability and Social Inclusion (GEDSI) and climate risk considerations; and
- Public service reform priorities or cost containment measures.

Agencies must submit a record of any previously made commitments for the following budget and future budget years, including commitments to counterparts. In collaboration with the Authority to Pre-Commit Committee, Treasury will use this to update the register of future spending commitments.

3.3.2 Budget Screening Process and Committees

TABLE 1 BUDGET SCREENING PHASES

Stages	Committee	Role
Initial Review	Treasury and DNPM Internal Committees	Screens submissions for compliance, cost realism, and PBS data integrity
Technical Review	Strategic Budget Committee (SBC)	Chaired by Treasury. Reviews agency priorities, reallocations, and fiscal impact
Cross-Agency Coordination	Central Agencies Coordinating Committee (CACC)	Ensures cross-agency alignment and budget consistency
Policy-Level Confirmation	Ministerial Economic Committee (MEC)	Sets high-level funding parameters, endorses policy shifts
Final Endorsement	National Executive Council (NEC)	Approves final budget and authorises Appropriation Bills

Desk officers from Treasury and DNPM receive and review each agency's budget request to ensure that figures are accurate, plans follow national development policies, and expenditure plans are within the country's financial limits. Agencies are to remain in regular contact with desk officers throughout the year so they understand agencies budget needs.

The first review is conducted internally by Treasury and DNPM officers, who screen for compliance with ceilings, assess the realism of cost estimates, and verify data in IFMS. Submissions are then assessed at the Strategic Budget Committee (SBC), which serves as the Government's main technical evaluation panel.

3.3.2.1 *The Strategic Budget Committee (SBC)*

The SBC is chaired by the Deputy Secretary of the Department of Treasury and co-chaired by the Deputy Secretary of the Department of National Planning

and Monitoring. The committee includes Deputy Secretaries from the Department of Finance, the National Monitoring & Coordination Authority, the Department of Personnel Management, and the Department of the Prime Minister and National Executive Council. The SBC assesses agency priorities, proposed re-allocations, fiscal implications, and alignment with national strategies.

3.3.2.2 The Central Agencies Coordinating Committee (CACC)

Following the SBC process, submissions go to the CACC, which ensures cross-agency consistency, funding coherence, and alignment with whole-of-government strategies. CACC is chaired by the Chief Secretary.

3.3.2.3 The Ministerial Economic Committee (MEC)

This committee acts as a vital bridge between technical administrative reviews and final executive approval. High-level policy parameters are confirmed by the MEC, and final budget endorsement is granted by the National Executive Council (NEC).

SBC deliberations typically occur in September, CACC and MEC review takes place in October, and NEC approval is finalised in November. The completed budget is tabled in Parliament typically on the second Tuesday of November, consistent with statutory obligations.

3.3.3 SBC Process Reforms

To improve efficiency and reduce the administrative burden on agencies, the SBC process has undergone several significant reforms. Previously, over 180 entities - including 22 provinces - were required to deliver individual presentations. This requirement has been removed.

A desk officer system has been introduced. Treasury officers work directly with each agency to verify and vet budget submissions. These officers prepare succinct one-page SBC briefs, replacing lengthy presentations and enabling a focused and efficient evaluation process. This reform has reduced the SBC review period from three months to three weeks.

Despite these efficiency gains, all oversight and decision-making structures have been retained. These reforms have helped ensure that the budget review process remains rigorous, transparent, and aligned with national policy objectives while streamlining operational requirements for agencies.

3.4 Budget Execution

Following the passing of the National Budget by Parliament, the Government enters the execution phase. This phase entails the release, management, and monitoring of appropriated funds to ensure the lawful, efficient, and effective implementation of approved programs and activities. Budget execution is governed by the provisions of the PFMA and other relevant legislation. Detailed execution procedures are set out in Chapter 5.

3.5 Monitoring and Evaluation

Effective budget implementation requires continuous oversight, timely reporting, and structured review mechanisms. The Monitoring and Evaluation (M&E) stage ensures that agencies manage appropriated funds responsibly, report accurately, and provide timely data to support transparency, accountability, and evidence-based decision-making throughout the fiscal year.

M&E is an essential component of results-based budgeting. It ensures that public funds contribute to intended outputs and outcomes, supports continuous learning and policy improvement, and strengthens accountability for service delivery and development results.

Consistent with recent reforms establishing the National Monitoring & Coordination Authority (NMCA) as the Government's central oversight and coordination authority for monitoring and evaluation functions, agencies are required to cooperate fully with NMCA in the implementation of national monitoring, coordination, and performance reporting requirements.

3.5.1 Agency M&E Responsibilities

All government agencies are required to define Key Performance Indicators (KPIs) for major budget programs and report performance through Quarterly Budget Reviews (QBRs), annual agency performance reports, and other reporting mechanisms prescribed by Treasury and NMCA.

Agencies are required to:

- Monitor actual outputs, outcomes, and expenditure performance against the Medium-Term Development Plan (MTDP) Key Result Areas and sector targets;

- Identify implementation constraints, risks, and underperformance, and recommend corrective actions;
- Participate in joint quarterly performance reviews coordinated by the Department of Treasury and NMCA, covering fiscal execution, program implementation, and development outcomes;
- Provide timely financial and non-financial performance data to Treasury, NMCA, and relevant central agencies;
- Track and report future spending commitments and contractual obligations in collaboration with the Authority to Pre-Commit Committee; and
- Cooperate with NMCA monitoring, coordination, inspection, and evaluation activities in accordance with Government policy directives and applicable legislation.

3.5.2 Integration with National Systems

Government M&E systems must align with national planning, coordination, and performance management frameworks, including:

- MTDP Results Frameworks and sector performance indicators;
- Public Investment Management (PIM) System;
- Integrated Financial Management System (IFMS);
- Gender Equity, Disability and Social Inclusion (GEDSI) indicators; and
- Climate resilience, adaptation, and sustainability reporting metrics.

NMCA shall serve as the lead coordinating authority for national monitoring and program performance oversight across agencies and sectors under its approved mandate.

For donor-funded projects, development partners and implementing agencies must submit project performance and M&E reports through the Aid Management Portal (AMP), administered by NMCA in coordination with the Department of Treasury and relevant sector agencies.

3.5.3 Use of Evaluation Results

Evaluation findings and performance assessments shall inform:

- Annual budget formulation and in-year budget adjustments;
- Cabinet and National Executive Council (NEC) policy deliberations and decision-making;
- Agency-level performance improvement initiatives and management interventions;
- Efficiency, effectiveness, and value-for-money assessments across government programs;
- Identification of programs requiring consolidation, reform, restructuring, or reallocation of resources; and
- National development monitoring and coordination processes led by NMCA.

Treasury and NMCA may jointly recommend corrective measures, funding adjustments, or policy interventions where agencies consistently underperform or fail to meet approved performance targets and reporting obligations.

FMM 07.4 Institutional Roles and Responsibilities

The successful planning, formulation, approval, execution, and evaluation of the National Budget requires the coordinated efforts of eight central government agencies operating at the national and sub-national levels.

At the national level, the five central agencies are governed by the Fiscal Responsibility Act. At the sub-national level, the three coordinating agencies operate under the Intergovernmental Financing Arrangement Act. Together, these eight agencies play distinct and critical roles in the annual budget process cycle.

4.1 National-Level Agencies

4.1.1 Department of Treasury

The Department of Treasury plays the central role in formulating Papua New Guinea's National Budget. It sets the fiscal framework, prepares macroeconomic forecasts, and issues the Budget Strategy Paper to guide all government agencies in their annual submissions. Under the Fiscal Responsibility Act, Treasury is responsible for producing key documents such as the Budget Strategy Paper, the Mid-Year Economic and Fiscal Outlook, and the Final Budget Outcome Report. These ensure transparency, accountability, and fiscal sustainability. Treasury is also co-chair of the Intergovernmental Financing Arrangement Review (IGFAR) process alongside the National Economic and Fiscal Commission (NEFC).

4.1.2 Department of National Planning and Monitoring (DNPM)

DNPM ensures that the budget reflects the country's development priorities. It coordinates the Medium-Term Development Plan and Sectoral Strategies, aligning them with the budget ceilings and fiscal space defined by Treasury. DNPM works closely with provincial and district administrations to ensure that development projects are consistent with national goals and that funding proposals are evidence-based. Pursuant to NEC Decision No. 16/2026, DNPM's role is now strictly confined to planning, policy formulation, and development programming. All monitoring, evaluation, and coordination functions previously exercised by DNPM have been transferred to the National

Monitoring and Coordination Authority (NMCA). DNPM retains responsibility for the allocation and internal distribution of Public Investment Program (PIP) funding to specific programs and projects, as this is a programming rather than a monitoring function.

4.1.3 National Monitoring and Coordination Authority (NMCA)

The National Monitoring and Coordination Authority (NMCA) is a statutory authority established by NEC Decision No. 101/2025 and operationalised by NEC Decision No. 16/2026. NMCA is the lead agency for whole-of-government monitoring and coordination, with an exclusive mandate covering: Public Investment Program (PIP) monitoring; project implementation tracking; Monitoring and Evaluation (M&E) systems and reporting; development program oversight; and national project dashboards and performance tracking. All Departments, Statutory Authorities, and SOEs are required to submit data and reports to NMCA and comply with NMCA oversight, reporting, and information requirements. NMCA co-leads the Quarterly Budget Review process alongside Treasury, with specific responsibility for development program performance and outcomes reporting against MTDP Key Result Area targets. Treasury is directed by NEC to reallocate all monitoring-related budget allocations from DNPM to NMCA. NMCA also holds administrative responsibility for the Aid Management Portal and all monitoring databases and dashboards previously held by DNPM.

4.1.4 Department of Finance

The Department of Finance is responsible for budget execution, financial reporting, and cash flow management. It ensures that appropriated funds are released in accordance with the PFMA and that agencies comply with financial accountability standards. Finance also plays a key role in implementing reforms that improve transparency and efficiency in public financial management.

4.1.5 Department of Personnel Management (DPM)

DPM contributes to the budget process by managing the public sector workforce. It sets staffing ceilings, approves new positions, and ensures that emoluments are within fiscal limits, except for teachers. DPM works with Treasury to align personnel budgets with the national wage bill and fiscal strategy.

4.1.6 Department of Prime Minister and NEC

The Department of Prime Minister and National Executive Council (PM&NEC) provides political oversight and final endorsement of budget priorities. It facilitates NEC decisions on major fiscal and policy matters, including IGFAR reforms and grant allocations. PM&NEC ensures that the budget reflects the Government's strategic vision and that inter-agency coordination is maintained.

4.1.7 National Economic and Fiscal Commission (NEFC)

The NEFC is a constitutional advisory body mandated under the Intergovernmental Financing Arrangement Act. It assesses the fiscal capacities of provinces and local-level governments, recommends function grants and equalisation payments, and advises Parliament and NEC on intergovernmental fiscal policy. NEFC leads the IGFAR process, working closely with Treasury, DPLLGA, and other stakeholders.

4.1.8 Department of Provincial and Local-Level Government Affairs (DPLLGA)

DPLLGA supports governance and service delivery at the sub-national level. Governed by the Organic Law on Provincial Governments and Local-Level Governments Act of 1995, DPLLGA plays a crucial role in implementation. Its legal mandate to administer and operate at the sub-national level is governed by the Local-Level Government Administration Act of 1997 and the Provincial Government Administration Act. It works with NEFC and Treasury to ensure that provincial and LLG administrations are equipped to manage their budgets and deliver services effectively.

4.1.9 Department of Implementation and Rural Development (DIRD)

DIRD oversees the administration of PSIP, DSIP, and LLGSIP funds. Guided by the District Development Authority Act of 2014, DIRD ensures that development funds are used for priority projects in rural areas and that implementation meets minimum service delivery standards. DIRD coordinates with Planning, Finance, and NPC to appraise, monitor, and report on project outcomes.

4.1.10 Department of ICT

DICT oversees and monitor major ICT expenditure and investment decision related to ICT both hardware and software.

4.1.11 Teaching Service Commission

TSC is the employer of all government school teaching service members in Papua New Guinea. TSC manages the appointments, welfare, terms and conditions discipline and professional standards across the nation. TSC works closely with Treasury to manage teacher recruitment, exits, and personnel emoluments within the approved national wage bill framework and fiscal strategy.

4.2 Roles Across the Budget Cycle

The budget cycle is a whole-of-government exercise requiring coordinated effort across multiple central agencies. Each agency brings distinct legislative mandates, specialised systems, and institutional expertise to the cycle. This chapter sets out the specific responsibilities of each key central agency at each of the four main stages: Planning, Formulation and Approval, Execution, and Monitoring and Evaluation.

Understanding these roles is important for line agencies preparing submissions, for central agencies coordinating the process, and for oversight bodies monitoring outcomes. The table below provides an at-a-glance summary across all four stages, followed by detailed card-format role descriptions for each stage.

4.2.1 Overview: Central Agency Roles at a Glance

Agency	Planning	Formulation	Execution	M & E
Dept of Treasury (DOT)	Sets fiscal strategy; drafts MTFs and Budget Strategy Paper	Prepares budget; sets fiscal targets; balances revenue/expenditure	Issues warrants; manages debt; adjusts fiscal parameters	Publishes MYEFO/FBO; analyses fiscal performance and risk
Dep't Nat'l Planning & Monitoring (DNPM)	Aligns Vision 2050/MTDPs; screens development project proposals	Aligns development priorities with funding; endorses PIP projects	Oversees development programming and coordinates PIP funding allocations	Provides planning and policy analysis to support national development priorities
Dept of Finance (DOF)	Issues financial instructions; ensures PFMA compliance in submissions	Reviews expenditure proposals for realism and compliance	Operates IFMS; disburses funds; manages payroll and procurement	Monitors actual vs budget; provides financial statements for audit

Agency	Planning	Formulation	Execution	M & E
Dep't of Personnel Management (DPM)	Reviews HR budget components; validates staffing ceilings	Manages staffing costs; ensures wage bill is within limits	Executes HR plans; manages payroll; ensures staffing compliance	Assesses HR performance metrics and staffing efficiency
Dept of PM & NEC (PM&NEC)	Ensures Cabinet priorities are reflected; coordinates NEC directives	Coordinates Cabinet approval; integrates political priorities	Monitors execution against NEC priorities	Tracks NEC-mandated priorities; whole-of-govt performance reporting
Auditor-General's Office (AGO)	—	—	—	Independent annual audit; reports to Parliament on public accounts
National Monitoring & Coordination Authority (NMCA)	Coordinates national development planning priorities and alignment with MTDP sector targets and Government priorities.	Provides development policy input and assesses alignment of agency submissions with MTDP outcomes, sector strategies, and national priorities.	Monitors implementation of government programs and development projects, including donor-funded activities and sector performance.	Leads national monitoring, coordination, and evaluation functions; tracks development outcomes, KPI achievement, project performance, and prepares national performance and evaluation reports.
Teaching Service Commission (TSC)	Reviews teacher workforce requirements, staffing projections, and education sector personnel priorities in line with national education plans and approved establishment ceilings.	Reviews teacher workforce requirements, staffing projections, and education sector personnel priorities in line with national education plans and approved establishment ceilings.	Manages teacher recruitment, appointments, postings, payroll-related personnel matters, discipline, welfare, and conditions of service in accordance with approved staffing and budget provisions.	Monitors teacher workforce performance, staffing compliance, payroll integrity, and implementation of teacher personnel policies and standards across the country.

4.2.2 Budget Planning

Budget planning establishes the strategic framework for the upcoming appropriation year and the three forward estimate years. Central agencies contribute distinct inputs to ensure the plan is fiscally responsible, nationally aligned, and operationally realistic. The planning stage typically runs from January through April of the prior year.

4.2.2.1 Stage 1 - Budget Planning

<p>Department of Treasury</p> <p>Sets fiscal strategy and determines budget ceilings. Drafts the Budget Strategy Paper and MTFs, providing the strategic envelope within which agency bids are assessed and prioritised.</p>	<p>Dep't of Nat'l Planning & Monitoring</p> <p>Aligns national priorities from Vision 2050 and the MTDPs with available resources. Screens and ranks development project proposals against the National Development Plan and PIP framework.</p>	<p>Department of Finance</p> <p>Issues financial instructions and costing frameworks to guide agency submissions. Ensures that all budget submissions are structured to meet PFMA standards and comply with financial management rules.</p>
<p>Dep't of Personnel Management</p> <p>Reviews HR budget components submitted by all agencies. Validates proposed staffing ceilings and organisational structures against approved establishment limits prior to submission.</p>	<p>Department of PM & NEC</p> <p>Ensures that Cabinet priorities are accurately reflected in the planning process. Coordinates NEC directives and translates political commitments into planning parameters for agencies.</p>	<p>National Monitoring & Coordination Authority</p> <p>Provides strategic monitoring data, development performance analysis, and implementation feedback to inform planning priorities and future budget allocations.</p>

4.2.3 Budget Formulation and Approval

Budget formulation translates the planning framework into a detailed appropriation proposal. Agencies must reconcile competing resource demands within Treasury's approved fiscal ceiling. The finalised budget is submitted to Cabinet for endorsement before being presented to Parliament, typically by September of each year.

4.2.3.1 Stage 2 - Budget Formulation and Approval

<p>Department of Treasury</p> <p>Prepares and finalises the Budget Strategy Paper. Sets fiscal targets for the appropriation year and the three forward estimate years. Balances revenue and expenditure proposals to produce a sustainable, compliant budget.</p>	<p>Dep't of Nat'l Planning & Monitoring</p> <p>Aligns development priorities with available funding allocations. Reviews and endorses project proposals to ensure they fit the national plan and the approved PIP, before submission to Treasury for inclusion.</p>	<p>Department of Finance</p> <p>Reviews expenditure proposals to ensure they are realistic, fully costed, and consistent with financial management rules and PFMA requirements before the budget is submitted for Cabinet approval.</p>
<p>Dep't of Personnel Management</p> <p>Reviews and validates staffing-related cost submissions from agencies. Ensures wage bill implications remain within agreed limits and that any establishment changes are properly authorised before inclusion.</p>	<p>Department of PM & NEC</p> <p>Coordinates the Cabinet approval process. Integrates political priorities and policy commitments into the budget and ensures that final appropriation proposals are policy-coherent before Parliamentary submission.</p>	<p>National Monitoring & Coordination Authority</p> <p>Reviews agency performance trends, project implementation status, and development outcomes to support prioritisation and evidence-based budget formulation.</p>

4.2.4 Budget Execution and Maintenance

Budget execution is the phase in which appropriated funds are released and applied to deliver government services and investments. Central agencies each play a critical role in ensuring that expenditure is lawful, controlled, and aligned with approved plans throughout the financial year (January–December).

4.2.4.1 Stage 3 - Budget Execution and Maintenance

<p>Department of Treasury</p> <p>Issues warrants authorising expenditure against appropriations. Adjusts fiscal parameters in response to pressures and manages public debt, all in accordance with the approved cash flow plan and fiscal rules.</p>	<p>Dep't of Nat'l Planning & Monitoring</p> <p>Oversees implementation of development projects funded through the PIP.</p>	<p>Department of Finance</p> <p>Operates IFMS as the central system for financial execution. Disburses funds to agencies, processes government payroll and procurement transactions, and maintains the central accounts of Government.</p>
<p>Dep't of Personnel Management</p> <p>Executes HR plans approved at formulation, manages day-to-day payroll operations, and ensures that staffing levels across all agencies remain compliant with approved establishments throughout the year.</p>	<p>Department of PM & NEC</p> <p>Monitors the delivery of priority programs and projects to ensure that NEC decisions and Cabinet-endorsed priorities are being implemented as intended across all agencies.</p>	<p>National Monitoring & Coordination Authority</p> <p>Coordinates development budget programming and manages PIP allocation processes in accordance with approved national priorities.</p>

4.2.5 Monitoring, Evaluation and Audit

Monitoring, evaluation, and audit close the budget cycle and feed lessons learned into future planning. This stage involves the largest number of central agencies, as accountability and oversight functions are distributed across Treasury, Finance, National Planning, DPM, PM&NEC, and the constitutionally independent Auditor-General's Office.

4.2.5.1 Stage 4 - Monitoring, Evaluation and Audit

<p>Department of Treasury</p> <p>Publishes the Mid-Year Economic and Fiscal Outlook (MYEFO) and Final Budget Outcome (FBO). Analyses fiscal performance and risk, responds to audit findings on fiscal policy and debt, and reports on revenue and expenditure outcomes.</p>	<p>Dep't of Nat'l Planning & Monitoring</p> <p>Evaluates development project outcomes and issues M&E reports benchmarked against MTDP targets. Facilitates performance audits of development projects and donor-funded programs to assess value for money.</p>	<p>Auditor-General's Office (AGO)</p> <p>Conducts the independent annual audit of PNG's public accounts and reports to Parliament on controls over public money and property. Audits government ministries, agencies, and programs for compliance with approved budgets.</p>
<p>Department of Finance</p> <p>Monitors actual expenditure against the approved budget and flags deviations for corrective action. Provides financial statements and IFMS logs to support audit processes and enforces financial compliance across agencies.</p>	<p>Dep't of Personnel Management</p> <p>Assesses HR performance metrics and staffing efficiency across government. Subject to audit on payroll integrity, HR processes, and establishment controls, and reports on workforce efficiency and policy outcomes.</p>	<p>Department of PM & NEC</p> <p>Tracks whole-of-government delivery against NEC-mandated priorities. Ensures transparency in audit processes for NEC decisions, advances governance and accountability reforms, and reports overall policy impact to NEC.</p>
<p>National Monitoring & Coordination Authority</p> <p>Leads whole-of-government monitoring and evaluation functions, tracks MTDP performance indicators, monitors project implementation and PIP execution, coordinates quarterly development monitoring reports, and maintains national performance dashboards and reporting systems.</p>		

4.2.6 Agency Roles at the Sub-National Level

Sub-national public financial management in PNG involves a distinct set of specialised agencies whose mandates focus on the fiscal and developmental relationships between national government and provincial, district, and LLG-level institutions. Three central agencies carry primary responsibility: the National Economic and Fiscal Commission (NEFC), the Department of Provincial and Local Government Affairs (DPLGA), and the Department of Implementation and Rural Development (DIRD). The Auditor-General's Office also has an important oversight role at the sub-national level, particularly in monitoring the integrity of service improvement program expenditures.

The legal framework for sub-national fiscal management is established through the Organic Law on Provincial Governments and Local-level Governments (OLPGLLG), the Intergovernmental Relations (Functions and Funding) Act (IGFAR), and the PFMA 2016. Together these instruments define how funds flow from the Consolidated Revenue Fund to sub-national entities and the accountability requirements that attach to those flows.

4.2.7 Overview: Sub-National Agency Roles at a Glance

Agency	Planning	Formulation	Execution	M & E
Nat. Economic & Fiscal Commission (NEFC)	Assesses provincial fiscal capacity; recommends function grants and equalisation payments	Advises on provincial ceilings; provides technical input on revenue/expenditure forecasts	Tracks compliance with minimum service delivery standards; conducts fiscal performance reviews	Monitors fiscal performance; publishes annual expenditure and service delivery reports
Dep't of Provincial & LG Affairs (DPLGA)	Supports District and LLG development plans; ensures alignment with national priorities	Guides provincial administrations in preparing submissions; coordinates with NEC	Oversees provincial and LLG plan implementation; facilitates S119 reporting and PCMC reviews	Chairs PLLSMA; establishes PCMCs; conducts quarterly reviews of provincial/LLG performance
Dep't of Implementation & Rural Dev (DIRD)	Coordinates planning for PSIP, DSIP, LLGSIP; appraises and links projects to PIP	Assists districts in formulating project proposals; advocates for rural service delivery	Manages disbursement and oversight of PSIP, DSIP, LLGSIP; coordinates procurement/contracts	Monitors project implementation; collects completion reports; submits financial acquittals
Auditor-General's Office (AGO)	—	—	—	Audits sub-national expenditure; ensures funds are used per approved rules and guidelines

4.2.8 Budget Planning

At the planning stage, sub-national agencies contribute evidence on provincial and district fiscal capacity, development priorities, and service delivery needs. Their inputs inform the national planning framework and ensure that the budget ceiling and allocation methodology are calibrated to real sub-national conditions.

4.2.8.1 Stage 1 - Budget Planning (Sub-National)

Nat. Economic & Fiscal Commission (NEFC)	Dep't of Provincial & LG Affairs (DPLGA)	Dep't of Implementation & Rural Dev (DIRD)
Assesses the fiscal capacity of provinces and LLGs and estimates the cost of basic service delivery. Recommends function grants and equalisation payments, advises Treasury and Parliament on subnational funding allocations, and ensures budget formulation is evidence-based and equitable.	Supports the development of District and LLG Development Plans and ensures their alignment with national priorities and service standards. Provides policy guidance and capacity building, coordinates functional assignment reviews, and facilitates compliance with IGFA requirements.	Coordinates planning for PSIP, DSIP, and LLGSIP. Reviews and appraises district and LLG project proposals, ensures alignment with five-year development plans, supports preparation of budget submissions for rural projects, and links subnational projects to the Public Investment Program (PIP).

4.2.9 Budget Formulation and Approval

During formulation, sub-national agencies translate the planning framework into specific provincial, district, and LLG budget submissions. NEFC provides the fiscal parameters, DPLGA guides and monitors the quality of provincial submissions, and DIRD ensures rural development projects are properly costed and included in the national appropriation.

4.2.9.1 Stage 2 - Budget Formulation and Approval (Sub-National)

Nat. Economic & Fiscal Commission (NEFC)	Dep't of Provincial & LG Affairs (DPLGA)	Dep't of Implementation & Rural Dev (DIRD)
Advises on provincial budget ceilings based on equalisation principles. Provides technical input on provincial revenue and expenditure forecasts, ensures provincial budgets align with national fiscal policies, and reviews provincial submissions for compliance with equalisation guidelines.	Guides provincial administrations in preparing and submitting budget estimates. Ensures provincial and LLG budgets comply with national standards, provides training and technical support for provincial budget officers, and facilitates consultation between provincial governments and NEC.	Assists districts in formulating project proposals for inclusion in the budget. Ensures rural development priorities are reflected in allocations, provides technical support for drafting district development budgets, and advocates for the inclusion of rural service delivery projects in national appropriations.

4.2.10 Budget Execution and Maintenance

Budget execution at the sub-national level involves the release and application of function grants, service improvement program funds (PSIP, DSIP, LLGSIP), and other conditional grants. Sub-national agencies each have distinct roles in ensuring these funds reach frontline service delivery points and are expended in compliance with approved plans.

4.2.10.1 Stage 3 - Budget Execution and Maintenance (Sub-National)

Nat. Economic & Fiscal Commission (NEFC)	Dep't of Provincial & LG Affairs (DPLGA)	Dep't of Implementation & Rural Dev (DIRD)
<p>Tracks compliance with minimum service delivery standards during the execution phase. Conducts fiscal performance reviews and publishes reports, and advises Treasury and Parliament on execution gaps and recommended corrective actions.</p>	<p>Oversees implementation of provincial and LLG development plans during the year. Coordinates with PLLSMA to monitor service delivery performance, supports institutional capacity building for sub-national administrations, and facilitates reporting and accountability through S119 reports and PCMC reviews.</p>	<p>Manages disbursement and oversight of PSIP, DSIP, and LLGSIP funds. Appraises, scopes, and monitors project implementation, coordinates procurement and contract awards with CSTB and PSTB, ensures project completion and handover, and tracks value-for-money and compliance with program guidelines.</p>

4.2.11 Monitoring, Evaluation and Audit

Closing the sub-national budget cycle requires robust monitoring, evaluation, and audit functions. The NEFC publishes fiscal performance data, DPLGA coordinates service delivery reviews through PLLSMA and PCMCs, DIRD collects project completion reports and financial acquittals, and the Auditor-General provides independent assurance over sub-national expenditure to Parliament.

4.2.11.1 Stage 4 - Monitoring, Evaluation and Audit (Sub-National)

<p>Nat. Economic & Fiscal Commission (NEFC)</p>	<p>Dep't of Provincial & LG Affairs (DPLGA)</p>	<p>Dep't of Implementation & Rural Dev (DIRD)</p>
<p>Monitors fiscal performance across all levels of government. Publishes annual expenditure and service delivery reports, evaluates intergovernmental financing arrangements and fiscal equity, advises on fiscal policy improvements at sub-national levels, and provides fiscal data and expenditure reports to support audit reviews.</p>	<p>Chairs the PLLSMA to monitor sub-national service delivery and establishes PCMCs for provincial-level oversight. Defines minimum service standards, conducts quarterly reviews of provincial and LLG performance, supports the Auditor-General by coordinating financial statement submissions, and promotes accountability and governance standards.</p>	<p>Monitors DSIP, PSIP, and LLGSIP project implementation and collects and verifies project completion reports. Participates in National M&E initiatives, ensures value-for-money and service delivery compliance, submits project completion reports and financial acquittals, and responds to audit queries and performance audits of service improvement programs.</p>
<p>Auditor-General's Office (AGO)</p>		
<p>Provides independent assurance that sub-national funds have been expended in accordance with approved rules, guidelines, and budget allocations. Audits PSIP, DSIP, and LLGSIP expenditure to verify that funds are enabling economic growth and social change as intended, and reports findings to Parliament.</p>		

FMM 07.5 Budget Execution: Detailed Procedures

5.1 Warrant Disbursement

Warrants constitute the legal authority to commit and expend public funds. The Department of Treasury is responsible for issuing warrant authorities against appropriations passed by Parliament.

Types of warrants include:

- Quarterly operational warrants for recurrent expenditure;
- Development budget warrants, issued in line with project implementation schedules (coordinated with DNPM); and
- Debt servicing warrants.

The warrant disbursement process follows these steps:

1. A joint circular is released by Treasury and DNPM, requesting work plans, procurement plans, and cash flow projections;
2. Agencies submit work plans, procurement plans, and cash flow projections;
3. Treasury assesses projections and verifies fund availability;
4. Treasury prepares advice for the Treasurer to issue ministerial warrants;
5. Treasury issues the warrant authorities to all budget-funded government entities;
6. The Department of Finance authorises the release of funds from the Consolidated Revenue Fund (CRF); and
7. Funds are made available through IFMS to agencies.

Warrant authority issuance does not imply automatic access to funds. Agencies must comply with the PFMA and related procurement and commitment controls prior to incurring any expenditure.

5.2 Quarterly Budget Reporting Requirements

All government entities receiving public funds are legally required to submit regular financial and performance updates in line with quarterly reporting protocols. Key requirements include:

- **Quarterly Forecast Submissions:** All agencies must submit updated cash flow and performance forecasts at the beginning of each month or by the second week following each quarter.
- **Year-End Reporting:** Agencies must submit final annual reports comparing actual expenditures against budgeted allocations, including explanations for major variances.
- **Project Steering Committees (PSCs):** PSCs are required to submit quarterly updates focused primarily on project implementation progress.
- **Universal Participation:** All agencies receiving government funding - regardless of governance level or classification - are required to comply.

5.3 Quarterly Budget Reviews (QBRs)

The Department of Treasury and the National Monitoring and Coordination Authority (NMCA) jointly conduct Quarterly Budget Reviews (QBRs) to evaluate agency performance, track implementation progress, and ensure fiscal discipline and development program delivery throughout the year. Treasury leads the assessment of fiscal performance, financial compliance, and recurrent expenditure outcomes. NMCA leads the assessment of development program implementation, PIP expenditure progress, and outcomes reporting against MTDP Key Result Area targets. Together, both agencies report QBR findings to the Central Agencies Coordinating Committee (CACC), which provides whole-of-government oversight.

All agencies must complete and submit the standard QBR template.

The template includes:

- Actual operational and development expenditures to date;
- Cash flow projections versus actual spending;

- Revenue collection (for revenue-generating agencies);
- Progress against planned outputs and KPIs;
- Identified savings, overruns, or reallocation proposals; and
- Key risks and implementation delays.

Agencies that fail to submit timely and accurate QBRs may face delays in warrant releases, increased audit scrutiny, or administrative sanctions.

5.4 Responsibilities for Internal Distribution

Agencies are responsible for the internal distribution of their allocated ceilings:

- Treasury provides overall warrant ceilings, but agencies must allocate these across activities and programs.
- Delays in internal allocation within agencies often result in unnecessary execution bottlenecks.
- Proper training and capacity building in IFMS cash management is essential.

For the Public Investment Program (PIP), the Department of National Planning and Monitoring is responsible for internal distribution of development funding:

- DNPM receives PIP ceilings and is required to allocate funds to specific programs.
- Delays in DNPM's allocation of PIP funds directly affect cash flow availability and project implementation.

5.5 Adjustments and Additional Funds Between Budgets

While the annual budget provides the legal framework for expenditure, circumstances may arise where adjustments are required outside the regular appropriation process. The Treasurer, through the Department of Treasury, facilitates access to such funding through the following mechanisms, each subject to strict conditions.

5.5.1 Reallocation (Transfer Rules and Expenditure Controls)

To reinforce budget discipline and prevent misuse of public funds, the Government has implemented strict transfer and expenditure control measures under the PFMA and related financial regulations.

Key restrictions:

- Transfers from Personal Emoluments (PE) to Goods and Services (GS) are not permitted unless supported by verified savings;
- Transfers from Public Investment Program (PIP) to recurrent expenditure are strictly prohibited; and
- Treasury must assess any transfer to ensure it supports the agency's core mandate and strategic objectives.

Only the Treasurer approves any budget adjustments or fund transfers. Fund transfers and budget adjustments must be made in accordance with Sections 6 and 7 of the Appropriation Act.

New spending outside the approved budget can only be introduced through a supplementary appropriation bill approved by Parliament.

Note: The Secretary's Advance is currently no longer in operation.

5.5.2 Supplementary Budget

When there is a significantly higher or lower revenue expectation than projected, or a need for large re-prioritisation of expenditure, the Government may introduce a supplementary budget through Parliament. A Supplementary Appropriation Act is required to authorise the expenditure of any additional funds not covered by the original budget.

Supplementary budgets must be supported by verified revenue gains or approved borrowing, and any supplementary funding must be consistent with the Medium-Term Fiscal Strategy and overall fiscal discipline.

Borrowing to finance revenue shortfalls compromises fiscal sustainability and undermines service delivery in future years due to increased debt servicing burdens.

5.5.3 NEC-Endorsed Additional Funding

The National Executive Council may endorse policy proposals that require additional funding. However, such approval does not automatically confer funding authority on Treasury.

Once appropriations are exhausted, Treasury cannot lawfully commit or disburse further funds unless: (a) a supplementary budget is passed; (b) the agency identifies savings from its existing appropriations; or (c) a transfer is made from another agency's appropriation.

Agencies are required to consult with Treasury prior to submitting NEC proposals that have financial implications.

5.5.4 Close of Accounts

At the end of each fiscal year, Department of Treasury and Department of Finance facilitate the Close of Accounts process to reconcile outstanding commitments. While limited resources may be made available during this period, agencies must not rely on this process as a guaranteed funding source.

Committing expenditure beyond appropriation is a breach of the PFMA and may constitute an illegal act. This applies equally to salary and non-salary expenditure. Agencies are legally and operationally responsible for remaining within their appropriated limits.

5.6 Cash Flow Projections

All agencies are required to prepare and submit cash flow projections for the next fiscal year by mid-January of the following year.

These projections must:

- Accurately reflect the monthly phasing of expected disbursements;
- Align with agency Annual Work Plans, procurement schedules, and payroll timelines; and
- Be prepared using the standard templates issued by the Department of Treasury.

Cash flow projections must be submitted via the IFMS, or in Excel/PDF format where IFMS access is not yet operational. These submissions enable Treasury

to plan and manage the timing of warrant releases, maintain overall cash flow stability, and safeguard Government liquidity and fiscal integrity.

5.7 Annual Budget Execution Timeframe

The following outlines the annual cycle of budget circulars and key execution milestones:

5.7.1 1st Quarter (January–March)

January–February: After receiving the annual cash-flow circular in December of the previous year, agencies submit their work plans and procurement plans for the current fiscal year to Treasury.

February–March: Budget Circular No. 1 - “Budget Timetable Circular” distributed to all agencies. This is the first of all the annual circular releases. It informs agencies about important dates for implementing, executing, and monitoring the current year’s budget, as well as preparing and formulating their budgets for the next fiscal year.

March–April: Budget Circular No. 2 - “1st Quarter Budget Review Circular” distributed to agencies. This circular advises all agencies to provide progressive financial performance reports for the first quarter.

Final Budget Outcome Report: During this quarter, Treasury also publishes the Final Budget Outcome (FBO) Report of the previous fiscal year.

5.7.2 2nd Quarter (April–June)

April–May: 1st QBR due to Treasury and NMCA. Agencies comply with instructions set out in the 1st QBR Circular and submit their 1st Quarter Budget Report. Treasury assesses fiscal and recurrent expenditure performance; NMCA assesses development program implementation progress and PIP expenditure for the first quarter.

May–June: Treasury assesses, analyses, and consolidates all agency fiscal reports for the 1st quarter and reports to CACC. Concurrently, NMCA consolidates development program implementation reports and publishes the 1st Quarter Development Monitoring Report, which is submitted to CACC alongside Treasury's fiscal report.

June–July: Budget Circular No. 3 - “2nd Quarter Budget Review Circular” distributed to agencies.

5.7.3 3rd Quarter (July–September)

July–August: Launch of the Mid-Year Economic and Fiscal Outlook (MYEFO) Report. Treasury releases this critical report to provide an updated snapshot of economic and fiscal performance. Launch of the Budget Strategy Paper (BSP).

Budget Circular No. 4 - “National Budget Ceiling Circular”. Treasury officially kicks off budget formulation for the next year. This circular includes instructions for budget submissions, spending ceilings, and new policy directives.

2nd QBR due to Treasury and NMCA. 2nd Quarter Budget Review meetings are jointly chaired by Treasury and NMCA, and attended by technical officers from Finance, NEFC, and DIRD. Treasury leads the fiscal performance component; NMCA leads the development implementation component and presents the 2nd Quarter Development Monitoring Report.

Budget submissions for the following year due to Treasury. IFMS agencies are required to submit two hard copies of their budget submissions, signed by the relevant portfolio Minister.

August–September: Budget Circular No. 5 — “3rd Quarter Budget Review Circular” distributed to agencies. 2nd Quarter Reports submitted to CACC. NMCA submits the 2nd Quarter Development Monitoring Report to NEC to inform forward budget formulation priorities for the coming year.

September–October: 1st Presentation of Budget Estimates to Plans and Estimates Committee and SBC.

5.7.4 4th Quarter (October–December)

October–November: Budget Estimates presented to CACC, MEC, and NEC.

November–December: 2nd Presentation to Plans and Estimates Committee. National Budget tabled in Parliament.

Budget Circular No. 6 - “Sub-National Government Circular” distributed to all provincial governments.

December–January: Budget Circular No. 7 - “Annual Cash-Flow Circular”. Instructs all agencies to submit cash-flow projections for the next fiscal year.

Budget Circular No. 8 - “Budget Appropriation and Non-Financial Instructions (NFIs) Circular”. Advises agencies of their appropriation and any specific or generic NFIs.

Each year, Treasury releases between 5 and 10 budget circulars. Standard circulars inform relevant stakeholders of the budget process and requirements at each stage. Treasury may also release joint circulars with DNPM or circulars for specific reforms and policy requirements.

Qtr	Month	Current Year - Budget Management	Forward Year - Budget Formulation
Q1	January	Agencies submit work plans & procurement plans	—
	February	Budget Circular No. 1 issued (Budget Timetable Circular)	—
	March	Budget Circular No. 2 issued (1st Quarter Budget Review); Final Budget Outcome Report published (previous fiscal year)	—
Q2	April	1st Quarter Budget Review (QBR) due to Treasury	—
	May	Treasury consolidates Q1 reports; reports to CACC	Budget planning commences; macroeconomic forecasting begins
	June	Budget Circular No. 3 issued (2nd Quarter Budget Review)	Fiscal envelope & budget ceilings under development
Q3	July	MYEFO & Budget Strategy Paper (BSP) launched; 2nd QBR due to Treasury	Budget Ceiling Circular (No. 4) issued; budget formulation officially begins
	August	Budget Circular No. 5 issued (3rd Quarter Budget Review); 2nd Quarter Report submitted to CACC	Agency budget submissions due; 2nd Quarter Review meetings held (Treasury, Finance, DNPM, NEFC, DIRD)
	September	3rd Quarter Budget Review due to Treasury	SBC review; 1st Presentation to Plans & Estimates Committee

Qtr	Month	Current Year - Budget Management	Forward Year - Budget Formulation
Q4	October	3rd Quarter Report submitted to CACC	CACC & Ministerial Economic Committee (MEC) review; Budget Estimates presented
	November	Budget Circular No. 6 issued (Sub-National Government Circular); warrant authorities released	2nd Presentation to Plans & Estimates Committee; NEC endorsement; National Budget tabled in Parliament
	December	Budget Circular No. 7 (Annual Cash-Flow Circular); Budget Circular No. 8 issued (Appropriations & Non-Financial Instructions Circular)	Budget packs distributed to agencies; IFMS budget packs released for sub-national execution

FMM 07.6 Compliance, Enforcement, and Additional Requirements

6.1 Use of Trust Accounts

Trust accounts are an established financial mechanism for managing earmarked, multi-year funds - particularly where operational requirements necessitate ring-fencing resources for a dedicated purpose. Their use is strictly governed by the PFMA. Further details on the management and operation of trusts is outlined in FMM Volume 3.

Trust accounts must not be used to circumvent annual appropriation laws.

Agencies are required to submit regular financial reports on trust account utilisation to Finance and Treasury.

Trust accounts are intended for temporary use and must include a defined closure date to ensure accountability and prevent indefinite fund retention.

6.2 New Policy Requirements

6.2.1 Climate Risk Assessment for Major Budget Proposals

The Government mandates climate disaster risk assessments for all new budget proposals exceeding K10 million.

Key compliance elements:

- Agencies must explicitly identify climate risks and provide climate-proofing strategies for proposed investments;
- A detailed risk mitigation plan must be submitted as part of budget documentation; and
- Environmental sustainability and climate impact will be factored into budget evaluation and prioritisation criteria.

6.2.2 Integration of Non-Tax Revenue Agencies (NTRAs)

A structured reform process is underway to integrate Non-Tax Revenue Agencies into the central government budget framework.

Implementation approach:

- A phased approach begins with partial revenue remittances, progressing to full transfer to the Consolidated Revenue Fund;
- Upon full integration, NTRAs will be subject to the standard budget submission process, including compliance with IFMS reporting; and
- Agencies must update financial reporting structures to clearly distinguish between controlled funds (appropriated and managed by Treasury) and administered funds (collected and transferred to CRF).

6.2.3 Gender Equality, Disability and Social Inclusion (GEDSI)

A fiscally sustainable budget is not only one that balances revenues and expenditures over time, it is one that allocates public resources in a manner that is equitable, inclusive, and responsive to the needs of all citizens.

Our Government recognises that lasting fiscal sustainability requires deliberate attention to social sustainability: ensuring that budget decisions do not entrench disadvantage or exclude marginalised groups from the benefits of public expenditure. Agencies are expected to consider the differential impacts of spending proposals on women and girls, persons with disability, and socially excluded communities, including those in remote and rural areas, when preparing budget submissions.

Gender-responsive budgeting, which involves analysing how revenues and expenditures affect men and women differently and adjusting allocations accordingly, is a key tool for advancing these objectives. Similarly, disability-inclusive budgeting requires that agencies assess whether programs and services are physically, financially, and socially accessible to persons with disability, and that allocations reflect the additional cost of inclusive service delivery.

Treasury, in consultation with relevant line agencies, encourages the application of a social inclusion lens at each stage of the budget cycle from planning and formulation through to monitoring and evaluation so that public investment contributes not only to economic growth but to equitable and cohesive development outcomes for all Papua New Guineans.

6.3 Enforcement for Non-Compliance

Section 114A of the PFMA lays out a formal disciplinary process for senior public officials who breach financial rules. This provision was created to hold departmental heads and chief executives accountable for excessively spending or using public funds without formal authorisation.

6.3.1 Grounds for Suspension

The appointing authority (such as the NEC or a Minister) is empowered to suspend a departmental head or CEO without pay if they: (a) spend beyond the approved budget ceiling for their department or agency; or (b) authorise spending before receiving a warrant from the Department of Finance.

This suspension takes effect once the Secretary for Finance certifies that the expenditure was unauthorised.

6.3.2 Right to Respond

The suspended official has 14 days to submit a written explanation to the appointing authority. This ensures due process, allowing the official to justify or clarify the circumstances.

6.3.3 Final Decision

After reviewing the submission, the appointing authority may:

- Lift the suspension, if the explanation is satisfactory; or
- Terminate the appointment, if the breach is deemed serious or unjustified.

6.4 Budget Agency Code Policy

When a new agency is created by an Act of Parliament or an NEC decision of the standing government, they must apply to be granted a Budget Agency Code. Agencies must have an eligible corporate plan and an organisational structure approved by DPM. The intending entities must submit their budget estimates through the budget process for funding to support the delivery of their mandated roles and functions as per their Corporate Plan and the enabling legislations. If approved, they will be granted a Budget Agency Code which is a unique identifier assigned to a government funded agency for budget and expenditure tracking purposes

Upon approval to grant a Budget Agency Code by the respective budget vetting committees, the Treasury budget officers executes a technical process in the Integrated Financial Management System (IFMS) to create the agency code. The code is selected from the next available sequencing code number depending on the category under which the agency is being created.

Once the entity's budget submission has been approved, then Treasury will go through the administrative process to grant the entity an agency code and the entity must seek Section 32 powers from the Department of Finance.

FMM 07.7 Budget Sustainability and Service Delivery

Fiscal sustainability is the capacity of the Government to meet its current and future expenditure obligations without resorting to unsustainable levels of borrowing or compromising the delivery of essential public services. For PNG, sustaining the budget requires a disciplined balance between three interdependent pillars: sufficient revenue, efficient costs, and measurable service quality.

This section sets out practical guidance for departmental heads in managing their budgets sustainably. It explains how fees and charges fit within the broader budget framework, how they should be set and reviewed, and how cost containment and service management principles reinforce long-term fiscal responsibility.

TABLE 2 THE THREE PILLARS OF BUDGET SUSTAINABILITY

Revenue Adequacy	Cost Efficiency	Service Quality
Collect sufficient revenue to cover recurrent costs	Deliver services at efficient sustainable cost	Maintain or improve service standards over time
Annually review all fees & charges	Apply offset savings requirements rigorously	Link budget allocations to measurable outputs
Optimise non-tax revenue from government services	Eliminate waste, arrears and over-commitments	Report performance against KPIs each quarter
Reduce dependency on borrowing for recurrent expenditure	Prioritise spending toward MTDP outcomes	Ensure equitable access across all communities

A fiscally sustainable budget maintains all three pillars in balance. Weakness in any one pillar - revenue shortfalls, cost blowouts, or declining service quality - signals a structural problem requiring corrective action.

Agency heads are required under Section 5 of the PFMA to manage the financial affairs of their agency in a manner that promotes sustainability, efficiency, and value for money in the delivery of public services.

All fees and charges imposed by government agencies must be authorised by an Act of Parliament or a legal instrument made under such an Act, in accordance with Sections 209 and 210 of the Constitution.

Under Section 7 of the PFMA, all fees and charges collected by agencies must be accurately recorded, securely handled, and promptly remitted to the Consolidated Revenue Fund (CRF) unless specifically exempted by law.

Under the PFMA, all public monies - including fees and charges - must be deposited into the CRF. Agencies must not retain fee revenue in separate operating accounts without explicit legal authority.

Agency heads must review all fees and charges under their authority at least once per year, and submit a fees and charges report to the Department of Treasury, in accordance with PFMA Section 5.

To maintain budget discipline, agencies are required to identify verified offsetting savings within their approved ceilings before proposing any new activities or cost increases, in accordance with the offset savings policy enforced by the Department of Treasury.

Failure to comply with fees and charges obligations - including failure to remit revenue to the CRF or to undertake the annual review - may result in administrative penalties, surcharge orders, or prosecution under PFMA

Section 114A.

7.1 Understanding Fiscal Sustainability

Fiscal sustainability does not mean simply balancing the budget in a single year. It means managing public finances in a way that can be maintained over the medium and long term without creating risks for future generations. For PNG, this means:

- Recurrent expenditure should be funded from recurrent revenues, not from borrowing;

- Capital investment through borrowing should only be undertaken where the expected economic return exceeds the cost of debt;
- Service delivery obligations should be matched to realistic revenue projections across the medium term; and
- Accumulated arrears and contingent liabilities should be actively managed and reduced over time.

The Medium-Term Fiscal Strategy (MTFS) and the 13-Year Budget Repair Plan provide the overarching fiscal targets within which all agencies must operate. These are not aspirational documents - they set the binding parameters for budget formulation and execution.

7.1.1 The Fees and Charges Framework

Fees and charges are a critical tool for sustainable service delivery. They represent the price the Government charges for specific services it provides - distinct from general taxation. A well-designed fees and charges framework achieves three goals simultaneously:

- **Cost recovery:** ensuring that service costs are not wholly subsidised by general taxation when users can reasonably be expected to contribute;
- **Behavioural signals:** pricing services in a way that discourages waste and encourages efficient use; and
- **Equity:** ensuring that vulnerable or remote populations are not priced out of essential services.

Fees and charges should never be set arbitrarily. They require a transparent, evidence-based process grounded in an understanding of the true cost of service delivery.

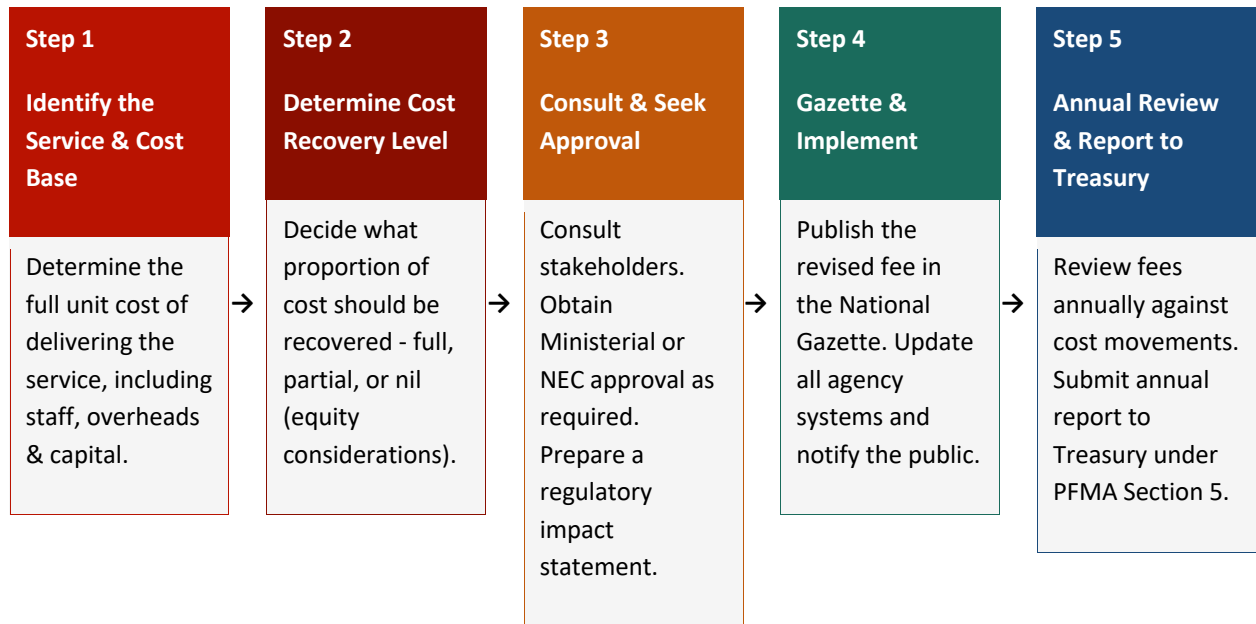


FIGURE 1 THE FEE SETTING AND REVIEW PROCESS

7.1.2 Principles for Setting Fees and Charges

When setting or revising fees and charges, agencies should apply the following principles:

- **Cost-reflectiveness:** The fee should reflect the actual cost of providing the service, including direct costs (staff time, materials) and a fair allocation of indirect costs (management, infrastructure, systems).
 - Use activity-based costing or standard unit cost models to determine the cost base.
 - Update cost calculations whenever there are material changes to service delivery arrangements.
- **Legal authority:** Every fee must have a clear legal basis. Where a legal instrument does not exist or has expired, no fee may be charged.
 - Identify the specific Act or regulation authorising each fee.
 - Ensure the Gazette notice is current and accurately describes the fee.
- **Proportionality and equity:** Fees should be proportionate to the service received. For essential services accessed by low-income populations,

partial or full waivers should be provided with proper legislative authority.

- Document waiver arrangements and report them to Treasury annually.
- Refer to FMM 03.10 on Waiver of Fees for the applicable policy requirements.
- **Transparency:** Fee schedules should be publicly available, clearly communicated to users, and updated whenever changes occur.
- **Annual adjustment:** Fees should be reviewed at least annually against Consumer Price Index (CPI) movements and changes in service delivery costs to prevent real erosion over time.

7.1.3 Categories of Fees and Charges

Government fees and charges fall into several broad categories. Agencies should classify each fee appropriately when reporting to Treasury:

Category	Examples	Cost Recovery Approach
Regulatory Fees	Business licences, building permits, professional registrations	Full cost recovery typical; reflects regulatory burden imposed
User Charges	Hospital fees, school levies, water tariffs, port charges	Partial recovery common; equity considerations apply
Administrative Fees	Passport issuance, land lease documentation, certificate copies	Full or near-full cost recovery; low equity sensitivity
Resource Fees	Timber royalties, fishing licences, mining levies	Resource rent and royalty frameworks apply; Treasury guidance required
Fines & Penalties	Traffic infringements, compliance penalties, late fees	Not cost-based; set to deter non-compliance

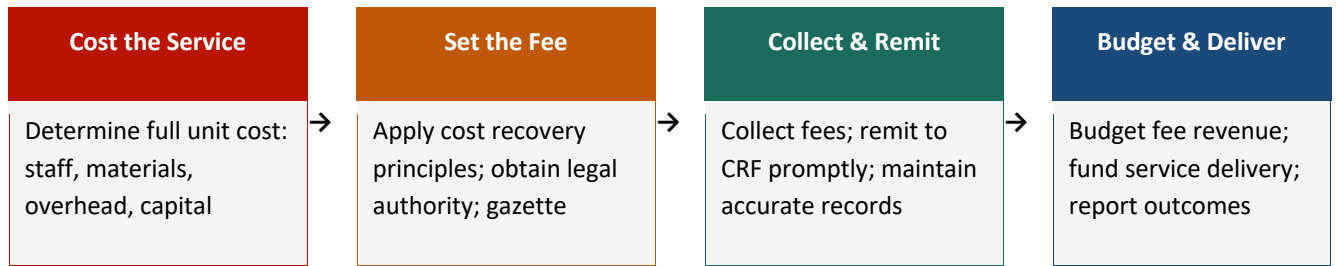


FIGURE 2 THE SERVICE FINANCING CYCLE - FROM COST TO COLLECTION TO DELIVERY

The cycle repeats annually. Agencies that complete the cycle rigorously - costing accurately, setting fees lawfully, collecting and remitting promptly, and budgeting the proceeds - are better positioned to maintain service quality over time.

7.2 Cost Containment and Expenditure Efficiency

Cost containment does not mean indiscriminate budget cuts. It means ensuring that every kind of public expenditure delivers maximum value - that services are provided at the lowest sustainable cost consistent with the required standard of quality. Poorly managed costs undermine fiscal sustainability, crowd out priority spending, and erode public trust in government.

Workforce Management	Procurement Efficiency	Budget Discipline	Service Rationalisation
<ul style="list-style-type: none"> Comply with DPM staffing ceilings Freeze non-critical vacancies Address salary and payroll arrears promptly Align staffing to service delivery needs 	<ul style="list-style-type: none"> Use competitive bidding for all eligible contracts Consolidate common use contracts across agencies Avoid single-source procurement except where justified Maintain and update procurement plans 	<ul style="list-style-type: none"> Identify and implement offset savings before new spending Prevent transfers from PE to G&S without verified savings Avoid over-commitment and expenditure arrears Submit accurate cash-flow projections 	<ul style="list-style-type: none"> Review non-core functions for consolidation Digitise high-volume manual processes Explore shared services across agencies Discontinue programs that do not meet KPIs

FIGURE 3 KEY COST CONTAINMENT STRATEGIES

Cost containment is not about cutting services - it is about eliminating waste and improving the efficiency of delivery. Every kina saved through better management is a kina available for priority services.

7.3 The Offset Savings Requirement

Treasury enforces a strict offset savings requirement: any agency proposing new activities or increased funding within its existing ceiling must first identify equivalent internal savings. This is not optional - it is a prerequisite for any new spending proposal to be considered by the Strategic Budget Committee.

Valid sources of offset savings include:

- Cancellation or deferral of lower-priority activities with documented justification;
- Reduced expenditure on non-core administrative functions;
- Withholding of non-critical vacancies, coordinated with the Department of Personnel Management; and
- Consolidation of duplicated functions or contracts.

The following do not constitute valid offset savings:

- Reliance on anticipated under-expenditure without documented evidence;
- Reduction of verified salary obligations; and
- Cutting donor counterpart funding without agreement from the relevant development partner.

Agencies that accumulate expenditure arrears - unpaid liabilities carried into the following fiscal year - are in breach of the PFMA and expose the Government to legal liability. Arrears prevention is a core cost containment obligation, not an optional management practice.

7.4 Managing the Salaries and Wages Bill

Salaries and Wages represent the largest single expenditure category for most agencies and are the primary driver of recurrent budget pressures. Sustainable management of the wage bill requires:

- Strict adherence to the staffing ceilings approved by the Department of Personnel Management;
- Regular reconciliation of payroll records against the personnel establishment register;
- Prompt identification and removal of ghost workers or duplicate entries; and
- Avoidance of acting allowances and salary advances that are not formally approved.

Transfers from Personal Emoluments (PE) (Salaries and Wages) to Goods and Services (G&S) are not permitted under any circumstances without verified savings and Treasurer approval under the Appropriation Act.

7.5 Linking Budget to Service Management

A sustainable budget is one that is purpose-built around service delivery. Agencies are expected to approach budget management not simply as a financial compliance exercise, but as a discipline that connects funding decisions to the outcomes citizens depend on.

This requires agencies to:

- Define the services they are responsible for delivering, with clear output and outcome measures;
- Cost each service appropriately, using consistent and auditable methodologies;
- Allocate budget to services rather than to administrative line items alone;
- Track expenditure against service outputs throughout the year using IFMS and agency management systems; and
- Report service performance alongside financial performance in quarterly and annual reports.

Where fees and charges are levied for a service, the revenue collected should be directly traceable to the budget allocation for that service. This creates a transparent service financing relationship that can be assessed, audited, and improved over time.

Agencies are encouraged to develop Service Delivery Statements as part of their annual budget submissions. A Service Delivery Statement identifies each major service, its target users, the unit cost, the planned output volume, and the fee (if any) charged for the service. This is consistent with results-based budgeting principles adopted across the MTDP framework.

7.6 Performance Reporting and Accountability

The connection between budget sustainability and service management is enforced through the performance reporting framework. All agencies receiving public funds are required to report quarterly on both financial execution and service delivery performance. Key elements include:

- Quarterly Budget Reviews (QBRs): financial expenditure against budget, cash-flow variances, and key output progress;
- Annual Agency Performance Reports: year-end comparison of actual versus planned outputs and outcomes; and
- Fee and Charge Reports: annual submission to Treasury documenting each fee, the volume of transactions, revenue collected, and whether the fee remains cost-reflective.

Performance data from these reports feeds directly into the next budget cycle informing Treasury's assessment of agency credibility and the SBC's consideration of funding requests. Agencies with strong performance records, well-managed costs, and transparent fee frameworks are better positioned in the annual budget process.

7.7 Related Guidance

This section should be read alongside the following FMM volumes and sections:

- FMM 03.9 - Non-Tax Revenue: obligations for the collection and remittance of non-tax revenues;
- FMM 03.10 - Waiver of Fees: legal requirements for fee waivers and the approval process;
- FMM 03.11 - Revenue Collection: procedures for the collection, receipt, and banking of all revenues;
- FMM 07 Chapter 5 - Budget Execution: warrant disbursement, quarterly reporting, and cash-flow management; and
- FMM 07 Chapter 6 - Compliance, Enforcement and Additional Requirements: trust accounts, arrears and enforcement provisions.

FMM 07.8 Managing Prior Year Commitments and Multi-Year Obligations

Every contract signed, every multi-year project approved, and every payment obligation entered into by a government agency creates a commitment that must be funded in a future budget. When these commitments are not properly identified, registered, and incorporated into the budget formulation process, they create hidden fiscal pressure-reducing the discretionary fiscal space available to the Government and, in the worst cases, resulting in expenditure arrears, contractor disputes, and reputational damage to the State.

PNG has experienced significant challenges in this area. Multi-year infrastructure projects, service contracts, donor counterpart commitments, and employment obligations have at times been entered into without adequate forward planning, resulting in unbudgeted payment demands falling on subsequent fiscal years. This chapter establishes the framework for preventing, tracking, and managing such obligations throughout the budget cycle.

This chapter should be read alongside FMM 03.16 (Authority to Pre-Commit), FMM 03.17 (Contract Management), FMM 03.43 (Commitment Provisions and Contingent Liabilities), and FMM 03.44 (Leases).

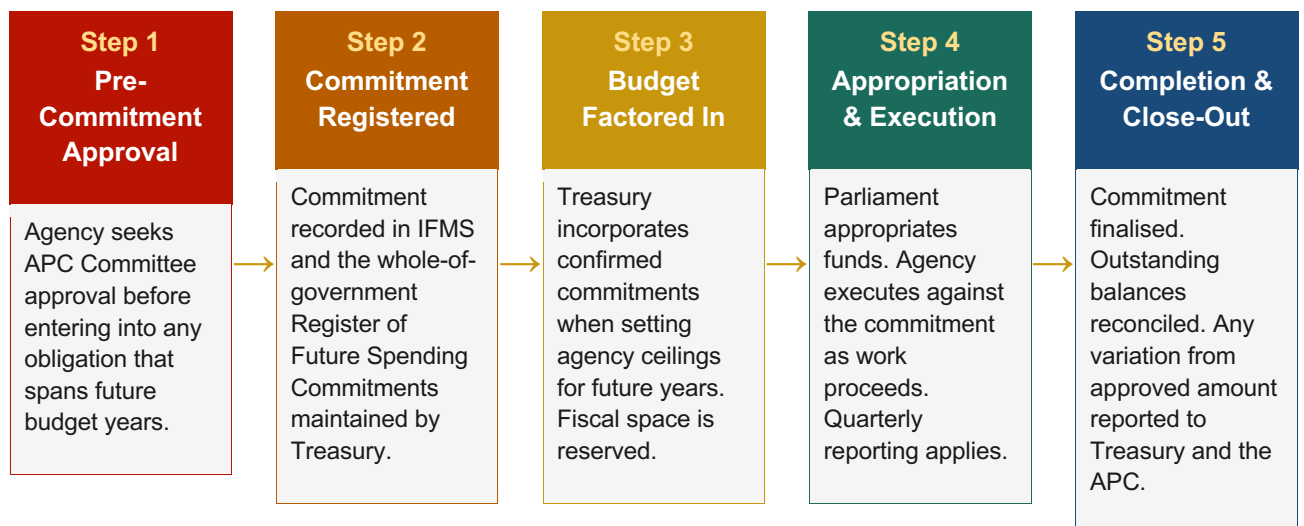


FIGURE 4 THE COMMITMENT LIFECYCLE FROM PRE-APPROVAL TO CLOSE-OUT

Every commitment that will draw on future budget years must complete Step 1 before it is legally binding on the Government. Skipping pre-commitment approval is a breach of the PFMA and creates unregistered fiscal risk.

No agency may enter into a contract, agreement, or other obligation that will commit public funds in a future fiscal year without first obtaining approval from the Authority to Pre-Commit (APC) Committee, in accordance with the PFMA and the relevant Finance Instructions governing pre-commitments (FMM 03.16).

All agencies must maintain a current and complete register of their forward spending commitments. The register must cover all multi-year obligations regardless of their type: capital, service, employment, lease, or contingent, and must be submitted to the Department of Treasury as part of the annual budget submission.

Agencies must submit a record of all previously made commitments for the following budget year and future budget years, including commitments to donor counterparts, to the Department of Treasury during the annual budget formulation process. Treasury will incorporate these into the whole-of-government Register of Future Spending Commitments (PFMA, Section 5; Budget Circular No. 4).

Agencies must not enter into contractual obligations that exceed their appropriated budget or approved APC authority. Committing expenditure beyond appropriation is a breach of the PFMA and may constitute an illegal act. Agency heads bear personal accountability for any unauthorised commitments (PFMA, Section 114A).

All prior year expenditure arrears-unpaid obligations from previous fiscal years-must be disclosed in the agency's quarterly budget review (QBR) submissions and in the annual budget submission to Treasury. Agencies must include a remediation plan with realistic payment timelines for any arrears outstanding at the time of budget submission.

Variations to multi-year contracts or obligations-including changes in scope, value, duration, or payment schedule-must be approved by the original approving authority and the APC Committee before being implemented, and must be reflected immediately in the commitment register.

The Authority to Pre-Commit requirement exists precisely because appropriations lapse on 31 December each year. A contract that extends beyond the current fiscal year cannot be funded from the current appropriation alone-it requires confirmed forward budget provision. Entering such contracts without APC approval creates an unappropriated liability on the Government.

8.1 Understanding the Fiscal Risk of Unregistered Commitments

Unregistered or inadequately tracked commitments are one of the most significant sources of fiscal risk in public financial management. Their impact operates across the full budget cycle:

- At budget formulation: If Treasury does not know what commitments agencies already carry, it cannot set accurate ceilings or reserve sufficient fiscal space. This results in agencies receiving notional ceilings that are, in practice, already fully consumed by prior obligations.
- At budget execution: Agencies find that their appropriation is insufficient to cover both committed obligations and new activities. This leads to under-delivery, arrears, or the diversion of funds.
- At year-end: Unspent appropriations lapse, but the commitment does not. The obligation rolls into the next year as an arrear.
- Across government: When aggregated, unregistered commitments represent a systematic understatement of public liabilities and distort the fiscal position as reported under the Fiscal Responsibility Act.

The solution is not complicated-it requires discipline, systems, and consistent application of existing rules. The APC framework, the commitment register, and the quarterly reporting process together provide a complete architecture for commitment management. The challenge is ensuring these tools are used rigorously.

8.2 The Authority to Pre-Commit (APC) Framework

The APC Committee is the Government's principal mechanism for controlling multi-year fiscal commitments before they are incurred. It reviews proposed commitments that extend beyond the current fiscal year and provides written authority for agencies to proceed, subject to confirmed forward budget provision.

8.2.1 When APC Approval is Required

APC approval is required before an agency may:

- Sign any contract with payment obligations greater than K1 million;
- Issue a letter of intent, memorandum of understanding, or heads of agreement that creates a financial obligation across fiscal years;
- Enter into a lease agreement for land, buildings, plant, equipment, or ICT that runs beyond the current fiscal year.

TABLE 3 CLASSIFICATION OF MULTI-YEAR OBLIGATIONS AND CONTROL REQUIREMENTS

Obligation Type	Typical Duration	Key Control Requirements
Capital / Infrastructure Contracts	3-10+ years	NEC/APC approval; DNPM coordination; PIP budget allocation; quarterly milestone reporting
Multi-Year Service Contracts	1-5 years	APC approval; competitive procurement under NPA 2018; annual budget factoring; variation controls
Employment & Consultancy Contracts	1-3 years	DPM staffing approval (if permanent)
Donor / Counterpart Commitments	Variable	DNPM registration in Aid Management Portal; matching funds budgeted in PIP; annual progress review
Operating Leases (Land, Buildings, ICT)	1-10 years	Finance approval; treated as recurrent commitment; reported under FMM 03.44 leasing obligations
Loan Repayment Obligations	5-30 years	Governed by Loans & Guarantees Act 2000; tracked by MTDS; debt service warrants issued by Treasury
Contingent Liabilities (Claims, Guarantees)	Uncertain	Disclosed in GPFS; monitored by Finance; provision raised when outflow becomes probable

8.3 Maintaining the Commitment Register

Every agency is required to maintain a comprehensive and current Commitment Register. The register is both a management tool and an accountability document-it is the primary source of data for future spending commitments, and it will be reviewed by internal and external auditors.

TABLE 4 MINIMUM REQUIRED FIELDS-GOVERNMENT COMMITMENT REGISTER

Register Field	Description / Guidance
Commitment ID	Unique system-generated reference number (IFMS or manual register)
Agency & Program	Responsible agency, budget program code and sub-program
Commitment Type	Capital / service / employment / lease / loan / contingent
Counterparty	Contractor, supplier, donor or lender name and contract reference
Commitment Date	Date the obligation was formally entered into
Total Committed Value	Total contract or obligation value in PGK
Year 1 Amount	Portion falling due in the current fiscal year
Year 2 Amount	Portion falling due in the first forward year
Year 3+ Amount	Portion falling due in subsequent years
APC Approval Ref.	Reference number of the Authority to Pre-Commit approval
IFMS Transaction Ref.	IFMS commitment transaction number once recorded in the system
Appropriation Status	Appropriated / pending appropriation / supplementary required
Execution Status	Active / partially executed / completed / disputed / terminated
Variation History	Record of any approved scope or value changes with approving authority
Last Reported	Date and QBR period of most recent progress report

8.4 Prior Commitments in Budget Formulation

The annual budget formulation cycle explicitly requires agencies to account for their existing commitment profile before making new funding requests. This is not optional-it is a prerequisite for Treasury and the SBC to properly assess an agency's funding needs.

8.4.1 Submitting the Commitment Schedule

As part of their annual budget submission (typically due in August in response to Budget Ceiling Circular No. 4), agencies must include:

- A complete listing of all multi-year commitments currently in force, with the amounts falling due in each of the next three fiscal years;
- An arrears schedule identifying all overdue obligations with ages, amounts, and proposed remediation timelines;
- A narrative explaining any material variances between the current register and the amounts assumed in the previous year's budget; and
- A certification by the Departmental Head that the commitment register is complete and accurate.

8.5 How Treasury Uses Commitment Data

Treasury uses the commitment schedules submitted by agencies to:

- Set realistic agency ceilings that reflect committed expenditure obligations before allocating discretionary funding;
- Identify agencies where commitments exceed projected ceilings, triggering early consultation about reallocation or supplementary appropriation;
- Maintain the whole-of-government Register of Future Spending Commitments, which informs the fiscal position disclosed under the Fiscal Responsibility Act; and
- Assess agency credibility and budget management capability during the SBC review process.

Agencies that submit accurate and complete commitment data are treated as credible budget partners. Those that consistently understate their commitment profiles-or fail to submit-face closer scrutiny during the SBC and may have their funding requests discounted accordingly.

Where an agency's confirmed commitments exceed its proposed ceiling, Treasury will require the agency to identify specific offsetting savings or propose a phased reduction in the commitment schedule before the budget submission will be considered complete. This is not a negotiating position-it is a fiscal discipline requirement.

8.6 In-Year Monitoring and Reporting

Commitment management does not end at budget appropriation. Agencies must actively monitor their commitment exposure throughout the fiscal year and report quarterly to Treasury on the status of all material multi-year obligations.

The Quarterly Budget Review (QBR) template requires agencies to report:

- The total value of commitments incurred to date in the fiscal year, compared to the budgeted profile;
- Any new commitments entered into during the quarter, with APC reference numbers;
- Any variations to existing commitments, with the approving authority and financial impact;
- The current arrears balance, age analysis, and actions taken; and
- Projected year-end commitment exposure versus available appropriation.

Treasury's budget desk officers review QBR commitment data as part of their regular agency engagement. Where concerns arise-such as a rapid increase in commitments relative to appropriation, or a growing arrears balance-Treasury will initiate a bilateral review with the agency and may recommend corrective action to the CACC.

8.7 Managing Expenditure Arrears

Expenditure arrears are unpaid obligations from prior fiscal years-amounts that were legally due to creditors but were not paid within the fiscal year in which they were incurred. Arrears arise when:

- Agencies enter into commitments without adequate budget provision;

- Cash flow constraints prevent payment of obligations within the fiscal year;
- Disputes over contract performance delay payment processing; or
- Administrative failures-such as missing invoices or incomplete acquittals-prevent payment from being processed before year-end.

Regardless of the cause, arrears represent real liabilities on the Government and must be managed proactively.

TABLE 5 THE ARREARS PREVENTION AND MANAGEMENT CYCLE

Prevent	Detect	Remediate	Reform
<p>Only commit within appropriated limits</p> <p>Obtain APC approval before contracting</p> <p>Match contract payments to warrant schedule</p> <p>Maintain a live commitment register</p>	<p>Reconcile commitments against payments monthly</p> <p>Flag unpaid invoices >30 days in QBR reporting</p> <p>Treasury desk officers review arrears schedules</p> <p>Internal audit checks commitment register integrity</p>	<p>Prioritise payment of oldest arrears first</p> <p>Negotiate payment plans with creditors where needed</p> <p>Seek supplementary appropriation if required</p> <p>Report remediation progress to Treasury each quarter</p>	<p>Identify root cause of each arrears episode</p> <p>Strengthen internal commitment controls</p> <p>Adjust future budget submissions to reflect realistic costs</p> <p>Update agency financial procedures accordingly</p>

8.8 Special Considerations for Development Projects

Multi-year development projects under the Public Investment Program (PIP) present particular commitment management challenges because they:

- Span multiple fiscal years, sometimes a decade or more for major infrastructure;
- Often involve donor counterpart commitments that require government co-financing each year;
- Require coordination between Treasury (recurrent aspects), DNPM (development aspects), and the implementing agency; and

- Are subject to both government appropriation controls and donor fiduciary requirements.

8.9 Related Guidance

This chapter should be read in conjunction with:

- FMM 03.16-Authority to Pre-Commit: the detailed policy and procedures for seeking APC approval;
- FMM 03.17-Contract Management: obligations for managing contracts once entered into;
- FMM 03.43-Recognition of Commitment Provisions and Contingent Liabilities: accounting treatment for commitments and contingencies;
- FMM 03.44-Accounting for Leases: treatment of operating and finance lease commitments;
- FMM 07 Chapter 3.2-Budget Formulation and Approval: the requirement to submit commitment schedules with budget submissions;
- FMM 07 Chapter 5.2-Quarterly Budget Reporting: QBR templates and the commitment reporting requirements; and
- FMM 07 Chapter 5.5-Adjustments and Additional Funds: rules governing supplementary appropriations and transfers.

FMM 07.9 Supporting Documents

This section lists core documents that underpin the Government’s planning, budgeting, and fiscal frameworks. Agencies are expected to use these documents when preparing their budget submissions, justifications, and performance frameworks.

9.1 Core Budget and Planning Documents

Document	Description	Lead Agency	Access
Medium Term Development Plan (MTDP)	Five-year plan outlining 20 Key Result Areas (KRAs) and national priorities.	DNPM	planning.gov.pg
Medium Term Fiscal Strategy (MTFS)	Fiscal policy framework setting out deficit, debt, and revenue targets.	Treasury	https://www.treasury.gov.pg/
Budget Strategy Paper (BSP)	Annual strategy for macroeconomic outlook, expenditure priorities, and ceilings.	Treasury	Published each June
13-Year Fiscal Plan	Long-term plan for fiscal consolidation	Treasury	https://www.treasury.gov.pg/
Vision 2050	Long-term national development vision.	Vision 2050 Office	Publicly available
Medium-term Debt Strategy (MTDS)	Framework for sustainable borrowing and debt servicing.	Treasury	https://www.treasury.gov.pg/

9.2 Legal and Financial Documents

Document	Purpose
Constitution of Papua New Guinea	Foundation of public finance governance (especially Section 209). Constitution - PNG.rtf
Public Finances (Management) Act 1995	Legal basis for budget preparation, execution, and reporting. Amended Public Finances (Management) Act (PFMA) 1995 – Department of Finance – Papua New Guinea
Fiscal Responsibility Act 2006	Sets fiscal rules and reporting obligations. pngfra2006383.pdf
Loans and Guarantees Act 2000	Governs borrowing and debt issuance. Papua New Guinea - Acts by Year 2000
National Procurement Act 2018	Guides public procurement across agencies. National Procurement Act (NPA) 2018 – Department of Finance – Papua New Guinea

9.3 Technical Tools and Operational Guidelines

Tool/Guide	Use
Program Budgeting System (PBS) Manual	Used for preparing agency budget submissions in program format.
IFMS User Guide	Explains budgeting and financial processes in the IFMS platform.
Cash Flow Planning Template	Submitted to Treasury for warrant scheduling.
QBR Template	Used for quarterly expenditure and performance reporting.
GEDSI Budgeting Guidelines	Supports Gender Equality, Disability and Social Inclusion in budgeting.
Climate Budget Tagging Tool	Used for screening climate-sensitive spending.

9.4 Templates

All templates referenced in this manual are available in editable Word or Excel format and are updated annually. Templates are referred to as “**Attachments**” and are usually distributed along with Circulars. Below is the standard list of templates released annually by Department of Treasury:

Template Name	Used For
Budget Submission Template	Agency budget submissions
Justification for Additional Funding Form	Requests beyond ceilings
Cash Flow Projection Template	Planning quarterly disbursements
Quarterly Budget Review Template	Q1–Q4 reporting of performance and spending
Trust Account Compliance Checklist	Setup and reporting requirements
Performance Framework Template	Program KPIs and MTDP alignment
Climate Budget Screening Sheet	Climate risk sensitivity and reporting

Note: Templates are distributed with the Budget Circular Package each year or may be requested via the Department of Treasury through the Budget Coordination & Analysis Division through:

Telephone: (675) 313 3585,

Email: enquiries@treasury.gov.pg or

Website: <https://www.treasury.gov.pg/>

9.5 List of Abbreviations

ABG	Autonomous Bougainville Government
BC No.	Budget Circular Number
BPNG	Bank of Papua New Guinea
BSP	Budget Strategy Paper
CACC	Central Agency Coordinating Committee
CRF	Consolidated Revenue Fund
DNPM	Department of National Planning and Monitoring
DoF	Department of Finance
DoT	Department of Treasury
DPLGA	Department of Provincial and Local Government Affairs
DSIP	District Service Improvement Program
FBO	Final Budget Outcome
FRA	Fiscal Responsibility Act
GEDSI	Gender Equality Disability and Social Inclusion
GS	Goods and Services
IFMS	Integrated Financial Management System
IGFA	Inter Government Financing Arrangement Act
IRC	Internal Revenue Commission
KRA	Key Result Areas
KRAs	Key Result Areas (Under MTDPs)
LLG	Local Level Government

LLGSIP	Local Level Government Service Improvement Program
MEC	Ministerial Economic Committee
MSME	Micro Small and Medium Enterprises
MTDP	Medium Term Development Plan
MTDS	Medium Term Debt Strategy
MTFS	Medium Term Fiscal Strategy
MTRS	Medium Term Revenue Strategy
MYEFO	Medium Term Economic and Fiscal Outlook
NEC	National Executive Council
NEFC	National Economic and Fiscal Commission
NTRA	Non-Tax Revenue Agency
PE	Personnel Emoluments
PFD	Project Formulation Document
PFMA	Public Finance Management Act
PID	Project Identification Document
PIP	Public Improvement Program
PLLSMA	Provincial and Local-Level Services Monitoring Authority
PNGDSP	PNG Development Strategic Plan
PSC	Project Steering Committee
PSIP	Provincial Services Improvement Program
QBRs	Quarterly Budget Review
SBC	Strategic Budget Committee

9.6 Glossary

Term	Definition
Appropriation	A legal authority granted by Parliament to spend public funds.
Budget Ceiling	The maximum funding amount allocated to an agency.
Cash Flow Projection	A monthly estimate of expected expenditure.
Development Budget	Capital and investment spending managed by DNPM.
Statutory Authorities	An organisation established by an Act of Parliament and formally declared as a Regulatory Statutory Authority under the Constitution and the Regulatory Statutory Authorities (Appointment to Certain Offices) Act 2004
Trust Account	A designated account for specific, time-bound spending outside the main budget.
Warrant	An official release of funds authorised under the Appropriation Act.
Provincial Health Authorities	Statutory bodies established under the <i>Provincial Health Authorities Act 2007</i> . Their purpose is to integrate and manage health services at the provincial level by combining the functions of the national Department of Health with those of provincial governments.

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