The end of salary overruns in PNG?

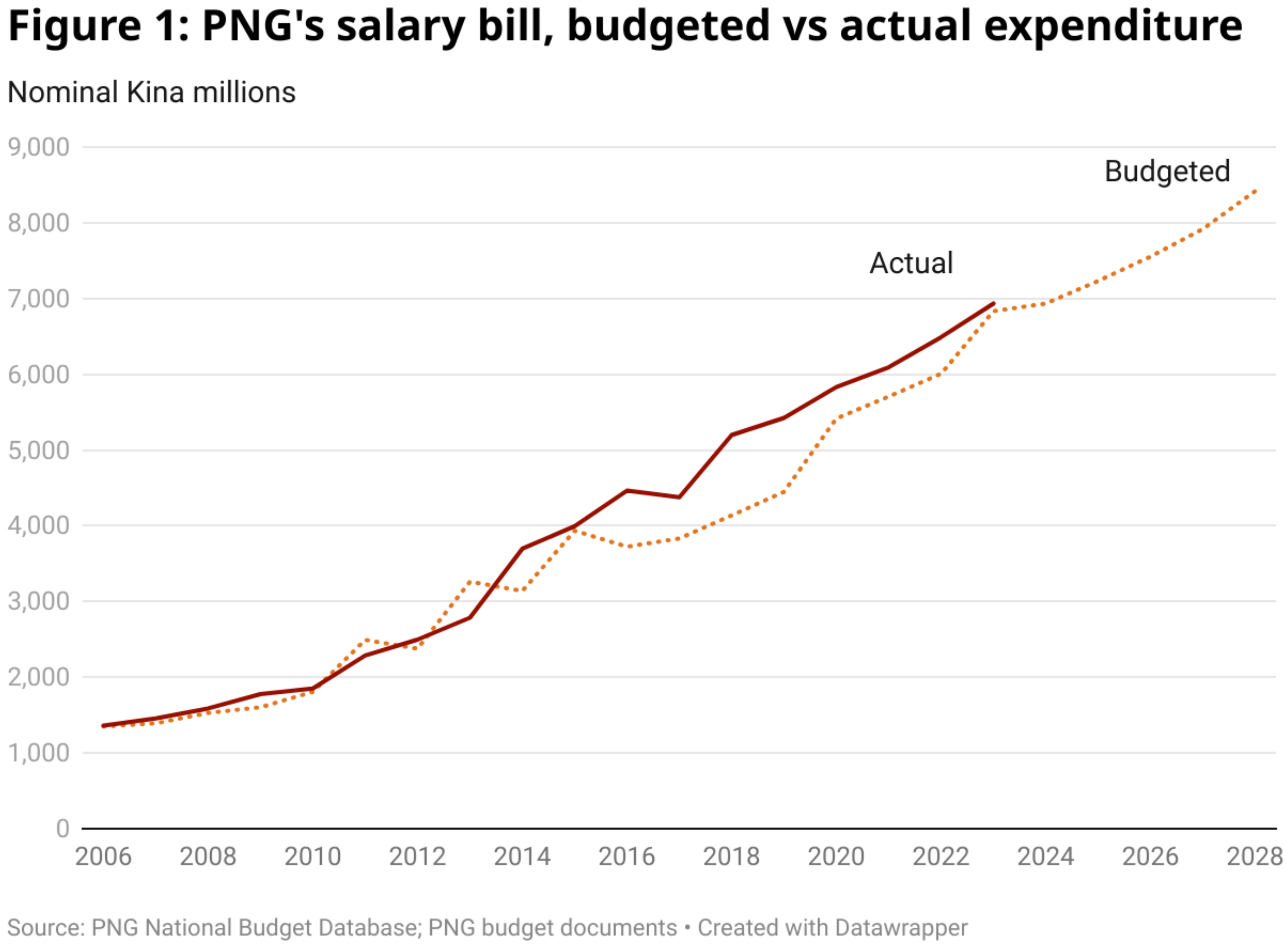
by Alyssa Leng

5 June 2024

Papua New Guinea's recently published 2023 Final Budget Outcome (FBO) comes bearing good news: the PNG government has largely kept to its salary budget for the first time since 2015.

Total spending on the salary bill – or "compensation of employees" as it is referred to in budget documents – for 2023 came in at K6.93 billion. This is a slight overspend of K100.4 million compared to the original 2023 budget figure (K6.83 billion), but an underspend of K7.9 million relative to the 2023 supplementary budget (K6.94 billion) as reported in the 2023 FBO (page 19).

Either way, this is a big improvement on previous years. The final salary bill for 2023 was just 1.47% more than originally budgeted in the 2023 budget, compared to an average overspend of 10.9% in the decade prior from 2013 to 2022. That said, while salary overruns have been a stubbornly persistent feature of PNG's public finances over the last decade or so, budgets and actual expenditure in fact lined up very closely until the mid-2010s (Figure 1), after which divergences really began to take off.



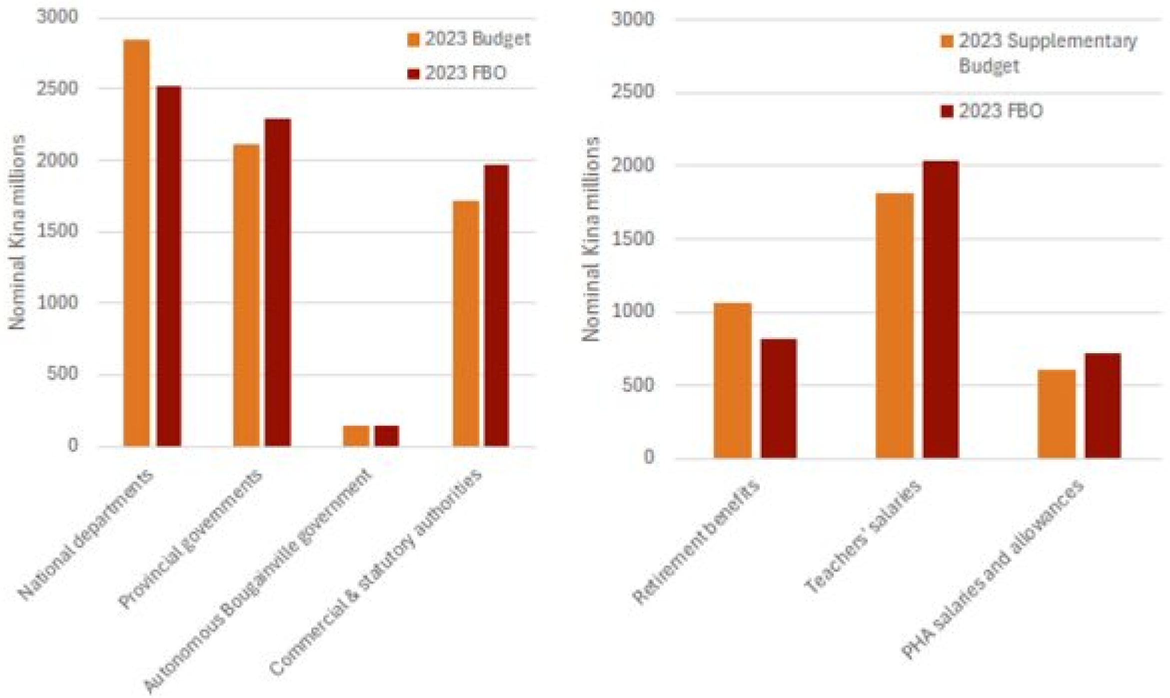
The overspend problem is most evident between 2015 and 2019, during which period the government planned for total spending on employee compensation to rise by just 3.1% on average each year. Comparing this to actual growth in salary expenditure in the five years prior (14.8% per year nominally between 2010 and 2014) and growth in what was ultimately spent (8% per year nominally between 2015 and 2019) shows just how unrealistic these projections were. Interestingly, this period also coincides with the start of foreign exchange rationing in PNG – which suggests there might have been less fiscal restraint, given the risk of a balance of payments crisis (arising from an inability to service foreign debt) was effectively removed.

So what drove the change in 2023? More realistic projections helped. The 2023 budget allowed for 6.8% growth in the nominal employee salary bill from what was spent in 2022. And, importantly, 2023 was also the first year since 2015 where budgeted spending on salaries was higher than what was actually spent in the previous year.

Nevertheless, it was a close-run thing. As the left panel of Figure 2 shows, savings on salaries came entirely from lower-than-expected spending in national departments. Despite this, the underspend of K318.3 million at the national level wasn't enough to compensate for salary overspends at the provincial level, on Bougainville and on state-owned enterprises.

Figure 2: Budgeted vs actual expenditure on employee compensation

Different levels of government (left) and various categories (right)



Source: 2023 Final Budget Outcome

At a more granular level, the bulk of the savings came from the "retirement benefits, pensions, gratuities and retrenchments" category (K250.8 million underspend, Figure 2 right panel). Much of this is likely to have come from a K209.9 million underspend on efforts to retire public servants who have passed the statutory retirement age (2023 FBO page 53), as many remain on the payroll longer than they should owing to a lack of funding to pay out retirement entitlements (including superannuation). These efforts are commendable and should carry on, alongside ongoing work per the 2024 budget on reviewing payroll and staffing data across departments and updating the payroll system – which hasn't been upgraded since 2003.

But there are of course still challenges ahead. Teachers' salaries remain difficult to rein in and overspends on this category in 2023 swallowed up most of the savings made in other areas. Salaries and allowances for health sector workers in provincial health authorities (PHAs) also exceeded what was budgeted last year.

Is the move away from salary overruns in 2023 sustainable, or just a once-off occurrence? Underspending on retirement entitlements is probably not a sustainable way to offset consistent overruns on teachers' and other salaries on an ongoing basis. There's also likely to be a limit on what national departments can contribute; more accurate projections of salary expenditure at the provincial level and for corporate and statutory authorities are needed too.

Altogether, the government has made a promising and noteworthy start to controlling its salary bill by keeping to its 2023 budget. But the going is likely to remain tough. The budgeted salary bill for 2024 is virtually unchanged from what was spent in 2023 (K6.9337 billion for 2024, compared to K6.9341 billion in 2023), and just 1.5% larger than initially budgeted for 2023. Spending on the salary bill is also projected to increase only by 4.3% on average between 2023 and 2028, which is only about the rate of inflation, and much less than the average rate of growth in the last four years (5.9%). As PNG's own history shows, the tighter the salary budget, the harder it is to stay within it.

This blog uses data from the PNG National Budget Database (which has been updated to reflect the 2023 Final Budget Outcome figures), and additional data collected by the author from previous budget and final budget outcome documents.

Disclosures:

This research was undertaken with the support of the ANU-UPNG Partnership, an initiative of the PNG-Australia Partnership, funded by the Department of Foreign Affairs and Trade. The views are those of the author only.

Author/s:

Alyssa Leng
Alyssa Leng is a research officer at the Development Policy Centre.

Link: https://devpolicy.org/the-end-of-salary-overruns-in-png-20240605/