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2018 Budget: Fake Revenue and Bush Accounting

“K2 billion in fake revenue totally undermines the credibility of the 2018 Budget. In the week since my budget response, there has been no substantive reaction from the Treasurer about the K2 billion in fake revenue in his 2018 budget. The Secretary for Treasury, Dairi Vele, was sent out to try and attack the fake revenue facts but has only highlighted some of the bush accounting in this budget” said the Shadow Minister for Treasury and Finance, Ian Ling-Stuckey.

“My approach to the figures in this budget is one of a business person. I look at sales figures, expenses, and profit and loss. I know that to follow the law, I cannot pretend sales occurred earlier or later just because it suits me to show a different bottom line. This is called fraud. This is called tax cheating in a private business. So when the K565 million in excess cash sitting in accounts of State Owned Enterprises and Statutory Authorities, especially the K400 million from the National Fisheries Agency, is siphoned up by government in 2017, this should show up as revenue in 2017. Instead, the government is playing bush accounting, and moving those funds into 2018.

“This bush accounting of the K565 million is only a small part of the K2 billion in fake revenue in the 2018 budget. As stated in my budget response, the government has a long history of fake revenue. In 2014 there was the fake revenue of K1.2 billion, in 2015 there was fake revenue of K3 billion, in 2016 there was fake revenue of over K2 billion. We don't yet know how bad the 2017 figure will be!

“This government has very poor form on fake revenue. In my budget speech, I indicated why this poor form of fake revenue would continue. I focused on three of the most obvious tricks in this budget in generating a fake revenue figure” said Mr Ling-Stuckey.

Fake Compliance Claims

“First, fake claims of K755 million extra tax from compliance activities. A return of K31 for every extra K1 in admin costs. In my budget response speech, I went into detail why this claim was not credible. The 2017 budget tried a similar trick, but it went badly wrong. Instead of collecting a claimed K400 million in extra in taxes, 2017 revised figures indicate tax revenue has gone backwards by at least K635 million billion – and overall revenue backwards by K902 million and we know there will be further shortfalls in areas such as dividends. The 2018 budget claims “there is a greater emphasis on revenue generation, therefore K3.0 million has been

allocated toward Revenue Raising Initiatives.” However, when we go into the detail of the budget, we actually find those are old initiatives which began in 2014, and that the government actually cut funding for the program from K5 million in 2017 to K3 million in 2018. Fake initiatives trying to justify fake revenue increases of K755 million. And instead of tax revenues going upwards in 2017, they have gone backwards from the budget estimate K9.2 billion to the revised estimate of K8.5 billion. A similar result is likely in 2018 as history is a better teacher than such incredulous claims” said the Shadow Treasurer.

Fake 2018 dividends on top of bush accounting

Second, fake revenue from a claimed K1,250 million in dividends from SOEs. This is on top of the K565 million in bush accounting where the revenues should be in 2017 to try and offset the 2017 collapse in revenues. So the National Fishing Agency has K400 million siphoned off from its bank accounts in 2017. On balance, this is sensible as long as there is enough left to ensure the Agency can operate properly and protect PNG's fishing interests. The government then put the revenues in the wrong year – this is bush accounting. The government then expects to collect another K400 million in dividends from the National Fisheries Agency in 2018 – some of this is likely to be fake revenue. The expected 2018 dividend from the National Fisheries Agency is expected to be larger than the returns from the PNG LNG project through Kumul Petroleum of K300 million? And twice as large as the K200 million dividend payments from Ok Tedi! The people of PNG are just not that gullible or ignorant anymore. They know that the government has been forcing many state institutions to pay dividends when they do not have the funds available. Those statutory authorities and state owned enterprises are having to cut their services to the people of PNG while also having to go and borrow moneys from BSP and other banks simply to pay these dividends. We look forward to all of these agencies releasing their audited accounts so we can get a better idea of how much public debt the government has been hiding off the budget books.

“If the K1,250 million in dividends in 2018, on top of the K565 million in once off cash scraping, is genuine, then why does the government think total dividends will drop to K700 million in 2019? If the economy is going better in 2019, why do they forecast dividends will drop from K1,250 million in 2018 down to only K700 million in 2019? There is at least K550 million in fake revenue in these dividend payments (K1,250 million less K700 million on-going dividends) and probably more” said Mr Ling-Stuckey.

Fake GST revenues

“The third area of fake revenue was the massive increase planned in GST collections. Underlying economic activity simply does not give this figure any credibility. Underlying growth in the economy is 2.4 per cent in real terms, and allowing for inflation and better compliance activities, we might have expected an increase of 10 per cent. Indeed, 10 per cent is the size of the GST increase expected for 2019 and 2020. However, the government assumes an increase of 33 per cent in 2018 from K1.5 billion in the 2017 Supplementary Budget to K2 billion in the 2018 Budget. This is just not credible unless the government is playing silly games by deferring GST refunds just to make the figures look better. Such deferrals simply build up a form of payment arrears. Not paying your invoices on time is bad business practice, and it is bad government practice.

Positive solutions

“From a business perspective, if the sales are not being made, then you will need to trim expenses. With K2 billion in fake revenue in this budget, we already know that there will be a need for a 2018 Supplementary Budget. This latter budget is likely to cut worthwhile increases in health, agriculture, education and infrastructure.”

“The Alternative Government was hoping to be able to work with the government to get the sales figure back to a credible level so we could get the expense figures right. We also set out a positive set of solutions to deal with PNG's budget crisis, its jobs crisis and its foreign exchange crisis. We are about exposing, opposing as well as proposing. I look forward to setting out in some detail better solutions for PNG's challenges” said the Shadow Treasurer.

Hon. Ian Ling-Stuckey, CMG.MP
Shadow Minister for Treasury & Finance

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PNG's Disturbing Revenue Shortfalls



