

COOK ISLANDS NATIONAL BUDGET 2011-12

FINANCIAL STATEMENT

**BY HONOURABLE MARK BROWN
MINISTER OF FINANCE**

1 JULY 2011

Mr. Speaker, I move that the 2011-12 Appropriation Bill now be read a second time.

[Hansard to insert introductions]

Government in its 2011-12 Budget Policy Statement, has set an ambitious agenda for development during our term in government, an ambitious agenda for the future of our Cook Islands people. This agenda reflects our promise to

1. Firstly, energise and grow the economy by supporting our key economic drivers and advancing innovation in potential areas of growth
2. Secondly, enable enterprise by establishing a conducive environment for existing business to grow and for new businesses to start, stay and thrive in our communities
3. Thirdly, reduce the cost of doing business and cost of living, and increase the disposable income of our people
4. Fourthly, re-orientate the public sector to better support and respond to the needs of the economy

This agenda was carefully paced for implementation over the coming years, knowing that not every ambition can be fully satisfied in a single year. But at every opportunity, our people will expect our government to take major steps to deliver on our commitments. And that's exactly what this budget does.

We have a vision for our people. A shared vision of the Cook Islands we want to build. A Cook Islands that is peaceful, enjoyed by educated and healthy people, surrounded with an abundance of opportunities.

Our vision is to grow as one nation through innovation and smart practices, to pursue our aspirations and to sustain our unique culture and pristine environment.

It is to that vision of our country that this budget is directed, and to that cause that this government is committed.

Turning now Mr Speaker to the fiscal context of this Appropriation Bill presented to this Honourable House.

The fiscal environment we have worked within over the budget process has been constraining.

There are various non discretionary expenditures that this Government has had to take on from prior administrations with notably increasing exposures. This has been a difficult budget setting, one where we have had to prioritize funding towards smaller investments that will generate long term gains and benefits to the nation. Through this Budget, we must present our best alignment of resources towards our highest priorities in this Honorable House.

As a result, we have also required departments to look for efficiency gains to achieve government's priorities, especially in the area of over heads and discretionary expenditures.

We also recognise the levels of under expenditure in government programs from prior administrations. As the leaders of government we demand our public service to get their act together to utilize all existing resources available to it, for our development aspirations. There is simply no reason to slowing down the pace of development.

Despite funding limitations, this Budget I table before you is a balanced one, presenting both an operating surplus and an overall balanced budget. Mr Speaker, this is a fiscally responsible budget as required under the MFEM Act.

This budget also represents strengthened ties with development partners in supporting and resourcing our medium term development goals and expenditure requirements.

In an effort to keep this presentation to the point and leave time for constructive debate over its contents, I wish to take this honorable house through the main features committed to through this Budget 2011-12 in alignment to the key sectors.

Economic Sector

In this period of global recovery, our government is focused on taking this economy from strength to strength for the benefit of our people.

We will take further action to encourage our economy to expand and create jobs. This has already been demonstrated through the commissioning of the Economic Summit in April this year.

We have a shared intent to expand income and employment over the period ahead. We have a shared appreciation for the role of investment and enterprise in underpinning growth; and we share a common commitment to improve service delivery and build a competitive economy.

In light of significant initiatives highlighted in the Summit, we need to pick sure winners that bring about both short and long term gains. This government recognises the need to achieve this through our main engine of growth, the Tourism industry.

12% of this budget represents funding towards economic policy and growth, a total of \$20.5million, half of which goes into our main economic driver, tourism. We will also look to expand and diversify other economic industries with improved intelligence, planning and management.

This Budget reflects some significant increases in resourcing to this sector including

- \$12.0million per year in marketing dollars and airline subsidies, establishing a 3 year direct flight with Air New Zealand from Sydney to Rarotonga and Los Angeles to Rarotonga. This is a monumental shift in the way we channel income to the tourism industry. Traditionally we have been serviced via New Zealand and Los Angeles ports. The strength of the Australian economy is a sure sign of worthwhile investment despite global fuel price fluctuations.
- \$200,000 has been earmarked for the establishment of the Fisheries Development Facility. This will offer small scale grass roots fisheries an avenue for financing capital requirements for aquaculture initiatives particularly in the outer islands.
- \$3 million of NZAID funding is committed towards the Pearl industry to support and rejuvenate levels of pearl production. Half of these funds will go towards a small loans facility of which government has guaranteed up to \$0.5million. This is a concerted effort to sustainably lift this industry to its optimum productive potential.
- \$50,000 to initiate the set up of a Seabed Minerals Commission is also provided in this budget, supplemented through technical assistance from the Commonwealth Secretariat. This is the first time any government in recent years has pledged tangible support towards realizing the benefits from this very important sector. This government is mindful of the need to ensure that the resources owned by all Cook Islanders are carefully managed in order to provide future generations with income certainty whilst maintaining environmental protection.

In brief Mr. Speaker, from these resource injections our people should expect

- Visitor numbers to increase to 5.2% in 2011-12
- Our Fisheries exports to increase of \$3.8million in 2011-12
- Pearl production to increase to \$6.1million by 2015, and also
- Expect Mr Speaker, to have a solid plan on organic agriculture and reducing import substitution in 2011-12
- To have solid policies and a framework for capitalizing on the opportunities presented by our seabed minerals in 2011-12.

This budget is about increasing productivity, focusing on productive investments and getting better value for your taxpayer's dollar. What this means for the taxpayer is stronger opportunities for employment growth across all economic sectors going forward.

Social Sector

In recognizing that our human resource is our number one asset, this Government is channeling 25% of its available resources towards sustaining and building social sector services. This is a total of \$48.3 million dollars in 2011-12 towards the core fabric of our society, the elderly, children and youth. Mr Speaker, much has been achieved in the past in raising the standard of education and health care, but we are still a fair way from delivering desired service standards in these areas.

To supplement existing resources in the social sector, this Budget Mr Speaker reflects further resource injections that include

- \$0.8million funding to the Ministry of Culture for the hosting of the Constitution Celebrations in August. This event marks the 46th year of self government and we have made a bold commitment to ensure our brothers and sisters in the Pa Enea join us in celebrating this occasion and to celebrate our cultural heritage.
- Capital Funding to the Ministry of Health of over half a million dollars has been provided for the purchase of a state of the art x-ray machine and an advanced telephone system.
- On the operational side, a provision of \$181,000 towards personnel to ensure that all employees within the Ministry are paid within the minimum of their salary bands has been provided. We have also ring fenced the pharmaceutical budget to ensure that increases in other costs within the Ministry of Health do not compromise access to essential medication.
- Increased funding of \$0.5million to the Ministry of Internal Affairs is available for the strengthening of the Price Tribunal, the presentation of the CEDAW & CRC reports, and to accommodate the full cost of welfare payments in 2011-12

- It is also timely for me to mention that government has pursued funding assistance in partnership with the ADB to the tune of a million dollars to support our vulnerable members in the community enabling them to become active participants in society. This funding will be administered by the Ministry of Internal Affairs and programs are rolling out immediately.

In addition to maintaining service delivery and existing policies, we

- Recognize that equitable access to key resources such as water, sanitation, health care and education by all is paramount. Government will continue to build infrastructure to enable our people regardless of age, gender, social and economic standing to have equal opportunities in accessing fundamental services.
- We will continue to protect our workforce by undertaking a review of the minimum wage rate in the Cook Islands and developing supportive policies and regulatory frameworks for consumer & employee protection in all industries. This will ensure that wages are commensurate with the cost of living, it will ensure that the welfare of our working mothers and fathers are protected and the working environment is safe.
- The Government Mr Speaker, is embarking on Financial literacy and Enterprise Programs through all schools will enable our children and our working population to learn new talents, harness and nurture their creative skills to take on new and innovative enterprises.

Mr Speaker I attended the recent night market held at the Punanga Nui last week and I meet the intake of students on the Enterprise Program from Tereora College, who were selling their products at their stall. I was very impressed Mr Speaker by the creativity and entrepreneurial spirit exhibited by these young students. The high hopes we have for the future, the future of our country are justified by the positive attitude of these students.

Governance and Law & Order Sector

This budget reflects 17.1% towards the Governance and Law & Order Sector, the administrative and policing arm of Government.

In focusing on Governance, it is acknowledged that there is much streamlining of the public services to be done to improve service delivery, reduce costs and ensure that our structures are agile and responsive to the needs of stakeholders. However, changing the way we do business requires a planned approach so that service delivery is not compromised. We will consider the most appropriate role of government and the extent we intervene in the market, thereby enabling those services that are best delivered by the private sector and our civil communities to be outsourced.

Furthermore, commitment to sound financial management is never easy. It requires the steady, unrelenting application of rigorous discipline and vigilance—at the macro level of balancing our government books overall, and at the day-to-day micro level in how programs and services get delivered in the most effective manner. We will continue to ensure that this becomes part of the very core and culture of government and within the public service.

Safety and Justice are also key cornerstones of economic and social progress. In the law and order sector, focus is on the Justice system with the setting up of an online company registry and improvements in land record systems in conjunction with our development partners. In line with good employer principles, this budget also addresses long overdue remuneration issues within the Ministry of Justice by providing salary adjustments to staff that have been paid below the minimum of their salary bands. I am humbled by this achievement as our employees have the right to be appropriately remunerated, we owe it to them.

This Budget reflects moderate funding increases towards this sector including

- \$150,000 to the Ministry of Finance & Economic Management to undertake the Census on Population & Dwellings and to reduce the backlog in audited annual accounts.
- funding to the Ministry of Foreign Affairs & Immigration to enhance representation at the international arena and staffing support of the Office of the High Commissioner to New Zealand along with assets for our new electronic border control system at the airport is provided for in this budget.
- As the contracts of incumbent heads of ministries come to an end at this time next year, \$30,000 has been provided towards recruitment costs in 2012

While maintaining existing service delivery, our people can expect the governance sector in 2011-12 to

- Release the next Sustainable Development Plan in 2011. This plan will convey the aspirations of our people and guide the planning effort of all stakeholders over the next 5 years.
- Uphold our election pledge for an accountable government by clearing two years worth of back log in government's financial accounts. Our aim of completing and auditing all financial reporting up to 2010-11 by June 2012 is an ambitious one. But one that we will deliver.
- We will develop deeper relations with international partners to tap into comparative advantages in more technical areas of the economy
- We will undertake a functional review of the public service with a view to
 - Have clear guidelines on the structure and composition of Government to best implement our legislative mandates and the National Sustainable Development Plan
 - consolidate smaller administrative functions of government departments including the sharing of complementary resources

- Review the progress of our devolution program and determine an appropriate structure for ensuring that service delivery to the outer islands will bring about the desired impacts

Mr Speaker, while the extra funding provided towards this sector is moderate, this year is about reassessment and realignment in order to be better placed to lead the public service and deliver services that make a difference in the lives of ordinary Cook Islanders.

Infrastructure

It is widely acknowledged that the infrastructure underpinning the Cook Islands economy is in need of urgent attention. The lack of past investment in maintaining and upgrading our infrastructure will be addressed by this government.

26% of this budget tabled before this honorable house is channeled towards this critical sector and it reflects some significant adjustments in resourcing including

- The transfer of the renewable energy function from the Ministry of infrastructure & Planning to the Office of the Prime Minister
- The creation of a Climate Change output under the Office of the Prime Minister with resourcing from the Australian Government
- Loan funding available under the Asian Development Bank Economic Recovery Support Program and grant funds from the Peoples Republic of China for infrastructure and capital purchases. This is in the vicinity of \$30million.
- \$3.0million under NZAID funds for a Waste & Sanitation program to improve lagoon water quality
- \$8.0million to supplement the existing Cook Islands Ports Authority loan for the upgrade of the Avatiu Harbour
- \$1.1million injection into our State Owned Enterprises for capital investments
- Utilizing unspent balances from prior year appropriations to support development in the outer islands

In brief Mr Speaker, further resourcing to this sector our people should expect

- A comprehensive energy policy and road map that seeks to reduce dependency on fossil fuels and increase renewable energy sources
- And also Mr Speaker, a clearer link between climate change challenges and national policy development that integrates solutions to climate change vulnerabilities across our community

Mr Speaker, it is my firm belief that spending in infrastructure is about creating access to opportunities, it is also about creating jobs. Government is committed to growth and sustainability of our private sector, as such, enhancing local contractor content on infrastructure projects. Our recent effort to increase local input in the Avatiu Harbor project is a testament to our effort to ensure that our people take prominent ownership of and benefit from the employment opportunities that are created through these projects. We will see more of this and will solidify this in policies in all areas of infrastructure going forward.

Other Commitments

Mr Speaker, there are the adjustments to expenditures, aside from those of a technical nature, that underpin the Budget Estimates 2011-12.

In line with principles of fiscal prudence, this government has continued to set aside modest funding towards our reserve trust fund as a buffer in times of unforeseen emergencies. Alternately this buffer can provide government the opportunity in future to fast track the payment of its debts, not to benefit economists but to relieve debt burdens on our children. This foresight will also save thousands of dollars in servicing charges. It also facilitates improved credit ratings, lower interest rates and raising standards of living.

This year also marks a positive move by this government to channel \$200,000 of seeding funds towards the establishment of a Emergency Response Trust Fund. This Trust Fund will enable us to be responsive to the needs of our people in times of natural disasters through immediate access to resources. Though moderate, the commitment to be prepared at all times positions our country favorably among our people and development partners and opens opportunities for attracting further international resources into this Trust Fund.

An increase in the expected pay out on the profit guarantee to Apex Agencies Limited of \$0.2million has been earmarked given payments made in 2010-11. Unfortunately the commercial performance of Apex Agencies Limited is beyond the direct control of Government and is a cost obligation that this Government must absorb until a further determination is achieved.

In the area of tax, as we all know, the primary purpose of the tax system is to provide the resources to pay for the services the public expect from public service. While our tax system continues to serve its purpose, we are reviewing the appropriateness of our tax mix with a view to ensure equitable distribution of income across the economy whilst rewarding productivity.

I would like to advise this honourable house that, as a measure to broaden the tax base, a decision has been made to require tax on interest earned by both residents, and non-residents at 15 percent. The banks will deduct this tax automatically at the time the interest is earned.

This form of taxation is common throughout the developed world and is paid by those that can most afford it. It is expected that the tax revenue from this interest income will be \$1 million in this coming financial year.

Fiscal Guarantees

As per Part 12 Section 60 of the MFEM Act I am required by law to state at this sitting of Parliament those guarantee's which this Government has entered into since the last sitting of Parliament in April this year, and advise of the risks associated with these guarantees.

Mr Speaker, there are two guarantee's committed to by this government. One is towards that the Cook islands Pearl Sector Support program and another towards the Pukapuka Cyclone Recovery Shelter.

The Cook Islands Government has granted a Guarantee of \$500,000 in favour of the Cook Islands Pearl Authority as part of its commitment in partnership with the New Zealand Aid Programme to support the rejuvenation of the pearl industry over the next three years. The three year programme will be funded under the New Zealand Aid Programme to the value of \$3.0 million over 2011-13. A key component under this programme is the establishment of a Pearl Production Credit Scheme or revolving fund which will enable pearl farmers and local pearl technicians to borrow funds to purchase farm materials and equipment and to repay their loans from the proceeds of future pearl harvests. The Bank of the Cook Islands will administer the credit scheme on behalf of the Cook Islands Pearl Authority.

Because NZAid funds are being used for on-lending under the credit scheme, New Zealand has asked the Cook Islands Government to guarantee one third or \$500,000 of the fund against future loan defaults which may reduce the value of the \$1.5 million revolving fund. The total exposure of the Government is capped at \$500,000 for the entire duration of the credit scheme. A robust system of loan appraisal, evaluation, monitoring and loan recovery will be put in place to mitigate the risks and loss under the guarantee.

Secondly Mr Speaker, the European Union in partnership with the Cook Islands Government has provided funding towards the construction of the Pukapuka Cyclone Management Center. The cost of the project is \$2.9million with \$2.5million of this being funded by the European Union. Pre-financing for this project is required at \$1.8million as EU funds become available progressively in a staged approach. As such Mr Speaker, a temporary government guarantee is necessary to ensure that the contractor can secure pre-financing cash to undertake this extensive project that will provide the people of Pukapuka security in the event of another devastating cyclone. There is assumed to be minimal risks given the unimpeachable reputation of the EU to finance projects and the contractor's ability to complete the project.

Government has endorsed this guarantee which we hereby report to this Honorable house as required by the MFEM Act.

CONCLUSION

Mr. Speaker, I would like to conclude this financial statement by acknowledging the Prime Minister and his very capable Cabinet for taking on this budget process, a first in recent years, where each member has been involved in developing the budget policies, scrutinizing departmental plans and initiatives, to having constructive discussions within Cabinet to finalize this very important financial plan for the Cook Islands economy and its people. I would also like to thank Caucus for their unwavering support and input into the budget process.

I also wish to acknowledge my dedicated staff at the Ministry of Finance for their tireless effort and skilled coordination of this national budget process; Mr Speaker let me say that we have a young and exceptionally talented group in the ministry budget team. Their intelligence and talent is only exceeded by their dedication and commitment to our country. I could not have done this without you ladies.

Special mention also to the Budget Support Group Mr Speaker, for their dedication and wise counsel in assessing all business plans, working with heads of ministries and tabling a very comprehensive budget report and set of recommendations to Cabinet. As Chairman of the Budget Support Group, I understand the constraints posed by our fiscal envelope given significant non discretionary financial commitments beyond our control. Nevertheless, you have provided very meaningful and practical recommendations to Cabinet for how this budget should be framed. I could not have asked for a better budget team Mr Speaker.

Mr Speaker, delivering on our commitments begins with an unrelenting dedication to sound financial management—to fiscally responsible budgets year after year. It creates the discipline of pay as you go, not spend as you like. It ensures that the decisions we make today are sustainable and do not become the debts our children will have to bear.

Hon members, our people of the Cook Islands, we have every reason to be confident about the future of our country. But first we must have confidence in our ability to rise to the challenges and to embrace opportunities. We must share this confidence with our private sector and within government officials to achieve.

Behind the numbers and the words contained in this Appropriation Bill I table today, are reflections, aspirations and decisions for our future. This budget is a down payment on the

journey to economic and social wellbeing. In pursuing these desired outcomes, our government presents a budget that is

1. ambitious yet realistic,
2. it is a budget that is bold yet pragmatic,
3. it is a budget that is aspirational, yet will be built on sound, secure foundations.

Mr Speaker, this budget will be a testimony to our people of the Cook Islands Party Governments resolve to improve the lives of our people, on whose mandate we stand to present it and whose vision we aspire towards.

Te tuatua tika a Te Atua. Tei roto teia I te puka Maseli – pene 24, irava 3 ete 4.

“E patuia te are i te pakari;

e, e akatinamou’ia i te kite;

e ki oki te au pia ra i te kite ki te au apinga memeitaki katoa i inangaroia ra”

Mr Speaker, I commend this Bill to this honorable house.