

**FINANCIAL STATEMENT
(Appropriation Bill 2012-13)
BY THE HON. MARK BROWN, MINISTER OF FINANCE
Parliament Sitting on Thursday 7th June 2012**

Extract from Hansard – Proof Only

ORDERS OF THE DAY

MADAM SPEAKER: Second Reading of the Appropriation Bill. I call upon the Minister of Finance, Mark Brown.

HON. M. BROWN: Thank you Madam Speaker. I now move:

That the 2012-13 Appropriation Bill now be read a Second time

Before I do Madam Speaker, allow me please to add my own personal congratulations to you in assuming this high office of Speaker of the House, not only on behalf of myself and my wife, Madam Speaker, but on behalf of all the people of my constituency of Takuvaine-Tutakimoa. We wish you our heartiest congratulations on your appointment to this position.

MADAM SPEAKER: Thank you.

HON. M. BROWN: You will be aware, Madam Speaker, that in my constituency there is a high percentage and a large proportion of our Northern Group islanders in particularly Rakahanga and Manihiki that reside in Takuvaine and Tutakimoa and I know they share with me in congratulating you.

MADAM SPEAKER: Thank you.

HON. M. BROWN: Kia Orana to His Excellency, the Queen's Representative, Sir Frederick Goodwin and your good wife, to the Prime Minister of our country the Honourable Henry Puna and your good wife, to the Deputy Prime Minister, the Honourable Tom Marsters and your good wife, to all my colleagues in Cabinet and to all Members of Government – Kia Orana.

I also extend greetings to the Leader of the Opposition, your good wife and all your colleagues in the Opposition – Kia Orana.

To the President of the House of Ariki Travel Tou Ariki, to all the members of the House of Ariki, the Ui Ariki, the Aronga Mana – I extend greetings to all of you.

To the various denominations throughout our country, to the members of your church, I extend greetings in the warm love of Our Lord.

To our people in the Outer Islands in the North and the South, to all our people who are listening in beyond our shores who are listening over the internet, I also extend greetings to you.

I seek your indulgence, Madam Speaker, since I do wish to extend special greetings to the people of my constituency of Takuvaine, Tutakimoa, Tauae, Teotue and Parekura.

Kia Orana to the Ui Ariki in my constituency – Makea Nui, Makea Karika, Makea Vakatini Ariki. Special greetings to a special woman, Dame Margaret Karika Ariki, to all the people in the borders of my constituency, I extend greetings to you.

Madam Speaker, today I present a Budget which is different from those that have been presented to Parliament in the past.

The 2012-13 Budget is supported by three documents which provides to the public more detail and analysis about how the Government is spending Crown money.

Consistent with the agenda of the Government about more open and relevant information, there are now over 800 pages of information available to anyone to scrutinise our Crown finances and this Government's policy intentions.

I would particularly like to mention Budget Book 3 which outlines every bit of capital spending to be undertaken in the Cook Islands over the next three years. This is a first for the nation outlining the actual financial path for development. This is not a wish list outlining what could be done. This is a list of what will be done. All of the activities listed in Budget Book 3 are funded through various modalities.

This Government is focussed on getting the details right. This Budget outlines in detail every estimate of revenue and expenditure for the next three years out to 2014-15 enabling Ministries and agencies to improve their planning and improved coherence with the National Sustainable Development Plan which was released in January this year.

And the new framework will hold Government and its Ministries to account.

From this point on anyone will be able to understand whether the changes in the state of the Crown's finances are due to policy interventions made by Government or whether other parameters which are outside the immediate control of Government have had an impact.

Every person can scrutinise the budget book at any time during the year to check if money is being spent on what was intended. This holds government and its ministries accountable for what it is supposed to do.

Madam Speaker, we now have a budget which is presented in an internationally recognised format, the International Monetary Fund's Government Financial Framework. A framework which is widely used by many sovereign governments across the world.

This is another significant step this Government is taking to ensure that the Cook Islands' public financial management systems are robust, keeping up with the times and which I know will be held up as an example for other countries to follow.

This Government is proud to be a leader in public financial management and is not afraid to admit to those areas that require fixing and getting them fixed.

We made these improvements to our systems Madam Speaker not just for the benefit of the international community or to improve our international standing but for the benefit of our taxpayers so that government can demonstrate and show our people that we are doing what we said we would do.

Madam Speaker, I would like to move on and tell our people about the current economic environment which continues to be a tough and uncertain one at this time.

At the time of the Budget Policy Statement in December I outlined a fiscal policy based on an update from MFEM which forecast an improved economy as tourism numbers grew well above expectations.

However, the cost of getting tourists here through the underwrite of the routes from Los Angeles and Sydney to Rarotonga has grown due to the ever increasing cost of jet fuel. A variable totally outside the control of the government. There is also some evidence that tourists are spending less when they get here because of a shorter stay.

These two changes in our predominant industry have hit both budget revenues and expenditure, and it has been squeezed. We know that businesses and households are trying hard to fit within their budgets. The government must be no different.

As households and businesses strive to save more and make their dollar go further, we too in government must do the same. This budget reflects the sentiment for us to stretch our dollar further, to make it work harder, to make tough decisions to ensure that we can continue to provide services and deliver infrastructure to our communities.

The Government will for the moment maintain the underwrite to ensure certainty in our tourist industry. It is an industry which contributes – either directly or indirectly up to 75 percent of GDP. But 13.6 million dollars we spent for the underwrite is a significant amount of money and we have to watch it closely.

The continued gloomy economic and social environment in Europe does not appear to be improving – it appears that every week a new twist appears. In the past few weeks we are now hearing about the possible departure of countries from the Euro, a scenario that was not seen widely as a solution to the woes of Europe, and this week we are now hearing of Spain requiring financial assistance.

However, Madam Speaker on the other hand yesterday Australia released its latest figures indicating strong economic growth figures for the last three months. Totally against what many esteemed public commentators were saying. It just goes to show that sometimes the predictions of doomsday in the media cannot always be believed.

One must always remain optimistic and confident Madam Speaker. And confidence comes not by always being right but by not fearing to be wrong. And confidence, Madam Speaker is about preparation. Everything else is beyond our control.

We all know the cyclical downturns are followed by upswings. This has happened in the past and will happen again. The trick is to anticipate and prepare for hard times and capitalise and build during the good times.

These are economic lessons Madam Speaker that have been taught to us in the Book of Genesis Chapter 41 where Joseph advises the Pharaoh to harvest and store food during the 7 good years and prepare for the 7 years of famine. It is an old lesson that is often repeated in the history of man but one that many fail to learn from.

The risk to the Cook Islands is the potential risk of another global slowdown that impacts Asia and our key partners of Australia and New Zealand who supply 80 per cent of our tourists.

In relation to our partners Madam Speaker, there are some signs that household budgets are tightening in Australia and New Zealand, both countries are seeing continued higher levels of household savings – this means people watching their pennies, and that often means delaying or shortening holidays, taking them close to home or deciding to get the best value they can.

At the moment it appears that the high tourist season grows strongly but that the low season is just not growing at the same pace. Many people have said to me that they felt the period from December through to March was a tough one, the VAT figures support those views.

Forward bookings for flights and accommodation through to October appear to be strong Madam Speaker but I believe we need to keep our eye closely on the traditional slow period, times will be tough and we may need to adjust accordingly.

Madame Speaker – The Government can proudly announce to the people today that we have brought our Crown accounts back to an underlying surplus despite the toughness of the environment the Government has delivered an underlying budget balance for 2012/13 of 98,000 dollars.

This is a big turnaround Madame Speaker considering we came from a two point five million dollar deficit and it has been a significant effort. We have stretched our dollar further to fund our new initiatives through savings in our administration and a moderate increase in revenue.

Madame Speaker, we have made some savings in the administration of Government. As of March 2012, personnel expenditure was two per cent below budget, we have consolidated these savings into next financial year and we are also tightening up on other operating expenditure, these savings can be done by improved management within Ministries.

For example, the Office of the Prime Minister has commenced realising significant savings on their power bill simply by managing their power more diligently. Turn off lights, turn off air condition be prudent with other people's money. It is these small things we do that add up to significant savings over a year.

Madame Speaker – The Government has made a number of policy changes in regard to revenue, these changes also work closely with our objectives in improving public health outcomes.

But firstly Madame Speaker, the Government will shortly seek to legislate to have the current levy of fifty five dollars on departing passengers included in the initial purchase of the ticket for all passengers departing Rarotonga as from the 1st December this year.

This is something that has been talked about for years and was mentioned in the Economic Summit last year. It has been a long time coming and I have no doubts that we will get unanimous support from those in the opposite benches for such a long overdue reform. I am very proud that this government has managed to implement this initiative when many failed to do so in the past.

The levy will then be increased to sixty five dollars as from 1 July next year Madame Speaker; it will then be increased by two percent annually on the 1st July to maintain the real value of the levy. The beauty of this is that when you buy your ticket – you don't have to worry about your departure tax because you have already paid for it in your ticket.

Madame Speaker, the Government has chosen to increase the Tobacco import levy by thirty three per cent a year for the next three years, doubling the levy within the three years.

This is not a revenue raising measure Madame Speaker, but should be viewed as a public health measure aimed at behavioural change amongst smokers and to discourage the take up of this addictive habit by young Cook Islanders and to provide a further incentive to those who currently smoke now to stop it.

Madame Speaker, I have mentioned this in the paper before, but if you smoke one packet of cigarettes a day that is the equivalent of two dollars an hour off your hourly wage rate. So if you are a wage worker earning seven dollars an hour and you smoke one packet of cigarettes a day you are actually only earning five dollars an hour and the other two dollars you are burning it up in smoke. So if you are a smoker and you want a pay rise of two dollars an hour, stop smoking.

Madame Speaker the increase in tobacco import levies is long overdue; we are well behind the rates that are paid in Australia and New Zealand.

I would like to inform the members that the government of New Zealand will now be increasing tobacco levies by thirty three per cent a year, and the Government of Australia has reduced the quantity of cigarettes a traveller can bring back into the country duty free from 10 down to two packets.

Madame Speaker, I have asked the Ministry of Finance to work closely with the Ministry of Health to ensure that revenues raised from the Tobacco levy will be directed into dedicated funding for anti-smoking programmes and to assist in combating smoking related diseases.

The Import levy increase on tobacco products will be increased as of 1 August this year Madame Speaker then they will be progressively increased at thirty three per cent per annum until they are at least double the value of the current levy today. The import levy will then be increased at two per cent per annum to maintain the real value of the levy.

The impact of the increase this year Madame Speaker will be to increase a packet of cigarettes cost by two dollars and eight cents, a sufficient price increase to start deterring people from taking up smoking.

Another health measure Madame Speaker is to discourage the high consumption of sweetened drinks amongst Cook Islanders.

Increased consumption of sugar is a major contributor to obesity and other non communicable diseases which are now emerging as the single biggest public health challenge facing the Cook Islands over the medium term.

The average soft drink contains thirty six grams of sugar or ten teaspoons inside one can of soft drink.

The current levies on sweetened drinks will be increased by fifteen per cent from 1 August 2012 and increased by two per cent per annum from 1 July 2013 to maintain the real value of the levy.

This will increase the average price of a soft drink can by around twenty five cents Madame Speaker and will apply to imported fizzy drinks and not to locally manufactured products, so go local.

MADAM SPEAKER: Members of the House, our time is up and Parliament will need to adjourn.

HON. M. IOANE: Madame Speaker, due to the importance of the Statement by Minister of Finance I move:

**That this sitting be extended until all the statement
by the Minister of Finance is completed**

MADAM SPEAKER: Is there a Seconder?

Seconded by the Honourable Teina Bishop

Thank you and I now put the Question. The Question is:

That the Motion be agreed to?

Motion agreed to

The Minister may continue thank you.

HON. M. BROWN: Thank you Madame Speaker. Finally the increase in alcohol levies will be increased by fifteen per cent from 1 August, low alcohol beers will be increased by five per cent. The levies applied by the Cook Islands are well below those in New Zealand and it is appropriate that we increase them.

There will be many accusations that the Government is contributing to large price rises for alcohol but the proposed increases Madame Speaker will only increase the cost of a 750 ml bottle of whisky or spirits by one dollar and eight six centres and a can of beer by nine cents and a bottle of wine will increase by fifty cents. Not amounts that will break the bank.

Madam Speaker, I would like to now make reference to some of our new initiatives.

Firstly, the Auckland Office Building. This month the CIIC was able to confirm the sale of the Auckland Symonds Street office block after steadily rising property prices reached and exceeded our selling price.

This means that our plans to relocate our consular services to the Manukau area have now taken on more urgency and we expect a flurry of activity between the Cook Islands Government, Auckland City Council and the Cook Islands Development Agency over the next few months.

By basing our Consular Office in Manukau we can capitalise on our proximity to where the bulk of our people are in Auckland. We will promote relations between Government and Local Government bodies and community groups in New Zealand. The Manukau site will better facilitate the development of commercial and trade links with New Zealand and facilitate better medical links with our New Zealand counterparts.

Participation in UN Commission on the Limits of the Continental Shelf deliberations

The Cook Islands claim to an extended EEZ of 413,000 square kilometres will be heard twice in 1012-2013. The first is likely in September 2012 and the second in March 2013. Each hearing will take place in New York. The Government has invested \$66,000 making sure our voice will be heard at the UN hearings as we seek to increase our EEZ by nearly half a million square kilometres.

Centralising our Pa Enea Financial Services

By recognising the difficulties being faced in the Outer Islands with financial management and reporting, the Government has initiated the process of centralising accounting services within MFEM. This approach will enable Pa Enea finances are undertaken in a professional manner and this will improve the reporting back to the Mayor and the Island Council.

The Government also rejected any proposed cuts to the Pa Enea budget, providing them in essence with an additional half a million dollars which would have otherwise automatically been deducted based on population.

So the funding allowances for the Outer Islands, Madam Speaker, remains the same as they were in the last financial year.

Localising Climate Change

Climate change remains a key issue confronting the Government and will continue to be so for a long time to come. Financial support for the establishment of the climate change unit within the Office of the Prime Minister will end in December 2012.

From January 2013 the Crown will assume funding of Climate Change Cook Islands. In addition, Climate Change Cook Islands will work closely with EMCI to coordinate the Joint National Action Plan for Disaster Risk Management and Climate Change Adaptation (JNAP).

This is our roadmap to building a Cook Islands that is resilient to Natural Disasters and Climate Change issues.

Special Needs Teacher in Palmerston

We speak of big issues, Madam Speaker but I would like to make special mention here of a Special Needs Teacher for the island of Palmerston.

Government will fund an additional teacher's aide in Palmerston to assist a child with special needs. This teacher's aide will work primarily with this child but will also be used in the school as a teacher with the rest of the students.

Pacific Islands Forum

The Cook Islands will be the focus of the region in 2012 Madam Speaker. In late August, Rarotonga and Aitutaki will host the Pacific Island Leaders Forum with generous financial support from the People's Republic of China and also support from the Governments of Australia and New Zealand. This Forum will put our country in the limelight of the world.

Commonwealth Parliamentary Association (CPA)

In addition, Madam Speaker, in November 2012 the Parliament of the Cook Islands will be hosting the regional Commonwealth Parliamentary Association meeting.

I look forward to both events as they will place our country in the limelight and we need to take advantage of these two opportunities which the Government is sponsoring, to promote and further our development agendas.

Madam Speaker, there are two issues which I as Minister for Internal Affairs would also like to mention.

At the recent Business and Professional Women's meeting held in Rarotonga, the following quote was mentioned from the Economist and I quote:

“In an environment of waning growth, growing skills shortages, and intensifying global competition, bringing trained women into the workforce should now be seen for what it is: an economic and business imperative.”

These words underlie the spirit of the Government’s policy which it aims to implement on 1 January 2013, Madam Speaker, for a paid maternity scheme for all working women in the Cook Islands. Under this provision the Government will contribute paid maternity leave based on six weeks at the hours ordinarily worked by the mother at the minimum wage rate which is currently \$5 per hour. The employer can then top up the entitlement if they so desire.

The Government will also honour its commitment to the elderly of the nation. As of 1 July we will commence our transition to doubling the aged pension for those aged 70 years of age and over. From 1 July pensions will increase from \$400 a month to \$450 and we will in 2012-13 work on finalising the pathway to an \$800 monthly pension.

Madam Speaker, the public finance crisis that hit our nation in the mid nineties was a devastating blow to the country. Since that time there has been an aversion to public debt. Whilst this has helped us secure a more robust financial position there needs to be a more mature approach to the issue of public debt.

We have a considerable infrastructure gap – and this can only be reduced through a mixture of borrowings and grants from our development partners.

We have provided a comprehensive analysis of our current position and outlined the repercussions of future borrowings.

Improving the water supply and sanitation systems in Rarotonga will require additional debt, moving forward we will work with the community on how much debt is appropriate to fund these works and how we can fairly recoup some of those costs from the consumer.

I am proud to announce Madam Speaker that this budget will be the start of implementing the water tanks policy that we promised our people. We have allocated \$1M each year for the next three years to ensuring that every household has a water tank. This will improve our water security and increase our water storage capability by up to 10 million litres on Rarotonga alone.

This Government now releases every quarter a detailed report on where our debt position is at.

The Government is enthusiastically seeking ways by which it can reduce any risk in borrowings. I was very happy to have returned from Manila with an undertaking from the ADB to work with MFEM officials to consolidate our loans and have them denominated into New Zealand dollars.

The Government will also legislate to protect the loan reserve fund to ensure that no future administration can raid it for other purposes. A responsible and transparent approach to the public debt is something this Government is proud of, not the ad hoc approach we saw from the previous administration.

Madam Speaker the Government is most proud of Budget Book 3 – the Capital Book.

The Government working with its development partners will direct investment approaching 4160 million over three years in this country. This includes, public works, spending on plant and equipment.

The Government is very aware of the difficulties facing our people in the Pa Enua. We have quarantined you from any further cuts, we are determined to introduce a reliable inter island transport service, this is a crucial ingredient to economic development and to arrest the declining population base of the Pa Enua.

Madam Speaker I would like to highlight some of the major things we aim to do in the Pa Enua.

We will be using the generous assistance of our friends from the People's Republic of China to purchase a whole host of new equipment and machinery to carry out much needed work on each of our sister islands. These will be distributed to our islands over 2012/13 and 2013/14.

Madam Speaker – I would now like to point out to our people some of the things this Government in cooperation with the Islands Councils will be doing in the Pa Enua in 2012/13.

In Aitutaki we will be developing the master plan for air transport, rejuvenating the airport runway, improving the fuel storage facility, refurbishing the Vaimaru water galleries, continue to develop the Orongo development master plan, install water tanks, a mini transformer, a crusher plant, and upgrade the sanitation systems.

In Mauke we will be completing the harbour development and repainting the hospital.

In Mangaia we will be completing the harbour development, upgrading the Tamarua water pipe and the Mangaia water upgrade, and commencing stage two of the hospital and health residence upgrade.

In Atiu we will be completing emergency water storage which will include new water tanks and purchasing power generators.

In Mitiaro we will be installing water tanks, relocating the power house and continue development of the network and installing the solar PV mini grid system.

In Pukapuka and Nassau we will be upgrading community water tanks, installing the solar PV mini grid system, renovating the generators, renovating the hospital and health residence, rejuvenating the water catchments and investing in a crimping machine and outboard motors.

In Penrhyn we will be upgrading community water tanks, repainting the hospital and facilitating the construction of a disability ramp for the hospital.

In Manihiki we will be upgrading community water tanks, upgrading all the aluminium boats on the island, installing the Solar PV mini grid system, commencing the upgrade of the Tukao and Tauhunu harbours.

Madam Speaker, in Rakahanga we will be upgrading community water tanks, installing the solar PV mini grid system and fixing the generator control panels and power house.

In Palmerston we will be upgrading community water tanks and completing the island clinic.

Madam 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 on whose vision we aspire towards.

Madam Speaker earlier I spoke about confidence and the need for all of us to be optimistic and confident as we look forward. The Book of Jeremiah chapter 17 verse 7 says “Blessed is the man who trusts in the Lord and has made the Lord his hope and confidence”.

Madam Speaker, I commend this Bill this Honourable House. Kia Orana

END OF EXTRACT