

PARLIAMENT SITTING

Wednesday 5 June 2013

Subject: Minister of Finance – Financial Statement

- START OF EXTRACT -

ORDERS OF THE DAY

First is the Appropriation Bill for Second Reading.

I call upon the Minister of Finance, the Honourable Mark Brown.

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

That the Appropriation Bill for 2013 be Read for the Second time

First of all I would like to say greetings to the three main sectors of our society that is government, the church denominations and the people. Kia Orana to the Queen's Representation and your beloved. Kia Orana to you Madam Speaker, the Clerk and all the staff of Parliament.

Kia Orana to all the Members of this House and your wives and family, and to the Prime Minister and Cabinet and your wives. Kia Orana to all our people listening in to this broadcast to those in Rarotonga and the Outer Islands I trust that you are happy listening to our broadcast.

Special greetings to the people of my two villages of Takuvaine and Tutakimoa; to the Ui Ariki of Te-au-o-Tonga – Makea Nui, Makea Karika, Makea Vakatini and the Aronga Mana, Kia Orana to you all in the Name of the Lord.

Madam Speaker, allow me first to discuss our economy and its prospects moving forward.

Tourism is the major driver in our economy, our economic prospects are largely reliant on your capacity to grow and continually improve our tourism product.

Ultimately this will rely on sustaining visitor numbers and maximising their spending in the Cook Islands. To achieve the former requires good marketing and ease of access to our country, the latter requires continued private and public investment in infrastructure and services.

The prospects for economic growth in the Cook Islands continue to be positive in the short term. Our Nominal GDP growth is estimated to reach 4.6 percent for 2013/14 with some weakness in business investment being offset by growth in capital investments by the Crown and a return to trend tourism growth.

It is estimated that almost 121,000 visitors will come to the Cook Islands in the year to 30 June. This is anticipated to grow by 2.1 percent in 2013/14 to a total of 127,000 visitors, a record year.

We are now at a stage where any further growth in numbers cannot come from our peak periods of July to September, Rarotonga is full, and growth now needs to emerge at other parts of the year

Our tourism market continues to be dominated by our close partner, New Zealand. Over 67 per cent of our visitors are arriving from our close neighbour in 2012/13. An amount approaching 81,000 people and this is expected to grow by 7 per cent in 2013/14 to 86,600.

Australia has now emerged as a clear second in terms of the destination market. Over 18 per cent of our total visitors came from Australia in 2013 and this is expected to grow by 14 per cent in 2013/14 to 24,300 total Australian visitors. Whilst this growth is slower than in previous years it is still a significant number.

Unfortunately the economic depression which confronted Europe and North American continues to plague those markets and prospects for these markets are not as positive as those for New Zealand and Australia. Despite these positive numbers we must be aware of the risks that face us.

Whether we like it or not the fact of the matter is that our country is intrinsically linked to that of New Zealand and increasingly to Australia. These two economies are reliant on China and her continuing need for primary and agricultural supplies from our destination markets.

Essentially, a slowdown in China would eventually impact on our economic wellbeing through the linkages I have outlined. If China buys less from Australia and New Zealand and they have less money on which to spend on more disposable leisure's such as holidays.

Although we are small, we are increasingly reliant on the buoyant and stable global economy.

In tourism, we must always be aware that we continue to be in a competitive business for the traveller.

Despite many New Zealanders having affection for the Cook Islands, loving our natural beauty, our magnificent and proud Polynesian culture and our warm and welcoming nature, they have choices as to where they can go to have a break.

This year 50,000 additional seats were made available from Auckland to Honolulu and now New Zealanders can fly directly to Bali, not to forget the constant competition from other established Pacific destinations such as Fiji and newly emerging ones such as Niue who now have two weekly flights from Auckland.

Maintaining and diversifying our economy is a key underlying driver for this government, our policies are aimed at this principle. A stagnant economy does not serve anyone any good.

Madam Speaker, I would now like to turn to revenue.

Total underlying revenue that is the revenue that the Crown collects excluding official development assistance for 2013/14 is estimated to be 118.9 million dollars, an increase of 7 per cent on the estimated underlying revenue which will be collected for 2012/13.

In regard to tax, last year in the Budget I committed the government to a review of our taxation system. The government commissioned the IMF, International Monetary Fund to undertake a review on the taxation system with a view to improving the system. It is a revenue neutral exercise.

We do not wish to increase the overall burden of taxation just to ensure that the burden falls in a more equitable manner. That Review has now been completed and the Government will consider its own response to the Review in due course.

We have spoken and listened to the Community, we hear your concerns and your ideas. This budget however is framed on our current tax system. It is the intention of the Government to carefully consider the Review and its recommendations and then consult further with the Community on proposed changes to the Tax system.

That's right, if any changes are to be made they will be so with a start date of 1 January, 2014, it is our intention to consult widely on the changes and then present our final tax changes in the December sitting of Parliament.

Madam Speaker there are some changes that the Government will announce now which will take effect from 01 January, 2014. Firstly Madam Speaker we will rescind the withholding tax on interest earned from savings from the 1st January 2014. That is to say that after the 1st January 2014, people will no longer pay withholding tax on interest earned on their savings which accrue after the 31st December this year.

This will reduce our revenue by \$600,000 in 2013/14 and by \$1.2million in 2014/15. I acknowledge that this has not been a popular tax but it was necessary to allow us to finance the Crown's legal obligations to provide a \$1.2million profit guarantee to Toa.

From the 1st January, the Government will increase the personal Duty Free allowance for all people arriving into the Cook Islands. This will move from \$250 to \$750. The limit has not been increased in a number of years and this action will bring us into clarity with New Zealand, reducing the confusion of travellers to the Cook Islands. This will reduce revenue by about thirty seven and a half thousand dollars in 2013/14 and by seventy five thousand dollars per annum thereafter.

In the previous Budget Madam Speaker, the Government undertook some major initiatives which will apply from July of 2014. From the 1st of July, the departure tax which is now incorporated into our airline ticket will increase from \$55 to \$65. There will be a further 33% increase in tobacco levies and a 2% increase in levies on soft drinks and alcohol.

To put these into perspective Madam Speaker our efforts to increase the levies on soft drinks and alcohol are purely measures to reduce consumption of these products which are major contributors to NCD's. NCD's are the major threat to our well being and Government must take prudent actions to reduce the prevalence of these diseases. And I will speak more specifically on these shortly.

Madam Speaker a number of prescribed fees have not been increased since 2008 in particular Immigration Permits. The Government from 1st July will increase the annual permit for foreign worker fees to \$680. This will add less than a dollar a day to the cost of employing that foreign worker.

The Government will also change the structure of driver's licenses and vehicle registrations. The Government will change obligatory requirements around driver's licenses so that Tourists arriving in the Cook Islands with a qualifying license do not have to go and queue up at the Police Station for hours to get a Cook Islands license. If a New Zealander or Australian rocks up to a rental car business and they have the appropriate Class license for that vehicle then we will accept that.

We want them out enjoying themselves and putting that money directly into the economy, not lining up at the Police Station for half a day. It will also reduce the amount of needless work done in the front of the Police Station. We have listened to what will improve the Visitor's stay and 2 major aspects which the Government can control will and have been undertaken.

Putting the departure tax into the airline ticket was the first one. Now we don't need to fork out for the \$55 at the airport anymore, it's already in our ticket. And reducing the needless wait for getting our driver's license, of course there's nothing to stop Tourists from getting a Cook Islands driver's license if they really want one.

For local motorbike drivers, we will be decreasing the current registration fee paid by people driving motorbikes up to 125cc which is the majority of the motorbike fleet in this Country. That revenue loss Madam Speaker will be made up through increased registration fees for rental vehicles.

We have spoken to the industry about this and we will announce the new fee structure shortly. So we're moving the cost away from our people Madam Speaker and moving those costs onto the uses of the rental machines.

Madam Speaker, in terms of the tax review, a tax system needs to demonstrate that it is fair and equitable and people need to have the confidence that the system is robust and the capacity to avoid tax is minimal. It has become apparent that there may be significant amounts of income being earned offshore.

The Government will focus a two-year project to improve compliance in relation to tourism services being sold through wholesalers. MFEM aims to use its tax information exchange agreements with both New Zealand and Australia and other countries to improve compliance in this sector.

Our fisheries are a major resource and we need to strike the balance between maintaining the fishery and extracting the best value we can for our nation while, at the same time, using the precautionary principle to ensure the sustainability of our fisheries.

The Ministry of Marine Resources has undertaken a significant amount of good work. The Ministry is now confident that the Cook Islands has now developed a significant "catch history" upon which it can begin to assert its rights to the regional fishery.

The Ministry of Marine Resources has forecast an additional \$1.7 million in fisheries catch revenue collected from operators who wish to purchase unutilised quota from within the total allowable catch.

Madam Speaker, I now wish to turn to Expenditure. I would like to bring the attention of the House to our spending. Overall spending by the Government in 2013-14 will be \$196.5

million consisting of \$136.5 million on recurrent spending and \$60 million on capital spending.

Madam Speaker, the total capital spend by the Cook Islands Budget is a record.

We are proud of that Madam Speaker. We are proud of investing in our nation and leading her into a period of future prosperity. We are not in the business of lumping future generations with the debts of failed policy experiments like those that were left for us.

Imagine what could have been done with the \$7.3 million we have paid for TOA since we were obliged to make profit guarantee payments. \$7.3 million, Madam Speaker that could have been invested into tangible benefits for our people.

Our people can rest assured that despite these drastic mistakes of the past, the Government will rise above this and produce a legacy of investments for future prosperity.

Madam Speaker, I was informed last week by the Minister for Health that this year we have had 162 cases admitted since January 2013 up at the Rarotonga Hospital which are directly related to NCDs. The sad aspect of these statistics, Madam Speaker, is that four cases in 2012 and nine cases since January this year have had to have limbs amputated as nothing further could be done.

Since January to May 2013 there were 2,153 cases seen in the Outpatients Clinic that have NCDs.

These are sobering facts and we as a society can no longer remain dormant on this issue. We must take action now. We must take action. I will touch further on expenditures which will assist us in combating this terrible scourge.

The Government is committed to improving our health outcomes with the inclusion of an additional \$1 million for the Ministry of Health. The Government, with the assistance of development partners will re-establish the Cook Islands Nursing School. Our nursing shortage will compromise our capacity to provide decent health services to our people.

In 2010 the Ministry could not fill 15 vacant nursing positions due to resignations, retirements and low salaries offered. Foreign nurses on contract are now 30 per cent of the nursing workforce.

Additionally, a further 30 per cent of our 111 nurses are nearing or over the age of 60 and will therefore soon be retiring. Failure to train our own would result in a higher intake of foreign workers within the next four years.

Tragically we continue to face an epidemic of obesity, cardiovascular disease and stroke, diabetes and cancer. It is something we must try and overcome to improve the overall quality of our lives.

The establishment of a sustainable funding mechanism will be used for health promotion activities (tobacco control, reduction in alcohol consumption, nutrition, physical activity) to encourage people living in our country to make healthy lifestyle choices.

The initial proceeds of the increase in levies on tobacco and soft drinks which we started last year will now be directed towards specific activities which are aimed at health promotion activities to encourage Cook Islanders to make healthy lifestyle choices.

As I have previously said to people, if you smoke one packet of cigarettes a day and you give up smoking, then not only are you healthier but you've just given yourself an additional \$126 a week to spend on other things. This comes to over \$6,000 in one year Madam Speaker.

Madam Speaker, the Government will provide an additional \$50,000 for patient referrals. This will assist in providing for the increasing number of patients from the Pa Enea accessing health services in Rarotonga as well as patients on Rarotonga accessing health services in New Zealand.

Additionally, a further \$25,000 will be made available to ensure availability of drugs on shelves for both patients and clinicians in order to prevent and manage diseases. This will allow for the increasing costs of pharmaceutical supplies, the greater need for palliative care medicaments for patients requiring pain relief and also for the Human Papilloma Virus vaccine, the HPV vaccine which was recently introduced as part of the immunisation schedule.

This vaccine is important for the prevention of cervical cancer and is being made available to all girls and women in this country.

Over and above this, Madam Speaker, the Government will spend a further \$1.2 million in capital for the Ministry of Health and this includes an ongoing \$275,000 amount for technical medical equipment, \$150,000 for an ambulance which we are currently negotiating with the Ministry of Health in New Zealand and \$840,000 for infrastructure which includes upgrading the Outpatients area at Rarotonga Hospital and the new Hospital for Pukapuka.

The government will spend a total of 12.8 million dollars in health this year Madam Speaker.

Let me turn to education, Madam Speaker. I am sure that everyone in the House will concur with me when I say that our culture, our economy, our resilience against the challenges that life presents to us and most of all our happiness and life's satisfaction comes from being close to our families and to see our children and our grandchildren grow up.

Outside of our love and continuing support for our children that many of us provide, the next best thing we can provide for them is a quality education system.

A quality education system that will bring out the best in our children and allow them to take up opportunities which may be available for themselves here or overseas.

Whilst infrastructure is important, quality teaching is paramount. We all remember the good teachers, the ones that helped us and that motivated and inspired us to achieve our goals, who filled us with knowledge and who were always there for us.

We need to remunerate those in our community that provide education services accordingly. The remuneration of our teachers needs to be of a level that retains quality and recognizes the contribution that teachers make to our society and economy.

From the 1 July the government will provide an additional 1.3 million dollars in salaries for both public and private school teachers. This increase will compliment further strengthening of the performance management system for teaches with all teachers now expected to have or be working towards the completion of a first degree.

Teachers and principals are also required to meet a designated set of professional standards and these will be closely monitored by the Ministry of Education. From the 1 July early childhood teachers will receive salaries comparable to their counterparts in our primary and secondary schools.

This initiative by government recognises and acknowledges the importance of quality early childhood education as an essential foundation for further learning at both primary and secondary school levels.

In our public schools, 190 teachers, 21 principals, 38 teacher aides and 25 support staff will receive salary increments from the 1 July. In addition, teachers, principals and support staff employed in private schools will receive the same benefits.

The government will also spend a further \$50,000 per annum on youth training initiatives. This initiative is aimed at increasing the participation of our young people in training and employment. It will aim to lift the skills of young people and provide opportunities for them to gain valuable work experience.

The focus of this new initiative will comprise supported learning in work places throughout the country both on Rarotonga and in the Pa Enea. These funds will assist in providing a structured training experience in the work place for a young person and will be supported by a training agreement.

In addition the government will be spending \$671,000 on school infrastructure in 2013/14.

Madam Speaker, the government will be spending almost 15 million dollars in education for 2013/14.

Looking after our elderly, Madam Speaker as of the 1 July the government in its continuing programme will again increase the monthly pension for those over 70 years of age to \$500 a month. The government will be spending 9 million dollars paying pensions to the elderly in this next financial year.

I turn to the Outer Islands, Madam Speaker. The Island Government Act of 2013 which was recently passed by Parliament represents the most thorough and comprehensive review and reform of the system of governance for the Pa Enea since the enactment of the Outer Islands Local Government Act 1987.

The approach of this government is to empower Island Governments to determine development priorities and take more responsibility for their respective islands.

In line with their increased responsibilities Mayors, Deputy Mayors and Councillors have been provided pay increases at a cost of \$156,000 to the budget.

We have reviewed the islands funding formula to make sure funding is fair, and in a major reform the government has agreed to allow Island Governments to keep their trading revenue without losing any of their net appropriation.

This initiative has been unanimously welcomed by all the Island governments across the Cook Islands and will promote income generation innovation of Island governments.

The government spend a considerable amount of money in the Pa Enea and for the first time the government has compiled this information in the budget for the information of our people.

This shows that almost 20 million dollars is spent by the government in the Pa Enea. There will be those that say we spend too much, but the government believes that it has achieved a fair and rightful balance.

These include 6.8 million in bulk funding for the operations of the Island governments; 6.3 million in the operations of the major agencies and 6.3 million in welfare payments to people in the Pa Enea.

Let me turn now to public debt, Madam Speaker. Madam Speaker for many years the level of public debt has been a matter of ill informed speculation, ill informed.

The government has been extremely responsible when it comes to debt. Our debt situation is updated every three months with the release of our quarterly financial statement.

Our debt at the end of 30 June 2014 will be projected to be 100 million dollars and against this we will have 15 million dollars in our loan reserves and we anticipate that we will have around 10 million dollars in unencumbered cash reserves.

We are acutely aware of the risks around debt and we have taken steps to reduce these. We have recently finalised converting some of our foreign currency debt into New Zealand dollars to reduce the exchange rate risk. The Ministry of Finance will also investigate further ways to mitigate against the exchange rate fluctuations with our Chinese loans.

We will be responsible with debt. Any borrowings the Government undertakes will be with a view to a strong, economic and financial return. The Government will be looking at possible future loans with the Asian Development Bank (ADB) to finance Renewable Energy projects with a prospective commercial return.

I turn now to our overseas development assistance. Madam Speaker our development partners are an integral part of the equation in developing our Nation. We have a range of partners from our traditional ones such as New Zealand to newly emerging ones such as China. This Government has engaged positively with our partners.

Our approach of getting our development partners around the table to discuss our priorities and to harmonise their efforts and those of the Government is now demonstrated as a benchmark of engagement around the Pacific.

We the Government, your representatives are leading our development and we leverage the strengths and capacities of our development partners in a way that is mutually beneficial.

Last year, we developed a unique partnership between ourselves, New Zealand and China for the upgrade of our water system in Rarotonga.

We anticipate that around \$60million of ODA will be dispersed in the Cook Islands during 2013/14. I acknowledge that some of this are the result of activities that have slipped from 2012/13. The ODA schedule is outlined in the Budget papers.

Turning to infrastructure Madam Speaker. Government has committed to funding of approximately \$60million in capital plans for Budget 2013/14. This is funded through Depreciation, Cash Reserves, Lending, State Owned Enterprise dividends and Official Development Assistance (ODA).

I am particularly proud of the contribution of the Government. The Government will commit almost \$9.3million over 2013/14 and \$7.3million in 2014/15 for various capital projects from our own Treasury. The Government will be spending \$2.5million from our own Treasury on improving 5 major bridges around Rarotonga and a further \$2.8million on improving the harbours in Manihiki.

Additionally we will be committing \$5million in 2013/14 to undertaking major road works for Project City which will improve the road from the airport through Avatiu, Takuvaine and the roads in Tupapa.

There are a number of new initiatives for the Outer Islands which come from our own Treasury funding and from development partners. I will defer to my Colleagues to expand on these during the Budget debate Madam Speaker.

Madam Speaker this Budget aligns with the principles we set out in the National Sustainable Development Plan.

This Budget has demonstrated concrete measures which expand our economic base. We have announced record levels of investment in Infrastructure and we are now well on the path to progressing our goal of energy security. I can still remember a Campaign statement made by this Government during the last election saying that we will put more money into Teachers, into classrooms to Nurses and to medicines. This Budget clearly demonstrates our ability to deliver and to walk the talk.

We are investing in our Teachers and our Health Specialists. We are providing more for the elderly, we are pursuing greater autonomy for the Outer Islands, putting resources into their hands to achieve things for their Community.

We will continue Madam Speaker to improve the productivity of our Public Service focussing on getting value for our taxpayers. The Government is pursuing tax reform and has announced some measures to that end.

The rescinding of the withholding tax on interest on savings is in line with the commitment of the Government to remove the tax after 2 years. This is a Government that is upfront with the Public and has been for the last 2 years. We have seen the most open and transparent Budget process ever seen in this Country.

This is a Government that tackles tough issues and deals with them, rather than hiding from them. This is a modern Government. A Government of the 21st Century and the best Government in the Region. Please hold your applause till I finish. Madam Speaker.

MADAM SPEAKER: We did not complete that translation because there was too much noise. So please consider the people listening in because they're really interested in what you're saying. Can Charlie please finish of the interpretation?

HON. M. BROWN: There are savings now Madam Speaker. When you turn on your lights with the free energy saver light bulbs that have been distributed to households and the 5% power bill reduction. There are savings when you invest in a water tank Madam Speaker where the Government pays a \$1,500. of the cost.

There is more money for Mothers on Maternity Leave in the Private Sector who got nothing before. In addition Madam Speaker the Baby Bonus of \$1,000. paid out over \$300,000 last year. Madam Speaker the Opposition is getting very uncomfortable with the good news that is coming out of this Budget therefore, I conclude.

Madam Speaker, I am proud of this Budget. The Government is proud of this Budget.

HON. H. PUNA: Amen.

HON. M. BROWN: And I trust the Parliament will be proud of this Budget. It is a Budget for the Cook Islands and our people Madam Speaker and I commend this, the good news Budget to this House.

Kia Manuia.

(Applause)

MADAM SPEAKER: Well thank you very much Honourable Minister of Finance for a very, very detailed and comprehensive presentation.

I would just now like to let you know it's going to be nice and quiet now so we don't need to raise our voices from the front here.

I call for a Secunder of the Motion please? Is there a Secunder?

- END OF EXTRACT -