

APPROPRIATION BILL 2020-21

SECOND READING SPEECH

Hon. Martin Hunt, MP

Minister for Finance

4 June 2020

Mr Speaker and Honourable members,

Today I present on behalf of the Government, the 2020-21 Budget containing the estimates of revenue and appropriations for the coming year.

The 2020-21 Budget has been framed against a highly uncertain short and medium term outlook, impacted by the coronavirus pandemic and the future of the Regional Processing Centre (RPC).

The economy is expected to contract over the next year by 1.7 per cent of GDP, in light of the global economic downturn and expected wind-down of the RPC towards an enduring capability.

Accordingly, Government revenues will decline and expenditure restraint is required to ensure that Government can function within its means.

Nauru is in a period of economic transition, and we must seek to diversify the economy and sources of economic growth.

Through this transition, the Government is committed to:

- improving the resilience of the economy through responsible economic management;
- addressing the productivity of social and economic infrastructure, including through investing in education and health services;
- mitigating risks to food and supply security;
- alleviating cost of living pressures for households;
- maintaining government services at sustainable levels;
- whilst also managing an orderly response to the coronavirus pandemic.

The 2020-21 Budget recognises **\$210.5 million** in revenues and appropriates expenditures of **\$210.4 million**, with a surplus balance of **\$38.9 thousand**.

Development partners are expected to contribute a further **\$7.7 million** in new funding in 2020-21, to support achievement of national sustainable development strategy outcomes.

Mr Speaker, this budget continues the Government's commitment to achieve macro-economic stability through responsible economic management.

The budget retains the three fiscal responsibility ratios, by delivering:

- a budget balance that is positive in terms of GDP – that is, a small surplus
- Expenditure on personnel as a proportion of current expenditure that is less than the target of 30 per cent, at 28 per cent; and
- Maintaining a cash buffer of two months adjusted government expenditure in the Government's bank account.

In 2020-21, the Government will also continue to support the Nauru Intergenerational Trust Fund, with contributions set at 10.1 per cent of adjusted revenue – a total of **\$23.3 million**, of which **\$6.7 million** has been prepaid in 2019-20, and **\$16.6 million** will be paid in 2020-21.

The balance of the Trust Fund now exceeds **\$120 million** and will continue to grow through contributions and earnings to support future critical expenditure requirements after 2033.

The Government is also seeking to resolve long outstanding debt liabilities, with **\$5.8 million** provided to the Nauru Phosphate Royalties Trust for a Ronwan capital distribution. This funding comes from balances available from the Bank of Nauru liquidation.

The Ronwan consolidation process, which began in 2014, approved a capital redistribution of the total beneficiary fund balance of **\$115 million**, of which **\$80 million** has been paid out, or 70 per cent.

A balance of around **\$35 million**, or 30 per cent, of beneficiaries' capital remains to be paid.

The funding of **\$5.8 million** directly pays down this outstanding balance, which equates to 5 per cent of beneficiaries' remaining capital. This pay-out will bring total remaining Ronwan capital for redistribution down to **\$29.2 million** or 25 per cent.

The Government will work with NPRT to determine the details and timing of the pay-out in the new financial year, and announcements will be made by NPRT in the coming months.

- **\$1 million** has also been provided for Bank of Nauru bank book deposit holders.

In 2020-21, the Government will undertake a review of tax policy, with a view to diversify sources of revenue and ensure long term sustainability and efficiency of revenue streams. This is expected to lead to a new goods and excise tax regime to replace the current import duties as Pacer Plus is implemented.

In the interim, import duty on cigarettes and alcohol will be increased by 20 per cent from 1 July 2020.

This extra revenue will contribute to funding the Government's expenditure priorities.

Mr Speaker, the Government is concerned to ease cost of living pressures for households, especially for the most disadvantaged.

This budget includes measures to:

- Increase by **\$50** a fortnight Aged and disability pensions from 1 July 2020, bringing the total provided for these pensions to **\$5.5 million** for 2020-21.
- Electricity prices will also be reduced as part of the implementation of a new Community Service Obligation regime with key state owned enterprises.
- From 1 July 2020,
 - The residential pre-pay lifeline tariff will be reduced from **25c** to **22c** per kilowatt hour for 200 kilowatt hours, reducing the monthly household electricity bill by 12 per cent from **\$50** to **\$44** for customers that rely on this tariff.
 - The residential pre-pay tariff will also fall from **50 cents** a kilowatt hour to **47 cents**, and

- the residential post-pay tariff will be reduced from **50 cents** to **48 cents** a kilowatt hour.
- All other tariffs will remain the same.

The 2020-21 Budget continues the Government's commitment to improving Nauru's housing stock.

- **\$5.6 million** has been provided for Nauru Community Housing, and
- **\$2 million** has been provided to the Department of Infrastructure Development to invest in new house construction, and a Smart Village Pilot.

Mr Speaker, children are the future of Nauru, and a good education is the key to future prosperity and opportunity. We must do all we can to ensure children can get to school and learn all they can.

- **\$0.7 million** is provided for a new Back to School payment of **\$50** per child per term, to ensure that parents can purchase necessary school items to outfit children with uniforms, shoes and other items to be 'school ready'
- **\$0.5 million** is provided to repair classrooms and improve school facilities
- Seven new school buses have been purchased to support children to get to school
- **\$0.3 million** is provided for school supplies to ensure books and learning materials are available to students at all school levels
- **\$2.2 million** is provided for nutritious school lunches through the school lunch program, and

- **\$2.2 million** is provided for scholarships, including 17 additional places a year to students in year 8, year 9 and year 12.

This investment in scholarships will bring to 35 the total number of students sponsored each year to study in Australia or Fiji – 30 by the Government of Nauru and 5 by Australia.

In addition, the Government is investing in its teachers, with an increase in teacher salaries and allowances, to attract Nauruan teachers back to the classroom and reward those that advance their education. This should improve the student – teacher ratio.

From 29 June 2020, the gross pay, inclusive of 5 per cent superannuation, for a teacher with a certificate will increase 10 per cent from **\$521.68** a fortnight to **\$571.64**. For a teacher with a diploma, the gross pay will increase by 12 per cent from **\$552.17** to **\$617.37** a fortnight, and for a teacher with a degree, the gross pay will increase by 21 per cent from **\$552.17** to **\$666.64** a fortnight.

Public service salaries more generally will be increased in 2020-21. This is the first increase since 1 July 2018, and is long overdue.

Mr Speaker, the Nauru Bureau of Statistics estimates that the basic wage required to meet essential cost of living expenses in Nauru is **\$351** a fortnight.

From 29 June 2020, the Government will increase the minimum amount paid in the public service to at least meet the ‘basic wage’.

For those on the lowest public service pay band of **\$339.96** a fortnight, including 5 per cent superannuation, this means a pay increase of 10 per cent to **\$373.97** a fortnight, inclusive of 5 per cent superannuation.

For those in Band 2 to 4, the wage increase will be 8 per cent

For Band 5 and 6, the increase will be 6 per cent, and

For Band 7 to 17 the increase will be 8 per cent.

The different percentage changes relates to the removal of pay discrepancies between the salary bands.

There will be no increase in salaries for those on special pay, or those in the Department of Multicultural Affairs.

In addition to the overall pay increase, the Government has increased allowances for front line staff including: medical staff, cleaners, immigration, quarantine, customs and police officers.

For example, when these allowances are taken into account, a Police Constable will receive an increase in gross fortnightly pay of 16 per cent, from **\$407.76** a fortnight to **\$471.08** a fortnight.

A nurse with a certificate will receive a pay rise of 26 per cent from **\$454.20** to **\$571.64**, and if the nurse has a diploma or degree, the pay rise would be 28 per cent from **\$483.50** to **\$617.37** a fortnight, including 5 per cent superannuation.

Mr Speaker, this budget also includes measures to support the community.

- **\$3.1** million is provided for Clean and Green for community clean-up projects
- **\$0.2** million is provided to capture Nauruan language for future generations, address petrol sniffing, support early childhood community workshops, implement domestic violence legislation,

undertake disability awareness sessions, teach etiquette to children and a National Aroeni Day to celebrate Nauruan cultural diversity.

The Coronavirus pandemic has created significant uncertainty for Nauru, both in terms of the economic impact as well as the health and human impact of a potential outbreak. The Government's Capture and Contain strategy has so far ensured that Nauru remains Covid-19 free.

A dedicated Covid-19 Taskforce has been established to coordinate and manage the Government's response to the pandemic. This Taskforce will continue into 2020-21:

- **\$2 million** is provided for health preparedness, including purchase of medical equipment and supplies, PPE and testing and other medical consumables
- **\$2 million** is provided for quarantine arrangements, including accommodation, food, security and administration
- **\$1.2 million** is provided for essential building works at the hospital, including a new acute wing and upgrades to the isolation, paediatrics and the maternity wards, flood control and improved procurement and storage of medical supplies
- **\$0.4 million** is provided for repatriation, freight subsidies and other costs, and
- **\$0.4 million** is provided for Taskforce running costs.

In addition to the work of the Taskforce, the Government has increased its investment in the health workforce by a third, with **\$2.5 million** in additional funds provided to increase salaries and allowances for existing and new medical staff, including the return of Cuban doctors.

This will bring the total staff salary costs for health to **\$7.2 million**.

This investment should improve the scope and range of medical issues able to be resolved in Nauru and reduce the need for overseas medical referrals.

Primary Health Care will also be strengthened, with **\$0.3 million** provided for primary health care services to reduce the burden of non-communicable diseases and reversal of NCD complications.

Local health implementation capacity will also be improved through revamping the Nauru Health Professional Training Institute to commence Island delivery of nursing and public health training in partnership with universities in Fiji and Australia.

Mr Speaker, as part of its response to Covid-19, the Government is also mitigating risks to food supply and delivery by ensuring that there is at least one air-freight service a week, and regular sea freight services are available at reasonable cost.

- **\$9.2 million** in cash flow support is provided for Nauru Airlines to support regular freight services and the upgrade of an aircraft to a freighter
- **\$2.1 million** is provided for the charter of sea freight services, and
- **\$1.2 million** is provided to keep Port charges at pre-Covid 19 levels.

In 2020-21, the Government will also progress key economic infrastructure projects, consistent with priorities in the Nauru Integrated Infrastructure Strategy Plan.

- **\$15.7 million** is provided in 2020-21 for the Port Project, now expected to be completed by the end of 2021
- **\$2.6 million** is provided to continue the Tank Farm refurbishment.

The Government will also commence a re-tender of the fuel supply contract for Nauru. The testing of the market for operation and supply for fuel supplies will ensure Nauru obtains the best value fuel by international standards.

This process will commence in June 2020 with new arrangements finalised to coincide with completion of the Port Project.

Nauru has now converted to supply of cleaner 10 parts ppm (low sulphur) diesel fuel, to be rolled out to the retail market later this month. This along with the new Port and additional solar power coming on line will assist Nauru in meeting its global commitment to reducing greenhouse gas emissions.

Mr Speaker, the outlook for the year ahead is highly uncertain, with RPC arrangements only confirmed until December 2020, and the full impact of the Coronavirus Pandemic yet to be seen.

Reflecting this uncertainty, **\$8.9 million** has been provided in the fiscal cash buffer to cover any urgent and unforeseen events that might arise in the year ahead.

The 2020-21 Budget has been framed to support Nauru improve its resilience through responsible economic management, easing cost of living pressures, especially for the most disadvantaged, and investing in service delivery and productivity enhancing infrastructure.

It builds on a strong performance in 2019-20, with actual revenue of **\$264.2 million** forecast to be collected by 30 June 2020 and **\$248.9 million** in expenditure, leaving a **\$15.5 million** surplus balance.

This surplus will be used to build up cash reserves at the bank and support Nauru to manage the uncertainties in the year ahead.

Mr Speaker,

I commend the 2020-21 Appropriation Bill to the House.