

APPROPRIATION BILL 2021-22

SECOND READING SPEECH

Hon. Martin Hunt, MP

Minister for Finance

1 June 2021

Mr Speaker and Honourable members,

It is with great pleasure that I present on behalf of the Government, the 2021-22 Budget, containing the estimates of revenue and appropriations for the coming year.

The 2021-22 Budget has been framed around the theme of “**Building a Resilient Naoero**” – with measures to build resilience in our economy, in our people and in our way of life.

The need for resilience reflects the continued uncertainty in the economic outlook for Nauru, driven by the impact of the coronavirus pandemic, the yet to be finalised future arrangements for the Regional Processing Centre (RPC), and the longer term challenges presented by a changing climate and how this will impact on our way of life.

A RESILIENT ECONOMY

Mr Speaker,

A resilient economy supports Nauru to achieve its sustainable development goals.

Nauru's economic performance in 2020-21 has been better than expected, reflecting the extension of RPC arrangements from December to June 2021, improving global economic conditions, and the success in keeping Nauru COVID-19 free.

However, economic activity is expected to moderate in 2021-22, as the RPC winds-down towards an enduring capability.

Accordingly, Government revenues are expected to fall and expenditure restraint is required to ensure that Government can work within its means and ensure sustainable services are maintained into the future.

Mr Speaker,

The 2021-22 Budget recognises expected revenue of **\$244.1 million** and appropriates expenditure of **\$244.0 million**, with a surplus balance of **\$100 thousand**.

These estimates reflect 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; and
- a liquidity cash buffer of two months adjusted government expenditure.

The budget includes measures to improve the Republic's balance sheet through long term saving in the Nauru Intergenerational Trust Fund and reducing debt.

In 2021-22, the Government will contribute 10.1 per cent of adjusted revenue to the Trust Fund – a total of **\$23.5 million**, of which **\$6.2 million** will be pre-paid in 2020-21, and **\$17.3 million** will be paid in 2021-22.

As at 31 March 2021, the Trust Fund was valued at **\$195 million** and will continue to grow through contributions and earnings to support future critical expenditure requirements after 2033.

Mr Speaker,

Similar to 2020-21, the Government will again provide **\$5.8 million** to the Nauru Phosphate Royalties Trust (NPRT) for a 5 per cent Ronwan capital re-distribution from balances available from the Bank of Nauru liquidation.

A provision of **\$1 million** has been allocated for Bank of Nauru bank book holder payments.

These measures build on the significant progress made this year to improve Nauru's debt sustainability.

In 2020-21, the Government took the opportunity of additional revenues to address historic debt liabilities related to Yen Bearer Bonds issued in the 1980s, and to progress the Bank of Nauru liquidation.

The impact has been to substantially improve the assessment of Nauru's debt sustainability, with estimated total outstanding debt reduced from over **100 per cent** of GDP to **36 per cent** of GDP at 30 June 2021.

This significant improvement will increase options available to the Government to fund the sustainable delivery of services in the future, through new sources of donor funding and access to international financial markets.

Mr Speaker,

I would like to highlight the key revenue estimates in the budget.

RPC related revenue is estimated at **\$124.9 million, 51 per cent** of total revenue. This includes income from business tax, employment services tax, reimbursements from Australia for RPC related operational costs, service and hosting fees.

Negotiations with Australia on the future of the RPC are ongoing and expected to be resolved in the coming months.

Current RPC arrangements have been extended up to December 2021, to provide time to finalise negotiations and commence the transition to an 'enduring capability'. Refugee and asylum seeker numbers will continue to reduce as the RPC winds down.

Future arrangements will have a change in focus from people based to a facilities based approach, that supports potential future hosting of refugees and asylum seekers in Nauru.

The transition will include an 'Alternative Pathways' program to provide opportunities to the nearly 800 workers impacted by the changed arrangements. This will include training for workers to be job ready and to be absorbed into other sectors of the economy.

The second largest contributor to revenue is fishing licences. Fishing revenues performed strongly in 2020-21 and in line with expectations, despite the logistical challenges related to COVID-19. A similar level of revenue is expected in 2021-22, at **\$59.9 million** or **25 per cent** of total revenue.

Import related revenues are expected to be at similar levels to this year, at **\$16.5 million**, or **7 per cent** of total revenues.

Donor assistance will remain important to support Nauru to meet its potential, and lift growth sustainably. The Government anticipates development partners will contribute **\$14.1 million** in new funding in 2021-22, and Aid-in-Kind contributions are estimated at **\$79.7 million**.

RESILIENT PEOPLE

Mr Speaker,

The budget includes measures to support the resilience of our people, through investments in education, health, the social safety net and other measures.

Our children are the future, and a good education is critical to empowering the next generation to be the best they can be. This means creating a positive learning environment in schools, securing good teachers, and for our best and brightest, the opportunity to expand their horizons by studying overseas.

During the past year, school attendance has improved by **10 per cent**, and the retention rate from Year 1 to Year 12 is above **60 per cent**.

The Teacher–Student ratio has improved, with an average of **one teacher to 35 students** in 2021, compared to the baseline of **one teacher to 50 students**.

This reflects the Department of Education’s success in retaining and recruiting qualified teachers and teacher assistants, and ensuring there are sufficient quality classrooms available.

Whilst these improvements may be applauded, we can do better.

In 2021-22, the budget for Education will be increased by over **40 per cent** to **\$16.2 million**, or **9 per cent** of GDP.

Key measures for education include:

- **\$4 million** for scholarships, a doubling in the investment to enable awards to study in Australia;
- **\$1.7 million** to improve school infrastructure, including to build six new play-centres, new classrooms and refurbish school facilities;
- **\$0.7 million** is provided to purchase education toys and learning materials to support needs at all school levels;
- Teacher trainee allowances have also been increased to **\$539** a fortnight, building on the significant increases in teacher wages provided for this year.

The budget includes measures to support increased school attendance, and to lift the retention rate to **80 per cent**.

To ensure our children have the necessary support to be 'school ready', **\$0.7 million** is provided for a Back-to-School payment of **\$50** per child per term, to ensure that parents can purchase necessary school items for their children such as school bags, stationery and uniforms.

Provision is also made for a new 'no school no play' program to be run by the Sports Department, and for a Nauru Police Force Cadet Program.

- **\$0.3 million** is provided for the NEAT scheme, rewarding students to stay at school and graduate from year 12.

The budget also includes measures to support continuous learning after school, with increased provision for vocational education and training, a Life Skills program for youth and inmates, and support for members of the public service to pursue further study, including two secondments to the UN Mission in New York.

Mr Speaker,

The Government is resolved to support to develop a healthy and productive population, and for Nauruan's to have access to quality health and medical services.

The 2021-22 Budget allocates **\$26.8 million**, or **14 per cent** of GDP, for health-related activities, with **\$18.5 million** for the Health Department, and **\$8.3 million** for the COVID-19 Taskforce.

Key health measures include:

- **\$2.5 million** for RON Hospital improvements, including a new maternity ward, a new warehouse facility, flood mitigation and waste management shed, as well as funding for repairs and maintenance;
- **\$7 million** for local and expatriate salaries and allowances for existing and new medical staff;
- An increase in health trainee allowances to **\$539** a fortnight;
- A new graduate trainee program for 20 graduates; and
- **\$4 million** for Overseas Medical Referrals.

Over the past year, an additional **20** health professionals have been added to the health workforce, improving the quality of care and reducing the nurse to patient ratio to **one nurse to one patient** in critical areas, and **one nurse to four patients** in the rest of the hospital. This is down from **one nurse to 20** patients previously, and **one nurse to four patients** in critical areas.

The ratio of **medical practitioners to the population** currently stands at **one to 1000**, a significant drop from previous years, where the ratio was **one to 2000**. Government is making an attempt in this budget to reduce this ratio further.

The Government will also continue to support enhancing the skills and capabilities of the Nauruan health workforce through the Nauru Health

Professional Training Institute, in partnership with universities in Fiji and Australia.

Mr Speaker,

Keeping Nauru COVID-19 free has been a priority for this Government, and will continue to be so.

A key step has been for all the adult population to receive its first dose of the AstraZeneca vaccine. This was achieved in May with 7,455, doses being administered. The Government extends its appreciation to the governments of Australia and India, as well as UNICEF, for making this possible. The second round of vaccinations will commence shortly.

The successful 'Capture and Contain' strategy will continue for the foreseeable future, with all incoming passengers required to quarantine for a prescribed period. The budget makes provision of **\$6.5 million** for quarantine measures.

Over the past year, a significant investment has been made to prepare Nauru for a potential COVID-19 outbreak, and to mitigate the impact of the pandemic on Nauru. This has been possible in part due to the support of our donor partners.

The Government wishes to acknowledge and thank Australia for providing a grant of **\$4.1 million**, the Republic of China (Taiwan) for **\$2.2 million**, the Asian Development Bank for **\$1.4 million**, New Zealand for **\$0.5 million** and Japan for **\$0.03 million**, to purchase medical equipment and supplies, facilitate effective quarantine measures and mitigate transport and supply security risks.

Mr Speaker,

This budget includes measures to ease cost of living pressures for households, especially for the most disadvantaged.

- Aged and disability pensions will be increased by **\$15** a fortnight from 1 July 2021, bringing the total provided for these pensions to **\$3.8 million** for 2021-22.
 - The Aged Pension for those aged over 60 will increase from **\$250** to **\$265** a fortnight;
 - The Aged Pension for those aged over 70 years will increase from **\$300** to **\$315** a fortnight; and
 - The Disability Pension will increase from **\$250** to **\$265** a fortnight.
- The pre-pay lifeline electricity tariff will continue at 22c a kilowatt hour, the pre-pay residential tariff at 47c and the post-pay residential tariff at 48 cents a kilowatt hour, supported through the Community Service Obligation paid to NUC.

In addition, the Government is mitigating risks to food and supply security with measures to ensure there is at least one air-freight service a week, and regular sea freight services at reasonable cost; as well as supporting the establishment of the Menen Farm and Fisheries Livelihoods Project.

Fishing is a key part of Nauruan life, and the budget includes measures to ensure Nauruan fisheries are sustainable and food security risks are mitigated:

The budget includes:

- **\$1.2 million** to purchase additional boat trailers and outboard motors, as well as provisions for safety equipment;

- **\$100 thousand** to increase fisheries production through the Aquaculture Holding Facility by importing milkfish fries to stock up local milkfish ponds. The aim is to increase milkfish production to 1,800kg per annum, equivalent to the estimated volume of fish extracted from the reef.
- **\$74 thousand** is provided to improve coastal fisheries management using a community-based approach; and
- Under the Nauru Observers Program, the Government is providing **\$30 thousand** to train Fisheries Observers to manage fishing activities and equip them with safety skills and safety equipment.

Mr Speaker,

The Government is determined to make Nauru a safe and secure place to live, and ensure that the institutions that uphold law and order are sufficiently resourced.

The 2021-22 Budget includes provisions totalling **\$9.6 million** to support law and order, equivalent to **5 per cent** of GDP.

Measures in this budget will reduce the backlog of court cases through the appointment of magistrates and virtual court sessions to expedite court hearings, empower and ensure a well-resourced Police Department, and scope a new court house to be built.

The Government of the ROC (Taiwan) is donating two patrol boats to assist the Police Force in surveillance and close monitoring of Nauru's exclusive economic zone.

RESILIENT TO CLIMATE CHANGE

Mr Speaker,

This budget includes measures to build our resilience to the impact of a changing climate, and to invest in infrastructure to improve the quality of Nauru's living environment.

The Higher Ground Initiative is a 20 year vision to support the rehabilitation and development of topside with the benefit of increasing the supply, quality and energy efficiency of housing, increasing public facilities, increasing agricultural production and economic diversity.

Successful implementation of the initiative will address Nauru's inherent vulnerability to climate change and build a foundation for a healthier, educated and prosperous population in the future.

An updated land use plan will be developed in consultation with the community to inform this investment.

- **\$5 million** is provided to Nauru Rehabilitation Corporation in this budget to commence land clearing and pilot rehabilitation projects.
- NRC and Ronphos will work together on the Higher Ground Initiative, and **\$1.8 million** is provided to purchase new equipment.

The 2021-22 Budget also includes provisions to support continued improvements in housing and the built environment.

- **\$7 million** has been provided for Nauru Community Housing;
- **\$2 million** has been provided for the Smart Village Pilot project;
- **\$0.4 million** for household water tanks; and
- **\$3.1 million** for the Clean and Green program.

In 2021-22, the Government will also progress key economic infrastructure projects, consistent with priorities in the Nauru Integrated Infrastructure Strategic Plan.

In addition to funding health and education capital projects:

- **\$4.3 million** is provided to support the Port Project, which is now expected to be completed in the first quarter of 2022;
- **\$2.8 million** is provided to continue with the Tank Farm refurbishment; and
- **\$0.6 million** is provided to build seawalls around the island – to help protect our shoreline against rising water levels.

The Government of Australia will support Nauru with a project to resurface the aerodrome runway and Island ring-road, with design and scoping work to commence in 2021-22.

It is also proposed to repair the current mooring system at the Port, to mitigate risks to loading and unloading ships until the new Port is completed. The Government is currently securing support from bilateral partners to progress this project.

The Government is in the final stages of completing the re-tendering of the fuel supply contract and expects a competitive outcome that will benefit all fuel customers.

The Government will undertake a full census in 2021-22, a once in 10-year event, to provide key demographic information. Updated national statistics and data will enable evidence based policies and informed decision making on future service delivery needs.

Mr Speaker,

In the year ahead, the Government will continue to support our State-owned Enterprises to deliver their core responsibilities and maintain a sound financial position.

State-owned Enterprises account for a significant share of the financial and human resources available to Nauru. To have them operating as effectively and efficiently as possible, is a key component in facilitating Nauru's long-term prosperity and resilience.

The 2021-22 Budget includes:

- **\$7.4 million** for Community Social Obligations (CSO) to support affordable electricity supply, regular air freight services, and affordable Port service charges.
- **\$2.2 million** in cashflow support for Nauru Airlines to manage the loss of charter flight services due to the wind-down of the RPC; and
- **\$1.4 million** for tug-boat hire for phosphate loading and cargo unloading.

The Government is also supporting Nauru Airlines with the Aircraft Replacement Program, backed up with a new **USD24.95 million** loan from EXIM Bank facilitated by ROC Taiwan.

The Program will happen in two tranches, with the first aircraft purchase expected to be completed by 30 June 2021, with a **USD13.3 million** partial draw-down of the loan. A second aircraft is expected to be purchased in 2021-22, which will draw down the remaining **USD11.6 million** loan balance.

Mr Speaker,

The outlook for the year ahead is highly uncertain, with RPC arrangements only confirmed until December 2021, and the full impact of the coronavirus pandemic yet to be seen.

To help manage this uncertainty, **\$10.9 million** has been provided in the fiscal cash buffer to cover any urgent and unforeseen events that might arise in the year ahead.

In 2020-21, the Government made a similar provision to cover urgent and unforeseen events, with the funds used mainly to support subsidies and arrears payments for State Owned Enterprises including Ronphos land rental arrears payments, port redevelopment costs, and debt repayments.

Mr Speaker,

The 2021-22 Budget has been framed to support Nauru build its resilience through responsible economic management, easing cost of living pressures, and investing in service delivery and productivity enhancing infrastructure.

It builds on the strong performance in 2020-21, that reflected better economic conditions than originally anticipated and a full twelve months of RPC activity, leading to the expected collection of **\$287.9 million** in revenue by 30 June 2021 and **\$269.0 million** in expenditure, leaving a **\$18.9 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.

The 2021-22 Budget builds on the Government's responsible economic management since coming to office.

- Our economic policies have seen Nauru's economy grow, from nominal GDP of \$166 million in 2019 to an estimated \$185 million in 2022, an 11 per cent expansion.
- We have made significant contributions to the Nauru Trust Fund. The Fund is now valued value at **\$195 million** compared with **\$111 million** at 30 June 2019. That is an increase of **77 per cent**.
- Total Government Debt liabilities have reduced from over **100 per cent** of GDP in 2019 to **36 per cent** of GDP, and Government net assets are now estimated at over **\$320 million**, or **179 per cent** of GDP.

- We have also reduced outstanding legacy debts related to the Bank of Nauru liquidation, with total payments since 2019 of **\$23 million** to individual bank book holders and NPRT, a **42 per cent** reduction in the outstanding liability.

All of this has been achieved whilst continuing to deliver government services and a robust COVID-19 response, increasing public service salaries, including increased pay and allowances for teachers, nurses and emergency services workers, as well as investing in key infrastructure.

Mr Speaker,

The Government is determined to build a strong economy, one that will support Nauru to be resilient in the face of uncertainty and a changing climate, that will facilitate lasting prosperity and support everyone's aspirations.

Mr Speaker,

I commend the 2021-22 Appropriation Bill to the House.