

APPROPRIATION BILL 2023-2024

SECOND READING SPEECH

Hon. Martin Hunt, MP

Minister for Finance

6 June 2023

Mr Speaker Sir,

I present before Parliament the *Appropriation Bill 2023-2024*.

Mr Speaker, Honourable Members, on behalf of the government, it is an honour for me to present to this House, the Budget for the financial year 2023-2024.

Mr Speaker, the theme of this year's Budget is "**Building the Foundations for a New Economy**". The Regional Processing Centre supported our financial well-being for many years. We always knew it was temporary and that at some point it would come to an end. That point is now on the horizon. The facility will move into an 'Enduring Capability' state from 1 July and wind down over the coming years. The revenue we have enjoyed since 2012 has benefitted Nauru considerably. Now, we must begin to think about the post-RPC era. We must begin to plan for a new economic model, built, once again, on the creativity

and character of our people and the bounty conferred upon our Pleasant Island and the ocean waters around it.

Mr Speaker, economies are built over time. We do not claim that this annual budget creates all the conditions for building a new economy. Rather, it starts the process by again channelling resources to our people, infrastructure, and culture. These are the things that have always sustained the nation, and which will do so again. All through the deadly covid pandemic, the government ensured that our people were protected. We are emerging stronger but more aware of human vulnerability. Our future planning must put the protection of our people and way of life side by side with the optimism to explore the possibilities that modern social media, and future technological advances, offer our people.

Mr Speaker, to strengthen the capacity of our workers, and especially of those for whom the winding down of the RPC will be felt the most, we will spend over **\$19 million** or **7%** of total government expenditure, on training and capacity building throughout the public service and RPC related staff. This is the beginning of a longer-term programme to develop our workforce to meet the demands of our future economy by providing them with alternative pathways to future prosperity.

The budget further allocates over **\$50 million** or **18%** of total government spending, to social service provisions including social welfare programmes and CSO payments. This will ensure that our young, old, sick, and disabled community members are able to participate and contribute to our economic growth.

Mr Speaker, I don't think we talk enough about our Intergenerational Trust Fund. This money is being saved from current revenues to provide for future generations so that they may have access to some of the wealth the country has amassed over the years, in future times of need. Our cash contribution to the fund in 2023-24 will be over **\$19.1 million** or **7%** of total government expenditure, building on **\$6.8 million** of advance payments in 2022-23. There will be at least ten more years of contributions from the Government and our key development partners, Australia, Taiwan, and New Zealand. By then we expect the value to have grown from **\$280 million** today, to be over **\$ 750 million**. We remain grateful and humbled by the support received for this fund from our partners.

Our Island home has been transformed over and over again throughout our history. We must do the same, but with more care for the environment left behind. Together with our people, we recognise the land and sea as essential resources upon which we must rely for our future well-being. As a testament to that, we are beginning our foundation building with allocations totalling **\$15.7 million** or **6%** of total government spending, towards infrastructure works across the public sector. Allied with the investments made by our development partners, we see that a substantial amount of **\$63.5 million** or **28%** of our entire GDP, worth of infrastructure investment is programmed for delivery in 2023-24.

Mr Speaker, it would be remiss of me not to mention the recent milestone achieved by the project that could bring the single largest transformation to the economy of this island since the arrival of the first aircraft, one hundred years ago. I speak of course of the signing last week of the final agreement for the East Micronesian Internet Cable (EMC).

The instalment of the fibre-optic cable in 2026, will bring high-speed, reliable, and above all, **cheap** internet access to Nauru. This will open new and exciting economic opportunities for Nauruans. I know that with our ingenuity and creativity, we can compete with people from any country on online platforms. Our government will focus attention on research and analysis in the coming year to prepare our citizens and especially our youth for the online revolution to come.

Mr Speaker, this government seeks to prove itself capable of applying both a long-term strategic vision and short-term fiscal prudence. In this budget, we continue the success of previous Governments in satisfying our fiscal rules and helping to grow our economy.

Sir, our key development partners regularly set expectations for our economic performance using global and regional averages and trends. Our aim is to exceed those expectations where we can, but also to work closely with our partners to find a more suitable economic model that better reflects the realities of our situation measures our performance more equitably.

Mr Speaker, the 2023-2024 Budget recognises total expected revenue of **\$278.6 million** and appropriates expenditure of **\$278.4 million**, with a small surplus balance of **\$215 thousand**.

Building a new economy would be impossible without the certainty of being anchored to prudent fiscal management year after year. Our plans must be linked to an unyielding commitment to the delivery of our key **Fiscal Responsibility Ratios (FRR)**:

- a budget balance that is positive in terms of GDP – that is, a small surplus;
- keeping personnel costs below 30 per cent; and
- a liquidity cash buffer of at least two months of adjusted government expenditure.

We will review these during the year with a view to identifying additional ratios that might serve as both indicators of progress and control of potentially dangerous excesses.

Mr Speaker, looking forward does not mean that we neglect the consequences of prior actions. The government will again provide **\$5.8 million** to the Nauru Phosphate Royalties Trust for a 5 per cent Ronwan capital redistribution from balances available from the Bank of Nauru liquidation. The outstanding NPRT balance after this payment will be **\$6.2 million**, down from **\$35 million** in 2019.

A provision of **\$1 million** has also been made for the Bank of Nauru bank-book-holder payments. This will bring down the current Bank of Nauru debt to **\$18 million**. These measures build on the significant progress made in recent years to improve Nauru's debt sustainability.

Mr Speaker, we must generate revenue if we are to fulfil spending commitments. For now, the RPC remains our largest source of income but as we transition to a greater reliance on locally generated sources, we will build on the solid base we have now and endeavour to uncover new revenue streams in the years ahead.

The Government of Australia has confirmed, in principle, a multi-year funding arrangement under the new 'Enduring Capability' paradigm. I am pleased to inform the

house that the funding for the first year has been agreed. As we move into the contingent state, recognising that we must be ready to accommodate a minimum number of incoming individuals at short notice, we expect continued significant funding for at least two further years. Through our negotiations, we have ensured that there is sufficient financial support for the transition, not least to look after the current employees whose jobs are likely to be directly affected.

The total revenue from RPC-related activities is budgeted at **\$168.8 million**. This includes income from business tax, employment services tax, service, and hosting fees.

The second largest contributor to revenue, and the primary local source of government financing, is fisheries. The budgeted fisheries revenue for 2023-2024 is **\$54.5 million** or **19.6 per cent** of total revenue, which is similar to the current year.

Our country's economic health can, in part, be measured by the level of import-related revenues we generate through our Customs tariffs. Given the winding down of the RPC, we expect to bring in slightly lower levels than the current year, at **\$18.8 million**, or **7 per cent** of total revenue. We will review the policy framework and compliance regulations within which our Customs service operates, during the year to minimise currently high levels of payment avoidance.

The government anticipates development partners to contribute **\$24.4 million** as budget support, further enhancing our vision to promote social and economic development. Without the complementary support of our financing partners, many critical aspects of this

budget would not be deliverable. We are proud to partner with them and seek to make them proud of the contribution we jointly make to the development of our nation.

Mr Speaker, I now move into Expenditure measures. Full details of the budget have been shared with members and will be available on the Department of Finance Website. I encourage everyone to look through the details. It is a substantial piece of work, and I must thank the Department of Finance for once again rising to the challenge of producing the single most important document published by the Government each year.

In line with the 2023-2024 theme, the budget aims to lay the foundations for our future economic growth by ensuring our greatest assets, our people, are protected through investments in their health, education, social programmes, and the environment they live in.

Mr Speaker, Government is investing in our youth's Education to build a knowledgeable and resilient community that can take advantage of the opportunities to come and enable all Nauruans to positively contribute to the success of our nation.

There are continuing improvements in school attendance and retention rates in the current school year. Attendance rates have been rising steadily and are getting ever closer to pre-pandemic levels. In 2023-2024, the budget allocation for the Education of our people is **\$17.8 million**.

We will ensure our brightest students can study at the best schools abroad. We will guarantee that every child attending school continues to receive a balanced and nutritious

meal each day. We are supporting our teachers to further their own education and to obtain formal teaching qualifications.

Mr Speaker, it is imperative that we ensure that our children attend school and that we eradicate the worrying trend of school avoidance that we saw during covid times. To support parents in preparing their children again for school, the **Back-to-School** payment of **\$50** per child per term will continue as will the **NEAT** scheme that directly rewards pupils for their attendance and performance.

The budget also includes measures to support continuous learning outside school, with increased provision for vocational education and training. TVET is offering in-person and online programs that will meet industry needs and create further employment pathways.

Mr Speaker, the government views sport as a pathway for our aspiring athletes to compete at international levels. We are determined that Nauruan athletes continue the sporting success they have enjoyed in recent years. We are allocating around **\$1 million** to ensure the participation of our athletes at the 2023 Pacific Island games in Honiara in November this year and in the delayed 2022 Micronesian games in the Marshall Islands in June 2024. There are also funds for the development of a master plan as we explore the possibility of hosting the 2026 Micronesian games.

Mr Speaker, our new economy will require our people to have access to the best medical services available. Improving the health of all the people of Nauru continues to be a major priority. In the coming financial year, the Government will invest over **\$20 million** overall

in the health sector, or around \$1,700 per capita. This is considerably higher than many of our comparable neighbours. For instance, the figures for Kiribati and Tuvalu are around \$200, and \$1,300 respectively.

The 2023-2024 Budget shows a substantial reduction over this year's figure. This reflects the winding down of the COVID-19 Taskforce in the current year given the announcement by the WHO on 5 May that the disease no longer represents a 'Public Health Emergency of International Concern' (PHEIC).

With the lifting of travel restrictions, the Health Department has been able to restart the Visiting Medical Specialist Teams program. Over the coming months, four teams are programmed to visit Nauru. They will provide specialist care in Vascular Surgery, Ophthalmology, Ear Nose & Throat (ENT) and Cardiology. Training of local health staff will also be an important part of the Visiting Specialists' work.

Skills improvement and skills transfer continues as the means of improving the quality of care. Plans are underway to help our locally trained doctors undertake specialist training abroad. We are working with partners to identify opportunities for training in specialist areas to be delivered on island or overseas.

The Health Department has experienced extraordinary challenges recently, especially relating to maintaining and sustaining operations following the major fire at the Naoero Public Health Centre and the water leakages at RON Hospital in recent weeks. The Health Department with support from Australia has engaged the services of a consultant architect

company to develop a Health Infrastructure Master Plan (HIMP) for redeveloping RON Hospital and replacing and extending the health facilities at Public Health.

Mr Speaker, as mentioned above, we are determined to ensure that the welfare of our people is at the forefront of our minds during these changing times. There are two key measures that provide direct support to the most vulnerable members of our community.

In ensuring that old-aged pensions and the disability allowance keep pace with inflation, we have applied an increase of over 6% on existing rates. Those in receipt of these benefits will receive an extra **\$20** per fortnight.

We are also reducing the cost of electricity for the first 200 units used by households by increasing the subsidy to NUC for the prepay lifeline tariff, That translates to a saving of **\$10** per month for each connected households on the Island.

In addition, the government will pay to maintain the supply of fresh food by continuing to support one air freight service a week, and regular sea freight services at below-commercial cost levels.

Mr Speaker, as sea levels rise around us, and life on parts of our island becomes less tenable, the higher-ground initiatives will provide the central component of our strategy to build the climate-resilient infrastructure that will be critical to our future. We need a long-term vision to deal with this unstoppable crisis. Our economic prosperity depends as much

on the development of new economic opportunities as it does on ensuring that our people have fertile and productive ground underfoot upon which to follow their dreams.

In the shorter term and as a critical pilot project, the Higher Ground Initiative (HGI) is a multi-year plan to rehabilitate and further develop a small part of Topside. The government has finalised the detailed site plan for the ten hectares at Land Portion 230 and a whole island master land use plan. Phase 2 of the HGI project will receive **\$3 million** and aims to produce among others a detailed design, including drawings, a schedule of quantities and construction specifications for the preferred option.

Mr Speaker, housing is a constant worry for many of our citizens. Without adequate shelter, families are unable to think about much else. The certainty of a solid roof overhead frees up adults to find their way in the job market or in building their own business empires. It provides children with the comfort of a stable home base from which to explore their surroundings and become the resourceful and imaginative citizens we need them to be. The budget provides for over **\$10.7 million** for housing projects and continues the **\$3.1 million** allocation for the clean and green programme that combines employment creation with enhancing the built environment we live in.

As mentioned earlier, we are overseeing a substantial investment in our infrastructure in 2023-2024. The Nauru Integrated Infrastructure Strategic Plan (NIISP) provides the blueprint for these investments. We will continue the upgrading of the airport infrastructure with **\$5 million** funded through the Australian Infrastructure Financing Facility (AIFFP) for the costs of the design phase.

The Port Project remains a critical asset for Nauru upon which much of our future prosperity depends. We will contribute a further **\$3.1 million** in the year and step up our efforts with the other funding partners to complete the work as quickly and efficiently as possible. Continuing delays could have severe financial implications for Government.

The **Solar Farm, funded** by ADB, is our flagship renewable energy project and is on track for completion during the financial year. It provides evidence that technological advances that can level the economic playing field for small remote island states are no longer future dreams but have become current realities. The 6-megawatt plant will boost the capacity of electricity generation from renewable sources from 20 to 50 per cent, bringing Nauru closer to achieving its solar energy targets.

Old technology still has a role to play, however, at least for a few more years, and **\$1.5 million** is again provided to continue with the Tank Farm repairs and maintenance programme to ensure the safety and security of fuel supply on-island. This will not only enhance Nauru's fuel supply capacity but will also provide our Pacific neighbours with access to regionally stored fuel.

Mr Speaker, as extensions of Government, our State-Owned Enterprises project an image of our nation to our own people and to the outside world. We will continue to support them where economically feasible through community service obligations (CSOs) totalling **\$6.6 million** enabling them to fulfil their corporate mandates and specified commitments to our people. The government will continue to support Nauru Airlines with the scheduled

disbursements of the Exim loan. A second aircraft is expected to be purchased in financial year 2023-24, which will draw down the remaining loan balance.

In addition, and with the support of ADB Technical Assistance, we are strengthening SOE reform by investing in the Public Enterprise Monitoring Unit (PEMU) which is focused on strengthening corporate Governance and compliance with the Public Enterprise Act.

Mr Speaker, looking ahead, we can expect some uncertainty. The immediate RPC situation is resolved but the consequences may be felt for many years and not all of them can be easily identified in advance. A strong economy has the capacity to withstand shocks and uncertainties.

As responsible economic managers, this government has included a **\$17.1 million** cash buffer to ensure that sufficient funding is available for the alternative pathways programme as further details emerge for those directly affected by the RPC transition. Government will also review other measures to mitigate the effects of inflation.

The 2023-2024 Budget has been framed to start the process of building the foundations for a new economy. We have consolidated our record of responsible fiscal management, ensuring that cost of living pressures have been eased for the most vulnerable, and invested in service delivery and in productivity-enhancing infrastructure.

It builds on the strong performance in 2022-2023.

Mr Speaker, the years ahead may not be like years gone by. At this time of change, it is right to think about what the future will bring for our people. We trust that the decisions we have taken will stand up to future scrutiny. Our long-term economic prospects will be determined by our people, especially our youth. As previous generations have shown, we can come through hard times stronger and more determined than ever.

Mr Speaker, I commend the Appropriation Bill 2023-2024 to the House.