

2015 National Budget Speech

By the Honourable Maatia Toafa

Minister for Finance and Economic Development

16th December 2014

Salutations

1. Honourable Speaker to the House of Parliament, Honourable Prime Minister and your good wife, Honourable Members of Parliament and your good wives, Representative of the Ekalesia Kelisiano Tuvalu EKT, Ambassador of the Republic of China to Tuvalu, Pule Fenua o Funafuti and Community Leaders, Ulu Alik, Tupu, Pule o Kaupule from Nanumea to Nukulaelae, Secretary to Government, Permanent Secretaries and senior government Officials, General Managers of Public Corporations, representatives of the private sector and NGOs, Distinguished Guests, Fellow Tuvaluans.

INTRODUCTION

2. In accordance with Section 165 of the Tuvalu Constitution, I am honoured to present to Parliament the 2015 National Budget.
3. The 2015 National Budget will further build on the achievements attained in the past years. The Government will maintain delivery of an improved level of services for our people, improved efficiency and value for money government systems, whilst progressively investing in our infrastructure and for a better future. Accordingly, Mr Speaker, I have pleasure in announcing that:
 - i) For 2015, total domestic revenue is estimated at \$44.2 million. This includes an \$8.7 million distribution from the TTF, \$8.9 million from taxation, \$17.0 million from fisheries licenses and \$5.4 million from dotTV. In addition, development partner assistance for general budget support is estimated to be \$11.5 million.
 - ii) The 2015 Budget represents a significant investment in the future of Tuvalu and its people. Expenditure will be targeted at the highest priority areas consistent with the Te Kakeega II (TKII), Government Roadmap, and the Policy Reform Matrix (PRM), particularly in health and education, infrastructure and support to the outer islands.
 - iii) Total expenditure for 2015 is projected at \$56.2 million. Of this \$39.3 million will finance the recurrent budget (which also includes the \$693,773 for CSOs) and \$13.8 in Special Development Expenditures to fund one off projects. Further a contribution of \$3 million will be made to the Tuvalu Trust Fund. The 2015 Budget will have a deficit of \$346,961 which will be funded by a sustainable drawdown from the savings in the CIF.

4. Mr Speaker, before revolving to the details of the Budget, allow me to outline the background of the major economic and social developments in Tuvalu against which this budget was prepared.

BUDGET SETTING

5. As part of the Government's commitment to improved public financial management, the format for the Budget papers has been changed. The new format is intended to provide a greater understanding of the fiscal environment in which the Budget has been framed, explanation of the new funding that has been supported in the 2015 Budget and greater clarity on the extent of funding that is provided for the programs and activities Government delivers to the community.
6. Funding decisions for the 2015 Budget have been guided by the Medium Term Fiscal Framework (MTFF). The MTFF provides a forecast of expected revenue and recurrent expenditure commitments over the period 2015-2017. In developing the projections, indexation is applied to the 2015 recurrent budget to reflect the effect of inflation, economic growth and exchange rate fluctuations on current government expenditure. The projections provide an indication of the sustainability of Government's fiscal policy and the effect of new spending decisions on the Government's medium term financial position. Explanation have been provided for movements between budget years.
7. For 2015, Ministry budgets are being reflected at the program and activity level. The movement away from presenting the Budget on a line item basis reflects Government's intention to adopt program budgeting. Full details of the programs and associated activities that are funded within those programs are provided in the Ministry Program Budget sections.
8. In accordance with the requirements of the *Public Finance Act*, estimates of movements within the Tuvalu Development Fund (TDF) for 2015 have been included in the budget. For 2015, a full listing of individual project funds held in the TDF have been included to increase transparency of externally funded expenditure. Prior year budget estimates are included for comparative purposes. These figures are indicative as they may include projects that were not funded in that budget year.
9. Mr Speaker, I am pleased to confirm that the Tuvalu Trust Fund Board has confirmed an automatic distribution of \$8.7m for 2015 from the TTF investment. As at 30 September 2014 the market value of the TTF was \$148,850,512 with a maintained value of \$140,124,479.
10. Additionally, the Consolidated Investment Fund (CIF) is projected to have a balance of \$27.4 million at the end of 2015. This balance includes \$1.0 million for fisheries income averaging for use in future years should the revenue fall below \$16 million. In addition, \$346, 961 is to be withdrawn from the CIF to fund expenditure in the 2015 Budget. Under current fiscal policy, a minimum balance of 16% of the TTF is required to be maintained in the CIF. This balance provides a buffer to finance budget

expenditure in future years, should the need arise. The current balance of the fund exceeds the minimum balance requirement of \$22.4 million.

11. Fishing licenses provide 45% of the budget revenue for 2015. The revenue source has historically been very volatile, impacted by both US exchange rate movements and uncertainty over the timing of receipt of revenues. To manage this volatility, income averaging will be used from 2015, with excess revenues over the average being held in the CIF. For 2015, the average used for budgeting purposes is \$16 million. Revenues received in excess of this amount, which are projected to be \$1 million, will be held in the CIF to smooth the revenue volatility in years where they decline below the \$16 million average.
12. Mr Speaker, it is important to note that while the 2015 Budget position is in deficit, having being greatly improved by the ongoing direct budget support from donors such as the Republic of China ROC (Taiwan), World Bank and Australia.

BUDGET HIGHLIGHTS

13. Mr Speaker and Honourable Members, this Budget ensures a clear focus on priorities and strives for efficiencies to ensure continued improvements and results and that the quality of life in Tuvalu continues to be raised. This Budget is about supporting policies to ensure that we will achieve a healthy, educated, peaceful and prosperous Tuvalu.

REVENUE

14. Firstly, let me briefly express on the 2015 Budget revenues. Expanding Tuvalu's very narrow revenue base to ensure that we have a reliable source of revenue by which to fund ongoing Government programs is an ongoing priority.
15. In 2015, domestic revenues are estimated to be \$44.2 million, \$6.9 million (19%) higher than the 2014 Budget. In addition to domestic revenues, assistance of \$11.4 million will be received from our development partners for general budget support. Revenues are projected to decrease slightly over the forward estimates, driven mainly by fluctuations in exchange rates, which will affect fishing licenses and dotTV revenues and conservatism in the projections of future distributions from the Tuvalu Trust Fund.
16. Taxation revenue is expected to increase by 13% to \$8.9 million in 2015, after which is expected to remain steady over the forward estimates. The main driver of this increase is higher collections of import duties and TCT as materials and supplies are brought into the country for a number of large infrastructure project that commence in 2015.
17. Government charges are expected to increase by \$3.7 million in 2015 and be maintained at this level over the forward estimates. Revenues from fishing licenses are anticipated to reach \$17 million in 2015, \$3.2 million higher than the 2014

Budget. This growth results from increases in the market value of fishing days sold under the Vessel day Scheme and strong returns from the US Treaty Agreement.

18. In addition, the dotTV marketing agreement was renegotiated in 2014 and has resulted in increased annual revenues of US\$4.5 million per annum. Continued interest in the dotTV domain will also generate approximately US\$500,000 in addition revenue while subscriptions are maintained above the agreed level. A review of marine charges in 2014 is likely to see revenues increase by approximately \$200,000 in 2015 to \$1.8 million.

EXPENDITURE

19. Mr Speaker, I would now like to move to the expenditure side of the Budget. Total expenditure for 2015 is estimated to be \$56.2 million. This includes \$13.8 million in Special Development expenditure for one off projects, \$3 million contribution to the Tuvalu Trust Fund, \$706,360 in statutory expenditure and \$38.7 million in recurrent expenditure. The 2015 Budget represents a significant investment in the future of Tuvalu and its citizens.
20. As noted earlier, even though total spending is projected to increase, the Government continues to review all of its expenditures and shift spending to high priority areas, to ensure it is meeting key objectives in the TKII, the Government Roadmap and the Policy Reform Matrix, while at the same time maintaining fiscal constraint.
21. During 2014, the Government implemented upgraded systems in the areas of financial management, procurement, fisheries revenue management and budgeting. Future public financial management reforms in 2015 will look to build on efficiency improvements to move towards better results for the people of Tuvalu.
22. While details of all new spending items are contained in the 2015 National Budget, Mr Speaker, I would like to highlight the following important areas of domestic Government spending in 2015 which are directed at key economic reforms and priorities under the Government Roadmap, PRM and TKII.

INFRASTRUCTURE AND MAINTENANCE

23. Three new classrooms will be built on Funafuti, Nanumea and Nukufetau at a total cost of \$5.4 million. Government will provide funding of \$3.8 million for two of the classrooms, with the remaining to be funded by development partners.
24. The Old Government Complex will be rebuilt at a total investment of \$4.5 million over two years to provide a new Court house and Office space. The Nivaga II will be refurbished at a cost of \$1.2 million.
25. New health clinics will be constructed on Nukufetau and Nanumea at a total cost of \$200,000 and a Rehabilitation Building will be constructed at the Princess Margaret Hospital at a total cost of \$50,000. Five additional houses will be constructed under

the civil servant housing scheme at a cost of \$287,000, the new Prison Complex will be completed in 2015 at a cost of \$150,000 and the Elisefou Agricultural Station facilities will be upgraded at a cost of \$200,000.

26. An Oxygen Plant will be purchased for the Princess Margaret Hospital to enable medical grade oxygen to be supplied to both the hospital and outer islands clinics thereby removing the risk of supply outages due to delays in receiving shipments from overseas.
27. An initial investment of \$500,000 will be made to a separate fund for deferred maintenance of existing government assets. The fund will be managed jointly by the Ministries of Finance and Economic Development and Public Works Department. Following a stock take of all assets, a long term maintenance schedule will be prepared, with funding transferred annually to the fund to ensure that a sufficient buffer is established to meet the scheduled maintenance costs.

EDUCATION

28. Mr Speaker, members of Parliament, I am pleased to announce that the cost of government scholarships will increase by \$262,957 to \$2.6 million in 2015. The additional expenditure reflects government's commitment to providing greater educational opportunities through an increase in the number of awards offered in 2015.
29. Government has also included allowances for TVET students to encourage more Tuvalu's to participate in these courses with an additional cost of \$98,000. Additionally there was an increase in subsidies for non-government schools by \$412,480 to \$574,980 in 2015 to improve student outcomes by ensuring schools can afford to employ qualified teachers. This has seen the subsidy for the Fetuvalu School increase by \$345,637 to \$470,637 in 2015 and the subsidy to the Seventh Day Adventist School increase by \$66,843 to \$104,343.
30. Furthermore Mr Speaker, Government has committed to support the Early Childhood sector, through increases to salaries by \$307,978 to encourage more qualified teachers into the sector and to provide parity with the Primary School system.

HEALTH

31. Funding available for three new surgeons at Princess Margaret Hospital (PMH) at a total cost of \$250,000 to increase access to local specialist care for the community and reduce the pressure on the Tuvalu Medical Treatment Scheme (TMTS). \$70,000 is budgeted to expand Biomedical and laboratory testing facilities at the PMH to improve the treatment options for patients.
32. Increased provision for Pharmaceutical supplies at the PMH at an additional cost of \$40,000 to reflect historical expenditure and to enable more treatments (for example chemotherapy) to be provided at the hospital, rather than referring patients overseas under the TMTS.

KAUPULE AND OUTER ISLANDS

- 33.** Mr Speaker, for 2015 Grants for Outer Islands Projects will be increased by \$1.2 million to \$2.8 million. An additional \$377,168 will be provided to Kaupules through the Tied Grants Scheme for administrative support costs.
- 34.** The Radio transmitter at Tuvalu Media will be replaced at a cost of \$18,000 to ensure continuity of radio services to outer islands and \$500,000 will be provided to Tuvalu Co-operative Society in the form of a capital injection to assist with operational costs.

SOCIAL WELFARE AND THE COMMUNITY

- 35.** Mr Speaker, I am pleased to introduce the new Incapacity Support Scheme for the Disabled to provide a monthly support payment of \$70 to those most vulnerable in our community at a total cost of \$80,640. Also Grants for non-profit organizations will increase to \$15,000 each in recognition of the benefits they provide to the community.

CLIMATE CHANGE

- 36.** The Government is pleased to announce the establishment of the Climate Change Unit within the Office of the Prime Minister to provide oversight and co-ordination of Tuvalu's Climate Change strategy.

GENDER

- 37.** Mr Speaker, the Government has also established the Gender Affairs Department under the Office of the Prime Minister to provide administration and co-ordination of gender related affairs.

FOREIGN AFFAIRS

- 38.** Mr Speaker and Honourable Members of Parliament, a total of \$196,000 has been provided to establish a High Commission in New Zealand increase Tuvalu's international representation. The High Commission will be based in Wellington.

COMMUNITY SERVICE OBLIGATIONS

- 39.** Government provides support to Public Enterprises (PEs) to assist with services to the community. Government support to PEs will increase by \$140,000 in 2015 to \$693,733. The CSO is payable to the following PEs: Tuvalu Electricity Corporation \$323,046, Tuvalu Post and Travel Limited will receive \$88,650 \$66,848 will be provided to National Bank of Tuvalu; Development Bank of Tuvalu will receive \$32,952 and Tuvalu Telecommunication Corporation will be supported with \$182,237 in 2015.

OVERSEAS CONTRIBUTIONS AND OTHER EXPENSES

- 40.** Overseas Contributions will increase by \$295,967 to \$1 million in 2015. The increase reflects movements in the membership fees for the relevant organizations.

41. Other expenditure which includes Other Expenses, Capital, Loan Repayments and Interest Expenses will increase by \$288,047 to \$1.2 million in 2015. The major movements in these items include foreign exchange movements in loan repayments and interest expenses; and additional expenditure related to the 2015 General Elections.

DONOR FUNDING

42. Mr Speaker, and Honourable Members, we are truly grateful for the ongoing support from our development partners, whom in the past have played a very important role in helping Tuvalu achieve and realize its development objectives. I would like to acknowledge the support of Tuvalu's major development partners in our reform endeavours and welcome their continued support.
43. In 2015, recurrent general budget support will continue from Republic of China (Taiwan) at the level of US\$7.5 million for 2015 and over the forward estimates. In addition, non-recurrent grants from development partners are expected to be \$3.3 million in 2015, a decrease of \$2.3 million from 2014, with \$1.5 million from Australia and US\$1.5 million from the World Bank. This assistance will be used as supplementation for Government budget priorities as part of the National Budget process. The funding is deposited to the consolidate fund and is included in the annual appropriation bill that is submitted to Parliament for approval.

CONCLUDING REMARKS

44. Mr Speaker, Honourable Members of Parliament, the 2015 Budget is for the citizens of Tuvalu. This budget continues the Government's focus on responsible and fiscally sustainable budgeting. Substantial investment has been targeted towards the health and education sectors and to benefit those within our community who are most vulnerable. The Budget increases investment in outer islands development in order to ensure that the nation's wealth is shared amongst all citizens. Importantly, there is strong commitment to achieve our vision in the Te Kakeega II that *"By 2015, guided by strong spiritual values enshrined in its motto – 'Tuvalu mo te Atua' - we will have achieved a healthy, educated, peaceful and prosperous Tuvalu"*.
45. The future is ours to make in empowering our people for inclusive and sustainable growth. The challenge is now on effective implementation of this Budget. In this regard I urge all Government Ministries to ensure an effective and efficient implementation of the new policies supported in this Budget. I strongly encourage all Public Enterprises and Island Kaupule leaders to provide strong, honest and prudent leadership to support the Government endeavours to develop our small nation Tuvalu.
46. Finally I would like to take this opportunity to express my appreciation to everyone involved in the preparation of the 2015 National Budget, particularly to my fellow Cabinet colleagues, Development Coordinating Committee, Ministries, Permanent

Secretaries and the staff of the Planning and Budget Department. All these efforts have contributed to what I believe is another excellent achievement. I express my sincere gratitude to you all.

47. Mr Speaker, I commend the 2015 Budget to the Parliament.

48. Fakafetai lahi

49. Tuvalu mo te Atua.