

FIRST DAY

Tuesday 20 November 2012

DRAFT HANSARD

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PARLIAMENTARY DEBATES CORRECTIONS TO DAILY DRAFT HANSARD

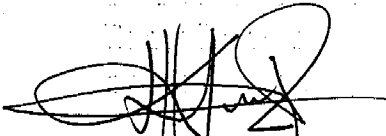
The Draft Hansard is uncorrected. It is also privileged. Members have one week from the date of this issue of Draft Hansard in which to make corrections to their speeches. Until the expiration of this one week period, Draft Hansard must not be quoted as final and accurate report of the debates of the National Parliament.

- Corrections maybe marked on a photocopy of the Daily Draft Hansard and lodged at the Office of the Principal Parliamentary Reporter, A123 (next to the Security Control Room).

Corrections should be authorised by signature and contain the name, office and telephone number of the person transmitting/making the corrections.

Amendments cannot be accepted over the phone.

Corrections should relate only to inaccuracies. New matter may not be introduced.



LEE SIROTE

Acting Principal Parliamentary Reporter

FIRST DAY

Tuesday 20 November 2012

The Parliament met at 2.00 p.m. according to the terms of the Resolution of 2 November, 2012.

The Speaker (**Mr Theo Zurenuoc**) took the Chair.

There being no quorum present, Mr Speaker stated that he would resume the Chair after the ringing of the bells.

Sitting suspended.

Mr Speaker again took the Chair at 2.30 p.m, and invited the Member for Nawae, **Honourable Gisuwat Siniwin**, to say Prayers:

'In the Name of the Father of the Son and of the Holy Spirit, we thank you for this privilege as elected Members of Parliament to serve your people in this Parliament. We ask for your wisdom and knowledge and seek your guidance to serve you and our people. Lord we pray that you bless this Parliament Session on our Nations Budget. We pray that you bless the Treasurer and help us as leaders as we talk and deliberate on this Budget as it will serve the interest of our people. We acknowledge your presence here and we seek your protection and assistance to be good leaders of this nation. In Jesus Name we pray. Amen.'

BROADCASTING OF PARLIAMENTARY PROCEEDINGS – STATEMENT BY THE SPEAKER

Mr SPEAKER – Honourable Members, I have to inform the Parliament that the Permanent Parliamentary Committee on Broadcasting of Parliamentary Proceedings met and resolved that:

(a) The *National Broadcasting Corporation* will be allowed to broadcast and televise live the presentation of the 2012 Budget by the Minister for Treasury.

(b) *Kundu 2* will be allowed to televise the live presentation of the 2012 Budget, by the Treasurer.

(c) *Em TV* will be allowed to film the 2012 Budget by the Treasurer; and

(d) The *Australian Broadcasting Corporation* will be allowed to film the presentation of the 2012 Budget by the Treasurer for news purposes only.

MOTION BY LEAVE

Mr JAMES MARAPE (Tari/Pori) – I ask leave of the Parliament to move a motion without notice.

Leave granted.

SUSPENSION OF STANDING ORDERS – REARRANGEMENT OF BUSINESS

Motion (by **Mr James Marape**) agreed to –

That so much of the *Standing Orders* be suspended as would prevent:

- (a) The Treasurer presenting the Budget and associated Budget papers,
- (b) The Appropriation (Recurrent Expenditure 2013) Bill 2012, Appropriation (Judiciary Services 2013) Bill 2012, Appropriation (National Parliament 2013) Bill 2012, Appropriation (Development Expenditure 2013) Bill 2012 and the Appropriation (PNG LNG Project 2013) Bill 2012 being presented together and debated as one; and
- (c) Separate questions being put on the Second and Third Readings.

MESSAGE FROM THE GOVERNOR GENERAL

A message from His Excellency, the Governor-General, was announced recommending:

- (a) the expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (Recurrent Expenditure 2013) Bill 2012 relates to and provides for such expenditure;

(b) the expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (Judiciary Services 2013) Bill 2012 relates to and provides for such expenditure;

(c) the expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (National Parliament 2013) Bill 2012 relates to and provides for such expenditure;

(d) the expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (Development Expenditure 2013) Bill 2012 relates to and provides for such expenditure;

(e) the expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (PNG LNG Project 2013) Bill 2012 relates to and provides for such expenditure.

02/01

**APPROPRIATION (RECURRENT EXPENDITURE 2013) BILL 2012;
APPROPRIATION (JUDICIARY SERVICES 2013) BILL 2012;
APPROPRIATION (NATIONAL PARLIAMENT 2013) BILL 2012; AND
APPROPRIATION (NATIONAL DEVELOPMENT
EXPENDITURE 2013) BILL 2012**

First Reading

Bills presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep – Minister for Treasury) – I move –

That the bills be now read a second time.

Mr Speaker, it is a great honour for me to present to this Parliament the O’Neill-Dion Government’s first 2013 National Budget on the theme ‘Growing our future by empowering our people for inclusive and sustainable growth.’

Mr Speaker, this is a budget carefully crafted for our nation’s future. A budget based upon proper analysis of our needs and our capacity to prudently fund those needs.

It is a budget that asks all citizens particularly public servants to stand up and be part of a visionary plan to empower our nation by decentralising our government; giving more power to our provinces, districts and local-level governments. It is a budget that will require discipline and a firm anti-corruption stand. But most importantly, this is a budget of hope and opportunity for our people.

The 2013 Budget is an historic budget, a budget for growing our future, a budget of empowering our people through inclusive and sustainable growth. Most importantly, it is a budget that delivers our promises to the people of Papua New Guinea.

The O'Neill-Dion Government stands by its word. We, as a government, have carefully assessed the nation's needs particularly in the essential areas of education; health, infrastructure and law and order, and we have determined that immediate and significant action is required.

Mr Speaker, without an effective and working education system, we limit our children's future and their children's future. Our children are our hope and our nation's hope. I am glad to say that this budget puts their future first above everything else.

Mr Speaker, without an efficient and working health system, we are all at risk. Quite frankly, on the area of health, we must do better. In this budget, we have invested heavily in health because every kina spent on building a better health system will save our nation money in the future but more importantly, will allow our people to live full healthy and happy life.

A healthy Papua New Guinea will improve the lives of other people, both young and old and offer real hope for the future. Mr Speaker, without a safe and secure nation, we fail all our people. It is that simple and true as that.

03/01

Mr Speaker, you have the right to be safe. This Budget represents a huge step forward for policing in Papua New Guinea and for building a nation that will be safe for Papua New Guinean families.

Finally, all Members in this Parliament are aware of the enormous challenges that the nation faces in re-building our infrastructure; roads, bridges, power, water and communication.

Mr Speaker, with infrastructure we can grow our economy. This Government is determined to take these challenges head-on. For too long we have seen our infrastructure crumble around us.

Now is the time we are saying, no more. The O'Neill-Dion Government has decided that enough is enough. We will re-build and maintain our infrastructure.

Mr Speaker, all of these things will empower the people of Papua New Guinea through good, careful and confident economic management. Empowerment is an important cornerstone, and in fact, I am proud to say, with the Triumph Heritage Empowerment Party, the Peoples National Congress Party and the other parties in coalition, that it is the cornerstone of the O'Neill-Dion Government.

Mr Speaker, this is a large Budget. It is huge and it is over K13 billion.

Mr Speaker, I can recall when I was in the previous government that when they handed down this year's Budget last year, it was K10.5 billion, but we have taken a leap forward under the O'Neill-Dion Government to a K13 billion Budget for Papua New Guinea for growing the future next year. This is an increase of 23 per cent and this is equivalent to investing nearly K1,800 for every person in Papua New Guinea.

Just imagine, K1 800 for every person in Papua New Guinea and we have about 7-10 million people in this country. This Government is interested in individual citizens of this nation.

Mr Speaker, as a Government, we know that this is a lot of money. It is much more than what many people actually earn especially our people in the rural areas. In the 2012 Budget presentation to this Honourable Parliament, I stressed that we in this Parliament must lead by example as we are the custodians of our people. As a new Government, we are absolutely committed to doing what is right for our nation and o our people. We must set and maintain the highest of standards to justify the confidence that the people placed in us at our recent elections.

Mr Speaker, as custodians, I have noted that we have much to do. By working together hand in hand with the people of Papua New Guinea, we will build a better and stronger future for our nation and its people.

Today, I would like to outline how we are working hand in hand with our people and helping to empower them, but firstly, let me outline the state of our economy.

Mr Speaker, the 2013 Budget is set against assumptions of a modest acceleration of activities in the global economy in 2013 in comparison to 2012. This is a result of potential reduction in uncertainty relation to the fiscal crisis in the Euro-area, the United States and as well as continuing monetary policy accommodation and virtually easier financial conditions.

Mr Speaker, real economic growth has been strong in years 2011 and 2012 growing by 11.1 per cent and 9.2 per cent respectively in those two years. As for the year 2013, the normal economic growth is projected to be 8.9 per cent, an increase from its 2012 normal levels of 6.7 per cent. Real growth is expected to slow down to 4 per cent before rebounding to 5.5 per cent in 2014.

Mr Speaker, the slowing down in the pace of real growth is largely due to the PNG LNG Project having already reaching its peak levels of investments. Although it will continue with high levels of investments in 2013, this will no longer be increasing and therefore, driving growth rates to the high levels of the previous two years.

Mr Speaker, the growth is expected to be substantially boosted in 2015 with the full commencement of the PNG LNG Production. The economic growth is expected to rivet back to trend growth in 2016 and 2017 to current levels.

The inflation outcome was 8.5 per cent in 2011 and since then inflation projections have been revised down to 4.1 per cent recently in 2012 at the end of this year.

04/01

The low 2012 inflation projection is reflective of the low March and June Quarter inflation outcomes, the appreciation of the kina against other currencies, the tariff reduction programs and the impact of the Tuition Fee Free Education program.

Most of these downward drivers on inflation will not be present in 2013, so inflation is expected to move back towards 2011 levels. Inflation is projected to be 8 per cent in 2013 before falling to 6 per cent in 2014 and be maintained at 5 per cent over the medium term.

On the downside the risks include:

- (1) Potential disruption to the global economic recovery impacting on PNG's trade and Government revenue;
- (2) potential disruption to the PNG LNG project;
- (3) potential disruption to existing agricultural, mining and petroleum production;
- (4) inflation increasing further, particularly in light of capacity constraints; and
- (5) loss of fiscal discipline given high expenditure pressures after the elections.

There are also continuing potential for further development of the mineral sector. For example, new projects are under consideration such as Wafi Golpu, Yandera Gold, Elke Antelope and Stanley Gas amongst others.

The very recent information on the strength of the PNG LNG project was received too late to build into key parameters in this Budget, but we would expect it to have positive impacts on real growth rates and revenues in 2013.

Any updated estimates of key budget parameters will be provided as part of the 2013 Mid-Year Economic and Fiscal Outlook.

Mr Speaker, the 2013 Budget Strategy is framed to deliver the Government's Alotau Accord priorities with the context of a prudent and responsible fiscal framework that supports current economic growth, promotes macroeconomic stability; and addresses significant development needs of our country.

Mr Speaker, the 2013 Budget Strategy is consistent with the existing frameworks of Vision 2050, the Medium Term Development Plan (MTDP), the Development Strategic Plan (DSP) as well as the new Medium Term Fiscal Strategy (MTFS) 2013 – 2017 and strikes a balance between responsible and sustainable fiscal policy while ensuring service delivery.

Mr Speaker, the 2013 Budget also marks the first year. For the new MTFS which has been developed to provide the Government with a sound fiscal framework at a time when the Government's revenue, as a share of the economy, is set to decline as a result of:

- (1) softer global commodity prices;
- (2) reaching and then passing the peak of the construction phase of the PNG LNG project;
- (3) Maturing oil fields;
- (4) Ongoing issues around taxation and non-compliance and
- (5) Poor expenditure effectiveness.

As we can only directly influence the levels of our own expenditure, the Medium Term Fiscal Strategy focuses on the Government of Papua New Guinea's spending but does not include Donor Grants.

In essence, the Medium Term Fiscal Strategy is designed to provide a large step up in development expenditure, and then to maintain this higher level at sustainable rates.

There will also be a switch in expenditure towards more of what is required to deliver services so that expenditure on the key enablers of infrastructure, education, health, law and order will jump from an estimated 54 per cent currently to at least two-thirds of all expenditure by 2017.

More specifically, we will take the large step up of a 28.9 per cent increase in Government of Papua New Guinea expenditure in 2013, and then we will maintain that level of expenditure in real terms; a 5 per cent increase in nominal terms thereafter.

We have carefully examined the fiscal implications of this approach, and are confident that it is sustainable. There will be a substantial increase in the deficit in 2013 driven by the slow rate of revenue growth combined with the high rate of expenditure growth.

There will be another large deficit in 2014, but by the end of the strategy in 2017, supported by stronger revenue growth as the PNG LNG project revenues come on stream, it is expected that we will have returned to a small surplus.

The deficit will peak at 7.2 per cent of GDP in 2013 and then decline to 5.9 per cent in 2014 before falling sharply to just 1.6 per cent by 2015 and back to a surplus by 2017.

05/01

Mr Speaker, these deficits will increase our need for borrowing and our debt levels but these remain at levels considered to be sustainable by the International Monetary Fund and the World Bank. I had a discussion with both banks not only in PNG but internationally to make sure to let them know what we are doing in terms of strategizing the budget with sound and stringent policies.

Mr Speaker, at the peak the debt to GDP ratio will reach an estimated 34.6 per cent of GDP. However, by 2017 we expect the debt to GDP ratio to fall back to close to 25 per cent, slightly below the current level, this is why we consider this medium term fiscal strategy as sustainable.

The years 2013 and 2014 comprise a significant financing task in the Budget. 2013 gross issuance is 46 per cent more than 2012. New issuance methods and products are required to manage the financing tasks. The strategy for this new borrowing is to firstly, diversify the funding base to manage risks.

The Government is not just going out flashing every risk in just one area, we don't have a polarised view and we are diversifying the funding base in order to fund our requirements through the Budget. Secondly, we are using concessional loan funding that is available; we already have concessional financiers already working with the Government.

We are capitalising and using that opportunity for our advantage. Thirdly, we are harnessing the power of domestic saving, including superannuation to build PNG's financing market and to minimize exchange rate risks. We have to build and we are not just looking at the domestic finance market.

Mr Speaker, in this strategy, the Government is looking at building it up, giving it the strength to grow as a financial market in PNG, for the medium and long term as well and we are working already with a range of organisations to raise the necessary financing, and I can give the Parliament and the people the confidence that this Government is very concerned that we will raise within our means to finance the budget.

Mr Speaker, for a medium term fiscal strategy to be credible, we need to put in place expenditure and revenue reforms that will allow us to constraint expenditure growth from 2014 onwards while improving the delivery of services.

Later in my speech, I will outline two of these reforms - getting more development funding out to the sub-national levels of Government, as well as improving the way we design, cost and then implement key nation building infrastructure activities. But many more expenditure reforms will be implemented.

In addition to a unified national budget from 2014, we will continue to implement multi-year budgeting across all areas rather than agencies seeking funds for just one year, they will seek and be provided with a budget over a period of five years, and this is a completely new shift.

Mr Speaker, this will improve planning, priority setting and seeking value for money which often can only be done if we are only thinking about more than just the next year. We have always been taking a year's approach and yet our medium term policies are for five years and our Vision 2050 is for 20-30 years, so what should be our financing plan?

Mr Speaker, we should follow and give that focus, keep the vision and give the confidence, and this is exactly what this Government has done as part of transferring increased responsibilities from Waigani and we need to find efficiencies within Waigani.

For many years we have known what needs to be done to reduce the growth in duplication of departments and statutory authorities, so from 2013 we will begin implementing the key recommendations of the right-sizing review. We are committed to reducing the number of agencies from 117 to fewer than 100 by the end of 2014.

Once again to demonstrate the credibility or the willingness to take the needed tough expenditure decisions to return the budget to surplus, we will firstly move the

Department of Personnel Management's functions to the Public Service Commission and combine Tourism Promotion Authority with the Office of Tourism and Culture in a single Department of Tourism.

We will also combine the Office of Rural Development with the Department of Rural Development and Planning, move the office of UNESCO into the Department of Education and there will be an immediate freeze on recruitment on these agencies.

Mr Speaker, the costs of these restructures is to be met with personnel emolument allocations and these changes will produce savings for future budgets. We are concerned about the tendencies of departments who want to transform themselves to statutory authorities often to improve pay and conditions and to move away from some of the controls of the *Public Finances Management Act*. This will stop now, the right sizing will be established under the Department of Prime Minister and the NEC will examine options to roll some statutory authorities back into departments.

Mr Speaker, there has been a tendency for departments and statutory authorities to collect increasing funds and than using these for their own purposes outside of the annual budget process. A review will be established led by the Department of Treasury and reported in time for the 2014 Budget with a view to returning these revenues to the consolidated revenues.

We have also introduced the Principle of commercially related returns on funds on land for commercially viable activities undertaken by state –owned enterprises; such as the upgrading of the Jackson's Airport and installation of the fibre-optic system.

This approach will start producing additional revenues from 2013.

06/01

These are many initiatives we have taken as part of a package to provide the tools for constraining expenditure growth in future years while still improving development outcomes. These include:

- strengthening reporting arrangements;
- more intensive auditing, resourcing for the continuation of Operation Sweep;
- centralise purchasing of departmental vehicles; and

- a major review and updating of the *Public Finances Management Act* to bring it into line with the needs of a more modern and larger Papua New Guinea including updated procurement guidelines.

Mr Speaker, we also know that action must be taken to support our revenues for the year. We are allocating large increases to the Internal Revenue Commission and PNG Customs to ensure they have these resources to build their agencies towards full staffing. With these improved resourcing, we expect much stronger levels of compliance with the law. Some of this will be improved education on the responsibilities we have towards paying tax.

Mr Speaker, this will be increasingly backed by more comprehensive audit program to ensure there is a level playing field with all the businesses paying what they should be.

Mr Speaker, we will also conduct a taxation review in 2013 with a focus on the minerals sector to ensure that the people of Papua New Guinea are receiving their fair share of the mineral wealth.

At a more strategic level, work on the Sovereign Wealth Fund has been continuing following its passage into *Organic Law*. We expect the fund to be now operational by the end of 2013. This is a fundamental reform aimed at reducing the risks to Papua New Guinea of large falls and then drops in mineral revenue through a Stabilisation Fund. At this stage, forecasts indicate that no deficits will need to be made into the Stabilisation Fund until 2023.

However, the forecasts also indicate that with just slightly higher volumes of gas or prices of commodities that the first deposits should be made as early as 2015 with withdrawals then possibly supporting the budget in 2017.

Mr Speaker, the Sovereign Wealth Funds also include a Development Fund. Funds will flow through the budget into the Development Fund from 2015. This will be an important source of financing for the nation building infrastructure mentioned earlier.

Mr Speaker, with the challenges we have as a nation, and a desire to ensure our full potential, I want to reach out to the broader community to seek advice and ideas on the best ways to advance our economy and country forward. Not all the best ideas are contained just within the government.

So as part of the structural reforms that the Department of Treasury will be undergoing with its expanded responsibilities for a nationally integrated budget, I am seeking to bring some of the best minds together within our community as well as

internationally into a new Strategy Division within the Department of Treasury to give that capacity. I will provide more details on this important initiative to strengthen our economic governance in the coming weeks and the Ministers for Finance and Planning are working hard to make sure we put down strict guidelines under the Prime Minister's leadership to ensure that these funds achieve the results on the ground.

Mr Speaker, I will now outline the revenue projections for the 2013 Budget. The total revenue and grants in 2013 is anticipated at K10.5 billion. This represents a growth rate of only just above three per cent compared to the 2012 revised estimates of K10.2 billion. The higher 2013 revenue estimate is due to higher taxes on income and profits, taxes on domestic goods and services and higher taxes on international trade.

The project support grants for 2013 are expected to be K1.2 billion lower than the estimated level of 2012. This reflects movements in the exchange rates.

Mr Speaker, over the medium-term, the expectation is that the revenues in 2014 will also grow slowly to K11.3 billion. From 2015, revenues increase due to the commencement of the PNG LNG Project. This extra revenue will be very important for our future.

However, we must be realistic in how much we will receive from the project. In 2015, we expect K1 663 million or in other words K1.663 billion in PNG LNG revenues. This is only slightly more than the minerals revenue we expect to receive in 2014 of K1.622 billion.

Mr Speaker, the extra revenue will largely simply replace the declining revenues from our oil fields and the changed revenues from the Ok Tedi mine. There is a chance that the revenues may be higher following the announcement a week ago of improved levels of production from the PNG LNG and there is a possibility of a third train which will lift revenues further.

So such developments will be good news for supporting our new Sovereign Wealth Fund but in this budget, we cannot bank on such positive developments as yet because the details are yet to be put together in the near future.

Mr Speaker, last year I announced some major taxation measures including lifting the tax free threshold from K7 000 to K10 000. This is greatly benefiting many of our lower paid people. 2013 will be the first full year of this tax cut.

07/01

In 2012, we also accelerated our tariff reduction programmed to make our economy more efficient and help contain inflationary pressures.

For the 2013 Budget, the need to increase development expenditures to grow our future and need for responsible fiscal policy means that there are more minor tax changes this year as part of the Governments ongoing effort to improve and refine the tax system.

These more minor measures include;

- a 10 percent increase in tobacco excise in recognition of the adverse health impacts of smoking,

- small increases in the tariffs on poultry and plywood in a balanced recognition of the impact of the appreciation on our manufacturing sector, as well as,

- increase tariffs on used vehicles to help deal with increasing traffic congestion.

There will be legislative changes to improve taxpayer certainty throughout the country of Nil Assessments, re-enforce the principle of single national goods and services tax, and close a loophole by extending thin capitalization rules beyond the mining sector and other minor tax changes set out in the Budget documents.

The net impact of these measures is expected to increase revenues by K51 million in 2013.

The Government has an enormous responsibility to the people of Papua New Guinea to ensure that such a large amount of money is spent well.

We know that the track record of Governments in the past is that the Budget has not been spent well.

We know that there is little for the vast funds spent over the last 20 years. We know of the wastage. We know of the duplication. We know of the corruption that has stopped these monies actually getting to our people and improving their lives.

Mr Speaker, it is time for this to stop because corruption is a cancer that eats into our nation's heart and soul.

Let me outline the fundamentals of this K13 billion budget.

Firstly let me say this. We will meet our commitments that we made as a new Government when we formed our coalition in Alotau in the days after the election.

We will meet our commitments in a medium-term budget framework which will see spending on the key areas of infrastructure, education, health and law and order more

than double over the next five years from around K5 billion in 2012 to over K10 billion by 2017.

And this includes extending our commitment of tuition-fee free education to years 11 and 12 and free basic health care.

Let me now outline some of the historic reforms we are introducing to help ensure that the money will get to the people in ways that will better empower them.

Mr Speaker, a major and historic dynamic of the Budget is the Government's determination to deliver key nation building projects. This is a real key to growing our future.

Mr Speaker, everyone in this country is aware of the problems in our key national infrastructure. The most obvious is the poor state of the key backbone to our future prosperity, in the Highlands Highway.

In this Budget, we allocate K470 million for the completion of the first stage of the Lae to Nadzab section over the next three years.

Mr Speaker, we must start now to plan ahead to continue the construction of this highway all the way through to Koroba and Wabag. So we have also allocated another K1.560 million over the next five years for the design, costing and then building of more sections of this key road. This is truly a national project.

As we rebuild the Highlands Highway we must also maintain it and a further K930 million has been set aside for the Highlands Highway maintenance.

Mr Speaker, too many times in the past we have spent hundreds of millions on infrastructure and then failed to provide proper maintenance.

The O'Neill-Dion Government has taken the position that it will be no more.

We are also committed to working with the private sector and will continue with the Highlands Highway Tax Credit Scheme introduced last year with funding of a further K350 million over five years.

But as important as the Highlands Highway, there is much more to be done.

08/01

We are also committed to working with the private sector, and we will continue with the Highlands highway with the tax credit scheme which was introduced last year with a funding of a further K350 million over a five-year period. It is important that the Highlands highway is maintained but there is still much more that has to be done.

Mr Speaker, we will take this approach of planning ahead and allocating funding for proper design and costing and working with the private sector and the provision of monies in future years to the rest of our national infrastructure.

Mr Speaker, as an example and as part of the implementation of the Alotau Accord, firstly, we will provide K500 million over the next three years to help deal with the congestion that is creating traffic gridlocks in Port Moresby. Secondly, we will provide K184 million over two years for restoring the Lae city roads. Thirdly, we have provided K100 million for design work to be done on 10 key road areas in the 2013 Budget with a further allocation of K400 million over the following four years for actual construction work of these roads as well as the design and costing for future roadworks.

Mr Speaker, we are taking the approach that no more money will be appropriated without professional scoping of work, design and costing is done. The O'Neill-Dion Government is now changing the culture where it is going to be design first then costing and finally funding will be appropriated.

Mr Speaker, this approach to national building projects is not limited to roads. For example; we are allocating K300 million for the comprehensive and restoration of the Port Moresby General Hospital.

Mr Speaker, the approach is to focus on a major re-development of a major hospital to get it right and then move to the re-development of another hospital. So we are not pinning out money all over the place. We are focusing on Port Moresby General Hospital then we will move on to the next hospital and so on. Apart from that, a further K1.4 billion has been set aside for additional priority infrastructure in future years.

Mr Speaker, these investments in growing our future are not just limited to the contributions that are made by the Government of Papua New Guinea. We also are working with our development partners to improve our infrastructure to grow our future. We value their participation with us and their partnership with Papua New Guinea and we are working with them. For example; in the 2013 Budget, there is a further K189 million under the AusAID Transport Infrastructure Programme. Therefore, the O'Neill-Dion Government also thanks the Government of Australia for supporting us continuously as partners.

Secondly, K156 million with the Asian Development Bank for roads in the Highlands Region, K30 million with the World Bank for road maintenance and rehabilitation across the other parts of the country and K19 million with the Asian Development Bank for a bridge replacement programme.

Once again, the focus is not just on roads as we are working with the Asian Development Bank for the Lae Port development projects worth about K114 million in the 2013 Budget, and as well as the Civil Aviation Development Investment Programme for a further K169 million for all the airports.

Mr Speaker, we are also working with China to rebuild infrastructure in areas such as the Integrated Government Information System (IGIS) worth K39 million in the 2013 Budget, the Pacific Marine Park worth K60 million and other areas like university dormitories, community colleges and an international conference center in Papua New Guinea.

Mr Speaker, we are working with Japan on the Port Moresby Sewerage Project worth K52 million in the 2013 Budget and the rehabilitation of the planned Transport Board with workshops from the Work Department worth K24.5 million. Many of our concessional loans are focused on infrastructure.

Mr Speaker, as part of growing our future and funding our increased resource needs we are planning to increase concessional loans considerably over the next five years from K644 million in 2013 to over K1 billion by 2017.

Mr Speaker, for this to happen, we have allocated significant counterpart funding of a further K1.5 billion over the next five years.

Altogether, the combination of funding for key national infrastructure is K6.6 billion, concessional loans are K4 billion and counterpart funding of K1.5 billion adds to a major infrastructure package totaling K12.1 billion over the next five years.

Mr Speaker, this is an historic commitment to grow our future.

Mr Speaker, this is an exercise in rebuilding our nation.

Mr Speaker, I continue on to the provinces, districts and Local level Governments' responsibilities in empowering people.

09-01

As part of empowering our people for inclusive and sustainable growth, we are initiating an historic shift in power from Waigani to the provinces, districts and local level governments.

We do this because we believe this is consistent with our *Constitution* and the *Organic Law on Provincial Governments and Local Level Governments* whose purpose includes promoting responsible citizenship through self-management, control and accountability for one's actions.

Since Independence in 1975, we have established systems of support for provincial budgets and their funding of teachers and provincial public servants, as well as the functional grant system refined under the National Economic Fiscal Commission.

We also have a series of fixed commitments such as various support grant arrangements and commitments under the UBSA. The flow of direct funding under these arrangements totaled an estimated K1.9 billion in 2012.

In 2013, we will increase this amount by 87 per cent to nearly K3.6 billion. This is nearly doubling the funding to the sub-national levels of Government.

Once again, this is an historic shift. Such a change is well justified. The O'Neill – Dion Government believes that key services can be better delivered by the parts of government that are closest to its people.

The needs of people in Manus, Enga, Bougainville and Port Moresby have many similarities. We need good food, security, clean water, a good house a chance to become entrepreneurs, to be able to sell our produce to markets, and good education and health.

But the means of delivering these services can be vastly different between the remoteness of an area such as Telefomin and Finschhafen, the coastal isolation of Daru, the importance of feeder roads to a great Highlands Highway in Mt Hagen, and the importance of ports in key areas such as Lae to ensure we have a marine highway to the rest of the world so we can grow and prosper.

In many critical areas, we believe that a government that is closer to the people can be more effective and accountable in delivering key services. And it is for this reason that we are transferring K1 492 million in direct financing to the provinces, districts and LLGs. From 2013 onwards each district will receive a funding of K10 million each year totaling K890 million per year.

Mr Speaker, provinces will receive K5 million per district totaling K445 million per year in addition to the existing functional grants. That means Eastern Highlands has eight districts therefore, eight times five would be K40 million for development purposes.

Mr Speaker, the new Governors who were elected into this Parliament will not know, but this is a complete change of the past culture to a culture that is totally new. The National Government must partner with the provincial governments, the local level governments and with the chairpersons of the Joint Budget Committees who are members of this Parliament to work together in partnership in developing our country. It is not our money. It is the people's money. We are only custodians.

Mr Speaker, in the same token, each local level government will receive K0.5 million totalling to a K157 million per year.

Just think about what the O'Neill – Dion Government has done.

10/01

Local Level Governments will receive K0.5 million each year, totaling K157 million per year; just think about what the Government has done? We talk about the three tiers of Government without empowering them but we expect the districts and the rural areas to change.

How can they change? And will money change that? We need prudent management and capacity has to be present and this Government is taking that bold step towards the right direction.

Prudent guidelines have been formulated for this transfer because a significant challenge will be to ensure funds are properly managed and these guidelines will ensure that these funds are allocated in the following ways. 30 per cent is allocated to infrastructure such as key local and rural roads and jetties and rural housing. I recall the rural housing program that the Member for Gumine was doing sometime and it is successful and the former Governor of Milne Bay was doing that so take that lead to give a good house for the children to stay and study with electricity.

Twenty per cent is allocated to Education for maintenance of classrooms, desks for students and teachers houses and another twenty per cent to health, to build aid posts and assist with the maintenance and refurbishment of hospitals and ten per cent to law and order for the provision of housing for local officers and improving local correctional centers and rural lock-ups

Ten per cent is allocated to the economic sector to support agriculture and fisheries especially those undertaken by small and medium size enterprises and women and youth, also 10 per cent to assist with administrative issues such as helping to support proper tendering process and funding, accountabilities and assisting in building capacity into districts, where you don't have you can build that using that money.

In some of the work especially in the economic sector we will be expecting the National Development Bank to work closely with the provinces and districts to help them with the review and then support our key activities. These changes effectively shift much of what was once in the development budget now directly going to the provinces and districts.

Mr Speaker, they will be responsible much more directly for the development so the districts and the province will be put in charge; for example this transfer of funds expects that a total of K448 million in infrastructure will be provided, K298 million each for health, education and K149 million each for law and order, economic sector and for improved administration so when you add all these up you find there is a significant amount of money that the Government is putting into these sectors but will be driven by the people by those tiers of Government on the ground with the people.

Mr Speaker, our people no longer need to look to distant Waigani to fund their development activities, they can now look to their local, district and provincial offices for their support and accountability to delivering improved services shifts dramatically closer to the people.

This is about empowerment and of course there are some who may say this historic shift is too rapid but it is well overdue. The Government has carefully considered the risk of such changes. And it's not just an ad hoc reaction, the Cabinet met and consulted with international financial institutions and we have engaged their views and have done it deliberately with confidence and though it is a new shift we will achieve it.

We are building systems to strengthen accountability for this funding, including allocating K10 million in 2013 for a strengthened system of auditing of provincial and district funding. Comprehensive financial instructions will be issued shortly to ensure public accountability for this transfer of funds.

Even with these arrangements there maybe some difficulties but we considered that if we did not take a bold step in transferring these functions we would still be here in a decade debating whether provinces and districts had a capacity to manage these funds and whether the macro-level economic gains are trickled down to the micro- level.

This is a step in trickling that effect down for the people to benefit and we will keep working with the provinces, the districts and the LLG's to get the system right and the key criteria we will use is whether the delivery of basic services to our people has improved. A significant and positive implication of this revolution of K1.492 billion in development expenditure to the sub national levels of Government is that it is now time we fully integrate the recurrent and development budget together.

For the first time in 2014, we will have a single National Budget I hope. But as a nation we have grown large and sophisticated to keep this artificial distinction with the two types of Budget in place. And you find other economies and governments don't do that.

They do an integrated budget approach, they cut down costs areas and they implement programs and this Government is no exception. It just doing the right thing to make sure that the implementation is more effective, efficient and less costly.

11/01

Mr Speaker, having highlighted the key enablers we were making to support infrastructure as part of our investments for growing our future and the historic shift to the sub-national levels of government, but we are also making equally historic changes in both the level and structure of our expenditures.

Mr Speaker, this Budget delivers on increasing funding to key enablers such as education health infrastructure and law and order.

In this Budget we have taken a historic step-up with an overall 50 percent funding increase in these key areas.

By 2017 we want such critical funding to have more than doubled from around K5 billion in 2012 to over K10 billion by 2017.

In 2013 we will increase support for infrastructure by 69 percent to K2.6 billion, mainly through support for the roads.

Mr Speaker, health will see a 64 percent increase to K1.3 billion, including free primary health care.

Mr Speaker, the Prime Ministers announced that free primary health care will be delivered to the people of Papua New Guinea and this Budget fulfils that promise he made.

Education will have a 40 percent increase including extending the tuition fee free education policy to years 11 and 12 and supporting the recruitment of a further 3 132 teachers.

Funding for the police force will also be substantially strengthened with ongoing funding to support an extra 400 recruits every year.

Mr Speaker, we are of the view that the police to civilian ratio is very small. Our police force comprises of only 4000 men and women but only 2000 are active and the Government is focus to building the capacity and men power capability of the police force.

We will also support key sectors such as agriculture, tourism and small and medium size enterprises by good policies to ensure that they can efficiently prosper, as

well as programmes to assist with the development. The Support of small and medium size enterprises fulfils a fundamental commitment of this Government.

Mr Speaker, this Budget also delivers on increasing the share of funding going to the key enablers. This share dramatically also steps up, from an estimated 54 percent of Government of PNG expenditure in 2012 to 64 percent in 2013.

This is a conclusive reversal of the previous pattern of decline in the share of Budget going to these key areas of infrastructure, education, health and law and order. These are changes of which this Government is immensely proud.

Mr Speaker, I will now go into some more detail on key funding areas.

Mr Speaker, education is the future of this nation and most importantly our children's future.

The Government is proud to announce that funding in education for 2013 includes Tuition Fee Free education subsidy of K652 million.

This includes a further K50 million provided to extend coverage to years 11 and 12. The Tuition Fee Free Education subsidy of K652 million also includes.

- K30 million to cater for schools curriculum materials,
- K22.2 million for Secondary Schools Science equipment,
- K18.7 million for Primary Schools operations in NCD,
- K10.5 million for National High Schools operations and K11 million for examinations.

Additionally, a further 3,132 teachers will be recruited to work in the provinces bring the total of primary and secondary teachers numbers to 51 400.

The National Government will continue to fund the cost of these staff at a total cost of K19.4 million.

In 2013, the Basic Education Function Grant to provinces of K76.6 million provides a K17.1 million increase over the 2012 revised funding level of K59.5 million.

Mr Speaker, in 2013 the Government will provide an additional K2.4 million to universities bringing the total allocated for funding for universities to K120.7 million.

A further K6.5 million will be provided for the National Scholarship Scheme which will provide over 10 000 tertiary students with a small allowance of K30 per fortnight for 40 weeks a year. An extra K33.2 million will be provided for the existing Tertiary Education Scholarship and Assistance Scheme (TESAS)

Mr Speaker, the O'Neill-Dion Government is proud to announce that there will be an overall increase of K73.1 million or 11.3 percent for Health sector in the 2013 Budget.

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The increase is primarily for personal emoluments of K395.2 million, about 55 per cent, to cater for salary increases with K324 million, which is about 45 per cent being for goods and services spending and grants to the provinces.

Goods and services funding will include funding of K158 million for drugs and medical supplies, which consists of anti retroviral drugs of K15 million and other drugs and medical supplies for K143 million. There is also an additional funding of K20 million for free primary health care in 2013.

Mr Speaker, for hospitals, there is funding for church health services of K94.1 million and purchase of medical equipment of K19.1 million. We have never seen such support in the previous budgets. There is also an additional K50.1 million for health awards parked under Division 207 (Treasury and Finance Miscellaneous) for health extension officers.

Mr Speaker, there is also a funding of K25 million in the same division for staffing grants to be transferred from provincial administrators to provincial health authorities in Milne Bay, Eastern Highlands and Western Highlands. All these are in addition to the major work at Port Moresby General Hospital.

Mr Speaker, the budget provides K721.9 million to fund the ordinary operations of agencies in law and order sector. This will include K53.4 million in 2013 for modernisation of the Royal Papua New Guinea Constabulary. An intensive recruitment drive of 2 000 recruits over a five-year period and recruitment of 400 a year will begin in 2013 where the first batch of 400 new police officers both men and women will be recruited at a cost of K5.2 million next year.

Mr Speaker, on provincial policing, K3.5 million will be used to fund a provincial police training centre in Lae to complement the police college in Bomana's redevelopment into a National Centre for Excellence at a cost of K8.5 million.

Mr Speaker, the recurrent budget proposes funding of K50 million for the LLG elections. This level of direct funding for the Electoral Commission will cater for logistics, security and all other operational expenses of the exercise.

Mr Speaker, agriculture and small businesses are vital for our economic growth as they allow more of our people to benefit in the wealth of our nation. Within this budget,

we have many activities to support this important sector. For example, I have mentioned K149 million we are providing to the sub-national level to support the economic sector including agriculture and small businesses. In addition, we are providing K320.3 million to assist the agriculture sector. This includes a further K80 million to the National Development Bank which will be provided with strict guidelines to ensure that it is effectively spent in supporting this important areas including at least 30 per cent of this amount reserved for women.

Mr Speaker, a further K80 million will be provided along with the IFC for the SME excess risk financing facility and K10 million with ADB and AusAid for the micro finance expansion project. We will continue funding the small business development centre with K5 million for nationwide SME programs, provide air freight subsidies of K7 million for cocoa and copra, K15 million with the World Bank for the productive partnership for agriculture development and K6 million from the Australian Centre for International Agriculture Research to continue as agriculture research is directly relevant for Papua New Guinean support for the Mt Hagen Rice Project.

Mr Speaker, we will also review the National Agriculture Development Plan to make sure that our support for agriculture sector is effective as possible. It is also relevant to enforce the positive impact of the infrastructure expenditure outlined today in helping to build and drive our agriculture sector.

Mr Speaker, the Government is strongly committed to support the 2015 South Pacific Games. We are contributing a further K180 million in this budget and have allocated a further K373 million over the next two years for the South Pacific Games, which will be hosted in Papua New Guinea.

The Government is committed to making this the best Games ever. It is not about just winning the Games like the Prime Minister has echoed in Kokopo recently but it is about how best we can organise, sell country and raise our profile and say Papua New Guinea is a leader in every aspect of it.

13/01

This funding will support the construction of new infrastructure. This includes accommodation for athletes at the University of Papua New Guinea which will then be available to future and new sports facilities and the maintenance and upgrading of existing sports facilities.

Mr Speaker, this Government remains committed also to reform and it is determined to improve the ways that services are delivered to our people. Service delivery is not only limited to government agencies. Our State-owned enterprises as well as the private, communities and church sectors all have a vital role to play, which can be supported by government if the right policies are in place.

Mr Speaker, promoting private sector growth remains a key priority of the O'Neill-Dion Government. Development of a competitive private sector is important as it creates jobs, generates income and stimulates economic growth. The private sector can deliver service without imposing costs on the tax payer.

Mr Speaker, the O'Neill-Dion Government will continue to facilitate increased productivity by implementing its ongoing reforms in finance, electricity, land and housing sectors as well as encouraging and promoting small to medium enterprises.

Mr Speaker, in encouraging and enhancing competition the O'Neill-Dion Government is committed to review the *ICCC Act 2002* to improve the regulation of markets and ensure that it has more power to address consumer and product safety issues.

My Speaker, my colleague Minister, the Honourable Ben Micah, has pointed out on several occasions that the Public Enterprises are inefficient in service delivery. Despite a large amount of resources being given to our Public Enterprises they have not efficiently delivered accessible rural air services, reliable power, efficient ports or competitive telecommunication.

Mr Speaker, during 2012, the government requested the Asian Development Bank to conduct a study of the performances of our Public Enterprises. The findings of the study revealed that Papua New Guinea's Public Enterprises have operated at substantial costs in terms of ongoing fiscal transfers and other subsidies to the detriment of the poorest segments of the population due to the generally poor quality of the services provided and limited range of delivery.

Mr Speaker, this is not good enough. To ensure that Public Enterprises operate in accordance with commercial principles, the government will finalise, under the leadership of the State and the Public Enterprises Minister, the details of the five key reform priorities for Public Enterprises in 2013. These are; the Dividend Policy, Public Private Partnership Policy, On-Lending Policy, Guarantee Policy, and particularly the Community Services Obligation Policy.

Mr Speaker, the aim of the Community Services Obligation Policy is to ensure that money from the Papua New Guinean tax payers is allocated transparently and in a

way that it could use competitive tension to get the best value for money for tax payers' funds.

Mr Speaker, in conclusion, the 2013 Budget is for all our people. It is one that the Government and the Opposition can collectively be proud of. The Budget is historic, not just because of its large size but because of the fundamental reforms that it includes. These reforms include the fundamental devolution of responsibilities for much development expenditure to the provincial, district and Local-level Government levels.

Mr Speaker, the 2013 Budget includes a new approach towards growing our future with a K12 billion nation building infrastructure programme based on design, costing and predictable funding in the future years.

Mr Speaker, it includes a move to a unified budget with more secure and multiple funding. It includes a new medium term fiscal strategy for 2013 to 2017, which allows us to take a step up in our support for development but within a responsible and sustainable framework.

Mr Speaker, it includes a series of expenditure and revenue reforms that will ensure that we deliver on our fiscal framework.

Most importantly, however, is the philosophy underlying this Budget. It is a philosophy based on empowering all of our people so that they can also share in inclusive and sustainable development of this wonderful country of ours. The challenge is now on effective implementation of this Budget.

In this regard, I urge all governments and agencies to ensure effective and efficient implementation of 2013 Budget.

Mr Speaker, this Budget's works have been projected forward over a number of years.

Mr Speaker, as I have said earlier, this is a sensible thing or planning to do but it also requires political stability over those three.

14/01

Mr Speaker, this Budget works are projected forward over a number of years. As I said earlier, that is sensible a planning but it also requires political stability over those years.

Any return to the uncertainty and upheaval of the constantly changing governments of the past can only damage our nation. And we have seen the damage. We

can remember the days of the late 1990s where political instability helped drive us to where we needed to go, begging to the international community for economic assistance.

We know how difficult those days were, and we never want to go back there again. The improved political stability since those days has been a key factor in our strong growth the last decade. I can confidently say this because I was part of the previous government. Studies have indicated all around the world that what really has enabled the economics to grow is the stability factor. It is not whether you are a democrat, communist or socialist. Despite such ideologies, it is the stability in the government that is driven.

(Members Interjecting)

Mr DON POLYE – I am not worried but I am asking the Opposition to support it. The improved political stability is the key to growing the future. At this critical time we must stand together regardless of political affiliation and ambitions but in the interests of our nation. We must put personal ambition to one side because we need time to reform our economy. We need to build an economy where policy can be implemented without delay and disruption. And Mr Speaker, we need that stability to deliver the future that our people so richly deserve. The onus is on this Government and the Opposition to provide the stability.

I am proud to have brought this budget to Parliament. I am proud to be part of a Government that is determined to put our nation back on track. And I am proud to bring a budget to this House that offers real hope and opportunity to our people. This budget will bring real and positive change to our people.

Mr Speaker, I commend the 2013 National Budget to the honourable Members and the people of Papua New Guinea.

Debate (on motion by **Mr Sam Basil**) adjourned.

CUSTOMS TARIFF (2013 BUDGET) (AMENDMENT) BILL 2012

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep – Minister for Treasury) – I move –

That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourned.

EXCISE TARIFF (2013 BUDGET) (AMENDMENT) BILL 2012

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep – Minister for Treasury) – I move

That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourned.

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**FISCAL RESPONSIBILITY (2013 BUDGET)
(AMENDMENT) BILL 2012**

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep –Minister for Treasury) – I move –

That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourn.

GAMING CONTROL (2013 BUDGET) (AMENDMENT) BILL 2012

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep –Minister for Treasury) – I move –

That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourn.

INCOME TAX (2013 BUDGET) (AMENDMENT) BILL 2012

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep –Minister for Treasury) – I move –

That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourn.

**INCOME TAX, DIVIDEND (WITHHOLDING) TAX AND INTERESTS
(WITHHOLDING) TAX RATES (2013 BUDGET)
(AMENDMENT) BILL 2012**

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep –Minister for Treasury) – I move –
That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourn.

**INTER GOVERNMENT RELATIONS (FUNCTIONS AND FUNDING)
(2013 BUDGET) (AMENDMENT) BILL 2012**

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep –Minister for Treasury) – I move that the Bill be now
read a second time.

Debate (on motion by **Mr Sam Basil**) adjourn.

**NATIONAL ROAD AUTHORITY (2013 BUDGET)
(AMENDMENT) BILL 2012**

First Reading

Bill presented by **Mr Don Polye** and read a first time.

Second Reading

Mr DON POLYE (Kandep –Minister for Treasury) – I move –

That the Bill be now read a second time.

Debate (on motion by **Mr Sam Basil**) adjourn.

**LEAVE OF ABSENCE – MEMBERS
(MR LUDWIG SCHULZE AND MR ROSS SEYMOUR)**

Motion (by **Sam Basil**) agreed to –

That Mr Ludwig Schulze and Mr Ross Seymour be granted leave of absence due to their ill health.

ADJOURNMENT

Motion (by **Mr James Marape**) agreed to –

That the Parliament do now adjourn.

Parliament adjourned at 4:45 p.m.