



PUBLIC ACCOUNTS COMMITTEE

NATIONAL PARLIAMENT OF SOLOMON ISLANDS

COMMITTEE TRANSCRIPT

Ministry of Finance and Treasury, Monday 10 March 2008

Prayers were said by Hon Clay Soalaoi

Mr Chairman: Good morning everybody. On my right are the members of the PAC Committee. We have Honorable Clay Forau, Honorable Peter Boyers, Honorable Charles Dausabea and Honorable Mark Kemakeza. The two missing at the moment is the Leader of the Opposition, Honorable Manasseh Sogavare and Honorable Trevor Olavae.

According to the schedule we have in front of us this morning we should have started at 9.30 am but now it is 10.30 a.m. We are one hour behind scheduled time and according to last week's briefs, we were supposed to be first briefed by the Department of Planning, Aid Coordination, Finance and Treasury. Unfortunately because of the run over in time we will see how that is going to fit in this morning.

We still have not had responses from the Permanent Secretary, Ministry of Finance which is disappointing to say the least, and as we have seen, we were expecting the budget papers to be presented to the committee last week, however, that was not possible and we only have the papers this morning.

You can see that the committee really has no time to look at the papers over the weekend but we will see how we get on with the hearings today. But what we would want to do this morning while waiting for the officials is we want them to brief the committee on the presentation and format of the estimates and how it has been compiled so that everybody have at the back of their mind the presentation of the 2008 estimates.

As all of you are aware, the Public Accounts Committee is a committee established under Standing Orders. It is a parliamentary Oversight Committee to look at the estimates. So you can note the importance of the PAC in terms of its roles and functions.

It is very important that by the end of the week a report will be produced and the officials of the Office of the Auditor General are with us this morning as well to look into that. We have a big task at hand to get this report underway.

This morning we will get on with the briefing. The media is here with us and it is one of the ways to promote good governance, transparency and accountability. We would want as much as possible to get our hearings open to the public so that the public are also aware of what is going on within PAC hearings especially on government estimates.

We will get on with briefing from Planning and Aid Coordination. I would like to get your consensus on whether you want the media to be here or not. I do not have any difficulty with the media being present for the briefings but what about the officials from the department? Do you want the media to be present for the briefings?

Mr Official: (inaudible)

(OFF THE RECORD DISCUSSION)

PAC HEARING RESUMES

CHAIRMAN: First of all, good morning to those of you who just came in. As Chair of the Public Accounts Committee, I would like to welcome everyone to the start of the Public Accounts Committee enquiry into the 2008 Draft Budget Estimates. The Public Accounts Committee continues to be the Parliament's primary mechanism for financial scrutiny of the executive. Financial scrutiny of the executive is the most fundamental and most important function of Parliament. The three key principles of scrutiny are:

- Public expenditure without the consent of Parliament is illegal.
- The concurrence of Parliament is necessary for legislation; and
- Parliament can enquire into abuses of administration, particularly in relation to the expenditure of public funds.

The review of the appropriation is the most important mechanism by which the Public Accounts Committee undertakes its task of financial scrutiny on behalf of Parliament. Under the Parliamentary Standing Orders, the Public Accounts Committee is to consider in detail the draft estimates prepared by the government in support of the annual appropriation bill.

Further to that the Public Accounts Committee under Standing Order 69(1)(d),(f) and (g) also has the powers to summon any public officer to give information on any explanation or to produce any records or documents which the committee may require in the performance of its duties, and to summon and examine the accounting officers and technical staff of Ministries and Departments and require the production of background information and explanation in relation to draft estimates and to report to Parliament in such a way that the report may inform Members prior to the parliamentary debate thereon of the background of the draft estimates to draw attention to those matters which the Committee feels should be the subject for such parliamentary debates.

It is worth noting that the 2008 Draft Estimates has arrived this morning, just in time for the committee to undertake its deliberation prior to the meeting of the House as is required under the Standing Orders. I would like to thank senior officials from the Department of Finance and Treasury for availing themselves for this hearing.

The committee has previously resolved all its hearings in public and therefore, today's hearing is open to both the public and media representatives.

Before the committee commences its questioning of the Permanent Secretary, I would like to invite the Permanent Secretary of the Ministry of Finance and Treasury to make an opening statement to the committee and to brief the committee about key matters relating to this year's budget. Thank you, Permanent Secretary.

Mr Fanega: Thank you Chairman of Public Accounts Committee. Thank you for your kind words. As you have rightly said, this budget has been made available only this morning. We have been working around the clock trying to produce this draft budget in time for the PAC.

On the formulation of the 2008 Budget, the process began last May and of course as is well known, due to the change in government administration, we have been able to again revisit the process early this year. The budget in summary is in accordance to the previous format for 2007 which has been the format adopted by successive governments over the years.

This budget has an increase overall of about 26% over last year's budget. It is a very credible budget. It is based on the government's policy statements. It is based on the government's translation and implementation framework documents. It is also based on what is soon to be launched as the Medium Term Fiscal Strategy 2008 to 2012'. It started off with presentation of the overall fiscal policy.

If you would like to turn to the Roman numeral eight, on page eight, you will see there the summary of the fiscal position of the government as at end of December 2007. We have been trying to make this budget as transparent as possible to put before the table of Parliament all the funds that are available to the government at the start of the year. Normally it has not been possible to put all funds available to the government in successive budgets. But this year the government has decided that it should put on the table all the funds available.

If you look at the fiscal position, we started off with having available in the last column, 2008 available, and what is normally termed as reserve funds for the government, \$74.6 million. That was funds available from last year either because of under-spending or because of increased revenue.

We also have available the debt servicing account of \$88.1 million. This account is normally not exposed before and so we have available to the government for budgeting about \$162.7 million. These are funds on hand and of course these have also been spent. At the beginning of this year we had issued an interim warrant for expenditure for the first four months of the year.

Like I said earlier on, there is an overall increase in the budget of about \$26 million, and so we have been able to produce here increase revenue both from the Inland Revenue, from Customs and Excise, and a marginal increase as well in other ministries.

We also have funds available from the donor community, and as you could see in the table we have about \$125.7 million. Now these are funds from ROC and New Zealand Aid for budget support and this comes through the consolidated fund. You have the expenditure, payroll, national debt servicing and as well as other charges, which all amount to \$1.289.2 billion. This is that first time we have overtaken the one billion mark in years.

I think most of you would remember that during the ethnic tension, the budget in 2002, the total recurrent revenue for the budget was only about \$250 million. This is indeed a significant increase in the budget over the last five years or so.

This budget is a balanced budget. We will be working our guts out to raise enough revenue to be able to meet expected expenditures as propagated by the government administration.

Basically, in summary, as to how the budget was formulated, like I was also saying earlier on we did give an opportunity for all ministries to again make bids especially new bids that are in line with the government's current policy statements as well as the translation implementation framework documents. The government believes that it has only three years left, and so we are trying to focus the budget to be able to achieve tangible benefits during its term in office.

Thank you Chairman.

Mr Chairman: Thank you Permanent Secretary. Does any member want to comment on the presentation?

Hon Sogavare: Referring to the way the budget is structured, Mr Chairman, the budget is also supposed to protect itself. I need to raise this point again. What currently is there that the budget will not be derailing this in the process of being implemented?

I am saying this because there are quite a number of issues and I do not think when the line ministries come we will put these questions to them. But may be it is appropriate at this point in time as a general point to raise the way the budget is structured. It should also be able to protect itself.

I am saying this because a number of big statements have been made. For example, the rehabilitation package for ex-combatants on Guadalcanal, Malaita and other provinces. That has the potential of derailing the budget. Compensate legitimate owners of firearms confiscated during and after the recent tension and reconstruction of Chinatown. These are very big political statements which have the potential of derailing the budget. As I said, the

budget must also be able to protect itself from being derailed. What guarantee is there that that will not happen and how is it structured into this budget?

Mr Fanega: Mr Chairman, I won't be able to speak directly on the particular possible events for derail. What I can say is that there is also in addition to this budget what is now popularly known as contingencies warrants that would make available some \$50 million - \$25 million for development as well as \$25 million for the recurrent estimates. In addition there is also provision in the appropriation bill for advance of about \$50 million. This is to enable the government seek upfront payments whenever contingencies warrant is exhausted.

But apart from that the mechanism that is in place now would be able to ensure that there is quality expenditure for the various development projects as well as recurrent activities in the course of implementation of the budget.

We have only in practice about eight months left. We are only trying to make sure that projects, especially new projects that are in the budget will start off in the course of the year. Of course, next year's budget would be much tighter. That is the message we have been giving to the government in ensuring that whenever a project is not performing to expectation, we will redirect funds allocated to such projects to those that are performing well. That is the kind of arrangement that we will be putting in place.

I may not be answering your question but I am aware that previously there have been committees established to oversee the implementation of budget. That is something we can ensure this is done after the budget is passed in conjunction with the Ministry of Development Planning and Aid Coordination, especially in regards to the development estimates. Thank you.

Hon Sogavare: Mr Chairman, I guess my question has not been answered but I think may be we will put it to the line ministries outcome. But I think it is a point worth noting because it has the potential of derailing the budget.

There are talks going on now between the government and the former combatants on the level of rehabilitation package demanded and also on compensation of firearms confiscated. On the reconstruction of Chinatown, I understand that the figure of \$179 million has been thrown around and somebody is yet to come forward and own that thing. These are potential threats to the budget if we are not careful. This is a point worth noting as a caveat on the implementation of the budget. Thank you, Mr Chairman.

Mr Chairman: I think what has been raised by the Leader of the Opposition is, are you officials aware of these kind of threats or pressure points that might come up later in the year?

Mr Fanega: Like I said, Mr Chairman, we only work on what we believe has been approved. We do not work on rumors. But like I was saying there are provisions within the budget to be able to ensure these things are accommodated when the need arises. Of course, don't forget that there is also June, a supplementary appropriation whenever once the Parliament meets to be able to provide additional resources or redirect resources when such needs arise.

Hon Boyers: Mr Chairman, just taking note of the Permanent Secretary's contribution on his presentation of the 2008 Budget he mentioned that there is a 25% increase. He also mentioned the credibility of the government budget and that all funds are on the table.

Just looking backwards retrospectively, I believe last year there was a surplus of \$150 million plus over and above budgeted figures. But on top of that there was over and above the expenditure of \$20million or pressures of \$80million, which were reduced, I believe but there was a position of deficit. That is yet to be confirmed but I believe that was the case.

Taking that into consideration, the projection of this year's budget of a 25% increase obviously there is going to be considerable pressure in making sure the budget ends up balanced. Also taking into consideration that there is only eight months left in the year, which needs to be factored in and that there is going to be supplementary appropriation presented at this sitting on last year and this year's expenditures.

Does the PS feel that the figures presented here are realistic, taking into consideration that I do not think there was any under-spent last year in the recurrent on wages and salaries? Is the PS confident that these figures are achievable and that we would not go out into a blow out situation?

Mr Fanega: Yes, like I said it is a credible budget. We are confident of achieving the targeted revenue. Of course, last year you mentioned \$155million as reserves. That in fact includes also debt servicing account, which is appears in the summary you can see there. So as you see, it is \$162, which is close to the 155 mark that you have pointed out.

Yes, revenue has been doing very well, especially the Inland Revenue Division as well as Customs which is also doing very well. Based on those experiences, although in budgets we have always tried to be very conservative, we are optimistic about being able to raise the projections to levels that would be able to meet the budget, of course in the course of implementation also.

As you would appreciate there could be savings because of delays in the implementation of various projects or activities. This usually happens, and that is why we have increase in revenue as a result of increase revenue as well as under spent in the budget. But I must say with confidence that it is something that is achievable in the end.

Hon Boyers: One last question. The debt servicing position of the government today is an account that is reserved for the servicing of our commitments and arrear - domestic and international debts, is that still the case. Is that so?

Mr Fanega: That is right. That is for servicing of our formal debts especially with the IFI as well as domestic creditors, especially the charge made to us. We still employ 15% of all revenue for debt servicing.

We are now planning that we have regularized or formalized most of our debts with international financial institutions, we are hoping that debts will be reduced and it is hoped that we would be able to achieve in 2012, and thereafter we would be reducing or making available funds for investments after that year.

Mr Chairman: PS, Ministry of Planning, do you want to make any statements?

Mrs Waitara (PS): Very briefly I am making some comments now. On the development budget estimates for 2008, obviously compliments the recurrent budget, which has been presented by my colleague from Finance. The contents, in terms of the projects reflected here are very much premised on the current government's policy and its priorities.

In terms of the format of the budget, the budget is presented by way of the funds for appropriation by Parliament - these are basically SIG funded projects and ROC funded projects, and the second part to that is the non appropriated funds, which are basically donor funded projects. This has been compiled following close consultation with all sector ministries of government as well as having Cabinet approval.

In terms of the amount for the budget estimates for 2008, there is substantial increase in the amount - approximately three times that amount that was in 2007 - basically in the amount of \$295million.

In terms of spending comparatively with the 2007 Budget, there has been a lot of improvement in terms of spending. In 2007, the allocation in the budget was \$84million and spending was about \$67million representing about three quarters of the spending. This

marked improvement comparatively for 2006 basically represents about one third of the appropriated funds. We believe that the trend will be kept in terms of spending for 2008, and of course, we come to the challenge in terms of spending the substantial increase as allocated in the development budget. That is all.

Mr Chairman: For the development estimates, are you looking at \$380.4million for this year – total estimates?

Mrs Waitara: Yes, including ROC funds.

Mr Chairman: PS – Finance, for the recurrent, are you looking at \$1.2billion recurrent expenditure?

Mr Fanega: (*inaudible*)

Mr Chairman: So what is your total expenditure for this year? That is on page 7.

Mr Fanega: It should be \$1.4billion.

Hon Sogavare: In terms of delivery of the \$380million that would be transferred from the recurrent revenue to support the development budget, we raised this issue earlier on, what guarantee is there that we will not repeat what happened last year in terms of projects that were delivered through line ministries. The ministry that came to mind now is the Ministry of Fisheries, for example, as well as the Ministry of Agriculture and Forestry. I think a report is coming to Parliament from the Auditor General on how the fisheries projects delivered through the Ministry of Fisheries were endorsed last year. We do not want to repeat that.

We are talking about restructuring the budget so that it effectively delivers the intentions of the government, and the point raised earlier on is that the Ministry of Rural Development was established specifically to facilitate the smooth, effective delivery of projects in the rural areas with full participation of the people themselves with the CDO's.

Now if you deliver through the line ministries, permanent secretaries and officials will have more say about how the projects are delivered. We have seen that in 2007.

I take it that there are still projects that will be delivered through line ministries. And the committee would like to be assured or what guarantee is there that we will not repeat this year what happened in the Ministry of Fisheries?

Mrs Waitara: Yes, I fully acknowledge the very important point raised by the Leader of Opposition. I think in as far as the budget is presented there are certain projects that will be delivered by respective ministries including the Ministry of Rural Development and Indigenous Affairs. From the Ministry of Development Planning, I think we have now at least a full establishment of our staff in there, and the arrangement that we have now is learning from the lessons that we have had in terms of the overview that I have given. We will be very proactively working very closely with sector ministries. In fact we have already started giving out information for them to identify the specific activities that they want to fund under these particular projects that address government policy so that once they are appropriated, to go straight into implementation. I think what we have learned from the past is the complacency, sort of like, situation where we wait until the second quarter and then people start to realize that they need to spend the money. I think we have learnt a lot of lessons from that, and the Ministry of Development Planning will be very much proactive in coordinating with our respective sector ministries. But again, I must emphasize that the onus will be on the ministries because they will know very well from their respective technical areas as to how they will program and work out their work plans in implementing those respective projects.

Hon Sogavare: I think it is really spending on time and spending what is budgeted for – spending in the right places. You do not give fisheries projects to people living in the bush, for example. That is not on. I think you can only avoid that kind of problem if these projects are appraised from the CDO's, and that is why we place them there.

I just want to raise the point - what guarantee is there. I guess just remove politics from it and everything will be alright.

Hon Olavae: The Ministry of Development Planning is the ministry that is mostly going to convince donors to put a certain amount of money to allocate to ministries. What we have to do is to liaise with the Ministry of Rural Development so that the CDO's carrying their constituencies profiles must work with other ministries so that funds are fairly distributed to the constituencies because all productive sectors we have been talking about have been lying in the hands of the people in those 50 constituencies. We are talking about the forestry sector, we are talking about sea resources – fisheries, and that these are not in Honiara but they are in the 50 constituencies. We have to make sure that those productive sectors participate, and that is by the people where 80% of our population who voted for us. When we put all the allocations to the ministries, you talk and another can come in tomorrow. Because the budget is for every Solomon Islanders and is not specific we can get it. Those are the areas we have to be cautious about.

I think the Ministry of Development Planning has done a good job, and it is up to relevant ministries, like the Rural Development Ministry to work together to come up with the profiles of constituencies so that funds are allocated fairly under the project proposals.

Hon Dausabea: We are debating the recurrent and development budgets, and here I would just like to raise the same sentiment that was raised by the Leader of the Opposition because last year there were two lists produced. One list came from the Ministry and the other one was requested by the relevant ministry from Members of Parliament to go to that same ministry. Whilst we were trying to get approval for our projects, there were cheques already paid out from the ministry. It becomes only obvious when certain Members – the recipients, because the cheques have to be verified by the Member of Parliament, but when they went to the MP for the constituency for which the project was made under, the MP refused to sign because he nothing about it.

I think this is one area that needs to be rectified so that there is only one list produced. Most of the people who received projects are from my constituency in Honiara, and I do not know whether members of your constituency in the rural areas, which we are trying to address the problem are getting their share of the projects. I just want to raise this as a concern because there were two lists. One list was directly from the ministry and the other one was requested from each Member to raise their projects to be provided to the ministry.

I think whilst we have enough money here to share to the people, we need to control so that there is a mechanism where there is only one list. If you get it from the ministry, so be it. If you request it from the CDO's then so be it as well. It was found that there are too many projects approved that are from Honiara and it is obvious that in certain cases, instead of buying outboard motors they are buying second hand vehicles. I think this is really obvious from the streets of Honiara and we need to put a control on this that there must be mechanisms so that projects intended to be funded are funded rightly and correctly. This is my concern.

Hon Olavae: In addition to that, this format is under the road map. This country's economy has been going from bad to worse because productive sectors in the rural areas, despite of how much money is being allocated towards the productive ministries under past and successive governments, they did not work. That is the reason why the new Ministry of

Rural Development was established. It was established purposely to cater for the delay of projects going down to the rural areas. It was intended to expedite the actual implementation of projects.

If we continue to follow the roadmap the problem will continue to grow bigger. That is how I see it.

Is it possible to take this back to Cabinet so that Cabinet re-looks at it so as to lump the productive sector that is budgeted and allocated to respective ministries are taken onboard by the new ministry of Rural Development so that it is specific for the 50 constituencies' economic centres. That is the new road map that we have been trying to create or the new base for the advancement of rural development.

The bottom line is how are we going to combat the balance of trade leadership. Rural development we have been hearing from this government is very good but what are the ingredients. These are the ingredients because money has to be allocated to the constituencies so that officers responsible in the constituencies would be the ones to raise payments for the projects – may be not necessarily cash but may be according to the profiles of the constituencies.

Mr Chairman: Officials, I think what Members are trying to raise here are the issues and concerns that have been experienced last year and in previous years. By the look of the present format it is of not much different to what has been the practice. So what Members are raising is the concern of misappropriation and abuse of public funds.

What is the role of the Department of Finance and Planning in terms of the checks and balance mechanisms beside the political influence that is being exerted on officials?

Mr Official: What is approved in the budget, the key thing about development budgets is the respective ministries need to prepare a work plan. Now that work plan is supposed to specify what they are going to do and where they are going to do it and how much is it going to cost. Once it is approved by us, we work with Finance and Payments and Accounts so that expenditures are raised against that work plan. And that is in line with Financial Instructions.

The wrong mechanisms took place – it is the adherence to those mechanisms.

Mr Chairman: That again leads to me to the next question I was asking because the government has already produced its policy documents, and based on that, each departments produces its work plan, and I think it would be appropriate and relevant for those work plans to be presented to the committee so that they can be tied with budget expectations. What we are seeing here is government policy running in one direction and government action in spending budgets are running on the other direction. I think there has to be coherence in government plans and government actions in terms of spending. It is important to have documents such as department work programs on what is expected to be done this year. Otherwise the budget is there but what is guiding the budget, is the concern.

The first thing the government produced is the broad policy statement and beside the broad policy statement, each department translates those policies into work programs. Therefore, I think it would be good for each department, when they come to present and argue their budgets have to supplement their arguments with the work programs. Or am I saying the wrong thing here?

I think the work plans have to be presented before the PAC because they are the guiding principles of the budget. Otherwise we have a budget that has no guidelines on how it is spent. Government spending actions are not necessarily government policies.

This is the parliamentary function of good governance, transparency and accountability. We are trying to embrace those key fundamental principles of Parliament's scrutiny of the budget. Not immediately now.

Members we are still on the brief. According to the time slots we should be looking at Finance first and to be followed by the Department of Planning so that we can really narrow down on the budget.

What is the suggestion here?

Committee suspended for tea break for 15 minutes

Mr Chairman: We have other documents here such as the establishment register. We are looking at the recurrent estimates, which is the thicker one starting on page 83 under heading and summary - ministry plan. Permanent Secretary, Ministry of Finance, would you like to lead us out in your recurrent and Members will come in later.

Mr Fanega: Like I said earlier on, it is the intention of the Government that when we look at the 2008 budget, both recurrent and development, we must ensure that what has been stipulated in the policy statements as well as in the translation and the implementation framework documents are included.

Of course, the Ministry of Finance is mandated with the task of ensuring that financial services are delivered for government, it must make sure that finance is provided for all the ministries, all the sectoral ministries making sure that the government machinery works. That is something that is almost routine, but at the same time we must also embark on activities aimed at improving and strengthening the services that the Ministry provides to the government.

There are a number of activities the Ministry would be embarking on, and one is to upgrade the system that runs the payroll as well as expenditures of government budget.

The Ministry of Finance being one of the crucial ministries of the government especially on the area of revenue must be beefed up with staff to collect revenue. That is something that is happening to make sure the establishment for Customs as well as Inland Revenue are there so that we can recruit staff to be able to help out in the collection of revenue.

Of course, on the budget side, the Statistics, the financial policy and debt management are also areas that need to be strengthened, improved and consolidated to be able to better deliver services right across the government.

In general, Mr Chairman I would like to say that there is a general increase in all the divisions of the ministries so that we can be able to better deliver services to the government.

If there are any specific areas in the ministry, I have my officers here who would be able to explain and to better clarify what is the increase in the budget or in the various sections.

Mr Chairman: Thank you Permanent Secretary. I think there are certain issues that have been raised in the 2007 PAC deliberations, and one of the issues raised was over time.

For the period of 2001 to 2005 the total of overtime paid to employees not entitled to receive overtime amounted to \$6.7million. In certain cases overtime payments made to some employees were greater than 100% of their basic salaries and allowances were being processed by Treasury Division payroll staff without adequate supporting documents. That was one issue raised at the 2007 deliberations.

If you look at the amount allocated there is an increase in overtime. What measures have been taken by the Ministry to address this issue? This was raised by the Office of the Auditor General and the Committee is concern that you have already allocated an increase in overtime. How is the Department of Finance addressing this issue?

Mr Fanega: As we will all appreciate there are times that officers have to work overtime when the need arises. The Ministry of Finance, in particular has Special Duty Allowance for certain divisions of the ministry including Inland Revenue, Customs and Treasury. There

are others that are not paid the Special Duty Allowance or SDA. But of course there are times whenever there is a need to deal with then permission has to be sought from the accounting officer to approve whether or not that is necessary. We don't just pay overtime as approved by an officer or supervisor or a head of a division. It has to be approved by the Accounting Officer himself or herself.

I think this is something we are keeping a close eye on but as normal and as usually the case overtime could only be made when there is need for it. But like you are saying and also the Leader of Opposition we have to keep a close eye on monitoring of the budget making sure it is implemented.

In this case, if you look at the financial instructions there is also provision where there should be a surcharge on accounting officers that overspent on their budgets. That is something not in practice for a number of years now for various reasons. It would be something that we would like to do again but given time we may be able to succeed in imposing surcharge on accounting officers but at this point in time, time is not right as yet.

Mr Chairman: Thank you. One big improvement on the revenue of government this year is that there is a significant improvement in the collection of revenue now. One reason of this improvement is because of the tight control and scrutiny on applications of exemptions on GST and exemption long duty. But I still understand that those provisions were provided for in law and there are still people going on and continuing to ask for exemption on GST and duty. What is the position this time?

Mr Fanega: Mr Chairman, as you would also appreciate the intervention of RAMSI in the last two years, the Minister of Finance has clamped down on the provision of exemption. That has been done through the establishment of the exemption committee first with the Customs in early 2003 and then in the last two years we were able to establish also an exemption committee in the Inland Revenue. Now all exemption applications have to be submitted through these committees, and the committees, I must say have been doing their work.

One thing that is important is the exemption guidelines where exemption can only be granted if they satisfy the guidelines. This year the Minister of Finance is adamant that it is going to half the total or will reduce by half the total of exemptions granted. Last year, I think a total of about \$18million has been exempted under Customs. That has to be reduced by half for a start. Inland Revenue exemptions totaled about \$40million has been granted. That again has to be halved this year.

That is the intention of the Minister of Finance. It would be through that way that we would be able to raise the additional revenue from exemptions that have been forgone over the years.

Mr Chairman: Back on page 88 if you look at head 273 and at the end 1012, 1013 there is the special duty allowance and overtime allowance. Can you differentiate or distinguish these two - the special duty allowance and overtime allowance. How and when are people entitled to these allowances?

Mr Fanega: Overtime allowances as we know is when someone does additional work apart from the official hours. Special Duty Allowance is when an officer is acting on a post or there is additional responsibility taken on by someone whenever an officer is away. There is charge allowance also whenever somebody leaves for a short period of time. Those all come under special duty allowances, and this is separate again from overtime. Special duty allowances cover charge allowance, responsibility allowance as well as acting allowances in most cases. Thank you.

Hon Boyers: Mr Chairman, the issue of Customs revenue collection was brought up in past PAC meetings on timber and log exports. The question was why there was such an increase. Of course, we all know that there is restriction on exemptions given out. Of course, there was the issue raised on the world price timber world market price and the response from Finance was that it is waiting for advice from the Ministry of Forestry.

The estimates we were told were based upon world log prices. If you look at the increase there is only about \$30million, and that is superseded by that \$15million. You will see this on page 105 where you can see the actuals for 2006 budget 2007 and actuals in 2007 and then you have the estimates for this year.

There has been a lot of talk about the Forestry Bill and the inclusion of log prices being at the world market. The information we received last time that that was the case, there is only a small marked improvement in the amount in 2007.

Can the Ministry inform the Committee of what measures are now being taken that there is monitoring of log prices as reflected in our budget estimates? And also is there any movement in If that is the case that the original market or estimates were based on world log prices?

Mr Fanega: Mr Chairman, the estimates here is based mainly on the volume of log exports and timber exports. It is not based on increase in determined value of the logs. As you can see if there is a marginal increase then that is just because of unspent increase in the volume of logs.

As for the determined value which is something that the Ministry of Finance is trying to revise, we haven't been so successful as yet but of course if in the course of the year the government decides to increase the determined value of logs due to increase in the world market prices then that is something we can then factor into the budget and could be brought about in the supplementary appropriation. But as it is, it is based mainly on the volume and increase of the volume of logs but not on increase to determine the value of logs.

Hon Boyers: What measures does the Ministry put in place to determine or monitor world log prices?

Mr Fanega: We have been having consultations with the Ministry of Forestry and so there is a committee that meets quite regularly to be able to monitor the world prices. But like I said our attempt to be able to increase the determined value of logs has not been successful thus far. But we still have this committee looking at it and only a significant increase could we be able to bring this to the attention of the Cabinet. But we have done our part and whatever issue is to be made by government is up to it.

Hon Sogavare: The PS is talking about increase portion of logging but basically what we looking at is increase of logging activities in the country. There is also a ministry established in government that is concerned about sustainable harvesting of logs and the environment. How does that compare with the intention here to increase logging? That is a serious concern. This is not only raised locally but we are also under the scrutiny of the NGOs and Foreign Governments that are basically not happy with the way we are harvesting our logs.

Here we are banking on an increase volume of log, which means we are going to cut more trees. What is the sustainable harvesting rate that the government is looking at here compared to last year?

Mr Fanega: We are all conscious that the sustainable harvesting rate is about 250,000 cubic metre.

Hon Sogavare: So that is increasing.

Mr Fanega: But it has gone up over \$1million last year and the year before.

Hon Sogavare: What I am basically saying now is how do we compare our policies when we have a government, not only this government but successive governments where logging has been a very important source of revenue.

We also have criticisms from outside interests, and of course internally as well and we should be reducing our rate of harvesting. Basically that does not make any sense but I think the point that needs to be taken up here is that we are talking about sustainable harvesting of our logs but we are still cutting more trees. I think there has to be some kind of coordination between the Ministry of Finance and the Ministry of Forestry on that area otherwise we should just abolish the Ministry of Environment because it does not make any sense. Thank you, Mr Chairman.

Mr Chairman: Relating to that, does anyone know how many trees we have left. Our revenue is very much reliant on forestry and according to government policy the Ministry of Finance and Treasury provides leadership to Solomon Islands on financial matters and deliver high quality professional finances and economic services through the Ministry of Finance and Treasury, the government, other ministries and the wider communities. It aims to improve the standard of living of Solomon Islanders through economic and financial reforms that grow the economy in a suitable way.

If the current trend continues where we depend on the logging sector for our budget then the question of what is the volume of trees left, what time they will finish, and what are the best alternatives the Ministry of Finance in conjunction with other line ministries will take to start coming up with other sectors, is becoming eminent. Because we have heard that only the forestry sector for the last many years has been sustaining the economic base.

Can anyone tell us what time will the forestry finish? I mean these are the concerns raised - sustainable harvesting but we are going head, numbers are increasing, smaller contractors are coming in taking sub contracts.

Hon Boyers: To add on to that, in the past year or so there has been quite a considerable number of contractors coming into the country, and with this government policy for the reduction of harvest at a sustainable level, it does not reflect a position where 34 new logging companies come into the country by the Foreign Investment Board. It is a concern that a majority of our revenue is from one sector, which probably has a very limited lifespan at that rate of cut.

As the Chairman said the Ministry of Finance and Treasury is responsible for proper surveillance. I know it's the Ministry of Forestry's issue but I still believe the buck stops at Finance.

We need to make sure that our leading ministries have the political will to be able to create a sustainable future in revenue for the country as a whole to deliver services to the public.

Seeing that this year we have an increase of a million dollars reflects an increase in the annual volume meaning there is going to be an increase in harvesting and not a decrease, and this is going to all come from the rural sector.

I think we are going to see in our report again as was last year the same answers. We have to go back to you because we have to consult with the Ministry of Forestry. I think there needs to be some sort of political directive, political will to reflect the genuine interest in making sure that our forests are not going to be depleted.

Mr Fanega: Mr Chairman, I think that is noted. Apart from the increase in logs it is also the foreign exchange and that also contributed towards this general increases in revenue on logging.

The other point also is that we, like I was saying earlier on, would be launching the medium term fiscal strategy. The fiscal strategy has too many objectives, one of which is to highlight to the government that logging revenue should decline into 2012 thereafter. And so we have about five more years to expect revenue from the logging sector. So from now on we have to make sure that we start investing in other sectors to be able to fill the gap in revenue that is normally generated from the logging sector.

The medium term fiscal strategy is trying to highlight to government what the fiscal position would be like in year 2012. The kind of investment would be consistent with the policy statements as well as the translation and implementation program. But it certainly is trying to give an attention to government and to Cabinet especially that logging revenue is not going to go forever. In five years time or so it will decline and this is when we have to come up with an alternative, and some of the alternatives I am sure will be provided by other sector ministries.

As you rightly stated there has to be some mechanisms in place making sure the sustainable rate of harvesting is enforced. That would be best left to the Ministry of Forestry. I am sure you will be able to raise that with them when they have their turn. Thank you Mr Chairman.

Hon Sogavare: Mr Chairman, just a general comment in terms of the buying power of the budget in 2008. As you rightly pointed out, since the budget is implemented in an environment and is not implemented in a vacuum, we need to be aware of the issues affecting the performance of the budget. And one of them is foreign exchange, as you said.

What I am basically saying is that although we see substantial increase in terms of figures, the actual buying power of corporate budget is not comparable with the level of the increase. This we need to be mindful of, especially when we are buying goods and services from shops that imported from abroad.

The question is, how do we see that moving this year with 8 more months to go? How do you see that movement affecting the performance of the budget in terms of its buying power?

Mr Fanega: Mr Chairman, yes that is something we have also tried to alert the Cabinet about making sure there is sufficient funds to existing line items basic services, especially telephone, electricity, water, rentals, things like these where there is huge pressure on expenditures. That is why we also try to ensure that there is going to be surplus funds last year to be able to beef up these pressures. That is something we have been made aware of and making sure that the budget is able to accommodate and cater for them when the need arises, hence we have these provisions.

Hon Sogavare: Mr Chairman, I think we have the policy ... whether we are saying the right things here. We need to see clearly and deserve 4.14 "consider paying the Solomon Islands currency to a more appropriate single foreign currency very suitable for the development and training needs of the country". So we are looking at improvement in the monitoring of prices.

I think the real issue is 4.14, which is actually to reporting these prices. There is nothing really we can do internally to control pricing as it is dictated from abroad. I think the review is toa temporary approach to strengthen the Solomon Islands dollars to be in par with our trading partners because people are working for goods and services to this country. It is just that.

Hon Boyers: Mr Chairman, I am just questioning the rule credit guarantee and banking extension scheme. I note this year there is no extension. Does that means the scheme is no longer going to be carried forward?

Mr Fanega: I think last year there was an allocation of about \$10 million, and that is for three years. All those funds have been paid last year to the Central Bank for small businesses financing facility.

Of course, this year you would also notice that the government is thinking of re-establishing recapitalization of the DBSI and that of course is something that Cabinet will have to make a final decision on but in regards to that particular provision that allocation was for intended three years, and that is why this year there is nothing allocated because the funds have been put to the Central Bank. It would be only after three years before we should be able to review that particular scheme.

Mr Chairman: Yes, that is an interesting one. On progress, how many rural people have accessed this scheme or have been assisted?

Mr Fanega: We would be able to provide you the details on that when we seek assistance from the Central Bank which is actually administering this particular scheme.

Hon Sogavare: Mr Chairman, from what I know this scheme did not work from the day it was established because it basically works on the same principle of lending and borrowing that the banks are administering and so it did not work from day one.

Really, I guess the approach to this is to assist Solomon Islanders through the budgetary process to help them come up to a level where the banks can recognize them and implement this kind of policy, this kind of scheme. Lending scheme that is operated under the principles advanced by the banks will not work in the rural areas. We tried it. When we were in government we tried it but it did not work, it fell flat on its face. It did not work and so we should basically abolish it and look at other ways of channeling funds to the rural areas to get rural people to a level where they can be recognized and trusted by banks and financial institutions before you start implementing schemes that is based on lending and borrowing.

Mr Chairman: On the face of that, that would be another \$15million initially tied away? Does the government have any intentions of reviewing the scheme?

Mr Fanega: Well, that is why the government is considering the DBSI option, not necessarily like the DBSI before but something similar or an alternative to the DBSI that would be able to address the needs of small entrepreneurs. That is recognized by the government as I understand that although there is the guarantee scheme it is only for middle level kind of people and not really going down to be able to provide for those that have very, very little collateral.

I can say here that the government recognizes this under, and it would soon be considering a paper in Cabinet about an equivalent animal to the DBSI.

Hon Boyers: It would seem to me that we have not learned our lesson on the DBSI. The Development Bank previously created a lot of misuse and ended up a lot of suffering, which a few of us were victims of. I think if the government seriously considers this, it is going to be putting money into a position that is going to be very questionable. We should reintroduce the subsidy program that is of more effective to rural copra producers and those that produce it would get rewarded, but not on the expectation that we do not have one of these - more control.

I would like this to be noted in our report in relation to this rural banking scheme in the light of the government's interest in revitalizing the old dead horse.

Mr Chairman: Yes, ICSI and Solomon Airlines are issues that had been hotly raised last year and are continued to be raised.

I understand that \$20 odd million was pumped into the Solomon Airlines by the Ministry of Finance last year with the intention of it being reflected in the 2008 budget or it was taken out of debt servicing last year, which appears to be proper.

Mr Fanega: That was from the SOEs as well as the trade creditors arrears.

Hon Sogavare: On the same issue, Mr Chairman about other state owned enterprises, the problem now is that there is contingent liability to them, and is a threat to the budget. What other state owned enterprises apart from Solomon Airlines?

Mr Fanega: We are aware Chairman of that particular service - Solomon Airlines as well as Soltai. There should be provision under debt servicing arrangement for SOE assistance. That would be acquired whenever Cabinet makes any particular decision on what to do with these two particular SOEs that run into difficulty. But the general thinking is that these two SOEs appear to be the only national SOEs within the control of the government. At the same time there is thinking that if we lose out on these two particular SOEs then we have nothing left to be proud of.

Hon Sogavare: Mr Chairman, I have been grappling with the Solomon Airlines when we were in government. I think we just need to make some political decisions on the Solomon Airlines. I think in Solomon Islands we suffer from the Jones' thesis -because Vanuatu has a plane, we want it too. PNG has it and so we want it too. Fiji has one and so we want it too.

I think the issue really is airline services. And I've been pushing this, and I think it needs to be recorded that we just need to privatize, sell it, get rid of it and allow other planes to land here.

We have the Air Vanuatu, Our Airline or their Airline, Air Pacific, Qantas, Air Niugini, which is five, and another one more that can serve us. Let five planes to land here five days. Get rid of the Solomon Airlines and just benefit from the services offered by other airlines.

Airline services, as long we have an effective and efficient airline services that land here, take passengers out is all we need. Don't worry about who owns the planes. I think we have not really come down yet to make any serious decision about it. It continues to be a contagious liability on the government that we cannot make any serious decision on.

Our problem is that we have a false sense of pride that we have it and so we can do it too. That is what it is.

I have a serious reason on this. As long as Solomon Airlines is owned by the government it will continue to threaten the budget. I think we put in something about \$20million at one point in time, and we will continue to do it unless and until we make some positive serious decisions on that particular airline.

The same is with the Solomon Taiyo too. Fish is abundant in the seas of Solomon Islands and any interest would want to takeover and run it. So let us make some serious decision on these. And that is why I am asking what other SOEs will remain to be continuous threat on the budget if we do not make the right kind of decisions that we need to make instead of allowing our pride to take off. Sorry, Mr. Chairman.

Hon Boyers: Mr Chairman, I would just like to back that up. It is disappointing to see perpetuating debt increasing year by year with the blatant promotion of how wonderful our airline is by creating more and more debt.

When you look at Soltai, which I am particularly passionate about because it is in my constituency and the fact that at the beginning of 2005 the government has actually written off its debt on the basis that it entered into a more formal banking arrangements with normal financial institutions. However, a year and half down the track, with now

\$80million in liabilities, and half of that basically is loan, which I do not know how it happened because it wasn't supposed to happen that way.

This only shows that these state owned enterprises are just a fence building exercise to benefit certain groups at the expense of the nation and its people. The sooner we move these into a more private sector led arrangements, the more benefits we are going to get. For instance, Soltai is only running at about 40% capacity, which means it cannot make a profit. You can only make profit when you are running into 80 - 100% like any business. And the people that suffer are the employees from the surrounding areas and from other areas that employ them.

If we had a cannery operating at 100% capacity with 2,000 employees, we would be getting taxes and the PAYE, which is unemployment for our people. I believe that we are now getting pressure to have to put out another \$14 to 20 million just to keep it going in the next two or three months with no light at the end of the tunnel.

This type of attitude has to stop. If we are going to progress there has to be political will and bureaucratic will to make sure we make hard decisions so that we can have an industry we can be proud of that employs our people and promotes our Solomon products. It is not so much owning it but it is where it is based and where it is from. Whether it is private sector or whatever they are here in Solomon Islands, and so it is a Solomon Islands service. If a plane comes in from overseas is a service for Solomon Islands, it is promoting Solomon Islands.

I would like to have this on record that there has to be drastic and necessary and correct actions as we are going to perpetuate the process that we are going to be damaging our budget of pressures revenues getting thrown away. For instance, debt servicing again, which was not meant for state owned enterprises but has been given and now they are coming directly into our budget. I don't see where it is budgeted for here on money that is supposed to be paid into these state owned enterprises. So it has to come in from somewhere. So with this it is a one off and has gone into private sector hands. I know it is difficult for PSs and officers but at the end of the day you will face the truth and reality that this country is going to move forward.

The Soltai and Solomon Airlines need to move forward, move forward, move on and face the reality. This country needs employment, needs services and needs to be promoted successfully not with perpetuating debts.

Mr Chairman: PS, you being the most senior advisor for the Minister of Finance, what would you have to say on that.

Mr Fanega: I take note of your sentiments and what you have said. We will endeavor to do the best to be able to provide the appropriate advice to the Minister on these two entities.

Mr Chairman: Thank you.

Hon Dausabea: I would just like to comment on the Airlines and Soltai. I was the last Chairman of ICSI, and the new one is sitting right besides me here. I have an inside view of what is wrong there, not all of it but some of it.

I totally support what the Leader and my other colleague MP were saying. The Airlines has to be sold because the government has adopted the open-sky policy way back in 2005. It would not be prudent for us to continue pumping money that is going down the drain.

With Soltai, there are certain measures that should be taken into consideration, and I think the government is looking into that. Before I left the chair we were recommending a lease to one of the foreign companies. I think there are two lining up that would like to lease the Soltai Processing Company Limited. I think that is the best way to go so that we do not lose the whole thing out, but just lease it and let them come into manage and run it. And the

Western Province gets its shares of tax as well as the national government. So I think certain directives have been on ICSI's table on that. But with the Airlines, I do not think so. What the Solomon Islands Government and the Visitors Bureau should be focusing on is the domestic airline so that we dig deeper into tourism into Solomon Islands. Yesterday there was a boat here and tourists were just roaming the streets of Honiara and all the shops were closed because you are going to Church on Sunday.

I think it is wise to visit the idea of boats going direct to the provinces like what has been done in Vanuatu where tourism boats go down to the provinces where they are entertained and money goes directly to people down there. Those are the things that need to be looked into.

With the airlines, the way I see it when I was with ICSI is that I think it needs a miracle otherwise it is only right to sell it. Now it is cheaper to go to Australia for about \$3,000 Solomon dollars. To go to Fiji it would be about \$10,000 to SBD\$13,000 because OZ Jet and Sky World are coming in and as well as Solomon Airlines and so it is good for us. I am prepared to go to Fiji because it costs me about \$13,000 to go to tomorrow whereas if I go to Australia it would be only \$3,000.

Since we adopted the open sky policy we should allow that to take its course and let other airlines come in and compete so that the people can have the option to choose on which airline to fly in that is affordable to them. That is my opinion.

For Soltai, there are about two or three companies lining up wanting to lease the cannery, and that would be a good step.

Mr Chairman: I think the issues raised here on ICSI and Solomon Airlines is that the PAC cannot directly get down to the Solomon Airlines unless the Auditor General's Reports are produced. We would therefore insist that the Reports are produced. The Auditor General looks at ICSI and then further down on the Solomon Airlines, and once the report is produced then we can critically look into the issue of the Solomon Airlines and then flow down on to Parliament so that it is debated there. Otherwise the bottom line is on transparency and accountability of management.

Hon Sogavare: Mr Chairman, this is more a threat to the budget, a threat to the implementation of the 2008 budget

Mr Chairman: Yes.

Hon Sogavare: If the government is to bail out the Solomon Airlines and Solomon Taiyo again in 2008, it will derail this budget. That is why this concern is raised.

Mr Chairman: Yes, the senior advisor to the Minister of Finance is taking note and we hope he will take note seriously and advise the Minister and the Cabinet.

Any other comments from members?

Hon Sogavare: Mr Chairman, what is the level of contingencies warrant that we are looking at in 2008?

Mr Fanega: I said it earlier on that it is 25/25, 50 altogether.

Hon Sogavare: The assumption is that we will be collecting more revenues to meet that.

Mr Fanega: There is increase in revenue and underspent in some places.

Mr Chairman: Any more comments?

Hon Boyers: In the last year and a half offices have been broken into regularly and after the Police arrived there have been problems with logistics. It was noted that access to spare parts and tyres and fuel must go through a very lengthy process – it can take up to six weeks minimum, which is having effect in the delivery of services from the Police Department.

I just want to know if there is any reform of improving the financial structures of the General Orders in the process of payments in the Ministry of Finance for essential service ministries such as the Ministry of Police to enable them carry out effective community policing and upholding the confidence of the community in making sure there is tyre on their vehicles, there is fuel in the tanks and there is money for over time patrols at night and other logistic support. Is there any improvement in the process of payment for essential service ministries such as the Police?

Mr Fanega: Yes, certainly, under the financial instructions we have had a tit tat in carrying out review of the financial instructions where a draft has been produced and we should be working at finalizing it later this year.

As for the upgrading system, I think you would notice in the development budget that we are going to upgrade the payroll system, and in addition to the payroll system I am sure the other systems in the Treasury would also be reviewed and of course the mechanism of the system making sure there is efficient and effective way of delivering funds are there.

Unfortunately although we have built the capacity of the Treasury staff, we are sort of being pinched by other ministries under the directive of the Public Service. But on this particular question I would ask the Accountant General who is here with us to take us on what steps he has taken to be able to address the concerns of the Police and others.

Mr Accountant General: Thank you PS, Mr. Chairman and Honorable Members. My name is Jeff I'm acting Accountant General at the Ministry of Finance and Treasury. As the PS mentioned when the budget is reviewed and the Financial Instructions to increase the efficiency and effectiveness of the Treasury Division in the processing of payments, one of the initiatives we are looking at this year is to try to devolve to ministries through the use of standing imprests, the ability for ministries to transact most of the high value low valued transactions by themselves. That would take some burden by improving the division and other ministries to respond more quickly to their day to day needs.

In relation to larger and more strategic procurements like spare parts, tyres and things like that, a lot of that relates to particular ministries that need to put in place more strategies in terms of their procurements and get their procurements made out in the year.

In relation to speed of payments once we get requisitions in the Treasury Division why they would like to purchase things or produce payment vouchers, the process from there is, I think recently is quick unless there are some..... (inaudible)... I think it is a balance of developing some of the processes by the ministries themselves, updating financial instructions and their OT systems. And also for ministries to take a more strategic approach to their procurements and not wait for last minute to procure essential supplies.

Hon Boyers: That is good. I am just thinking because every time somebody goes to buy a tyre, they have to get three quotes. I think a short cut to that is working out the required repairs, maintenance and logistics throughout the year and tender that out to a supplier so that they don't have to go through the whole process throughout the year.

The other way, could be like the Aviation where there is setting up of a special fund for the low value articles such as spare parts. I know that is working very well within the Ministry of Aviation. I wonder whether that should be taken into consideration.

It is something I want to bring up here and I have taken note of during the last six months as it is happening within the Police Force and has a direct effect on the Ministry of Finance and Treasury. I think this is to make the Police Department more effective in its service delivery. But thank you for the explanation.

Mr Chairman: Page 91 has \$1.1 million allocation. Is that what you are going to do. Which legislation will you be reviewing?

Mr Jeff: This head relates to or rather the division relates to economic reform. The legislation we will be reviewing is the Financial Instructions which gives practically effect to the Public Finance and Audit Act. We will be reviewing that within the context of where it was already being done by FIPTAC to update the draft Financial Instructions, and this year we have to be taking that forward in consultation with all ministries and stakeholders to develop a revised Financial Instructions for implementation in 2009.

Mr Chairman: That is quite interesting. Here you come under the auspices of RAMSI Strengthening Program, is that not coming under that program?

Mr Jeff: The work I am talking about in relation to the Financial Instructions is going to be undertaken with the assistance of RAMSI funded advisory under financial management and strengthening program. But it is going to be done in a way that benefits Solomon Islands and that is why we have taken the time this year to work on that Financial Instructions so that we build a capacity within the Treasury Division for Solomon Islands to actually have some ownership of that process, and the understanding of the way it has developed today and to work towards the future

Mr Chairman: Unless Members have other comments, we are now running into other time slots. But we definitely will get you back because you were very unfair on the committee. This budget was given to us this morning. We really do not have time to look into it, it only reached us this morning. So be on standby. We will look at our time slot and whenever we are free you will be called back into this room again for further questioning. But the Budget Unit will always be here to support other departments. With that said we will go for a break now and get the other departments ready.

Mr Fanega: Mr Chairman, I would like to suggest that we come back last as has been done in the past.

Mr Chairman: Is that agreeable by Members? Once again thank you very much Permanent Secretary and officials. As you know today is of a bit surprise to us, but as you have suggested you will come back at the end again to give us your final submission. Thank you very much members.