

STATEMENT ON THE FORWARD ESTIMATES BUDGET 2010/2011 – 2012/2013

The Public Finance Management Act 2001 mandates specific principles of responsible fiscal management and the reporting requirements of the Minister of Finance. The Minister is required to present a statement of forward estimates which comprises of the projection of estimated revenues and expenditures for the budget year and the two following years.

The Statement of Forward Estimates for the period 2010/2011 – 2012/2013 summarizes the budget allocations and forward estimates of receipts and expenditures by the government for each line ministry and state owned enterprise for the 2010/2011 budget year and two forward years.

The Government's medium term budgeting framework is designed to ensure a set framework to encourage efficiency in the allocation of resources and to control the level of expenditures and revenues over the medium term at the same time promoting cost effectiveness in the delivery of public services.

This section of the Budget Statement focuses on three issues.

- (i) First, it analyses the economic impact of the interaction of the budget and forward estimates of revenues and expenses on the rest of the economy.
- (ii) Second, it summarizes the budget allocations and forward estimates of expenditure proposed by the government to each ministry to meet its various responsibilities, as well as the estimated collections of receipts in the budget and forward estimates years by each of these ministries.
- (iii) Finally, this section provides a reconciliation of the differences between estimates of receipts and revenues as well as estimates of total payments and expenses.

For many years, the government's budget has been significantly constrained by the level of revenues it can collect in any one year. This is expected for a small economy which depends very much on economic development in the country and that of overseas countries for tax revenue increases unless there are major tax policy changes imposed year on year in addition to enforcing compliance of taxpayers.

In relation to the expenditure side of the budget, government continues to tighten fiscal policies to ensure its borrowings are applied to high yielding capital development projects rather than relying on these borrowings to finance recurrent expenditure. During the Forward Estimate period, government intends to continue stimulating the economy and raise the country's capital stock by allowing spending on much needed productive investment that will not only stimulate economic activity but provides benefit for the community at large. Furthermore, greater scrutiny has gone into the public sector spending program to ensure government is getting value for money and to encourage efficiencies and savings where possible.

At the aggregate level, cash deficit for 2010/2011 is expected to peak at \$150.7 million and improve subsequently as development payments for both grant and loan financed projects nearing completion start to phase out within the medium term.

This will also be supported by total receipts and grants reducing by 4% in 2010/11 with an average growth rate of 2% for the next two years while total current payments is estimated to reduce at an average of 3% for the next two forward years.

The 2010/2011 budget balance

As expected with the soft term loan from the Asian Development Bank to support the 2009/10 budget, the deterioration of the cash balance is inevitable as presented in Table 1.

Budget Accountability Reporting Table

Table 1 - Summary Payments and Receipts (\$m)

	2009-10	2010-11	2011-12	2012-13
RECEIPTS				
Ordinary Receipts	398.9	472.4	473.0	493.7
External Grants	222.8	123.8	123.7	121.1
Total Receipts and Grants	621.7	596.2	596.7	614.8
<i>less</i>				
CURRENT PAYMENTS				
Statutory Payments	75.9	71.1	76.5	76.5
Expenditure Programs	459.9	437.9	422.3	413.3
Ministry Outputs	142.6	163.5	167.3	168.6
Third Party Outputs	159.0	160.1	159.9	159.9
Transactions on behalf of the State	158.2	114.3	95.1	84.8
Unforeseen Payments	11.5	13.1	12.7	12.4
Total Current Payments	547.3	522.1	511.5	502.2
<i>less</i>				
DEVELOPMENT PAYMENTS				
Loan financed project payments	118.4	101.0	110.0	100.0
Grant financed project payments	152.8	123.8	123.7	121.1
Total Development Payments	271.2	224.8	233.7	221.1
Cash (Deficit)/Surplus	(196.8)	(150.7)	(148.5)	(108.5)
Financed by				
Soft Term Financing	197.0	149.1	125.0	100.0
Movement in Cash Balances	0.22	(1.57)	(23.48)	(8.49)

Overall Net Lending Borrowing Requirement

In the Appropriation Bill, the estimates are classified on an accounting basis. In disclosing the forward estimates, the primary basis of classifying these estimates will be on a Government Finance Statistics (GFSM2001) basis. Presenting estimates on that basis facilitates the analysis of government operations and of its impact on the economy as a whole, including particular segments of the economy. As the GFSM2001 system of classifying government transactions is used in most countries, the budget estimates in that form will also allow readily, international comparison.

Budget GFS Reporting Table

Table 2 Statement of Government Operations (\$m)

TRANSACTIONS AFFECTING NET WORTH	2009-10	2010-11	2011-12	2012-13
REVENUE	578.4	540.8	547.7	565.8
Taxes	315.6	355.9	376.4	397.0
Taxes on income, profits, and capital gains	68.8	68.2	70.1	72.5
Taxes on property	1.5	1.5	1.5	1.5
Taxes on goods and services	212.7	240.7	253.1	266.1
<i>VAGST</i>	131.6	154.4	169.1	181.6
<i>Excises</i>	78.2	82.6	82.5	83.0
<i>Taxes on specific services</i>	2.9	3.6	1.4	1.4
<i>Taxes on use of goods, permission to use goods</i>	0.0	0.19	0.1	0.1
Taxes on international trade and transactions	32.5	45.4	51.8	57.0
Grants	222.8	150.1	139.3	136.7
Other revenue	40.0	34.8	32.0	32.1
Property income	7.7	5.2	4.7	4.7
Sales of goods and services	18.4	15.6	15.1	15.1
Fines, penalties, and forfeits	6.1	6.9	6.7	6.7
Miscellaneous and unidentified receipts	7.8	7.2	5.5	5.6
EXPENSE	486.1	456.5	456.7	446.2
Compensation of employees	118.2	135.5	142.4	143.6
Use of goods and services	142.0	109.5	106.9	100.4
Interest	11.3	11.8	13.3	13.3
Subsidies	21.5	20.1	20.1	20.1
Grants	163.7	148.6	144.3	139.3
Social benefits	19.3	19.2	19.2	19.2
Other expense	10.2	11.7	10.5	10.2
GROSS OPERATING BALANCE	92.2	84.3	91.0	119.6
NET ACQUISITION OF NONFINANCIAL ASSETS	256.4	210.9	217.0	205.6
Fixed assets	247.0	207.3	213.4	202.1
Nonproduced assets	9.4	3.6	3.6	3.6
NET LENDING/BORROWING REQUIREMENT	-164.1	-126.6	-126.0	-86.0
NET ACQUISITION OF FINANCIAL ASSETS AND LIABILITIES (FINANCING)	-164.1	-126.6	-126.0	-86.0
NET ACQUISITION OF FINANCIAL ASSETS	1.6	-3.9	-31.4	-16.4
Domestic	1.6	-3.9	-31.4	-16.4
NET INCURRENCE OF LIABILITIES	165.7	122.8	94.6	69.6
Domestic	-8.9	-5.4	-5.2	-5.2
Foreign	174.6	128.2	99.8	74.8

The estimates in Table 2 above indicate the net lending/borrowing requirement, contrary to forecast provided last year now increases to a peak of \$126.6 million in 2010/2011 and then improves thereafter to \$126.0 million in 2011/2012 and \$86.0 million in 2012/13.

The GFSM2001 definition of net lending/borrowing of government provides a widely used reference point for fiscal policy analysis. It aims to identify those transactions of government

that result in net borrowing from other economic sectors, and provides a focus for analysis of the sources of financing.

The overall net lending/borrowing provides an indication of the impact of fiscal policy on aggregate demand while the components of net acquisition of financial assets and liabilities can indicate more specific consequences of fiscal policy (e.g., the impact of borrowing from the Central Bank on money supply and inflation and the impact of domestic borrowing on interest rates, investment, and growth).

Revenue

The following table (Table 3 GFS Revenue) provides a detailed breakdown of revenue estimates for 2010/2011 and forecasts for the next two forward fiscal years by component economic categories. The total revenue estimated to be collected by Government in 2010/2011 will fall by 7% as a result of a decrease in grants and cost recoveries. It is projected that this declining trend will continue for the next two financial year.

Table 3 GFS REVENUE (\$m)

	2009-10	2010-11	2011-12	2012-13
REVENUE	578.4	540.8	547.7	565.8
Taxes	315.6	355.9	376.4	397.0
Taxes on income, profits, and capital gains	68.8	68.2	70.1	72.5
Taxes on property	1.5	1.5	1.5	1.5
Taxes on goods and services	212.7	240.7	253.1	266.1
Taxes on international trade and transactions	32.5	45.4	51.8	57.0
Grants	222.8	150.1	139.3	136.7
From foreign governments	222.8	123.8	123.7	121.1
From international organizations	0.0	26.2	15.6	15.6
Other revenue	40.0	34.8	32.0	32.1
Property income	7.7	5.2	4.7	4.7
Sales of goods and services	18.4	15.6	15.1	15.1
Sales of market establishments*	0.4	0.4	0.4	0.4
Administrative fees	16.7	13.8	13.3	13.4
Incidental sales by nonmarket establishments	1.3	1.3	1.3	1.3
Fines, penalties, and forfeits	6.1	6.9	6.7	6.7
Miscellaneous and unidentified receipts	7.8	7.2	5.5	5.6

Tax Revenue

An increase in tax revenue for the 2010/2011 financial year of 13% is expected as a result of a substantial increase in taxes on goods and services and tax on international trade as national aggregate demand increases due to a boost in the level of economic activity as a result of the tsunami recovery program underway. (Refer Table 3)

By 2011/2012 and 2012/2013, forecasts indicate a steady growth in tax revenues by an average of 6% as the economy rebounds from the aftershocks caused by the global crisis and the earthquake and tsunami in September 2009.

Grants

The estimated total grants to be available to government from our overseas donor partners is expected to decline in 2010/2011 by 33% compared to 2009/2010 inclusive of the tsunami recovery program and by 22% if tsunami one-off costs are netted out. The other major factor impacting the substantial reduction in grants is due to the winding down of several major projects however for the two forward years, grants from our donor partners is expected to increase slightly.

Further to direct grants, the government has successfully negotiated loan on concessionary terms to be provided as budget support to finance infrastructure and capital investment projects as well as to assist in stimulating the economy.

The proceeds of these loans are classified as a financing transaction in the GFS format.

Other Revenue

The primary reason for the decline in the estimates under the other revenues category over the forward estimates period when compared to the 2009/10 estimate is a result of the consistent reductions in property income and the reduction in sale of goods and services receipts given the current economic climate.

Expenses

The estimated total government expenditure as reflected in the GFS format (refer Table 4) for 2010/2011 is expected to fall by 7%. Despite the cost of living salary adjustment and the adjustment made to several professions' salaries such as teachers and police officer, government expenditure is expected to decrease due to the winding down of major initiatives such as the road switch and the decrease in counterpart allocations as some of these major infrastructure projects are nearing completion.

The reduction in the use of goods and services by 23% for 2010/2011 and then by 3% and 6% in the forward years indicating the public sector is able to prioritize its resources and generate efficiency gains.

Table 4 GFS EXPENSE (\$m)

GFS EXPENSE (\$m)	2009-10	2010-11	2011-12	2012-13
EXPENSE	486.1	456.5	456.7	446.2
Compensation of employees	118.2	135.5	142.4	143.6
Wages and salaries	118.2	135.5	142.4	143.6
Wages and salaries in cash	118.1	135.5	142.4	143.6
Wages and salaries in kind	0.04	0.04	0.04	0.04
Use of goods and services	142.0	109.5	106.9	100.4
Interest	11.3	11.8	13.3	13.3
To nonresidents	6.9	7.5	8.9	8.9
To residents other than general government	4.3	4.3	4.3	4.3
Subsidies	21.5	20.1	20.1	20.1
To public corporations	20.1	18.8	18.8	18.8
To private enterprises	1.4	1.4	1.4	1.4
Grants	163.7	148.6	144.3	139.3
To international organizations	0.1	0.1	0.1	0.1
To other general government units*	163.6	148.5	144.2	139.2
Social benefits	19.3	19.2	19.2	19.2
Social security benefits	15.4	15.9	15.9	15.9
Social assistance benefits**	3.0	3.0	3.0	3.0
Employer social benefits	0.9	0.3	0.3	0.3
Other expense	10.2	11.7	10.5	10.2

In Table 5 below, the change in net worth of Government is expected to decline by 9.0% in 2010/11 and picks up slightly in subsequent forward estimates years but still below the 2009/10 levels. Given the large public sector investments which are ongoing and are expected to be undertaken in 2010/11 and thereafter, buildings and structures predominate the growth in fixed assets for 2010/2011 and the two forward years.

Table 5 Transactions in Assets and Liabilities (\$m)

TRANSACTIONS IN ASSETS AND LIABILITIES	2009-10	2010-11	2011-12	2012-13
CHANGE IN NET WORTH: TRANSACTIONS	92.2	84.3	91.0	119.6
Net acquisition of nonfinancial assets	256.4	210.9	217.0	205.6
Fixed assets	247.0	207.3	213.4	202.1
Buildings and structures	244.8	204.1	211.8	200.5
Machinery and equipment	2.1	3.1	1.4	1.4
Other fixed assets	0.2	0.2	0.2	0.2
Nonproduced assets	9.4	3.6	3.6	3.6
Land	9.4	3.6	3.6	3.6
Net acquisition of financial assets	1.6	-3.9	-31.4	-16.4
Currency and deposits	0.2	-1.6	-23.5	-8.5
Loans	-3.6	-6.4	-11.7	-11.7
Shares and other equity	5.0	4.1	3.9	3.9
Domestic	1.6	-3.9	-31.4	-16.4
Currency and deposits	0.2	-1.6	-23.5	-8.5
Loans	-3.6	-6.4	-11.7	-11.7
Shares and other equity	5.0	4.1	3.9	3.9
Net incurrence of liabilities	165.7	122.8	94.6	69.6
Domestic	-8.9	-5.4	-5.2	-5.2
Foreign	174.6	128.2	99.8	74.8

Alternate Classification of Financial Transactions

Traditionally, the estimates of receipts and payments in the Appropriation Bill are predicated on the cash basis of accounting – that is, as funds flow into, within, and out of the government’s bank accounts. Receipts are brought to account in the period in which they are received and payments are accounted for when the actual disbursement is made from those bank accounts. The presentation of the government’s accounts in this form is predominantly concerned with ensuring money is legally able to be spent and is spent on the purpose for which it was provided. That system of classifying the government’s financial transaction also forms the basis for effective cash planning and management.

However, since the general framework of government accounting practices was formalized, there have been substantial developments both in economic thinking and in the role of government in the economy; and with these developments has come a demand for new uses of statistics on the government’s financial transaction.

The Government Finance Statistics (GFS) system of classification was designed to facilitate the study of macro-economic impact of government’s financial transactions on the economy and therefore assessments of the sustainability of fiscal policy objectives. It does so by recording separately “below the line” those receipts and payments transactions, such as those associated with raising or repaying loans, that are primarily associated with the actions necessary to finance a shortfall in government revenues. The GFS system of classification also records inflows to government associated with the repayment of loans made by the government as net lending, rather than as a revenue of the government. Furthermore, by bringing together expenditures directed towards like purposes, the GFS system of classification also facilitates presentation of information on the total resources devoted by the government to those purposes and allows international comparisons independently of local administrative structures. It is for these reasons that the primary presentation of budget estimates in the Budget Statement is now on a GFS basis.

The following table provides a reconciliation between the cash inflow estimates of the government and the estimates of revenues classified on a GFS basis. The major difference of receipts in Table 6 and Table 3 is the netting out of transfer payments made by one agency of Government to another as shown in Table 6 under Payments Classified as Offsets to Revenue.

Budget Reconciliation - Both Tables 3 and 4)

Table 6 - Reconciliation between Total Government Receipts and GFS Revenues (\$m)

	2009-10	2010-11	2011-12	2012-13
Receipts				
Ordinary Receipts	398.9	472.4	473.0	493.7
External Grants	222.8	123.8	123.7	121.1
Total Receipts and Grants (as per Tables 1)	621.7	596.2	596.7	614.8
<i>Less</i>				
Receipts Classified as Offsets to Expenses				
Rent Paid by the Ministries to the Government	2.2	2.3	2.3	2.3
	2.2	2.3	2.3	2.3
Payments Classified as Offsets to Revenue				
Income Tax Refunds	8.0	7.0	7.0	7.0
Duty Refunds and Duty Paid by Government Agencies	7.5	8.4	4.5	4.5
VAGST Refunds and VAGST Paid by Government Agencies	22.0	31.4	23.5	23.4
	37.5	46.8	35.0	35.0
Receipts Classified as the Net Acquisition of Financial Assets				
Loans - On-lending Repayments	3.6	6.4	11.7	11.7
	3.6	6.4	11.7	11.7
TOTAL ESTIMATED GFSM2001 REVENUE (as per Table 3)	578.4	540.8	547.7	565.8

The next table provides (Table 7) a reconciliation between the appropriations of the government outflows and the estimates of expenditure classified on a GFS basis. The significant difference in Government expenses is due to the netting out of transfer payments by factoring out payments classified as offsets to revenue, receipts classified as offsets to expenses and the net acquisition of non financial assets.

Table 7 - Reconciliation between Total Government Payments and GFS Expenses (\$m)

	2009-10	2010-11	2011-12	2012-13
Current Payments				
Statutory Payments	75.9	71.1	76.5	76.5
Expenditure Programs				
Ministry Outputs	142.6	163.5	167.3	168.6
Third Party Outputs	159.0	160.1	159.9	159.9
Transactions on behalf of the State	158.2	114.3	95.1	84.8
Unforeseen Payments	11.5	13.1	12.7	12.4
Total Current Payments (as per Table 1)	547.3	522.1	511.5	502.2
Development Payments				
Loan financed project payments	118.4	101.0	110.0	100.0
Grant financed project payments	152.8	123.8	123.7	121.1
Total Development Payments (as per Table 1)	271.2	224.8	233.7	221.1
AGGREGATE PAYMENTS	818.5	746.9	745.2	723.3
<i>Less</i>				
Payments Classified as Offsets to Revenue				
Income Tax Refunds	8.0	7.0	7.0	7.0
Duty Refunds and Duty Paid by Government Agencies	7.5	8.4	4.5	4.5
VAGST Refunds and VAGST Paid by Government Agencies	22.0	31.4	23.5	23.4
	37.5	46.8	35.0	35.0
Receipts Classified as Offsets to Expenses				
Rent Paid by the Ministries to the Government	2.2	2.3	2.3	2.3
	2.2	2.3	2.3	2.3
Payments Classified as Net Acquisition of Nonfinancial Assets				
Fixed Assets				
Buildings and structures	244.8	204.1	211.8	200.5
Machinery and equipment	2.1	3.1	1.4	1.4
Other fixed assets	0.2	0.2	0.2	0.2
	247.0	207.3	213.4	202.1
Nonproduced assets				
Land	9.4	3.6	3.6	3.6
	256.4	210.9	217.0	205.6
Payments Classified as the Acquisition of Financial Assets and Liabilities				
Net Acquisition of Financial Assets	5.0	4.1	3.9	3.9
	5.0	4.1	3.9	3.9
Net incurrence of liabilities				
Domestic Loan Repayments	8.9	5.4	5.2	5.2
Foreign Loan Repayments	22.4	20.9	25.2	25.2
	31.3	26.3	30.4	30.4
TOTAL ESTIMATED GFS EXPENSES (as per Table 4)	486.1	456.5	456.7	446.2

Summary of Payments and Receipts of Government

Table 8 provides a summary of all the ministries receipts and payments for 2010/11 and the two forward years.

Total receipts of the Government are estimated to increase by about 19% in 2010/11 and then grow by an average 5% over the following two years. Total expenditures of government are estimated to decline by 4% on average over the three years. This is in line with the medium term strategy to contain current spending over this forward year cycle.

Budget Ministry Reporting Table
Table 8 Summary of Ministry Receipts and Payments (\$m)

Ministry/Department	2009-10		2010-11		2011-12		2012-13	
	Receipts	Payments	Receipts	Payments	Receipts	Payments	Receipts	Payments
Ministry of Agriculture & Fisheries	0.5	13.7	0.6	12.3	0.4	11.9	0.4	12.0
Ministry of Commerce, Industry and Labour	0.3	15.1	0.3	16.0	0.2	15.1	0.2	15.2
Samoa Tourism Authority	-	7.50	-	10.22	-	9.26	-	9.26
Ministry of Communication & Information Technology	2.8	6.4	3.0	4.2	2.5	3.5	2.5	3.5
Telecom Regulator's Office	2.2	1.37	2.4	1.27	1.9	1.20	1.9	1.20
Ministry of Education, Sports & Culture	0.3	79.6	0.3	85.4	0.3	96.3	0.3	92.2
Samoa Qualification Authority	-	1.39	-	1.65	-	2.02	-	2.17
Samoa Sport Facility Authority	-	2.22	-	1.94	-	1.96	-	1.96
National University of Samoa	-	9.88	-	11.43	-	11.50	-	11.50
Ministry of Finance	34.4	62.7	58.9	58.9	49.0	46.9	49.0	46.9
Ministry of Foreign Affairs & Trade	0.6	18.7	0.7	18.4	0.8	20.8	0.8	20.8
Ministry of Health	0.0	67.1	0.0	64.9	0.0	65.2	0.0	65.4
Samoa National Health Services	-	50.30	-	54.13	-	54.58	-	54.58
Samoa National Kidney Foundation	-	4.38	-	4.52	-	4.58	-	4.73
Ministry of Justice & Courts Administration	0.7	7.4	0.7	8.2	0.8	7.9	0.8	7.9
Ministry of Natural Resources & Environment	1.3	23.3	1.4	25.1	1.3	21.1	1.3	21.0
Research and Development Institute of Samoa	-	2.20	-	3.01	-	2.58	-	2.56
Ministry of Police and Prisons	0.2	18.2	0.2	21.3	0.2	20.7	0.2	20.8
Samoa Fire Services Authority	-	2.34	-	2.38	-	2.38	-	2.38
Ministry of the Prime Minister	3.9	6.8	4.6	7.7	4.5	6.8	4.5	6.8
Ministry for Revenue	351.1	8.2	398.7	10.2	410.1	8.6	430.8	8.6
Ministry of Women, Community and Social Development	0.7	8.2	0.8	10.7	0.8	7.8	0.8	7.8
Ministry of Works, Transport & Infrastructure	1.4	109.0	1.4	76.5	1.4	72.8	1.4	67.6
Land Transport Authority	-	49.07	-	40.95	-	42.10	-	41.86
Office of the Attorney General	0.0	2.9	0.0	3.2	0.0	3.1	0.0	3.2
Office of the Controller and Chief Auditor	0.3	2.5	0.3	2.6	0.3	2.6	0.3	2.6
Office of the Electoral Commissioner	0.0	1.3	0.1	2.3	0.0	1.5	0.0	1.5
Legislative Assembly	0.1	3.0	0.1	3.4	0.1	3.5	0.1	3.4
Ombudsman's Office	-	0.4	-	0.5	-	0.4	-	0.4
Public Service Commission	-	2.6	0.0	3.0	0.0	2.9	0.0	2.9
Bureau of Statistics	0.4	2.8	0.4	3.1	0.4	2.9	0.4	2.9
Total	398.9	459.9	472.4	437.9	473.0	422.3	493.7	413.3

Statement of Fiscal Responsibility

The proposed Budget 2010/11 and forward estimates for 2011/12 and 2012/2013 were prepared and have been premised on the following principles as stipulated in the Public Finance Management Act 2001:

- a. Managing total State debt at prudent levels so as to provide a buffer against factors that may impact adversely on the future levels of the total State debt in the future;

- b. Ensuring within any borrowing programme the total overall expenditures of the State in each financial year are not more than its total overall receipts (inclusive of borrowings) in that financial year;
- c. Achieving and maintaining levels of the State's net worth that will provide a buffer against factors that may impact adversely on the future of the State's net worth;
- d. Managing prudently the fiscal risks facing the State;
- e. Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of the tax rate for future years.
- f. That the policies stipulated in the SDS 2008-2012 and those fiscal policies approved by Cabinet are in agreement with the fiscal limit that will be applied to the current and future expenditures on departments and government projects.

