



GOVERNMENT OF SOLOMON ISLANDS

2016 Mid-Year Budget Review

July 2016

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MINISTER'S FORWARD

The publication of the 2016 Mid-Year Budget Review is the third significant document to be released by the Solomon Islands Government in 2016 as part of a range of reforms designed to increase the transparency of Government business as required under the *Public Financial Management Act 2013*.

This document provides an update to the National Parliament on the 2016 Budget. It provides advice to citizens, parliamentarians and donor partners on actual revenue collected and expenditure in the first half of 2016 and an update on expected developments over the remainder of 2016.

The outlook for real Gross Domestic Product growth is unchanged from the 2015 Budget, with the economy forecast to grow by 3 ½ per cent in 2016. This largely reflects continued strong growth in agriculture, logging and in the other major sectors. The sharp fall in global oil prices by 13 per cent over the first half of 2016 providing valuable support for household consumption and business investment in the economy. The closure of Gold Ridge Mine continues to have a dampening effect on economic activity, although the impact will be significantly less than in 2014 and 2015.

Revenue collections for the first six months of 2016 are sluggish behind with the 2016 Budget forecasts. Slightly weaker than expected collections for Inland Revenue and Customs and Excise Division, although there have been an increase in revenue collections from other ministries.

There was also additional expenditure incurred through the first half of the year, especially for the priority policy programs, unforeseen circumstances and urgent activities that could not otherwise be funded in the 2016 appropriation.

The execution of the Development Budget remains a concern, with an average of 17 per cent implemented by the end of Jun 2016. While specific the budget has not been adjusted, the expectation is that around 60 per cent of the development budget will be expended by the end of 2016. This means that many projects will need to be continued in 2017, and there is a strong expectation that the development budget for next year will be fully expended.

I commend this document to the National Parliament.



Hon. Snyder Rini
Minister of Finance & Treasury

INTRODUCTION

The 2016 Mid-Year Budget Review has been prepared in accordance with Section 52 of the *Public Financial Management Act 2013 (the Act)*.

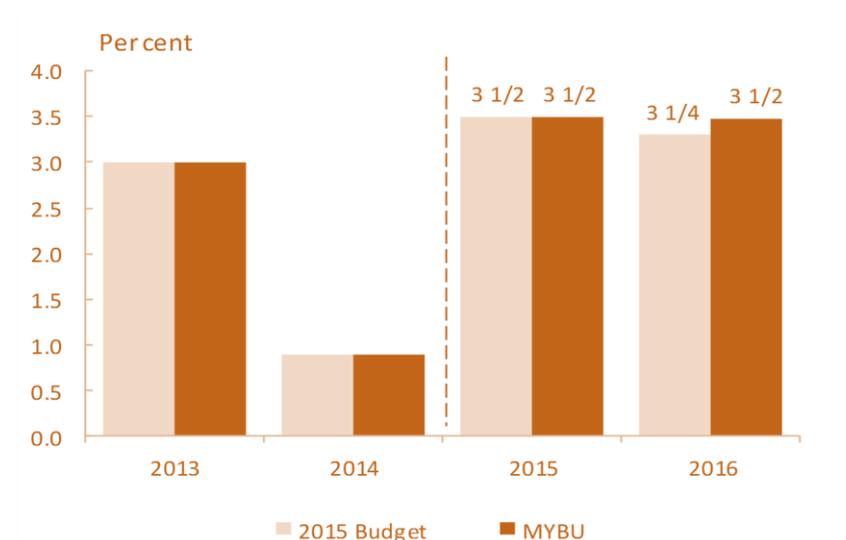
The report is designed to closely match the presentation of the Annual Budget, as required under the Act and provides a summary of expenditure and revenue outcomes as against the Budget. In addition, it also provides relevant information in relation to broader economic and fiscal issues that have arisen since the 2016 Budget was presented to and approved by the National Parliament.

The report also provides information on revenue and expenditure outcomes as of the end of July 2016 and an update on expected developments over the remainder of 2016.

ECONOMIC UPDATE

The outlook for real GDP growth is unchanged from the 2016 Budget, with the economy forecast to grow by 3 ½ per cent in 2016. This largely reflects continued strong growth in agriculture, logging and continued strong growth in the major sectors. Oil price decreased further by 31 per cent over the first half of 2016, if sustained, will provide valuable supports for household incomes and business investment in the economy.

Chart 1: Real GDP growth



The overall growth forecast for 2016 are broadly in-line with the 2016 budget estimates. Log production is expected to remain as high as 2015 levels of around \$2.2 million cubic meters, while business activities and investment is expected to increase; this is in-line with the work commencing on a number of infrastructure investment, particular in the transport and energy sector. Log production increased by 19 per cent over the first half of 2016 (to around \$1.28 million m³), but this rate of growth is not expected to be sustained in the second half of 2016. As a result, the sector is not forecast to contribute to overall GDP growth in 2016.

The Agriculture sector is projected to contribute to around ½ per cent point to growth in 2016, in line with the recovery informal agriculture production following impact of 2015 El Nino. Production of agriculture exports commodity (copra, cocoa, palm oil and P/K oil) increased by 2 per cent in first half of 2016, although fall in prices of around 17 per cent. The recent further decline in price of commodity, especially oil, if sustained, will lead to reduced production and damping growth in rural incomes.

On the expenditure basis, solid growth in household consumption and private investment expected to support overall economic activity in 2016. Net export are expected to subtract around 0.5 percentage points from growth in 2016, primary reflecting the forecast stabilisation in log exports and strong growth in imports.

The key risks to the outlook for Solomon Islands economy are a stronger than expected slowdown in the Chinese economy and weaker than expected global economic growth.

Inflation

The Honiara Consumer Price Index (CPI) declined by 1.2 per cent over the year to June 2016 (on a 3-month moving average basis). The decline in prices is mainly due to a sharp fall in domestic food prices which largely offset the slightly increase in import price (primarily oil prices).

Inflation is forecast to rebound around 3.5 per cent in 2016 consistent with the first quarter economic update, with domestic prices forecast to rise by 2.4 per cent and imported prices by 1.4 per cent. The recent depreciation of the SBD and a modest recovery in imported food and fuel prices is expected to drive the forecast rise in import prices.

Nominal Economy

The further fall in price over the first half of 2016 is expected to reduce the nominal GDP growth forecast (the current dollar value of goods and service produced in the economy). This is placing downward pressure on the revenue collections, particularly good tax on oil imports. However, reduced government expenditure on fuel and electricity (due to price falls) should largely offset the impact of lower oil-related tax receipts on the overall budget balance. In addition, the fall in oil prices is supporting real economic activity and tax receipts.

FISCAL UPDATE

The execution of the 2016 Budget has been seen expenditure tracking at 16 per cent under budget on a pro rata basis for the first half of the year compared to 39 per cent in 2015. Most significantly, expenditure on the Development Budget is around 22 per cent underspent on a pro rata basis, with only \$128.1 million spent at the end of June.

There has been minor increases in budget expenditure which have been allowed for through contingency and advance warrant provisions. These are detailed further in later sections.

Recurrent revenue is tracking at around the pro rata budget levels. Collections of tax and trade receipts are generally down on expectations, but revenue from non-tax sources is up on expectations, largely due to fisheries receipts.

The quality of information on donor budget support continues to be questionable, and further work needs to be done by the Ministry of Planning and Aid Coordination to improve.

The Fiscal Table (Table 1 below) highlight the key variations and estimates in the budget for 2016. While the Fiscal and other tables in this document compare the actual results for the first half of 2016 with a straight line *pro-rata* of the Budget estimates, this only provides an indicative guide of how the budget is tracking. This is because it does not take into account seasonal factors that can have a significant impact on some revenues and the lumpy nature of monthly expenditure.

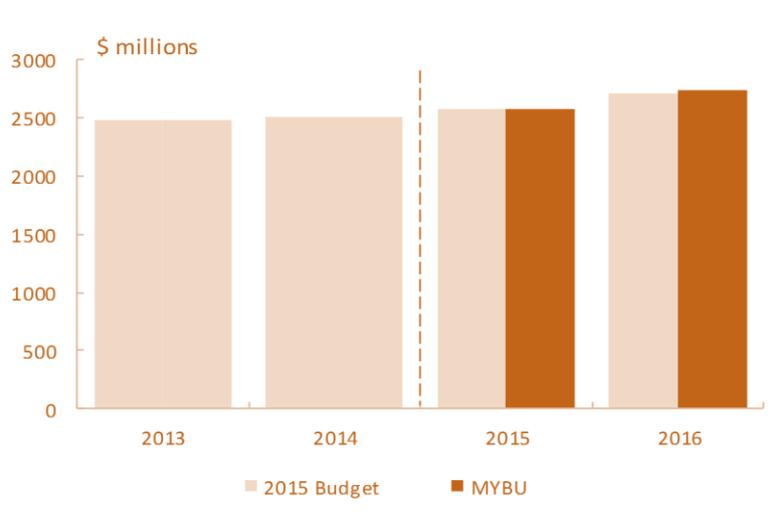
Table 1: Updated 2016 Fiscal Table

	2016 Budget Estimates \$m	2016 Revised Estimates \$m	Budget Variance \$m	Budget Pro Rata \$m	2016 Actuals \$m	Variance \$m	Variance (%)
Total Revenue	3733.2	3757.1	23.8	1878.5	1581.6	(297.0)	-16%
Recurrent Revenue	3024.3	3048.1	23.8	1524.1	1492.7	(31.4)	-2.1%
Taxes on income & profits	993.6	993.6	0.0	496.8	469.7	(27.1)	-0.1
Personal/Income tax	445.9	445.9	0.0	222.9	203.1	(19.8)	-9%
Withholding tax	284.1	284.1	0.0	142.1	135.7	(6.4)	-4%
Company tax	263.6	263.6	0.0	131.8	130.9	(0.9)	-1%
Domestic taxes on goods & services	836.4	836.4	0.0	418.2	346.7	(71.5)	-17%
Sales tax	108.7	108.7	0.0	54.3	33.3	(21.0)	-39%
Goods Tax	694.7	694.7	0.0	347.3	297.8	(49.5)	-14%
License Revenue	16.6	16.6	0.0	8.3	7.6	(0.7)	-8%
Stamp duty	16.4	16.4	0.0	8.2	8.0	(0.2)	-3%
Taxes on international trade & transactions	917.8	941.6	23.8	470.8	453.1	(17.7)	-4%
Excise Duty	163.1	154.2	(8.9)	77.1	64.9	(12.2)	84%
Export Duty	510.4	553.2	42.8	276.6	287.3	10.7	104%
Fees, charges, and other	5.2	3.0	(2.2)	1.5	0.7	(0.8)	47%
Import Duty	239.1	231.2	(7.9)	115.6	100.2	(15.4)	87%
Other taxes (other ministries)	276.5	276.5	0.0	138.3	223.1	84.8	61%
Grants and Budget Support	709.0	709.0	0.0	354.5	88.9	(265.6)	-75%
General Budget Support	40.0	40.0	0	20.0	0	(20.0)	-100%
Sector Budget Support	599.0	599.0	0	299.5	88.9	(210.6)	-70%
Donor - Funded Development	70.0	70.0	0.0	35.0	0.0	(35.0)	-100%
Total Expenditure	4301.0	4425.9	124.9	2212.9	1857.8	(355.1)	-16%
Recurrent Expenditures	2524.1	2668.9	144.8	1334.5	1318.1	(16.4)	-1%
Payroll	999.6	999.6	0.0	499.8	488.8	(11.0)	-2%
Other Charges	1524.5	1669.3	144.8	834.7	829.3	(5.4)	-1%
Budget Support (Including on-lends and grants)	599.0	599.0	0.0	299.5	88.9	(210.6)	-70%
Sector Budget Support - L3	599.0	599.0	0.0	299.5	88.9	(210.6)	-70%
Consolidated Development Budget	1177.9	1158.0	(19.9)	579.0	450.9	(128.1)	-22%
Donor-funded development	70.0	70.0	0.0	35.0	0.0	(35.0)	-100%
SIG funded development	1107.9	1088.0	(19.9)	544.0	450.9	(93.1)	-17%
Budget Balance	(567.8)	(668.8)	(101.0)	(334.4)	(276.3)	58.1	-17%

REVENUE

Revenue collections for the first six months of 2016 are slow behind with the 2016 Budget forecasts. Slightly weaker than expected collections for Inland Revenue Division (IRD), consistent with the fall in prices over the first half of 2016, have been offset by improve in Customs and Excise Division (CED) collections and increase from License, Fees and Other Charges from other Ministries. Total IRD and CED collections are now forecast to be around \$2,747.8 million in 2016.

Chart 2: Total domestic-sourced taxation and customs revenue



IRD June 2016 YTD revenue collections were around 3.7 per cent higher than the same period in 2015. CED YTD revenue collections were 5.3 per cent higher than the same period last year (supported by strong logging receipts). This rate of growth is not expected to continue over the second half of 2016.

Total IRD revenue for 2016 still remain unchanged from the 2016 Budget of around \$1,830 million (see Table 2)

- Business profitability has improved in the first half of the year, with corporate tax receipts (company tax and dividend withholding tax) for the first half of 2016 well above the same period in 2015. The estimate for company tax has been revised up slightly.
- The revised estimate for personal tax receipts is broadly in line with the Budget estimate, despite YTD June collections being 2.6 per cent lower than the same period in 2014. The modest growth in personal tax primarily reflects the loss of jobs following

the closure of the Gold Ridge Mine. This effect is expected to moderate over the second half of 2016.

- Goods tax receipts in the first half of 2016 were 2.7 per cent lower than the same period in 2015, mostly because of a sharp decline (around 31 per cent) in the Singapore benchmark fuel price and the value of fuel imports. As a result, the estimate for total goods tax has been revised down by around \$40 million. A modest rise in fuel prices and increased public expenditure is expected to provide support for goods tax over the second half of 2016.
- Sales tax receipts in 2016 are expected to be around \$9 million higher than the Budget estimate.

CED revenue collections for 2016 is now forecast to be around \$942.7 million, higher (\$26 million) than the Budget estimate. This upward revision reflects strong logging receipts over the first half of 2016, partly offset by weaker than expected excise collections.

- The estimate for import duties has been revised down slightly from the Budget. YTD June collections were only 3.3 per cent higher than the same period in 2015. However, import duties are forecast to strengthen over the second half of 2016 as a result of an expected increase in public expenditure.
- Export duties in 2016 are now forecast to be around 9 per cent higher than the Budget estimate, in line with slightly stronger than expected logging activity in the first half of the year. Increased uncertainty about the outlook for the Chinese economy (the major export destination for logs) is a key risk to logging receipts over the remainder of 2016.
- The estimate for excise duties in 2016 has been lowered by around \$8 million, consistent with a fall in tobacco excise collections over the first half of the year. Feedback from business liaison suggests that the decline in tobacco excise may reflect increased competition from tobacco products not subject to excise duty.

Additional external budget support

Additional revenue from development partners is outlined in Table 7

Table 2- Summary of Revenue

Revenue Type	2016 Budget Estimate \$m	2016 Revised Estimate \$m	Budget Variance \$m	Budget Pro Rata \$m	2016 Actuals \$m	Variance \$m	Variance (%)
OTHER REVENUE							
License Revenue	182.1	182.1	0.0	91.1	136.2	45.2	50%
Fees, charges and other	94.4	94.4	0.0	47.2	86.8	39.6	84%
Total	276.5	276.5	0.0	138.3	223.1	84.8	61%
INLAND REVENUE							
Company Tax	263.6	263.6	0.0	131.8	130.9	(0.9)	-1%
Goods Tax	694.7	694.7	0.0	347.3	297.8	(49.5)	-14%
License Revenue	16.6	16.6	0.0	8.3	7.6	(0.7)	-8%
Personal Tax	445.9	445.9	0.0	222.9	203.1	(19.8)	-9%
Sales Tax	108.7	108.7	0.0	54.3	33.3	(21.0)	-39%
Stamp Duty	16.4	16.4	0.0	8.2	8.0	(0.2)	-3%
Withholding Tax	284.1	284.1	0.0	142.1	135.7	(6.4)	-4%
Total	1830.0	1830.0	0.0	915.0	816.5	(98.5)	-11%
CUSTOMSREVENUE							
Excise Duty	163.1	154.2	(8.9)	81.5	64.9	(16.6)	-20%
Export Duty	510.4	553.2	42.8	255.2	287.3	32.1	13%
Fees, charges and other	5.2	3.0	(2.2)	2.6	0.7	(1.9)	-73%
Import Duty	239.1	231.2	(7.9)	119.5	100.2	(19.4)	-16%
Total	917.8	941.6	23.8	470.8	453.1	(17.7)	-4%
BUDGET SUPPORT							
Recurrent	638.9	638.9	0.0	319.5	90.2	(229.3)	-72%
Development	70.0	70.0	0.0	35.0	48.9	13.9	40%
Total	708.9	708.9	0.0	354.5	139.0	(215.4)	-61%
REVENUE TOTAL	3733.2	3757.0	23.8	1878.5	1631.7	(246.8)	-13%

EXPENDITURE

The consolidated mid-year actual expenditure for the first half of 2016 was \$1857.8 million against a revised *pro-rata* budget to the end of June of \$2177.9 million, which reflects a 17 per cent under spend (see Fiscal Table) compared to 13 per cent and 39 per cent respectively in 2013 and 2014.

Recurrent Expenditure

Total actual recurrent expenditure, which includes budget support provided by donors, on a *pro-rata* basis, was \$227.0 million underspent for the first half of 2016 compared to \$316.2 million (21 per cent) and \$167.1 million (11 per cent) respectively in 2015 and 2014. A significant amount of underspend funding was due to the alignment of DCCG policy directions to budget allocations which relates to activities that will occur later in 2016. It is expected that the expenditure will increase to be around the budget level in the second half of 2016 (see Fiscal Table 1).

The mid-year total domestic recurrent expenditure for the first half of 2016 was \$16.4 million below *pro-rata* budget estimate which shows 1 per cent below the *pro-rata* budget estimate in the first six months. This was represented by actual expenditure of \$1318.1 million against the *pro-rata* budget estimate of \$1334.5 million (Table 3).

Table 3- Recurrent Expenditure

	Head Of Expenditure	2016 Budget	2016 Revised Budget	Budget Variance	Budget Pro Rata	2016 Actuals	"Variance"	Variance
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(%)
270	Agriculture and Livestock Development	32.6	32.6	0.0	16.3	17.1	0.8	5%
271	Office of the Auditor General	7.5	8.3	0.8	4.2	3.1	(1.1)	-25%
272	Education & Human Resources Development	871.6	975.8	104.2	487.9	437.6	(50.2)	-10%
273	Finance and Treasury	102.3	110.9	8.6	55.4	41.1	(14.3)	-26%
274	Foreign Affairs and External Trade	45.8	47.3	1.5	23.7	25.3	1.7	7%
275	Office of the Governor General	9.6	9.6	0.0	4.8	4.9	0.1	1%
276	Health and Medical Services	334.6	334.6	0.0	167.3	165.7	(1.6)	-1%
277	Infrastructure Development	70.1	70.1	0.0	35.1	35.7	0.6	2%
278	National Debt Servicing	98.1	98.1	0.0	49.1	87.3	38.2	78%
279	National Parliament	75.2	75.2	0.0	37.6	51.9	14.4	38%
280	Forestry & Research	23.8	23.8	0.0	11.9	12.7	0.8	7%
281	Office of the Prime Minister and Cabinet	110.1	117.0	6.8	58.5	67.6	9.1	16%
282	Pensions and Gratuities	8.3	8.3	0.0	4.2	6.4	2.3	55%
283	Police, Nat. Security & Correctional Services	256.9	256.9	0.0	128.5	109.3	(19.2)	-15%
284	Provincial Gov't & Institutional Strengthening	109.8	109.8	0.0	54.9	56.3	1.4	3%
285	Lands, Housing and Survey	18.6	18.6	0.0	9.3	9.1	(0.2)	-2%
286	Development Planning and Aid Coordination.	8.0	8.0	0.0	4.0	3.0	(1.0)	-24%
287	Culture and Tourism	24.0	29.0	5.0	14.5	14.2	(0.3)	-2%
288	Commerce, Industries, Labour and Immigration	37.4	37.4	0.0	18.7	15.4	(3.3)	-18%
289	Communication & Aviation	49.2	49.2	0.0	24.6	28.1	3.5	14%
290	Fisheries and Marine Resources	17.3	17.3	0.0	8.6	8.9	0.2	3%
291	Public Service	29.9	35.2	5.3	17.6	15.9	(1.6)	-9%
292	Justice and Legal Affairs	29.6	31.3	1.7	15.7	15.1	(0.5)	-3%
293	Home Affairs	29.3	35.1	5.8	17.6	21.2	3.6	21%
294	National Unity, Reconciliation and Peace	14.8	14.8	0.0	7.4	8.5	1.0	14%
295	Mines, Energy & Rural Electrification	16.7	16.7	0.0	8.3	8.2	(0.1)	-1%
296	National Judiciary	30.0	30.0	0.0	15.0	12.6	(2.4)	-16%
297	Women, Youth and Children's Affairs	11.6	11.6	0.0	5.8	4.6	(1.2)	-20%
298	Rural Development	16.0	16.0	0.0	8.0	7.2	(0.8)	-9%
299	Environment, Climate Chng, Disaster Mgmt & Met.	35.3	40.3	5.0	20.2	23.8	3.7	18%
TOTAL		2524.1	2668.9	144.8	1334.5	1318.1	(16.4)	-1%

Variations in Budget include:

- \$0.8 million additional funding through Contingency Warrant under the Auditor General's Office to undertake audit of the Solomon Islands Ports Authority.
- \$104.2 million under the Ministry of Education and Human Resources Development provide additional funding through the 2016 Supplementary Budget to fund additional 1,562 scholarship places; 1,228 places locally and 337 places overseas.
- \$8.6 million under the Ministry of Finance and Treasury for Ministry of Finance and Treasury to utilise the remaining funds from DFAT through the Advance Warrant to meet additional costs within the Ministry.

- \$1.5 million under the Ministry of Foreign Affairs provides additional funding through the 2016 Supplementary Budget to fund subscription fees for overseas bodies, Commonwealth Secretariat, CFTC and SPC and House Rent for Staff.
- \$6.8 million under the Office of the Prime Minister provides additional funding through the 2016 Supplementary Budget and Contingency Warrant to fund Solomon Islands hosting of the Pacific Islands Development Forum (PIDF) Leaders Conference at Honiara in July 2016, contribution to Melanesian Spearhead Group (MSG) and, funeral and repatriation costs for Late Sir Peter Kenilorea.
- \$5.0 million under the Ministry of Culture and Tourism provides additional funding through the 2016 Supplementary Budget to fund Western Province Tourism project.
- \$5.3 million under the Ministry of Public Service provides additional funding through the 2016 Supplementary Budget to fund the cost for sustaining and further developing Aurion - Payroll/HRMIS in Public Service.
- \$1.7 million under the Ministry of Justice and Legal Affairs provides additional funding through the 2016 Supplementary Budget to fund office rent for the new Attorney General's Office at Panatina Plaza.
- \$5.8 million under the Ministry of Home Affairs provides additional funding through the Contingency Warrant (\$3.3 m) and 2016 Supplementary Budget (2.5 m) to fund pre-bid lobbying to host the 2023 Pacific Games in Honiara.
- \$5.0 million under the Ministry of Environment, Climate Change, Disaster Management and Meteorology provides additional funding through the Advance Warrant to support the Government and victims of the Tropical Cyclone Winston in Fiji.

Total **Other Charges expenditure** by all ministries in 2016 was below *pro-rata* budget by \$5.4 million or 0.6 per cent (Table 4) compared to \$87.5 million or 12 per cent in 2015 and 8 per cent above of *pro-rata* budget in the first half of 2014. This reflects actual expenditure of \$829.3 million against the *pro-rata* budget estimate of \$834.7 million.

Ministries that have already expended their other charges expenditures above *pro-rata* budget estimates will oblige to proper management of available budgets to sustain implementation of the remaining activities in the second half of 2016. The following ministries have significant overspends against their *pro-rata* budgets by July 2016.

- National Parliament expended 56 per cent, some of which includes expenditures relating to MP's allowances, accommodation and discretionary fund, house rent,

maintaining of the non-residential building (including Paul Tovua Complex), electricity, telephone and faxes.

- Ministry of National Unity, Reconciliation and Peace expend 25 per cent; the payments that constitutes these expenditures are house and office rent, conferences, Seminars and workshops, office stationery, and training.
- Ministry of Home Affairs and Ministry of Environment (MECDM) were both expended their pro- rata budget at around 22 per cent; the payments were mostly for grants (church and sports), house rent and entertainment. For MECMD most payments were for house and office rent, electricity, telephone and faxes, disaster relief and conferences, seminars and workshops.
- Ministry of Agriculture and Livestock Development expend 23 per cent above *pro-rata*; most of these payments were for house and office rent, training, electricity and telephone and faxes.
- The other Ministries that expend less than 20 per cent above their *pro-rata* budget for the first half of 2016 are also reported in Table 4 (below).

Overall, by July 2016, the 2016 budget was underspend against *pro-rata* by 6% which originates from eleven ministries by varying levels. Significant underspend come from the following;

- Ministry of Education and Human Resources Development underspent by 16 per cent or \$43.6 million. Most of these expenditures are Grants to provincial education institutions, basic and senior education and public servants local fares.
- Ministry of Finance and Treasury underspent by 30 per cent or \$12.4 million. Key under spends are on internet, radio and satellite, trade creditors' arrears, IRD refund to previous years arrears and electricity.
- Ministry of Health and Medical Services underspent by 20 per cent or \$16.8 million. The largest underspend budget lines are drugs and dressings, freights grants to hospitals, electricity and telephone and faxes.

- Ministry of Public Services also underspent by 35 per cent or \$3.6 million. The key areas of under spends are on training (in service), electricity, telephone and faxes, and computer software and hardware.

Table 4- Other Charges Expenditure

	Head Of Expenditure	2016 Budget	2016 Revised Budget	Budget Variance	Budget Pro Rata	2016 Actuals	"Variance"	Variance
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(%)
270	Agriculture and Livestock Development	17.5	17.5	0.0	8.8	10.8	2.1	23%
271	Office of the Auditor General	5.3	6.1	0.8	3.0	2.2	(0.8)	-26%
272	Education & Human Resources Development	440.1	544.3	104.2	272.2	228.5	(43.6)	-16%
273	Finance and Treasury	74.3	82.9	8.6	41.4	29.1	(12.4)	-30%
274	Foreign Affairs and External Trade	40.1	41.6	1.5	20.8	23.0	2.2	10%
275	Office of the Governor General	6.8	6.8	0.0	3.4	4.0	0.6	17%
276	Health and Medical Services	165.9	165.9	0.0	83.0	66.1	(16.8)	-20%
277	Infrastructure Development	60.3	60.3	0.0	30.1	31.5	1.3	4%
278	National Debt Servicing	98.1	98.1	0.0	49.1	87.3	38.2	78%
279	National Parliament	47.0	47.0	0.0	23.5	36.7	13.2	56%
280	Forestry & Research	14.4	14.4	0.0	7.2	8.4	1.2	17%
281	Office of the Prime Minister and Cabinet	75.7	82.5	6.8	41.3	48.5	7.2	18%
282	Pensions and Gratuities	0.0	0.0	0.0	0.0	0.0	0.0	0%
283	Police, Nat. Security & Correctional Services	135.3	135.3	0.0	67.6	65.3	(2.3)	-3%
284	Provincial Gov't & Institutional Strengthening	89.4	89.4	0.0	44.7	45.9	1.2	3%
285	Lands, Housing and Survey	12.5	12.5	0.0	6.3	6.5	0.2	4%
286	Development Planning and Aid Coord.	5.2	5.2	0.0	2.6	1.9	(0.7)	-28%
287	Culture and Tourism	20.4	25.4	5.0	12.7	12.8	0.1	1%
288	Commerce, Industries, Labour and Immigration	27.4	27.4	0.0	13.7	10.4	(3.3)	-24%
289	Communication & Aviation	38.1	38.1	0.0	19.1	22.6	3.6	19%
290	Fisheries and Marine Resources	11.4	11.4	0.0	5.7	6.4	0.7	12%
291	Public Service	15.3	20.5	5.3	10.3	6.7	(3.6)	-35%
292	Justice and Legal Affairs	17.9	19.6	1.7	9.8	9.4	(0.4)	-4%
293	Home Affairs	26.7	32.5	5.8	16.3	19.9	3.6	22%
294	National Unity, Reconciliation and Peace	11.6	11.6	0.0	5.8	7.3	1.5	25%
295	Mines, Energy & Rural Electrification	10.7	10.7	0.0	5.4	5.8	0.4	8%
296	National Judiciary	14.5	14.5	0.0	7.2	7.1	(0.2)	-2%
297	Women, Youth and Children's Affairs	9.3	9.3	0.0	4.6	3.7	(1.0)	-21%
298	Rural Development	6.7	6.7	0.0	3.3	2.2	(1.1)	-34%
299	Environment, Climate Chng, Disaster Mgmt & Met.	26.7	31.7	5.0	15.8	19.4	3.5	22%
TOTAL		1524.5	1669.3	144.8	834.7	829.3	(5.4)	-0.6%

Total **Payroll expenditure** by all ministries was below *pro-rata* budget for the first six months of 2016 by \$11.0 million or 2 per cent (Table 5). In 2015 this was \$4.7 million or 1 per cent above *pro-rata* budget in 2015 and \$24.4 million or 6 per cent below the *pro-rata* budget in 2014. This was represented by actual expenditure of \$488.8 million against the *pro-rata* budget estimate of \$499.8 million. The Cost of Living Allowance adjustment of 3.5 per cent, an increase of allowances for nurses and doctors, and police and correctional officers will likely to have a flow on effects on payroll expenditure over the remainder of the year so Ministries will need to pay careful attention to their use of overtime and other allowances to ensure that the payroll remains within budget.

Table 5- Payroll Expenditure

	Head Of Expenditure	2016 Budget	2016 Revised Budget	Budget Variance	Pro Rata Budget	2016 Actuals	"Variance"	Variance
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(%)
270	Agriculture and Livestock Development	15.0	15.0	0.0	7.5	6.3	(1.2)	-16%
271	Office of the Auditor General	2.3	2.3	0.0	1.1	0.9	(0.3)	-24%
272	Education & Human Resources Development	431.5	431.5	0.0	215.7	209.1	(6.6)	-3%
273	Finance and Treasury	28.0	28.0	0.0	14.0	12.0	(2.0)	-14%
274	Foreign Affairs and External Trade	5.8	5.8	0.0	2.9	2.4	(0.5)	-18%
275	Office of the Governor General	2.8	2.8	0.0	1.4	0.9	(0.5)	-38%
276	Health and Medical Services	168.6	168.6	0.0	84.3	99.5	15.2	18%
277	Infrastructure Development	9.8	9.8	0.0	4.9	4.2	(0.8)	-15%
278	National Debt Servicing	0.0	0.0	0.0	0.0	0.0	0.0	0
279	National Parliament	28.2	28.2	0.0	14.1	15.3	1.2	8%
280	Forestry & Research	9.5	9.5	0.0	4.7	4.4	(0.4)	-8%
281	Office of the Prime Minister and Cabinet	34.5	34.5	0.0	17.2	19.1	1.9	11%
282	Pensions and Gratuities	8.3	8.3	0.0	4.2	6.4	2.3	55%
283	Police, Nat. Security & Correctional Services	121.7	121.7	0.0	60.8	44.0	(16.8)	-28%
284	Provincial Gov't & Institutional Strengthening	20.3	20.3	0.0	10.2	10.3	0.2	2%
285	Lands, Housing and Survey	6.0	6.0	0.0	3.0	2.6	(0.4)	-15%
286	Development Planning and Aid Coord.	2.7	2.7	0.0	1.4	1.2	(0.2)	-16%
287	Culture and Tourism	3.6	3.6	0.0	1.8	1.4	(0.4)	-24%
288	Commerce, Industries, Labour and Immigration	10.0	10.0	0.0	5.0	5.0	(0.0)	0%
289	Communication & Aviation	11.1	11.1	0.0	5.5	5.5	(0.1)	-1%
290	Fisheries and Marine Resources	5.9	5.9	0.0	3.0	2.5	(0.5)	-16%
291	Public Service	14.6	14.6	0.0	7.3	9.2	1.9	26%
292	Justice and Legal Affairs	11.7	11.7	0.0	5.9	5.8	(0.1)	-1%
293	Home Affairs	2.6	2.6	0.0	1.3	1.3	(0.0)	-1%
294	National Unity, Reconciliation and Peace	3.2	3.2	0.0	1.6	1.2	(0.4)	-26%
295	Mines, Energy & Rural Electrification	5.9	5.9	0.0	3.0	2.4	(0.5)	-18%
296	National Judiciary	15.5	15.5	0.0	7.8	5.6	(2.2)	-29%
297	Women, Youth and Children's Affairs	2.3	2.3	0.0	1.2	1.0	(0.2)	-17%
298	Rural Development	9.3	9.3	0.0	4.7	5.0	0.4	8%
299	Environment, Climate Chng, Disaster Mgmt & Met.	8.7	8.7	0.0	4.3	4.5	0.1	3%
TOTAL		999.6	999.6	0.0	499.8	488.8	(11.0)	-2%

Recurrent Expenditure by Economic Classification

This section provides a breakdown of expenditure against economic classifications, which provides at a whole of government level an insight into the types of payment that have been prioritised in the first half of 2016, and performance against budget.

Table 6: Economic Classification of Recurrent Expenditure

Expenditure Classification	2016 Original Budget (\$m)	2016 Revised Budget (\$m)	Variance \$m	Budget Pro rata (\$m)	Actuals (\$m)	Variance (\$m)	Variance (%)
Payroll	999.6	999.6	0.0	499.8	488.8	(11.0)	-2%
Administration	119.2	114.0	(5.2)	57.0	61.7	4.7	8%
Consumables	77.8	78.2	0.4	39.1	33.1	(6.0)	-15%
Specialist Services	4.5	4.9	0.4	2.4	2.3	(0.2)	-8%
Entertainment	13.5	13.5	0.0	6.7	8.9	2.1	32%
Fuel	19.9	19.6	(0.3)	9.8	7.3	(2.5)	-26%
Disaster Relief	13.2	18.2	5.0	9.1	10.6	1.5	16%
Hire Goods and Services	153.4	162.7	9.2	81.3	88.8	7.5	9%
Maintenance	86.6	89.4	2.8	44.7	48.6	3.9	9%
Training	197.7	305.5	107.8	152.7	129.6	(23.2)	-15%
Travel	136.4	139.1	2.6	69.5	61.4	(8.2)	-12%
Transport	13.9	14.0	0.0	7.0	1.8	(5.2)	-74%
Uniforms	5.7	5.7	(0.0)	2.8	2.2	(0.7)	-23%
IRD Repayments	5.5	5.8	0.3	2.9	1.5	(1.4)	-48%
Utilities	3.0	2.8	(0.2)	1.4	0.4	(1.0)	-70%
Electricity	77.9	77.6	(0.3)	38.8	33.7	(5.1)	-13%
Gas	0.4	0.4	0.0	0.2	0.1	(0.1)	-36%
Postal Charges	0.1	0.1	0.0	0.1	0.0	(0.0)	-72%
Internet, Radio and Satellite	12.9	12.7	(0.2)	6.3	1.6	(4.7)	-74%
Telephone and Faxes	38.4	39.0	0.5	19.5	18.0	(1.5)	-8%
Water	14.9	14.8	(0.1)	7.4	6.9	(0.5)	-7%
Grants	395.5	408.2	12.6	204.1	208.8	4.7	2%
Capital Expenditure	60.9	70.1	9.2	35.0	30.3	(4.8)	-14%
Debt Management	73.1	73.1	0.0	36.6	71.7	35.2	96%
Total	2,524.1	2,668.9	144.8	1,334.5	1,318.1	(16.4)	-1%

The following expenditure items by economic classification have been tracked to have expended more than the *pro-rata* budget in the first half of the year. These areas of expenditure will require stringent management of resources to sustain activities for the second half of the year.

- Disaster Relief is tracking at 16 per cent or \$1.5 million above the *pro-rata* budget; this was for relief effort in support of the victims of Cyclone Winston in Fiji.
- Expenditure on Hire Goods and Services and Maintenance were both tracking at 9 per cent above the *pro-rata* budget. This category includes hiring of plants and

vehicles, outboard motor, and house and office rent and security and maintenance of architect structures, computer, plants and vehicles.

- Debt Management is tracking at 96 per cent or \$35.2 million above its pro rata budget. These expenditure depicts the early payment of domestic debt (Treasury Bills) and external debt (Interest and Principle).
- Administrations are also tracking above pro rata budget at 8 per cent or \$4.7 million compared to 18 per cent or \$9.7 million below pro-rata budget estimates in 2015. This category includes expenditures such as fees and charges, printing/photocopying, publicity and promotion and insurance.
- Entertainment is tracking at 32 per cent or \$2.1 million above *pro-rata* budget. The large expenditure are gifts and presents, entertainment, staff and prisoner welfare.

On the other hand, the following expenditure items by economic classification have been tracked to have expended below the *pro-rata* budget in the first half of the year. These areas of expenditure will require flexible management of resources to improve activities for the second half of the year.

- Training is tracking below *pro-rata* budget estimates at 15 per cent at an average expenditure of \$21.6 million monthly.
- Travel is tracking below budget estimates at 12 per cent or \$8.2 million in the first half of the year.
- Capital Expenditure is tracking below *pro-rata* budget by 14 per cent or \$4.8 million in the first half of the year.
- Consumables are tracking below budget at 15 per cent or \$6.0 million compared to 1 per cent or \$0.2 million in 2015.
- Utilities are tracking below *pro-rata* budget at 70 per cent or \$1 million compared to 95 per cent or \$1.6 million in 2015.

Donor Budget Support

Donor funded recurrent spending was 70 per cent under spent against the *pro-rata* budget (Table 7) compared to 71 per cent in 2015. Donor budget support is an area that the Government has identified as requiring improvement, both in relation to budgeting and expenditure. The coordination of donor budgets is complicated as donors' budget cycles do not match SIGs. Additionally, execution of this expenditure typically requires approval from donors and significant levels of reporting, which contributes to underspending.

It is likely that the total 2016 budget for donor support is overstated, and work is underway to better reflect the estimates of donors' funding. This is caused by donors often providing expenditure estimates for a full grant to the SIG that can cover many years, while budget estimates (and appropriations) should only reflect those amounts due to be spent in the budget year.

Table 7- Donor Recurrent Expenditure

	Head Of Expenditure	2016 Budget	2016 Revised Budget	Budget Variance	Budget Pro Rata	2016 Actuals	"Variance"	Variance
		\$m	\$m	\$m	\$m	\$m	\$m	(%)
372	Education & Human Resources Development (Budget Su	90.0	90.0	0.0	45.0	42.2	(2.8)	-6%
373	Finance and Treasury (Budget Support)	20.5	20.5	0.0	10.2	2.8	(7.4)	-72%
374	Foreign Affairs & External Trade (Budget Support)	5.1	5.1	0.0	2.6	0.0	(2.6)	-100%
376	Health and Medical Services (Budget Support)	130.4	130.4	0.0	65.2	43.8	(21.4)	-33%
378	National Debt Servicing (Budget Support)	341.7	341.7	0.0	170.9	0.0	(170.9)	-100%
390	Fisheries and Marine Resources (Budget Support)	8.9	8.9	0.0	4.4	0.0	(4.4)	-100%
392	Justice and Legal Affairs (Budget Support)	1.7	1.7	0.0	0.8	0.0	(0.8)	-100%
396	National Judiciary (Budget Support)	0.6	0.6	0.0	0.3	0.0	(0.3)	-100%
TOTAL		598.9	598.9	0.0	299.5	88.9	(210.6)	-70%

As shown in the Donor Recurrent Budget Support table 7, a number of ministries have under spend their donor funded budgets by 100 per cent. They are namely, Ministry of Foreign Affairs and External Trade, Fisheries and Marine Resources, Justice and legal Affairs, National Judiciary and National Debt Servicing.

Development Budget

Domestic and donor funded development expenditure was \$128.1 million or 22 per cent (see Table 8) below *pro-rata* budget estimates compared to \$488.7 million or 86 per cent in the first half of 2015. This reflects an improvement of approximately 74 per cent where Ministries have six months implementation time compared to only eight weeks due to the late approval of the budget appropriation in 2015.

Expenditure in the second half of 2016 is expected to pick up significantly as tenders are currently being evaluated and projects, particularly in infrastructure and rural development are getting underway.

Variations in the Development Budget include:

- \$6.9 million of additional funding through the Advance Warrant for the Ministry of Finance and Treasury to utilise the remaining funds provided by Australia Department of Foreign Affairs and Trade to meet other operating costs and maintaining of the new Treasury Building.
- \$9.3 million additional funding through the 2016 Supplementary Budget for the Ministry of Health and Medical Services to cater for ongoing work on the relocation of National Referral Hospital (NRH) feasibility work, site confirmation and securing site from illegal squatters.
- Additional \$35.0 million funding through the 2016 Supplementary Budget for the Ministry of Infrastructure Development Budget to provide additional funding to National Transportation Initiative Program. This comes from saving from the Development Infrastructure Program \$10.0 million and the SIG Buildings Development Program \$25.0 million.
- \$2.7 million additional funding the Ministry of Home affairs to provide additional funding to Sports Grant for the pre-bid lobbying to host the 2023 Pacific Games in Honiara. The funding comes from savings of the same amount in the ministry's development budget.
- \$1.7 millions of additional donor funding through the Advance Warrant under the development Project- Renewable Energy Development Program for Ministry of Mines, Energy and Rural Electrification purposely for solar electrification projects in the rural schools

Table 8- Developed Expenditure

	Head Of Expenditure	2016 Budget	2016 Revised Budget	Budget Variance	Budget Pro rata	2016 Actuals	"Variance"	Variance
		\$m	\$m	\$m	\$m	\$m	\$m	(%)
470	Agriculture and Livestock Development	39.4	39.4	0.0	19.7	15.9	(3.8)	-19%
471	Office of the Auditor General	2.2	2.2	0.0	1.1	0.0	(1.1)	-100%
472	Education & Human Resource Management	77.0	77.0	0.0	38.5	17.6	(20.9)	-54%
473	Finance & Treasury	50.0	56.9	6.9	28.5	7.1	(21.3)	-75%
474	Foreign Affairs & External Trade	3.0	3.0	0.0	1.5	0.1	(1.4)	-90%
475	Office of the Governor General	1.0	1.0	0.0	0.5	0.8	0.3	53%
476	Health & Medical Services	31.5	40.8	9.3	20.4	1.6	(18.8)	-92%
477	Infrastructure Development	288.9	253.9	(35.0)	127.0	142.2	15.2	12%
479	National Parliament	10.0	10.0	0.0	5.0	1.7	(3.3)	-65%
480	Forestry & Research	25.8	25.8	0.0	12.9	4.5	(8.4)	-65%
481	Office of the Prime Minister & Cabinet	20.5	20.5	0.0	10.3	4.6	(5.7)	-55%
483	Police, Nat. Security & Correctional Services	16.5	16.5	0.0	8.3	8.0	(0.3)	-3%
484	Provincial Gov't & Institutional Strengthening	60.0	60.0	0.0	30.0	3.0	(27.0)	-90%
485	Lands, Housing & Survey	19.3	19.3	0.0	9.7	3.6	(6.1)	-63%
486	Development Planning & Aid Coord.	2.6	2.6	0.0	1.3	1.0	(0.2)	-18%
487	Culture and Tourism	28.8	28.8	0.0	14.4	14.5	0.1	1%
488	Commerce, Industry & Employment	14.6	14.6	0.0	7.3	4.9	(2.4)	-33%
489	Communication & Aviation	26.4	26.4	0.0	13.2	0.0	(13.2)	-100%
490	Fisheries & Marine Resources	31.1	31.1	0.0	15.5	7.4	(8.1)	-52%
491	Public Service	3.2	3.2	0.0	1.6	0.1	(1.5)	-93%
492	Justice and Legal Affairs	6.5	6.5	0.0	3.3	1.7	(1.5)	-48%
493	Home Affairs	3.3	0.6	(2.7)	0.3	0.4	0.1	31%
494	National Unity, Reconciliation & Peace	8.6	8.6	0.0	4.3	7.0	2.7	63%
495	Mines, Energy & Rural Electrification	32.3	33.9	1.7	17.0	8.0	(8.9)	-53%
496	National Judiciary	4.0	4.0	0.0	2.0	0.3	(1.7)	-86%
497	Women, Youth & Children's Affairs	4.5	4.5	0.0	2.3	0.3	(2.0)	-87%
498	Rural Development	350.0	350.0	0.0	175.0	190.9	15.9	9%
499	Environment, Climate Chng, Disaster Mgmt & Met	16.8	16.8	0.0	8.4	3.7	(4.7)	-56%
TOTAL		1177.9	1158.0	(19.9)	579.0	450.9	(128.1)	-22%

Overall, the development budget is below *pro-rata* by 22 per cent or \$128.1 million. At the head level there are a number of ministries that have gone over their *pro-rata* budgets while a significant number of ministries are well below their *pro-rata* budgets.

The following Ministries have over spent their development budgets against *pro-rata* budget. These Ministries will require tough management of resources to sustain activities for the second half of the year.

- Ministry of National Unity, Reconciliation and Peace expend by 63 per cent or \$2.7 million above their *pro-rata* budget.
- Office of the Governor General is above their *pro-rata* budget by 53% or \$0.3 million.
- Ministry of Home Affairs are above their *pro-rata* by 31 per cent or \$0.1 million.
- Ministry of Infrastructure Development expend by 12 per cent or \$15.2 million above their *pro-rata* budget.
- Ministry of Rural Development expend above *pro-rata* budget estimates by 9 per cent or \$15.9 million.
- Ministry of Culture and Tourism expenditure is above *pro-rata* by 1 per cent or \$0.1 million.

Well above half of the remaining ministries spend below their *pro-rata* development budgets by more than 50 per cent as per the Table 8. Few are listed here;

- Ministry of Communication and Aviation and Office of the Auditor General has not spend their development budgets or 100% under *pro-rata*.
- Ministry of Public Service expends below their *pro-rata* budget by 93 per cent or \$1.5 million.
- Ministry of Health and Medical Services below its *pro-rata* budget by 92 per cent or \$18.8 million
- Ministry of Provincial Government and Institutional Strengthening under spend by 90 per cent or \$27.0 million
- Ministry of Education and Human Resources Development below *pro-rata* by 54 per cent or \$20.9 million.
- Ministry of Foreign Affairs and External Trade below *pro-rata* by 90 per cent or \$1.4 million.