

ANALYSIS ON THE TUVALU TELECOMMUNICATION CORPORATION BUDGET FOR 2017

Introduction:

The main purpose of this paper is to brief you on the TTC Budget for the year end 2017. The report covers summaries of the purpose of Business, Budget overview, Comments and Recommendations.

Purpose of Business:

The principal function of the Tuvalu Telecommunication Corporation (TTC) specified under its enabling Act are to provide Tuvalu with an information communication technology (ICT) infrastructure and services that supports community development, social wellbeing and to foster economic growth.

Budget Overview:

The table below gives you a summary of the 2017 Budget in comparison with the 2016 Budget and Revised figures.

ITEM	2016 Budget (\$)	2016 Revised (\$)	2017 Budget(\$)	VAR 2016 & 2017 Budget (%)	VAR 2016 Rev & 2017 Budget (%)
INCOME					
Fix-Lines	480,166	501,773	577,038	20.2	15.0
GSM Revenue	559,799	411,569	691,045	23.4	67.9
Internet link	889,358	778,400	991,080	11.4	27.3
Internet Traffic In_IP	425,220	311,469	319,256	-24.9	2.5
Sky Pacific	66,367	64,839	74,565	12.4	15.0
Other Revenue	277,663	686,294	525,999	89.4	-23.4
TOTAL	2,698,573	2,754,344	3,178,983	17.8	15.4
EXPENDITURES					
Personnel Exp.	514,827	542,657	595,144	15.6	9.7
Purchases	70,593	25,709	80,000	13.3	211.2
International Traffic Exp.	85,014	58,550	30,000	-64.7	-48.8
Satellite Bandwidth Lease	877,572	790880	957,744	9.1	21.1
Depreciation	254,636	265,142	358,647	40.8	35.3
Allowances	34,780	21,063	27,500	-20.9	30.6
Bank Charges	17,357	18,451	102,417	490.1	455.1
Electricity	105,692	81,326	106,000	0.3	30.3
Freight and Customs	19,009	48,275	51,500	170.9	6.7
Rent Subsidies	66,660	63,996	89,796	34.7	40.3
Repair and Maintenance	35,626	29,550	38,000	6.7	28.6
Supplies Exp.	52,706	39,426	37,000	-29.8	-6.2
Travel & Subs. Allow	63,115	70,777	86,000	36.3	21.5
Other Recurrent	459,751	391,855	282,648	-38.5	-27.9
TOTAL	2,657,338	2,447,657	2,842,396	7.0	16.1
NET PROFIT	41,235	306,687	336,587		

The table above reveals that the 2017 Total Income Budget is expected to increase by 17.5% and 15.4% in comparison with the 2016 Budget and Revised figures respectively. Telephone, internet, mobile and Sky services indicate optimistic increases for the budget even though revised budget show that revenue was under collected for 2016 with the exception for fixed lines. These increases are based on the new 4G LTE network replacing the 3G for mobile and improved internet segment for TTC with significant reduction in the price paid for Mbits/s using the ABS link which is 43% lower than the current provider Speedcast satellite. Furthermore, Sky Pacific TV is projected to have increases in the number of subscribers while cable replacements for telephones affected by cyclone PAM will help improve telephone services and access which is still the cheapest communication service that is used across the islands and Funafuti main lands.

2017 Budget Total Expenditure is expected to increase by 7% and 16.1% in comparison with the 2016 Budget and Revised figures respectively. It seems that most of the Expenses items were increased significantly in 2017 with the exception of Intern'1 Traffic _OP, Allowances, Supplies and Other Current Expenditure which were reduced substantially. Satellite bandwidth remains the highest expense for TTC at 34% of total expenses. The projected increase is 21.1% as a result of an additional 13Mbps on top of the current 68Mbps with 3Mbps bandwidth utilized for outer islands internet coverage.

TTC is forecasting a Net Profit of \$336,587 in the 2017 Budget with revenue increasing by 15.4% based from 2016 revised figures. This forecast can be optimistic on the basis that revenue generated from current developments in communication services projected for 2017 are carried out accordingly especially with implementation of 4G LTE network, improved internet uplinks and replacement of cabling for telephone services. In addition Government contribution under CSO funding for \$300k on capital expenditure reduces the costs for capital investment which is a major expense for TTC.

Comments:

- i. This year 2017 poses another challenging year for TTC given the development requirements that must be undertaken. TTC has proposed a pay rise for 8% which is an addition cost of \$46k in comparison to revised 2016 gross salary. It is noted that the salary structure for TTC in comparison with TEC and GOT is much lower. Further reference to the current financial position of the corporation indicate a positive cash flow of \$1.5m based on revised 2016 budget and a projected \$1.1m for 2017 with net profit of \$300k in projected budget. In addition given the huge development requirements needed for TTC it is also important to take into account the need to retain skilled workers within the organization. Thus the proposal could be given favorable consideration.
- ii. TTC's proposed sitting allowances for Board of Directors increased by 50% (\$250 to \$375) which is significantly high compared to other years and even higher than NBT's which is the most profitable of all PE's. This proposed increase should not be adhered to as TTC even though has improved its financial standings it still needs to provide a return for Governments investment through Dividends and payment of Company tax. As of now, the 50% increase for Board should be removed and be maintained at current level of \$250.

- iii. TTC money is properly managed and to be used on basic needs of the company to provide better services to the public.
- iv. TTC is one of the few corporations that had always submitted their reports in due time as required under the PE Act. Furthermore, they had taken revised their reporting format to meet the financial reporting requirement for PERMU.
- v. No incentives are given to free riders. All must work hard and determinedly to provide pathways for competency and success and TTC has shown a great initiative in 2016 with positive financial outcomes.

Recommendation:

The Hon. Minister is recommended to approve TTC 2015 budget only if

- i. The 50% increase for allowances for Board of Directors is removed but to be maintained at current level of \$250 not \$375.
- ii. TTC continue to provide professional and standard services to the Public with improved access to outer islands communication services.