

2013/2014

Budget Consultation



Government of the Cook Islands
Ministry of Finance and Economic Management

November 2013



To seek the input of Cook Islanders into the future of the Cook Islands

Message from the Minister of Finance

Kia Orana kotou katoatoa,

The Government of the Cook Islands has commenced the process of developing the 2014/15 National Budget with the release of the Budget Consultation Document.

I believe that responsible government encourages continued dialogue to enable the community to get a good understanding of various ideas and the choices faced by the Government of the day.

The Budget Consultation Document prepared by the Ministry of Finance and Economic Management contains some basic facts to inform people on how to prepare for the 2014/15 Budget. The 2014/15 Budget intends to outline in detail every estimate of revenue and expenditure for the next three years out to 2016/17 enabling Ministries to improve their planning and improve coherence with the National Sustainable Development Plan. At this point in time of our national development the Government is strongly advocating investment in key infrastructure as it is the key to our continued prosperity. Government's key priorities for infrastructure development are in water, waste and renewable energy.

Improving the water supply and sanitation systems across the country will require additional debt, moving forward we will work with the community discussing how much debt is appropriate to fund these works and how we can fairly recoup some of those costs from the final user.

It is in this sense of community consultation that I would like to take the opportunity to invite individuals, the business community, the church, non-Government organisations and other representatives of civil society across the Cook Islands to present a submission to the Government for the formulation of the 2014/15 Budget.

There is no set format to a submission, but there will be two stages in the submission process. Submissions can be brief or as long as the author desires, but we have provided some prompting questions below to assist in forming submissions.

Stage 1: General sector input by 6 December 2013

What sectors do you feel need the most attention?

- Infrastructure (such as water, roads and harbours)
- Social (such as education, health and social services)
- Economic (such as tourism, fisheries, agriculture and economic development)
- Law and Order (police, customs and justice systems)
- Governance (public sector reform and political reform)

Within these sectors, what strategies do you feel need attention or are absent? Why? Are there other areas you feel could contribute across the different sectors or other strategies the Government should be pursuing?

Stage 2: Specific initiatives by 6 January 2014

This will depend on your submission. For example:

- *What strategies should the Ministry of Health invest more in to combat NCDS?*
- *What initiatives can Government do to improve transportation between the Pa Enea?*
- *How can Government improve its investment in the tourism industry?*
- *What programs should the Government invest in to improve public safety?*

The more detailed and evidence based your submission, the more likely it will get considered alongside Ministry applications in the 2014/15 Budget process.

Submissions will be made public and posted on the Ministry of Finance and Economic Management website (www.mfem.gov.ck).

I encourage you all to contribute and participate in the development of the Budget, it is in this manner and spirit that our nation will continue to develop and advance.

Kia Manuia,
Mark Brown
Minister of Finance
November 2013

All monetary references in this document are expressed as New Zealand Dollars.
The fiscal year of the Government begins on the 1st July and ends 30 June.

1. INTRODUCTION

The Budget Consultation document is designed to directly engage the people of the Cook Islands in national development through the Government's annual budget process. Your input will be considered by relevant managers within Government to inform future planning of service delivery and investment to the people of the Cook Islands. The document provides a short overview of the:

- Crowns revenue base and where it is spent and invested; and;
- Government's plans for development that are intended to shape the future for Cook Islanders.

If you would like to make a Stage 1 budget submission, please send it through to budgetinfo@cookislands.gov.ck before the 6th December 2013 and Stage 2 budget submissions to be sent before 6th January 2014 (noting that all submissions will be made public via the MFEM website and will include author names unless requested otherwise).

2. COOK ISLANDS COMMUNITY PROFILE

The Cook Islands has a relatively narrow economic base due to its isolation from key global markets, limited primary resources, and small labour force.

The economy has evolved from one where growth was mainly driven by public sector expenditure to one that includes a growing private sector. Growth in the Cook Islands economy in 2012 was 4.7 per cent in nominal terms (4.4 per cent in real terms). Tourism continues to be the cornerstone of the economy with smaller contributions from financial services, marine and agriculture. Most private sector activity is concentrated on the main island of Rarotonga, and to a lesser extent, in Aitutaki.



According to the 2011 National Census the total resident population is approximately 14,700, a 2.3 per cent decline from the 2006 Census due to continued depopulation of the islands outside of Rarotonga (which experienced an increase in population from immigration). 74 per cent of the total population resides on Rarotonga.

Distance and the small size of the islands are major constraints to development. The 15 islands of the Northern and Southern Groups of the Cook Islands are spread across an exclusive economic zone (EEZ) of 2.0 million km², but only have a total land area of 240 km².



relatively lower outside of Rarotonga.

The Cook Islands health profile is largely favourable with basic health coverage in each island, high immunisation rates throughout the country, and sufficient resources to meet the needs of the population. Absolute poverty is not an issue of concern, but average incomes are

Non Communicable Diseases (NCD's) such as diabetes, cardiovascular diseases, hypertension and obesity. "NCDs are a major cause of morbidity and mortality, and have been a major focus for health authorities." The ability of the health sector to respond to emerging new diseases, emergencies and natural disasters all provide a

continued challenge for a relatively small Pacific Island nation with limited health resources.

Proudly, the Cook Islands has continued to record a nil maternal mortality rate since 1995 which is underpinned by the policy of ensuring that all births in the Cook Islands are attended by skilled health professionals. The Cook Islands also continues to maintain a



low infant mortality rate. Despite these good indicators there are many health challenges around quickly diagnosing and treating repertory infections and other diseases to save children's lives.

The diagram below summarises the main characteristics of the Cook Islands, in terms of its population, social and economic features.



MFEM publishes economic and fiscal updates twice a year, in December with the Half Year Economic and Fiscal Update, and in June with the annual Budget publication.

3. WHAT MAKES UP THE ANNUAL BUDGET

The annual budget (Appropriation) sets the maximum amount of public expenditure from July to June each fiscal year. For the 2013/14 budget, the maximum amount of expenditure passed by the Parliament of the Cook Islands is \$196.5 million, and is funded through various sources.

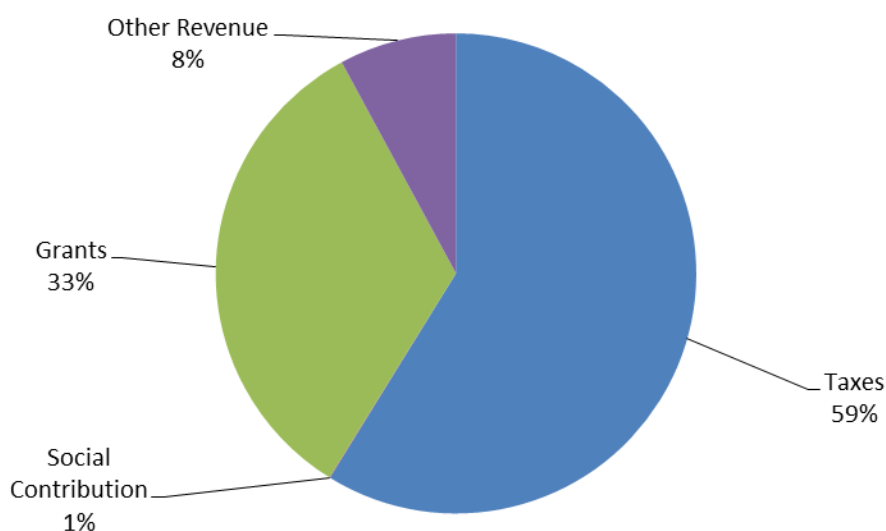
Where does the money come from?

Government finances public expenditure through various manners, these include imposing taxes, official development assistance (ODA) from donors, raising loans and other sources of revenue such as user chargers. For 2013/14, the estimated operating revenue and funding stream amount is \$178.3 million.

Table 1 - Total GFS Revenue 2012/13 to 2015/16 (Transactions affecting Net worth)

	2012/13 Budget \$'000	2013/14 Budget \$'000	2014/15 Estimates \$'000	2015/16 Estimates \$'000	2016/17 Estimates \$'000
Taxes	98,523	105,223	106,942	108,620	108,620
Social Contribution	75	75	75	75	75
Grants	47,498	59,364	35,784	22,350	22,350
Other Revenue	12,462	13,607	14,113	14,142	14,142
Total Operating Revenue	158,558	178,268	156,914	145,187	145,187

Chart 1 – Total GFS Revenue 2013/14 (Transactions affecting Net worth)



Source: Budget Estimates 2013/14, Appropriations and Commentary, Government of the Cook Islands, July 2013

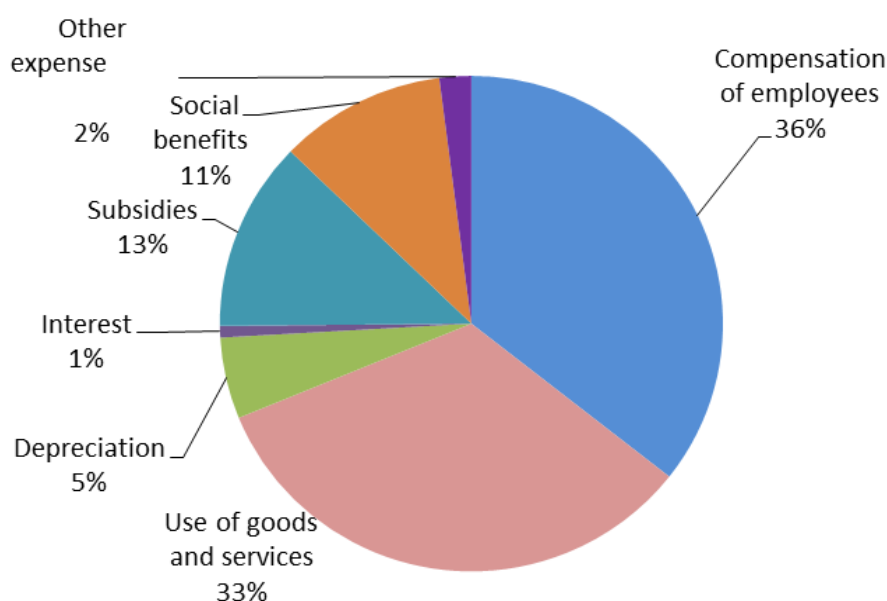
Where does Government spend its money?

Government uses its funds to provide various public goods and services, invests in assets and services debt. The Government's priority areas are guided by focus areas identified in the annual Budget Policy Statement (BPS). For 2013/14, the estimated operating expenditure amount is \$131 million.

Table 2 – Total GFS Expenditure 2012/13 to 2015/16 (Transactions affecting Net worth)

	2012/13 Budget	2013/14 Budget	2014/15 Estimates	2015/16 Estimates	2016/17 Estimates
Compensation of employees	46,674	49,173	49,062	48,983	48,983
Use of goods and services	43,532	37,393	36,398	36,403	36,403
Depreciation	6,963	8,899	10,900	10,900	10,900
Interest	993	1,429	1,520	1,520	1,520
Subsidies	16,227	16,086	15,026	15,026	15,026
Social benefits	14,066	14,544	14,838	14,847	14,847
Other expense	2,677	3,432	5,223	5,267	5,267
	131,132	130,956	132,967	132,946	132,946

Chart 2 – Total Operating Expenditure 2013/14



Source: Budget Estimates 2013/14, Appropriations and Commentary, Government of the Cook Islands, July 2013

Table 3 reflects the total expenditure commitments arranged by the Classification of Functions of Government (COFOG) international standards in the 2013/14 Budget Estimates:

Table 3 – Total Operating Expenditure 2013/14 by International COFOG Classification

Sector	2013/14 (\$ million)	Percentage
General Public Services	42.6	22%
MFEM	18.3	9%
Parliament	3.1	2%
Outer Islands	11.8	6%
Ministerial	1.7	1%
Other	7.8	4%
Economic Affairs	11.4	6%
Tourism	6.2	3%
Marine Resources	1.7	1%
Agriculture	1.0	1%
Other	2.6	1%
Recreation, Culture, Religion	1.0	1%
Culture	1.0	1%
Social Protection	15.6	8%
Internal Affairs	15.6	8%
Public Order and Safety	6.9	4%
Policing	4.0	2%
Justice	2.2	1%
Crown Law	0.7	0%
Environmental Protection	1.0	1%
Health	12.8	7%
Education	14.4	7%
Housing and Community Amenities	10.0	0.1%
MOIP	7.4	4%
CIIC	2.6	1%
Other	80.3	41%
Gross Debt servicing	5.7	3%
Contingency	0.2	0%
Other	74.5	38%
Grand Total	\$ 196	100%

The 2014/15 Budget Policy Statement is intended to be published on 18 December 2013 to provide updated policy and economic parameters for the allocation of resources in the development of the 2014/15 Budget. The 2014/15 Budget Estimates document detailing where the Government has committed its available resources is intended to be tabled in Parliament on the 4 June 2014 and publicly released immediately after tabling.

Fiscal Setting

Table 4 demonstrates current resourcing available for new expenditures from 2012/13 to 2016/17. It does not include any savings which may arise from Government decisions. It is anticipated that there will be an Underlying Operating Budget Deficit of (1.0) million for Budget 2014/15 and returns back to surplus in 2015/16.

**Table 4: Reporting of Budget Balance (\$ million)
2012/13 to 2015/16**

Statement of Government Operations	2012/13 Budget \$'000	2013/14 Budget \$'000	2014/15 Estimates \$'000	2015/16 Estimates \$'000	2016/17 Estimates \$'000
NET GFS Operating Balance	27,425	47,313	23,946	12,240	12,240
GFS Revenue	158,558	178,268	156,914	145,187	145,187
Remove ODA Revenue	47,498	59,364	35,784	22,350	22,350
CISNOC Reimbursement Olympic Cost	93				
Underlying Revenue	111,153	118,905	121,130	122,837	122,837
GFS Expenditure	131,133	130,956	132,969	132,947	132,947
Remove ODA Recurrent Expenditure	17,316	12,098	10,771	10,716	10,716
CISNOC Reimbursement Olympic Cost	(93)				
Underlying Expenditure	113,724	118,858	122,198	122,231	122,231
Underlying Budget Balance	(2,571)	46	(122,198)	(122,231)	(122,231)
Re-appropriated Capital Expenditure from Previous years	3,125	425	0	0	0
FINAL UNDERLYING NET OPERATING BUDGET BALANCE	628	46	(1,068)	606	606

Current revenue streams are likely to be insufficient to cover the demand for improved services going forward without savings being identified and the overall modality for funding the delivery of public services.

What is Government's fiscal strategy?

As reflected in the Fiscal Responsibility Ratios, the Government of the Cook Islands fiscal strategy is as follows:

Size of Government's pocket

- Maintaining taxation to GDP ratio of 25 per cent to control the size of Government's operating expenditures and limiting the withdrawal of resources away from the private sector.

Expenditure control

- Continuing to maintain recurrent expenditures within operating revenues to keep within affordability;
- Keeping cost of the public service within 40 per cent of total revenue to ensure that significant sums are flexible for development programs.

Prudence

- Undertake new borrowings within the country's debt carrying capacity, within 35 per cent of nominal gross domestic product;
- Debt servicing costs for new and existing debt levels are kept within 5 per cent of total revenue noting that the value of debt servicing is expected to increase over the medium term;
- The rate of debt accumulation will be balanced across the country's debt carrying capacity and the cost of debt servicing.

The 2013/14 Budget documents can be downloaded off the MFEM website:
<http://www.mfem.gov.ck>



4. WHAT DEVELOPMENTS WILL SHAPE THE FUTURE

The Government is working on various policy documents that are intended to guide and shape the future for Cook Islanders.

National Sustainable Development Plan

Our country's medium term development aspirations are articulated in the National Sustainable Development Plan (NSDP) 2011–2015. The eight goals of the NSDP are:

1. A vibrant Cook Islands economy
2. Infrastructure for economic growth, sustainable livelihoods and resilience
3. Energy Security
4. Opportunity for all people who reside in the Cook Islands
5. Resilient and Sustainable communities
6. Environment for living
7. Good Governance
8. Safe, secure, just and stable society

The NSDP goals provide the overarching policy direction for Government. Each goal ascertains strategies and actions that all Government and Crown agencies are expected to work towards as part of their work programs.

The Office of the Prime Minister undertook a monitoring exercise to gauge the implementation of the strategies and actions of the NSDP across the public sector. This exercise indicated that the majority of agencies had incorporated the implementation of the NSDP into their work programs. However, progress on implementation was mixed.

In Goal 1 focusing on a vibrant economy, good progress was made in the areas of tourism, marine resources, financial services and macro-economic stability. However, in the areas of agriculture, cultural and creative industries and proactive economic development policies, progress has been sluggish due to resource and capability constraints within and across the implementing agencies.

In Goal 2 on infrastructure, whilst in general, implementation has occurred in the areas of access to water, waste management, transport infrastructure,

telecommunications, assets management, the sector is challenged by capacity and resource limitations.

In Goal 3 targeting energy security, generally progress has been good. The private sector has contributed much to the achievements in this area.

There has been significant progress and good gains made under Goal 4 affecting improvements in education, health and other social development areas. However, still much work is required to advance the situations of specific groups such as women, persons with disabilities, youth and the elderly.

Goal 5 covers building resilient and sustainable communities. Progress in this area has been good due to the relevant frameworks being in place and the collaboration amongst stakeholders. There is still however, room for greater collaboration and implementation of on the ground activities.

Maintaining an environment for living is the focus of Goal 6. Advances in this area have been mixed. It is evident that greater coordination and collaboration amongst all stakeholders is required to ensure that we manage our environment more effectively.

Whilst there has been some advancement in Goal 7 on good governance, there is much that can be improved particularly in the areas of information and performance management.

Goal 8 hopes for a safe, secure, just and stable society. Some progress has been made particularly in the area of legislative and regulatory frameworks. However, a concerted effort is required to improve policing and our justice system.

Across all of the eight goals, a common thread that was obvious during the NSDP monitoring exercise is that government and its agencies needed to communicate with each other, work together more and to enhance engagement with its internal partners in development – the private sector, civil society organisations and communities if the goals of the NSDP are to be achieved.

Going forward, Government will continue its efforts on implementing the NSDP.

Budget Policy Statement (BPS)

The Budget Policy Statement (BPS) is a key document that Government releases on an annual basis prior to each budget process. The document emphasises the broad strategic priority areas for next financial year. These broad strategic priority areas are reflective of the NSDP 2011/15 goals. The Budget Policy Statement will be used by all Government departments in aligning objectives and new potential initiatives to the 'focus areas' of Government for the Budget 2014/15.

PEER Review – 21st October to 1st November 2013

The Government of the Cook Islands invited a team consisting of representatives from Vanuatu, Samoa, Niue and Australia to undertake a peer review of its national planning, budgeting, public financial and aid management systems under the Forum Compact. The Cook Islands is the 12th Forum Island Country to undertake the peer review under the Forum Compact.

The Cook Islands is well on track with the MDGs and has some of the best development statistics in the region. With the third highest per capita GDP in the region (after Australia and New Zealand), the Cook Islands is a middle income country and expects to graduate in the medium term future from a primarily aid relationship with development partners.

The Cook Islands remains vulnerable to external shocks and faces serious challenges in alleviating inequality and creating an inclusive economy that ensures participation and beneficiation to Cook Islanders.

Central government is strengthening controls on public expenditure and implementing a public finance management road map. The road map is informed by a 2011 Public Expenditure and Financial Accountability (PEFA) assessment.

PEFA Self-Assessment Review – 21st Oct to 15th November 2013

The Public Expenditure and Financial Accountability (PEFA) assessment evaluates the current status of the Public Financial Management (PFM) systems in the Cook Islands in terms of the main systemic strengths and weaknesses and in accordance with the PEFA framework.

The Government of the Cook Islands has decided to undertake a PEFA in two phases: undertake a PEFA self-assessment in October/November 2013, to be

followed by a formal assessment in July 2014. The self-assessment which allows the GCI to assess itself is an interim step to a full formal assessment.

Overall, there have been significant improvements across a number of PEFA indicators between the 2011 and the 2013 assessments. A total of sixteen indicators achieved a higher rating than 2011, or were rated for the first time in 2013. Eleven indicators remain at the same rating level as 2011. Four indicators were rated at a lower level than 2011, but this generally reflected a revision of the 2011 scoring rather than a change in management practice. In addition, the team identified a number of areas where relatively little effort would be required for the Government to achieve a higher score. Suggestions for actions to be taken over the next six months and in the medium term are set out in the report.

Tax Review

In February 2013, the Ministry of Finance and Economic Management (MFEM) commenced the Tax Review with the assistance of the International Monetary Fund's (IMF) Pacific Financial Technical Assistance Centre (PFTAC). On 5 February 2013, MFEM released a background paper on the Cook Islands tax system (*The Cook Islands Tax Review – Explanatory Paper*) to assist with public consultation. The background paper discusses the Cook Islands tax system in detail.

From the Tax Review, 31 Tax recommendations were developed. The tax policy recommendations are divided into the broad categories of Import Duties, Value Added Tax (VAT), Personal Income Tax, Company Tax, Trust Tax, and Withholding Tax, with each category being addressed in order. Explicitly excluded from this Review were the issues surrounding tax arrears and general compliance – this Review is about system design.

At its core, the reforms resulting from this Review are about ensuring a simple and equitable tax system, and shifting the burden of taxation towards the growing revenue base of VAT (half of which is recovered from foreign sources and imports).

The recommendations also:

- increase the economic efficiency of the tax system by removing distortions in key areas;
- increase the disposable income of domestic households and the return on labour; and
- maintain and refine the progressive nature of the Cook Islands personal income tax and social welfare systems.

5. PROVIDING YOUR FEEDBACK

The Government of the Cook Islands welcomes your documented feedback on how it can improve its delivery of results to Cook Islanders in the most efficient way, submitted via

Email to : budgetinfo@cookislands.gov.ck

subject heading: Budget Consultation Document 2014/15

OR

Hand deliver to Ministry of Finance and Economic Management
Budget Consultation Document 2014/15
Treasury Office Avarua, Rarotonga

Stage 1 budget submissions should be received by 6th December 2013 and Stage 2 budget submissions should be received by 6th January 2014. All submissions will be considered by the central agencies as an input into the planning process for the 2014/15 Budget.

All submissions and their authors will be uploaded and made publicly available on the MFEM website www.mfem.gov.ck unless otherwise requested.

For further information please email budgetinfo@cookislands.gov.ck or call our Budget and Economic Policy Division on (+682) 29511.

