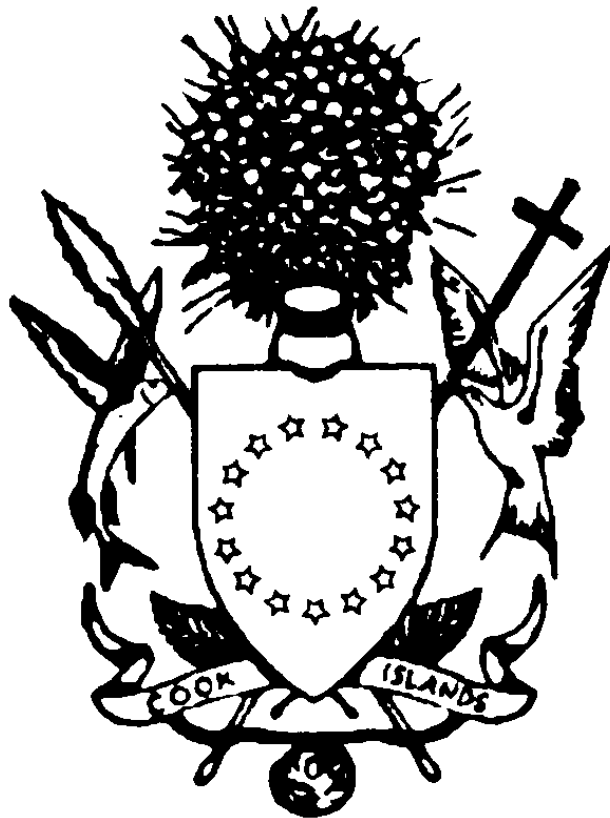

**COOK ISLANDS GOVERNMENT
BUDGET ESTIMATES
2011/2012**

PART I

**Appropriation Bill
Appropriations and Commentary**



**Hon. Mark Brown
Minister of Finance
July 2011**



**GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE**

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1 July 2011

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with her regarding the preparation of the Budget Appropriation 2011-12.

The economic and fiscal information included in the budget is based on the best professional judgment that we have at this time.

I accept the overall responsibility for the integrity of the Budget Appropriation Statements 2011-12 and the compliance with the Ministry of Finance and Economic Management Act 1995-96.

A handwritten signature in black ink, appearing to read 'Mark Brown'.

Honorable Mark Brown
Minister of Finance



**MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
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1 July 2011

STATEMENT OF RESPONSIBILITY

The 2011-12 Budget Appropriation Estimates are produced in accordance with the Ministry of Finance and Economic Management Act 1995-96. The budget process involved the annual publication of the Budget Policy Statement and the establishment of the Budget Support Group commissioned to review department budget proposals prior to Cabinet consideration and approval.

In compliance with section 24 (1) of the MFEM Act the Ministry provided Cabinet with:

- a) The estimated revenue of the Crown;
- b) The details of each Government Department's bid for funds;
- c) The Crown's debt management responsibilities;

Cabinet, as required under section 24 (2) of the MFEM Act, returned to the Ministry a fiscally responsible budget in accordance with the principles set out in the MFEM Act.

The information in this document is comprehensive and includes a Statement of Fiscal Responsibility that clearly sets out the position in terms of fiscal responsibility as required in section 23 (2) (a) of the MFEM Act.

As Acting Financial Secretary, I accept full responsibility for the integrity of the information provided.

Kia Manuia,

Priscilla Maruariki

Acting Financial Secretary



PARLIAMENT OF THE COOK ISLANDS

APPROPRIATION BILL

EXPLANATORY NOTE

This note does not form part of the Bill but is intended to indicate its effect.

The Constitution of the Cook Islands provides in Article 70 (1) that "... all expenditure from the Cook Islands Government Account or from any other public fund or account, shall be in accordance with an Appropriation Act..."

Clause 1 sets out the short title.

Clause 2 is the application provision, which specifies the financial year to which the Bill relates. In this case it is the financial year ending 30th June 2012.

Clause 3 authorises expenditure out of the Cook Islands Government Account of the amounts not exceeding those set out in the Schedules to the Bill, for the several votes specified therein.

Schedules

Appropriation

HON. MARK BROWN

APPROPRIATION

ANALYSIS

- | Title | |
|----------------|---|
| 1. Short title | 3. Grant and appropriation out of the Cook Islands Government Account Schedules |
| 2. Application | |
-

A BILL INTITULED

An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2012 and to appropriate the supplies granted in this period

MOST GRACIOUS SOVEREIGN: We, Your Majesty's most dutiful and loyal subjects, the Parliament of the Cook Islands, towards making good the supply which we have cheerfully granted to Your Majesty in this year, have resolved to grant Your Majesty the sum specified in this Act and humbly ask Your Majesty to assent to the sum. And be it enacted by the Parliament of the Cook Islands in Session assembled, and by the authority of the same, as follows:

1. Short title – This Act may be cited as the Appropriation Act 2011.
2. Application – This Act applies to the year ending on the thirtieth day of June 2012 (“the year”).
3. Grant and appropriation out of the Cook Islands Government Account –
(1) The Minister responsible for Finance may authorize the incurrence of expenses or expenditure and may issue and apply out of the Cook Islands Government Account, towards making good the supplies granted to Her Majesty for the services of the year, any sums which in total do not exceed the sum of \$172,097,116.

Appropriation

(2) Subject to subsection (3) the sums authorised to be supplied are appropriated for the services set out in the votes specified in the Schedules to this Act.

(3) The votes identified in Schedules 4 to this Act as being funded through loans from financing partners are further limited to the lesser of the votes specified in those Schedules and the loan proceeds received for the purpose of financing the expense or expenditure in relation to those votes.

This Act is administered in the Ministry of Finance and Economic Management.

Schedule 1 (a)
Ministry Appropriations

Ministry	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCS	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Agriculture	999,986	90,535	909,451	36,000	0	1,035,986	945,451
Audit (PERCA)	992,746	178,700	814,046	0	0	992,746	814,046
Crown Law	644,197	0	644,197	10,000	0	654,197	654,197
Cultural Development	937,705	150,000	787,705	850,000	75,000	1,862,705	1,712,705
Business Trade & Investment Board	707,201	0	707,201	0	0	707,201	707,201
Education	10,091,906	0	10,091,906	1,645,079	110,000	11,846,985	11,846,985
Environment	1,044,589	16,000	1,028,589	0	0	1,044,589	1,028,589
Finance & Economic Management	3,181,834	453,500	2,728,334	10,477,841	0	13,659,675	13,206,175
Financial Intelligence Unit	307,598	0	307,598	0	0	307,598	307,598
Financial Services Development Authority	443,178	0	443,178	0	0	443,178	443,178
Foreign Affairs & Immigration	1,630,397	8,000	1,622,397	368,032	10,000	2,008,429	2,000,429
Head Of State	217,881	0	217,881	15,000	0	232,881	232,881
Health	10,428,378	400,000	10,028,378	1,142,800	880,000	12,451,178	12,051,178
Human Resource Development	378,782	0	378,782	1,158,767	0	1,537,549	1,537,549
Infrastructure and Planning	2,743,870	194,156	2,549,714	100,000	1,455,000	4,298,870	4,104,714
Internal Affairs	1,283,910	2,000	1,281,910	13,356,360	0	14,640,270	14,638,270
Justice	1,928,222	456,935	1,471,287	217,000	87,000	2,232,222	1,775,287
Marine Resources	1,385,632	15,000	1,370,632	250,000	0	1,635,632	1,620,632
Ombudsman	245,821	0	245,821	0	0	245,821	245,821
Parliamentary Services	549,902	8,419	541,483	2,675,668	0	3,225,570	3,217,151
Pearl Authority	502,387	0	502,387	0	0	502,387	502,387
Police	3,628,697	49,360	3,579,337	210,000	10,000	3,848,697	3,799,337
Prime Minister's Office	1,117,013	0	1,117,013	195,000	0	1,312,013	1,312,013
Public Service Commission	473,809	0	473,809	30,000	0	503,809	503,809
Tourism Corporation	4,296,425	50,000	4,246,425	2,040,000	0	6,336,425	6,286,425
Transport	768,253	36,000	732,253	235,414	0	1,003,667	967,667
CIIC	0	0	0	80,000	0	80,000	80,000
Total Ministries	50,930,318	2,108,605	48,821,713	35,092,961	2,627,000	88,650,279	86,541,674
Outer Islands (Refer Schedule 1 (b))	11,081,853	3,084,354	7,997,499	0	110,000	11,191,853	8,107,499
Ministerial Support							
Prime Minister	370,000	0	370,000	0	0	370,000	370,000
Deputy Prime Minister	310,000	0	310,000	0	0	310,000	310,000
Minister Mark Brown	325,000	0	325,000	0	0	325,000	325,000
Minister Teariki Heather	205,000	0	205,000	0	0	205,000	205,000
Minister Nandi Glassie	205,000	0	205,000	0	0	205,000	205,000
Minister Teina Bishop	205,000	0	205,000	0	0	205,000	205,000
Leader Of Opposition	205,000	0	205,000	0	0	205,000	205,000
Capital Distribution Fund - Administered by MFEM	21,420		21,420	0	270,000	291,420	291,420
Gross Total	63,858,591	5,192,959	58,665,632	35,092,961	3,007,000	101,958,552	96,765,593

Schedule 1 (b)
Outer Island Appropriations

Island	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	POBOCs	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Aitutaki	1,415,493	48,250	1,367,243	0	0	1,415,493	1,367,243
Aitutaki Power Supply	2,213,333	1,864,293	349,040	0	0	2,213,333	349,040
Atiu	1,194,315	264,620	929,695	0	0	1,194,315	929,695
Mangaia	1,556,569	387,522	1,169,047	0	0	1,556,569	1,169,047
Manihiki	819,912	117,200	702,712	0	0	819,912	702,712
Mauke	932,907	142,576	790,331	0	0	932,907	790,331
Mitiaro	573,082	61,700	511,382	0	0	573,082	511,382
Palmerston	330,886	22,100	308,786	0	0	330,886	308,786
Penrhyn	592,672	75,500	517,172	0	0	592,672	517,172
Pukapuka-Nassau	958,356	41,140	917,216	0	0	958,356	917,216
Rakahanga	480,578	59,453	421,125	0	0	480,578	421,125
Outer Island Capital Fund - Administered by MFEM	13,750	0	13,750	0	110,000	123,750	13,750
Outer Island Capital Fund - Administered by MOIP	0	0	0	0	0	0	0
Gross Total	11,081,853	3,084,354	7,997,499	0	110,000	11,191,853	7,997,499

**Schedule 2
Benefits and Other Unrequited Expenses**

Category of Benefit	Budget Estimate 2011-12
Welfare Payments	12,495,360
Parliamentary Superannuation	220,000
Total Benefits and Other Unrequited Expenses	12,715,360

**Schedule 3
Borrowing Expenses and Debt Repayment**

Category of Expense	Budget Estimate 2011-12
Gross Debt Servicing	3,844,914
Total Borrowing Expenses and Debt Repayment	3,844,914

**Schedule 4
Other Expenses**

Category of Expense	Budget Estimate 2011-12
Airport Authority	2,047,997
Bank of the Cook Islands	181,000
Te Aponga Uira	1,150,000
Building Maintenance	1,300,000
Crown Infrastructure Depreciation	2,469,000
Contingency Funds - Operating	100,000
Contingency Funds - Capital Expenditure	50,000
Expenditure of ADB Loan	8,037,500
On-Lending to Ports Authority	6,296,048
Foreign Aid	43,985,390
ADB Share Capital	26,600
Emergency Response Trust Funds	200,000
Reserve Trust Fund	450,115
Total Other Expenses	66,293,650

Summary

Category of Payment	Budget Estimate 2011-12
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (Excluding Benefits and other Unrequited Expenses)	89,243,192
Schedule 2 - Benefits and Other Unrequited Expenses	12,715,360
Schedule 3 - Borrowing Expenses and Debt repayment	3,844,914
Schedule 4 - Other Expenses	66,293,650
TOTAL APPROPRIATION	172,097,116

STATEMENT OF FISCAL RESPONSIBILITY

Operating Revenue and Expenditure Statement for the year ended 30 June 2012

All Values (\$'000)

	2010-11 Supplementary	2010-11 Estimates	2011-12 Budget Estimates	Variance
Operating Revenue				
Taxation Revenue	84,223	84,675	90,023	5,348
Other Crown Revenue	7,576	7,293	5,407	-1,887
Trading Revenue	5,155	5,155	5,193	38
Interest on Loans to Subsidiaries	134	134	190	56
Dividends	3,622	3,213	3,051	-162
Interest on Balances	2,518	2,518	2,247	-271
Total Operating Revenue	103,227	102,989	106,110	3,122
Operating Expenditure				
Ministry Outputs	64,095	64,095	63,859	-237
<i>Personnel</i>	43,265	43,265	44,056	791
<i>Operating</i>	17,638	17,638	16,518	-1,120
<i>Depreciation</i>	3,192	3,192	3,284	92
Payments on Behalf of the Crown	29,654	30,274	35,093	4,819
Airport Authority	2,048	2,048	1,704	-344
Bank of the Cook Islands	181	181	181	0
Te Aponga Uira	512	512	350	-162
Debt Servicing Interest	879	879	1,023	144
Building Maintenance	1,800	1,800	1,300	-500
Crown Infrastructure Depreciation	2,950	2,950	2,469	-481
Disaster/ Contingency Operating Expenses	100	100	100	0
Total Operating Expenses	102,219	102,839	106,079	3,240
Fiscal Operating Surplus/(Shortfall)	1,008	149	31	-118

STATEMENT OF FISCAL RESPONSIBILITY

Financing and Applications Statement for the year ended 30 June 2012

All Values (\$'000)

	2010-11 Supplementary	2010-11 Estimates	2011-12 Budget Estimates	Variance
Reductions in Net Borrowings				
Loan Disbursements	0	0	-14,334	-14,334
Loan Repayments	2,511	2,511	2,821	310
Loan Repayments by Subsidiaries	-287	-287	-287	0
	2,224	2,224	-11,799	-14,023
Capital Expenditures				
Ministries and Outer Islands	4,659	4,659	3,007	-1,652
Infrastructure Capital Investment in SOE's	0	0	1,144	1,144
Airport Authority	0	0	344	344
Te Aponga Uira	0	0	800	800
Contingency	50	50	50	0
	4,709	4,709	4,201	-508
Foreign Aid				
Receipts	-34,560	-34,560	-43,985	-9,425
Expenditure	34,560	34,560	43,985	9,425
	0	0	0	0
Other Committed Considerations				
Economic Recovery Support Program (Expenditure of ADB Loa	0	0	8,038	8,038
Increase in Reserve Trust Fund	421	423	450	27
On-Lent Loans to Ports Authority	0	0	6,296	6,296
ADB Share Capital	27	27	27	0
Emergency Response Trust Fund	0	0	200	200
	448	450	15,010	14,560
Total	7,381	7,383	7,412	29
To be Funded by				
Operating Surplus	1,008	149	31	-118
Depreciation	6,141	6,142	5,753	-389
Loan Reserve Financing	1,529	1,529	1,429	-100
Drawdown from Reserve Trust Fund	0	0	200	200
Total Funding Items	8,679	7,820	7,413	-407
Net Surplus/Shortfall	1,298	437	1	436

4 FISCAL STRATEGY REPORT

This Fiscal Strategy Report comprises of three parts:

- Firstly, the Fiscal Update as of 30 June 2011 provides a brief discussion of the key parameters of the budget and an analysis of the 2011-12 Budget in the light of the 2011-12 Budget Policy Statement.
- Second, the Economic Update in Part 2 analyses current economic conditions, and presents forecasts for key economic variables for 2010-11 and projections for 2011-12, 2012-13 and 2013-14.
- Third, the Medium Term Fiscal Update in Part 3 of this Fiscal Strategy Report provides an analysis of the Government's fiscal position in a medium term context.

1 Fiscal Update

1.1 Overview

Prior to the development of 2011-12 Budget the Government of Cook Islands committed to initiatives that limited the availability of funds available for new initiatives and investments proposals recommended at the Economic Summit 2011.

From a fiscal perspective, the context of budget 2011-12 is as follows:

- The total operating revenue estimated for 2011-12 is \$106.1 million, \$2.9 million additional from the time of the Appropriation Amendment 2010-11. Total operating revenues is expected to grow by 3.0% in 2011-12, reflective of a 6.3% growth in taxation revenues, slight increases in trading revenue and interest on loans to subsidiaries, despite reductions in other crown revenues, predominantly due to the removal of one off illegal fishing fines, with slight reductions in interest income and dividend receipts.
- Taxation is expected to grow by 6.3% in 2011-12 which is lower than the 10.0% growth estimated at the time of the Supplementary Budget 2010-11 largely due to the revision of the impact of the Tourism Growth Strategy on visitor arrivals which impacts on GDP forecasts and therefore taxation revenues. The removal of intended airline connection from Nadi to Rarotonga via Air Pacific has impacted revenue projections made at the time of the Budget Policy Statement (BPS).
- Other Crown revenues are estimated to reduce by 25.9% reflecting the removal of one off collections of illegal fishing fines in 2010-11 estimated at \$2.1 million. Other significant movements include adjustments to Financial Services Commission (FSC) revenues predominantly due to exchange rate fluctuations, and smaller reductions in immigration fee's and road safety against slight increases in other smaller revenue lines.
- Interest revenue is estimated to reduce by 10.8% in 2011-12 as a result of governments intentions to expend loan funds over 2011-12 currently held as deposits with local banks contributing to interest receipts.
- Operating expenditures is estimated at \$106.1 million, an increase of \$3.8 million above the Appropriation Amendment 2010-11. This increase is reflective of increases in appropriation to

Payments on Behalf of the Crown and debt serving interest despite expenditure reductions to building maintenance, Crown infrastructure depreciation and the transfer of social responsibility costs from operating expenses to capital investments of the Crown.

- Payments on Behalf of the Crown have increased by \$4.8 million to \$35.1 million. This is predominantly due to the increased provision for airline underwrites, a total of \$10 million of which \$8 million is appropriated by Government, and the remaining \$2 million funded by donor funds. Significant increases also include an increase in the cost of transportation of the outer islands participants to Rarotonga for Te Maeva Nui Celebrations of \$0.8 million, the transfer of the Rarotonga Hospital pharmaceuticals budget from operating to POBOC, and increase welfare payments of \$0.4 million reflecting increased number of beneficiaries and the annual impact of the new born allowance increase in 2010-11, increase in the profit guarantee to Apex Agencies Ltd of \$0.4million based on payments to date, the establishment of a Fisheries Development Facility at \$0.2million under the Ministry of Marine Resources, and provision of \$0.1million for the undertaking of the Cook Islands Census 2011.
- The fiscal operating surplus of \$0.03million as per the Ministry of Finance and Economic Management Act, demonstrates a fiscally responsible budget, although much lower when compared to the \$1.0 million estimated at the time of the Appropriation Amendment 2010-11.
- Ministries Capital expenditure totals \$3.0 million in 2011-12, a reduction of \$1.7 million from the time of the Appropriation 2010-11. This is initially a result of the temporary removal of the Outer Island Capital Fund of \$2.3 million in 2011-12 given under spending of existing appropriations to date. The Budget 2011-12 is inclusive of funds for Xray machines, technical equipment for Auditorium and specialized scanners to improve the recording of Land records at the Ministry of Justice.
- Government is also increasing its capital investment into the Airport Authority and Te Aponga Uira by collecting higher dividends and using these for capital investment into the SOE's totaling \$1.1million in 2011-12.
- The Government has in place funding through the Asian Development Bank Economic Recovery Support Program Tranche II at \$8.0 million to support economic infrastructure investment expected to be undertaken over 2011-12. \$6.2 million is also appropriated as a top up loan to the Cook Islands Ports Authority to finance the upgrade of the Avatiu Harbor.
- The Government through Budget 2011-12 continues the existing policy of allocating 0.5% of taxation revenues into a reserve trust fund to cater for future events that may adversely impact on the Crown. A trust fund has also been approved to be set up as an Emergency Response Trust Fund of \$0.2million to cover immediate response resourcing required in the event of a natural disaster.
- An overall balanced budget of \$0.001 million is estimated for 2011-12. There are outlays of \$7.4 million which is expected to be funded from a number of sources, including an operating surplus of \$0.03 million, depreciation of \$5.8 million, Loan Reserve financing \$1.4 million and Drawdown from Reserves Trust Fund \$0.2 million.

1.2 Budget Policy Statement

The Budget Policy Statement 2011-12 was published in March 2011 as required under the MFEM Act and has formed the basis for decisions towards producing the Budget Estimates 2011-12.

The Budget Policy Statement 2011-12 was drafted in light of Government's intension to host an Economic Summit in April 2011 and consider specific actions to build sustainable innovative economic development. This statement was also prepared in the context of a tight fiscal setting given prior commitments to invest significantly into growing the tourism industry through airline underwrites and marketing funds, absorbing operating surpluses available for other priorities of Government. Funding available for new investments at the time of the Budget Policy Statement was slight at \$0.4million. The Government has managed to undertake new investments whilst also realigning expenditures to meet some of the key intensions of the Budget Policy Statement 2011-12 with an operating balance and overall balanced budget.

The Budget Policy Statement highlights the following broad strategic priorities focused on economic development, improving economic efficiency and translating gains more widely spread:

1. Energise and grow the economy by supporting our key economic drivers and advancing innovation in potential areas of growth
2. Enable enterprise by establishing a conducive environment for existing business to grow and for new businesses to start, stay and thrive in our communities
3. Reduce the cost of doing business and cost of living, and increase the disposable income of our people
4. Re-orientate the public sector to better support and respond to the needs of the economy
5. Other considerations for Budget 2011-12

This brief summary highlights some of the major new investments for 2011-12 by sector against policies outlined in the Budget Policy Statement 2011-12, noting this statement by no means intended to be comprehensive.

Energise and grow the economy by supporting our key economic drivers and advancing innovation in potential areas of growth

- Government's largest investment into key economic drivers is investment to the tourism industry via commitments to 3 year agreements to underwrite return flights direct from Sydney to Rarotonga and LA to Rarotonga under the Tourism Growth Strategy. This has placed expectation that government may be exposed to cover and estimated \$11.0million in losses on these flights, of which \$2million is donor funded and \$1.0million is recognised as a contingent liability. This risk is intended to be mitigated through significant increases in the Cook Islands Tourism Corporation market budget of \$2.0million per year over the length of the agreement. Growth in visitor arrivals is expected at 5.2% as a result of the Tourism Growth Strategy, and at minimum must reach 111,500 to ensure projections for GDP hold. Funding is also made available via donor funding to support investment the Destination Development Strategy at an estimated \$1.5million over 2011-12. It is intended that these funds will assist to improve the Cook Islands tourism product and underpin the sustainability of growth in visitor numbers under the Tourism Growth Strategy.

- While no additional funds are provided from government revenue streams, legislative changes are expected to be made in order to develop new services and value added products in the financial services industry. Existing marketing dollars under the Financial Services Development Authority are expected to be used more effectively to increase international exposure and lift the profile for the jurisdiction as per the Budget Policy Statement 2011-12.
- Government has increased fishing license fees and has channeled a portion of these funds into a Fisheries Development Facility under the Ministry of Marine Resources primarily to support small scale fisheries. Government has also co signed a funding agreement with NZAID to support and rejuvenate levels of pearl production via the Cook Islands Pearl Industry Support Program valued at \$3.0million. It is expected that returns from this program will be seen in 2015 going forward. Government is also providing funding of \$50,000 to initiate the set up of a Seabed Minerals Commission in 2011-12, additional to the support provided through technical advice from the Commonwealth Secretariat.
- Agriculture intelligence is also expected to be improved with the undertaking of an Agriculture Census to be conducted in 2011-12. A total of \$36,000 has been provided to this program that will supported by the National Census scheduled to be undertaken in December 2011 at a cost of \$0.1million. Various projects are expected to be done within existing resources including the review of the Te One Kura Project as well as supporting biological and organic agriculture.
- In supporting culture & creative industries, government has increased its investment into the Constitution Celebrations to \$0.9million. The Ministry of Culture is expected to review the mechanisms for hosting such events and look at how best the private sector can be integrated to spread the returns across the economy.

Enable enterprise by establishing a conducive environment for existing business to grow and for new businesses to start, stay and thrive in our communities

- Focus under this broad strategic priority is expected to be done within existing resources and involves the review and development of policies and regulations by Government departments over 2011-12 that support and protect components of the economy. As part of this Government plans review the tax regime and telecommunications within existing resources given the economic context and the Economic Summit outcomes. Government has also put in place withholding tax on interest income expected to generate around \$1.0million worth of new revenue. It is not expected that this will significantly impact economic activity.

Reduce the cost of doing business and cost of living, and increase the disposable income of our people

- In addition to reviewing the cost of finance and the minimum wage trends within existing resourcing over 2011-12, Budget 2011-12 reflects a reorganization in resourcing towards renewable energy. The renewable energy function of the Energy Division under the Ministry of Infrastructure & Planning has been shifted to the Office of the Prime Minister recognizing the high priority of this function and the required policy and planning focus. Funding available through donor partners is expected to be channeled towards this area once a comprehensive plan is in place.

Re-orientate the public sector to better support and respond to the needs of the economy

- Investment in managing government's external relations has been increased slightly by \$35,000 under the Ministry of Foreign Affairs & Immigration. Government has also released in Aid Policy and held the first donor round table in April 2011 following the Economic Summit to bring structure to building relationships with external development partners. Additional funding has also been provided to support electronic processing of boarder control.
- Improving service delivery, accountability and transparency is progressed through the ADB Public Financial Management Review under the Office of the Public Service Commission (OPSC). Resourcing has been increased within the OPSC under the ADB program. The development of cross cutting policies for the public service and machinery of Government is expected to be done within existing resourcing. Cost effectiveness is also expected to come through eventual consolidation of administrative services for small government departments. Funding of \$30,000 has also been provided to OPSC to support the heads of ministries recruitment process in 2012.
- Government through Budget 2011-12 has invested \$35,000 into the Ministry of Finance & Economic Management to bring Audited accounts up to date to 2010-11 by 30th June 2012. This is expected to provide increased accountability, transparency and better information as a basis for public sector decision making going forward.
- Budget 2011-12 reflects the establishment of a Climate Change unit under the Office of the Prime Minister recognised as a cross cutting issue for small island states. Resourcing for this output is expected to be channeled from the Australian Government in 2011-12 in addition to resource sharing between key Climate Change agencies within Government. The Meteorological Service previously under the Cook Islands Police Department has also been transferred to the Ministry of Transport.
- Various planned infrastructure projects are budgeted to be implemented in 2011-12. This includes the waste and sanitation program under the NZAID program of \$3.0million, the Rarotonga port upgrade through loan funding at a total of \$6.3 million, the expenditure of ADB Tranche I & II loans of \$8.0million and the Peoples Republic of China grant funds of \$14.0million towards prioritised infrastructure projects over 2011-12. Government also intends to fund capital investment into the Airport Authority and Te Aponga Uira at \$1.1million.
- Budget 2011-12 reflects the setting up of an Emergency Response Trust Fund of \$0.2million that provides access to funds towards immediate response to natural disasters.

Other considerations for Budget 2011-12

- Increases to the Social sector include one off capital investments to the Rarotonga Hospital of \$0.6million for a new x-ray machine and telephone system. Provision for the operations of the Price Tribunal, representation for the presentation of the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) and Convention on the Rights of a Child (CRC) reports, adjustments to welfare payments to reflect higher beneficiaries and the full annual cost of the increase in new born allowances, and the provision for job sizing adjustments and operational capital for the Ministry of Health and the Ministry of Justice, totaling \$0.6million.
- Other increases include an increase in the expected pay out on the profit guarantee to Apex Agencies Limited of given payments made in 2010-11, and increases to ministerial offices of \$0.2million.

The Budget 2011-12 as per the MFEM Act requires that Government aligns new investment and expenditures in light of the key intentions of the Budget Policy Statement 2011-12. In reference to the summary of investments outlined above, the Government has managed to undertake these proposals, appropriate expenditures and result with an operating balance of \$0.03million in surplus and a non operating balance of a \$1,000 surplus.

2.0 ECONOMIC UPDATE

The purpose of this Economic Update is to provide an overview of the economic performance of the Cook Islands economy particularly the current fiscal year 2010-11 and projecting the position of the economy going forward. New quarterly and monthly data available to the March quarter and May 2011 provides the basis for this update and an updated view of the economy from the time of the Budget Policy Statement 2011-12 (BPS) published in March 2011. Commentary is held constant where data and anecdotal evidence remains unchanged from the time of the BPS.

This economic update will provide an overview of trends and movements in Gross Domestic Product (GDP), and key industries within the Cook Islands economy inclusive of tourism, marine resources, agriculture, banking & finance and trade.

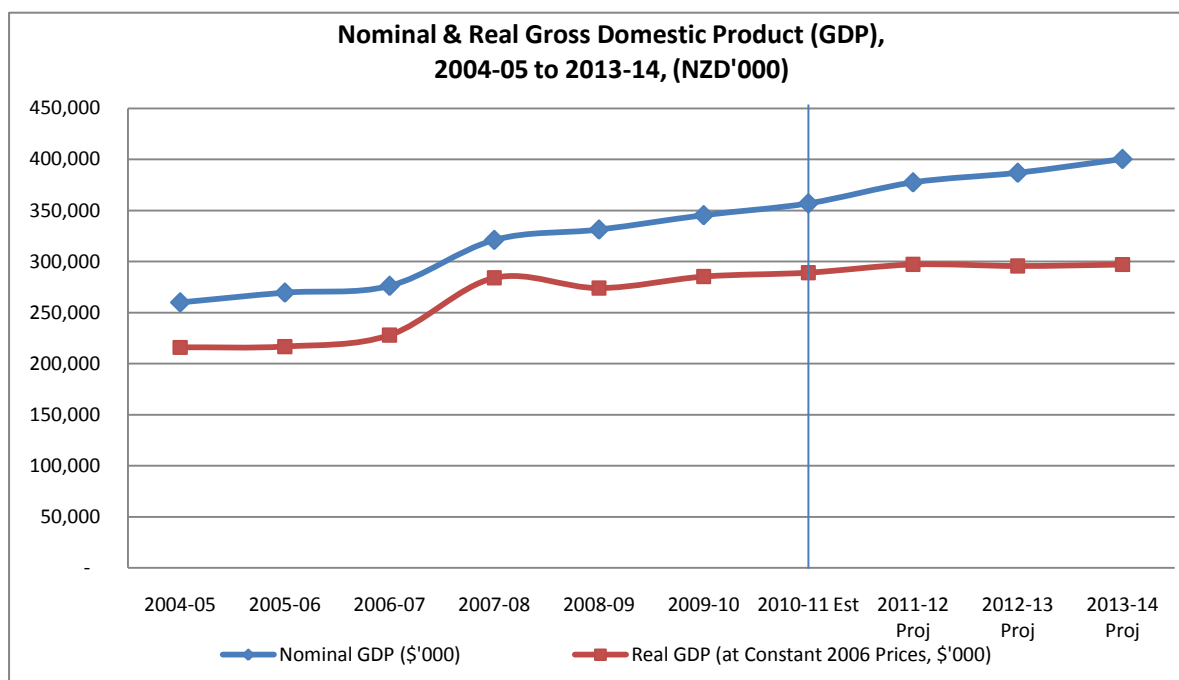
The tourism industry performance measured by growth in visitor arrivals has continued to exhibit strong and consistent growth in visitor arrivals despite the effects of the natural disasters that affected the major markets. Projections made at the time of the BPS have been revised to take in to account actual data to May 2011 and incorporating a revision to the impacts of the Cook Islands Government subsidised flights to Sydney and Los Angeles and the removal of the Air Pacific Nadi link. It is expected that the projections at the time of the BPS for 2010-11 will be exceeded by the end of the fiscal year providing a higher base for the projections in visitor arrivals in the outer years.

Price rises measured through the Consumer Price Index (CPI) have been revised slightly downward to reflect minimal movements over the current fiscal year, however the full reflection of global increases in oil prices, given the lag in affecting the Cook Islands economy, is mirrored in the upward trend in of CPI movements in the outer years. Revisions to CPI have been reflected in the growth rates for nominal projections on GDP, trade, and banking and finance.

In general, the Cook Islands economy has grown in the recent years following a period of contraction in 2008-09 however there remains the risk of sustainability of growth given the volatility of oil price movements which is beyond the economy's control. The heavy reliance on global markets for imported products and tourism demand causes the Cook Islands to be vulnerable to slight shifts in global markets. Therefore any negative impacts flowing through the global markets will see the Cook Islands revisit its projections to adjust accordingly.

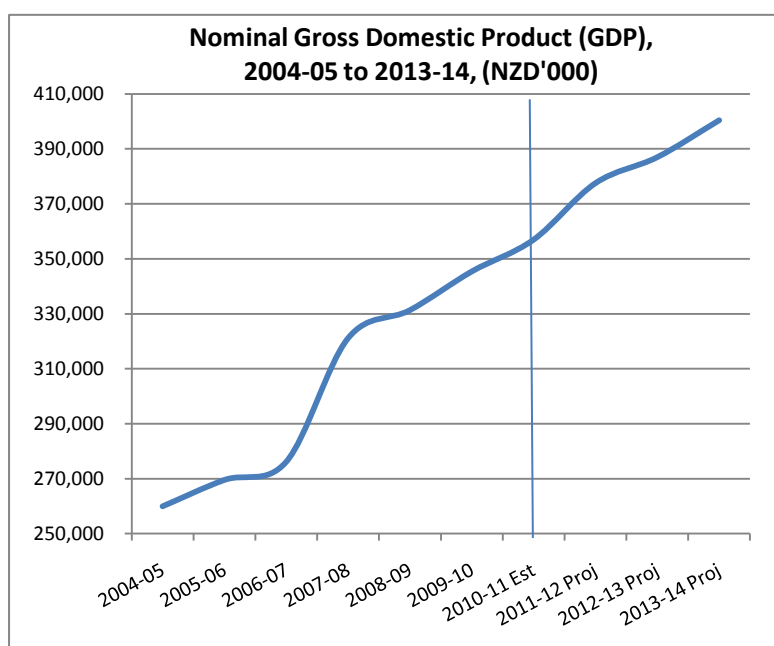
2.1 Gross Domestic Product

Gross Domestic Product (GDP) is used as an indicator to assess the value and performance of an economy over time measuring the total value of output in NZD. A growing economy in real terms indicates higher economic activity translating into higher incomes and subsequently taxation. GDP in the Cook Islands is updated on an annual basis and includes valuations of the major sectors of the economy.



2.1.1 Nominal GDP

The Nominal Gross Domestic Product measures the final value of output produced in an economy



expressed in current prices. The most recent annual statistics value nominal GDP at \$330.5million in 2009. Movements in nominal GDP can largely be explained by movements in tourism and government expenditures, and export receipts. Estimates are therefore based off movements in these components and used to revise and project estimates for 2009-10 and the years going forward.

Movements in tourism expenditure are largely based on growth in visitor arrivals and price rises.

At the time of the Budget Policy Statement 2011-12 (BPS) growth in the economy was estimated at 2.0% in 2010-11 and 11.0% in 2011-12. The large increase in 2011-12 was based on an expected

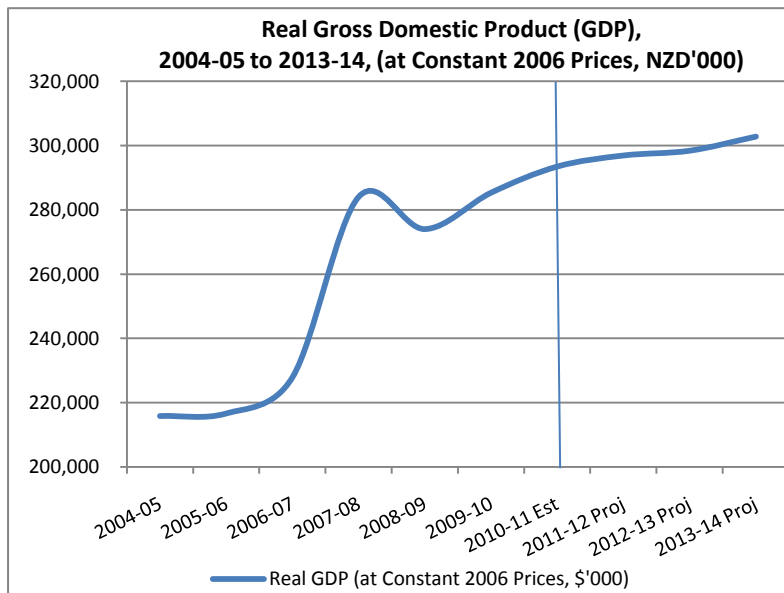
13.0% growth in visitor arrivals. As detailed in section 2.3 of this Economic Update, visitor arrival projections have been revised downwards pulling down the level of growth in nominal GDP. Government expenditure is expected to increase by 2.3% in 2011-12 with export receipts estimated to continue to decline by 0.5%. The incorporation of these movements result in a lower level of growth in nominal GDP for 2011-12 projected at 5.8%, and grow more moderately at 2.5% and 3.5% in the outer years.

2.1.2 Real GDP

Real GDP measures the value of output within the economy expressed at constant prices (2006) and thus removes the impact of price rises from the nominal GDP estimate.

After a period of relatively stable growth, the economy contracted over 2008-09 by 3.5% in real terms predominantly due to the impacts of the global economic crisis on general demand for the economy's output and the continual increase in the value of imports as an outflow.

The economy in real terms was valued at NZD285.3million in 2009-10 reflecting real growth of 4.1% estimated from 2008-09.



Noting that the Cook Islands economy is primarily driven and based on the tourism industry, flow on effects of the Tourism Growth Strategy to all other sectors within the economy is expected to improve incomes significantly in the outer years.

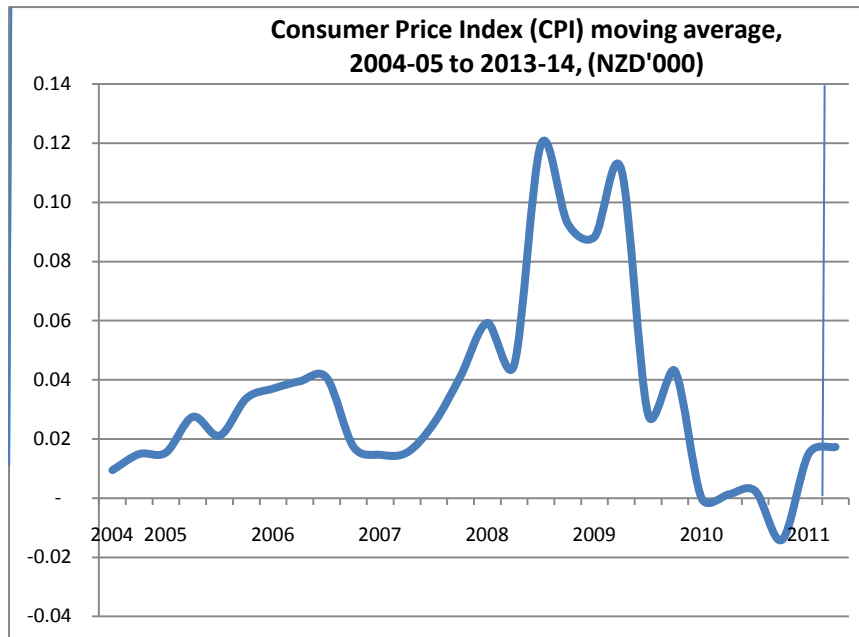
As such, based on government expenditure, tourism visitor arrivals and the export sector growth deflated by CPI, growth in 2010-11 is estimated to be 2.9%, 1.2% in 2011-12 and to grow by 0.5% and 1.5% in the outer years.

Table 2.0: Economic Indicators

Economic Indicators					
	2009-10	2010-11	2011-12	2012-13	2013-14
	<i>Actual</i>	<i>Estimate</i>	<i>Proj.</i>	<i>Proj.</i>	<i>Proj.</i>
Economic Activity					
Nominal GDP (\$'000)	345,380	356,960	377,540	386,980	400,410
% Change	4.2%	3.4%	5.8%	2.5%	3.5%
Real GDP (at Constant 2006 Prices, \$'000)	285,310	293,450	303,040	304,550	309,030
% Change	4.1%	2.9%	3.3%	0.5%	1.5%
Inflation					
Consumer Price Index (base Dec. 2006 = 100)	117.7	118.3	121.3	123.7	126.2
% Change	1.8%	0.5%	2.5%	2.0%	2.0%
Construction/Capital Investment					
Commercial Building Approvals (\$'000)	3,300	2,700	2,900	3,000	3,200
Residential Building Approvals (\$'000)	8,500	9,600	10,600	10,600	11,100
Productive Sector Indicators					
Visitor Arrivals	99,400	106,000	111,500	114,200	117,000
% Change	2.6%	6.6%	5.2%	2.4%	2.5%
Estimated Visitor Expenditures (\$'000)	209,900	225,100	241,500	252,300	263,600
Pearl Exports (\$'000)	1,570	1,190	1,190	1,190	1,190
Fish Exports (\$'000)	3,100	3,800	3,800	3,900	4,000
External Sector					
Merchandise Trade Balance (\$'000)	(344,100)	(355,900)	(376,800)	(386,400)	(400,000)
Services Trade Balance (\$'000)	250,100	298,400	319,000	331,800	345,900
Exchange Rate (US\$ per NZ\$, December 2010)	0.685	0.746	0.746	0.746	0.746
Financial Sector (at end of financial year)					
Private and Public Enterprise Deposits (\$'000)	221,600	229,100	242,300	248,300	256,900
Private and Public Enterprise Loans (\$'000)	288,700	298,300	315,500	323,400	334,700

2.2 Consumer Price Index (CPI)

General price increases are measured within the Cook Islands economy by the Consumer Price Index (CPI).



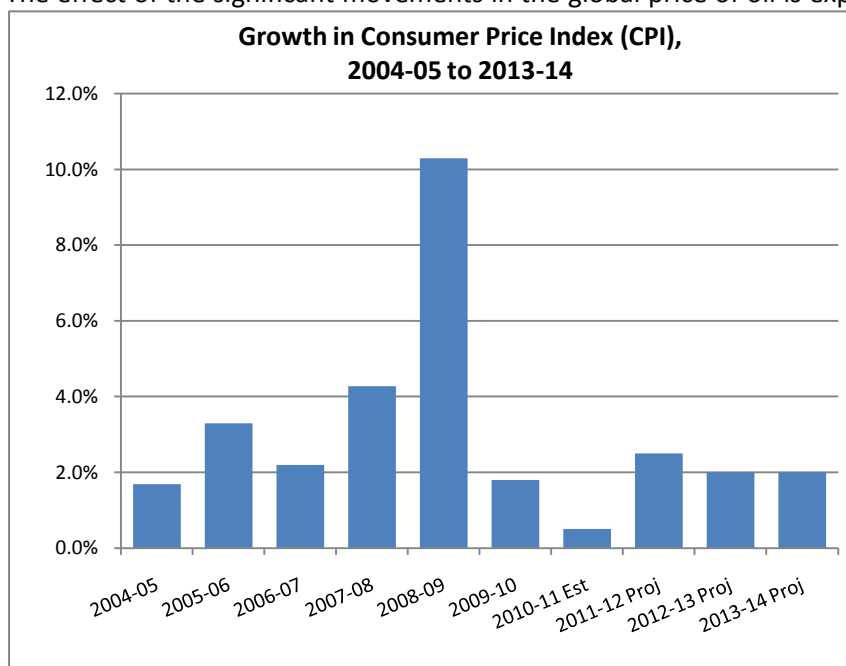
Average CPI growth in 2010-11 is estimated to be 0.5% indicating only a slight price increase over this period of time despite recent increases in the average price of fuel and electricity.

At the time of the BPS CPI was projected to increase by 0.9% based on CPI to March 2011. At the time prices over the June quarter 2011 were expected to increase by 3.5%. Provisional data for the June quarter indicate

a much lower growth in prices of 1.7%, this is lower than originally estimated. Therefore the average increase in CPI for 2010-11 reflect a slight average price movement of 0.5% from 2009-10.

Price rises in 2010-11 are attributed to increases in the price of food (2.2%), apparel (2.7%), transport (1.0%), tobacco & alcohol (0.3%) and miscellaneous goods (1.3%) offset by a reduction in the price of housing and household goods by -0.8% and a -2.8% respectively.

The effect of the significant movements in the global price of oil is expected to be reflected in 2011-12 where CPI projections will be rebounding off a lower base



where CPI projections will be rebounding off a lower base

It is expected that the implications of the oil price rise will be wide spread and will hit the pockets of both businesses and households and may force a more concerted consideration towards cost saving measures and dependencies on fossil fuel.

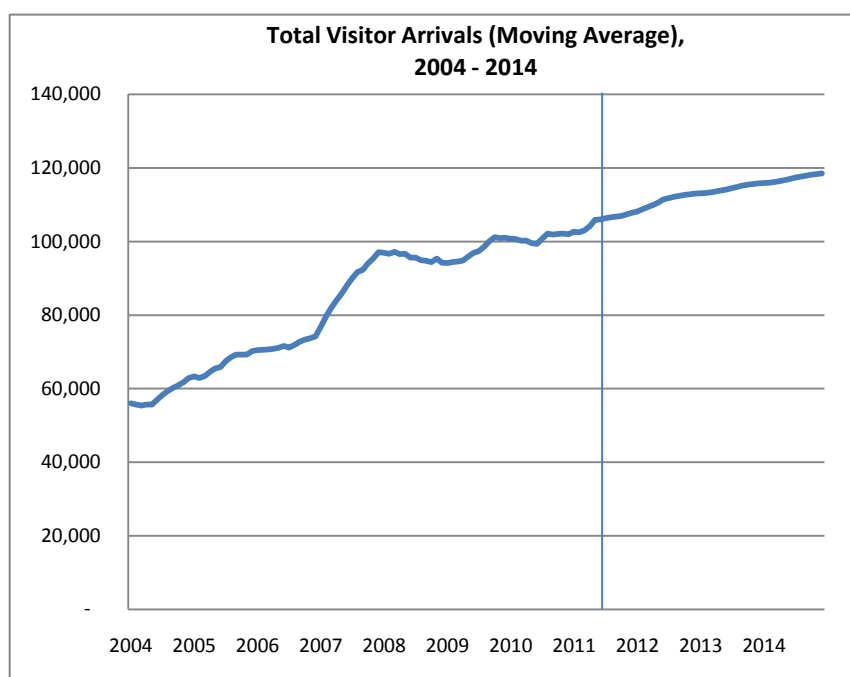
Prices are then expected to grow by 2.5% in 2011-12, and 2.0% in the outer years.

2.3 Tourism

The growth in the Cook Islands GDP is explained predominantly by tourism expenditures, and to a lesser extent government expenditures and export receipts. As the main driver of economic activity in the Cook Islands, investment in the Tourism industry has been a priority over the last year to stimulate economic activity within the sector and the flow of benefits across the wider economy going forward.

Tourism expenditures are calculated based on the number of visitor arrivals by the average spend per visitor. This is based on the assumption that on average each visitor stays in the Cook Islands 10 days and spends an average of NZD212.30 per day. Average spend per day is assumed to increase by 2% in each outer year.

The major tourist markets in the Cook Islands are New Zealand (64.0%), Australia (16.0%), Europe (10.0%) and North America (4.0%).



Estimates in March put projections for visitor arrivals at 104,100 in 2010-11. Since this time actual arrivals to May indicate significant growth over the remaining months of this financial year, mainly in the New Zealand market, increasing the estimate to 106,000 by year end. This is a 6.6% growth over the previous year and largely reflects the impact of the trial run Sydney to Rarotonga direct flight over July – October 2010 and actual April – May performance.

Going forward original estimates as published in the BPS placed growth in 2011-12 at 13.0%. This was the estimated result of establishing year round direct flights to Sydney and Nadi from July 2011 in addition to the existing direct flight to Los Angeles and the impact of a significantly increased marketing budget to the Cook Islands Tourism Corporation.

Government has since confirmed that it will not progress the direct flight to Nadi via Air Pacific in 2011-12. A revision of visitor arrivals based on the removal of the Nadi direct flight, historical arrivals analysis of all markets and loading capacities has resulted in a reduced estimate for visitor arrivals in 2011-12 at 111,500, a 5.2% increase in comparison to 2010-11, and 2.4% and 2.5% growth estimated in the outer years.

These revised estimates have been incorporated into the forecasts for nominal GDP and thus have impacted on the taxation revenues that support the budget estimates. This is discussed in section 2.1 of this update.

Major Markets

New Zealand

New Zealand continues to be the Cook Islands biggest market for visitors accounting for around 64% of the market. Growth out of the New Zealand market has been positive over the long term despite although at varying levels. Following a period of relatively lower than normal growth of only 0.1% in 2009-10 from 2008-09, the New Zealand market is expected to have grown 10.4% in 2010-11 based on actual arrivals to May 2011. Anecdotal evidence suggests that expenditure patterns of this market is relatively lower in comparison to other markets therefore significant growth in this market is anticipated to translate into a lighter level of growth in the economy. Based on the performance of the market over recent years, growth going forward is expected to expand by 3.8% in 2011-12, with growth of 3.7% and 3.6% in the outer years.

Australia

Traditionally the Australian market is serviced via Auckland and has experienced strong growth since 2008 via this route. Arrivals from this market are spread relatively evenly over the year. The trial run direct flight to Sydney from July to October 2010 proved successful in increasing visitors from this market by 32.2% over the same period of the previous year. On an annual basis, growth over the remaining months is estimated at 10.5% in 2010-11 in comparison to the previous year. As reported in the BPS, the direct flight to Sydney will be reintroduced under a 3 year agreement from July 2011 between Air New Zealand and the Cook Islands Government. Loadings on the flight are expected to be around 70% going forward and will return a 44.0% growth in 2011-12 increasing the level of tourists from this market from around 16,700 to 24,000. Growth in the outer years is expected to be more moderate at 4.8% and 3.6%, albeit off a higher base.

Europe

The European market accounts for 10% of the Cook Islands Tourism arrivals reaching its peak at 25,000 in 2000-01. Since this time, visitors from Europe have constantly declined at an average of 8.2% per annum mainly due to a dwindling UK market. On a year to date basis to May 2011, European visitors have declined -6.3% below the same levels in 2009-10. This downward trend is expected to continue in 2010-11 and on to the outer years. Despite the linkage between Los Angeles and the Cook Islands, there is no actuals to suggest a revision otherwise. Growth in the outer years is expected to be conservative and remain static pending market indications in the next quarter.

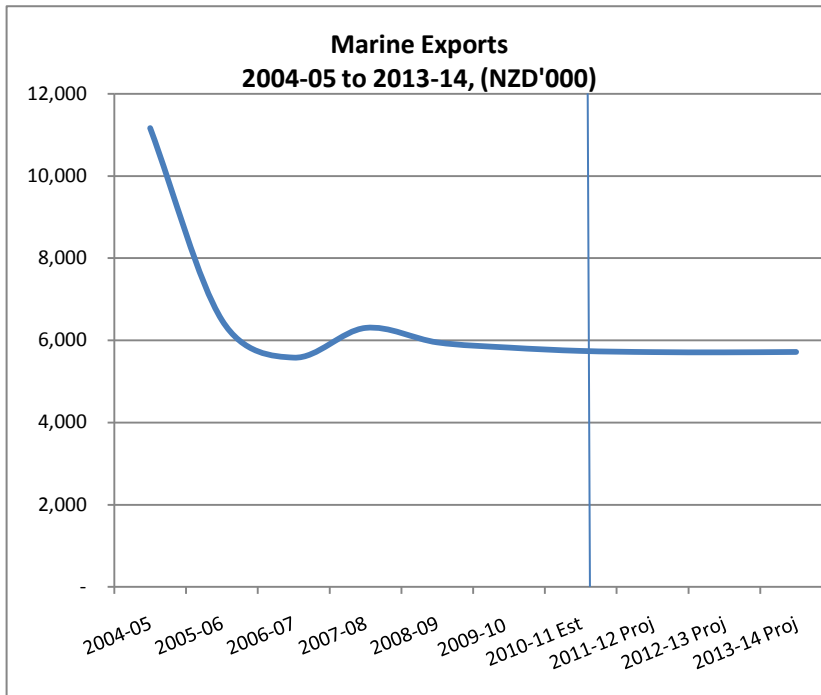
North America

North America has been a focus market by the Cook Islands Tourism Corporation with increased marketing dollars channelled into this market over recent months. The linkage between North America and the Cook Islands is via the Los Angeles route with 2010 visitor arrivals indicating 68.0% of arrivals direct from Los Angeles. Year to date figures to May 2011 indicate arrivals from this market are estimated to total 4,430 in 2010-11, 12.0% above the same levels in 2009-10.

Growth in the outer years is expected to be conservative, remaining static with any revisions to the growth pending actual results from July onwards.

2.4 Marine Resources

The Marine sector in the Cook Islands is made up of mainly tuna and albacore fisheries and pearls.

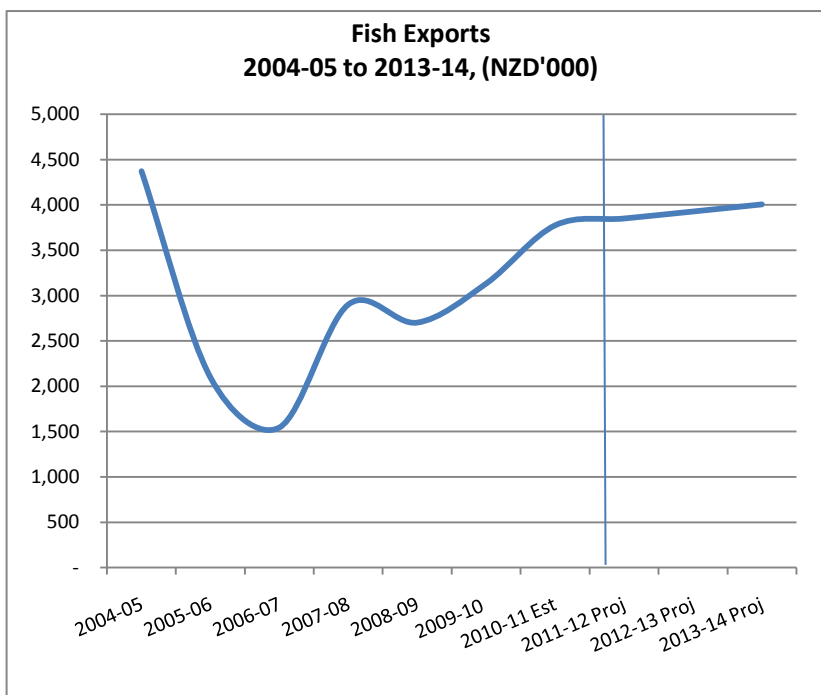


In 2009, the marine sector was estimated to contribute NZD7.5million to the GDP of the Cook Islands economy. Since this time, the performance of the Marine Sector is measured on the basis of exports earnings.

Total exports in 2010-11 from the marine sector is estimated at \$5.0million, a 5.6% increase over the previous year. This is predominantly driven by increases in fisheries exports. Growth going forward is expected to be 2.0% per year again mainly driven by increases in fisheries exports.

2.4.1 Fishing

As reported in previous updates, the Cook Islands fishing industry is serviced by the Northern and Southern fleets, with 36 licensed vessels servicing both fleets.



The Northern fishery lands the majority of its catch in Pago Pago with the remaining dispersed in smaller markets in Japan, Thailand and Brazil.

Year to date data to March 2011 shows exports have grown 61% over the same period of the previous year. Although highly volatile over the year, with moderate growth estimated for the June quarter and in line with medium term growth prospects, 2010-11 growth is

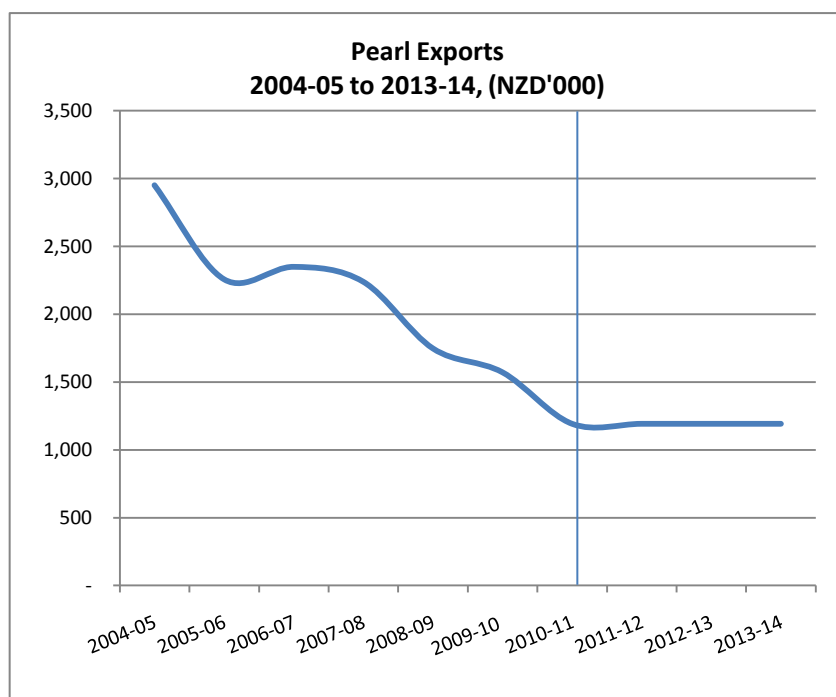
expected to round off at 20%.

In an effort to further increase fisheries exports from Rarotonga, the Ministry of Marine Resources (MMR) has put in place a rebate scheme to encourage the larger distant water fishing nations currently operating in the northern fishery to invest resources into onshore processing in Rarotonga. Progress of this initiative will be assessed over 2011-12.

Overall, forecasts for fishing exports remains positive and estimates for 2010-11 are expected to increase over and above estimates at the time of the BPS. In the outer years exports are expected to grow at a moderate 2% per annum.

2.4.2 Pearl

Cook Islands pearls are sold on the domestic and international markets, however as stated in previous updates, it is difficult to quantify the size of the domestic market. The performance of the industry is heavily focused and assessed on the export trends of the industry over time. This information is collected on a quarterly basis.



In the BPS it was reported that pearls accounted for 22% of total exports to December 2010, new data indicates that pearls now account for a much lower level of 12% with growth in exports predominantly made up of growth in fisheries exports.

Total pearl exports in 2010-11 is estimated at NZD1.2million and represents a continual decline over recent years.

The March quarter 2011 recorded only NZD67,000 worth of pearls exported to overseas markets, the lowest in recent history. This is believed to be a flow on effect of the flat activity generated at the production stages of pearl farming and production. Despite marketing efforts at the national level, given the length of time from seeding to sale, limited access to working capital financing is noted to have restricted production for export.

Programs are in place under the Cook Islands Pearl Authority in cooperation with the Ministry of Marine Resources to stimulate growth through implementing key production, marketing, capacity building, and programme management initiatives. It is intended that this will increase the level of pearl farming activity in Manihiki over the 3 years from approximately 600,000 shells to 1.2million shells in the years 2011-13.¹ This program is expected to roll out in 2011 through to 2013 noting that the time lapse in which results are to be seen is 18 months from the time of seeding the oyster shells with a new influx of pearls expected to enter the market from 2013-15. As a result the value of the industry in real terms under this program is expected to grow from NZD2.8million in 2010 to NZD6.1million by 2015.

¹ Cook Islands Pearl Industry Support Programme 2011-13, February 2011, Ministry of Marine Resources and Cook Islands Pearl Authority

2.5 Agriculture

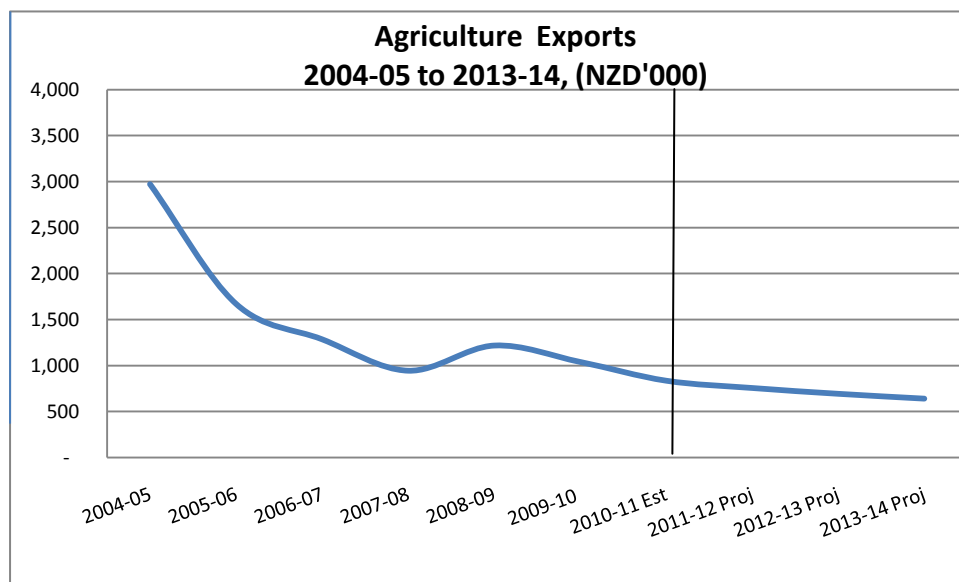
The agriculture sector is largely informal and thus its total contribution to the economy is difficult to quantify. It was documented that the sector accounts for 2.7% of GDP (NZD7.3 million) in 2009 and is believed to be declining over time. The supply and demand for produce is predominantly based in Rarotonga with a minor volume exported to international markets.

The outer islands have been identified for the development of the Te One Kura Project, particularly the islands of Mangaia, Atiu, Mauke, and Aitutaki to supply the market on Rarotonga, both fresh and processed (value added) produce. On Mangaia, Mauke, and Atiu there is in excess of 1,000 acres of land highly suited for cultivation. Anecdotal evidence suggests that the majority of these areas have been in vegetation for many years implying the soil is relatively fertile due to organic matter from the trees and shrubs and will produce successful crops.

Constraints to successfully expanding production to meet growing demand continue to be local enterprise, labour shortages, water supply and high costs of transportation from the production source to the market (Rarotonga & international markets) hinder the success of this venture and the consistency of supply to the market.

2.5.1 Export Market

The export of agriculture produce for 2010-11 is estimated to total NZD0.6 million consisting of noni (NZD0.5million) and maire eis (NZD0.1 million) exported to markets in Japan and Hawaii respectively.



Following the natural disaster in Japan in Feb 2011, there was an expectation that the export of noni will cease for a period of 3 months as per the advice of Japanese importers. The MoA and the Cook Islands Noni Marketing Group (responsible for

consolidating the sale and marketing of Cook Islands noni products) was positive about a quick bounce back by the Japanese market in turn advising growers on how to manage over the non-export period. The turn-around in the noni market has since been revamped and the MoA has advised that re-exportation of noni has commenced from June 2011 and is expected to continue going forward.

2.5.2 Domestic Market

Fresh fruit and vegetables remain the main agricultural produce traded on the domestic market. Anecdotal evidence suggest that the growth in the tourism industry will further increase the demand for fresh produce on the domestic market however it is noted that Surplus demand continue to be met through imported produce from overseas markets.

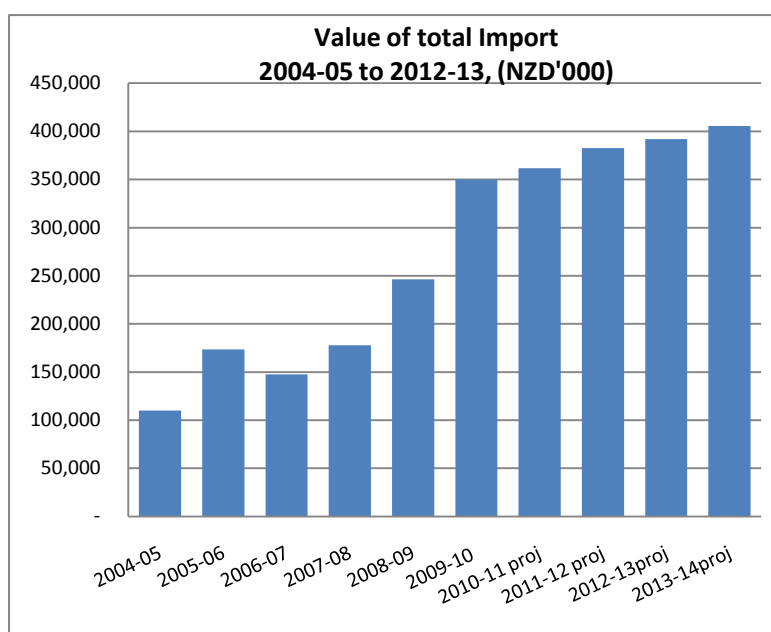
Further growth in demand for fresh produce is expected to come from solid growth in the tourism industry. There is potential to strategically increase production to cater for the expectation of increased demand and at the same time reduce the import substitution gap. If concentrated efforts are not made to increase domestic supply, reliance on imported produce will continue to deepen and limit the spread of economic returns to the agriculture industry from the higher number of expected visitors.

The MoA has been tasked to review the Te One Kura project in 2011-12 to consider a strategic way forward for agriculture in the Cook Islands and also determine the appropriate role of the Government in supporting the sector. Difficulties with the project include appropriate infrastructure, business cases and organisation. Until the private sector re-orientates itself to fill the gap of import substitution, projections are that growth in imported produce will increase in line with growth in the economy.

2.6 Exports and Imports

2.6.1 Imports²

The import leakage for the Cook Islands is estimated at around 58%, so for every \$1 spent in the Cook Islands, \$0.58 cents leaks out of the economy. This is because of the Cook Islands heavy reliance on imported products to meet local demand including demand driven by the tourism industry. The Cook Islands imported a total of \$408 million worth of merchandise in 2010.



Import volumes were predominantly made up of minerals, oil (36.7%), machinery, transport and equipment (17.4%) and miscellaneous manufactured goods (14.4%). Over 50% of all products are imported from New Zealand followed by other suppliers in Fiji and Australia.

As per section 2.2 (Consumer Price Index) of this Economic Update, projected rises in the cost of oil will be translated into higher freight costs which are expected to cause the value of imports to significantly rise in the June quarter 2010-11 and on to

the first three quarters of 2011-12.

Projections for imports in 2010-11 will continue to be in line with nominal GDP. Despite a lower level of growth projected, the expected increase in visitor numbers as a direct consequence of the Tourism Growth Strategy will place a higher demand for imported produce. A market gap presents

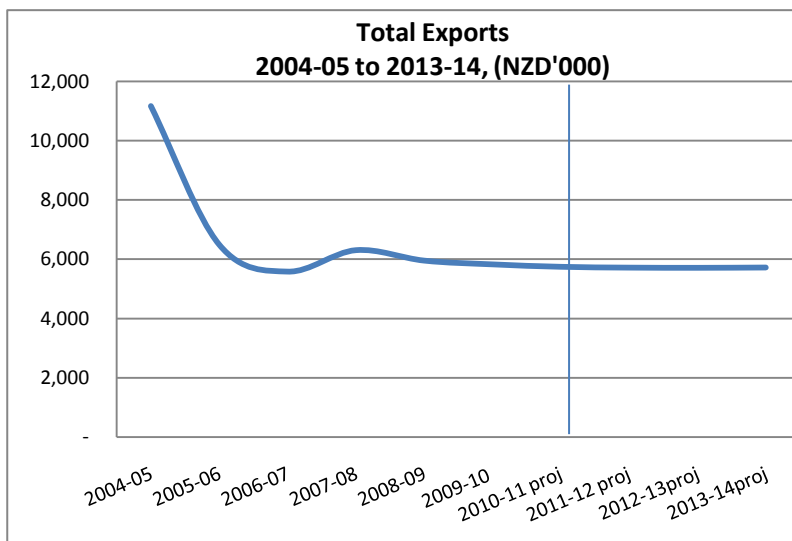
² BPS, March 2011, pg 22

itself and moves to fill this demand through local produce will relieve some pressure on the deepening of the trade deficit through import substitution, potentially pulling down the import leakage.

2.6.2 Exports

The Cook Islands economy has two main export sectors: the pearl exports valued at NZD1.5million and the fisheries exports valued at NZD3.0million. (Noting that the 'other' sector earns approximately NZD1.0million per annum.)

The trends in each sector of the export market are outlined and detailed in sections 2.4.1 (Fish), 2.4.2 (Pearl) and 2.5 (Agriculture) of this update.



Prior to 2005-06 total exports from the Cook Islands reached levels of over NZD11.0million mainly due to a higher level of pearl exports, however this has reduced due to the water quality in the lagoon which affected production and farming practises in the earlier parts of 2000.

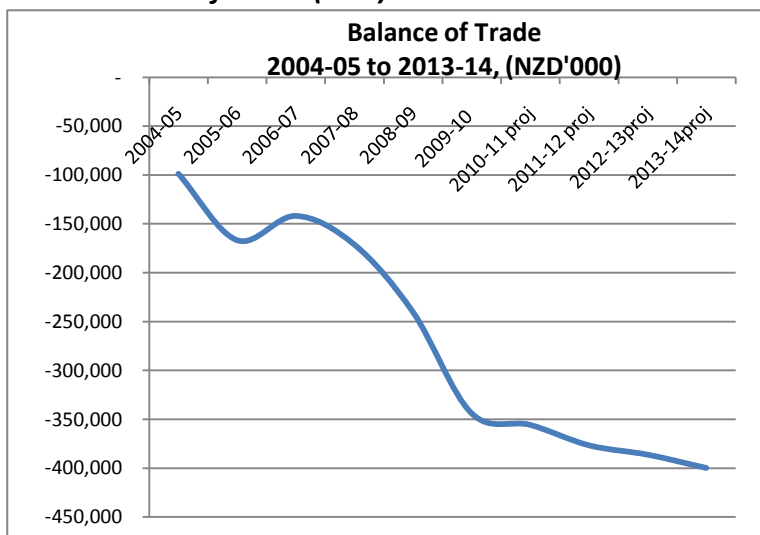
Actual exports to March 2011 placed total exports over the period at NZD4.4million, a 29.3% increase above the same period in the previous year as a

result of higher fisheries exports despite lower level pearl and other exports receipts.

The financial year 2010-11 export projections for each of the export sector have been revised to reflect actual data to the March quarter 2011. Pearl and other exports are expected to have negative growth in 2010-11 by -47.0% and -31% respectively, with pearl growth in the outer years expected to be static while other exports reduce at a slower rate. The only export sector that is expected to expand going forward is the fisheries sector where growth of 40.0% is estimated for 2010-11 given year to date actuals, then expected to grow at 2.0% in the outer years.

Overall exports are assumed to grow at -1.4% in 2010-11, -0.5% in 2011-12, and -0.1% and 0.2% in the outer years

2.6.3 Balance of Trade (BOT)



Balance of Trade for 2010-11 is estimated to reach a deficit of NZD355.9 which is 3.4% deeper than 2009-10. Given the global price increase it is expected that this deficit will continue to deepen in to the upcoming quarters.

This revision of BOT is based on actual export data collected to the March quarter 2011, going

forward this is expected to grow in line with nominal GDP.

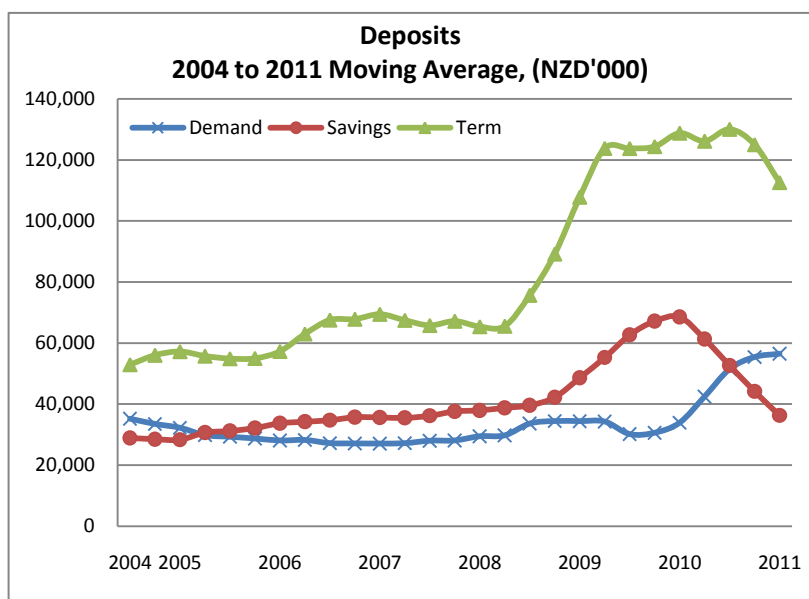
2.7 Banking and Finance

Trends in deposits and loans within the banking sector give an indication of the marginal propensity of individuals to consume, invest or save within the economy. The main indicators of activity in the Cook Islands banking sector include the movements in net foreign assets, loans and advances and savings levels over time. The Cook Islands does not have a sovereign Reserve Bank and conducts its commercial activities in New Zealand Dollar. As such it does not operate monetary policy therefore cannot influence and manage the pace of demand through interest rates.

Net foreign assets (NFA) in the Cook Islands banking sector has since the BPS decreased from NZD100.2 million in March 2010 to NZD3.9 million in March 2011 indicating a 104.0% decline in gross foreign assets, primarily due to a decrease in balances held with domestic banks and finance institutions abroad and the increase in foreign liabilities. The NFA reflects a country's position in terms of the value of assets that it owns abroad less the value of domestic assets owned by foreigners. The Cook Islands declining NFA illustrates the country's indebtedness meaning that if this decline in NFA continue, the Cook Islands run the risk of incurring a current account deficit on the understanding that a decrease in NFA decreases current account balances also.

2.7.1 Deposits

Overall deposits since the December quarter 2010 have increased from NZD185.7million to NZD189.3million an increase of 2% above the December quarter predominantly due to an increase in savings and term deposits by 2.0% and 3.6% respectively.



Since 2004-05 through to 2007-08 deposits grew slightly at relatively the same levels each year. In the September quarter 2008 term deposits significantly increased by 42.9% from NZD136.6million to NZD195.2million predominantly due to private sector contributions to the banking system. This upward trend in term deposits continued to June 2009 where term deposits began to fall and become highly volatile.

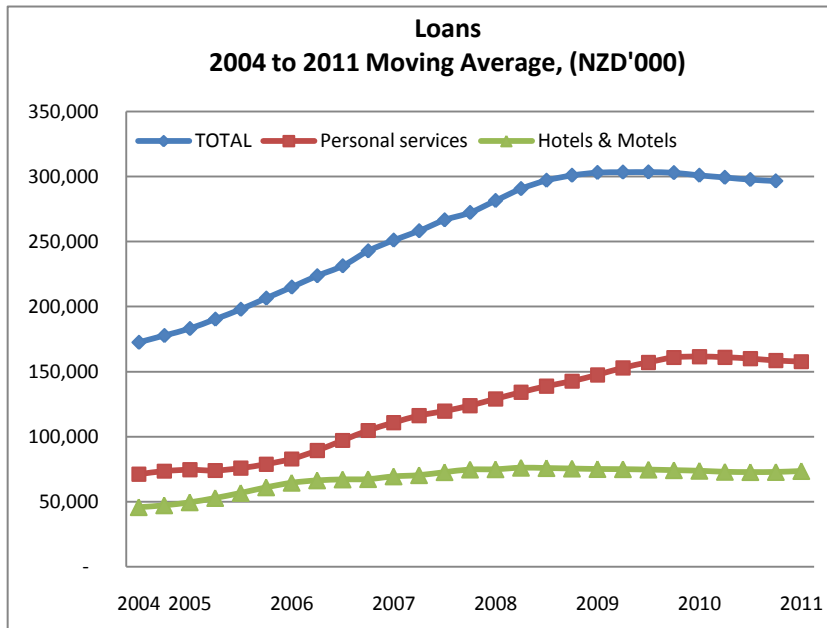
Savings and demand deposits have been relatively stable up

to 2010 where demand deposits increased above normal levels and savings reduced along with reductions in term deposits indicating a higher propensity to consumer rather than save..

Going forward, deposits is expected to grow in line with nominal GDP.

2.7.2 Loans

Despite a decline in the contribution of lending to the annual growth loans and advances in the



March quarter 2011 is 0.7% above the same period in the previous year, Personal services accounts for 52.7% of total lending for the quarter followed distantly by hotels & motels and wholesale & retail by 25.5% and 7.0% respectively

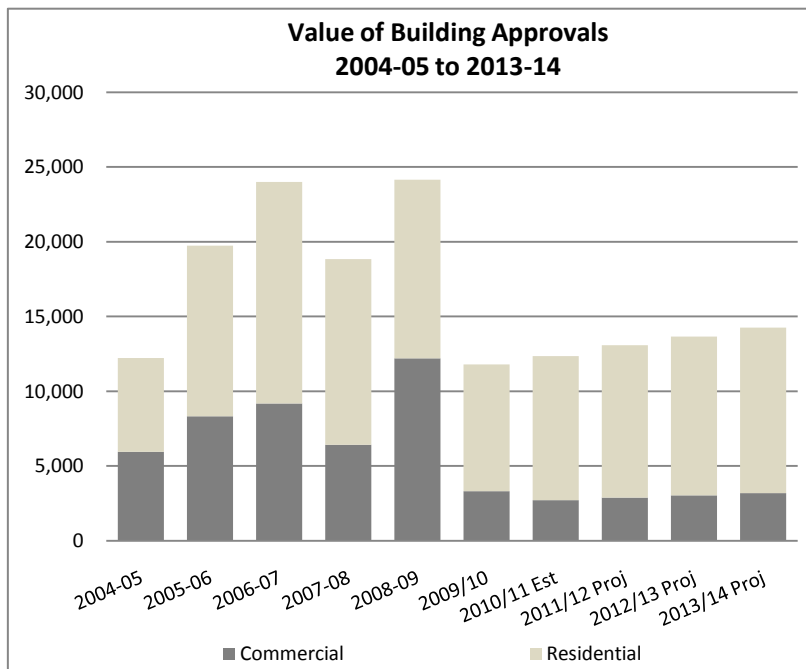
Loan stocks indicate a turnaround in the focus on development investments which is supported by building approvals.

Going forward, loans and advances are expected to

grow in line with growth in nominal GDP.

2.7.3 Housing and Construction

The trends and movements in the construction industry are measured by the number and value of building approvals from both residential and commercial properties. Trends indicate the level of investor confidence within the economy and new development.



Total investments in the March quarter 2011 amounted to NZD2.8million of which residential and commercial investments accounted 66% and 34% respectively. The total value of investments have declined by -2.9% over the March quarter of the previous year. Total building approvals for 2010-11 to March quarter is NZD9.4million.

Going forward it is expected that the construction industry will grow in line with nominal GDP in the outer years.

2.7.4 Financial Services Industry

The financial services sector is a composition of various services including international company registrations, trusts, partnerships and limited liability companies.

The Financial Services Development Authority (FSDA) was established in 2009 to market the Cook Islands as an international jurisdiction and act as a point of contact between the government and the industry. The BPS makes provision for FSDA to support initiatives that will update and create legislation for new services and products that will add value to the Cook Islands competitiveness as a jurisdiction. FSDA is also tasked to increase marketing efforts internationally to raise the profile of the jurisdiction and to diversify its client base noting that the Cook Islands have fallen behind its competitors and losing its share of the market as an innovative modern international finance centre.

While the Cook Islands is regarded as having strong legislation and being an innovator among international finance centres, in recent years its legislation has become outdated compared to other jurisdictions and is in need of modernisation with a view to new competitive advantages through improvement of existing services and the creation of new services not currently offered. Amending the existing International Companies Act with an emphasis on retaining its strongest features while creating legislation more closely aligned with that of the biggest companies' registry, the Cook Islands will attract new business from existing client sources as well as expand into new client markets.³

As FSDA works toward expanding the client markets for the industry, demand for similar services to competitor jurisdictions increases. The ideal legislation will be an improvement on existing services available in the marketplace. International service providers interested in establishing a presence in the Cook Islands have indicated that with the legislation in place, they can funnel new work to the jurisdiction.

The ultimate effect of amended and new legislation is to create new paths for existing clients, to give existing trust companies a competitive edge within their own companies, and to diversify the client base for the jurisdiction. The above reflects a mix of high volume, low fee services that are desirable to Government in terms of direct revenue and low volume, high fee services that meet the intellectual capacity of the service providers and increase overall industry revenue

2.7.5 Withholding Taxes

Government has reintroduced withholding taxes in 2011-12 on interest income earned from banks.

Subjecting interest income from registered banks to withholding tax is a change to a previous decision to exempt such income from income tax. Taxing interest income is common throughout most developed countries and the implementation of this is relatively simply applied through the banks. The interest withholding tax is 15% of interest paid. The withholding tax on interest is to be introduced from 1 September 2011, and it is expected that revenue from interest withholding taxes in 2011-12 be NZD1.0million.

³ FSDA Business Plan 2011-12, March 2011

2.8 Assumptions Underlying the Economic Forecast

The assumptions underlying the economic forecasts are outlined within each of the individual sections in the Economic Update. It is noted that except for GDP, all data is updated since the time of the BPS to the March quarter 2011. Visitor arrivals have been updated to May 2011 leaving only one month to project for the year total. All forecasts for the 2010-11 and outer years has been revised and documented in the individual sections of the update.

The key assumptions are as follows:

- The growth in the Cook Islands GDP is explained by tourism expenditures, government expenditures and export receipts.

- Tourism Expenditures

Tourism expenditures are calculated based on the number of visitor arrivals by the average spend per visitor. This is based on the assumption that on average each visitor stays in the Cook Islands 10 days and spends an average of NZD212.30 per day. Average spend per day is assumed to increase by 2% in each outer year in line with general price rises.

Note the Cook Islands Tourism Corporation is undertaking a Visitor Expenditure Survey that will provide more comprehensive data to underpin assumptions and estimates once complete.

Visitor arrivals is assumed to grow by 6.7% in 2010-11, 5.2% in 2011-12, then grow at 2.4% and 2.5% in the outer years.

- Government Expenditures

Factoring in Government expenditures into GDP estimates is to reflect expenditure that will be paid directly into the national economy by the public sector

Government expenditure is based on Appropriations and forecasted based on existing government policy which incorporates various one off expenditure items detailed in the Budget Estimates. Expenditures for 2010-11 are based on the estimated expenditure by year end reducing by 5.1% in 2010-11. Going forward, government expenditure is expected to grow by 2.3% in 2011-12 then reduce by 2.6% and grow by 0.7% in each outer year respectively.

- Export receipts

The Cook Islands economy has only two main export sectors – Pearl (earning around \$1.5 million per annum) and Fish (earning around \$3 million per annum). All other exports combined earn around \$1 million per annum.

Going forward the following growth rates apply to each export

- Pearl : -47% in 2010-11, static growth going forward
- Fish : +40% in 2010-11, +2% growth going forward
- Other: -31% in 2010-11, growth going forward with dampen effect

Overall exports are assumed to grow at -1.4% in 2010-11, -0.5% in 2011-12, and -0.1% and 0.2% in the outer years

- Nominal GDP is calculated based on growth in tourism expenditures, government expenditures and export receipts. Based on the above assumptions Nominal GDP is therefore estimated to grow at 3.4% in 2010-11, 5.8% in 2011-12, and more moderately at 2.5% and 3.5% in the outer years.
- Nominal GDP is deflated based on the CPI to calculate Real GDP. Real GDP is expected to grow by 2.9% in 2010-11 and to increase by 3.3% in 2011-12 driven by the tourism industry, then to more slight rates of 0.5% and 1.5% in the outer years mainly due to reductions in government expenditures.
- Consumer price index is projected downwards to 0.5% in 2010-11 from 0.9% at the time of the BPS due to actual data available for the year. It is then expected that CPI will increase to 2.5% in 2011-12 and 2.0% in the outer years, reflective of a catch up in the upward movement in fuel prices globally.
- Growth in the banking & finance sector and housing & construction are expected to grow in line with Nominal GDP forecasts.

The above assumptions are based on past growth rates within the Cook Islands economy and economic predictions for regional and world growth in 2010-11 and the out years.

3 MEDIUM TERM FISCAL UPDATE

3.1 Overview

The purpose of the Fiscal Update is to provide necessary revisions to fiscal forecasts that underpinned the Budget Policy Statement 2011-12 (BPS) estimates and as a result provide an analysis for fiscal responsibility and a revised set of accounts for 2010-11, 2011-12, 2012-13 and 2013-14.

In updating the fiscal forecasts year to date assessments of revenues and expenditure patterns against Supplementary Budget Estimates 2010-11 (April) and provisions provided for in the 2011-12 Appropriation have been incorporated.

In 2010-11 expenditures have been revised upwards since the Supplementary Budget 2010-11 with a slight reduction in revenues. The increase in expenditures is mostly to accommodate for over expenditures in non discretionary items of which government has entered into commercial agreements with government having limited control over exposures. This includes over expenditures estimated in the agreement with Apex Agencies Ltd profit guarantee of \$0.2million at year end, and \$1.6million in airline underwrites (of which \$1.5million is to be covered by donor funding). Government has also made a commitment to fund the reconstruction of category 3 homes under the Aitutaki Cyclone Recovery Program of \$0.3million. These expenditure items are within the limitations of Article 70(3)(b) of the Cook Islands Constitution that makes provision for over expenditures up to 1.5% of the appropriation. The over expenditure is 0.4% of the appropriation for 2010-11. The additional expenditure is to be funded out of existing operating surpluses.

Combined, these items have a net effect on the operating balance of -\$0.9million and on the overall budget balance of -\$0.4 million at year end, however with both balances in surplus. These items are discussed in more detail under Section 3.2 of this update.

In 2011-12 both revenues and expenditures are estimated to increase and result in an overall budget surplus of \$1,000.

As discussed in the Budget Policy Statement 2011-12, to control the impacts of fiscal policy on fiscal and macroeconomic stability, the Government of the day must operate within the fiscal responsibility principles outlined in the MFEM Act as follows:

- Ensuring that unless Crown debt is at prudent levels, operating expenses will be less than operating revenues (Government will run an operating surplus)
- Achieving and maintaining levels of Crown net worth that provide a buffer against factors which may impact adversely on net worth in the future
- Managing prudently the fiscal risks facing the Crown
- Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

The Ministry of Finance and Economic Management quantifies these principles through the Fiscal Responsibility Ratios. The below table shows the benchmarks of these ratios and performance in 2010-11 and expectations for 2011-12 based on revised forecasts:

Table 3.0: Fiscal Responsibility Ratios

	Type	Purpose	Benchmark	FY09/10	FY10/11	FY10/11	FY11/12	Comment
				Estimate	Supp Budget	Estimate	Budget	
				\$m	\$m	\$m	\$m	
A Fiscal Envelope Ratio								
1	Tax Revenue to GDP	Sets the revenue boundary and ensures government limits the diversion of resources away from the private sector	25.0%	24.3%	23.6%	23.7%	23.8%	currently levels are appropriate given one off tax receipts despite inclusion of change in government policy to implement withholding taxation on interest income.
B Expenditure Control Ratios								
2	Personnel to Total Revenue	Controls expansion in the size of the public service	40.0%	41.7%	41.9%	42.0%	41.5%	concerning and will require policy action over the medium term
3	Operating Balance	As required under the MFEM Act (\$'000)	0	-2,672	1,009	149	31	current levels are appropriate. However levels must be tracked closely over the medium term.
C Prudential Ratios								
4	Debt Servicing to Total Revenue	Measures ability to service debt	5%	4.0%	3.0%	3.0%	3.4%	current levels are appropriate. However this must be tracked closely when new loans are considered.
5	Budget Overall Deficit as % of GDP	Moderate the rate of debt accumulation	+/-2%	-2.6%	-1.8%	-2.0%	-2.0%	current levels as per the 2010-11 budget are appropriate given the balance of expenditure is financed through loan and reserve funds rather than increased borrowings. However this must be tracked closely when new loans are considered.
6	Net Debt to GDP ratio	Measures the level of debt relative to national income	35.0%	16%	15%	15%	17%	current levels are appropriate and are expected to stay around the same levels despite the inclusion of ADB loans in 2011-12. However this must be tracked closely when new loans are considered.

In this context, year-end estimates for 2010-11 and decisions taken in the 2011-12 Appropriation are generally within the fiscal responsibility requirements of the MFEM Act with a note that personnel expenditures and debt servicing needs attention going forward.¹

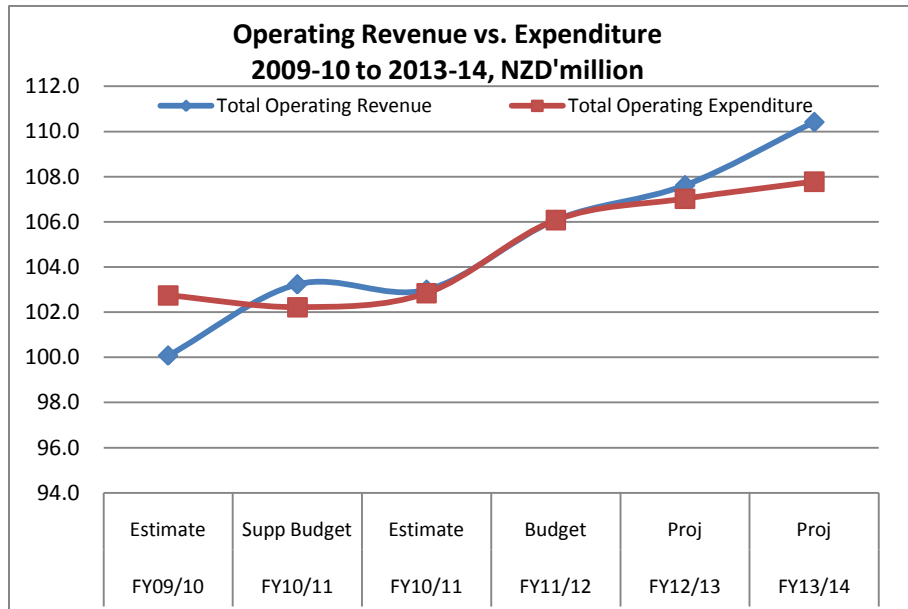
¹ Outer year estimates of Fiscal Responsibility Ratios are included in the Fiscal Indicators table in the Medium Term Fiscal Update of this publication

Table 3.1: Fiscal Indicators

Fiscal Indicators						
	FY09/10	FY10/11	FY10/11	FY11/12	FY12/13	FY13/14
	Estimate	Supp Budget	Estimate	Budget	Proj	Proj
	\$m	\$m	\$m	\$m	\$m	\$m
Statement of Financial Performance						
Taxation Revenue	83.8	84.2	84.7	90.0	92.2	95.3
Other Revenue	6.3	7.6	7.3	5.4	5.4	5.2
Ministry Trading (net revenue)	5.4	5.2	5.2	5.2	5.2	5.2
Interest and Dividend	4.6	6.3	5.9	5.5	4.7	4.7
Total Operating Revenue	100.1	103.2	103.0	106.1	107.6	110.4
Total Revenue as % of GDP	29.0%	28.9%	28.9%	28.1%	27.8%	27.6%
Tax Revenue as % of GDP	24.3%	23.6%	23.7%	23.8%	23.8%	23.8%
Personnel	41.7	43.3	43.3	44.1	43.8	44.2
as % of Total Revenue	41.7%	41.9%	42.0%	41.5%	40.7%	40.1%
Total Operating Expenditure	102.7	102.2	102.8	106.1	107.0	107.8
as % of GDP	29.7%	28.6%	28.8%	28.1%	27.7%	26.9%
as % of Operating Revenue	102.7%	99.0%	99.9%	100.0%	99.4%	97.6%
Operating Balance	(2.7)	1.0	0.1	0.0	0.6	2.6
as % of GDP	-0.8%	0.3%	0.0%	0.0%	0.2%	0.7%
Non Operating Balance	(6.5)	(7.4)	(7.4)	(7.4)	(8.7)	-
Overall Surplus/(Deficit)	(9.1)	(6.4)	(7.2)	(7.4)	(8.1)	2.6
as % of GDP	2.6%	1.8%	2.0%	2.0%	2.1%	-0.7%
Statement of Financial Position						
Assets	332.7	334.6	333.8	350.7	353.4	357.8
Liabilities	113.1	110.6	109.3	122.3	118.8	115.2
Crown Balance	219.6	224.0	224.5	228.5	234.6	242.6
as % of GDP	63.6%	62.8%	62.9%	60.5%	60.6%	60.6%
Statement of Borrowings						
Net Crown Debt, end of FY	56.0	55.3	54.0	62.3	60.6	58.6
as % of GDP	16.2%	15.5%	15.1%	16.5%	15.7%	14.6%
Loan Repayment Reserves Held	22.0	20.5	20.5	19.1	17.6	16.2
Debt Servicing	4.0	3.1	3.1	3.6	4.4	4.5
as % of Total Revenue	4.0%	3.0%	3.0%	3.4%	4.1%	4.0%
Memo item: Nominal GDP	345.4	357.0	357.0	377.5	387.0	400.4

3.2 Operating Statement

The Operating Statement reflects the financial performance of government including governments ability to cover its immediate operating expenses. The operating statement also provides a general analysis of trends and revisions of forecasts for operating revenues, operating expenditures and the impact on the operating balance.



3.2.1 Operating Revenue

Operating Revenues are made up of taxation receipts (85%), other revenues collected on behalf of the crown (5%), ministry trading revenue (5%), and interest and dividend receipts (5%). These are used to finance the operating cost of government, with surpluses used for investing initiatives.

Estimates 2010-11

Total operating revenues for 2010-11 is estimated to come in at \$103.0million by year end, 2.9% higher than that collected in 2009-10, despite being slightly lower than projected at the time of the Supplementary Budget 2010-11 in April 2011.

At the time of the Supplementary Budget 2010-11 taxation receipts were expected to grow by a mere 0.5% in 2010-11. Given collections to date, it is now estimated that tax receipts will come in at \$84.7million, 1.1% higher than in 2009-10.

Other Crown revenues are estimated to come in at \$7.3million in 2010-11. This is a slight reduction of \$0.3 million on projections at the time of the Supplementary Budget 2010-11 due to exchange rate fluctuations in company registrations collected by the Financial Services Commission and via Fisheries US Treaties. It is important to note that 2010-11 includes significant one off receipts for illegal fishing at \$2.1 million. Removing these one off factors reduces the base of other crown revenues going forward.

Ministry Trading Revenue is estimated to come in at \$5.2million in 2010-11 as estimated at the time of the Supplementary Budget 2010-11.

Interest & Dividend receipts were revised downwards to \$5.9million in 2010-11 since the Supplementary Budget mainly due to a revision downwards in dividends of \$0.4million with interest income estimated to come in as per projections at the time of the Supplementary Budget 2010-11 at \$2.5million

Budget 2011-12

Total operating revenues are expected to grow by 3.0% in 2011-12 to \$106.1million. This increase reflects a 6.3% growth in taxation revenues, removals of one off other crown revenues and dividends, with slight increases in trading revenue and interest on loans to subsidiaries.

Taxation in 2011-12 is estimated to grow by 6.3% in 2011-12 and is lower than the 10.0% growth estimated at the time of the Supplementary Budget 2010-11. This reduction in estimates is largely due to the revision of the impact of the Tourism Growth Strategy on visitor arrivals from 2011-12, economic activity and therefore taxation. A major change to assumptions since this time is the removal of the intended connection from Nadi to Rarotonga via Air Pacific. Government will not be progressing on this route in 2011-12. Government has also endorsed to put in place withholding taxation on interest income in 2011-12 and is expected to generate \$1.0million in additional revenues. Growth in the outer years is also expected to be more moderate at 2.5% and 3.4% respectively growing in line with projected growth in nominal GDP.

Other Crown revenues are estimated to reduce by 25.9% in 2011-12 reflecting the removal of one off collections of illegal fishing fines in 2010-11 estimated at \$2.1 million. Other significant movements include downward adjustments to Financial Services Commission revenues due to exchange rate fluctuations and minor reductions to circulating currency coins, despite increases to Fisheries-US Treaty and other smaller revenue items.

Interest revenue is estimated to reduce by 10.8% in 2011-12 mainly due to governments plan to expend loan funds over 2011-12 that are currently held as deposits with local banks contributing to interest receipts.

Dividends are estimated to reduce by 5.0% in 2011-12 mainly due to Ports Authority and Bank of Cook Islands downward revision of dividend receipts and the removal of extraordinary dividends from 2010-11. It is also noted that Ports Authority do not expect to provide dividends to Government in the future, as result of undertaking the large infrastructure Loan to develop the Avatiu Harbour. Going forward dividends are expected to reduce further to a base of \$3.0 million. Government plans to develop and implement a dividend policy that ensures a fair return on its investment in SOE's including the associated social responsibilities SOE's hold.

3.2.2 Operating Expenditure

Operating expenditure refers to expenditure on the delivery of government's core outputs by the public service, payments on behalf of the crown, and other operating expenditures.

Estimates 2010-11

Total operating expenditures is estimated to come in at \$102.8 million by year end, \$0.6 million more than anticipated in the Supplementary Budget 2010-11. This was mainly due to the various one off expenses in relations to Aitutaki Cyclone Recovery Category 3 homes, and to cover commercial exposures in agreements with Apex Agencies Limited (operating as Toa) and Air New Zealand agreements that have exceeded budgeted levels.

Budget 2011-12

Total Operating Expenditure in 2011-12 is estimated at \$106.1 million, this accounts for a considerable increase of \$3.2 million over 2010-11.

Operating expenditure of \$63.9 million will be spent on ministry outputs and makes up 60 % of total operating expenditure which includes personnel (69%), operating (26%) and depreciation (5%).

Government payroll continues to increase in number and cost. Effort to address the expanding number and cost of the public service is expected to be addressed through the ADB Public Service Functional Review managed by the Office Public Service Commission.

At the time of the Supplementary Budget 2010-11 Payments on Behalf of the Crown (POBOCs) was 29.0% of total expenditure. This was revised slightly to 29.4% during the 2010-11 estimates and this is anticipated to grow to 33.1% of total expenditure in 2011-12. Notable increases to the POBOC funds are a result of increases to support the Air New Zealand route subsidies re-introducing direct flights via Sydney and continuing the Los Angeles direct flight at uncapped levels; \$10.0million is budgeted in 2010-11 to cover underwrites, an additional \$4.5million increase out of government revenues over estimates in 2010-11 with the balance of \$2.0million being donor funded. Other large increases in POBOCs include Governments ongoing support towards the Te Maeva Nui Celebrations of \$0.9 million, the transfer of the Ministry of Health pharmaceutical budget from operating expenditure to POBOC \$0.7 million, the establishment of Fisheries Development Facility \$0.2 million, Seabed Commission \$0.50 million, TOA Guarantee \$0.2 million and Welfare Payments \$0.4 million.

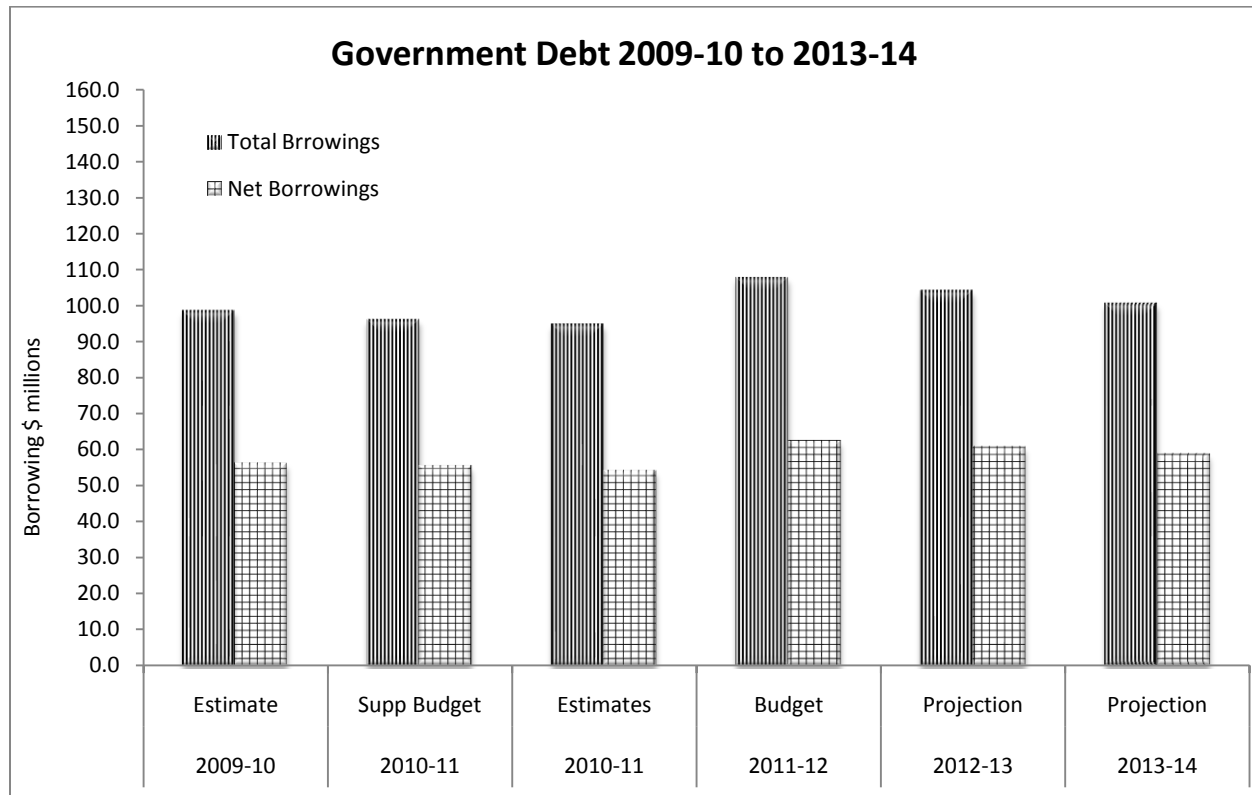
Other adjustments made to Operating Expenditures include a reduction of \$0.5 million towards maintenance of government buildings, \$0.5million reduction in Crown Infrastructure Depreciation due to a revision of Crown assets, other reductions include social responsibility payments to SOE's, and an increase of \$0.1 million in Crown Debt servicing interest.

3.2.3 Operating Balance

The Operating Balance represents operating revenues less operating expenditure, and indicates governments ability to finance its own operating costs.

Given the analysis provided in sections 3.2.1 Operating Revenue and 3.2.2 Operating Expenditure, the operating balance presented in 2011-12 is \$0.03million, a very slight balanced operating budget with reference to the MFEM Act, the budget balance presents a fiscally responsible budget.

3.3 Debt



Gross Debt

Total gross government debt is estimated at \$107.6 million 28.5% of GDP for the fiscal year ending 30 June 2012. The gross government debt for fiscal year 2010-11 is being re-valued to \$94.7 million since the Budget Policy Statement 2011-12 due to the exchange rate used for the USD. This shows a net change in gross government debt of \$12.9 million to 2011-12.

As reported, the increase in debt stock is in new loans currently under negotiation with the Asian Development Bank (ADB). This represents two loans. The first being a supplementary loan request in addition to the original ADB Rarotonga Harbour Ports Authority loan to finance the project funding shortfall. The total cost of this harbour project is estimated to cost around \$26.8 million.

Also included in this increase is the second tranche of the Economic Recovery Program (ERP) loan from ADB and is approximated to \$8.0 million. This loan is expected to be drawn down once the first tranche of the ERP loan is discharged (approximate value of \$14.0 million) and is expected to be utilized by Government on economic infrastructure.

Offsetting these increases are the principal repayments due at \$2.8 million excluding interest payments of \$1.0 million. Total debt servicing cost for 2011-2012 fiscal year is estimated at \$3.6 million (including subsidiary loans).

Loan Reserves

Government holds loan reserves which have been built up over the years from the repayments of on-lent loans to State Owned Enterprises (SOEs). As predicted, Government loan reserves will reduce in outer years and is estimated to stand at \$19.1 million by the end of June 2012. Loan reserves will continue to reduce in the outer years as repayments are made on loans that were on-lent to SOEs.

Net Debt

Net debt is the difference between the gross government debt and the on-lending loans to SOEs (including loan reserves) estimated to be approximately \$62.3 million (16.5% of GDP) by the end of the fiscal year 2011-12.

This ratio to GDP is considered well within the fiscal responsibility benchmark of 35% as outlined in the Fiscal Responsibility Ratios.

The prime objective of this ratio is to control and set a limit on the level of net debt (debt carrying capacity) and measure this against national income. Based on this ratio, the current debt carrying capacity of the Cook Islands is \$132.1 million (net of loan reserves). As above, current levels are within fiscal responsibility principles outlined in the MFEM Act.

This percentage is expected to slightly increase in 2011-12 fiscal year to accommodate for the two new loans mentioned above, and then reduce over the outer years as growth in the economy improves and repayments of existing debt continue, despite reductions in loan reserves in outer years.

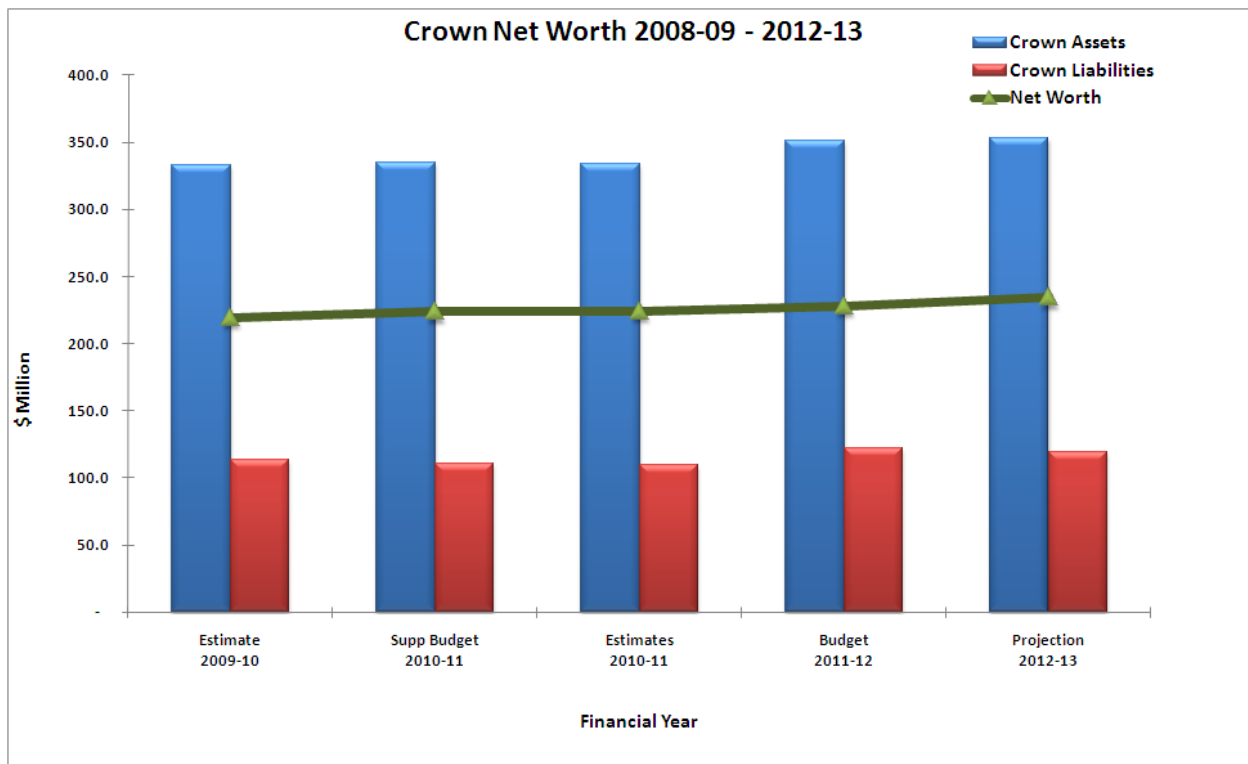
Future Borrowings

In the unlikely event that there are no future borrowings, this Fiscal Responsibility Ratio will continue to improve with anticipated growth in GDP and repayment of the existing debt in the outer years. Although debt to GDP is well below the threshold, careful attention needs to be drawn to the ability of government to fund the associated operating expenses (including interest payments and maintenance costs of existing and new loans and projects) from operating revenue generated.

The demand for upgrading infrastructure for sustainable economic growth and social activities is always a priority for Government and any future borrowings must be approached cautiously. All borrowing proposals must be made under transparent processes as required by the MFEM Act 1995-96, evidenced by well researched business cases and funded through a user pays system where possible. The fiscal responsibility ratios will prudently assist Government to manage the growth of its future borrowing plan's.

3.4 Net Worth

Government's net worth is the difference between Crown assets and Crown liabilities providing a snapshot of government's ability/inability to service all its creditors. There are currently no clear guides to determining an optimal level of public sector net worth; however analysing the government's net worth and what causes it to change can lead to understanding the need for appropriate policies.



Government's net worth has increased from the 2010-11 Supplementary Budget of \$224 million to \$228.4 million in 2011-12. This is a net movement of \$4.4 million which reflects the Aid Funded assets to the Government of the same amount.

From the above graph, the Crown's net worth will continue to increase in the outer years as long as there is an estimated operating surplus. Also a major contributor to the forecast upward trend is the injection to the Crown's asset from aid donor funding. It is estimated that an annual average of 10% of donor funding is capital asset.

3.5 Aid Flows

Overall in comparison between the level of aid funding appropriated in the supplementary budget 2010-11 of \$34.5million and the budget appropriation 2011-12 of \$44 million demonstrates an increase in the level of aid funding by \$9.4 million or approximately 27.3%. The increase in the level of aid is predominantly due to grant funding worth \$14million available to government initiatives from China. The following table demonstrates the aid contribution by donor:

Aid Allocation by Donor			
Donor	Supplementary Estimate	Budget Estimate	Variance
	2010-11	2011-12	
New Zealand Australia Harmonised Aid	23,344,000	18,120,000	-5,224,000
China	1,000,000	14,000,000	13,000,000
Japan (ADB and Pacific Forum managed)	2,857,143	2,812,969	-44,174
European Union	150,000	2,723,970	2,573,970

Aid Allocation by Donor			
UN Agencies ²	1,510,242	3,786,377	2,276,132
ADB	2,090,057	1,013,490	-1,076,567
CROP Agencies ³	881,082	911,014	29,932
Australia (regional)	1,984,640	120,000	-1,864,640
Global Environment Facility (GEF)	0	297,960	297,960
India	518,857	112,610	-406,247
Italy	107,143	87,000	-20,143
OECD	117,000	0	-117,000
Grand Total	34,560,164	43,985,390	9,425,226

New Zealand and Australia Harmonised Programme

The New Zealand and Australia Harmonised Programme has been allocated \$18 million for 2011-12 which is a reduction of \$5.2 million on 2010-11. This is in addition to \$3.5 million of roll over funds from the 2010/11 financial year. The three focal areas for the harmonised programme are Economic Growth, Human Development and Governance.

Economic Growth accounts for 72% of the programme which is a significant increase from the 2010 budget of 39%. Activities funded under this focal area are Pearl Industry Revival, Waste Management, Energy, Tourism Sector Support, Automated Border Management System, Arorangi Jetty, and projects under the Cyclone Recovery and Reconstruction Programme.

Human Development accounts for 18% of the programme which is a slight decrease from the 2010 budget of 27%. Activities covered in this programme include Education and Health Specialist Visits

The Governance sector remains constant at 7% and includes the Cook Islands Technical Assistance fund, Police Development Programme, and support to NGOs. The Aitutaki cyclone recovery programme is also phasing out and this is reflected in the 3% allocation in 2011-12 compared to 27% in 2010-11.

China

There is a substantial increase of funds from China from \$1 million in 2010 to \$14 million in 2011. This is a one off adjustment as these funds have been committed to the Cook Islands over the past few years but have not been captured in previous appropriations. The China grant funds are available through procurement of plant, equipment and infrastructure facilities. Projects for funding are yet to be finalised by the Government.

Japan

Japan continues to support the Cook Islands through programmes managed in partnership with the Pacific Island Forum (renewable energy) and the Asian Development Bank (social sector). The programme for the Social Protection of the Vulnerable (\$662,057) is channelled through the Ministry of Internal Affairs and support for Renewable Energy (\$2,252,200) is managed through the Office of the Prime Minister.

² FAO, UNAIDS, UNDP, UNEP, UNESCO, UNFPA, WHO

³ SOPAC, SPC, SPREP

European Union (EU)

The allocation for EU funds has increased from \$150,000 in 2010 to \$2,723,970 in 2011. The increase is due to an adjustment to the budget for Pukapuka Cyclone shelter (\$939,000), accessing the Millennium Development Grant fund (\$469,650), Technical Assistance (\$313,100) and drawing down on the European Development Fund 10 (\$1,001,920).

UN Agencies

UN Agencies (FAO, UNAIDS, UNDP, UNEP, UNESCO, UNFPA, WHO) have increased their support from \$1,510,242 in 2010-11 to \$2,276,132 in 2011-12. The increase is mainly due to the UNDP Adaption Fund (\$1,126,100) and FAO's Food Security programme (\$1,126,100). The Food & Agriculture Organisation (FAO) funding has been reinstated from previous budget appropriations and targets food security which include sustainable agricultural production and supply system, support tools, equipment and materials, plant cultivation and utilization, livestock development, effective agricultural management, marketing agricultural products, food processing and value adding.

Other Donors

The Asian Development Bank (ADB) has assigned \$1.0 million in technical assistance (TA) funds to the implementation of the public service functional review and proposed project preparatory TA in infrastructure. The Secretariat of the Pacific Applied Geo-science Commission (SOPAC) and the Secretariat of the Pacific Community (SPC) have contributed a total of \$0.8million towards pest management, thrips defence, and national programmes for non-communicable diseases, tuberculosis, STI & HIV, Ruaau/Nikao water project and general project support. India and Italy continue to contribute to small projects.

The Cook Islands Government manages aid flows into the country through the Aid Management Division of the Ministry of Finance & Economic Management. General Budget Support (GBS) has been identified as the preferred delivery for aid as this method enables donors to directly inject funds into the national government treasury to support the General Budget allocations. This is in line with the emerging consensus among aid donors that budget support provides a more effective approach to development assistance for countries that have a sound policy and institutional framework, transparent budget process, good procurement systems and improving financial management.

3.6 Specific Fiscal Risk

The total quantifiable contingent liabilities are estimated at \$23.0million in 2010-11. This is made up of the following:

Guarantees and Indemnities

- The Cook Islands Government (CIG) has accepted the commercial risk such that in the event that the Rarotonga/Los Angeles and Rarotonga/Sydney flights incur losses, Government will cover these losses. CIG estimates that the maximum exposure in 2011-12 is likely to be \$11.0million and that it is likely to payout \$10.0million in 2011-12 with the balance recognised as a contingent liability.

- The settlement with Apex Agencies Limited (operating as TOA Petroleum, TOA) dated 11 December 2009 provided a guaranteed minimum EBITA (Earnings Before Interest, Tax, Depreciation and Amortisation) of \$1,200,000 per annum. Thus if TOA makes a profit of less than \$1.2million in a given year (or even a loss) the Crown will make a top up payment to \$1.2million. That is the Crown's potential liability could exceed \$1.2million in a given year. An estimate of the potential liability is estimated to be \$1.6million as is appropriated in 2011-12 and therefore not recognised as a contingent liability.
- CIG has entered into a program under the New Zealand Aid Programme focused on Pearl Sector Support run through the Cook Islands Pearl Authority. Through the program the CIG has agreed to guarantee up to \$0.5million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.
- CIG awarded a works contract of NZ\$2.9m on 15 March 2011 to construct the Pukapuka cyclone shelter. The \$2.9m contract is funded by the EU (\$1.8m, 60.25%) and CIG (\$1.1m, 39.75%). The EU do not pre-finance projects and only disburse their funding portion once the project is complete. As part of the contract award, CIG has agreed to provide up to \$1.8m Limited Government Guarantee to enable the contractor to pre-finance the project and be used as security to mobilise equipment and personnel. The guarantee is only on the EU financing portion and is included as a contingent liability.

Uncalled Capital

- CIG also holds \$4.5million in uncalled capital shares comprising of \$1.7 million in the Asian Development Bank and \$2.8 million in the Bank of the Cook Islands.

Legal Proceedings & Disputes

- Total quantifiable risk to government under legal proceedings & disputes is \$15.2 million.
- \$14.5 million relates to contingency in recognition of the lawsuit filed against the government regarding its shipping policy in October 2002. However it is not anticipated that any payment will be made on this claim, and \$0.7million in relation to smaller legal claims against government departments.

3.7 Assumptions Underlying the Fiscal Projections

Various assumptions must be made to forecast government's fiscal performance and position in the outer years.

Operating Revenues are forecasted on the basis of growth in the economy adjusted for one off considerations.

Growth in the Cook Islands over the medium term has been revised upwards to reflect expected returns from the recently adopted Tourism Growth Strategy. As a result, Real GDP growth is expected to edge upwards to increase by:

- 2.9% in 2010-11
- 3.3% in 2011-12
- 0.5% in 2012-13
- 1.5% in 2013-14

Reflecting adjustments to CPI, Nominal GDP is expected to grow by

- 3.4% in 2010-11
- 5.8% in 2011-12
- 2.5% in 2012-13
- 3.5% in 2013-14

The assumptions made that underpin the economic growth is that movements in nominal GDP is based on movements in Tourism Expenditure, Government Expenditure and Export Receipts.

Tourism expenditure is based on

- Average Stay of 10 days
- Average spend NZD212.30 per day

Government expenditure is based on the operating Estimates for 2010-11, Appropriation for 2011-12 and existing government policy to grow as follows

- -5.1% in 2010-11
- 2.3% in 2011-12
- -2.6% in 2012-13
- 0.7% in 2013-14

Growth in prices measured through movements in the Consumer Price Index is expected to be not as high as estimated at the time of the BPS 2011-12, but reflect growth in the outer years as a result of price increases in global oil prices, as follows:

- 0.5% in 2010-11
- 2.5% in 2011-12
- 2.0% in 2012-13
- 2.0% in 2013-14

Economic outlooks by both the OECD and the World Bank continues to indicate positive growth in the major countries in the world including the USA and Europe including a tailing off of unemployment rates following the impacts of the Global Economic Crisis.

Operating Expenditure movements in the outer years is based on actual commitments to movements through the Medium Term Budgeting Framework.

The level of borrowings is based on average exchange rates in May 2011.

3.8 Statement of Accounting Policies

There have been no changes since the Budget Policy Statement 2011-12. There are no major changes to accounting policies anticipated in the foreseeable future.

Schedule 1 (a)
Comparative Analysis of Ministry Operating Appropriations

Ministry	Estimates 2010-11			Budget Estimates 2011-12			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	%
Agriculture	972,743	90,562	882,181	999,986	90,535	909,451	27,243	3.1
Audit (PERCA)	997,720	178,700	819,020	992,746	178,700	814,046	-4,974	-0.6
Crown Law	638,139	0	638,139	644,197	0	644,197	6,058	0.9
Cultural Development	1,069,944	175,000	894,944	937,705	150,000	787,705	-132,239	-12.0
Business Trade & Investment Board	688,080	0	688,080	707,201	0	707,201	19,121	2.8
Education	10,129,449	40,000	10,089,449	10,091,906	0	10,091,906	-37,543	0.0
Environment	1,036,253	16,000	1,020,253	1,044,589	16,000	1,028,589	8,336	0.8
Finance & Economic Management	3,047,255	353,500	2,693,755	3,181,834	453,500	2,728,334	134,579	1.3
Financial Intelligence Unit	317,743	0	317,743	307,598	0	307,598	-10,145	-3.2
Financial Services Development Authority	427,578	0	427,578	443,178	0	443,178	15,600	3.6
Foreign Affairs & Immigration	1,582,810	3,000	1,579,810	1,630,397	8,000	1,622,397	47,587	2.7
Head Of State	215,305	0	215,305	217,881	0	217,881	2,576	1.2
Health	10,867,201	400,000	10,467,201	10,428,378	400,000	10,028,378	-438,823	-4.2
Human Resource Development	377,519	0	377,519	378,782	0	378,782	1,264	0.3
Infrastructure and Planning	2,844,678	213,500	2,631,178	2,743,870	194,156	2,549,714	-100,808	-3.1
Internal Affairs	1,253,488	4,000	1,249,488	1,283,910	2,000	1,281,910	30,422	2.6
Justice	1,773,696	465,310	1,308,386	1,928,222	456,935	1,471,287	154,526	12.5
Marine Resources	1,413,421	15,000	1,398,421	1,385,632	15,000	1,370,632	-27,789	-2.0
Ombudsman	243,686	0	243,686	245,821	0	245,821	2,135	0.9
Parliamentary Services	541,644	10,000	531,644	549,902	8,419	541,483	8,258	1.9
Pearl Authority	471,689	0	471,689	502,387	0	502,387	30,698	6.5
Police	3,941,221	56,376	3,884,845	3,628,697	49,360	3,579,337	-312,525	-7.9
Prime Minister's Office	999,456	0	999,456	1,117,013	0	1,117,013	117,557	11.8
Public Service Commission	446,537	0	446,537	473,809	0	473,809	27,272	6.1
Tourism Corporation	4,492,193	50,000	4,442,193	4,296,425	50,000	4,246,425	-195,768	-4.4
Transport	437,636	0	437,636	768,253	36,000	732,253	330,617	67.3
CIIC	0	0	0	0	0	0	0	0.0
Total Ministries	51,227,084	2,070,948	49,156,136	50,930,318	2,108,605	48,821,713	-296,766	-0.7
Outer Islands (Refer Schedule 1 (b))	11,050,335	3,084,354	7,965,981	11,081,853	3,084,354	7,997,499	31,518	0.4
Ministerial Support								
Prime Minister	395,653	0	395,653	370,000	0	370,000	-25,653	-6.5
Deputy Prime Minister	318,920	0	318,920	310,000	0	310,000	-8,920	-2.8
Minister Mark Brown	204,203	0	204,203	325,000	0	325,000	120,797	59.2
Minister Teariki Heather	208,025	0	208,025	205,000	0	205,000	-3,025	-1.5
Minister Nandi Glassie	222,170	0	222,170	205,000	0	205,000	-17,170	-7.7
Minister Teina Bishop	218,232	0	218,232	205,000	0	205,000	-13,232	-6.1
Leader Of Opposition	229,109	0	229,109	205,000	0	205,000	-24,109	-10.5
Capital Distribution Fund - Administered by MFEM	21,420	0	21,420	21,420	0	21,420	0	0
Gross Total	64,095,151	5,155,302	58,939,849	63,858,591	5,192,959	58,665,632	-236,560	-0.5

Schedule 1 (b)
Comparative Analysis of Outer Islands Appropriations

Island	Estimates 2010-11			Budget Estimates 2011-12			Gross Operating Variance	
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Amount	%
Aitutaki	1,583,996	48,250	1,535,746	1,415,493	48,250	1,367,243	-168,503	-11.0
Aitutaki Power Supply	2,074,833	1,864,293	210,540	2,213,333	1,864,293	349,040	138,500	65.8
Atiu	1,185,804	264,620	921,184	1,194,315	264,620	929,695	8,511	0.9
Mangaia	1,496,569	387,522	1,109,047	1,556,569	387,522	1,169,047	60,000	5.4
Manihiki	822,211	117,200	705,011	819,912	117,200	702,712	-2,299	-0.3
Mauke	920,907	142,576	778,331	932,907	142,576	790,331	12,000	1.5
Mitiaro	594,821	61,700	533,121	573,082	61,700	511,382	-21,739	-4.1
Palmerston	327,595	22,100	305,495	330,886	22,100	308,786	3,291	1.1
Penrhyn	626,172	75,500	550,672	592,672	75,500	517,172	-33,500	-6.1
Pukapuka-Nassau	917,956	41,140	876,816	958,356	41,140	917,216	40,400	4.6
Rakahanga	485,721	59,453	426,268	480,578	59,453	421,125	-5,143	-1.2
Outer Island Capital Fund - Administered by MFEM	13,750	0	13,750	13,750	0	13,750	0	0.0
Outer Island Capital Fund - Administered by MOIP	0	0	0	0	0	0	0	0.0
Gross Total	11,050,335	3,084,354	7,965,981	11,081,853	3,084,354	7,997,499	31,518	0.4

Schedule 2
Benefits and Other Unrequited Expenses

Category of Benefit	Estimates 2010-11	Budget Estimate 2011-12	Variance	
			Amount	%
Welfare Payments	12,120,262	12,495,360	375,098	3.1%
Parliamentary Superannuation	240,000	220,000	20,000	-8.3%
Total Benefits and Other Unrequited Expenses	12,360,262	12,715,360	355,098	2.9%

Schedule 3
Borrowing Expenses and Debt Repayment

	Estimates 2010-11	Budget Estimate 2011-12	Variance	
			Amount	%
Gross Debt Servicing	3,390,000	3,844,914	454,914	13.4%
Total Borrowing Expenses and Debt Repayment	3,390,000	3,844,914	454,914	13.4%

Schedule 4
Other Expenses

Category of Expense	Estimates 2010-11	Budget Estimate 2011-12	Variance	
			Amount	%
Airport Authority	2,047,997	2,047,997	0	0.0%
Bank of the Cook Islands	181,000	181,000	0	0.0%
Te Aponga Uira	512,000	1,150,000	638,000	124.6%
Building Maintenance	1,800,000	1,300,000		
Crown Infrastructure Depreciation	2,950,000	2,469,000	(481,000)	-16.3%
Contingency Funds - Operating	100,000	100,000	0	0.0%
Contingency Funds - Capital Expenditure	50,000	50,000	0	0.0%
Expenditure of ADB Loan	0	8,037,500	8,037,500	0.0%
On-Lending to Ports Authority	0	6,296,048	6,296,048	0.0%
Foreign Aid	34,560,164	43,985,390	9,425,226	27.3%
ADB Share Capital	26,600	26,600	0	0.0%
Emergency Response Trust Funds	0	200,000	200,000	NA
Reserve Trust Fund	423,375	450,115	26,741	0.0%
Total Other Expenses	42,651,136	66,293,650	24,142,514	55.4%

Summary

Category of Payment	Estimates 2010-11	Budget Estimate 2011-12	Variance	
			Amount	%
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (Excluding Benefits and other Unrequited Expenses)	86,668,217	89,243,192	2,574,975	3.0%
Schedule 2 - Benefits and Other Unrequited Expenses	12,360,262	12,715,360	355,098	2.9%
Schedule 3 - Borrowing Expenses and Debt repayment	3,390,000	3,844,914	454,914	13.4%
Schedule 4 - Other Expenses	42,651,136	66,293,650	23,642,514	55.4%
TOTAL APPROPRIATIONS	145,069,615	172,097,116	27,027,500	19%

Schedule 5
Analysis of Ministry's by Output

MINISTRY	Budget Estimate 2011-12			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
AGRICULTURE				
Crop Research & Development	329,511	30,000	299,511	77,960
Biosecurity Management	307,982	59,535	248,447	-17,947
Project & Policy Development	58,136	1,000	57,136	-237,622
Livestock Management	100,509	0	100,509	1,003
Administration & Finance	203,848	0	203,848	
	999,986	90,535	909,451	27,242
AUDIT (PERCA)				
Crown Audit	165,692	30,000	135,692	10,000
Ministries, Crown Agencies and SOE Audits	549,036	143,700	405,336	10,000
Special Reviews and Investigations	243,018	5,000	238,018	-19,974
Audit Commissioner	20,000	0	20,000	0
Audit Awareness & Training	15,000	0	15,000	-5,000
	992,746	178,700	814,046	-4,974
CROWN LAW				
Legal Advice	283,447	0	283,447	1,940
Litigation	212,585	0	212,585	2,023
Legislative Drafting	148,165	0	148,165	2,096
	644,197	0	644,197	6,059
CULTURAL DEVELOPMENT				
Cultural Development	413,238	7,500	405,738	-79,599
Cultural Activities	264,267	117,500	146,767	-75,276
Cultural Heritage	127,665	10,000	117,665	11,114
National Records and Information	132,536	15,000	117,536	11,521
	937,705	150,000	787,705	-132,239
BUSINESS TRADE & INVESTMENT BOARD				
Business Support	158,000	0	158,000	-126,532
Maximising Trade Opportunities	125,000	0	125,000	-23,637
Finance & Administration Support	103,000	0	103,000	-16,637
Regulation & Compliance	41,000	0	41,000	-58,637
Foreign Direct Investment (FDI) Participation	280,201	0	280,201	244,564
	707,201	0	707,201	19,121
EDUCATION				
Taku Ipukarea Kia Rangatira	240,145	0	240,145	-2,500
Learning and Teaching	816,660	0	816,660	-9,751
Learning and the Community	423,080	0	423,080	-2,500
Infrastructure and Support	8,612,021	0	8,612,021	-22,792
	10,091,906	0	10,091,906	-37,543
ENVIRONMENT (TU'ANGA TAPOROPORO)				
Puna Akoako e te Arapaki Ture – Advisory and Compliance Division	306,033	16,000	290,033	-49,716
Puna Orama – Island Futures Division	372,917	0	372,917	-2,346
Puna Akatereau – Corporate Services Division	365,639	0	365,639	60,398
	1,044,589	16,000	1,028,589	8,336
FINANCE AND ECONOMIC MANAGEMENT				
Responsible Fiscal & Economic Advice	272,484	0	272,484	2,000
Responsible & Effective Fiscal & Economic Management	826,875	3,500	823,375	5,110
Efficient Administration of Taxes Duties & Border Security	1,446,834	450,000	996,834	128,676
Production and Dissemination of Relevant Statistics	309,034	0	309,034	-2,942
Effective & Efficient Coordination of Development Assistance	326,607	0	326,607	1,735
	3,181,834	453,500	2,728,334	134,579
FINANCIAL INTELLIGENCE UNIT				
Policy Advice, National and International Coordination of the Cook Islands AML/CFT regime.	114,875	0	114,875	-3,635
Provision of Intelligence Services & Products	96,262	0	96,262	-282
Compliance Examination & Enforcement	96,461	0	96,461	-6,228
Investigation & Prosecution	0	0	0	0
	307,598	0	307,598	-10,145

Schedule 5
Analysis of Ministry's by Output

MINISTRY	Budget Estimate 2011-12			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
FINANCIAL SERVICES DEVELOPMENT AUTHORITY				
A Globally recognised, respected and represented finance industry provided both significant direct revenue and broader macro economic benefits to the Cook Islands economy	443,178	0	443,178	15,600
	443,178	0	443,178	15,600
FOREIGN AFFAIRS AND IMMIGRATION				
Enhancing the Cook Islands - New Zealand Relationship	606,500	0	606,500	32,987
Pursing Cook Islands interest through regional relationships and co-operation	266,569	0	266,569	10,509
Promoting Cook Islands interest in the broader international community	387,210	0	387,210	-1,128
Enhance participation in global institutions and the rules - based system of international governance	131,275	8,000	123,275	5,000
Responsible and effective management of the Cook Islands immigration service	238,843	0	238,843	219
	1,630,397	8,000	1,622,397	47,587
HEAD OF STATE				
Administrative and Support Services to the Head Of State	217,881	0	217,881	2,576
	217,881	0	217,881	2,576
HEALTH				
Community Health Services	1,829,727	90,000	1,739,727	66,599
Hospital Health Services	5,675,741	300,000	5,375,741	-363,612
Outer Islands Health Services	1,954,183	10,000	1,944,183	-332,606
Funding & Planning	968,727	0	968,727	190,796
	10,428,378	400,000	10,028,378	-438,823
HUMAN RESOURCE DEVELOPMENT				
Taku Ipukarea Kia Rangatira	30,244	0	30,244	-170,074
Learning & Teaching	100,898	0	100,898	-6,727
Learning & the Community	59,095	0	59,095	-10,479
Infrastructure & Support	188,545	0	188,545	188,545
	378,782	0	378,782	1,265
INFRASTRUCTURE & PLANNING				
Corporate Services	448,481	0	448,481	9,805
Regulatory Services	439,906	46,840	393,066	27,415
Policy Planning & Asset Management Services	447,774	0	447,774	18,276
Civil Works - Operation & Maintenance	1,407,709	147,316	1,260,393	-156,304
	2,743,870	194,156	2,549,714	-100,808
INTERNAL AFFAIRS				
Social Welfare - providing a safety net for people in need, and security for parents and older people	286,935	0	286,935	27,262
Social Policy - ensuring that Government legislations and policies are appropriately designed to protect the rights and improve the capacity of people and communities to participate fully in society	285,506	0	285,506	-13,614
Labour - promoting and ensuring equity and safety in the work place for workers and employers	121,030	2,000	119,030	23,455
Improving the Welfare of the Community by protecting the rights of Consumers	79,370	0	79,370	-630
Ensure Clean and Beautiful Rarotonga Roads and Central Business Areas	153,061	0	153,061	-13,872
Ensure that all media forms of communication are censored appropriately	63,019	0	63,019	3,079
Effective and efficient management of resources to achieve ministry outputs	294,989	0	294,989	4,742
	1,283,910	2,000	1,281,910	30,422

Schedule 5
Analysis of Ministry's by Output

MINISTRY	Budget Estimate 2011-12			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
JUSTICE				
Court & Tribunal Services	347,803	110,000	237,803	-151,986
Land Administration	357,791	131,900	225,891	357,791
Registry Services	126,705	151,335	-24,630	-129,249
Prison Services	529,450	63,700	465,750	-28,216
Probation Services	214,285	0	214,285	-23,988
Corporate & ICT Services	352,188	0	352,188	352,188
Outer Island Services	0	0	0	-222,014
	1,928,222	456,935	1,471,287	154,526
MARINE RESOURCES				
Offshore Fisheries	189,560	0	189,560	14,783
Pearl Industry Support	286,339	5,000	281,339	-18,763
Inshore Fisheries and Aquaculture	415,261	10,000	405,261	-53,842
Policy and Legal Services	171,550	0	171,550	13,348
Corporate Services	322,922	0	322,922	16,685
	1,385,632	15,000	1,370,632	-27,789
OMBUDSMAN				
Receipt and effective investigation of complaints received or instigated by Ombudsman under the Ombudsman Act 1984	97,386	0	97,386	-644
Receipt and effective investigation of complaints received by the Ombudsman under the Official Information Act 2008	86,586	0	86,586	926
Receipt and effective investigation of complaints received under the Disability Act 2008	6,186	0	6,186	-5,258
Education and Awareness of the Investigative Regime of the Ombudsman	49,477	0	49,477	925
Establishment of Human Rights Division	6,186	0	6,186	6,186
	245,821	0	245,821	2,135
PARLIAMENTARY SERVICES				
Administrative and Support Services	339,899	8,419	331,480	10,973
Inter-Parliamentary Relations	137,182	0	137,182	1,875
Privileges and Entitlements of Members	72,821	0	72,821	-4,590
	549,902	8,419	541,483	8,258
PEARL AUTHORITY				
Farm Support	21,147	0	21,147	4,702
Pearl Standards & Quality Control	64,400	0	64,400	-6,623
Marketing Strategy	115,000	0	115,000	1,760
Industry Reform & Development	10,500	0	10,500	1,260
Management & Support Services	291,340	0	291,340	29,599
	502,387	0	502,387	30,698
POLICE				
A joint approach towards crime and crash (Community Relations Group)	612,072	0	612,072	494,804
An intelligence led approach to crime and crash reduction (General Policing & Traffic Division & Intelligence, Operational Planning & Training Division)	1,103,343	49,360	1,053,983	-642,452
Thorough and effective investigations and prosecutions (Investigations and Prosecutions)	594,023	0	594,023	-32,954
Planning, Performance and Organisation Development (Corporate Service)	808,252	0	808,252	188,492
Maritime Policing	511,007	0	511,007	12,712
Cook Islands Meteorological Services				
	3,628,697	49,360	3,579,337	-312,525

Schedule 5
Analysis of Ministry's by Output

MINISTRY	Budget Estimate 2011-12			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
PRIME MINISTER'S OFFICE				
Central Policy & Planning	215,783	0	215,783	-19,227
Cabinet Services & Executive Council & Outer Islands				
Government Representative	280,101	0	280,101	151,664
Renewable Energy Development Division	80,977	0	80,977	80,977
Corporate Services	282,630	0	282,630	12,354
Information & Communication Technology	151,367	0	151,367	6,559
Emergency Management Cook Islands	106,155	0	106,155	13,600
Climate Change Coordination	0	0	0	0
Outer Islands Government Representatives	0	0	0	
	1,117,013	0	1,117,013	117,558
PUBLIC SERVICE COMMISSION				
Good Governance	237,346	0	237,346	21,701
Human Resources	56,608	0	56,608	1,269
Performance Management	114,501	0	114,501	4,784
Finance and Administration	65,354	0	65,354	-482
	473,809	0	473,809	27,272
TOURISM CORPORATION				
Head Office	3,188,757	50,000	3,138,757	1,780,231
Destination Market	990,077	0	990,077	-1,836,135
Destination Development	117,591	0	117,591	-139,865
	4,296,425	50,000	4,246,425	-195,769
TRANSPORT				
Safe, Secure and Compliant Aviation Systems	156,974	0	156,974	-5,953
Safe, Secure and Compliant Maritime Systems	129,660	0	129,660	-1,685
Management, Co-ordination and Support	142,241	0	142,241	-1,122
Cook Islands Meteorological Services	339,378	36,000	303,378	339,378
	768,253	36,000	732,253	330,618
OUTER ISLANDS				
Aitutaki				
Island Council	59,394	0	59,394	0
Island Administration	233,790	0	233,790	-10,504
Infrastructure	829,589	43,250	786,339	-148,007
Agriculture	81,908	3,000	78,908	-8,254
Women, Culture, Youth & Sports	57,561	0	57,561	-749
Waste Facility	153,251	2,000	151,251	-989
	1,415,493	48,250	1,367,243	-168,503
Aitutaki Power Supply				
Aitutaki Power Supply	2,213,333	1,864,293	349,040	138,500
	2,213,333	1,864,293	349,040	138,500
Atiu				
Agriculture	92,100	11,000	81,100	0
Infrastructure	540,370	18,000	522,370	7,050
Energy	330,089	197,120	132,969	2,276
Corporate	178,031	3,500	174,531	-1,089
Island Council	53,725	35,000	18,725	-4,474
	1,194,315	264,620	929,695	8,510
Mangaia				
Agriculture Development	177,868	6,400	171,468	64,669
Tourism & Community Development	56,012	7,779	48,233	20,063
Infrastructure Amenities	585,546	116,530	469,016	-20,033
Public Utilities	538,268	252,200	286,068	-608
Finance & Administration	144,709	1,000	143,709	-5,338
Island Council Management	54,166	3,613	50,553	1,247
	1,556,569	387,522	1,169,047	60,000

Schedule 5
Analysis of Ministry's by Output

MINISTRY	Budget Estimate 2011-12			
	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
Manihiki				
Gender, Youth & Sports	16,518	200	16,318	2,153
Infrastructure	282,855	5,000	277,855	16,457
Energy	292,905	100,000	192,905	-49,390
Finance and Administration	160,246	5,000	155,246	26,483
Island Council	42,290	5,000	37,290	998
Agriculture	25,098	2,000	23,098	1,000
	819,912	117,200	702,712	-2,299
Mauke				
Infrastructure	289,008	13,500	275,508	6,000
Energy	306,183	112,500	193,683	-61,406
Water	67,406	0	67,406	67,406
Island Administration	123,230	12,500	110,730	-3,659
Agriculture	79,348	0	79,348	2,000
Gender & Development	17,328	0	17,328	1,659
Island Council	50,404	4,076	46,328	0
	932,907	142,576	790,331	12,000
Mitiaro				
Island Administration	121,473	350	121,123	-8,864
Island Council	46,983	200	46,783	-500
Social & Economic Growth	21,924	100	21,824	0
Infrastructure	239,542	9,500	230,042	-16,875
Energy	108,233	48,050	60,183	5,000
Agriculture	34,927	3,500	31,427	-500
	573,082	61,700	511,382	-21,739
Palmerston				
Island Administration	93,571	1,000	92,571	-6,793
Agriculture	12,193	0	12,193	-1,307
Education	78,631	0	78,631	901
Energy	63,409	20,000	43,409	8,245
Infrastructure	53,082	300	52,782	2,245
Island Council	30,000	800	29,200	0
	330,886	22,100	308,786	3,291
Penrhyn				
Gender, Youth & Sport	14,200	0	14,200	822
Infrastructure	127,462	6,000	121,462	-44,130
Energy	232,680	69,500	163,180	3,829
Island Administration	126,480	0	126,480	-2,143
Island Council	66,400	0	66,400	3,942
Agriculture	25,450	0	25,450	4,180
	592,672	75,500	517,172	-33,500
Pukapuka and Nassau				
Infrastructure	529,189	8,300	520,889	55,235
Energy	89,920	16,000	73,920	-9,005
Island Administration	159,845	2,500	157,345	-14,720
Island Council	94,452	14,240	80,212	8,820
Women, Culture, Youth & Sport	32,868	0	32,868	608
Agriculture	52,082	100	51,982	-538
	958,356	41,140	917,216	40,400
Rakahanga				
Agriculture	31,737	5,000	26,737	-552
Marine	43,728	8,000	35,728	2,775
Women, Culture, Youth & Sport	23,112	5,000	18,112	-1,018
Infrastructure	173,802	15,000	158,802	1,496
Energy	85,615	25,253	60,362	-7,089
Island Administration	85,361	1,200	84,161	-381
Island Council	37,223	0	37,223	-373
	480,578	59,453	421,125	-5,142

Schedule 5
Analysis of Ministry's by Output

Budget Estimate 2011-12				
MINISTRY	Gross Expenditure	Trading Revenue	Net Appropriation	Gross Change
MINISTERIAL SUPPORT				
Prime Minister	370,000	0	370,000	-25,653
Deputy Prime Minister	310,000	0	310,000	-8,920
Minister Mark Brown	325,000	0	325,000	120,797
Minister Teariki Heather	205,000	0	205,000	-13,232
Minister Nandi Glassie	205,000	0	205,000	-17,170
Minister Teina Bishop	205,000	0	205,000	-3,025
Leader of the Opposition	205,000	0	205,000	-24,109
	1,825,000	0	1,825,000	28,688
OTHER FUNDING - ADMINISTERED BY MFEM				
Capital distribution fund - depreciation only	21,420	0	21,420	0
Outer islands small capital fund - depreciation only	13,750	0	13,750	0
	35,170	0	35,170	0
TOTAL APPROPRIATIONS	63,858,592	5,192,959	58,665,633	-274,216

**Schedule 6
Capital Expenditure**

MINISTRY	Budget 2011-12			
	Purchase Price	Trade In	Net Cost	Total
CULTURE				
Auditorium Technical Equipment	75,000	0	75,000	
TOTAL	75,000	0	75,000	75,000
EDUCATION				
Fund to be Prioritised by Educaiton	110,000	0	110,000	
TOTAL	110,000	0	110,000	110,000
FOREIGN AFFAIRS				
Customs Security Equipment	10,000	0	10,000	
TOTAL	10,000	0	10,000	10,000
HEALTH				
Fund to be Prioritised by Health for Technical Equipment	275,000	0	275,000	
Telephone System	55,000	0	55,000	
Xray Machine	550,000	0	550,000	
TOTAL	880,000	0	880,000	880,000
INFRASTRUCTURE & PLANNING				
Water Works	775,000	0	775,000	
Road Works	680,000	0	680,000	
TOTAL	1,455,000	0	1,455,000	1,455,000
JUSTICE				
Scanner	87,000	0	87,000	
TOTAL	87,000	0	87,000	87,000
POLICE				
4 Life Raft	10,000	0	10,000	
TOTAL	10,000	0	10,000	10,000
CAPITAL FUNDS ADMINISTERED BY MFEM				
Capital Distribution Fund	270,000	0	270,000	
Outer Islands Small Capital Fund	110,000	0	110,000	
TOTAL	380,000	0	380,000	380,000
GROSS TOTAL	3,007,000	0	3,007,000	3,007,000

Schedule 7
Revenue on Behalf of Crown (ROBOC)

	Supplementary	Estimate	Budget	Variance
	2010-11	2010-11	2011-12	
Taxation Revenue				
VAT	35,035,558	34,416,491	36,400,458	1,983,967
Income Tax	22,526,070	24,512,599	25,926,363	1,413,764
Company Tax	9,661,718	9,213,238	9,244,554	31,316
Import Levies	10,881,458	10,760,321	11,380,812	620,491
Departure tax	6,117,726	5,772,316	6,070,892	298,575
Withholding tax	0	0	1,000,000	1,000,000
Total	84,222,530	84,674,966	90,023,079	5,348,113
Other Crown Revenue				
Sundry Fees	15,982	61,516	61,516	0
Foreign Investment Fees	16,850	15,600	17,250	1,650
Tattslotto Grants	160,000	170,000	160,000	(10,000)
Employer Liabilities	50,000	50,000	75,000	25,000
Censorship Fees	24,000	12,000	24,000	12,000
Immigration	530,250	468,000	468,000	0
Court Services	35,000	35,000	46,899	11,899
Fisheries-US Treaties	286,411	138,560	286,411	147,851
Fishing Licences	3,340,000	3,490,579	1,540,000	(1,950,579)
Financial Services Commission	821,117	608,692	487,133	(121,559)
Road Safety	1,283,506	1,234,006	1,223,000	(11,006)
Shipping Registration	60,000	60,000	65,000	5,000
International Shipping License	10,000	10,000	10,000	0
Liquor Licensing	26,000	26,000	26,000	0
Upper Air Space Mgt Agmt	416,480	416,480	416,480	0
Circulating Currency - Coins	150,000	116,970	100,000	(16,970)
Numismatic	350,000	380,000	400,000	20,000
Telecom Dividends	1,450,000	1,450,000	1,300,000	(150,000)
CIIC - SOE Dividends	2,172,000	1,763,000	1,751,000	(12,000)
Total Other	11,197,596	10,506,403	8,457,689	(2,048,715)
Total Crown Receipts	95,420,126	95,181,369	98,480,767	3,299,398

Schedule 8
Payments on Behalf of the Crown (POBOCs)

Administering Ministry	POBOC	Supplementar y Estimates 2010-11	Estimates 2010-11	Budget Estimates 2011-12	Variance
Legislative/Contractual					
Finance & Economic Management	Parliamentary Superannuation	240,000	240,000	220,000	-20,000
	Slush Case Settlement	231,432	231,432	0	-231,432
	By-Election Costs	55,916	55,916	0	-55,916
	General Election Petition Costs	58,000	58,000	0	-58,000
	General Election Accounts Payable	89,000	89,000	0	-89,000
Internal Affairs	Welfare Payments	12,120,262	12,120,262	12,495,360	375,098
Justice	Electoral Rolls Management	3,000	3,000	0	-3,000
	General Elections	200,000	200,000	0	-200,000
Parliamentary Services	Civil List - Operating Expenses	725,798	725,798	695,798	-30,000
	Civil List - Personnel	1,884,870	1,884,870	1,834,870	-50,000
		15,608,278	15,608,278	15,246,028	-362,250
Apex Agencies Ltd (Operating as TOA) Litigation Expenses					
Finance & Economic Management	Apex - Legal Costs (Dr. Alex Frame)	21,223	21,223	0	-21,223
	Apex - High Court Costs	144,667	144,667	0	-144,667
	Apex - Court of Appeal Award	8,325	8,325	0	-8,325
	Apex - Interest on overdue payments	63,024	63,024	0	-63,024
	Apex - Profit Guarantee	1,200,000	1,400,000	1,556,823	156,823
		1,437,239	1,637,239	1,556,823	-80,416
Subscriptions & Other Crown Commitments					
Crown Law	Law Commission	10,000	10,000	10,000	0
Education	Private School Funding	1,620,079	1,620,079	1,620,079	0
	Temporary Premises Rental Costs	50,000	50,000	25,000	-25,000
Finance & Economic Management	Audit of Crown Accounts	31,500	31,500	30,000	-1,500
	Insurance	130,000	130,000	40,000	-90,000
	National Heritage Trust	84,350	84,350	84,350	0
	National Superannuation Fund	321,668	321,668	321,668	0
	Outer Islands TV	25,000	25,000	25,000	0
	Pacific Blue - Landing Fees	84,136	84,136	0	-84,136
	PERC Salaries and Administration Costs	45,000	45,000	45,000	0
	Standard and Poors Subscription	35,000	35,000	35,000	0
Foreign Affairs	International Subscriptions	315,000	315,000	368,032	53,032
Health	Patient Referrals	559,000	559,000	500,000	-59,000
Human Resource Development	Foundation Basic Skills Training	100,000	100,000	100,000	0
	Government Funded Scholarships	120,000	120,000	120,000	0
	Student Assistance Fund (In-Country & Overseas)	160,000	160,000	160,000	0
	Tertiary Training Institutions	543,767	543,767	493,767	-50,000
	University of the South Pacific Contribution	285,000	285,000	285,000	0
Infrastructure and Planning	Infrastructure Committee	20,000	20,000	0	-20,000
Justice	Judges Allowances	177,000	177,000	177,000	0
	Legal Aid	40,000	40,000	40,000	0
Marine Resources	Tongareva Lease	65,584	65,584	0	-65,584
	Establishment of Seabed Minerals Commission	0	0	50,000	50,000
	Establishment of Fisheries Development Facility	0	0	200,000	200,000
Parliamentary Services	House of Ariki	110,000	110,000	110,000	0
Police	Road Safety Council	10,000	10,000	0	-10,000
	Search and Rescue	20,000	20,000	20,000	0
	Serious Crime Investigations	50,000	50,000	50,000	0
	Te Kukupa - Fuel Contribution	140,000	140,000	140,000	0
	Te Kukupa Slippage	260,000	260,000	0	-260,000
Transport	Director of Civil Aviation	50,000	50,000	56,000	6,000
	International Civil Aviation Organisation	72,000	72,000	72,000	0
	International Maritime Organisation	22,600	22,600	22,600	0
	Pacific Aviation Safety Office	22,482	22,482	22,482	0
	TCl - Maritime Shipping Service	62,332	62,332	62,332	0
		5,641,498	5,641,498	5,285,310	-356,188
Grants & Other Funds					
Agriculture	Agriculture Census	0	0	36,000	36,000
CIIC	Te Aponga - uneconomic power connections	98,739	98,739	80,000	-18,739
Cultural Development	Te Maeva Nui Constitution Celebrations	25,000	25,000	850,000	825,000
	Rare Books Collection	12,000	12,000	0	-12,000
Finance & Economic Management	Air New Zealand - Subsidies	3,450,000	3,550,000	8,000,000	4,450,000
	Aitutaki Cyclone Recovery Reconstruction Plan	0	320,000	0	-320,000
	Disaster Appeal Donations - New Zealand and Au	20,000	20,000	0	-20,000
	Census	0	0	120,000	120,000
Head Of State	Domestic Hosting Entertainment	13,500	13,500	15,000	1,500
Health	Pharmaceuticals	0	0	642,800	642,800
Infrastructure and Planning	Outer Islands Equipment Repairs of Unanticipate	71,900	71,900	100,000	28,100
	Te Puka Social Cost (Electricity & Desludge)	60,000	60,000	0	-60,000

Schedule 8
Payments on Behalf of the Crown (POBOCs)

Administering Ministry	POBOC	Supplementary Estimates 2010-11	Estimates 2010-11	Budget Estimates 2011-12	Variance
Internal Affairs	Island Council Elections	78,100	78,100	0	-78,100
	CISNOC Grant	160,000	160,000	160,000	0
	Manea Games	45,000	45,000	0	-45,000
	NGO and Welfare Organisations	221,000	221,000	221,000	0
	Vaka Eiva	12,000	12,000	0	-12,000
	Vaka Maintenance	450,000	450,000	450,000	0
	Price Tribunal	0	0	30,000	30,000
Parliamentary Services	PPAPD - FDOC Secretariat	35,000	35,000	35,000	0
Police	Robinson Review Implementation - Long Service	20,000	20,000	0	-20,000
Prime Minister's Office	Social Responsibility Fund	195,000	195,000	195,000	0
Public Service Commission	HOM's Appointments	0	0	30,000	30,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	2,000,000	2,000,000	2,000,000	0
	Events Management - Kiwi League	0	0	40,000	40,000
		6,967,239	7,387,239	13,004,800	5,617,561
Grand Total		29,654,254	30,274,254	35,092,961	4,818,707

Schedule 9
Debt Servicing Schedule

	Total Loans			On-Lent Loans			Net
	Principal	Interest	Gross	Principal	Interest	Gross	
Creditors							
France	589	32	622	0	0	0	622
New Zealand	792	44	836	0	0	0	836
Asian Development Bank	1,440	660	2,100	0	152	152	1,948
Bank Of Cook Islands	0	0	0	287	38	325	(325)
China	0	287	287	0	0	0	287
Total Debt Servicing	2,821	1,023	3,845	287	190	477	3,368

Notes

1. All estimates are based on 12 month average exchange rate to 31 May 2011 (0.7465).
2. Subsidiary loans are funds from Asian Development Bank and have been onlent to Cook Islands Ports Authority.

Schedule 10
Aid Contributions by Ministry

Administering Ministry/ Agency	Aid Donor	Initiatives	Supplementary Estimate 2010-11	Budget Estimate 2011-12	Variance	
Agriculture	China	Tractor with Implements	1,000,000	0 -	1,000,000	
	FAO	Cyclone Pat Assistance	114,286	0 -	114,286	
	FAO	Projects in Crop & Livestock Development	20,000	0 -	20,000	
	SPC	Projects in Pest Management & Sustainable Agriculture	20,000	0 -	20,000	
	SPC	Thrips Defense	5,000	0 -	5,000	
	FAO	Food Security (3,071,000 over 3 years)	0	1,126,100	1,126,100	
	FAO	Telefood Projects	0	37,077	37,077	
	FAO	Technical Cooperation Fund	0	69,593	69,593	
Aid Management	European Union	Pukapuka Project (Top up)	0	939,300	939,300	
Aid Management	New Zealand/Australia Harmonisation Programme	Total Programme Support	23,198,999	18,000,000 -	5,198,999	
BTIB	UNDP	Community Centred Sustainable Development Planning	42,998	0 -	42,998	
Cultural Development	UNESCO	Participation Programme	78,000	0 -	78,000	
Environment	Australia	Pacific Adaptation Strategy Assistance Programme (PASAP)	687,500	0 -	687,500	
	Italy	Preparation of the National Adaptation Prioritisation for Climate Change	107,143	87,000 -	20,143	
	SPREP	PIGGAREP & PACC	291,429	0 -	291,429	
	UNDP	Capacity Building for Sustainable Land Management in the Cook Islands	142,857	286,000	143,143	
	UNDP	Enabling Activity for Preparation for National Implementation Plan for POPs - GEF	285,714	0 -	285,714	
	UNEP	Intergrated Biodiversity Conservation Management on Islands	171,429	0 -	171,429	
	SPREP	Various projects and Technical Assistance	0	119,367	119,367	
	GEF Pacific Alliance for Sustainability	Prevention, control and management of invasive species	0	176,889	176,889	
	GEF Pacific Alliance for Sustainability	Island Biodiversity Programme	0	121,071	121,071	
	UNDP	Institutional Strengthening for Ozone Depletion	0	46,428	46,428	
Foreign Affairs & Immigration	European Union	Pukapuka Project (Flex Funds)	150,000	0 -	150,000	
MFEM	India	Indian Grant Fund	518,857	112,610 -	406,247	
	Pacific Islands Forum Secretariat	Japan Funded Pacific Environment Community (PEC) Fund - Solar & Water	2,857,143	2,252,200 -	604,943	
	OECD/DAC	OECD / DAC - Paris Declaration Evaluation	117,000	0 -	117,000	
	European Union	Technical Cooperation Fund	0	313,100	313,100	
	European Union	Millennium Development Goal Fund	0	469,650	469,650	
	European Union	European Development Fund 10 (EDF10)	0	1,001,920	1,001,920	
Health	SPC	National HIV and STI Programme Round 7, Phase II	121,102	114,321 -	6,781	
	SPC	Non Communicable Diseases and Other Health Programmes	191,693	0 -	191,693	
	SPC	Tuberculosis Programmes	123,858	0 -	123,858	
	UNFPA	Strengthening Reproductive Health	161,711	171,139	9,428	
	WHO	Human Resources for Health, Technical Assistance, & Special Projects	468,249	314,719 -	153,530	
	SPC	Multi Country Fight against TB Round 7, Phase II	0	88,650	88,650	
	SPC	Prevention and Control of non-communicable diseases	0	208,885	208,885	
	UNAIDS	General Support	0	5,631	5,631	
	Infrastructure & Planning	ADB	Proposed PPTA in Infrastructure	0	563,050	563,050
		ADB	Technical Assistance for Infrastructure	714,000	0 -	714,000
SOPAC		Ruaau / Nikao Water Feasibility	128,000	0 -	128,000	
Internal Affairs	ADB	Review of Social Welfare	662,057	0 -	662,057	
	ADB Japan Fund For Poverty Reduction (JFPR)	Social Protection of the Vulnerable in the Pacific (Regional Project)	0	560,769	560,769	
Marine Resources	Australia	Assess Economic Stimulus for Manihiki Pearl Industry	66,000	0 -	66,000	
	Australia	Deep Bottom (Snapper) Fishery Assessment for Penrhyn	89,000	0 -	89,000	
	Australia	Establishment of FAD associations	60,000	0 -	60,000	
	Australia	Fisheries Monitoring, Surveillance & Compliance	126,000	0 -	126,000	
	Australia	Harmful Algal Bloom Monitoring for Rarotonga	60,000	0 -	60,000	
	Australia	High Seas Fisheries Database	30,000	0 -	30,000	
	Australia	Macrobrachium prawn aquaculture trials	51,000	0 -	51,000	
	Australia	Selective Breeding of Pearl Oysters	88,000	0 -	88,000	
	Australia	Skills Training for Aitutaki Commerical Tuna Longlining	38,000	0 -	38,000	
	Australia	Strengthening the CI National Observer Program	44,500	0 -	44,500	
	Australia	Tourism Sport Fishing - Aitutaki Bonefishing	32,000	0 -	32,000	
	FAO	Fisheries resource profiles, harvest quotas & trade controls	0	96,845	96,845	
	FAO	Legislative enforcement of traditional marine reserves	0	37,161	37,161	
	FAO	Post harvest program in support of EU market access	0	170,041	170,041	
	FAO	Enhanced supply to Rarotonga of small scale fisheries/reef gleaning	0	132,880	132,880	
	FAO	Aquaculture as alternative source of food security/livelihoods	0	78,827	78,827	
	FAO	Support of Fish Aggregate Devices (FAD) programme	0	87,836	87,836	
	Prime Ministers Office	UNDP	Community Centred Sustainable Development Planning	25,000	0 -	25,000
	Police	Australia Defence	Aus Defense - Patrol Boat Support	25,000	0 -	25,000
NZ Defence		NZ Defence - TA Patrol Boat	612,640	120,000 -	492,640	
Public Service Commission	ADB	Public Sector Functional Review	120,000	120,000	-	
Other	ADB	Public Sector Functional Review	714,000	450,440 -	263,560	
	China	Grant Funding	0	14,000,000	14,000,000	
	SOPAC	General Project Support	0	379,791	379,791	
	UNDP	Adaptation Fund	0	1,126,100	1,126,100	
TOTAL AID			34,560,164	43,985,390	9,425,226	

FINANCIAL UPDATE

as at 30 June 2011

The forecast financial estimates of the Crown as set out in the following pages.

Statement of Financial Performance

Statement of Financial Position

Statement of Cash Flows

Statement of Borrowings

Revenue Levied on Behalf of the Crown

Statement of Fiscal Risks

Schedule 11

STATEMENT OF FINANCIAL PERFORMANCE

For the years ending 30 June

	2009-10 Estimate \$m	2010-11 Supp Bud \$m	2010-11 Estimates \$m	2011-12 Budget \$m	2012-13 Projection \$m	2013-14 Projection \$m
REVENUE						
Revenue Levied Through the Crown's Sovereign Power	83.8	84.2	84.7	90.0	92.2	95.3
Other Crown Revenue	6.3	7.6	7.3	5.4	5.4	5.2
Sales of Goods & Services (Ministry Trading Revenue)	5.4	5.2	5.2	5.2	5.2	5.2
Interest and Dividends	4.6	6.3	5.9	5.5	4.7	4.7
Total Revenue From Crown Funded Activities	100.1	103.2	103.0	106.1	107.6	110.4
EXPENDITURE						
Crown Funded Activities	102.7	102.2	102.8	106.1	107.0	107.8
Total Expenditure From Crown Funded Activities	102.7	102.2	102.8	106.1	107.0	107.8
Net Operating Surplus/(Deficit)	(2.7)	1.0	0.1	0.0	0.6	2.6

Schedule 12

STATEMENT OF FINANCIAL POSITION

As at 30 June

	2009-10 Estimate \$m	2010-11 Supp Budget \$m	2010-11 Estimates \$m	2011-12 Budget \$m	2012-13 Projection \$m	2013-14 Projection \$m
Assets						
Cash & short term deposits	21.8	23.1	22.2	17.7	17.4	19.2
Loan Reserves	22.0	20.5	20.5	19.1	17.6	16.2
Trust accounts	8.9	9.3	9.3	9.8	10.2	10.7
Inventory	1.1	1.1	1.1	1.1	1.5	1.5
Debtors & receivables	4.4	4.4	4.4	4.4	4.4	4.4
Tax Receivables	13.8	13.8	13.8	13.8	14.9	16.1
Advances to public enterprises & other authorities	20.5	20.2	20.2	26.2	25.9	25.7
Investment in public enterprises & other authorities	146.7	146.7	146.7	146.7	146.7	146.7
Fixed assets	93.4	95.4	95.4	111.8	114.6	117.2
Total Assets	332.7	334.6	333.8	350.7	353.4	357.8
Liabilities						
Creditors and Payables	7.0	7.0	7.0	7.0	7.0	7.0
Trustee Liabilities	7.7	7.7	7.7	7.7	7.7	7.7
Borrowings	98.5	96.0	94.7	107.6	104.1	100.5
Banking customer deposits	-	-	-	-	-	-
Total Liabilities	113.1	110.6	109.3	122.3	118.8	115.2
Crown Balance	219.6	224.0	224.5	228.5	234.6	242.6

Schedule 13

STATEMENT OF CASH FLOWS

For the years ending 30 June

	2009-10 Estimate \$m	2010-11 Supp Budget \$m	2010-11 Estimates \$m	2011-12 Budget \$m	2012-13 Projection \$m	2013-14 Projection \$m
Operating Activity Cash Flows						
Cash provided from:						
Taxation & levies	83.8	84.2	84.7	90.0	92.2	95.3
Collection of prior year tax arrears	(0.6)	-	-	-	(1.1)	(1.2)
Other	16.1	19.0	18.3	17.3	14.8	14.5
Ministry Trading Revenue	5.4	5.2	5.2	5.2	5.2	5.2
Interest on Funds/Dividends	4.6	6.3	5.9	5.8	4.7	4.7
Other Revenue	6.1	7.6	7.3	6.3	4.8	4.6
	99.2	103.2	103.0	107.3	105.9	108.6
Cash applied to:						
Ministry operating costs to produce outputs	60.8	60.9	61.0	60.5	60.6	60.6
Ministry Gross Expenditure	63.7	64.1	64.2	63.8	63.9	64.0
Less Depreciation	(2.9)	(3.2)	(3.2)	(3.3)	(3.3)	(3.4)
Other Crown expenses	36.7	35.2	35.8	39.8	40.9	41.0
	97.5	96.1	96.8	100.2	101.4	101.6
Net Operating Activity Cash Flows	1.7	7.2	6.2	7.1	4.5	7.0
Investing Activity Cash Flows						
Cash provided from investing activities	0.1	0.3	0.3	0.3	0.3	0.3
Subsidiary Loan Repayments	0.1	0.3	0.3	0.3	0.3	0.3
Cash applied to investing activities	22.4	4.7	4.7	3.4	4.8	4.8
Net Investing Activity Cash Flows	(22.3)	(4.4)	(4.4)	(3.1)	(4.5)	(4.5)
Financing Activity Cash Flows						
Cash provided from financing activities	20.5	1.5	1.5	-	-	-
Cash applied to financing activities	4.3	2.9	2.9	3.3	4.1	4.3
Loan repayments	3.2	2.5	2.5	2.8	3.7	3.8
Loan Reserves	1.1	-	-	-	-	-
Reserve Trust Fund	-	0.4	0.4	0.5	0.5	0.5
Net Financing Activity Cash Flows	16.2	(1.4)	(1.4)	(3.3)	(4.1)	(4.3)
Net cash movements	(4.3)	1.4	0.4	0.7	(4.2)	(1.8)
Add opening cash & deposits	24.6	20.2	20.2	20.6	21.3	17.1
Closing Cash & Deposits	20.2	21.6	20.6	21.3	17.1	15.3

Schedule 14

STATEMENT OF BORROWINGS

As at 30 June

	2009-10 Estimate \$m	2010-11 Supp Budget \$m	2010-11 Estimates \$m	2011-12 Budget \$m	2012-13 Projection \$m	2013-14 Projection \$m
Debt	98.5	96.0	94.7	107.6	104.1	100.5
Total Borrowings	98.5	96.0	94.7	107.6	104.1	100.5
Assets held against Debt						
Advances to public enterprises	20.5	20.2	20.2	26.2	25.9	25.7
Loan reserves	22.0	20.5	20.5	19.1	17.6	16.2
Net Borrowings	56.0	55.3	54.0	62.3	60.6	58.6

Schedule 15

REVENUE LEVIED ON BEHALF OF THE CROWN

For the years ending 30 June

	2009-10 Estimate \$m	2010-11 Supp Budget \$m	2010-11 Estimates \$m	2011-12 Budget \$m	2012-13 Projection \$m	2013-14 Projection \$m
Tax Type						
Income Tax	22.3	22.5	24.5	25.9	26.6	27.5
Company Tax	10.4	9.7	9.2	9.2	9.5	9.8
Import Levies	10.9	10.9	10.8	11.4	11.7	12.1
Value Added Tax	34.4	35.0	34.4	36.4	37.3	38.6
Departure Tax	5.7	6.1	5.8	6.1	6.2	6.3
Withholding Tax	-	-	-	1.0	1.0	1.0
Total Taxation Revenue	83.8	84.2	84.7	90.0	92.2	95.3

Schedule 16

STATEMENT OF FISCAL RISKS

Guarantees and Indemnities	3,300,000
Uncalled Capital	4,500,000
Legal Proceedings & Disputes	15,213,184
TOTAL QUANTIFIABLE CONTINGENT LIABILITIES	23,013,184

Guarantees and Indemnities relate to the following:

The Government of the Cook Islands has accepted the commercial risk such that any losses incurred by Air New Zealand in respect to the service provided on the direct flights from Sydney to Rarotonga and Los Angeles to Rarotonga return during the term of the existing agreements shall be met by the Government of the Cook Islands. The best information available at the present time is that any loss will be \$11.0million. This has been appropriated in the budget at \$10.0million with the balance of \$1.0million recognised above as a contingent liability.

The settlement with Apex Agencies Limited (operating as TOA Petroleum, TOA) dated 11 December 2009 provided a guaranteed minimum EBITA (Earnings Before Interest, Tax, Depreciation and Amortisation) of \$1,200,000 per annum for a period of 8 years. Thus if TOA makes a profit of less than \$1.2million in a given year (or even a loss) the Crown will make a top up payment to \$1.2million. That is the Crown's potential liability could exceed \$1.2million in a given year. An estimate of the potential liability has been estimated at \$1,560,000 and is appropriated and therefore not recognised as a contingent liability.

Government has entered into a program under the New Zealand Aid Programme focused on Pearl Sector Support run through the Cook Islands Pearl Authority. Through the program the Government has agreed to guarantee upto \$0.5million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

The Cook Islands Government (CIG) awarded a works contract of NZ\$2.9m on 15 March 2011 to construct the Pukapuka cyclone shelter. The \$2.9m contract is funded by the EU (\$1.8m, 60.25%) and CIG (\$1.1m, 39.75%). The EU do not pre-finance projects and only disburse their funding portion once the project is complete. As part of the contract award, CIG has agreed to provide up to \$1.8m Limited Government Guarantee to enable the contractor to pre-finance the project and be used as security to mobilise equipment and personnel. The guarantee is only on the EU financing portion and is included as a contingent liability.

Uncalled capital relates to shares in the Asian Development Bank and in the Bank of the Cook Islands

Legal Proceedings and Disputes relates to the Shipping Case and other smaller cases against the Crown

STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION

Reporting Entity

These financial statements are for the Government of the Cook Islands .These consist of:

- Ministers of the Crown
- Ministries
- Island Administrations
- Offices of Parliament
- Public Enterprises and Other Authorities

A schedule of the entities included in these financial statements is detailed on page 23.

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

Measurement Base

The financial statements have been prepared on the going concern assumption and the accounting policies have been applied consistently throughout the period except where stated elsewhere in this Statement of Accounting Policies.

These financial statements have been prepared using the historical cost method to report results, cash flows and the financial position of the Crown. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest thousand dollars.

Reporting Period

The reporting period is the year ended 30 June 2008.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows, have been applied:

Recent Standards

Of significant relevance to the Crown is the recent development of new standards at the IPSASB. These include:

	<u>STANDARDS</u>	<u>EFFECTIVE DATE</u>
A.	IPSAS 25 Employee Benefits	1/01/2011

B.	IPSAS 26 Impairment of Cash Generating Assets	1/04/2009
C.	IPSAS 27 Agriculture	1/04/2011
D.	IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013 1/01/2011
E.	IPSAS 29 Financial Instruments: Presentation	
F.	IPSAS 30 Financial Instruments: Disclosure	1/01/2013
G.	IPSAS 31 Intangible Assets	1/04/2011

These new standards have been issued but are not yet effective for the Crown. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

Basis of Consolidation

The Government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises (SOEs)) comprising the reporting entity are consolidated involving addition of like items of assets, liabilities, revenues and expenses on a line by line basis.

The effect of all material inter-entity transactions and balances are eliminated on consolidation.

Commitments and contingent liabilities of Public Enterprises and Other Authorities are reported in the Statements of Commitments and of Contingent Liabilities.

Associate

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor a interest in a joint venture. Investment in an associate is recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

Revenue

Revenue is measured at fair value of the consideration received or receivable.

Revenue Levied Through the Crown's Sovereign Power

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits; such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of an asset are met.

Revenue Type	Revenue Recognition Point
Individual Income Tax	When an individual earns income that is subject to PAYE or provisional tax.

	This also includes withholding taxes.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When departure tax coupons are purchased.
Other Revenue	When the debt to the Crown arises.

Revenue Earned Through Operations

Revenue from sales of goods is recognised when the product is sold to the customer.

Fines

Fines are economic benefits or services potential received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

Investment Income

Investment income is recognised in the period in which it is earned.

Gains

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Dividends

Dividends are recognised when the right to receive the payment has been established.

Aid Revenue

Revenue is recognised when donor funds are expensed on approved projects.

Expenses

General

Expenses are recognised when incurred and are reported in the financial period to which they relate.

Welfare Benefits

Welfare benefits are recognised in the period which the payment of these benefits relates to.

Grants and Subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Losses

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Financial Performance.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

Aid Expenses

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

Depreciation

Each part of an item of plant, property, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Buildings and improvements	10 years
Coastal protection	25 years
Power distribution network	20 years
Roading network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years

Non-Current Assets

Plant, Property, and Equipment

Plant, property and equipment are recorded at cost less accumulated depreciation.

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Disposals

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Additions

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

Work in Progress

Work in Progress is recognised as cost less impairment and is not depreciated.

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

The cost of purchased infrastructure assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Infrastructure assets include: roading networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures and waste management and airport assets.

When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Work in Progress is recognised as cost less impairment and is not depreciated.

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Intangible assets might include: databases, software purchased, or software developed.

Intangible Assets (continued)

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Software, databases	3 - 5 years
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Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the statement of financial performance.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis is measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

Investments

Investments in associate are accounted in the consolidated financial statements using the equity method. That is, investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

Banking portfolio investments

Loans are valued at net realisable value after provisions.

Applicable security is obtained depending on the size and nature of loans.

Non-performing loans are reviewed monthly on a case by case basis.

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

Provision for doubtful debts (continued)

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

Aid Assets

Donor funds are deposited into bank accounts until expensed on approved assets.

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30th June 1997) actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

Employee Entitlements

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee.

Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed.

Aid Liabilities

Funds received from various donors are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Financial Performance as revenue.

Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

Cash flow information allows users to ascertain how the Crown raised the cash it required to fund its activities and the manner in which that cash was utilised.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental on the ownership of a leased asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvement's useful life or the original lease term.

Commitments

The Statement of Commitments discloses those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

Contingent Liabilities

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.

CHANGES IN ACCOUNTING POLICIES

Plant, Property, and Equipment

As at the beginning of this reporting period, 1st July 2007, the Crown has voluntarily changed the accounting policy surrounding the carrying value of plant, property, and equipment (PPE). The new policy records all PPE as cost less accumulated depreciation/amortisation and impairment whereas the previous policy required certain SOE assets to be carried at revalued amounts.

IPSAS 3 – Accounting Policies, Changes in Estimates, and Errors provides that for a change in accounting policy, retrospective adjustments are to be done through one of two allowed approaches:

- benchmark approach in which the value of the adjustment is taken through opening retained earnings; or
- alternative approach in which the value of the adjustment is brought through the current year's profit.

IPSAS 3 allows for a prospective application using either of the approaches above in the event that it is impracticable or impossible to determine accurate values relating to adjustments required.

As the historical adjustments cannot be determined in any practicable and timely manner, and those values that are available to the Crown are incomplete and unverifiable, including them into the financial statements would not be beneficial and would not provide more reliable information to be presented. As such, the Crown has adopted the prospective application to this change in policy. Therefore, the effect of this change in policy will be reflected from this accounting period going forward.

As there were no revaluations done in any of the entities making up the Cook Islands Government for the year ended 30 June 2008, no adjustments have been made in this period.