COOK ISLANDS GOVERNMENT

# 2023/24 Half-Year Economic and Fiscal Update

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

**14 December 2023**

**Abbreviations and Acronyms**

| Term | Definition |
|---|---|
| AACI | Airport Authority Cook Islands |
| ACL | Avaroa Cable Limited |
| ADB | Asian Development Bank |
| AIIB | Asian Infrastructure Investment Bank |
| AML | Anti-Money Laundering |
| BCI | Bank of the Cook Islands |
| CIG | Cook Islands Government |
| COFOG | Classification of Functions of Government |
| COVID-19 | Coronavirus Disease 2019 |
| CPI | Consumer Price Index |
| CSS | Core Sector Support |
| EDS | Economic Development Strategy |
| EEZ | Exclusive Economic Zone |
| ERP | Economic Response Plan |
| ERR | Economic Recovery Roadmap |
| EU | European Union |
| FY | Fiscal Year |
| GBS | General Budget Support |
| GCF | Green Climate Fund |
| GDP | Gross Domestic Product |
| GEF | Global Environment Facility |
| GFA | Grant Funding Agreement |
| GFS | Government Financial Statistics |
| HYEFU | Half-Year Economic and Fiscal Update |
| IMF | International Monetary Fund |
| LRF | Loan Repayment Fund |
| MTEC | Medium-term Expenditure Ceiling |
| MTFF | Medium-term Fiscal Framework |
| MTFS | Medium-term Fiscal Strategy |
| NSDA | National Sustainable Development Agenda 2020+ |
| NSDP | National Sustainable Development Plan |
| NZD | New Zealand Dollars |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PFTAC | Pacific Financial Technical Assistance Centre |
| POBOC | Payments on Behalf of Crown |
| RBA | Reserve Bank of Australia |
| RBNZ | Reserve Bank of New Zealand |
| ROBOC | Revenue on Behalf of Crown |
| SPC | Pacific Community, formerly known as the South Pacific Commission |
| SPREP | Pacific Regional Environment Programme |
| SOE | State-Owned Enterprise |
| UNDP | United Nations Development Programme |
| USD | United States Dollars |

**General Notes on the Half-Year Economic and Fiscal Update**

All figures presented in this report are in New Zealand Dollars ($) unless otherwise specified.

# Foreword

The Half-Year Economic and Fiscal Update (HYEFU) is tabled in Parliament annually in December, and it represents the latest information that the Government holds on revenue, expenditure, funding from development partners and debt funding, at the time of publication. Note, that the data used in the preparation of this document was finalised by the following dates:

| | | | |
|---|---|---|---|
| Economic forecasts | 17 November 2023 | Fiscal forecast Shocks | 30 November 2023 |
| Tax Revenue forecasts | 17 November 2023 | Document Text | 08 December 2023 |
| Fiscal forecasts | 30 November 2023 | | |

The economic and fiscal situations can evolve quickly therefore, readers are advised to contact the Ministry of Finance and Economic Management (MFEM) where concerns may exist regarding the currency of information presented in this document.

The HYEFU is also prepared using information and contributions from multiple government agencies. The MFEM acknowledges these contributions and notes that questions on these specific subject matter areas should generally be directed to the relevant agency.

The following agencies are acknowledged for their contribution towards the revenue data and specific sections of the 'Economic Update' chapter:

| | |
|---|---|
| Ministry of Agriculture | Ministry of Justice |
| Ministry of Marine Resources | Cook Islands Investment Corporation |
| Financial Services Commission | Cook Islands Police Service |
| Ministry of Transport | Ministry of Internal Affairs |
| Ministry of Foreign Affairs and Immigration | Office of the Prime Minister |

The Economic Planning Division for the MFEM also acknowledges the contribution of the following divisions from the MFEM for their contribution to the following chapters of this document:

| **Chapter** | **Division** |
|---|---|
| Crown Debt and Net Worth | Treasury Management Division |
| Office Development Assistance | Development Coordination Division |

**Disclaimer**

Please note that the 2022/23 actual revenue and expenditure data may differ from the June 2023 Quarterly Financial Report due to the accrual accounting system used by the Cook Islands Government. The data presented in the 2023/24 HYEFU is a more accurate reflection of actual revenues and expenditure for the 2022/23 fiscal year. Revenue and expenditure projections are based on information known at the time of preparing the 2023/24 HYEFU.

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14 December 2023

**STATEMENT OF RESPONSIBILITY**

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2023/24 Half-Year Economic and Fiscal Update (HYEFU).

I have ensured that the Financial Secretary has been advised of all Government decisions and other circumstances as at December 2023 of which I was aware and had material economic and fiscal implications to enable the Ministry of Finance and Economic Management (MFEM) to prepare the 2023/24 HYEFU in accordance with the MFEM Act 1995-96.

I accept the overall responsibility for the integrity of the disclosures contained in this document, and the consistency and completeness of the information in compliance with the requirements of MFEM Act 1995-96.

Kia manuia,

Honourable Mark Brown
Minister of Finance and Prime Minister

**MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT**
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14 December 2023

## STATEMENT OF RESPONSIBILITY

The 2023/24 Half-Year Economic and Fiscal Update (HYEFU) has been produced in accordance with section 11 and 16 of the M*inistry of Finance and Economic Management (MFEM) Act 1995-96* whereby a report must be prepared and published in December by the MFEM to provide an economic and fiscal update to the Appropriation Bill.

Therefore, in accordance with section 30(2) of the MFEM Act 1995-96, the Minister of Finance and the Financial Secretary shall prepare and sign a Statement of Fiscal Responsibility for the financial statements.

The integrity of the disclosures and consistency with the requirements of the MFEM Act 1995-96 are warranted in relation to the financial statements included within the 2023/24 HYEFU.

The update incorporates the fiscal and economic implications both of Government decisions and circumstances as at December 2023 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the MFEM Act 1995-96.

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

Kia manuia,

Garth Henderson
Financial Secretary

# 1. Introduction and Overview

The Half-Year Economic and Fiscal Update (HYEFU) outlines the changes to economic and fiscal forecasts that underpin the 2023/24 Budget, including the 2022/23 actual expenditure.

The Government's fiscal performance for 2022/23 has been revised to reflect a notable reduction in operating revenues from $182.0 million to $166.6 million, and an increase in operating expenditure from $166.6 million to $170.5 million. Once other fiscal factors have been considered, such as one-off adjustments to the accounting for debts to reflect the realities of tax collection, a fiscal deficit of $12.2 million is recorded for 2022/23, in contrast to the fiscal surplus of $7.2 million as estimated in the 2023/24 Budget.

For 2023/24, a fiscal deficit of $15.7 million is expected at year-end due to an increase in both, operating expenditure and capital expenditure by $6.5 million, countering the increase of $5.7 million in operating revenue. As GDP continues to recover in the outer years leading to an increase in taxation revenues, the fiscal balance is expected to improve from 2024/25 onwards, resulting in a fiscal surplus year-on-year.

The HYEFU also contains the Government's Medium-term Fiscal Strategy (MTFS) for 2024/25 to 2027/28, which also serves as the Budget Policy Statement for 2024/25. The MTFS guides the Government's fiscal planning and anticipated expenditure profile over the medium-term, including projected performance against the Fiscal Responsibility Rules.

The 2024/25 MTFS allows for further increases in expenditure over the medium-term. Additional funding however, will be directed towards supporting economic recovery, addressing inflationary pressures, handling recruitment and retention challenges across government, enhancing key government services and fulfilling debt servicing obligations. It is essential to carefully balance increased expenditure against the projected cash reserves.

The economic and fiscal forecasts have been developed within the context of an ongoing recovery from the impacts of the COVID-19 pandemic, underpinned by a recovery in tourism volumes. The recovery has shown promising signs, moving more rapidly than anticipated, as evidenced by visitor arrivals surpassing 133,000 in the year leading up to September 2023. Nevertheless, inflation remains a prominent concern. Despite limitations on capacity from the New Zealand market, these arrivals have indicated higher spending and extended stays compared to the pre-pandemic period.

The revised economic and fiscal estimates adhere to the fiscal rules which serve as limiting factors to government's expenditure plan over the medium-term.

The forecasts indicate that the Cash Reserves Rule is unlikely to be breached over the forward years, as the baseline forecast indicates cash balances near the three-month threshold based on conservative assumptions. Additionally, the remaining fiscal rules are forecast to be met, highlighting the robust fiscal responsibility being demonstrated.

The external economic conditions are showing signs of stabilisation; however, the risk of further shocks remains. These risks include global inflationary pressures, market responses to tighter monetary policy stances (particularly in the New Zealand economy), and fluctuations in commodity prices influenced by geopolitical events.

The assumptions underpinning the economic and fiscal forecasts are based on information available at the time of publication and are deemed to be conservative.

# 2. Medium-term Fiscal Strategy 2024/25 – 2027/28

This chapter presents the Cook Islands Government's Medium-term Fiscal Strategy (MTFS) for the period 2024/25 to 2027/28, which also serves as the 2024/25 Budget Policy Statement. The MTFS reconfirms the government's commitment to sound fiscal and economic management, within the context of an ongoing recovery from a severe economic shock.

The MTFS supports the Government to deliver fiscally sustainable budgets as the government commits to:

- Adhering to the fiscal rules on cash reserves, debt, expenditure growth and investment.
- The development of, and appropriation into, reserve funds (Stabilisation Account and Sovereign Wealth Fund) to ensure that excess revenues are saved for periods of economic downturn or natural disasters, and for future generations.
- An expenditure profile that is steered by the economic context, through the use of internal guiding principles.

The Government's fiscal strategy is underpinned by the following policy elements:

- Investing in the capabilities of government agencies to ensure they operate effectively and efficiently.
- Investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change.
- Increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.

The Cook Islands faced a significant economic shock due to the effects of the COVID-19 pandemic. This led to a temporary departure from the fiscal rules since the 2019/20 Supplementary Budget, and utilisation of the Stabilisation account funds to achieve an expenditure profile that responded to the economic context. As the economic situation in the Cook Islands improved, adherence to the fiscal rules was reinforced in the 2023/24 Budget.

As the fiscal stance moves from addressing the expansionary needs of the pandemic, to a more neutral position and ultimately towards rebuilding the fiscal buffers, there is a need for continued restraint in policy measures that support the vulnerable sectors of the economy during the ongoing economic recovery.

The Government is committed to the expenditure profile set out in Table 2-1 over the medium-term. The fiscal space indicates the amount of additional expenditure, or reduction in expenditure, that the government can undertake in each year.

In determining the recommended expenditure profile for the MTFS, the Ministry of Finance and Economic Management (MFEM) considers two fiscal space measures, both consistent with the MTFS fiscal rules:

- the structural deficit ceiling approach, which estimates the difference between the structural fiscal balance and nominal fiscal balance, and
- the cyclically-adjusted balance method, which accounts for the effect of business cycle fluctuations on revenue and expenditure.

The Government then adopts a budget ceiling which provides a fiscally responsible level of fiscal space while acknowledging the investment needs of the country, in the context of the economic situation and the fiscal rules.

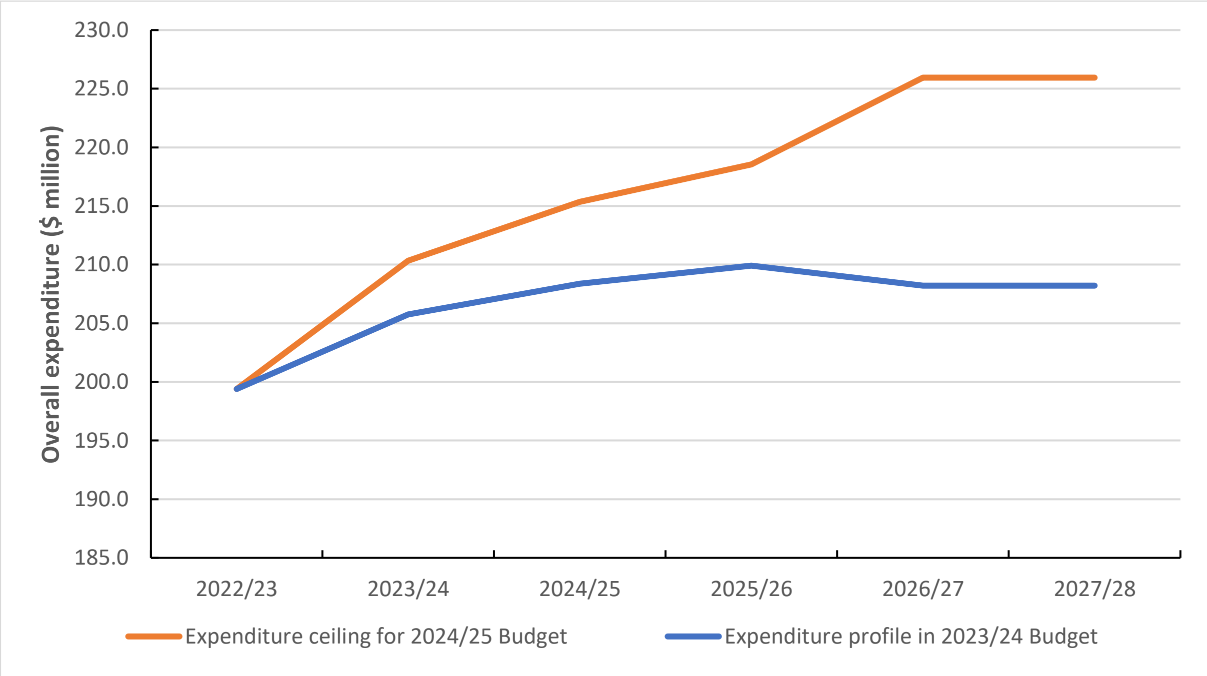
**Table 2-1 Medium-term Expenditure Ceilings ($ Million)**

| $ million | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Current expenditure planned (2023-24 Budget) | 205.7 | 208.4 | 209.9 | 208.2 | 208.2 |
| Fiscal Space (unallocated) | 4.6 | 7.0 | 8.6 | 17.7 | 17.7 |
| **Total expenditure – 2024/25 Budget** | **210.3** | **215.4** | **218.6** | **225.9** | **225.9** |

The total expenditure limits are set to increase from the levels outlined in the 2023/24 Budget. This adjustment is driven by certain technical assumptions related to revenue, ensuring that Cash Reserves levels stay above the emergency one-month threshold in all years, and therefore meeting the three-month threshold consistently. The expenditure profile changes are shown in Figure 2-1.

To maintain this ceiling in the preparation of the 2024/25 Budget, Government will prioritise core services and reallocate budget among outputs and/or agencies to optimise efficiency in fulfilling its ongoing deliverables.  Additionally, the fiscal implications of any new initiatives will be considered.

**Figure 2-1 Expenditure Profile Shift through MTFS ($'000)**




## 2.1. MTFS Economic and Fiscal Forecasts

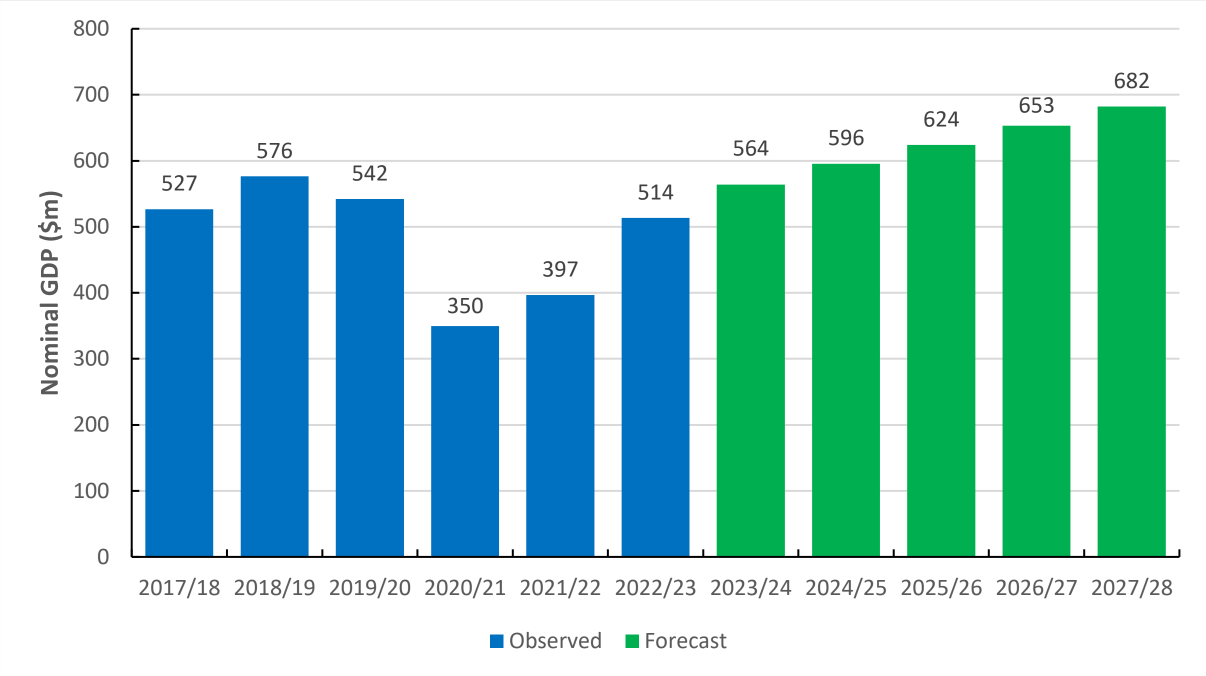
### 2.1.1. Economic Forecast

After the largest economic shock in the history of the Cook Islands due to the impacts of the COVID-19 pandemic which wiped out over 40 per cent of the economy, the 2022/23 fiscal year saw the first robust shoots of recovery with visitors returning and businesses operating again. This led to nominal growth (which includes the impact of sharply rising prices) of 29.4 per cent throughout the year – a strong step back to where the economy was before the pandemic. This progress is tempered slightly by the high inflation environment, as real (inflation-adjusted) growth has been substantially slower, but still considerably positive.

The increase in aviation capacity from the beginning of the 2023/24 fiscal year is expected to strengthen ongoing recovery, with a projected growth of 9.8 per cent. This growth is expected to taper down to more typical growth rates in the subsequent years.

In the outer years, the growth in the nominal economy is expected to be 5.6 per cent in 2024/25, 4.8 per cent in 2025/26 and 4.6 per cent in 2026/27. However, the recovery faces some constraints due to the influence of inflationary pressures, particularly in the short term – which is seen more in the forecasts of real GDP. These pressures are attributed to global factors persistently affecting the Cook Islands.

**Figure 2-2 Nominal GDP ($ million)**




### 2.1.1.1. MTFS Expenditure Profile

As the Cook Islands economy continues to recover from the pandemic-induced recession, this has seen some restrictions on the level of government expenditure. Given that government revenues and the overall fiscal position have yet to return to pre -pandemic levels, exercising prudence in spending is essential, while balancing the need to provide support the recovering economy.

The Government will continue to invest in infrastructure and bolstering the capabilities of government agencies to operate effectively and efficiently. However, this approach will be exercised cautiously, considering the limited availability of new funding. Therefore, the reprioritisation of existing funding is important and may result in the shift or transfer of funding from one agency to another.

The allocation of funds for new programs will be weighed against the need for agencies to focus on delivering core services to the community and achieving government's priorities. This may lead to the postponement of new initiatives.

## 2.1.2. Fiscal Responsibility Rules

The fiscal rules have been developed as benchmarks for the Government, to achieve fiscally sustainable budgets. The rules were revised in October 2021 to more accurately reflect the fiscal context of the COVID-19 economic environment, with a revised focus on government's fiscal liquidity. The fiscal rules are planned to be revised again in 2024 for the 2025/26 Budget.

In forming the rules, guidance from the International Monetary Fund (IMF) on the criteria for rule development has been considered as follows:

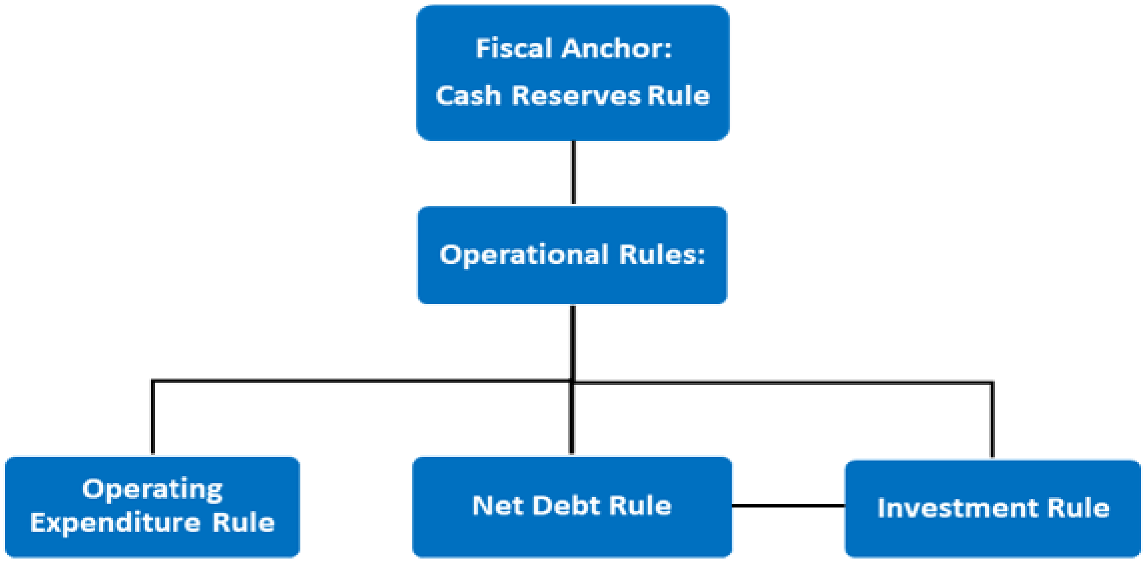
- Sustainability: compliance with the rule should ensure long-term debt sustainability.
- Stabilisation: following the rule should not increase (and may decrease) economic volatility. The principle of stabilisation ensures that automatic stabilisers are able to operate.
- Simplicity: the rule should be easily understood by decision makers and the public.
- Operational guidance: it should be possible to translate the rule into clear guidance in the annual budget process.
- Resilience: a rule should be in place for a sustained period in order to build credibility, and it should not be easily abandoned after a shock.
- Ease of monitoring and enforcement: compliance with the rule should be easy to verify, and there should be costs associated with deviations from the targets.

The *Resilience* criterion played a role in the revision of the fiscal rules in October 2021 due to the scale and duration of the economic shock of COVID-19. The revised structure is expected to remain effective for the medium-term, with the primary trigger for re-evaluation of the rules being a substantially changed economic environment resulting in consistently positive fiscal balances annually.

The fiscal rules are structured around the fiscal anchor which is linked to the objective of the fiscal strategy, fiscal sustainability. This rule is used to guide the development of three operational rules. This structure has been maintained whilst utilising the revised rules.

Too many rules can complicate fiscal policymaking and result in overlap and inconsistency of targets. As such, selected rules need to minimise the trade-off between the above criteria.[1] Based on these criteria, the rule structure set out in Figure 2-3 has been adopted.

**Figure 2-3 MTFS rule structure**




[1] IMF, 2018a. Fiscal Policy- How to select fiscal rules: a primer. Fiscal Affairs Department, International Monetary Fund, Washington. March 2018.

The fiscal rules enable Government to utilise debt funding to strengthen its response to the economic crisis through the implementation of the Economic Recovery Roadmap (ERR) and economic stimulus measures. Four fiscal rules and expected performance against these fiscal rules are listed below:

- **Cash Reserves Rule (Fiscal Anchor)**: the equivalent of 3 months of operating expenditure must be held in liquid assets at any one time.
- **Investment Rule**: any additional borrowing above 55 per cent of GDP is for capital investment and/ or targeted GDP stimulus measures only.
- **Expenditure Rule**: budgeted agency expenditure cannot grow by more than the greater of 2 per cent or the average of the past two-year growth in the Consumer Price Index (CPI) year-on-year.
- **Net Debt Rule**: net debt should not exceed a soft cap of 55 per cent of GDP, and cannot exceed a hard cap of 65 per cent of GDP.

The fiscal rules have been developed using guidance from the IMF.

**Prudency**

The Government's aim in the development of the fiscal rules is to uphold fiscal prudence, ensuring that spending aligns with revenues and sustainable debt is utilised when necessary. As such, in determining the rules, rounding has been applied to ensure that prudency is reinforced.

**Exit clause**

Section 23 (4) of the MFEM Act 1995-96 has an *Exit Clause* that allows for a temporary departure from the fiscal rules, including periods of severe economic shock, to enable a government stimulus response to boost the economy. The Government agrees to always abide by the fiscal anchor and operational rules, with two exceptions. The Government may breach these rules only in the event of a natural disaster (and subsequent calling of a state of emergency), or a severe economic shock (defined as real economic growth of negative 2 per cent or less).

The economic shock resulting from COVID-19, with GDP falling by a total of 41.1 per cent between December 2019 and June 2021, prompted a temporary departure from the fiscal rules, extended from the 2019/20 Supplementary Budget to the 2022/23 Budget.

The current economic conditions no longer warrant the utilisation of the Exit Clause. The expenditure ceiling for the 2023/24 fiscal year aligns with the Fiscal Responsibility Rules, and this adherence continues into the subsequent fiscal years, for 2024/25 onwards.

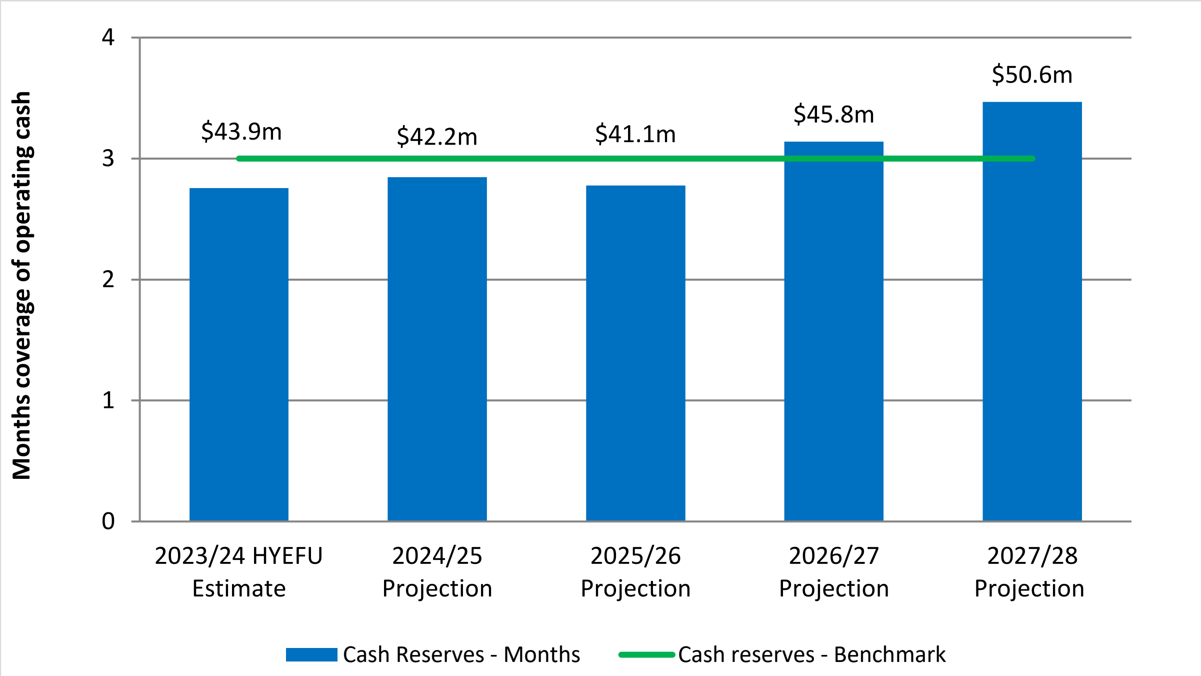
### 2.1.2.1. MTFS Cash Reserves Rule

For prudential reasons, the Government requires a level of cash reserves to be on hand at all times, to act as a buffer in case of a liquidity shortage resulting from an economic shock or natural disaster. For example, if a large cyclone were to impact Rarotonga, and cause a halt to tax collections, the Government would require a level of cash to be held in reserve to cover operations.

A prudent level of cash reserves is considered to be three-months of operating expenditure, either available as cash or liquid cash investments, while one month of operating expenditure is considered to be an emergency-level of cash reserves.

Figure 2-4 shows that the Government's cash reserve is expected to approach the three-month threshold in the upcoming years. Any additional resources beyond this level is intended to address government priorities, pending adherence to the other fiscal rules. This outlook is based on a very conservative approach whereas, a more balanced view would consider factors like potential and probable support from development partners and expected underspends in appropriation.

**Figure 2-4 Cash Reserves rule projections**




### 2.1.2.2. MTFS Operating Expenditure Rule

The expenditure rule states that the *"baseline budgeted operating[2] expenditure cannot grow by more than the greater of 2 per cent or the average of the past two years growth in the Consumer Price Index (CPI) year-on-year*.*"* The operating expenditure rule controls growth in government expenditure by limiting year-on-year growth whilst allowing for a response to inflationary pressure if required.

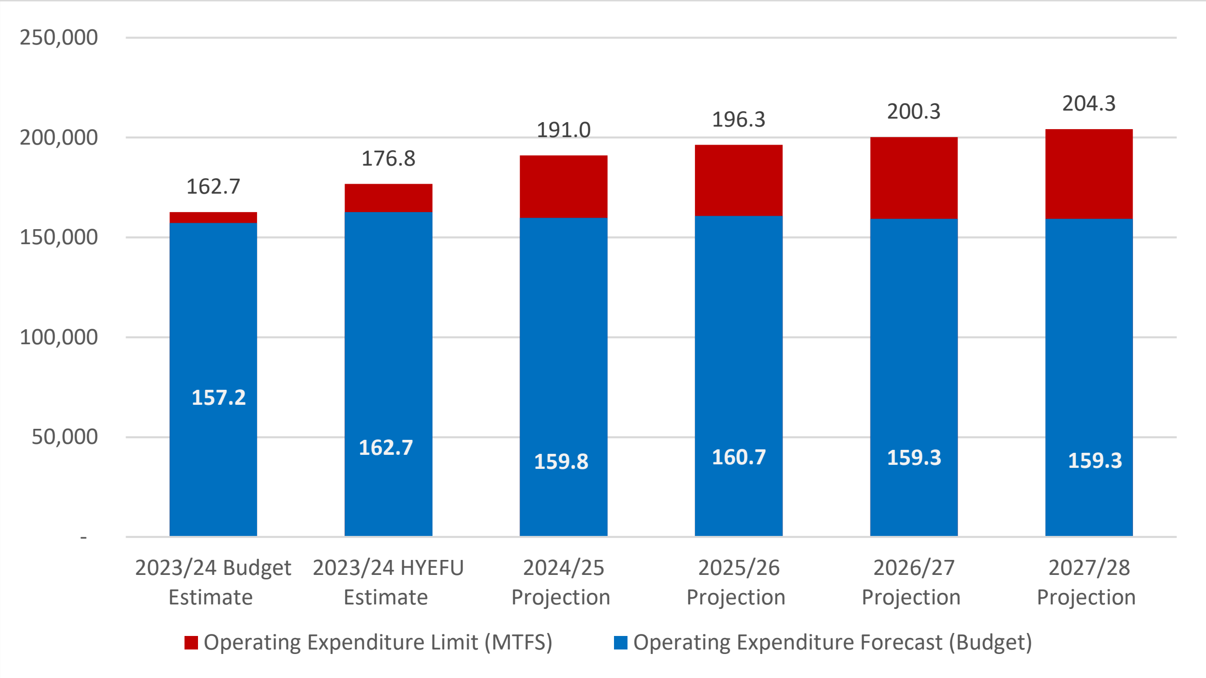
The operating expenditure rule controls government expenditure by limiting year-on-year growth to a maximum of 8.6 per cent in 2023/24. This percentage is derived from the average inflation over 2021/22 and 2022/23, which stood at 8.6 percent, surpassing the default limit of 2 per cent. This rule allows for limitations to be applied to government's day-to-day operating budget, but excludes contractual payments such as loan interest and welfare payments. The overall expenditure ceiling does still consider these expenditure requirements into total government expenditure; thus, the operating expenditure rule serves to limit expansion of operating expenditure during periods of increasing fiscal expenditure, but is superseded by other rules during periods of fiscal contraction.

As shown in Figure 2-5 the operating expenditure profile for 2024/25 (taken from the 2023/24 Budget) will comfortably stay within the expenditure limit across the forward years. The relatively large gap is attributed to recent high inflation and the binding nature of the cash reserves rule. It is anticipated that the 2024/25 Budget will utilise some of this space to address pressures and government priorities.

This low-growth in operating expenditure for the medium-term reflects fiscal prudence, which has set the foundations for responsible fiscal management going forward.

[2] Baseline operating expenditure is defined as total government department expenditure. This is identified as the total Gross Current Appropriation in Schedule 1.

**Figure 2-5 Operating Expenditure rule growth projections**




### 2.1.2.3. MTFS Net Debt Rule and Investment Rule

The Net Debt rule states that "Net debt should not exceed a soft cap of 55 per cent of GDP, and cannot exceed a hard cap of 65 per cent of GDP". The Investment Rule also relates to the net debt position, as it states "the Government shall commit that any additional borrowing once debt has reached 55 per cent of GDP is for capital investment and/or targeted GDP stimulus purposes".

Net debt to GDP measures debt relative to national income, and is intended to control the overall level of debt taken on by Government, including state-owned enterprises. The limit agreed to by Government is to maintain net debt within 55 per cent of GDP, with room to increase this to 65 per cent for specified purposes.

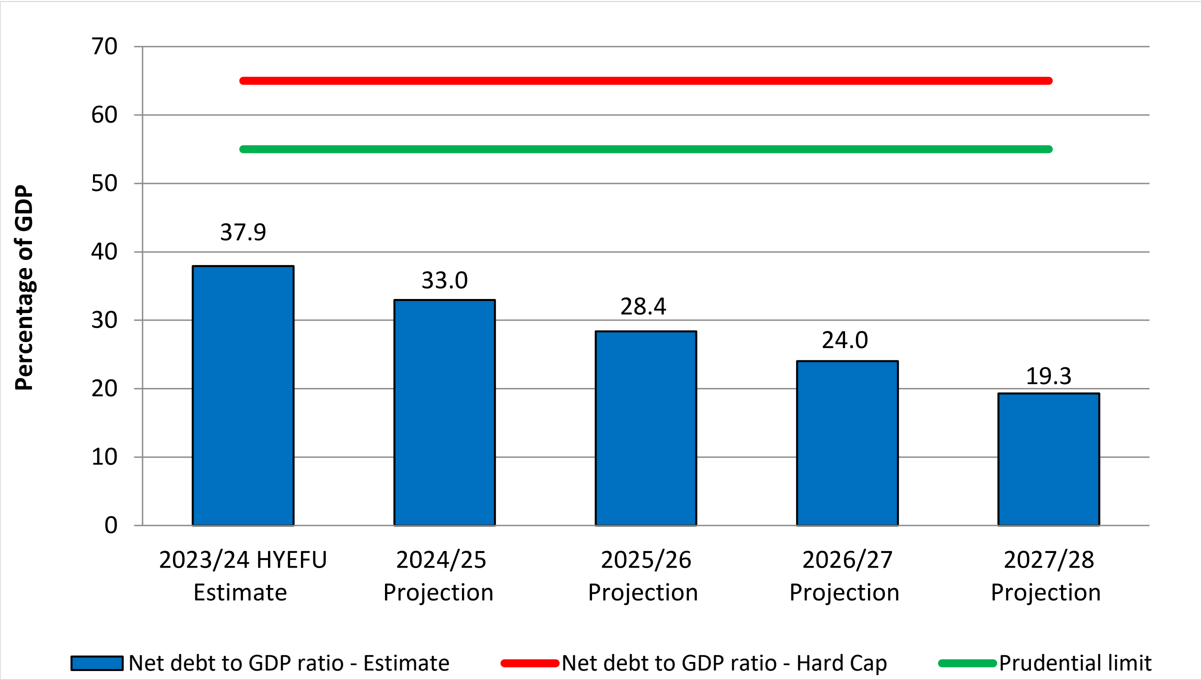
Further revisions have been made to the GDP forecasts and foreign exchange rates since the 2023/24 budget which have resulted in the 55 per cent soft cap on borrowings to be estimated at approximately $310.1 million as of June 30 2024. The Government expects to hold a debt[3] equivalent to $213.7 million in NZD by the end of 2023/24, with changes in the value of this debt primarily influenced by foreign exchange movements.

In the event of a natural disaster, the Government has a contingency loan of $30.3 million, as the $55.5 million Precautionary Financing Option was closed in 2023. If utilised in 2023/24, gross debt would be approximately $246.9 million, resulting in a net debt of 43.8 percent of GDP. Excluding this contingent loan or additional debt, the net debt ratio is projected to decrease year-on-year to 19.3 percent by 2027/28, driven primarily by GDP growth and some debt repayment.

These ratios should not be looked at in isolation. Any proposal for additional borrowing should be considered within the broader context of the entire government Budget, considering the Crown's ability to service annual debt and adhering to international best practices, including prudential requirements set by the Crown's lenders. Proposals to acquire new loans must undergo thorough assessments as mandated by the MFEM Act 1995-96 and the Loan Repayment Fund Act 2014.

[3] Excluding commercial debt held by the Airport Authority Cook Islands

**Figure 2-6 Net Debt rule projections**




As the Net Debt Rule contains considerable space, the Investment Rule is currently non-binding, as it is only relevant when net debt exceeds 55 per cent of GDP.

## 2.2. Medium-term National Priorities

To improve the alignment between fiscal planning and the achievement of government's national priorities, the MTFS incorporates the Medium-term National Priorities. The national priorities are set using the National Sustainable Development Agenda (NSDA) 2020+. The NSDA provides further detail on the Government's intentions over the medium-term, playing a guiding role in the development and application of the Medium-term Expenditure Ceilings (MTEC) at the agency/department level.

Incorporated within the NSDA framework is the Government's Economic Development Strategy (EDS). The EDS outlines the economic priorities for the Government up to 2030. The expenditure priorities of government agencies in the 2024/25 Budget will be directed by the EDS, aligning with the priorities established through the Economic Recovery Roadmap.

As the economic recovery from the COVID-19 pandemic continues, resources remain limited. However, the Government has initiated measures to restore processes to a normal footing. One such step involved convening the Public Sector Leader's Conference in September 2023, to deliberate and determine government's priorities for the 2024/25 Budget within the framework of the NSDA.

In resource-constrained times, the top-priority areas for government resourcing when considering the medium-term fiscal constraints and budgeting include:

- Alleviating pressure on government services by addressing recruitment and retention challenges;
- Addressing water infrastructure and provision challenges, particularly in the Pa Enua;
- Enhancing data collection and information systems to identify issues, propose solutions, and support research;
- Addressing physical infrastructure challenges related to safety, well-being, and the promotion of more efficient service delivery.

### 2.2.1. Economic Development Strategy 2030 and Economic Recovery Roadmap

The EDS outlines five objectives aligned with the overarching vision of "working together to build a dynamic, prosperous and inclusive economic future for Cook Islanders that is in harmony with its culture and environment":

1. Improving equity and access for all,
2. Transforming the economy,
3. Developing our people & culture,
4. Investing in our Islands,
5. A greener economy.

The ERR was developed to address the Cook Islands' immediate needs following the pandemic and border closures. It replaced the Economic Response Plan (ERP) as the Government's primary tool for steering the Cook Islands' economic recovery starting from 2021/22. The purpose of the ERR is to enable a sustainable economic recovery from the impacts of COVID-19, aligning the Cook Islands to achieve the objectives of the EDS.

The ERR aims to promote a sustainable economic recovery by building upon the responsive measures initiated by ERP measures. It focuses on eight 'growth' workstreams, including:

- Reducing the Cost of Borrowing
- Managing the Burden of Public Debt
- Infrastructure Investment
- Barriers to Business Performance
- Productivity growth
- Improved Public Sector efficiency
- Labour Force and Population
- Foreign Investment to benefit the Cook Islands.

Both the EDS and the ERR share the common goal of fostering a resilient, equitable and sustainable economy. Figure 2-7 shows the relationship between the NSDA, the EDS and the ERR.

**Figure 2-7 Relationship between key development documents**

## 2.3. Assumptions underlying the economic and fiscal projections

Various assumptions have been made to forecast the Cook Islands economic outlook and the Government's fiscal performance and position in the outer years.

## 2.3.1. Economic assumptions

### 2.3.1.1. Introduction

The Cook Islands National Statistics Office (NSO) publishes current price and real price (2016 base year) estimates of GDP on a quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data received from the NSO relates to the June quarter 2023.

### 2.3.1.2. Gross Domestic Product production model

A Computable General Equilibrium (CGE) modelling approach has been used to forecast aggregate GDP and a number of key variables in a manner that is internally consistent and uses economic relationships to determine how shocks permeate through the economy. This approach provides both real and nominal changes in variables over the period from 2023/24 to 2027/28 such as:

- Gross domestic product
- Trade aggregates
- Investment and savings
- Household consumption
- Consumer Price Index
- Wages
- Operating surpluses

This model was developed using technical assistance from the Asian Development Bank and utilising a wide range of data sources.

### 2.3.1.3. Data

The key data sets used for the model are:

- Nominal GDP – quarterly data to June 2023
- Real GDP – quarterly data to June 2023
- Trade, imports, and exports – monthly data to June 2023
- Consumer Price Index – quarterly index data to June 2023
- International arrivals – Customs and Immigration monthly data to September 2023
- Building approvals – quarterly data to March 2023

### 2.3.1.4. Key economic indicator assumptions

Nominal GDP is expected to grow by:

| Year | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Per cent (%) | 9.8 | 5.6 | 4.8 | 4.6 | 4.5 |

Growth in prices, measured through the movements in the CPI, is expected as follows:

| Year | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Per cent (%) | 3.1 | 2.4 | 1.5 | 1.6 | 1.5 |

Refer to Chapter 4 for more information on the economic forecasts and indicators.

### 2.3.2. Fiscal assumptions

The Government's expected fiscal performance over the forward period relies on the following assumptions:

- operating revenues are forecast on the basis of historical actuals, and one-off considerations, but assume no change to the tax revenue structure
- operating expenditure movements reflect current government policy commitments; and
- the level of government borrowing is based on exchange rates derived using Consensus Economics forecasts.

## 2.4. Fiscal Risks

The IMF defines fiscal risks as 'deviations of fiscal outcomes from what was expected at the time of the Budget'. The IMF lists a number of sources of fiscal risk, including:

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including explicit and implicit liabilities such as those created by public corporations and sub-national governments.[4]

The risk matters facing the Cook Islands are discussed below and while these have not been directly considered in the economic forecasts above, they have helped to guide the development of the MTFS.

### 2.4.1. Risk Categories

There are a number of risks over the forward budget period that could affect the macroeconomic forecasts that underpin the Government's forward fiscal position. These are considered below, in no order.

#### 2.4.1.1. Global Economic Risks

In the global economy, the IMF's October 2023 *World Economic Outlook* highlighted key risks, including the potential loss of growth momentum in China, larger-than-expected effects of the global monetary tightening cycle, and tighter financial conditions in emerging markets. While these factors, particularly monetary tightening, are relevant to the Cook Islands' economy, the most significant risks are associated with access to our shores and the health of the New Zealand economy, our primary trading partner.

A constraint on the tourism sector in the 2023 high season has been limited airline capacity from New Zealand. Any reductions in this capacity would adversely impact the Cook Islands economy. Similarly, as New Zealand constitutes a major part of the tourism market, a substantial downturn in its economy could result in fewer visitors from New Zealand.

Another key risk is the continued impact of global inflationary pressures. Inflation places strain on the real incomes of people in the Cook Islands and in the source markets for tourists, reducing the affordability of discretionary spending such as travel. These risks are shared by many nations in the region and remains a key pressure point for people in all sectors.

Lastly, as the Cook Islands hold several loans denominated in US dollars and other international currencies, fluctuations in exchange rates pose a source of risk due to their potential impact on the

4 IMF 2009, Fiscal risks: sources, disclosure, and management. IMF Fiscal Affairs Department. See: https://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf.

Cook Islands' debt portfolio. The IMF emphasises that the immediate impact of an exchange rate depreciation can be particularly strong, especially when a substantial portion of the debt is in foreign currency. The potential impact of exchange rate movements on the Cook Islands debt position is assessed in section 2.4.2 below.

#### 2.4.1.2. Natural Disasters

The IMF cites evidence that direct economic losses from natural disasters have often exceeded 10 percentage points of GDP in developing countries and amounted to a few percentage points of GDP in some advanced countries.

The Cook Islands faces significant exposure to disaster risk, primarily attributed to its geographical position within the South Pacific cyclone belt, the remote and low-lying characteristics of many Pa Enua islands, and the close proximity of buildings and infrastructure to the coastline, particularly in Rarotonga. Furthermore, the economy's heavy dependence on revenue generated from the tourism sector renders it vulnerable to the adverse effects of disasters.

A destructive weather event, such as a cyclone, would have a significant impact on the Cook Islands' economic outlook, and severely affect the fiscal position. The Asian Development Bank's (ADB) 2016 report, pertaining to a loan proposal for the Cook Islands Disaster Resilience Program, notes that the Cook Islands has, at intervals, faced significant cyclones resulting in substantial economic damage and loss of life (see Table 2-2) [5].

**Table 2-2 Significant cyclones in the Cook Islands**

| Year | Name | Category | Estimated losses ($m) | Estimated losses (% of GDP) |
|---|---|---|---|---|
| 1987 | Sally | 2 | 24.6 | 51.6 |
| 1997 | Martin | 3 | 7.5 | 7.6 |
| 2005 | Meena | 4 | 10.0* | 5.5 |
| | Nancy | 4 | | |
| | Olaf | 5 | | |
| | Percy | 5 | | |
| 2010 | Pat | 2 | 7.8 | 3.2 |

* Combined estimated losses for all four cyclones in 2005.

To mitigate the economic risk posed by natural disasters, the Government has put in place a range of structures to reduce its financial exposure to disaster risk, including:

- establishing a disaster emergency trust fund in 2017.
- taking out insurance coverage under the Pacific Catastrophe Risk Assessment and Financing Initiative for cyclones, with a 1-in-10-year probability of occurrence with pay-out based on the assessed severity of a specific cyclone.
- arranging a Disaster Recovery Mechanism loan from the ADB of $30.3 million, which will only be triggered and drawn down in the event of a catastrophe.

5 ADB (2016). Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan Cook Islands: Disaster Resilience Program, Project Number: 50212-001. November 2016.

### 2.4.1.3. Contingent liabilities

The Government's contingent liabilities are summarised in Table 2-3. Adjustments have been made to some contingent liabilities since the publication of the 2023/24 Budget in May 2023.

**Table 2-3 Quantifiable contingent liabilities, as at 1 December 2023**

| Category | $'000 |
|---|---|
| Guarantees and indemnities | 50 |
| Uncalled capital | 2,600 |
| Legal proceedings and disputes | 400 |
| Vested Assets | 24,800 |
| **Total** | **27,900** |

### 2.4.1.4. Guarantees and indemnities

In 2011/12, the Government entered into a program under the New Zealand Aid programme, specifically targeting support for the Pearl Sector. This program, formerly managed by the Cook Islands Pearl Authority, is now administered by the Ministry of Marine Resources.

The Government guaranteed up to $500,000 as security for loans associated with the Pearl Production Credit Scheme. The loan program has been discontinued, however there is an outstanding debt on the loan scheme of approximately $50,000. A solution to close this contingent liability is still ongoing.

### 2.4.1.5. Uncalled capital

Through the Cook Islands Property Corporation, the Government holds $1.9 million in uncalled shares with the Asian Development Bank (ADB), represented by 88 shares with a par value of USD 13,500 each.

In addition, the Government holds $0.6 million in uncalled shares with the Asian Infrastructure Investment Bank (AIIB) consisting of four shares with a par-value of USD 100,000 each.

**Table 2-4 Uncalled Capital Breakdown**

| Party | Shares | USD per share ($) | NZD Value ($) |
|---|---|---|---|
| Asian Development Bank | 88 | 13,500 | 1,913,660 |
| Asian Infrastructure Investment Bank | 4 | 100,000 | 644,330 |
| **Total** | | **1,588,000** | **2,557,990** |
| Foreign Exchange Rate (USD/NZD) | 1.61 | | |

The above total has been rounded up for conservatism in the total of Contingent Liabilities.

### 2.4.1.6. Legal proceedings and disputes

This contingency consists of various cases and is an estimate of the maximum potential liability (damages and costs) of the Crown known at the time of publication.

### 2.4.1.7. Vested Assets

The International Companies Act 1981-82 states that all monies realised from the International Company assets vesting in the Registrar must be lodged to the Public Account. There remains a claimable period of six years, post the International Company de-registration for owners of vested assets to place a claim on the funds owed to them. The total contingent liability for vested interests consists of tranches presented in Table 2-5.

**Table 2-5 Vested Asset Contingent Liability Expiry Schedule**

| Tranche | Expiry Date | Value ($'000) |
|---|---|---|
| 1 | 20/12/2024 | 7,059 |
| 2 | 31/10/2026 | 3,565 |
| 3 | 31/10/2026 | 5,691 |
| 4 | 01/09/2027 | 5,605 |
| 5 | 11/10/2028 | 2,458 |
| 6 | 30/10/2029 | 349 |
| **Total** | | **24,727** |

The above total has been rounded up for conservatism in the total of Contingent Liabilities.

#### 2.4.1.8. Financial liabilities relating to Island Governments

The Ministry of Finance and Economic Management (MFEM) has not approved any contract or security from the Island Governments that might lead to potential liabilities. There is no preferential treatment regarding public or other liabilities for the Island Governments, and the likelihood of them incurring such liabilities is minimal. No specific measures have been taken to minimise this risk beyond those applied to other Government agencies located in Rarotonga.

Unsettled invoices pose a risk that could be challenging to address without implementing stricter financial controls beyond those imposed stipulated in the Financial Policies and Procedures Manual, the MFEM Act 1995-96 and the Public Expenditure Review Committee and Audit (PERCA) Act 1995-96. While MFEM is introducing a Financial Management and Information System (FMIS), to enhance invoice payments processes and recording-keeping, the inherent manual aspects of the billing process means that this risk cannot be entirely eliminated.

#### 2.4.1.9. State-owned enterprises

The Cook Islands Government has several State-owned Enterprises (SOEs) under the management of the Cook Islands Investment Corporation (CIIC). They are:

- Airport Authority of the Cook Islands
- Bank of the Cook Islands
- Cook Islands Ports Authority
- Te Aponga Uira (electricity utility in Rarotonga)
- Te Mana Uira (electricity utility in Aitutaki)
- To Tatou Vai Limited (water and sanitation); and
- Avaroa Cable Limited (Manatua cable project).

The key risks associated with SOEs are poor financial performance, and/ or excessive borrowing that can result in government having to guarantee or potentially restructure the SOEs debt, often at substantial budgetary cost. Poor performance can result from a range of factors including:

- exogenous shocks (unexpected or unpredictable events outside the country's control that can severely impact the economy) – for example, earthquake or tsunami
- lack of incentive to be competitive compared to a private sector enterprise that would go bankrupt as result of protracted poor performance; and
- government requirements to undertake community obligations.

The Government has put in place a range of measures to mitigate against SOE fiscal risk, including:

- placing all SOEs under the CIIC umbrella, with one of its principal objectives being the efficient, profitable and professional management of SOEs

- ensuring that SOE debt falls under the broader government debt ceiling target and new debts undergo a Debt Sustainability Analysis prior to approval, as required by the Loan Repayment Fund (LRF) Act 2014; and
- providing for a portion of SOE debt repayments in the LRF.

## 2.4.2. Assessing the impact of fiscal and macroeconomic shocks

### 2.4.2.1. Introduction

The Cook Islands Government utilises an analytical tool – the Cook Islands Fiscal Tool – to first calibrate, and then operationalise the revised set of fiscal rules that form the core of the MTFS.

The operational part of the fiscal tool – the Fiscal & Macro Impact Model – models the interactions between fiscal policy decisions and economic output, and the fiscal impact of economic shocks, within the framework of the revised set of fiscal rules. This is accomplished by running fiscal and macroeconomic shocks through a simple version of the Cook Islands Government accounting framework using fiscal multipliers and tax impact models.

The model provides for three types of shocks:

- Fiscal – change in operating expenditure, capital expenditure and/ or revenue
- GDP – models the impact of a direct change in GDP
- Arrivals – models the impact of a change in the number of international visitors to the Cook Islands.

The Cook Islands Government also conducts sensitivity analysis on movements in the value of the New Zealand dollar against the Government's major trading currencies to assess the impact on gross debt and debt servicing requirements.

This section shows the potential impact of a selected range of fiscal and macroeconomic shocks on the 2023/24 HYEFU profile using the fiscal impact tool.

Fiscal shocks, or government fiscal policy decisions are evaluated in terms of their direct impact on fiscal indicators (referred to as first-order impacts) and, changes in GDP flowing through to tax revenues (known as second-order impacts). The first order impacts are one-for-one changes in the baseline operating expenditure, capital expenditure or tax revenue, as relevant. The second order impacts are estimated using fiscal multipliers and a simple tax impact model.

**Revenue shock**

Two revenue shocks are applied: low and high, increasing and decreasing the forecasts by a simultaneous amount. These shocks are applied to the base case outlined below.

The low-revenue case, where revenues fall by 10 to 20 per cent annually throughout the modelling period, is presented in Table 2-6. Although the fiscal balance does not quite breach the -1.9 per cent of GDP guideline in any of the years, it comes close in 2025/26.

**Table 2-6 Low revenue shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 0 | 0 | 0 |
| Change in capex ($m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue ($m) | | 0.0 | -22.0 | -27.6 | -33.1 |
| Fiscal balance (% of GDP) | Base | -2.8 | 2.3 | 2.6 | 3.6 |
| | Shock | -2.8 | -1.4 | -1.8 | -1.4 |

The high-revenue case, with revenues higher by 10 to 20 per cent annually over the modelling period, is presented in Table 2-7. The key result is a strong fiscal balance in each year.

**Table 2-7 High revenue shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 0 | 0 | 0 |
| Change in capex($m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue ($m) | | 0.0 | 22.0 | 27.6 | 33.1 |
| Fiscal balance (% of GDP) | Base | -2.8 | 2.3 | 2.6 | 3.6 |
| | Shock | -2.8 | 6.0 | 7.0 | 8.7 |

### Operating shock

A higher-than-expected operating expenditure shock is applied, assuming a 10 per cent increase above the estimates for the forward period. The effects of this additional expenditure are outlined in Table 2-8. The fiscal balance experiences a decline ranging from 2.3 and 3.1 percentage points in all affected years. However, there is a positive impact on GDP, approximately 2 per cent per year, after three years.

**Table 2-8 High Opex Shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 19 | 19 | 19 |
| Change in capex ($m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue ($m) | | 0.0 | 0.7 | 2.1 | 3.9 |
| Fiscal balance (% of GDP) | Base | -2.8 | 2.3 | 2.6 | 3.6 |
| | Shock | -2.8 | -0.8 | -0.1 | 1.3 |
| Impact on nominal GDP (%) | % | 0.0 | 0.7 | 1.5 | 2.0 |
| | $m | 0.0 | 4.2 | 9.5 | 13.0 |

### Capital shock

A lower-than-expected capital expenditure shock is applied, assuming a 20 per cent reduction in the estimates for the forward period.

The impact of the reduced expenditure over the modelling period is presented in Table 2-9. The negative impact on GDP of about $7.1 million per year by 2026/27 has a flow-on effect on revenue of $2.2 million. The net effect on the fiscal balance is slightly positive, with the capital expenditure reduction barely outweighing the fall in revenue, especially in the outer years.

**Table 2-9 Low Capex Shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 0 | 0 | 0 |
| Change in capex ($m) | | 0 | -3 | -4 | -4 |
| Change in tax revenue ($m) | | 0.0 | -0.5 | -1.3 | -2.2 |
| Fiscal balance (% of GDP) | Base | -2.8 | 2.3 | 2.6 | 3.6 |
| | Shock | -2.8 | 2.8 | 3.0 | 3.9 |
| Impact on nominal GDP (%) | % | 0.0 | -0.5 | -0.9 | -1.1 |
| | $m | 0.0 | -3.0 | -5.6 | -7.1 |

### GDP shock

A low GDP shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period, and is presented in Table 2-10. Tax revenue falls by $10.2 million in 2025/26, causing the fiscal balance to fall to 1.0 per cent of GDP. In 2026/27 this impact increases to $15.9 million, pushing the fiscal balance to 1.3 per cent of GDP from 3.6 per cent in the baseline. The GDP impact in 2025/26 and 2026/27 is around seven per cent in each year, or a reduction of between $40 million and $50 million.

**Table 2-10 Low GDP Shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 0 | 0 | 0 |
| Change in capex ($m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue ($m) | | 0.0 | -4.8 | -10.2 | -15.9 |
| Fiscal balance (% of GDP) | Base | -2.8 | 2.3 | 2.6 | 3.6 |
| | Shock | -2.8 | 1.5 | 1.0 | 1.3 |
| Impact on nominal GDP (%) | % | 0.0 | -4.7 | -6.6 | -7.5 |
| | $m | 0.0 | -28.2 | -41.1 | -48.8 |

### Arrivals shock

A low international visitor arrivals shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period, and is presented in Table 2-11. Tax revenue falls by $7 million per year by 2026/27, which reduces the fiscal balance by close to 1 percentage point per year. The impact on GDP grows along with the arrivals profile, and by the later years exceeds 3 per cent.

**Table 2-11 Low Arrivals Shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 0 | 0 | 0 |
| Change in capex ($m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue ($m) | | 0.0 | -2.0 | -4.4 | -7.0 |
| Fiscal balance (% of GDP) | Base | -2.8 | 2.3 | 2.6 | 3.6 |
| | Shock | -2.8 | 1.9 | 1.9 | 2.7 |
| Impact on nominal GDP (%) | % | 0.0 | -2.0 | -2.8 | -3.2 |
| | $m | 0.0 | -11.9 | -17.7 | -21.1 |

### Severe arrivals shock

In the context of the COVID-19 experience, a severe low international visitor arrivals shock is applied, assuming a 50 per cent decrease on the forecast for 2023/24, and a 25 per cent decrease in 2024/25. The impact of the reduction in arrivals is presented in Table 2-12. Tax revenue falls by over $25 million per year by 2025/26, which reduces the fiscal balance by almost 4 percentage points in that year.

The impact on GDP is over 17 per cent of GDP in each of the shocked years. The lack of change in operating expenditure does not reflect any specific decisions which may be taken by government if this situation were to occur, such as the Economic Response Plan that was enacted in response to the pandemic.

**Table 2-12 Severe Low Arrivals Shock**

| | | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Change in opex ($m) | | 0 | 0 | 0 | 0 |
| Change in capex ($m) | | 0 | 0 | 0 | 0 |
| Change in tax revenue ($m) | | -16.1 | -24.9 | -25.7 | -27.9 |
| Fiscal balance (% of GDP) | Base | -0.9 | 1.8 | 3.7 | 5.3 |
| | Shock | -4.4 | -2.7 | -0.2 | 1.3 |
| Impact on nominal GDP (%) | % | -19.0 | -17.8 | -7.4 | -1.9 |
| | $m | -114.5 | -111.0 | -49.0 | -13.0 |

### Exchange rate shock

Chapter 6 sets out the Cook Islands Government's current and future debt position. A key ongoing risk to the Crown's debt liability is movement in the value of the New Zealand Dollar (NZD) against the currencies in which the Crown's loans are denominated.

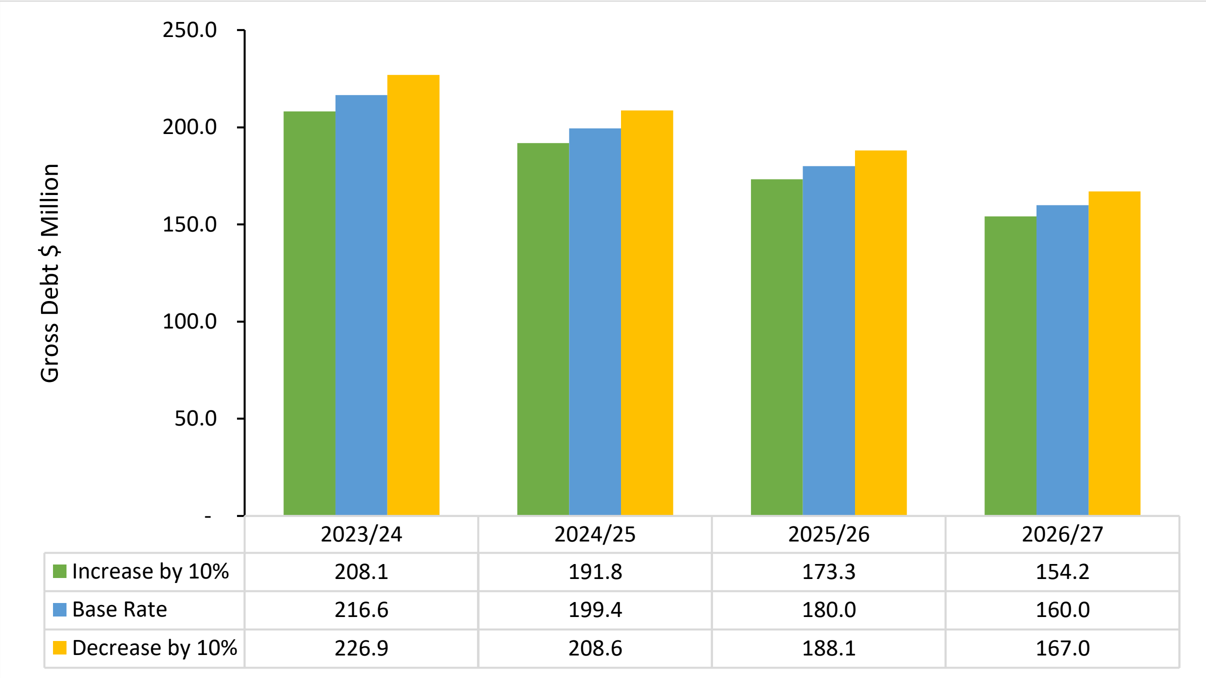
The sensitivity analysis considers the impact of a 10 per cent appreciation and depreciation of the NZD against key currencies to determine the impact on the gross borrowings and the debt servicing cost.

**Table 2-13 Exchange rates assumptions +/- 10 per cent**

| Foreign Exchange Currency | -10% | HYEFU Base rate | +10% |
|---|---|---|---|
| EUR | 0.5353 | 0.5948 | 0.6542 |
| USD | 0.5931 | 0.6590 | 0.7249 |
| RMB | 3.9388 | 4.3764 | 4.8141 |
| SDR | 0.4338 | 0.4821 | 0.5303 |

If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at June 2024 would increase by an estimated $10.3 million compared to a decrease of $8.5 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

**Figure 2-8 Sensitivity of gross debt to NZD movements**



# 3. Fiscal Update

This chapter explains the performance of Government's revenue and expenditure for the 2022/23 fiscal year, and it also outlines the revisions made to forecasted revenue and expenditure for medium-term.

It does not include the projected changes that are outlined in the Medium-term Fiscal Strategy (MTFS) and does not consider the use of debt to fund financing gaps. This chapter should be read in conjunction with Chapter 2 when considering the forecasts.

## 3.1. Fiscal Indicators and Projections

The Government's updated fiscal position and projections for the medium-term are shown in Table 3-1.

An operating deficit of \$3.9 million is recorded for the 2022/23 fiscal year which has been impacted by the significant reduction in taxation revenue. These reductions pertain to one-off impacts on tax revenue such as the write-off of bad debts for accounting purposes. As a result, total operating revenue for 2022/23 is \$166.6 million compared to \$182.0 million as reported in the 2023/24 Budget.

From 2023/24 onwards, taxation revenue is expected to increase year-on-year to \$191.6 million by 2026/27. This will offset the reduction in other revenue which is projected to gradually decrease to \$25.3 million by 2026/27.

Total operating expenditure for 2022/23 also increased from \$166.6 million, as estimated at the time of the 2023/24 Budget to \$170.5 million, which further contributed to the operating deficit of \$3.9 million at year-end. This is a result of higher than anticipated spend by government agencies on operating costs and administered payments like the 'Airline Route Development'.

Once actual capital expenditure of \$22.4 million and depreciation of \$14.1 million are considered, the fiscal balance for 2022/23 is a deficit of \$12.2 million.

For 2023/24, the operating balance and the fiscal balance is expected to be a deficit of \$1.7 million and a deficit of \$15.7 million, respectively, due to an increase in both operating and capital expenditure. The additional expenditure relates to work programmes or capital projects that have been approved either through executive order or as a carry-forward from the 2022/23 fiscal year for completion in the 2023/24 fiscal year.

A fiscal surplus is projected for 2024/25 onwards, as total operating revenue increases while the total operating expenditure and capital expenditure reduces.

For 2022/23, the general cash reserve recorded is \$70.7 million, a slight reduction from the estimated actual of \$71.3 million reported in the 2023/24 Budget but well-above the three-month threshold to cover operating expenditure. With increasing loan principal repayments up to 2030, a slow improvement in cash reserves is expected for the outer years.

The net debt (including commercial debt with state-owned enterprises (SOE)) for 2022/23 is \$226.0 million. For 2023/24 onwards, the net debt is expected to decrease yearly as GDP improves and the debt repayments increases resulting in a net debt balance of \$157.0 million by 2026/27.

## Table 3-1 Fiscal Indicators Summary

| | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Proj. | 2025/26 Proj. | 2026/27 Proj. |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| Taxation Revenue ($m) | 110.7 | 162.2 | 167.5 | 176.9 | 185.4 | 191.6 |
| Social Contributions ($m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Revenue ($m) | 55.9 | 36.9 | 37.3 | 29.3 | 25.0 | 25.3 |
| **Total Operating Revenue ($m)** | **166.6** | **199.1** | **204.8** | **206.2** | **210.3** | **217.0** |
| Total Operating Revenue Percentage of GDP | 32.4 | 36.8 | 36.3 | 34.6 | 33.7 | 33.2 |
| Tax Revenue Percentage of GDP | 21.6 | 30.0 | 29.7 | 29.7 | 29.7 | 29.3 |
| Total Cyclical Revenue ($m) | 10.8 | 16.8 | 17.4 | 18.0 | 12.8 | 12.8 |
| Total Cyclical Revenue Percentage of GDP | 2.1 | 3.1 | 3.1 | 3.0 | 2.1 | 2.0 |
| Total Structural Revenue ($m) | 155.8 | 182.3 | 187.4 | 188.2 | 197.5 | 204.1 |
| Total Structural Revenue Percentage of GDP | 30.3 | 33.7 | 33.2 | 31.6 | 31.7 | 31.3 |
| **Personnel ($m)** | 70.5 | 78.5 | 79.3 | 78.7 | 78.9 | 78.9 |
| Percentage of Total Revenue | 42.3 | 39.4 | 38.7 | 38.2 | 37.5 | 36.4 |
| Percentage of Structural Revenue | 45.3 | 43.1 | 42.3 | 41.8 | 39.9 | 38.7 |
| **Total Operating Expenditure ($m)** | **170.5** | **200.0** | **206.5** | **193.1** | **192.5** | **190.1** |
| Percentage of GDP | 33.2 | 36.9 | 36.6 | 32.4 | 30.8 | 29.1 |
| Percentage of Operating Revenue | 102.3 | 100.4 | 100.8 | 93.6 | 91.5 | 87.6 |
| Baseline Operating Expenditure (for Fiscal Rule) | 149.1 | 157.2 | 163.7 | 159.8 | 160.7 | 159.3 |
| Cash Operating Expenditure* | 156.1 | 184.7 | 191.1 | 177.9 | 177.5 | 175.2 |
| **Operating Balance ($m)** | **(3.9)** | **(0.9)** | **(1.7)** | **13.1** | **17.9** | **26.8** |
| Percentage of GDP | (0.8) | (0.2) | (0.3) | 2.2 | 2.9 | 4.1 |
| Capital Expenditure | 22.4 | 22.8 | 29.3 | 17.2 | 19.2 | 19.6 |
| Depreciation | 14.1 | 15.4 | 15.4 | 15.4 | 15.4 | 14.8 |
| Non-Operating Balance ($m) | (33.4) | (38.8) | (44.1) | (33.7) | (37.9) | (40.4) |
| **Fiscal Balance surplus/deficit ($m) *** | **(12.2)** | **(8.3)** | **(15.7)** | **11.3** | **14.1** | **22.0** |
| Percentage of GDP | (2.4) | (1.5) | (2.8) | 1.9 | 2.3 | 3.4 |
| **Statement of Financial Position ($m)** | | | | | | |
| Assets ($m) | 598.8 | 639.4 | 633.9 | 630.8 | 630.5 | 637.0 |
| Liabilities ($m) | 415.8 | 395.5 | 401.3 | 384.1 | 364.7 | 344.7 |
| Crown Balance ($m) | 183.0 | 243.9 | 232.6 | 246.6 | 265.7 | 292.3 |
| Percentage of GDP | 35.6 | 45.1 | 41.2 | 41.4 | 42.6 | 44.8 |
| Working Capital ($m) | 67.1 | 48.3 | 40.3 | 38.6 | 37.6 | 42.3 |
| Working Capital (months coverage) | 5.2 | 3.1 | 2.5 | 2.6 | 2.5 | 2.9 |
| Stabilisation Account | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| General Cash Reserves | 70.7 | 51.8 | 43.9 | 42.2 | 41.1 | 45.8 |
| **Statement of Borrowings ($m)** | | | | | | |
| Gross Debt end of FY ($m) | 231.0 | 210.7 | 216.6 | 199.4 | 180.0 | 160.0 |
| Excluding Contingency Loan | 112.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Debt, Percentage of GDP | 45.0 | 38.9 | 38.4 | 33.5 | 28.8 | 24.5 |
| Net Crown Debt, end of FY ($m) | 226.0 | 204.8 | 213.7 | 196.5 | 177.0 | 157.0 |
| Net Debt, Percentage of GDP | 44.0 | 37.8 | 37.9 | 33.0 | 28.4 | 24.0 |
| Loan Repayment Reserves Held ($m) | 5.0 | 5.9 | 2.8 | 2.9 | 3.0 | 3.0 |
| Net Debt Servicing ($m) | 18.5 | 22.1 | 24.4 | 25.4 | 27.0 | 28.3 |
| Percentage of Total Revenue | 11.1 | 11.1 | 11.9 | 12.3 | 12.8 | 13.0 |
| Percentage of Structural Revenue | 11.9 | 12.1 | 13.0 | 13.5 | 13.6 | 13.8 |
| **Development Partner Support ($m)** | | | | | | |
| Grants ($m) | 23.9 | 89.7 | 89.7 | 19.0 | 7.4 | 6.2 |
| Percentage of GDP | 4.7 | 16.6 | 15.9 | 3.2 | 1.2 | 0.9 |
| Memo item: Nominal GDP ($m) | **513.6** | **541.5** | **563.9** | **595.6** | **624.0** | **652.9** |

## 3.2. Fiscal Rules

This section reports the Government's performance for the 2022/23 fiscal year against the fiscal rule. It does not include proposed funding adjustments outlined in the MTFS, nor the filling of any financing gap, which are addressed in the rules presented in Chapter 2.

### 3.2.1. Cash Reserves rule

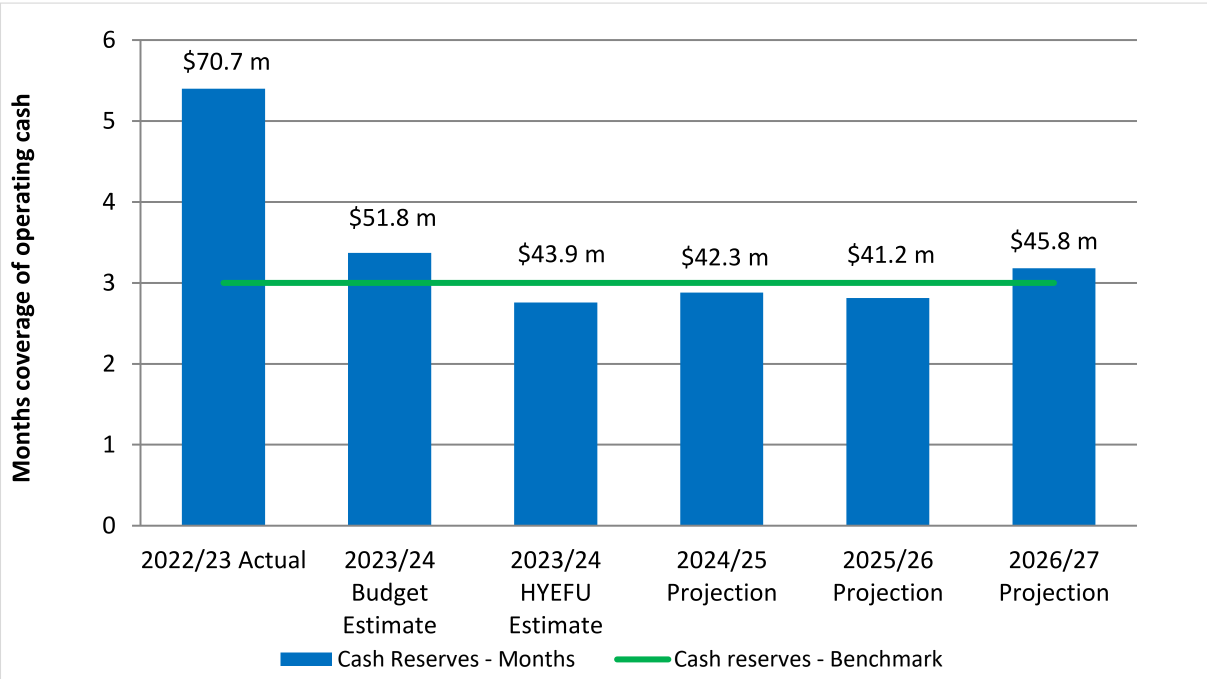
"The equivalent of 3 months of operating expenditure must be available as either cash or liquid investments".

The Government fiscal balance has an impact on the general cash reserves for Government at year-end. If the Government achieves a fiscal surplus, then the cash reserves are likely to improve and vice versa. Another contributing factor to the cash reserves would also be the debt principal repayments which are factored in after the fiscal balance. This can result in the cash reserves behaving differently compared to the fiscal balance. Adjustments to government revenue and expenditure may also have a substantial impact to cash reserves.

Even with the adjusted fiscal balance for 2022/23, the general cash reserves as at 30 June 2023, amounting to $70.7 million, equate to just over five-months' worth of cash available for covering government's operating expenditure. This is due to the general budget support of $15.0 million received from New Zealand in May 2023, which contributed to strengthening the cash reserves.

The cash reserve for 2023/24 is expected to be less than what was reported in the 2023/24 Budget. This adjustment is attributed to an increase in both operating expenditure and capital expenditure, leading to a decrease in the fiscal balance.

**Figure 3-1 Cash Reserves rule**



### 3.2.2. Operating Expenditure rule

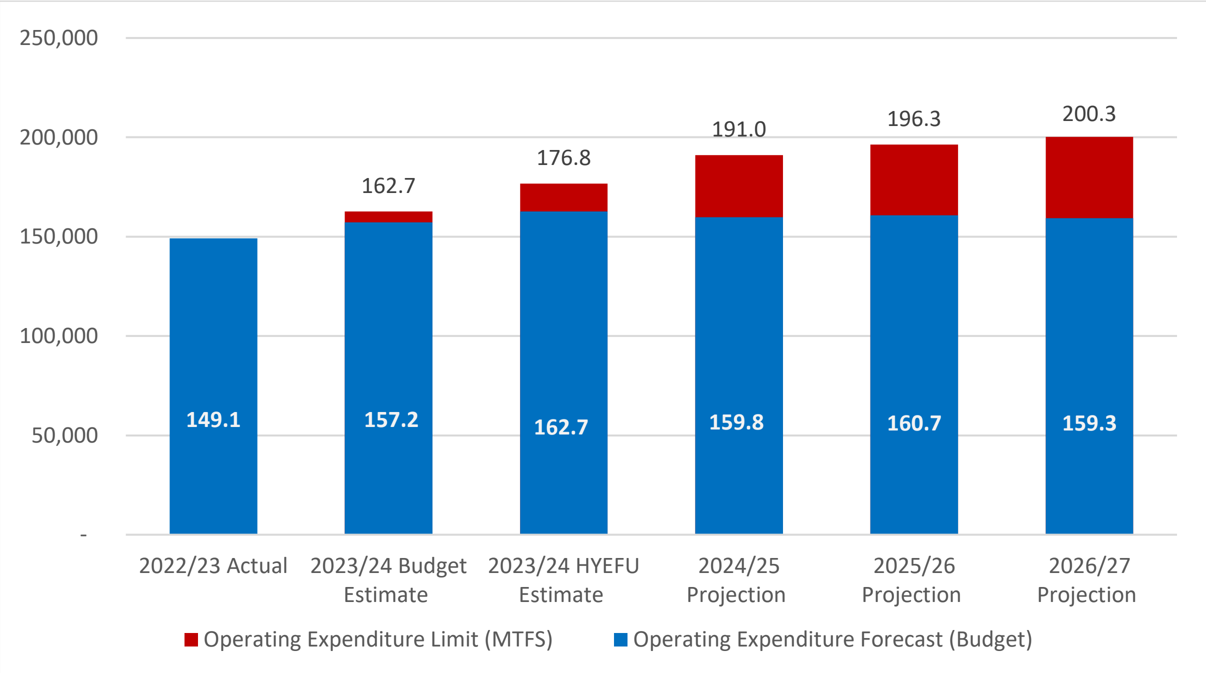
"Baseline budgeted operating expenditure cannot grow more than 2% or the average of the past two years growth in the Consumer Price Index (CPI) year-on-year." The rule operates within the overall MTFS and is in effect only binding where new fiscal space is available. This rule limits expansion of operating expenditure by limiting year-on-year growth, while still permitting adjustments to address inflationary pressure if required.

The baseline operating expenditure for 2022/23 increased to $149.1 million, surpassing the estimated actual reported in the 2023/24 Budget, which was $135.8 million. Despite this increase, the baseline operating expenditure was well-within the threshold set for 2022/23, of $153.6 million.

For 2023/24, the baseline operating expenditure has been adjusted upwards by $5.5 million, reaching $162.7 million. Additionally, the operating expenditure limit for 2023/24 was raised to $176.8 million from $162.7 million. As a result, the projected based operating expenditure for 2023/24 is expected to adhere to the operating expenditure rule.

The outlook across the forward years also indicates that the government's current expenditure plans fall within the boundaries of this rule, reflecting the government's commitment to fiscal restraint.

**Figure 3-2 Operating Expenditure Rule**




### 3.2.3. Net Debt and Investment rule

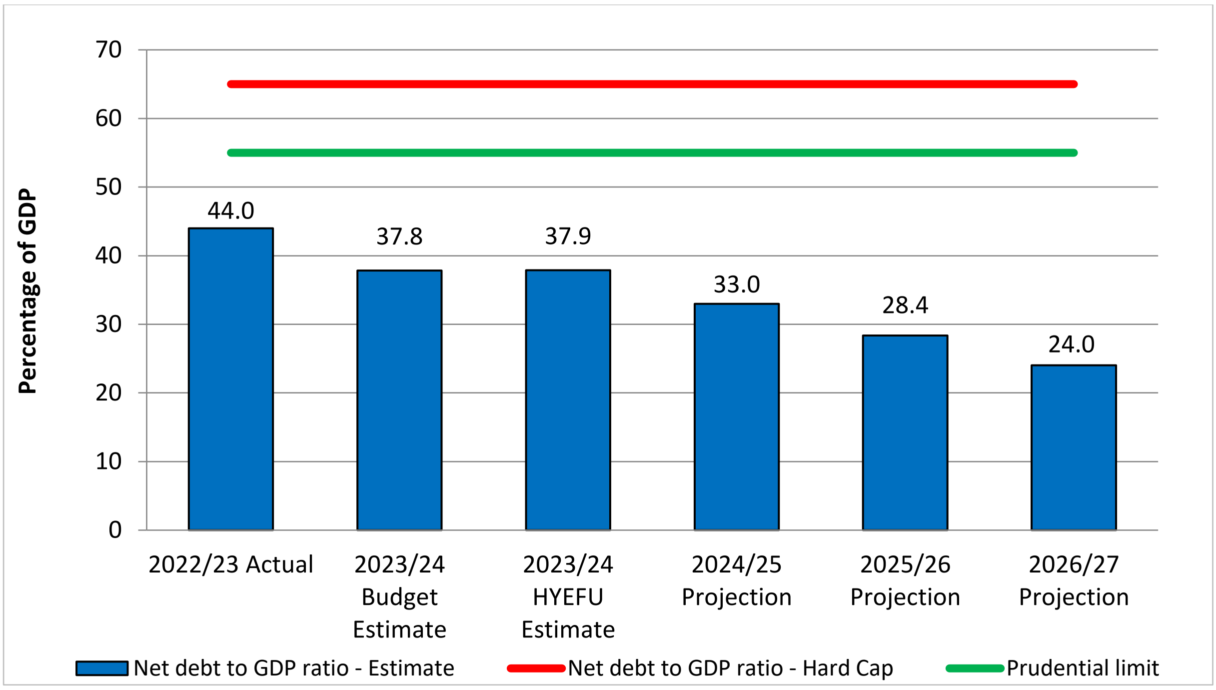
*"Net debt should not exceed a soft cap of 55% of GDP and cannot exceed a hard cap of 65 per cent of GDP", and "Any additional borrowing above 55% of GDP must go towards capital investment and/or targeted GDP stimulus purposes only."*

The net debt to GDP for 2022/23 stands at 44.0 per cent, with a total net borrowing of $226.0 million[6]. This ratio is anticipated to stay with the Net Debt rule limits, and is projected to

[6] This value differs to the value reflects in the Crown Debt and Net Worth chapter as commercial debt for state owned enterprises are excluded in the fiscal analysis here.

decrease further as GDP recovers and repayments on debt incurred during the COVID-19 pandemic continue.

**Figure 3-3 Net debt to GDP ratio**




## 3.1. Updates to Previously Reported Budget Data

### 3.1.1. Finalisation of 2022/23 Actuals

This section explains the Government's performance for the year ended 30 June 2023 based on actual figures to date, compared to the 2022/23 estimated actuals that were presented in the 2023/24 Budget Estimates.

Total operating revenue for 2022/23 was significantly less than what was anticipated at the time of the 2023/24 Budget by $15.4 million. This was largely due to one-off impacts on tax revenue such as the write-off of bad tax debt which resulted in a downward revision of taxation revenue by $19.8 million. These tax revenue adjustments directly impacted VAT with a significant reduction of $14.8 million and Income tax being reduced by $9.4 million. The downward revision to taxation revenue offsets the increase (of $1.5 million) in import levy fees collected due to higher number of imports into the country and the increase (of $4.5 million) in company tax as more companies than projected, experienced better returns for the fiscal year.

Furthermore, the increase in other revenue by $4.0 million helped offset the significant reduction in taxation revenue. Revisions to other revenue primarily consist of an increase in fishing revenue by $2.7 million, gains on foreign exchange by $1.3 million, the interest received on balances by $0.8 million and a reduction in general budget support by $2.3 million.

The total operating expenditure for 2022/23 increased by $3.9 million, primarily due to an increase in expenditure spend by government agencies of $3.1 million, mainly for operating expenses and administered payments.

As a result, an operating deficit of $3.9 million is recorded for the 2022/23 fiscal year, in contrast to an operating surplus of $15.4 million that was presented in the 2023/24 Budget.

The capital expenditure at year-end was $22.4 million, a slight increase of $0.1 million compared to the estimated actual expenditure reported in the 2023/24 Budget. Supply and capacity constraints continue to be the contributing factors to a lower-than-budget spend on capital expenditure therefore resulting in a fiscal deficit of $12.2 million at year-end.

#### 3.1.1.1. Executive Orders approved in the 2022/23 Budget

Article 70(3)(b) of the Cook Islands Constitution Act 1964 allows for the approval of expenditure beyond the Appropriation Bill, provided that the total amount of all sums issued and paid do not exceed 1½ per cent) of the overall expenditure appropriation for the fiscal year. Expenditure outside the scope of the Appropriation Bill requires approval through Executive Order.

Executive orders may be approved between the publication of the Budget Estimates and the end of the fiscal period and are included in the finalised actual expenditure data.

As of 30 June 2023, a total of **$4.2 million** was approved through Executive Order. These approved Executive orders consist of:

- **$25,000** top-up in personnel cost for the Office of the Prime Minister to support Cabinet services.
- **$375,369** for the 'Legal Provisions' administered fund to cover legal costs.
- **$100,000** for the 'CISNOC Grant' administered fund to support the Cook Islands Rugby League team to compete in the Rugby League World Cup 2022.
- **$107,080** to cover settlement costs.
- **$570,000** for the 'Provision for Inter-Island shipping' administered fund to cover additional voyages to the Pa Enua.
- **$119,995** top-up to the 'HOMs Salaries' administered fund to cover associated costs for recruitment, performance bonuses and leave entitlements.
- **$40,000** for the 'State Events' administered fund to assist with costs to formally host other state events within the fiscal year.
- **$650,000** for the 'Patient referrals' administered fund to cover a shortfall in referral costs for the remainder of the fiscal year.
- **$1.5 million** for legal costs.
- **$10,000** to cover the shortfall in personnel costs for the Business Trade and Investment Board.
- **$207,000** for the 'MP's Travel and Allowances' POBOC fund to cover increased ministerial travel obligations to attend international and regional engagements.
- **$150,101** for the 'Legal Provisions' administered fund to cover legal costs.
- **$16,800** top-up to the 'KR's Travel and Allowances' POBOC fund for the King's representative to attend the coronation of King Charles III Queen Camilla in May 2023.
- **$44,384** to cover a shortfall in the Parliamentary Services' operating budget.
- **$10,000** to support the Cyclone Judy Disaster Appeal.
- **$6,083** for the 'KR's Travel and Allowances' POBOC fund to cover costs for the King's representative to attend the 200-year celebration of Christianity arriving to the village of Vaipae, Aitutaki in March 2023.
- **$75,000** for the 'Welfare Payments-Allowances' administered fund to cover a shortfall in the cost for the funeral allowance and the caregivers allowance.
- **$5,805** for the 'Domestic Hosting' administered fund to host the Governor General of New Zealand and the Governor of Australia in June 2023.
- **$200,000** for the 'Patient Referrals' administered fund to cover the remaining outstanding costs incurred from the referral of patients during the fiscal year.

## 3.2. Movements since the 2023/24 Budget

The 2023/24 Budget classifies revenue and expenditure adjustments according to the following categories:

- policy decisions leading to new initiatives undertaken by government,
- technical adjustments,
- reclassification of expenses, which includes intra-agency adjustments, for example, a transfer from operating to personnel,
- parameter changes, movements that occur due to economic changes that are outside of a decision by government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs for the Airline Route Development.

The adjustments to the revenue and expenditures forecasts published in the 2023/24 Budget Estimates are presented in Table 3-2.

**Table 3-2 Reconciliation of Operating Statement ($'000)**

| Statement of Government Operations | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Operating balance as at 2023/24 Budget** | **15,443** | **(881)** | **9,552** | **13,159** | **21,835** |
| **Revenue** | | | | | |
| ***Revenue Parameter Changes*** | **(19,372)** | **5,280** | **5,661** | **6,618** | **6,695** |
| *Adjustments to:* | | | | | |
| Value Added Tax (VAT) | (14,799) | 974 | 1,909 | 2,089 | 1,981 |
| Income tax | (9,382) | 3,662 | 3,324 | 2,379 | 1,324 |
| Import levies | 1,488 | (599) | 208 | 60 | 12 |
| Company tax | 4,549 | 2,787 | 2,020 | 3,481 | 4,788 |
| Departure tax | (765) | (1,477) | (1,734) | (1,327) | (1,344) |
| Withholding tax | (463) | (66) | (66) | (66) | (66) |
| ***Other Revenue Changes*** | 3,970 | 398 | (183) | (182) | (181) |
| Other revenue | 5,914 | 398 | (183) | (182) | (181) |
| Trading Revenue | 934 | 0 | 0 | 0 | 0 |
| Dividend | (600) | 0 | 0 | 0 | 0 |
| Core Sector support | (2,278) | 0 | 0 | 0 | 0 |
| **Total Revenue Changes to 2023/24 HYEFU** | **(15,401)** | **5,678** | **5,478** | **6,435** | **6,514** |
| **Expenditure** | | | | | |
| *Expenditure Decisions by Government* | 0 | 0 | 0 | 0 | 0 |
| *Technical adjustments* | 0 | 0 | 0 | 0 | 0 |
| *Reclassifications of expenditure* | 0 | 0 | 0 | 0 | 0 |
| *Parameter changes* | 3,895 | 6,512 | 1,928 | 1,702 | 1,522 |
| **Total Expenditure Changes to 2023/24 HYEFU** | **3,895** | **6,512** | **1,928** | **1,702** | **1,522** |
| **OPERATING BALANCE as at 2023/24 HYEFU** | **(3,853)** | **(1,701)** | **13,102** | **17,892** | **26,827** |
| Capital Expenditure | 22,415 | 29,313 | 17,215 | 19,159 | 19,588 |
| Depreciation | 14,066 | 15,360 | 15,410 | 15,410 | 14,809 |
| **FISCAL BALANCE - as at 2023/24 HYEFU** | **(12,202)** | **(15,654)** | **11,297** | **14,144** | **22,048** |

### 3.2.1. Revenue

The estimated revenue to be earned for 2023/24 has increased due to a stronger than anticipated collection in taxation revenue, particularly in income tax and company tax, which has offset the downward revision to departure tax. Other revenue has also increased by $0.4 million due to additional fishing revenue earned from the longline licenses and quota management system.

Revenue for the outer years has also been revised upwards, with expected increases in value-added tax, income tax and company tax. These increases show a positive economic outlook for the Cook Islands, reflecting an increase in tourist arrivals and recovery in GDP.

### 3.2.2. Expenditure

#### 3.2.2.1. Carry forwards from the 2022/23 Budget

A total of **$9.9 million** has been approved for carry-forward from the 2022/23 Budget to complete ongoing work programmes in the 2023/24 fiscal year. Of this total, $3.3 million relates to operating expenditure and $6.6 million for capital expenditure.

The approved capital investment budget consists of the following capital projects:

**Capital - $6.6 million**

- **$4,165,259** for the following projects under the Cook Islands Investment Corporation:
    - **$100,000** for the Pa Enua Government Building Projects – Southern Group to complete a few outstanding building projects in the Southern Group islands that were delayed due to shipping delays and ensuring that procurement processes are adhered to.
    - **$90,000** for the Pa Enua Government Building Projects – Northern Group to complete two outstanding works on the island of Pukapuka and Rakahanga.
    - **$650,000** for the Government Building Projects – Rarotonga to complete renovation works, building improvements and remedial work on government buildings and facilities on Rarotonga.
    - **$95,000** for the Land Acquisition to cover the final legal fees, valuation costs and other associated costs to secure the land tenure for the Rarotonga Airport.
    - **$2,450,259** for To Tatou Vai to undertake network upgrades, acquiring an enterprise resource planning software and meter installation.
    - **$780,000** for the Airport Authority – Rarotonga Airport Slab Replacement to support phase 2 of the slab replacement work at Rarotonga.
- **$1,672,041** for the Revenue Management system upgrade under the Ministry of Finance and Economic Management.
- **$715,155** for the following projects under the Infrastructure Cook Islands to cover contractual costs to complete existing projects within the programme:
    - **$699,067** for the Road Asset Management and Improvement Programme.
    - **$46,088** for the Water and Sanitation Infrastructure Improvement Programme.

The carry-forward approved for operating will be used to cover the following expenses:

**Personnel - $635,169**

- **$30,000** to assist the Audit Office to cover recruitment and relocation costs.
- **$99,043** to also support the Audit Office with job-sizing, retention and market premium payments.
- **$15,000** for the Ministry of Corrective Services to cover associated costs for recruitment. Note, these funds will be transferred to the Ministry's operating to cover these costs.
- **$50,000** for the Crown Law office to further support existing personnel costs.

- **$300,000** for the Ministry of Finance and Economic Management to cover the following costs:
  - **$250,000** to assist with the recruitment of additional staff to oversee the financial reporting of government agencies under the Treasury Management Division.
  - **$35,000** for a full-time Human Resources Assistant to help support the centralisation of a human resources management (HRM) unit for the Ministry.
  - **$15,000** to support various consulting services such as a technical advisor to assist in the centralisation of human resources for the Ministry.
- **$110,781** for the Ministry of Education to account for the new immigration charges for visa applications and work permits.
- **$30,345** for the Ministry of Transport to assist with the dangerous goods audit of major fuel facilities on Rarotonga. Note, these funds will be transferred to the Ministry's operating budget to cover these costs.

**Operating - $457,244**

- **$16,500** for the Audit office to conduct audit checks of the Islands Governments in the Southern group of the Cook Islands.
- **$31,900** for the Financial Services Development Authority to cover the following costs:
  - **$16,900** to organise and host the Financial Services Industry Forum
  - **$15,000** to draft the Segregated Cell Company legislation
- **$71,000** for the Ministry of Foreign Affairs and Immigration to assist with costs relating to the Pacific Islands Forum Leaders meeting that was held in the Cook Islands in November 2023.
- **$28,460** for the Minister Albert Nicholas' support office to cover operational costs.
- **$1,400** for the Ministry of Corrective Services to pay for remaining works to complete staff uniforms.
- **$10,000** for the Crown Law office to cover staff relocation costs.
- **$260,500** for the Ministry of Finance and Economic Management to cover the following:
  - **$46,000** to cover travel costs for work officials to support the Minister of Finance to attend the Pacific Islands Forum Economic Ministers meeting in Suva, in August 2023.
  - **$15,000** to renovate the Financial Secretary's office to create space for a centralised HRM unit for the Ministry.
  - **$170,000** to support associated cost with acquiring a modular office building to accommodate staff for Revenue Management Division and the Economic Planning Division.
  - **$29,500** for the Economic Planning Division to assist in planned recruitments, associated travel costs for regional activities and workplace safety.
- **$37,484** for the Ministry of Education to complete the Education strategy.

**Administered Payments - $2.0 million**

- **$38,063** for the 'HOMs salaries' fund for performance bonuses (Office of the Public Service Commissioner).
- **$7,500** for the 'Cook Islands Student Association Support' fund to support the Ta'okota'ianga event to be held in Wellington, New Zealand in October 2023 (Ministry of Foreign Affairs and Immigration).
- **$38,204** for the 'Legal Provisions' fund to pay for the associated court costs for an ongoing court case (Crown Law office).
- **$1.8 million** for the Ministry of Finance and Economic Management to cover the following:
  - **$103,543** for the 'Provision for Inter Island Shipping' fund to cover additional voyages and other necessary costs including shipping services that will support domestic shipping**.**
  - **$88,900** for the 'IGOR-International Exchange of Information system upgrade' fund to complete the procurement process for acquiring the system upgrade**.**

    - **$138,000** for the 'Universal Access Funds' to improve the connectivity in the Pa Enua.
    - **$972,815** for the 'Economic Recovery Roadmap' to support a number of workstreams with ongoing projects, policy work, consultation costs and administration costs for the Business Continuity Credit Facility.
    - **$446,660** for the 'Airline Route Development' to guard against any unfavourable fuel price or foreign exchange movements.
    - **$35,000** for the 'Public Sector Strengthening' fund to support fit-out costs for the Crown Law office to create a suitable work environment that considers the nature of work conducted by the office and ensures that work files are protected appropriately. The carry forward amount will also support costs associated for the Pa Enua Governance Forum and the Public Sector Leader's conference.
    - **$20,000** for the 'Price Tribunal Committee' to engage with specialised consultants to inform the work done by the Price Tribunal.
- **$109,131** for the 'Judge's Allowance' fund to address the court schedule backlog (Ministry of Justice).

**Payment on behalf of Crown (POBOC) - $166,246**

- **$166,246** for the 'Competition and Regulatory Authority (CRA)' to cover operating costs, radio spectrum, network monitoring and reserves for litigation proceedings.

### 3.2.2.2. Executive Orders since the 2023/24 Budget

As of 1 December 2023, **$3.3 million** has been approved through Executive order for the 2023/24 Budget to support the following:

- **$500,000** for the 'National Events Fund' administered payment to support the participation of athletes to represent the Cook Islands in the 2023 Pacific Games, from 19 November to 2 December 2023 in the Solomon Islands.
- **$177,862** increase in the 'Maritime Radio Coverage' POBOC fund for the settlement of arrears owed for the provision of maritime radio services for the fiscal period of 2021 and 2023.
- **$303,600** top-up to the 'MP Travel and Allowances (local and overseas)' POBOC fund to cover MP regional and international travel obligations to December 2023.
- **$1.0 million** increase to the 'Patient Referrals' administered payment to manage and cover the increased costs for patient referrals.
- **$1.3 million** top-up to the 'Provision for Inter Island Shipping' administered fund to undertake a shipping charter to Pukapuka-Nassau in December 2023.

## 3.2.3. Fiscal Forecast

This section highlights the changes to the fiscal forecast for the medium-term, since the publication of the 2023/24 Budget. The forecasted revenue and expenditure have been developed within the context of an ongoing recovery from the impacts of the COVID-19 pandemic. For information on the 2022/23 results, please refer to section 3.1.1 – Finalisation of 2022/23 Actuals.

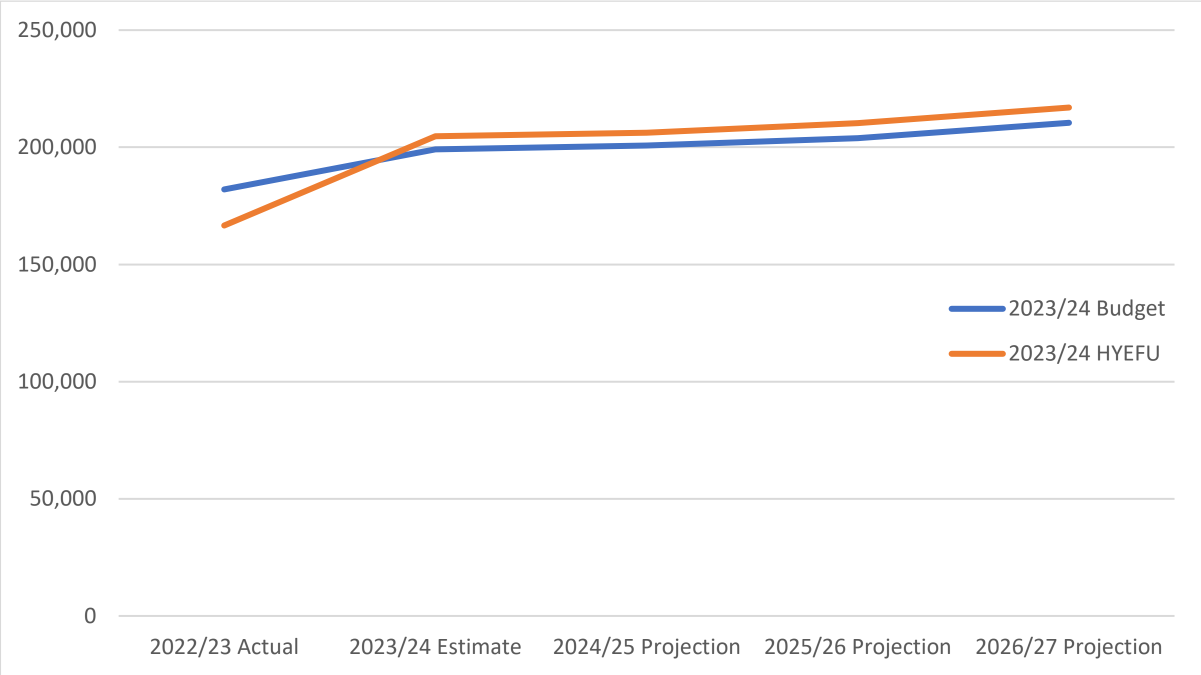
### 3.2.3.1. Operating revenue forecast

The Government's total operating revenue for 2023/24 is expected to improve by $5.7 million. This is largely due to an increase in taxation revenue to be earned through income tax and company tax, reflecting a positive sign of recovery within the economy. Similarly, the total operating revenue estimated for the outer years has also increased as a result of improved taxation revenue. The revised forecasts are compared in Table 3-3 and Figure 3-4.

**Table 3-3 Updated Government Operating Revenue Forecasts ($'000)**

| Revenue Projections | 2022/23 Actual | 2023/24 Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| 2023/24 Budget | 182,014 | 199,096 | 200,723 | 203,914 | 210,446 |
| 2023/24 HYEFU | 166,612 | 204,774 | 206,201 | 210,350 | 216,960 |
| **Difference** | **(15,401)** | **5,678** | **5,478** | **6,435** | **6,514** |

**Figure 3-4 Government Revenue Forecast Comparison ($'000)**



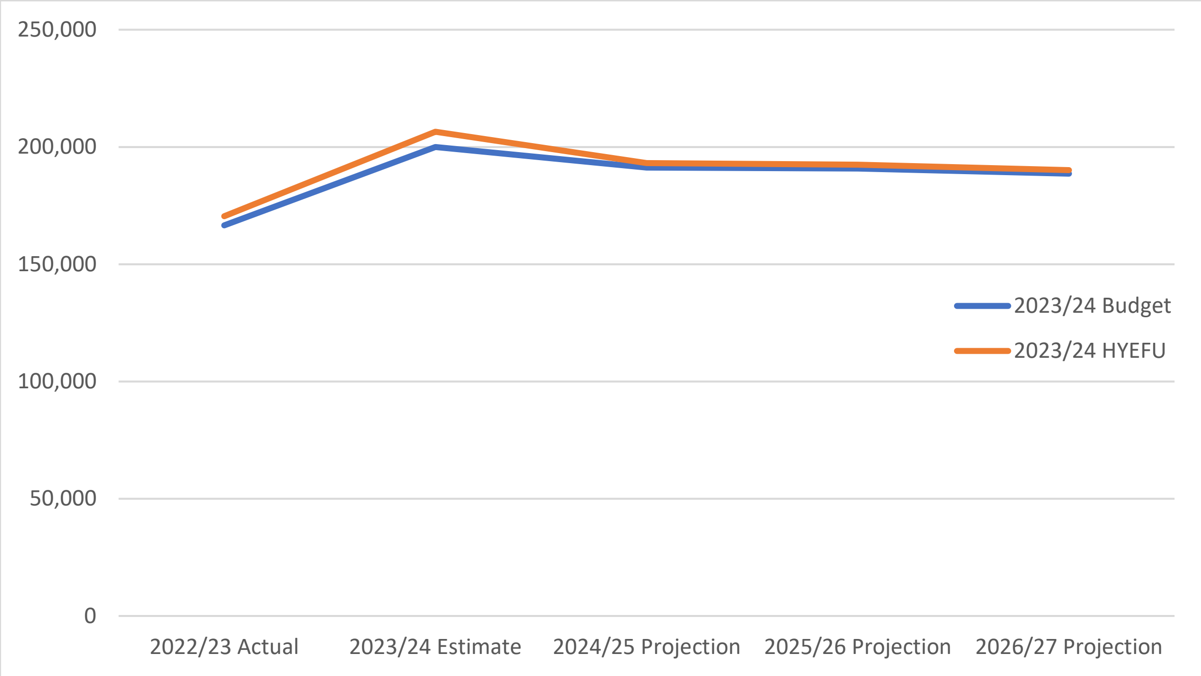

### 3.2.3.2. Operating expenditure forecast

The total operating expenditure for 2023/24 has experienced a further increase of $6.5 million compared to the 2023/24 Budget. This is a result of expenditure that has been carried forward from the 2022/23 fiscal year to complete certain work programmes and Executive orders that have been approved to cover additional expenditure for the 2023/24 fiscal year. For the subsequent years, the total operating expenditure are forecast to increase due to increased payment to the debt interest contribution to the loan repayment fund.

**Table 3-4 Updated Government Operating Expenditure Forecasts ($'000)**

| Expenditure Projections | 2022/23 Actual | 2023/24 Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| 2023/24 Budget | 166,570 | 199,977 | 191,171 | 190,755 | 188,610 |
| 2023/24 HYEFU | 170,465 | 206,489 | 193,099 | 192,457 | 190,132 |
| **Difference** | **3,895** | **6,512** | **1,928** | **1,702** | **1,522** |

**Figure 3-5 Government's Operating Expenditure Forecast Comparison ($'000)**




#### 3.2.3.3. Fiscal balance forecasts

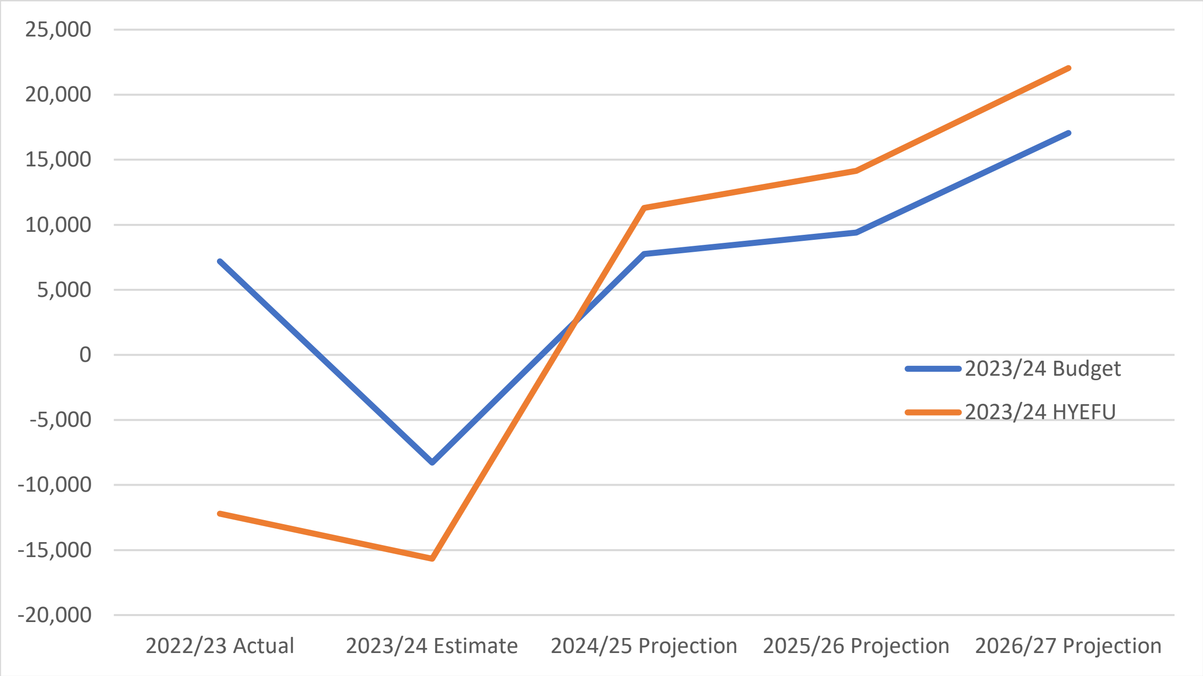
The fiscal balance for 2023/24 is expected to increased further to a fiscal deficit of $15.7 million due to an increase in total operating expenditure and capital expenditure, which has offset the increase in total operating revenue.

With increased operating revenue projected in the outer years, outweighing the slight increase in total operating expenditure, a fiscal surplus is projected from 2024/25 onwards.

**Table 3-5 Fiscal Balance ($'000)**

| Fiscal Balance | 2022/23 Actual | 2023/24 Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| 2023/24 Budget | 7,197 | (8,282) | 7,748 | 9,410 | 17,056 |
| 2023/24 HYEFU | (12,202) | (15,668) | 11,298 | 14,144 | 22,048 |
| **Difference** | **(19,399)** | **(7,386)** | **3,550** | **4,734** | **4,992** |

**Figure 3-6 Government's Fiscal Balance ($'000)**



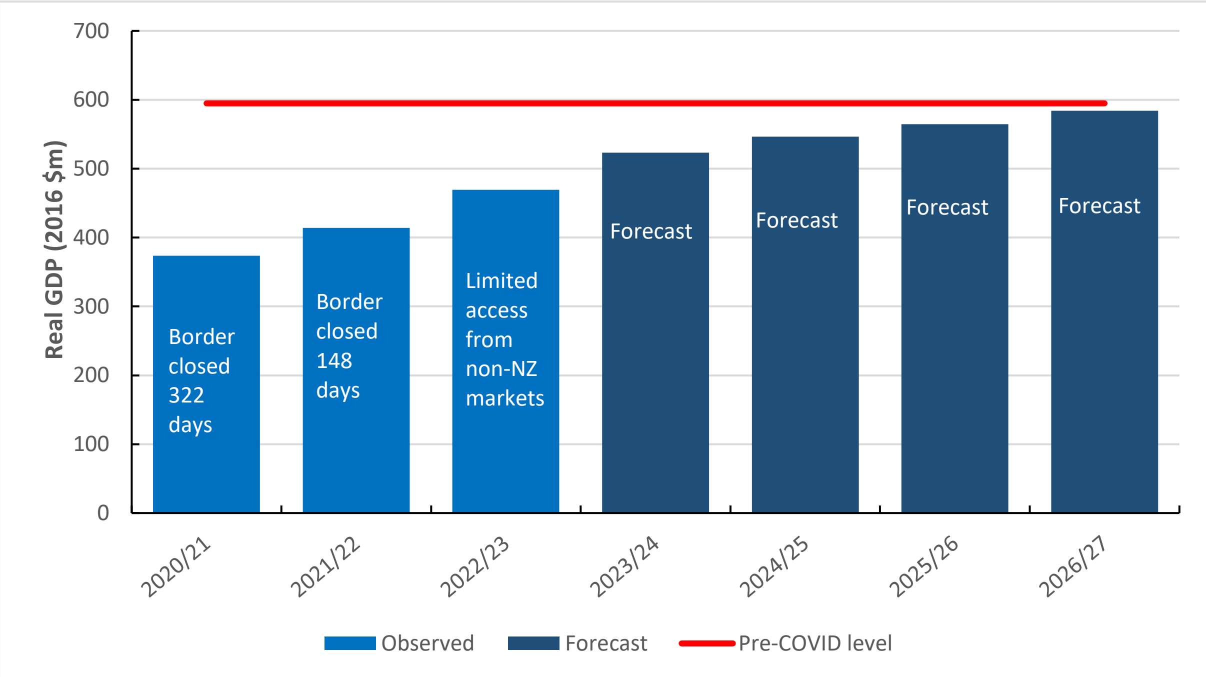
# 4. Economic Update

## 4.1. Overview

The Cook Islands experienced strong economic recovery during the 2022/23 fiscal year. It was the first full-year without COVID-19 pandemic travel restrictions, and the noteworthy increase in tourists' arrivals provided a much-needed boost. In early 2022, businesses transitioned away from the Government support packages, as the economy shifted back to pre-2020 conditions.

Approximately 65 per cent of direct economic activity and around 85 per cent of direct, indirect and induced economic activity in the Cook Islands are attributed to tourism. The resurgence in tourism resulted in an estimated 13.3 per cent growth in real (inflation-adjusted) GDP for 2022/23. Signs that the recovery will continue are strong, offering significant encouragement for both people and businesses. The recovery of tourism has not only directly contributed to the growth of sectors like accommodation, travel agents, and tour operators but has also spurred strong growth in industries such as finance and insurance, professional services, and arts and recreation.

**Figure 4-1 Cook Islands Real GDP**




The economy exhibited strong growth before the onset of COVID-19, experiencing double-digit expansion in both the 2017/18 and 2018/19 fiscal years. This was driven by a surge in visitor arrivals, with numbers exceeding 150,000 in 2016/17. However, the pandemic abruptly halted this growth trajectory, erasing nearly a decade of progress in just over a year, despite considerable government stimulus efforts. The pandemic's adverse effect on GDP was substantial, surpassing 41 per cent in real terms from the peak to the trough.

A notable challenge faced in 2022/23 was an unprecedented surge in inflation. Inflationary pressures resulted in a 13.0 per cent increase in consumer prices throughout the fiscal year[7], imposing higher costs on both businesses and households.

[7] Year average terms

With inflationary pressures for 2022/23 being driven by global factors related to fuel and transport pricing, it has been challenging, if not impossible, to avoid. This inflationary trend reached its peaked in the year leading up to September 2022, exceeding 15 per cent before declining slowly, with an average of 13.0 per cent for the 2022/23 fiscal year. The 'stickiness' of this inflation posed a challenge in various parts of the world, with both New Zealand and Australia experiencing stubbornly high inflation. Fortunately, the worst phase has passed, and it is anticipated that inflation will reduce back to around 3.1 per cent in 2023/24. While this is considerably lower than the previous year, it still surpasses recent historical price growth in the Cook Islands. Looking ahead, a gradual return to more typical inflation levels is expected over the coming years.

A summary of key indicators is provided in Table 4-1 for the budget year and forward years of the 2023/24 Budget.

**Table 4-1 Summary of Economic Indicators**

| Economic Indicator | 2021/2022 Act. | 2022/2023 Est. | 2023/2024 Proj. | 2024/2025 Proj. | 2025/2026 Proj. | 2026/2027 Proj. |
|---|---|---|---|---|---|---|
| **Economic Activity** | | | | | | |
| Nominal GDP ($'000) | 396,927 | 513,595 | 563,890 | 595,640 | 624,019 | 652,935 |
| Percentage change (YOY) | 13.6 | 29.4 | 9.8 | 5.6 | 4.8 | 4.6 |
| Real GDP[8] (2016 prices, $'000) | 414,112 | 469,190 | 523,110 | 546,292 | 564,451 | 584,220 |
| Percentage change (YOY) | 10.9 | 13.3 | 11.5 | 4.4 | 3.3 | 3.5 |
| **Inflation (CPI)** | | | | | | |
| Percentage change (YA) | 4.2 | 13.0 | 3.1 | 2.4 | 1.5 | 1.6 |
| **Construction/Capital Investment** | | | | | | |
| Construction value-add ($'000) | 11,153 | 13,370 | 14,840 | 15,696 | 16,497 | 17,280 |
| **Productive Sector Indicators** | | | | | | |
| Visitor Arrivals | 59,657 | 127,340 | 152,949 | 169,079 | 170,165 | 170,643 |
| Percentage change (YOY) | 691.2 | 113.5 | 20.1 | 10.5 | 0.6 | 0.3 |
| Estimated Visitor Expenditures ($'000) | 109,168 | 247,787 | 311,977 | 348,674 | 356,702 | 365,242 |
| Agriculture & fisheries value-added ($'000) | 13,641 | 14,073 | 14,722 | 14,999 | 15,802 | 16,395 |
| **External Sector** | | | | | | |
| Merchandise Trade Balance ($'000) | -126,675 | -193,718 | -204,175 | -226,601 | -232,828 | -241,597 |
| Services Trade Balance ($'000) | 73,911 | 203,153 | 264,406 | 297,032 | 303,876 | 310,799 |
| Exchange Rate (USD/NZD Average) | 0.6350 | 0.6410 | 0.6160 | 0.6325 | 0.6530 | 0.6590 |

## 4.2. Outlook for 2023/24

The forecast for 2023/24 indicates a sustained recovery trend, with 11.5 per cent real growth in GDP. However, real growth is expected to slow down in the subsequent years, with expected rates of 4.4 per cent in 2024/25 and 3.3 per cent in 2025/56.

Looking ahead to the rest of 2023/24, the Government is adopting a fiscally neutral approach, aligning expenditure with income. This marks the departure from the expansionary measures implemented during the pandemic, where government stimulus was necessary to sustain the economy. Over the forward years, the fiscal stance will shift towards a more contractionary position, aiming to rebuild reserves and repay debt.

The inflation experienced in the 2022/23 fiscal year has had a two-fold effect on the economy. Firstly, in order to maintain consistent level of profits, sales had to reach exceptionally high levels. Secondly, higher prices have forced businesses, households and the government to scale back their activities to

[8] Due to some technical issues regarding the 2020/21 GDP deflators, the Real GDP published here differs from that published on the MFEM website

accommodate increased costs.  Achieving a real growth of 13.3 per cent in GDP for 2022/23 required a 29.4 per cent increase in nominal output. For more discussion on the impact of inflation in the Cook Islands' economy, please see section 4.5.2 below.

In addition, the Cook Islands economy faces capacity constraints, especially concerning labour. While the situation has somewhat improved from the initial tight conditions following the reopening of borders in 2022, it still affects infrastructure projects, tourism capacity and other various aspects of the economy.

## 4.3. Changes since the 2023/24 Budget

There are two main differences between the 2023/24 Budget and the current HYEFU forecast: the presence of more persistent inflation exerting pressure on the Cook Islands economy, and the strength of the tourism recovery.

The tourism recovery has seen increased per-visitor yields from the initial post-opening 'bump', which is the basis for a slight upgrade in the forecast profile. This is despite lower arrivals numbers, as the overall expenditure is anticipated to persist at higher levels.

Despite a slowdown in inflation since its peak in September 2022, price increases remain higher than expected. These increases will continue to dampen economic activity, taking the edge off the strong revival seen so far in the tourism sector.

**Table 4-2 Real GDP growth (percentage change, year on year)**

| Forecast | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|---|---|
| 2023-24 Budget | -26.7% | 13.4% | 18.8% | 7.0% | 4.0% | 3.6% | 3.7% |
| 2023-24 HYEFU[9] | -25.5% | 10.9% | 13.3% | 11.5% | 4.4% | 3.3% | 3.5% |

## 4.4. The Global Economy

The Cook Islands, being a small and open economy, heavily depends on exporting goods and services to a select few key partner nations, notably New Zealand, Australia, and the United States of America. This reliance was particularly evident during the COVID-19 pandemic, which disrupted both the movement of people and trade, and influenced the current inflationary pressure. Inflation is now at or near multi-decade highs in many parts of the world. As such, it is necessary to examine the economic conditions and outlook of our key partners, as well as the broader regional and global economy.

### 4.4.1. New Zealand

The Reserve Bank of New Zealand (RBNZ) rapidly raised the official cash rate (OCR) from 0.25 per cent in September 2021, throughout 2022 and early 2023, reaching 5.5 per cent in May 2023. Since then, it has remained at this level, largely in an attempt to address inflation. The RBNZ has stated that inflation remains too high and these higher rates are needed to restrict spending in the economy and to put downward pressure on consumer inflation. The reason for holding rates at this level longer than expected is, that while demand pressures have eased, this is less than anticipated in the first half of 2023 – with population growth cited as a key contributor to sustained demand.

Tightening monetary policy has been the major step to combat inflation in New Zealand. Inflation reached its peak at 7.2 per cent through the year to September 2022 and remained consistent through to December 2022. Since then, it has reduced, but more slowly than expected with consumer prices

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[9] Note that revisions to historical real GDP data have resulted in past years' growth rates being updated

rising 5.6 per cent through the year to September 2023. There is some evidence that interest-rate-sensitive areas of the economy are responding (such as declines in spending on durables), however the less-rate-sensitive areas are working against this, with increased demand. This increased demand is attributed to factors like rising inward migration and upward revisions to government investment, contributing to inflationary pressures.

Export revenues for New Zealand have declined recently, with lower global commodity prices impacting the value of New Zealand exports. Lower global growth prospects are expected to keep this from rebounding strongly in the immediate term. While substantial net immigration has eased pressures on the labour supply, it is simultaneously contributing to increase demand. Specifically, in the short term, this is expected to impact rents, pushing them higher.

The advantage of demand remaining stronger than expected is, that it is pushing the GDP outlook beyond earlier projections. This is attributed to the robust performance in manufacturing, business services and public administration, albeit partially offset by a decrease in primary industries and wholesale and retail trade. Household consumption plays a key role in driving this trend, fuelled by both population growth and strong public expenditure.

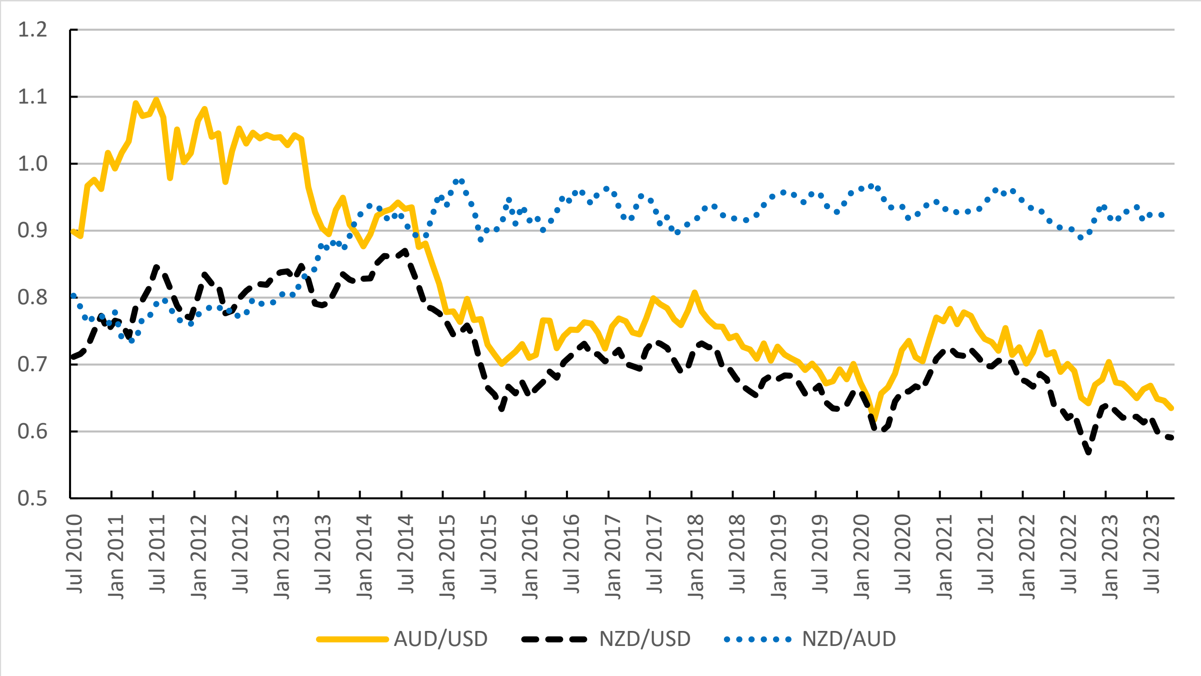
The unemployment rate in New Zealand, which reached its lowest point between September 2021 and September 2022 at 3.2 per cent, has increased to 3.9 per cent by September 2023. Although still historically low, this marks a rise from the record lows experienced earlier. This trajectory is expected to continue as economic growth slows down slightly, with projections from the RBNZ indicating a peak just above 5 per cent in mid-2025, aligning with the transition towards a more sustainable level.

The inflationary pressures have led the RBNZ to maintain interest rates for a longer duration than initially anticipated in 2023. The current projection indicates that the OCR is expected to remain around its present levels until mid-2025, before a gradual decline as inflation returns to within the target band.

The RBNZ expects low economic growth in the coming year. This outlook is shaped by the positive influences of population growth and a modest recovery in the housing market, but these are offset by the ongoing impact of tight monetary policy and slow global demand for exports.

The Monetary Policy Statement projects a real GDP growth of 0.8 per cent in the year leading up to June 2024, falling from 1.8 per cent growth in the previous year. The years to June 2025 and June 2026 are expected to show some recovery from this slowdown in GDP growth of 2.3 per cent and 3.3 per cent, respectively. The CPI is expected to continue to fall, albeit a slower pace, and is projected to fall within the 1 to 3 per cent range by late 2024.

**Figure 4-2 US Dollar exchange rate, New Zealand and Australia**




## 4.4.2. Asia-Pacific Region

The Asian Development Bank's *Asian Development Outlook September 2023* report highlights domestic demand as the key driver of growth in developing Asia. The report points to increased consumption in China following the ease of lockdowns and strong public investment in India. However, this positive trend is somewhat tempered by slower global demand, resulting in slower export growth particularly in the electronics sector.

Inflationary pressures have generally eased, prompting central banks in the region to maintain relatively stable interest rates throughout most of the year. The increase in rates in the United States, coupled with a reduction in supply-side pressures worldwide, has contributed to an overall moderation in the pace of price increases – but there remains considerable variance from economy to economy.

In general, the ADB has made slight downward revisions to its economic growth forecasts for developing Asia, adjusting the projection to 4.7 per cent in 2023 (down from 4.8 per cent). The forecast for 2024 remains unchanged at 4.8 per cent. The most significant adjustments contributing to this revision are observed in East Asia, which saw a decrease from the initial growth forecast of 4.6 per cent to 4.4 per cent. These changes are primarily driven by revised growth expectations for China and Korea, specifically.

Inflation forecasts in the region have been revised downward to 3.6 per cent in 2023 (from 4.2 per cent), and a marginal upward adjustment to 3.5 per cent in 2024 (from 3.3 per cent). These adjustments are driven primarily by revised forecasts for China. Across the region, price pressure remains high making it susceptible to external risk factors.

The ADB considers risks to the economic outlook to be higher than usual, emphasising that these risks have intensified. At a regional level, some of these risks include the debt-laden property market in China, potential impacts on food security due to factors like El Nino affecting food prices, repercussions of the conflict in Ukraine, and restrictions on food exports in certain countries. Geopolitical tensions also pose risks to the economic outlook on several fronts.

### 4.4.3. Pacific

The ADB has made slight upward adjustments to its economic growth forecasts for the Pacific region, now forecasting 3.5 per cent in 2023 (up from 3.3 per cent) and 2.9 per cent in 2024 (up from 2.8 per cent). This revision is largely due to stronger recoveries in the tourism sector and a significant push in public construction activities in some nations. These positive revisions are partially offset by downward revisions in Papua New Guinea, driven by reduced output in the mining and LNG sectors. The region faces potential downside risks related to capacity constraints, particularly in the labour market, impacting both infrastructure projects and tourism capacity, along with ongoing vulnerabilities to natural disasters.

This outlook is coupled with broadly similar inflation forecasts for the Pacific, with 4.9 per cent in 2023 (down from 5.0 per cent) and 4.5 per cent in 2024 (up from 4.4 per cent).

### 4.4.4. Australia

In November 2023, the Reserve Bank of Australia (RBA) announced a cash rate increase to 4.35 per cent in response to persistent inflationary pressures in the Australian economy. This inflation is particularly pronounced in the services sector, driven by a range of domestic factors such as rising labour costs and strong demand. These persistent high prices have kept consumption constrained as the burden of cost-of-living pressures persists, causing the overall economy to operate below trend – though less below trend than previously expected. The RBA expects a more gradual decline in inflation than previously expected, as these pressures continue to keep price growth above the targeted band of 2 to 3 per cent. The tight labour market in Australia has eased slightly, with employment growth falling back in line with the working-age population growth and alleviating some of the upward pressure on wages.

In the *Statement on Monetary Policy November 2023* issue, the RBA revised its growth expectations up from previous forecasts, noting the stronger resilience in the Australian economy. The revised forecasts for 2023/24 indicate an expected GDP growth of 1 ¾ per cent[10], and for 2024/25, the projection is 2 per cent. Similarly, the forecasts for unemployment anticipate even slower increases, moving towards what seems to be a lower assumption of the ‘full employment’ rate. Inflation on the other hand, has shown slower-than-expected dissipation, with forecasts indicating 4 per cent by June 2024, and 3 ¼ by June 2025, showing higher price growth compared to earlier estimates.

### 4.4.5. Global

The IMF’s *World Economic Outlook, October 2023* edition, presents a cautious view of the global economy, noting that it has slowed, but has not stalled – with the bottom of the growth curve likely to have been towards the end of 2022. The three major challenges to the world economy – the pandemic, the conflict in Ukraine and the cost of living crisis – are showing signs of easing. The indications point towards a ‘soft landing’, characterised by a gradual containment of inflation without the looming threat of a global recession.

There has been divergence in the outcomes, with stronger slowdowns seen in advanced economies compared to emerging market economies. Even within these groups, outcomes have diverged – with the United States performing more strongly than expected, while Europe has faced more adverse outcomes.

The inflation outlook (and the activity outlook) has been strongly shaped by the level of exposure to the commodity price shock of 2022, which has extended into 2023. Economies with higher

[10] The RBA publishes forecasts to the quarter percentage point

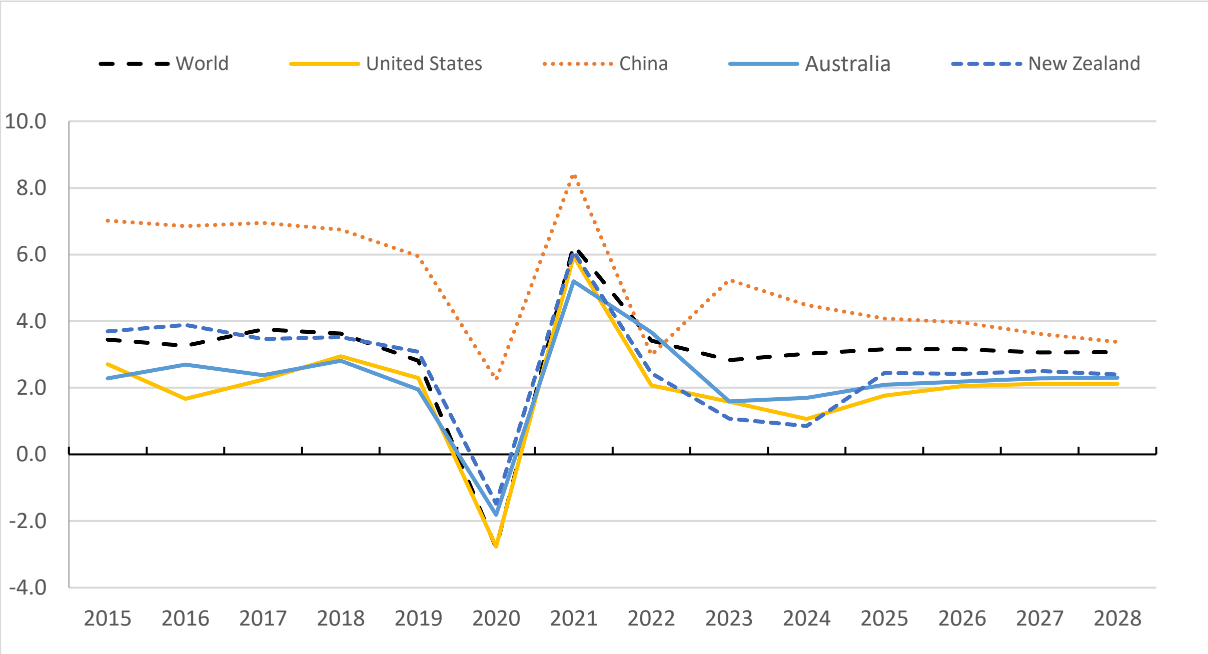
dependence on Russian oil and gas have faced more substantial impacts compared to those with less dependence. This pattern holds true for both oil and transportation in general, with greater dependence resulting in more significant effects. On a positive note, the IMF sees "scant evidence of a wage-price spiral", indicating an expected easing in the inflationary environment.

The IMF estimates that global output growth will slow a little from 3.5 per cent in 2022 to settle around the three per cent mark, with 3.0 per cent in 2023 and 2.9 per cent in 2024. This trend is attributed to slowdowns in advanced economies, while emerging market economies are expected to sustain robust growth. Despite some moderation in extreme risks, such as banking risks, overall risks are still skewed to the downside. Specific concerns include potential challenges in the real estate market in China, and ongoing volatility in commodity prices particularly in light of OPEC+ reducing oil production, leading to increased oil prices and a persistent inflationary environment. While the inflation outlook has improved, there remains a risk of entrenchment if expectations remain high.

The IMF cautions against prematurely easing monetary policy until a more stable resolution is reached in the inflation situation, emphasising the need to avoid jeopardising the progress achieved over the past 18 months. Additionally, the report highlights concerns about an increasing disconnection between monetary and fiscal policy, contributing to challenges in effectively managing inflation.

Beyond 2023, the IMF expects GDP growth to stabilise at around three per cent in the medium-term (see Figure 4-3).

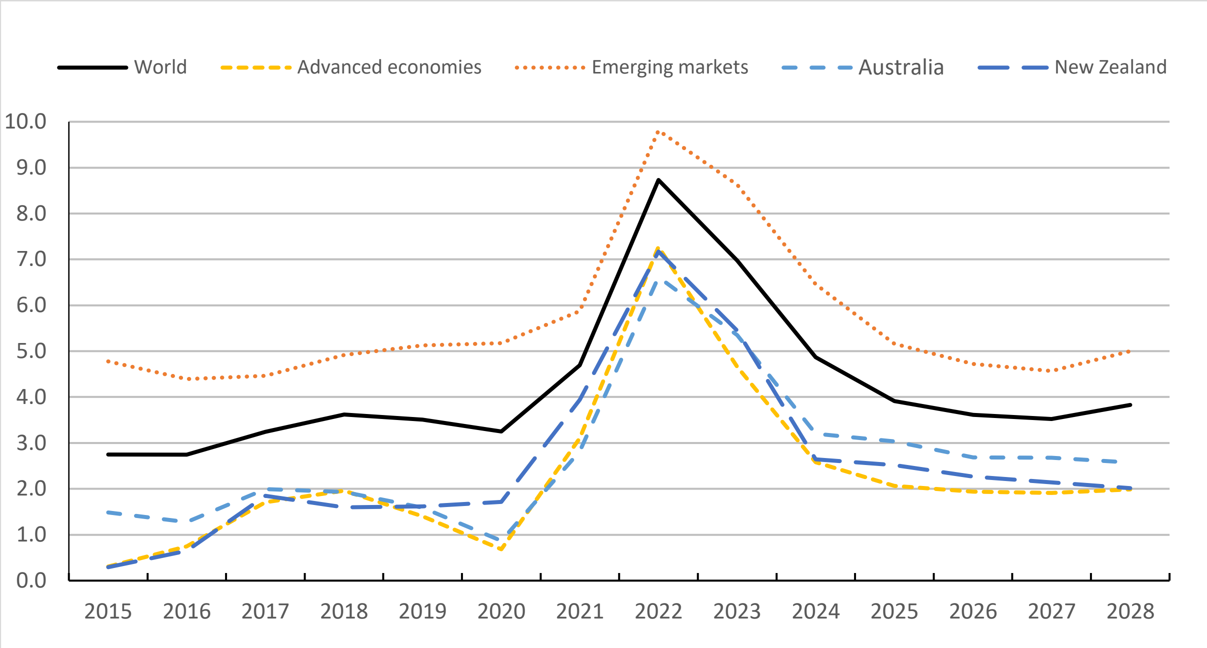
**Figure 4-3 IMF GDP growth estimates, selected countries**




The IMF notes the importance of implementing structural reforms to enhance medium-to-long-term growth prospects, with concerns that medium-term growth prospects are weak for emerging and developing economies in particular. Key areas identified for potential reform include those related to governance, business regulation and the external sector.

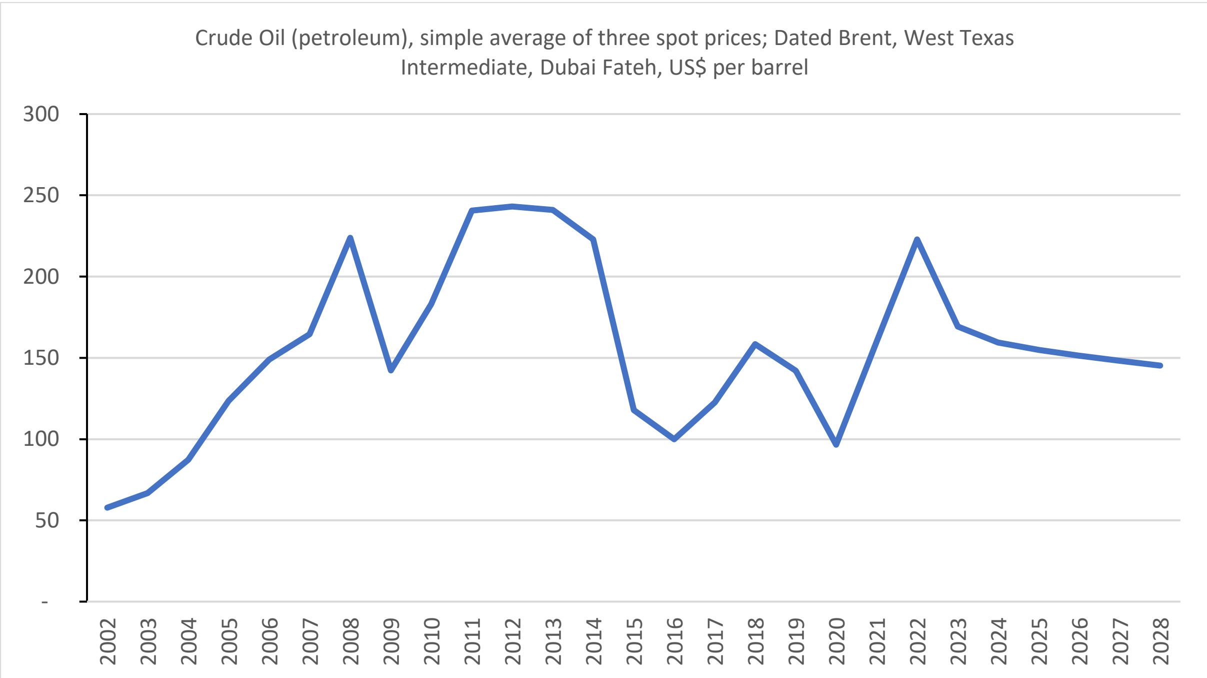
The IMF projects that global inflation increases to 8.7 per cent in 2022, up from 4.7 per cent in 2021. The forecasts indicate a reduction to 6.9 per cent in 2023, followed by further declines to 5.8 per cent for 2024 and 4.6 per cent in 2025. In advanced economies, the forecast for 2023 is 4.6 per cent growth, decrease to 3.0 per cent in 2024 and stabilising around 2.0 per cent from 2025. In emerging markets, the rate is expected to decline more slowly from the 2022 peak, ultimately settling around 5 per cent in the forward years (see Figure 4-4).

**Figure 4-4 IMF inflation estimates, selected groupings and countries**




According to the IMF's oil price projections, the spike in fuel prices during 2022 and 2023 are expected to reduce over time. For example, the IMF forecasts average oil prices to be US$77.30[11] in 2023 and US$76.87 in 2024. The expectation is for a slight decrease in oil prices, followed by a substantial stabilisation as the effects of the conflict in Ukraine dissipate (see Figure 4-5).

**Figure 4-5 IMF oil price estimates, 2002 to 2028, index, 2016 = 100**




[11] West Texas Intermediate

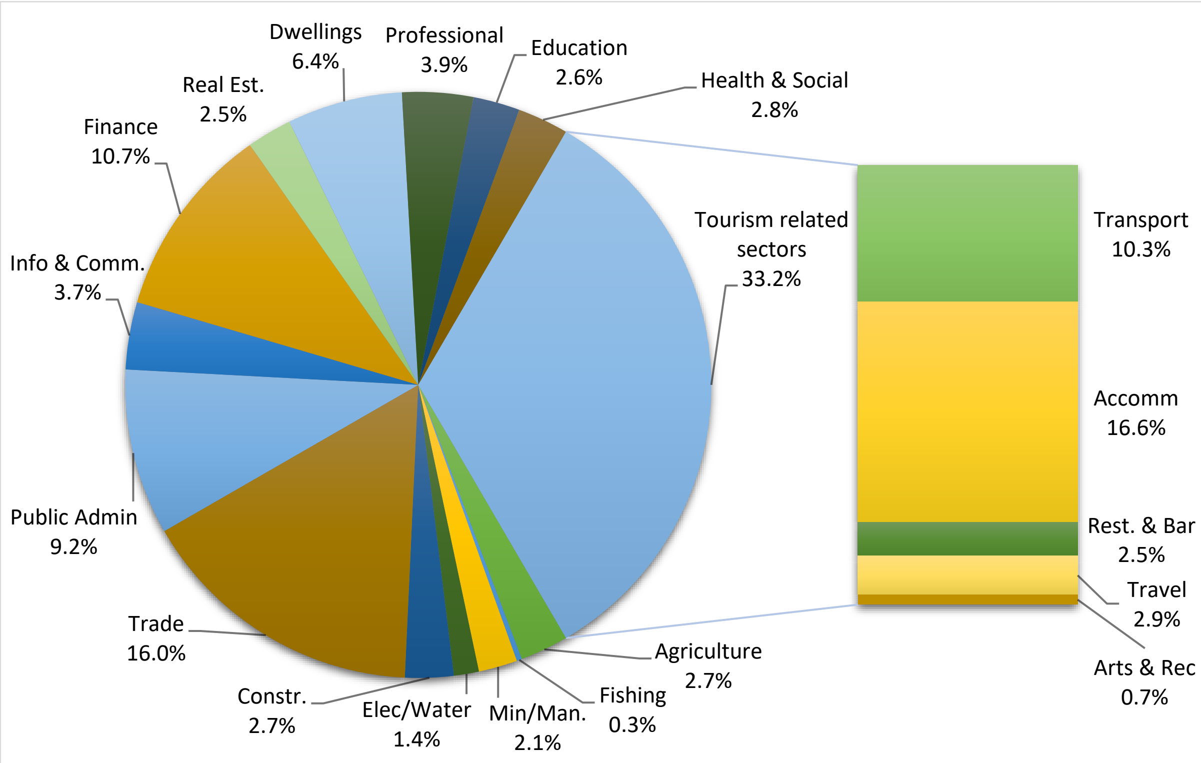
## 4.5. Cook Islands Economy

### 4.5.1. Structure and Performance

The Services sector[12] plays a significant role in the Cook Islands' economy contributing substantially to economic activity. For the year ending June 2023, services accounted for 90.8 per cent of nominal GDP. This sector includes key industries such as Trade (constituting 16.0 per cent of the economy), Accommodation (making up 16.6 per cent), and Public Administration (contributing 9.2 per cent).

Figure 4-6 shows the composition of the Cook Islands economy by industry, highlighting the evident dominance of the services sector. Additionally, it depicts the relatively smaller yet strategically important roles played by sectors like Agriculture (2.7 per cent) and Construction (2.7 per cent) in the overall economy. Tourism-related sectors contribute 33.2 per cent to GDP, a level comparable to the pre-pandemic figure of 34.0 per cent in 2019.

**Figure 4-6 Cook Islands economy by industry, 2022/23**

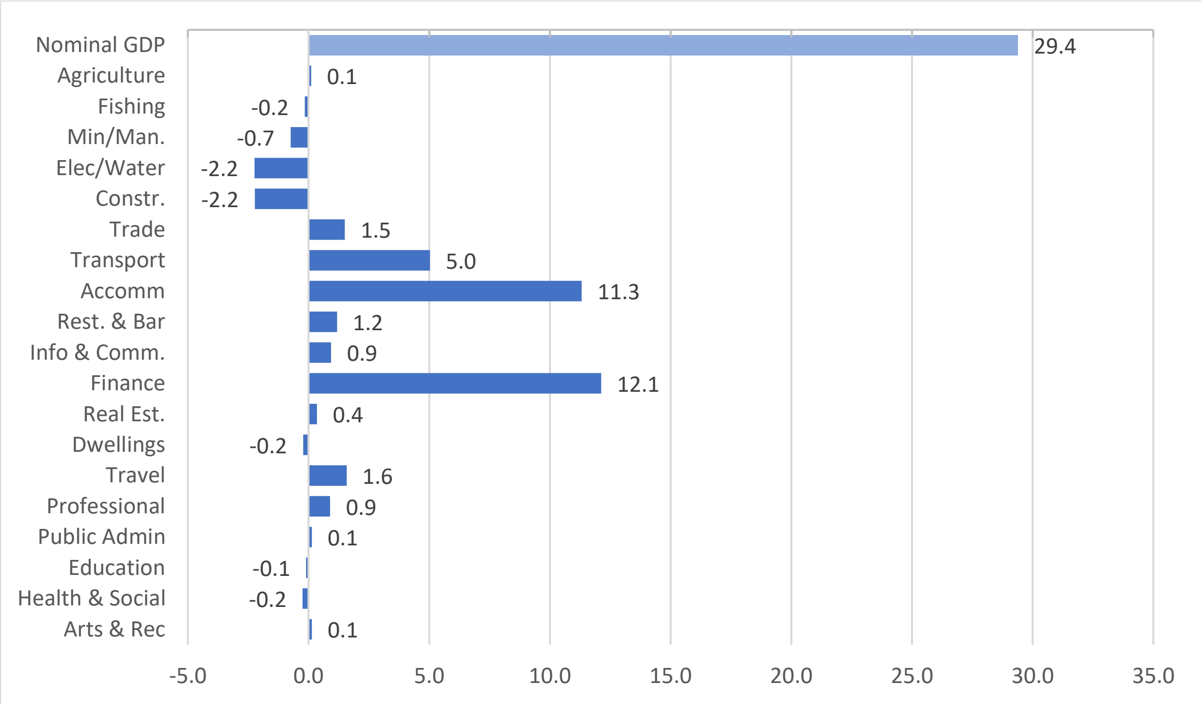



For the 2022/23 fiscal year, the primary drivers behind the GDP recovery were the Finance sector, contributing 12.1 percentage points, and the Accommodation sector, contributing 11.3 percentage points. Other sizable contributions to growth were driven by rising prices in the Transport sector (5.0 percentage points) and Travel sector (1.6 percentage points). Additionally, underlying activities in Trade (1.5 percentage points) and Restaurants & Bars (1.2 percentage points) experienced growth. However, this overall growth was partially offset by declines in the Electricity & Water and

[12] The 'services sector' comprises Trade, Transportation, Accommodation Services, Restaurants and Bars, Information and Communication, Finance and Insurance, Real Estate, Ownership of dwellings, Travel Agents & Tour Operators, Professional & Administrative Services, Public Administration, Education, Health and Social Work, and Arts, Recreation & Other Services.

Construction sectors (both at 2.2 percentage points) and the Mining & Manufacturing sector (0.7 percentage points).

**Figure 4-7 Contribution to nominal growth over 2022/23 (percentage point)**



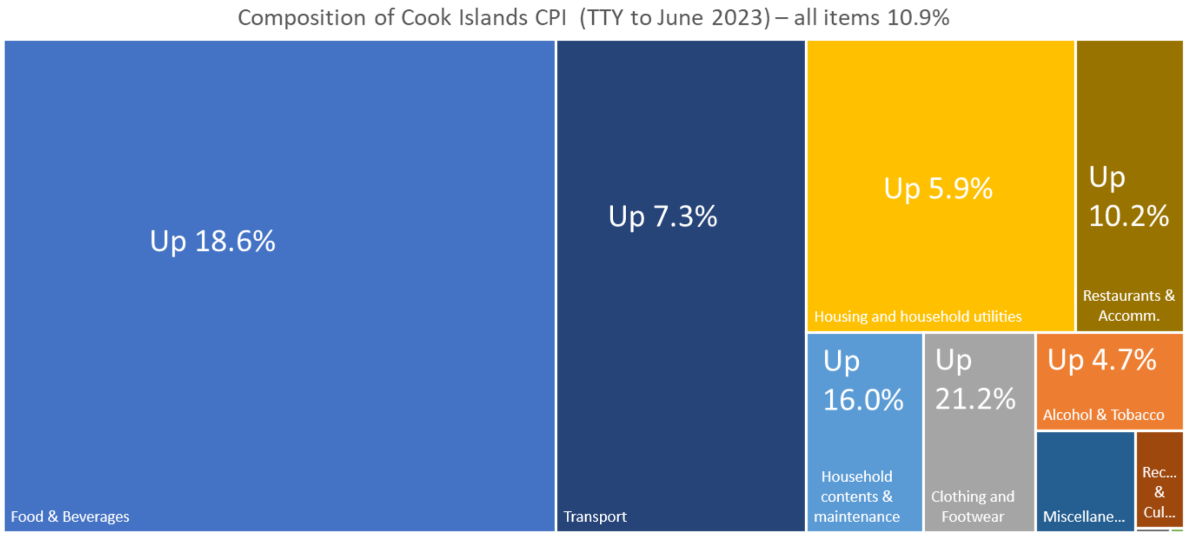

## 4.5.2. Prices and inflation

In the Cook Islands, inflation is measured by the CPI, a metric reported quarterly by the Cook Islands Statistics Office. Over the past six months, inflation in the Cook Islands has slowed compared to the previous six months, where there was a significant rise in inflation – though the fall is not occurring as quickly as desired. The peak of inflation was observed in the 12-months leading up to September 2022, during which overall prices rose by 15.3 per cent. This marked the most rapid price growth in the Cook Islands in over a decade. Over the 12-months to March 2023, inflation growth slightly eased to 12.1 per cent, before reducing further to 10.9 per cent by June 2023. While the slowdown is not as swift as expected, inflation figures are gradually moving towards more typical levels.

The inflation observed was influenced by global factors, including supply constraints that pushed fuel costs higher due to the conflict in Ukraine, leading to increases in food and shipping costs. The reliance on imports from New Zealand and other regions, where prices have also remained at very high levels, further contributed to this trend. Additionally, global logistical challenges strained supply chains, and actions by the OPEC+ group of oil-producing countries to reduce supply of oil and increase prices, played a role in driving inflation.

The 10.9 per cent recorded in June 2023 can be broken down to show the specific sources of price increases. In the year leading up to June 2023, the primary contributors to inflation were food and non-alcoholic beverage, experiencing an 18.6 per cent rise, accounting for more than half of the total inflation (see Figure 4-8). The second-largest contributor was the Transport sector, which saw a 7.3 per cent growth over the year. The growth rate of prices in the Transport sector decelerated in the June quarter, aligning with the overall trend of reduced inflation, primarily influenced by gradual declines in oil prices during that quarter.

**Figure 4-8 Composition of Cook Islands CPI Growth (through the year to June 2023)**



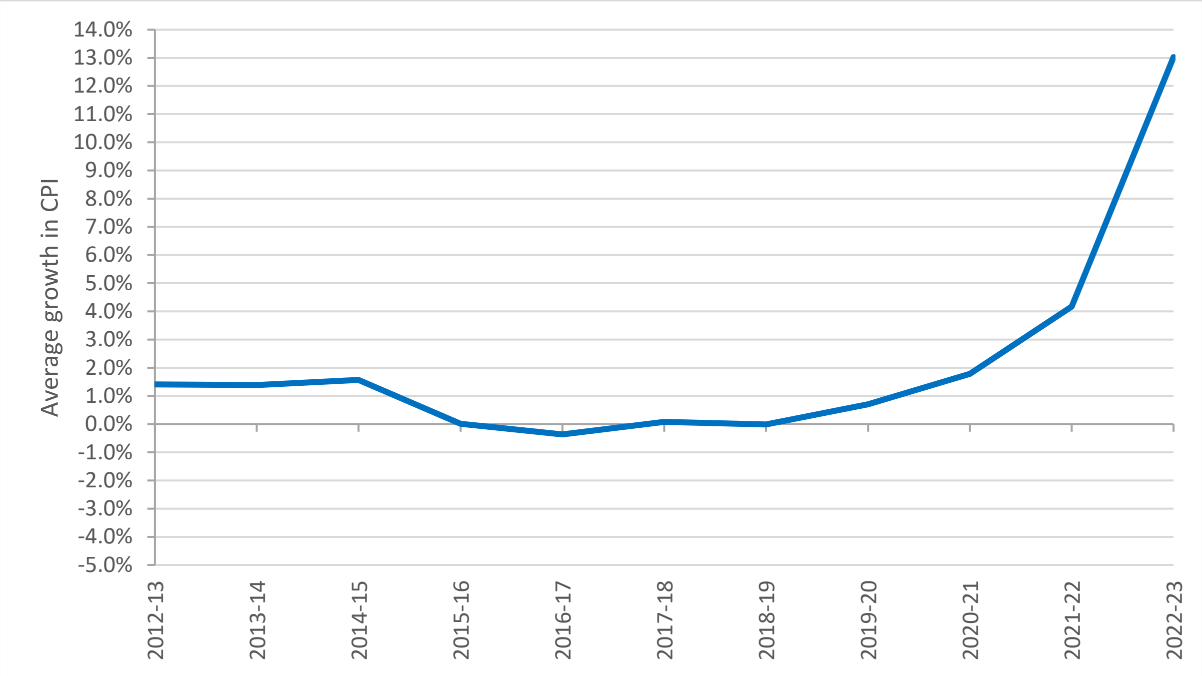

Presently, global oil prices are comparable to levels observed a year ago, however there was a spike in September 2023, due to production constraints from OPEC+ countries. Given the time-lag associated with the import of fuel to the Cook Islands, the impact of this spike is beginning to be felt here. The most recent Price Order, issued on 20 November 2023, indicates a 5.1 per cent increase in unleaded petrol prices for Rarotonga, a 5.4 per cent increase for Aitutaki and, slightly less in the rest of the Pa Enua, with increases in diesel prices experiencing approximately twice the percentage increase. As the oil price retreats from the recent peak in September, it is anticipated that this impact will reduce in the future as fuel importers access more cost-effective fuel.

#### 4.5.2.1. Year-average inflation

The section above, deals with ‘through the year (TTY)’ inflation – that is, the growth in prices from one point to another. This is the most commonly ‘felt’ inflation by people and businesses in the economy. The alternative measure of inflation is ‘Year Average’ inflation’, which examines the average growth in prices over a year. This approach is more useful when analysing longer time series, as it is less sensitive to the specific quarter in question and allows for within-year fluctuations to offset each other. However, ‘Year Average’ is more abstract, and may not be directly ‘felt’. When inflation is low and prices are stable, these two measures closely align. However, during periods of volatility, they may diverge to some extent.

Examining this measure over time reveals that, once more, the 2022/23 year witnessed the most substantial increase in prices over the last decade by a considerable margin (see Figure 4-9). Consumer prices rose by 13.0 per cent over the year, a significant increase from the 4.2 per cent observed in 2021/22.

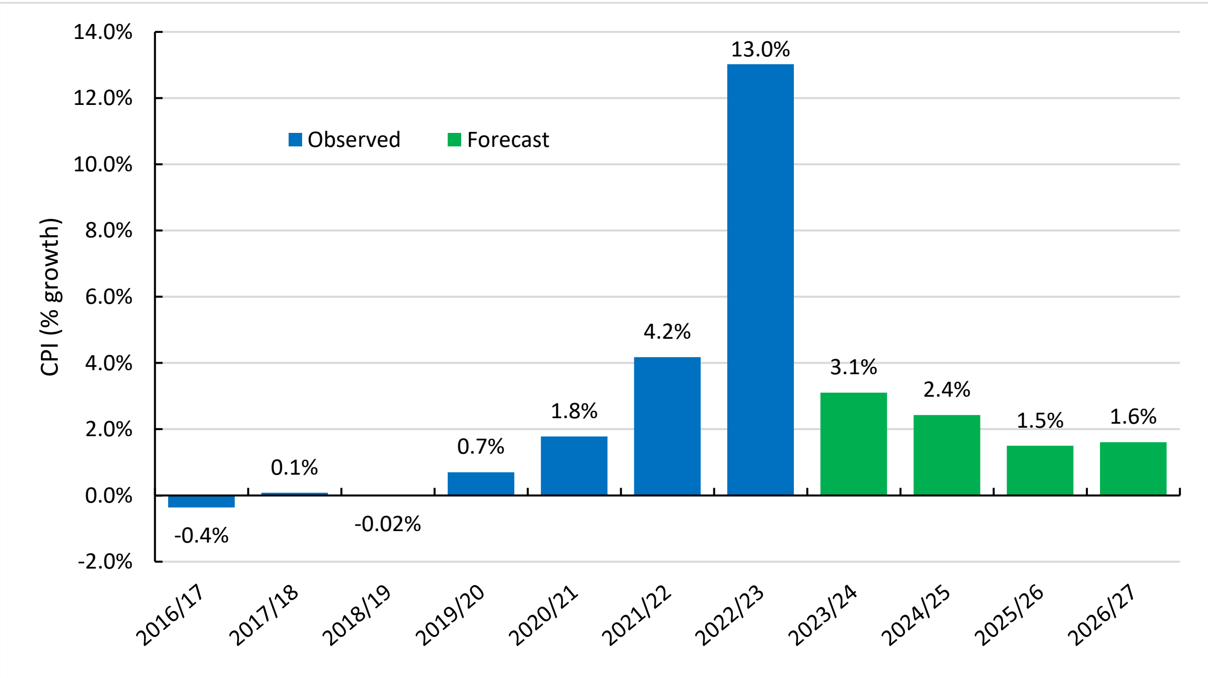
**Figure 4-9 Cook Islands CPI, year average, 2012/13 – 2022/23 (percentage change)**




### 4.5.2.2. Inflation forecasts

As shown in Figure 4-10, inflation is expected to fall in 2023/24 to 3.1 per cent. The peak has passed and inflation is projected to decline in the subsequent years, with a price growth of 2.4 per cent in 2024/25 and 1.5 per cent in 2025/26. This is attributed to the normalisation of supply chains and the gradual reduction of fuel prices to levels observed before the conflict in Ukraine.

**Figure 4-10 Annual average change in Cook Islands CPI (percentage)**



## 4.5.3. Trade in Goods

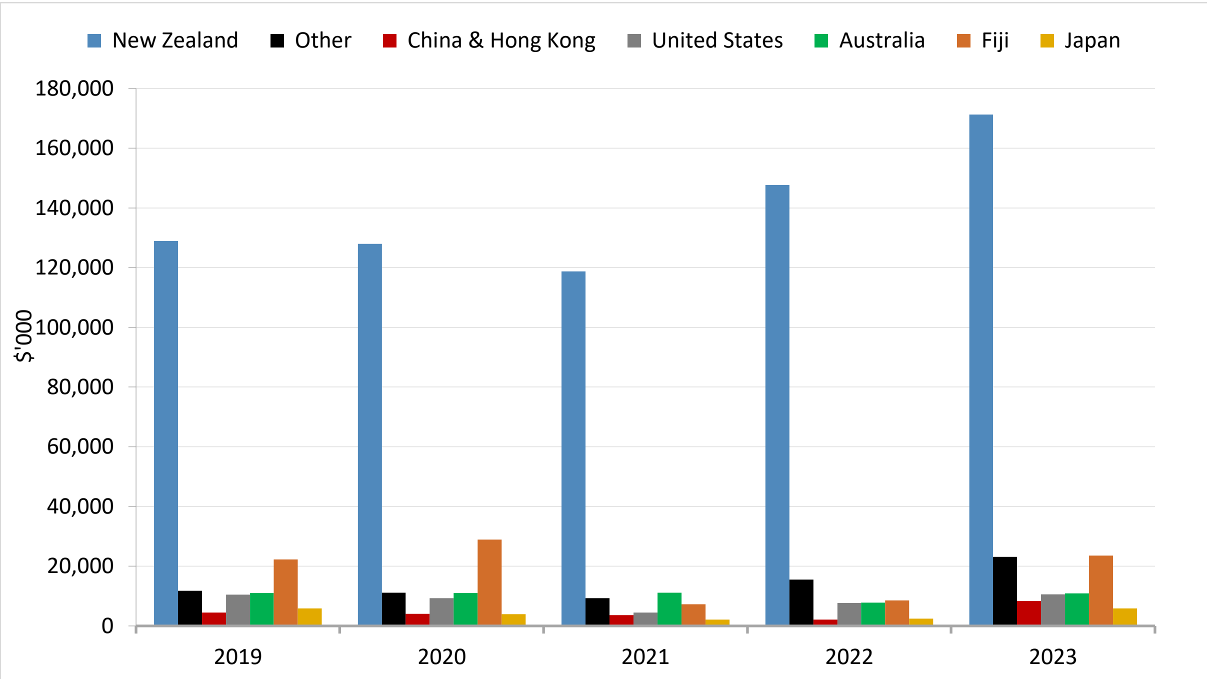
### 4.5.3.1. Goods imports

The Cook Islands is heavily reliant on imported goods to provide a range of goods and services due to its size and geographical characteristics.

The pandemic initially led to a decline in imports due to reduced demand stemming from the absence of tourists. However, this rebounded strongly in 2022/23 as traders replenished inventories, and faced rapidly rising import prices due to rising fuel and freight costs. This resulted in a 32 per cent growth in imports for the year, reaching $253.6 million – an increase of $61.9 million compared to 2021/22. The primary contributors to this increase were minerals, fuels, and machinery and equipment.

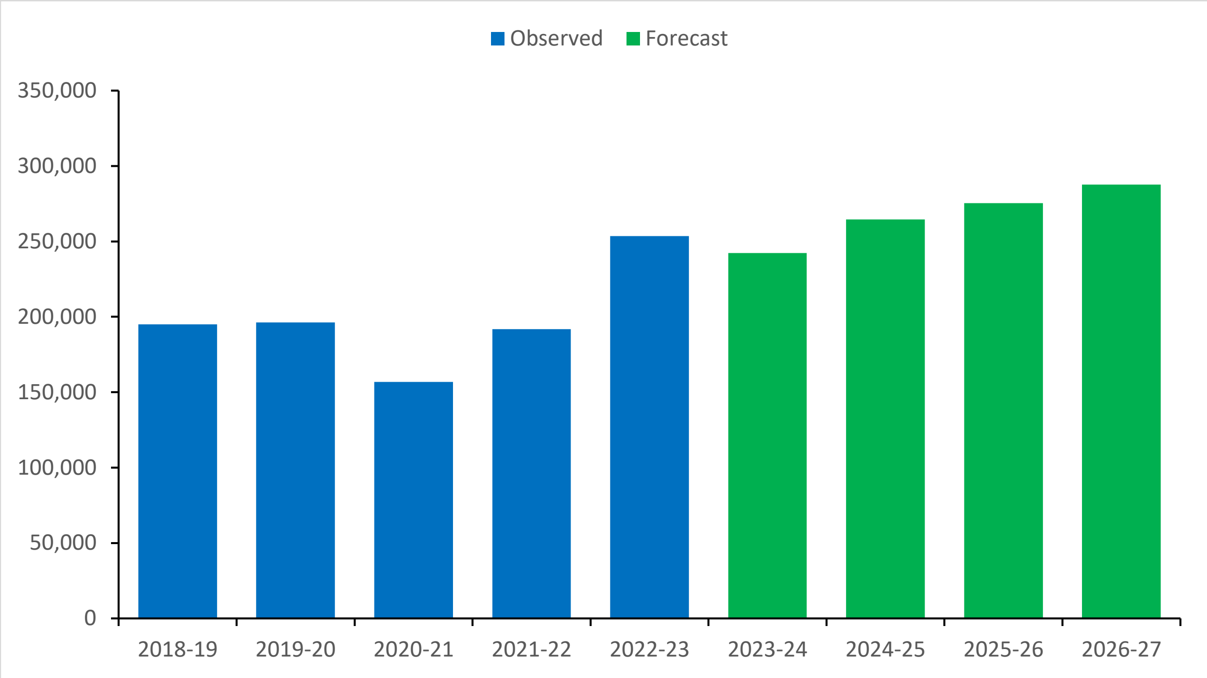
Regarding markets, the most substantial percentage increases were observed in imports from China and Hong Kong (295.3 per cent) and Fiji (174.8 per cent). However, it is worth noting that both these markets, while experiencing significant growth, constitute only 12.3 per cent of the total imports for the year. In terms of total value, the most noteworthy increase is from New Zealand, with the majority of imports sourced from there, rising by $23.7 million (see Figure 4-11).

**Figure 4-11 Import value by country of origin, year to June ($'000)**




Import growth is expected to decline slightly in 2023/24, as the effects of restocking and high fuel prices in 2022/23 diminish, before aligning with the broader economic trend. Following a decline of 4.4 per cent in 2023/24, imports are expected to grow by 9.1 per cent in 2024/25, then around 4.0 to 4.5 per cent per year thereafter (see Figure 4-12).

**Figure 4-12 Value of total imports, annual, 2018/19 to 2026/27, year to June ($'000)**

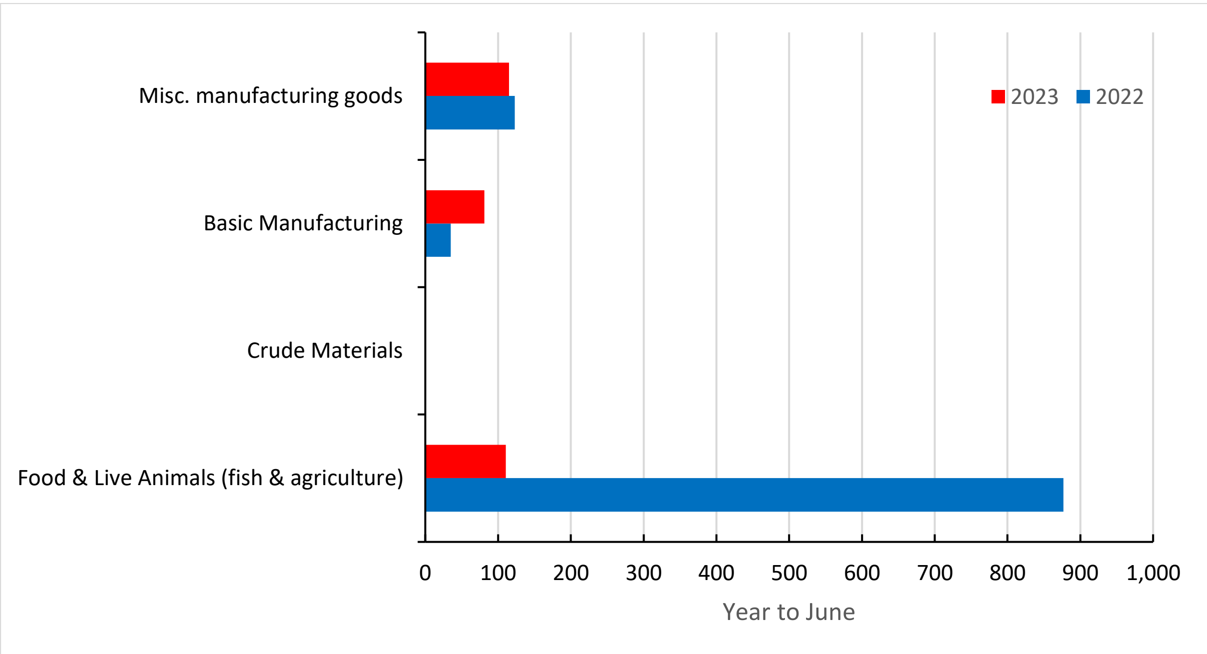



### 4.5.3.2. Goods exports

Total goods exports in the year to June 2023 remained minimal, experiencing a substantial decline of 70.4 per cent from the year to June 2022, dropping from $1.0 million to $0.3 million. This adjustment excludes fishing exports from foreign boats that do not make landfall in the Cook Islands.

This decline has been primarily observed in the category of food and animals (excluding foreign fishing). Conversely, basic manufacturing experienced a slight increase over the year, while miscellaneous manufacturing remained the most consistent and stable (see Figure 4-13). Going forward, goods exports are expected to remain at low levels.

**Figure 4-13 Major goods exports, 2022 and 2023, year to June ($'000)**



## 4.5.4. Tourism

### 4.5.4.1. Aggregate visitor activity

Since the reopening of the borders in January 2022, visitors have returned at a quicker pace and in larger numbers, spending more than expected. While there have been some capacity constraints in recent months from the primary source market (New Zealand), this has been largely counterbalanced by increased visitor spend, as well as strong visitor arrivals from other markets, particularly Australia.

A total of 127,340 visitors arrived during the 2022/23 fiscal year, with 81.3 per cent from New Zealand and a further 11.3 per cent from Australia, transiting through Auckland. Despite some challenges related to aviation capacity from New Zealand, leading to very high load factors and airfares, visitors from New Zealand have shown higher yields compared to the pre-pandemic period, with higher spending and a greater inclination to travel beyond Rarotonga.

Since the commencement of direct flights from Sydney in late June 2023, the Australian market has grown rapidly. The September 2023 quarter, the initial period with these flights in operation, witnessed a higher number of Australian arrivals compared to all but five quarters before the pandemic. The strength of this market has led to an increase in the number of weekly flights to four per week starting in late March 2024. While arrivals from the northern hemisphere markets have been slower to recover, there are now promising indications, with forward bookings on the rise.

Due to ongoing challenges in aircraft availability, capacity constraints from New Zealand have led to a downward revision of the forecast for 2023/24, now projected to be slightly below 153,000 visitors compared to the initial estimate in the 2023/24 Budget. As these constraints gradually ease, forecasts are expected to approach arrival numbers similar to the pre-pandemic from 2024/25 onward. It is important to note that this point forecast comes with considerable degree of uncertainty, particularly during the low season (from November to March), as the airline industry continues to grapple with numerous challenges (see Figure 4-14).

**Figure 4-14 Total visitor arrivals, 7-month total, 2012/13 to 2027/28**

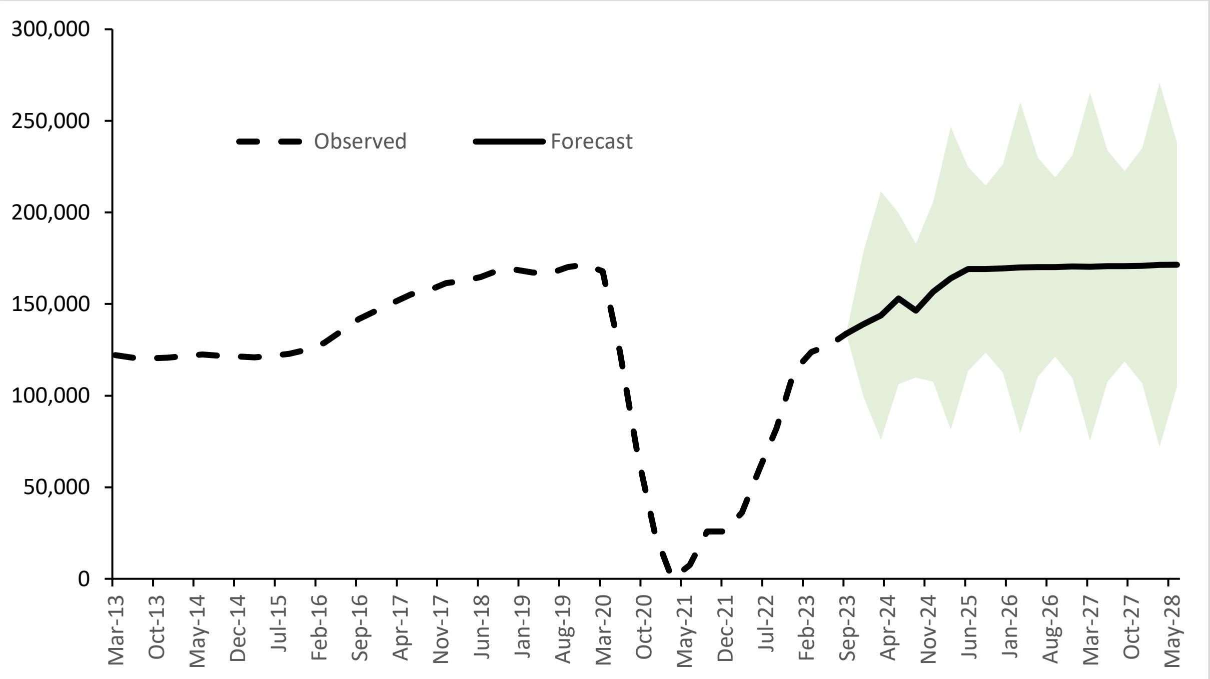


Table 4-3 Estimated total arrivals, quarterly, 2022/23 to 2026/27

| Quarters | 2022/23 | 2023/24f | 2024/25f | 2025/26f | 2026/27f |
|---|---|---|---|---|---|
| September | 40,867 | 47,345 | 40,800 | 40,800 | 40,800 |
| December | 31,084 | 36,296 | 46,578 | 46,873 | 47,133 |
| March | 20,954 | 25,700 | 33,045 | 33,609 | 33,562 |
| June | 34,435 | 43,608 | 48,656 | 48,883 | 49,147 |
| **Annual total** | **127,340** | **152,949** | **169,079** | **170,165** | **170,643** |

### 4.5.4.2. Major markets

During the 2022/23 year, the majority of arrivals were from New Zealand, constituting 81.3 per cent of total arrivals, followed by Australia with 11.3 per cent.

In 2023/24, the access to other markets improved with the introduction of flights to Rarotonga from Sydney, Honolulu and Pape'ete. Consequently, the share taken up by New Zealand is expected to decrease to 67.0 per cent, and stabilise around this level in the following years. Similarly, Australia constitutes 18.3 per cent in 2023/24, maintaining a close share from this point onward. While other markets remain relatively smaller, they hold strategic importance, particularly during the off and shoulder-seasons, drawing visitors from North America and Europe through access points via Hawaii and Tahiti (see Table 4-4.)

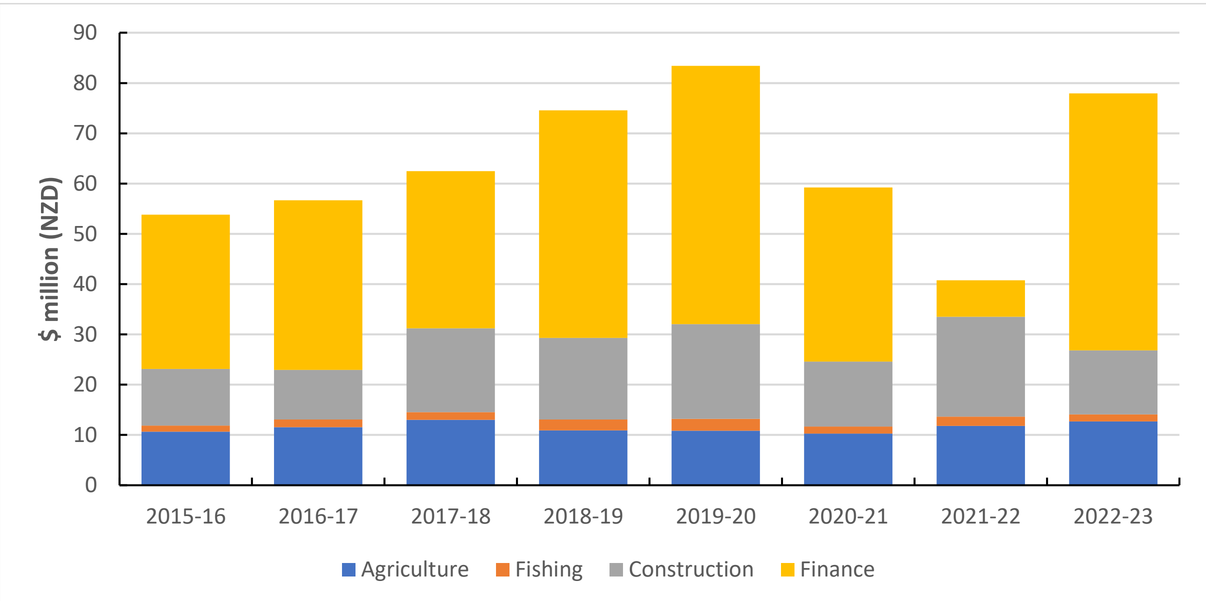
Table 4-4 Forecast total tourism numbers, by major market, 2022/23 to 2026/27

| Markets | 2022/23 | 2023/24f | 2024/25f | 2025/26f | 2026/27f |
|---|---|---|---|---|---|
| New Zealand | 103,517 | 102,431 | 114,267 | 114,503 | 114,640 |
| Australia | 14,365 | 27,984 | 30,326 | 31,131 | 31,943 |
| USA & Canada | 2,846 | 8,771 | 9,415 | 9,508 | 9,078 |
| Europe | 4,183 | 9,893 | 11,446 | 11,412 | 11,382 |
| Other | 2,429 | 3,871 | 3,624 | 3,612 | 3,599 |
| **Total** | **127,340** | **152,949** | **169,079** | **170,165** | **170,643** |

## 4.5.5. Other key industries

While Tourism is by far the largest sector in the Cook Islands, there are other sectors of importance including finance, agriculture, fishing and construction.

Figure 4-15 Contribution to Nominal GDP, 2015/16 to 2022/23 ($ million)



#### 4.5.5.1. Banking

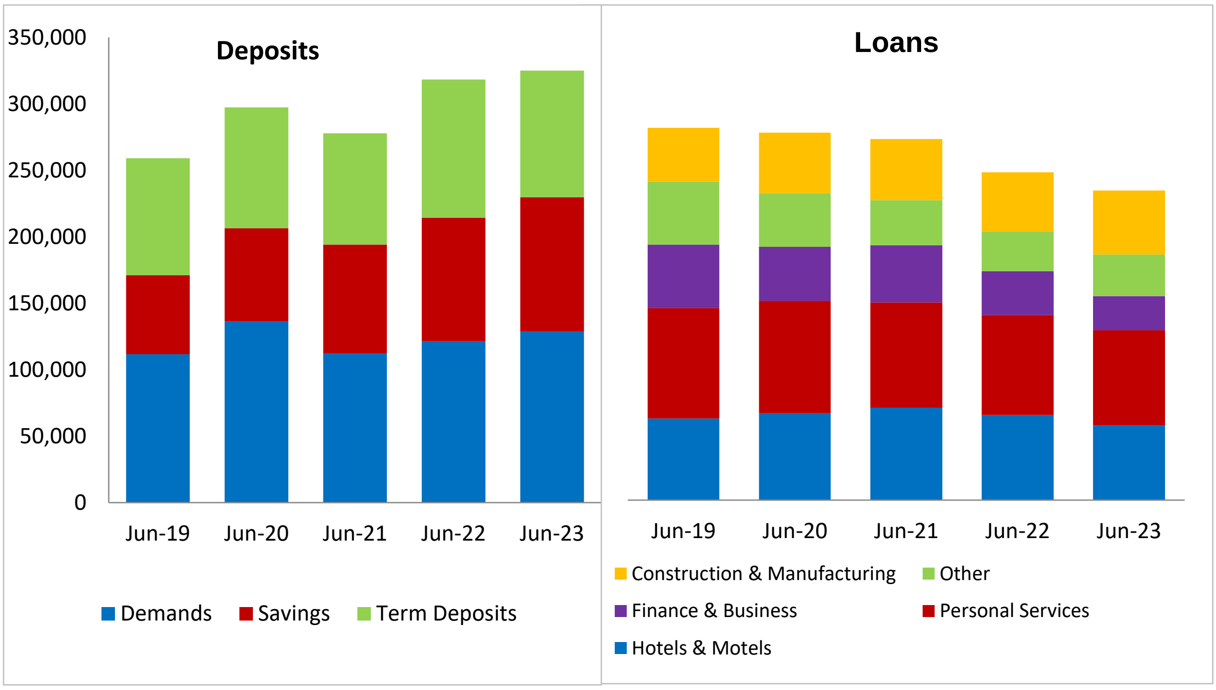
As of June 2023 (the latest available data), the total deposits in Cook Islands banks were 2.2 per cent higher than the previous year, increasing from $318.3 million to $325.2 million. This marks the highest level of deposits in the data series, extending back to 2011, suggesting a return to a more positive business environment. The increase in deposits has been in demand deposits (increasing by $7.5 million or 6.1 per cent) and savings accounts (rising by $8.0 million or 8.6 per cent), while a reduction in term deposits (by $8.6 million or 8.3 per cent), partially offsets these increases (see Figure 4-16)

When examining the total lending by Cook Islands banks as of June 2023, the banking leverage shows the lowest leverage ratios in the series – there is only $0.72 of lending for every $1.00 in deposits. Lending has experienced a decline of 5.6 per cent (equivalent to $13.9 million) from the previous year, as existing debt has been paid down, and there is hesitancy among both lenders and borrowers to take on new debt.

The most substantial decline in outstanding debt, in terms of dollars, was the Hotels & Motels sector, where it decreased from $64.4 million to $56.7 million in the year. The second-largest contributor to this decline is a reduction in lending to the Finance & Business sector, experiencing a 22.3 per cent decrease equivalent to $7.4 million. Overall, this highlights a highly liquid banking sector in the Cook Islands.

It is important note that government debt held outside of the Cook Islands are not included in this analysis as it is held by foreign entities like the ADB.

**Figure 4-16 Total value of bank deposits and loans, June 2019 to June 2023 ($'000)**




#### 4.5.5.2. Financial services industry

The Cook Islands' financial services industry (FSI) employs approximately 294 staff, accounting for approximately 4.6 per cent of total employment in the Cook Islands.[13]

[13] Based on a survey conducted as at 14 April 2023 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands. As at 31 December 2022 there were 6,361 active members.

There are three commercial banks: ANZ Banking Group Limited (ANZ) and Bank of South Pacific (BSP) Limited operate as foreign-owned branches, while the Bank of the Cook Islands (BCI) Limited is government-owned. BCI operates across most islands within the Cook Islands, facilitating government subsidies, child benefit and pension payments to beneficiaries. Moreover, it is responsible for the disbursement of government salaries. As a result, the number of Cook Islanders with access to a bank account is very high. Additionally, there is an onshore private bank named Capital Security Bank (CSB), which specialises in providing banking and wealth management services to international clients.

The licensed trustee companies are responsible for the administration of approximately 3,000 entities and trusts on the Cook Islands international registers. The registration and renewal fees provided Government approximately $1.5 million in 2022/23.[14]

The growth of these numbers hinges on the influence of international tax and regulatory requirements, as well as the licensed trustee companies' capacity to operate efficiently and diversify. The International Relationship Property Trusts Act 2021 has enabled the Financial Services Development Authority (FSDA) the opportunity to market and promote a new trust product – the International Relationship Property Trust (IRPT) – to global markets in 2022 and 2023. In the 2023/24 fiscal period, the FSDA is set to concentrate its marketing efforts on promoting the IRPT and the Cook Islands' financial services industry internationally. This initiative aims to explore potential new products, including the creation and administration of segregated cell companies, with the overarching goal of boosting government revenues and fostering employment growth within the industry in the medium to long term.

The Cook Islands continues to meet its international obligations concerning transparency on tax matters and in regards to its Anti-Money Laundering (AML) regime. It is included in the European Union's white list of cooperative jurisdictions on tax matters and received an exemplary assessment in 2017 from the Asia Pacific Group, a regional entity affiliated with the Financial Action Taskforce (FATF).

The Cook Islands Statistics Office identifies the financial services industry as the finance and insurance sector. The sector's contribution to GDP, shown in Figure 4-15 has ranged considerably – with the impact of policies and events through the pandemic leading to big swings in value-add from year to year. This has resulted in a low of $7.3 million in 2021/22, and a bounce-back to $51.1 million in 2022/23.

### 4.5.5.3. Housing and construction

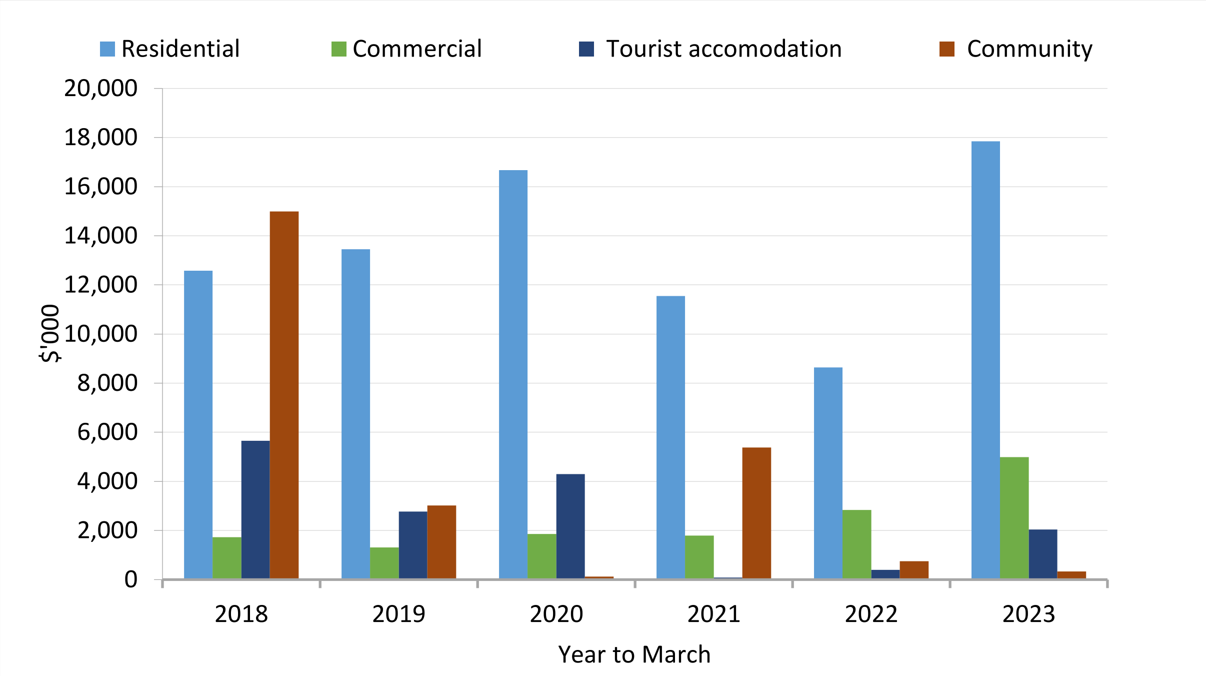
The total value of building approvals in the Cook Islands for the year to March 2023 (the latest available data) nearly doubled, moving from $12.6 million in the year to March 2022 to $25.2 million in the year to March 2023. This marks the second-highest level recorded since 2009. The primary contributor to this increase is Residential building, experiencing a $9.2 million rise, equivalent to 106 per cent. There are substantial increases in the Commercial sector (up by $2.1 million) and Tourist Accommodation (up by $1.6 million) suggesting that individuals have improved financial conditions post-pandemic and are optimistic about the future. Community building approvals declined by $0.4 million however, this series is more sporadic compared to other series as it is influenced by small numbers of large projects (Figure 4-17).

Over the past year (to June 2023), the Construction sector has experienced a slight decrease from the pre-COVID highs, declining from $19.9 million in 2021/22 to $12.8 million in 2022/23. This decline is

[14] KPMG 2022 report shows US$956,417 reg/ren fees for 2022. Exchange Rates at 31 December 2022 was NZ$1.00 to US$0.63 which is approximately NZ$1,518,122.

unexpected considering the long lead times for construction, market uncertainty and high cost of materials during the period. However, with building approvals increasing, this suggests an increase in this contribution to GDP in the future.

**Figure 4-17 Building approvals, 2018 to 2023, year to March ($'000)**




### 4.5.5.4. Marine resources

The marine resources sector, encompassing fishing and pearl farming, serves as a key source of revenue for government and plays an important role in economic activity in both Rarotonga and the Pa Enua. While this sector remains important, the sector accounts for less than half of one per cent of GDP since 2012/13, with the largest contribution being $2.3 million in 2019/20 (see Figure 4-18). However, the revenue generated from licensing and permits far exceeds this amount.

The main benefit for the Cook Islands Government arising from fishing activities lies in revenue derived from treaty arrangements, purse seine fishing bilateral arrangements, license fees and the sale of catch quotas. The revenue collected in 2022/23 was $10.2 million, noting that the climatic conditions, specifically the impact of La Nina, had an adverse effect on revenue in 2022/23.

Various types of licence and permits contribute to revenue generation, with the longline Quota Management System (QMS) and purse seine fishing days responsible for most of the revenue. The longline QMS adopts a total allowable catch approach, while purse seine fishing days a sold in compliance with binding requirements set forth by the Western Central Pacific Fisheries Commission (WCPFC).

Key purse seine access agreements have been established with the United States (as part of a regional approach) and with the European Union (EU). The standard daily rate is set US$9,500, but different prices have been negotiated for the United States as part of the treaty arrangements (US$9,000 per day) along with top-up payments. For the EU, access is granted under a broader package of €350,000, with the option to purchase extra days at €8,000 per day. The return in NZD is subject to fluctuations based on exchange rates.

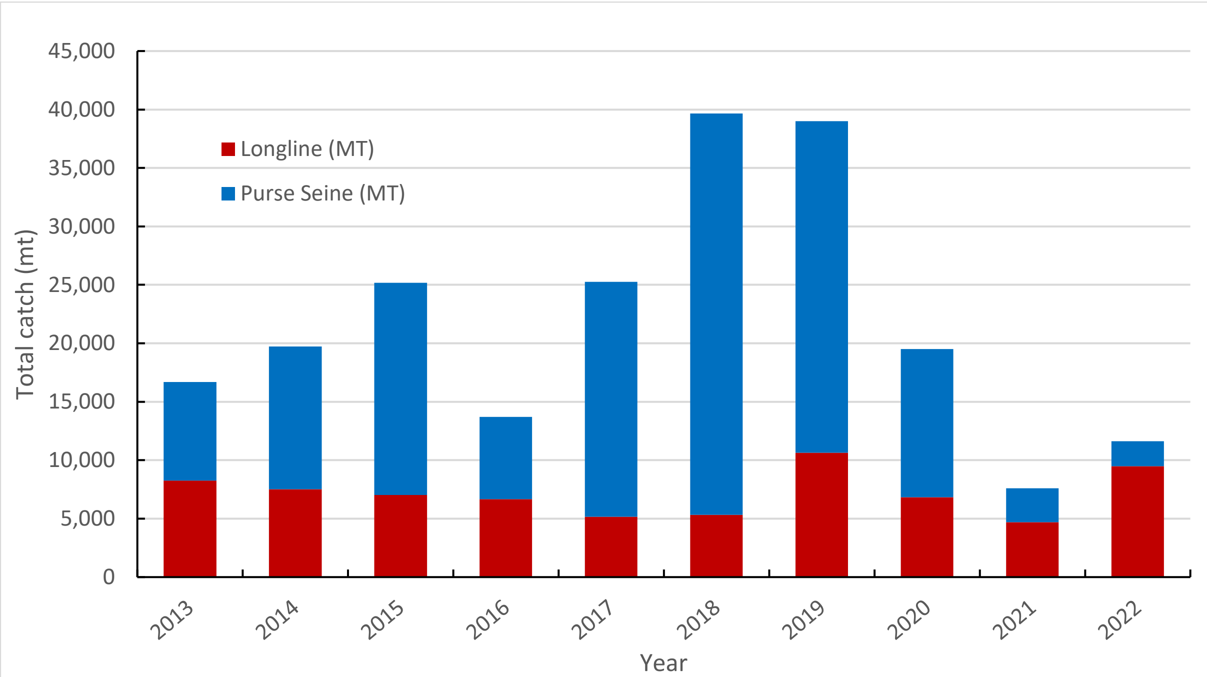
In 2023, there is a notable rise in longline catch rates compared to the preceding two years. As a result, revenue forecasts for 2023/24 are expected to surpass those of 2022/23, but remain conservative for periods extending beyond 2024. Projected fisheries revenue for 2023/24 is estimated at $16.0 million.

The sources of revenues include:

- $3.6 million from the longline licensing, development fees and QMS
- $3.8 million from the US Treaty
- $7.0 million from the purse seine vessel days
- $1.4 million from the EU Sustainable Fisheries Partnership Agreement (SFPA) fishing authorisations
- $ 0.1 million from other fisheries and fines

The development of the purse seine fishery has contributed significantly to the growth of this sector. However, its success is closely tied to yearly fishing patterns influenced by climatic conditions related to El Nino Southern Oscillation, such as El Nino and La Nina. Additionally, the fishery undergoes annual variations in west-east migrations. The decision on where and when fleets choose to fish are further influenced by fisheries management arrangements and variations in pricing for purse seine vessel days.

**Figure 4-18 Fishery catch in the Cook Islands EEZ[15]**




Source: Ministry of Marine Resources

[15] Catch and effort estimates for 2022 not yet finalised.

**Table 4-5 Fishery catches in the Cook Islands EEZ by species (tonnes)**

| | 2021 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Longline | Purse Seine | Local | Longline | Purse Seine | Local |
| Albacore | 2,432 | 0 | 1 | 6,424 | 0 | 1 |
| Bigeye | 430 | 174 | 0 | 715 | 97 | 0 |
| Yellowfin | 1,344 | 331 | 69 | 1,604 | 118 | 69 |
| Skipjack | 58 | 2,407 | 0 | 145 | 1,899 | 0 |
| Other | 423 | 2 | 40 | 608 | 2 | 40 |
| **Total** | **4,687** | **2,914** | **110** | **9,496** | **2,116** | **110** |

The Ministry of Marine Resources (MMR) regulates 84 licensed vessels, comprising of 57 longline, 13 purse seine, 12 bunker vessels, one trawler, and one pot/trap vessel. Furthermore, an additional 236 local artisanal and game charter fishing boats are actively reporting their catches to the MMR.

The onset of El Nino conditions in the second half of 2023 has seen an increase in interest for access across the purse seine and longline sectors contributing to expected increases in returns from the sale of quota and fishing days.

One domestic commercial fishing company with the Cook Islands flagged longline vessel operates in the Southern group waters of the Cook Islands. They unload their catch at the Avatiu port, catering to the domestic market. In 2023, the domestic vessel delivered 44 metric tons of fish to Rarotonga, marking an increase from 33 metric tons in 2022. There were no exports during this period and there has been no landed catch by foreign vessels in Rarotonga since 2017.

With tourism activities returning strongly, local fish prices rose significantly in 2022 and have remained high. Both commercial and artisanal fishers find it challenging to keep up with the local market demand for fish products, which is higher than supply. This in turn increases the ability of fishers in the Pa Enua to sell fish to the Rarotonga market, especially during the low-catch season. To address some of the local market's supply needs, there is an import of albacore tuna from French Polynesia.

### 4.5.5.5. Agricultural activity and exports

The Agricultural sector contributed approximately 2.7 per cent of nominal GDP in 2022/23, reflecting a 0.7 per cent decline from 2021/22, of $12.7 million. Agricultural activities in the Cook Islands primarily focuses on meeting domestic consumption needs, and the tourist market serves as a type of 'localised export' for products. This approach allows for an export-like benefit without encountering the typical challenges associated with traditional export markets, such as freight costs.

While the activity within the domestic agricultural sector has seen a reduction in production from commercial and subsistent growers on Rarotonga for 2022 to 2023, some farmers have opted to utilise land in the Pa Enua (Mangaia, Mauke, Aitutaki). They are planting crops on these islands and transporting their produce to Rarotonga for sale.

The Ministry has observed a decline in farmer stalls at the Punanga Nui Market and alongside the roadside during this period on Rarotonga. Simultaneously, some farmers have opted to directly supply their produce to restaurants and tourist resorts. With our changing climate, the agriculture sector has experienced unfavourable weather conditions and an influx of insects during this period. These factors have adversely affected the growth of crops in the field, thereby contributing to a decrease in overall production.

The Ministry of Agriculture continues to work with farmers on both Rarotonga and the Pa Enua to efficiently oversee their planting programmes. By providing farmers with essential resources and technical guidance, the Ministry ensures the continuous cultivation and production of locally grown vegetables and root crops for both consumption and sale. This effort is particularly crucial now that the tourism market has returned.

**Table 4-6 Total value of produce in 2022 ($'000)**

| | Fruits | Root-crops | Vegetables | Herbs | Total |
|---|---|---|---|---|---|
| Rarotonga | 264 | 170 | 36 | 2 | 472 |
| *Aitutaki* | *3* | *1* | *1* | *1* | *6* |
| *Atiu* | *1* | *0* | *0* | *0* | *1* |
| *Mangaia* | *1* | *1* | *2* | *0* | *4* |
| *Mauke* | *4* | *2* | *0* | *0* | *6* |
| *Mitiaro* | *0* | *0* | *0* | *0* | *0* |
| Pa Enua Total | 9 | 4 | 3 | 1 | 17 |
| **Total** | **273** | **174** | **39** | **3** | **489** |

Source: Ministry of Agriculture

Despite the limited volume of produce exports, frozen taro shipments from Aitutaki and Rarotonga to New Zealand in 2022, both by air and sea, averaged 2,000 kilograms per shipment. It is essential to closely monitor the supply of taro for export to ensure its sustainability. Additionally, small quantities of vanilla have been exported to the United States. Furthermore, passengers carried small quantities of various commodities including taro, tarua, cassava, drinking nuts, coconut products, chestnut and chillies, by air to New Zealand and Australia in 2022. The combined weight of these exports exceeded 80,000 kilograms.

The Ministry of Agriculture is undertaking a range of work aimed at enhancing productivity within the sector. These efforts include gaining a deeper understanding of soil management, adapting to changing climatic conditions and addressing the demands of the domestic market.

# 5. Government Financial Statistics Statement

The Government Financial Statistics (GFS) Operating Statement provides a breakdown of the Government's financial performance. All funds managed at the general government level such as the Loan Reserve fund and official development assistance (ODA) are included in the statement.

**Table 5-1 GFS Operating Statement ($'000)**

| Statement of Government Operations | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| **REVENUE** | **190,561** | **294,523** | **225,186** | **217,758** | **223,160** |
| Taxes | 110,700 | 167,473 | 176,869 | 185,386 | 191,623 |
| Social contributions | 0 | 0 | 0 | 0 | 0 |
| Grants | 23,949 | 89,749 | 18,985 | 7,409 | 6,200 |
| *Current* | 14,946 | 35,746 | 18,985 | 7,409 | 6,200 |
| *Capital* | 9,003 | 54,003 | 0 | 0 | 0 |
| Other revenue | 55,912 | 37,301 | 29,332 | 24,964 | 25,336 |
| **EXPENSE** | **185,411** | **242,236** | **212,084** | **199,865** | **196,332** |
| Compensation of employees | 70,524 | 79,334 | 78,727 | 78,904 | 78,904 |
| Use of goods and services | 49,772 | 79,405 | 55,721 | 44,304 | 43,190 |
| Depreciation | 14,066 | 15,360 | 15,410 | 15,410 | 14,809 |
| Interest | 8,483 | 8,960 | 10,368 | 9,553 | 8,683 |
| Subsidies | 8,618 | 25,332 | 19,719 | 19,319 | 18,019 |
| Grants | 0 | 0 | 0 | 0 | 0 |
| Social benefits | 25,259 | 26,301 | 25,799 | 26,012 | 26,014 |
| Other expense | 8,689 | 7,543 | 6,340 | 6,364 | 6,714 |
| **NET OPERATING BALANCE** | **5,151** | **52,288** | **13,102** | **17,893** | **26,828** |
| ***Plus*** NON CASH APPROPRIATIONS | | | | | |
| Depreciation | 14,066 | 15,360 | 15,410 | 15,410 | 14,809 |
| **CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS** | **42,146** | **67,648** | **28,512** | **33,303** | **41,637** |
| **CASH TRANSACTIONS IN NONFINANCIAL ASSETS** | | | | | |
| Net Cash Applied to the Acquisition of Fixed Assets | 31,419 | 83,316 | 17,215 | 19,159 | 19,588 |
| Gross transactions in Non-Financial Assets | 45,485 | 98,676 | 32,625 | 34,569 | 34,397 |
| *Less* Non-Cash Transactions in Non-Financial Assets (Depreciation) | (14,066) | (15,360) | (15,410) | (15,410) | (14,809) |
| **NET (BORROWING)/LENDING** | **10,727** | **(15,668)** | **11,298** | **14,144** | **22,048** |
| **CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS** | **4,438** | **(26,795)** | **(1,689)** | **(1,092)** | **4,735** |
| Domestic Transactions | 4,438 | (26,795) | (1,689) | (1,092) | 4,735 |
| Foreign Transactions | 0 | 0 | 0 | 0 | 0 |
| **CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES** | **6,350** | **11,127** | **12,987** | **15,236** | **17,314** |
| Domestic Transactions | 0 | 0 | 0 | 0 | 0 |
| Foreign Transactions | **6,350** | **11,127** | **12,987** | **15,236** | **17,314** |
| **NET CASH FINANCING TRANSACTIONS** | **10,789** | **(15,668)** | **11,298** | **14,144** | **22,048** |
| *Statistical discrepancy* | **62** | **0** | **0** | **0** | **0** |

## 5.1. GFS Net Operating Balance

The GFS net operating balance is calculated by subtracting operating expenditure from operating revenue. For the 2022/23 fiscal year, an operating surplus of $5.2 million is recorded as total operating revenues totalling $190.6 million surpassed the year-end operating expenditure of $185.4 million.

Revisions to the 2023/24 estimates have led to an operating surplus of $52.3 million, which is slightly lower than the $53.1 million initially reported in the 2023/24 Budget Estimates. This adjustment is attributable to increases in operating revenues, which now total $294.5 million (compared to the budgeted $288.8 million), offset by corresponding increases in operating expenditure, now totalling $242.2 million (compared to the budgeted $235.7 million).

With the anticipated recovery in revenue receipts (taxes) and a gradual decrease in expenditure, the GFS net operating balance is projected to consistently maintain operating surpluses in the medium-term.

### 5.1.1. GFS Operating Revenue

**Table 5-2 Total GFS Operating Revenue ($'000)**

| | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| Taxes | 110,700 | 167,473 | 176,869 | 185,386 | 191,623 |
| Social contributions | 0 | 0 | 0 | 0 | 0 |
| Grants | 23,949 | 89,749 | 18,985 | 7,409 | 6,200 |
| *Current* | 14,946 | 35,746 | 18,985 | 7,409 | 6,200 |
| *Capital* | 9,003 | 54,003 | 0 | 0 | 0 |
| Other revenue | 55,912 | 37,301 | 29,332 | 24,964 | 25,336 |
| **Total Operating Revenue** | **190,561** | **294,523** | **225,186** | **217,758** | **223,160** |

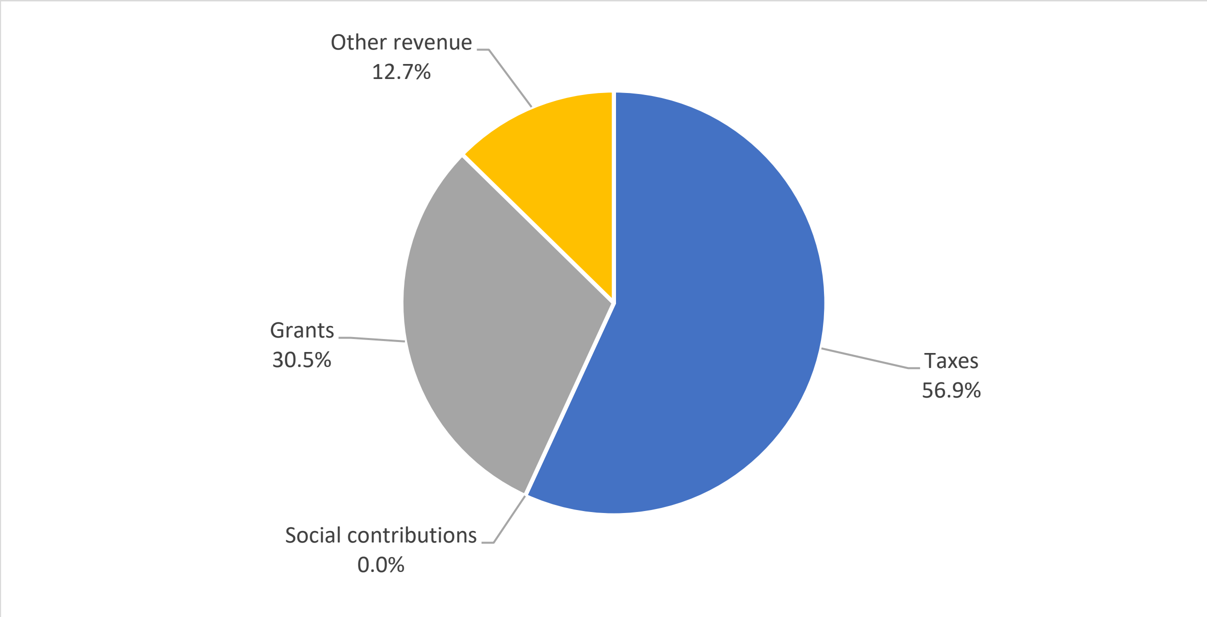
In the 2022/23 fiscal year, GFS operating revenues amounted to $190.6 million, with taxation revenue contributing $110.7 million. This figure includes higher than anticipated revenues from other revenue lines, totalling $4.0 million, primarily attributable to an increase in fisheries revenue by $2.7 million. However, tax receipts fell notably below expectations, by $19.4 million, mainly due to decreases in revenue from Value-added Tax ($14.8 million), Income tax ($9.4 million), Withholding tax ($0.5 million) and Departure tax ($0.8 million), partially offset by increases in revenue from Company tax ($4.5 million) and Import levies ($1.5 million). Note, changes to government revenue projections are detailed in Chapter 3.

These revenue streams contribute to funding the day-to-day operational expenses of the government, while any surpluses are directed towards investments in activities like infrastructure development projects or building cash reserves.

In the medium-term, operating revenues are expected to recover, with tax revenue collections forecasted to reach $191.6 million by 2026/27. The incremental growth in tax receipts is expected to counterbalance the projected declines in grant revenues and other revenues from 2024/25 onward, noting that contractual agreements for grants typically conclude after a three-year period.

As shown in Figure 5-1, operating revenue largely consists of taxation receipts, accounting for 56.9 per cent of total revenue in 2023/24, compared to 58.1 per cent in 2022/23. Additionally, grants from other governments constitute 30.5 per cent in 2023/24, a significant increase from 12.6 per cent in 2022/23, largely due to the inclusion of the Infrastructure Trust Fund totalling $39.4 million. Other revenues, inclusive of general budget support fund from New Zealand, agency trading revenues, and interest and dividend receipts, contribute 12.7 per cent in 2023/24, a decline from 29.3 per cent in 2022/23. The decline attributed to a reduction in general budget support compared to the previous year, declining from $19.2 million in 2022/23 to zero in 2023/24.

**Figure 5-1 GFS operating revenue, 2023/24**




### 5.1.2. GFS Operating Expenditure

**Table 5-3 Total GFS Operating Expenditure ($'000)**

| | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| Compensation of employees | 70,524 | 79,334 | 78,727 | 78,904 | 78,904 |
| Use of goods and services | 49,772 | 79,405 | 55,721 | 44,304 | 43,190 |
| Depreciation | 14,066 | 15,360 | 15,410 | 15,410 | 14,809 |
| Interest | 8,483 | 8,960 | 10,368 | 9,553 | 8,683 |
| Subsidies | 8,618 | 25,332 | 19,719 | 19,319 | 18,019 |
| Grants | 0 | 0 | 0 | 0 | 0 |
| Social benefits | 25,259 | 26,301 | 25,799 | 26,012 | 26,014 |
| Other expense | 8,689 | 7,543 | 6,340 | 6,364 | 6,714 |
| **Total Operating Expenditure** | **185,411** | **242,236** | **212,084** | **199,865** | **196,332** |

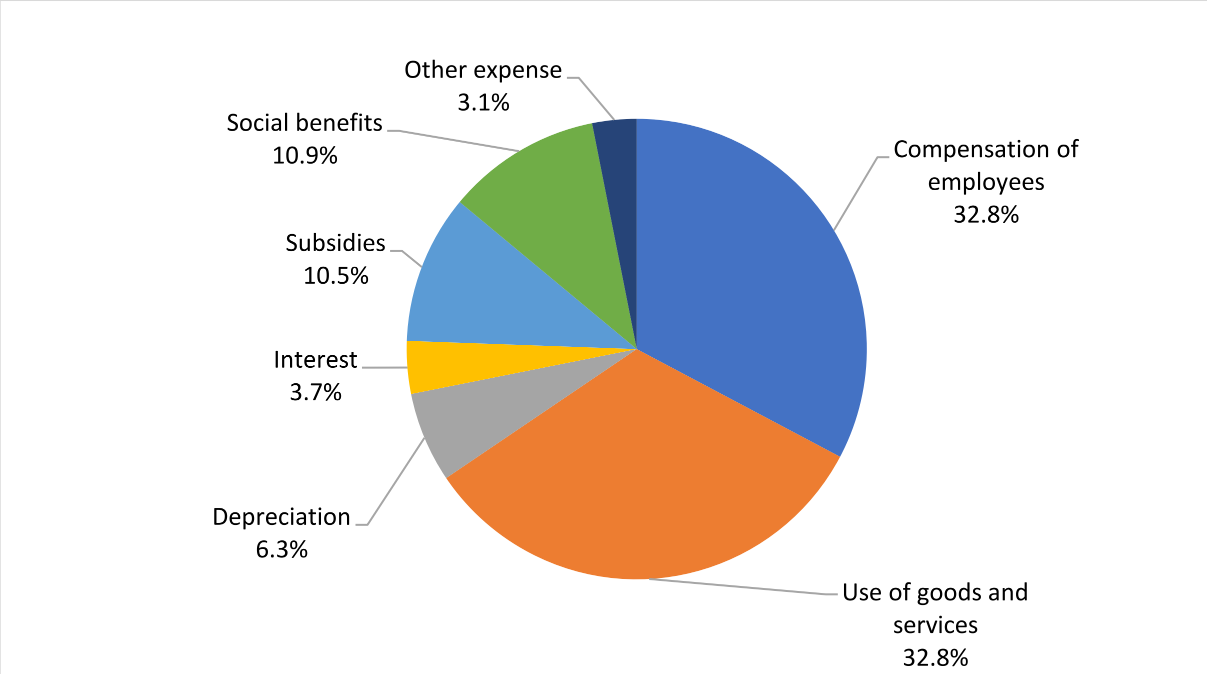
The total GFS operating expenditure for 2022/23 is reported at $185.4 million, an increase of $3.9 million compared to the estimated $181.5 million as presented in the 2023/24 Budget.

The projected operating expenditure for 2023/24 has been adjusted upward to $242.2 million from the $235.7 million, indicated in the 2023/24 Budget (see Table 5-3), reflecting a total increase of $6.5 million. This revision captures additional expenditure approved through executive orders ($3.2 million) and carry-forwards ($3.3 million) during the initial half of the 2023/24 fiscal period.

Going forward, total GFS operating expenditure is expected to decrease to $212.1 million in 2024/25, before stabilising over the medium-term. This trajectory is influenced by one-off expenditure items and the increased uncertainty associated with recurring ODA expenditure as time progresses. In practice, there is a considerable likelihood of receiving the confirmation of ODA-funded programmes during the period, leading to higher expenditure.

As shown in Figure 5-2, the most substantial sectors of government operating expenditure are compensation of employees and use of goods and services, both constituting 32.8 per cent in 2023/24. The remaining portion of operating expenditure is distributed amongst social benefits (10.9 per cent), subsidies (10.5 per cent), depreciation (6.3 per cent), interest (3.7 per cent) and other expenses (3.1 per cent).

**Figure 5-2 GFS operating expenditure, 2023/24**




### 5.1.2.1. Compensation of Employees

In 2022/23, spending on compensation of employees spending amounted to $70.5 million, slightly surpassing the estimated actuals reported in the 2023/24 Budget, which was $69.8 million. Looking ahead, this expenditure is projected to be $79.3 million in 2023/24, marking a slight increase of $0.8 million, due to the approval of carry-forwards for short-term contracts during the 2023/24 fiscal period.

### 5.1.2.2. Use of Goods and Services

The total spending on the use of goods and services is distinct from the figures reported in other sections of the Half-Year Economic and Fiscal Update (HYEFU) Estimates, as it encompasses recurring ODA expenditures.

Expenditure on goods and services in 2022/23 stands at $49.8 million, slightly below the estimated actuals reported in the 2023/24 Budget of $48.6 million. Going forward projected expenditure under this category is expected to decrease over the medium-term. This reduction is attributed to the decline in ODA expenditure in the coming years due to the conclusion of some contractual agreements.

### 5.1.2.3. Consumption of Fixed Capital

Total depreciation expenditure for 2022/23 stands at $14.1 million, closely in line with the estimated expenditure reported in the 2023/24 Budget. The projected total depreciation over the medium-term is expected to reach $15.4 million before falling to $14.8 million by 2026/27. This adjustment is primarily influenced by technical adjustments made to the depreciation baselines of the agencies.

### 5.1.2.4. Interest (Debt Servicing Payments)

In 2022/23, debt interest contributions to the Loan Repayment Fund (LRF) amounted to $8.5 million, consistent with the reported figure in the 2023/24 Budget.

The estimated interest expenses for 2023/24 are $9.0 million, anticipated to rise to $10.4 million in 2024/25. Subsequently, interest expenses are expected to stabilise over the medium-term as the debt profile steadies and grace periods come to an end.

## 5.2. GFS Non-Operating Items

Cash transactions in non-financial assets pertain to capital-related activities. This spending includes investment into infrastructure, the purpose of plant and equipment and investments in ICT by both the Crown and development partners.

In 2022/23, the total purchases of non-financial equipment assets (excluding depreciation) is $45.5 million, a decrease of $0.9 million from the estimated actuals of $46.4 million reported in the 2023/24 Budget. Additionally, updates to the 2023/24 estimates for the purchases of non-financial assets show an increase of $6.6 million (to $98.7 million), primarily attributed to the approval of carry-forwards during the fiscal period of 2023/24.

The forecast indicates a decline in cash transactions in non-financial assets in the subsequent years, primarily due to the reduction in ODA Capital Grant agreements. As explained before, ODA funding is agreed upon over a shorter forward time period.

### 5.2.1. Net Borrowing / Lending and Cash Financing Transactions

The Net Borrowing/Lending Requirement identifies the amount of financing needed to cover both operating and capital balances, with these funds being derived from either assets (primarily accumulated cash reserves) or liabilities (mainly loan financing).

For 2022/23, the net borrowing/ lending requirements is a surplus of $10.7 million, indicating an increase of $3.5 million compared to the estimated actuals reported in the 2023/24, which was a surplus of $7.2 million. This is predominantly due to a rise in cash surpluses in 2022/23 (from $39.6 million to $42.1 million) reported at the year-end in June 2023.

Updates to the 2023/24 estimates for net borrowing/ lending requirements have led to a deficit of $15.7 million, marking an increase of $7.4 million higher compared to the deficit of $8.3 million reported in the 2023/24 Budget. This is mainly attributed to the upward adjustments in estimates for net cash applied to the acquisition of fixed assets (capital projects) as a result of the $6.6 million carried forward to the 2023/24 fiscal year. As the economy recovers over the forward period, the financing gap is expected to diminish.

There are some minor movements not reflected in the GFS schedules, most of which pertain to the classification of reserves in the financial schedules. The statistical discrepancy shown in the GFS Operating Statement is largely attributed to timing issues between project implementation and the funding received in the Crown account. The sum of the statistical discrepancy in the 2022/23 fiscal period is not considered to be significant.

## 5.3. Classification of Functions of Government

The Classification of the Functions of Government (COFOG) classifies government expenditure data based on the intended purpose of the funds. This standardised classification allows for comparisons on functional expenditure across different jurisdictions.

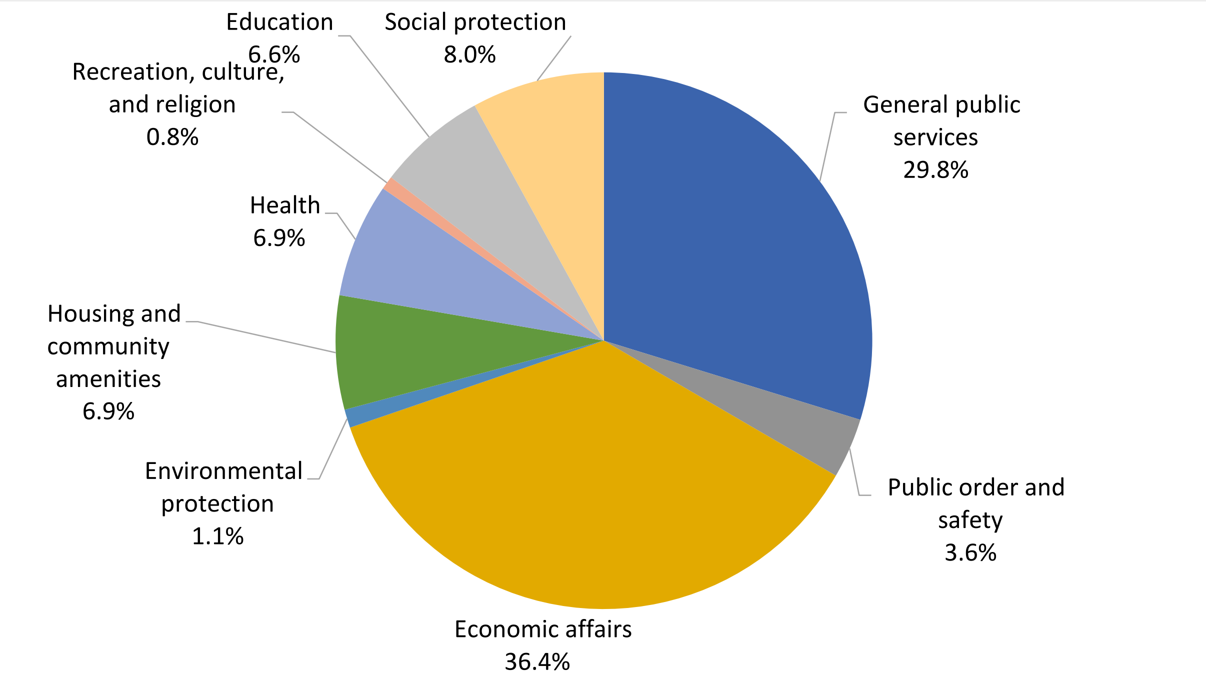
At the highest level, the COFOG encompasses 10 main functions, and at the second level 69 functions (sub-functional). Table 5-4 breaks down the Budget to the sub-functional level for both Cook Islands Government spending and ODA, excluding categories with no expenditure.

## Table 5-4 Classification of Functions of Cook Island Government ($'000)

| Function of Government | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| **Cook Islands Government (CIG) Expenditure** | | | | | |
| ***General public services*** | ***49,600*** | ***55,113*** | ***53,945*** | ***53,987*** | ***52,414*** |
| Executive and legislative organs, financial and fiscal affairs, external affairs | 32,858 | 36,300 | 33,786 | 34,064 | 33,010 |
| General services | 7,316 | 8,863 | 8,800 | 9,380 | 9,730 |
| R&D General public services | 36 | 26 | 26 | 26 | 26 |
| General public services | 907 | 964 | 964 | 964 | 964 |
| Public debt transactions | 8,483 | 8,960 | 10,368 | 9,553 | 8,683 |
| ***Public order and safety*** | ***11,005*** | ***11,805*** | ***11,581*** | ***11,881*** | ***11,881*** |
| Police services | 6,359 | 6,311 | 6,311 | 6,611 | 6,611 |
| Law courts | 3,768 | 4,447 | 4,240 | 4,240 | 4,240 |
| Prisons | 878 | 1,046 | 1,030 | 1,030 | 1,030 |
| ***Economic affairs*** | ***48,671*** | ***71,721*** | ***56,636*** | ***57,242*** | ***57,149*** |
| General economic, commercial, and labor affairs | 10,166 | 13,722 | 10,094 | 9,101 | 9,101 |
| Agriculture, forestry, fishing, and hunting | 4,948 | 5,701 | 5,701 | 5,884 | 5,884 |
| Fuel and energy | 1,884 | 1,227 | 1,327 | 1,327 | 1,327 |
| Mining, manufacturing, and construction | 4,515 | 6,388 | 2,486 | 1,466 | 1,466 |
| Transport | 19,325 | 33,321 | 26,771 | 29,216 | 29,036 |
| Communication | 795 | 1,273 | 1,411 | 1,351 | 1,438 |
| Tourism | 6,528 | 9,509 | 8,266 | 8,266 | 8,266 |
| R&D Economic affairs n.e.c. | 382 | 452 | 452 | 502 | 502 |
| Economic affairs n.e.c. | 128 | 128 | 128 | 128 | 128 |
| ***Environmental protection*** | ***2,198*** | ***3,007*** | ***2,557*** | ***2,197*** | ***2,197*** |
| Waste management | 240 | 241 | 241 | 241 | 241 |
| Protection of biodiversity and landscape | 272 | 910 | 510 | 150 | 150 |
| Environmental protection n.e.c. | 1,685 | 1,856 | 1,806 | 1,806 | 1,806 |
| ***Housing and community amenities*** | ***11,770*** | ***21,842*** | ***14,798*** | ***15,544*** | ***15,514*** |
| Community development | 3,758 | 10,686 | 6,159 | 6,850 | 7,820 |
| Water supply | 3,918 | 6,993 | 4,489 | 4,489 | 3,489 |
| Housing and community amenities n.e.c. | 4,093 | 4,163 | 4,150 | 4,206 | 4,206 |
| ***Health*** | ***23,186*** | ***22,266*** | ***21,755*** | ***21,355*** | ***21,155*** |
| Medical products, appliances, and equipment | 991 | 695 | 1,095 | 695 | 495 |
| Outpatient services | 3,378 | 2,860 | 2,860 | 2,860 | 2,860 |
| Hospital services | 1,151 | 1,151 | 1,151 | 1,151 | 1,151 |
| Health n.e.c. | 17,665 | 17,559 | 16,648 | 16,648 | 16,648 |
| ***Recreation, culture, and religion*** | ***1,905*** | ***2,666*** | ***2,166*** | ***2,270*** | ***2,270*** |
| Recreational and sporting services | 441 | 466 | 466 | 520 | 520 |
| Cultural services | 1,464 | 2,200 | 1,700 | 1,750 | 1,750 |
| ***Education*** | ***20,522*** | ***21,427*** | ***21,139*** | ***21,189*** | ***21,189*** |
| Pre-primary and primary education | 3,078 | 2,735 | 2,735 | 2,759 | 2,759 |
| Tertiary education | 2,364 | 2,447 | 2,469 | 2,469 | 2,469 |
| Education n.e.c. | 15,080 | 16,245 | 15,935 | 15,962 | 15,962 |
| ***Social protection*** | ***24,025*** | ***25,955*** | ***25,737*** | ***25,950*** | ***25,952*** |
| Sickness and disability | 460 | 728 | 986 | 989 | 991 |
| Old age | 13,733 | 14,128 | 14,264 | 14,247 | 14,247 |
| Family and children | 7,413 | 7,766 | 7,841 | 8,068 | 8,068 |
| Housing | 84 | 109 | 109 | 109 | 109 |
| Social exclusion n.e.c. | 26 | 26 | 26 | 26 | 26 |
| Social protection n.e.c. | 2,307 | 3,198 | 2,511 | 2,511 | 2,511 |
| **Total CIG Expenditure** | **192,880** | **235,803** | **210,314** | **211,616** | **209,720** |
| **Official Development Assistance (ODA) Expenditure*** | | | | | |
| General public services | 13,552 | 41,786 | 18,037 | 6,871 | 5,816 |
| Economic affairs | 6,134 | 46,644 | 646 | 235 | 81 |
| Environmental protection | 1,170 | 600 | 0 | 0 | 0 |
| Housing and community amenities | 566 | 491 | 303 | 303 | 303 |
| Health | 2,362 | 148 | 0 | 0 | 0 |
| Recreation, culture, and religion | 80 | 0 | 0 | 0 | 0 |
| Social protection | 85 | 80 | 0 | 0 | 0 |
| **Total ODA Expenditure** | **23,949** | **89,749** | **18,985** | **7,409** | **6,200** |
| **TOTAL PUBLIC EXPENDITURE** | **216,829** | **325,552** | **229,299** | **219,024** | **215,921** |

Figure 5-3 illustrates the proportion of spending for the 10 main functional levels in the 2023/24 HYEFU, combining both the Cook Islands Government and ODA.

**Figure 5-3 Classification of Functions of Cook Island Government, 2023/24**




In 2022/23, the total expenditure under Economic affairs amounted to $48.7 million, closely aligning with the estimated expenditure reported in the 2023/24 Budget, which was $48.6 million.

Looking ahead, Economic affairs constitute 36.4 per cent (or $71.7 million) of the total public expenditure in 2023/24, indicating an increase of $5.3 million compared to the $66.5 million reported in the 2023/24 Budget. This increase is primarily attributed to the carry-forward of expenditure items such as the Airline Route Development ($0.4 million), Economic Recovery Roadmap ($0.9 million), Provision for inter-island shipping ($0.1 million), Rarotonga Airport Slab replacement project ($0.8 million), and the Road Asset Management and Improvement Programme project ($0.7 million). Expenditure areas falling under Economic affairs include transport expenditure ($33.3 million – including Airline Route Development), general economic, commercial, and labour affairs ($13.7 million), and tourism expenditure ($9.5 million).

General public services represent the next largest area of public expenditure at 29.8 per cent (or $55.1 million), with the administration costs of the Cook Islands Government being the primary driver of public expenditure in this category.

# 6. Crown Debt and Net Worth

The Cook Islands' *Medium-Term Debt Strategy (*MTDS) for the period 2022 to 2026 establishes debt management targets aimed at maintaining prudent levels of debt and risks consistent with the Medium-Term Fiscal Framework.

The key focus areas for the MTDS are:

1. Maintaining Crown debt as a share of GDP below the 65 per cent hard cap established by the Net Debt Rule.
2. New borrowing is limited to government priorities identified through the National Budget Process.
3. Manage and mitigate costs and risks by monitoring performance against these key indicators:

**Table 6-1 Key Targets 2023 – 2026 with estimates as at 30 June 2024**

| | Indicators | Current level (2024) | Target – overall debt | Target – new debt |
|---|---|---|---|---|
| Interest rate risk | 1. Implied interest rate | 5.2% | <4.5% | <4.5% |
| | 2. % of total debt in variable interest rates | 77.0% | <70% | <65% |
| Refinancing risk | 3. Limit total public debt maturing in 1 year | 3.5% | <6% | <5% |
| | 4. Total Average Time to Maturity | 7.2 years | >7 years | >15years |
| Exchange rate risk | 5. foreign debt as a % of total debt | 43.3% | <30% | <10% |

4. Complete the application process for country reclassification review with the Asian Development Bank (ADB) by 2022/23. This has since been completed, and the Cook Islands is now classified as a Group B country (from Group C), as well as being eligible for financing on terms for Small Island Developing States (SIDS).
5. Research white paper on the feasibility of setting up the domestic debt market by issuing government securities in New Zealand to utilise the larger market for NZD securities.

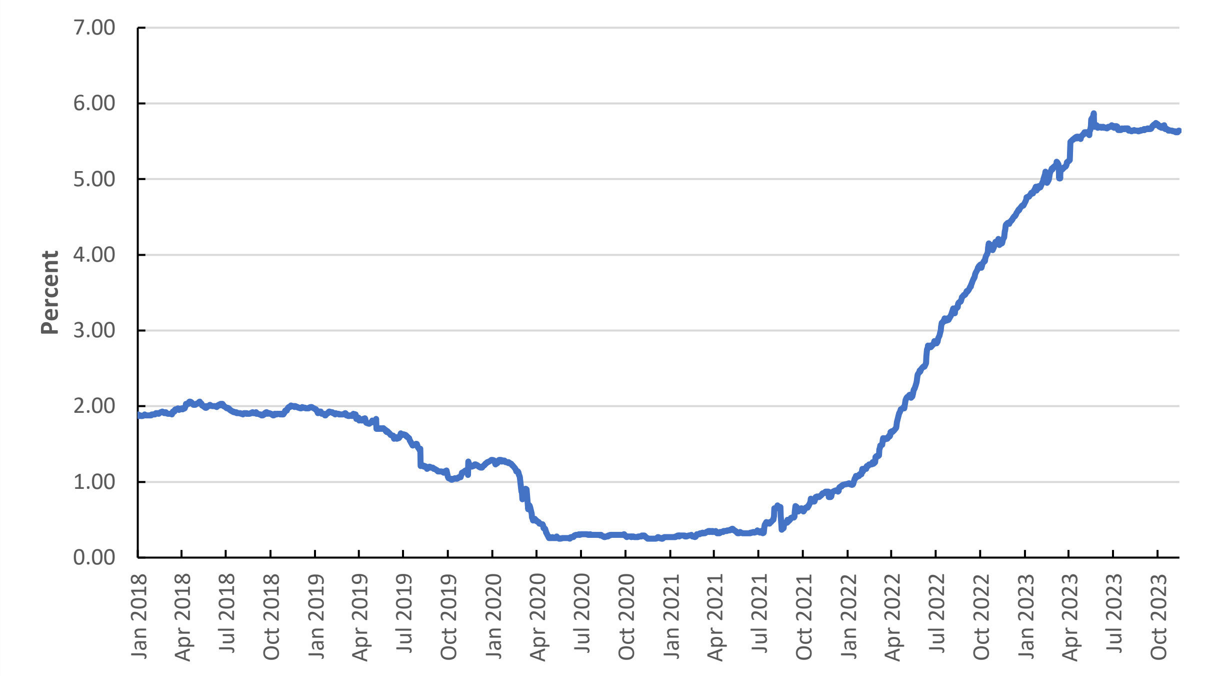
These indicators are subject to annual monitoring. Following the release of the MTDS, the Government has engaged in discussions with certain lending partners regarding debt management initiatives.

The primary debt management variable that has undergone changes since the 2023/24 Budget pertains to the interest rates on debt, particularly the United States six-month Bank Bill Rate, which serves as the benchmark rate for some USD-denominated debt, along with alterations in the exchange rates employed.

**Table 6-2 Currency movement since Appropriation 2023/24 (million)**

| Currency | *2023/24 Budget* | *2023/24 HYEFU* | *Movement* | *% Change* |
|---|---|---|---|---|
| EUR | *0.5948* | *0.5688* | ***-0.0260*** | -4% |
| USD | *0.6590* | *0.6160* | ***-0.0430*** | -7% |
| RMB | *4.3764* | *4.3857* | ***0.0092*** | 0% |
| SDR | *0.4821* | *0.4743* | ***-0.0077*** | -2% |

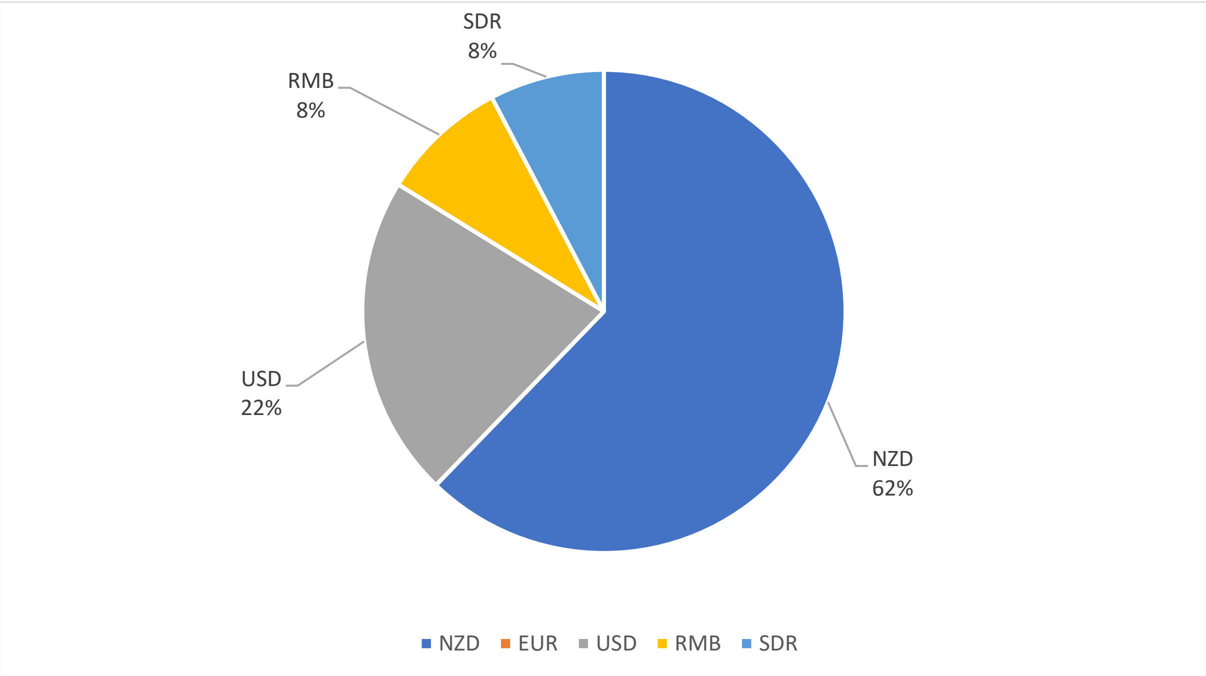
**Figure 6-1 New Zealand 6-month Bank Bill Rate**




Source: Reserve Bank of New Zealand

Roughly 62 per cent of the government's debt portfolio is in NZD and remains unaffected by variations in exchange rates. However, 22 per cent of the debt portfolio is denominated in USD, with an additional 8 per cent in Special Drawing Rights (SDR), where USD is one of the components. Table 6-2 demonstrates a 7 per cent depreciation of NZD against USD. This depreciation in USD is the key factor contributing to the increase in the value of the debt, and other depreciations account for an unrealised foreign-exchange loss of $3.7 million.

**Figure 6-2 Public Debt Portfolio by Currency – June 2024**



The total gross debt, initially reported as $212.8 million in the 2023/24 Budget has been adjusted upwards to $216.6 million (an increase of $3.7 million) in the HYEFU. This adjustment predominantly reflects the impact of the depreciation of the NZD, as illustrated below.

**Table 6-3 Debt movement since the Appropriation 2023/24 (million)**

| Debt Financial forecast 2023/24 | Direct Debt | SOE Debt | Gross Debt |
|---|---|---|---|
| Loans committed and drawn | 169.69 | 41.05 | 210.74 |
| SOE direct commercial debt | 0.00 | 2.09 | 2.09 |
| **Total gross debt - original forecast** | **169.69** | **43.15** | **212.83** |
| *Adjustments made for half-year update* | | | |
| FOREX Exchange movement | 2.12 | 1.62 | 3.74 |
| ***Total Adjustments*** | ***2.12*** | ***1.62*** | ***3.74*** |
| **Debt financial forecast - Half Year Update** | | | |
| Loans committed and drawn | 171.81 | 42.67 | 214.48 |
| SOE direct commercial debt | 0.00 | 2.09 | 2.09 |
| **Total gross debt – 2023/24 HYEFU** | **171.81** | **44.76** | **216.57** |

## 6.1. Debt Headroom

**Table 6-4 Financing Requirements 2024-2027 ('000)**

| Financing Requirements | 2022/23 Actual | 2023/24 Budget | 2023/24 HYEFU | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|---|
| Net Operating Balance | (5,773) | (881) | (3,807) | 13,102 | 17,893 | 26,828 |
| Net Non-Op. Balance (excl debt) | (29,853) | (33,787) | (40,554) | (30,145) | (34,337) | (36,843) |
| Depreciation | 14,066 | 15,360 | 15,360 | 15,410 | 15,410 | 14,809 |
| Payments made from LRF | 5,725 | 0 | 0 | 0 | 0 | 0 |
| **Financing Req. (excl debt)** | **(15,835)** | **(19,307)** | **(29,001)** | **(1,633)** | **(1,034)** | **4,794** |
| *add: General Cash Reserves (utilisation)* | *15,835* | *19,307* | *29,001* | *5,050* | *5,808* | *317* |
| *add: Debt Financing* | *0* | *0* | *0* | *0* | *0* | *0* |
| **Financing Gap** | **0** | **0** | **0** | **0** | **0** | **0** |
| | | | | | | |
| Current debt level | 233,356 | 212,833 | 216,569 | 199,363 | 179,965 | 159,970 |
| **Estimated Debt Inc Financing** | **233,356** | **212,833** | **216,569** | **199,363** | **179,965** | **159,970** |
| GDP forecast | 513,595 | 541,470 | 563,890 | 595,640 | 624,019 | 652,935 |
| **Gross Debt to GDP** | **45%** | **39%** | **38%** | **33%** | **29%** | **25%** |
| | | | | | | |
| LRF Balance | 5,047 | 5,900 | 2,840 | 2,897 | 2,955 | 3,014 |
| Estimated net debt level | 228,308 | 206,933 | 213,728 | 196,466 | 177,010 | 156,956 |
| **Net Debt to GDP** | **44%** | **38%** | **38%** | **33%** | **28%** | **24%** |
| **Debt Headroom** | 105,528 | 139,123 | 152,800 | 190,700 | 228,602 | 267,452 |

The figures provided in the table above, suggest a minimal shift in net debt as a percentage of GDP, remaining at approximately 38 per cent for 2023/24. This is mainly due to the higher GDP forecast being offset by the movements in foreign exchange as shown in Table 6-3.

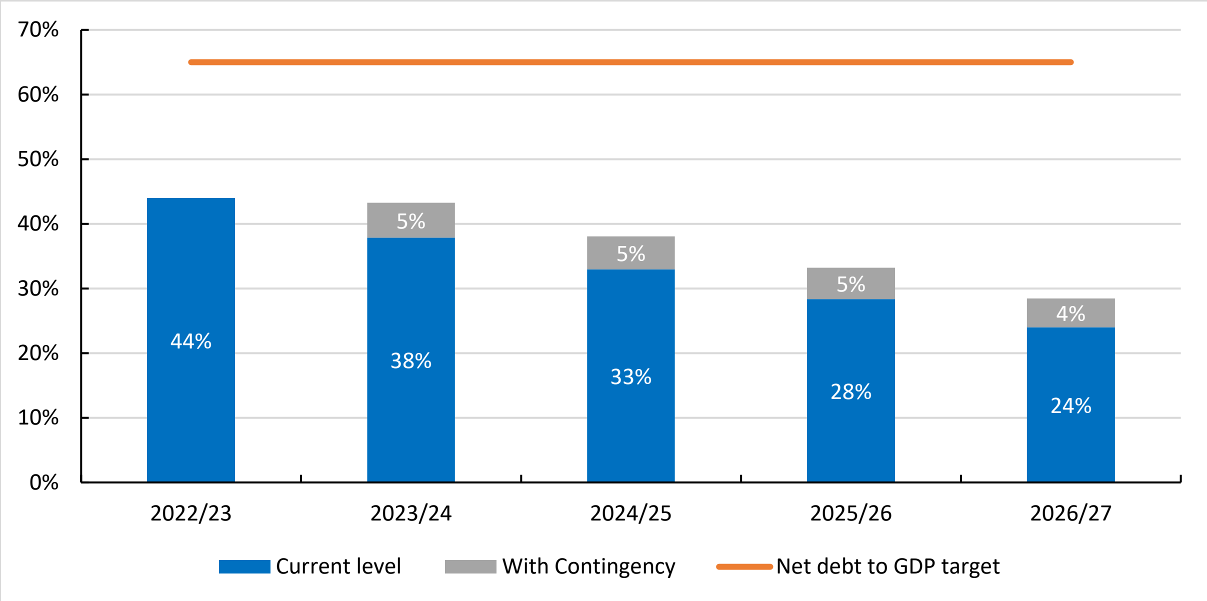
The projected Loan Repayment Fund (LRF) balance for 2023/24 is estimated to reduce from the initial estimate of $5.9 million to $2.8 million. This reduction is largely attributed to increased debt service obligations resulting from increased interest rates and some unfavourable foreign exchange movements. According to section 7(1)(b) of the LRF Act 2014, the Financial Secretary is mandated to ensure that the fund's balance does not fall below the anticipated amount of government debt scheduled for payment in that financial year, i.e., the debt service requirements.

The remaining balance of the LRF, projected to reach $2.8 million by the end of June 2024, reflects the amount left after fulfilling the annual debt service requirements, thereby adhering to the stipulations of the LRF Act 2014.

This overview does not consider any new debt. However, the Government has committed to a contingent debt instrument valued at $30.3 million. This instrument is reserved for activation only in the occurrence of disasters stemming from natural hazards or health emergencies.

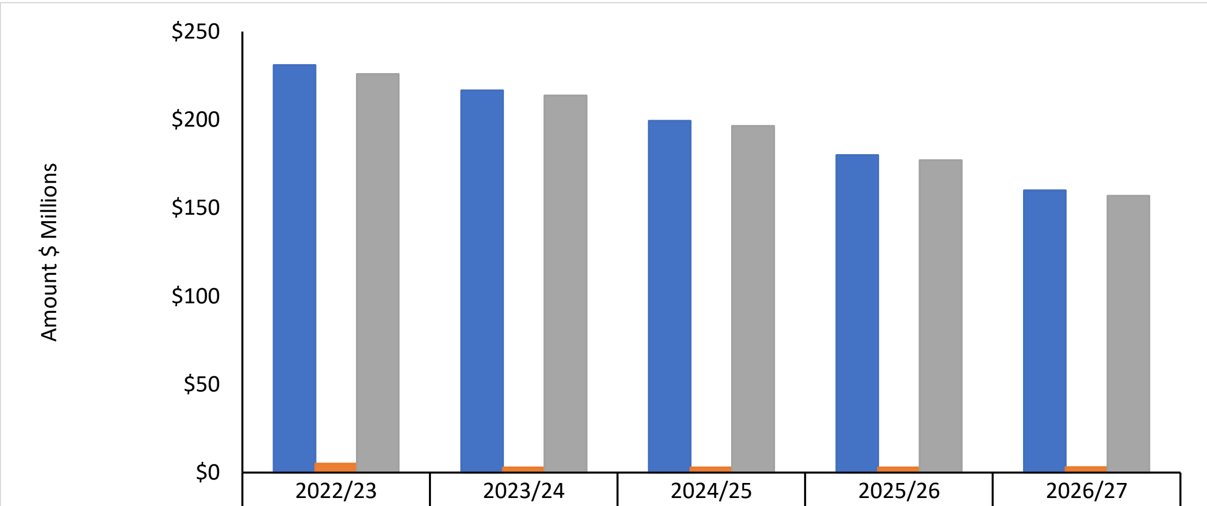
In Figure 6-3 below, the hard cap of 65 per cent of Net Debt to GDP and the soft cap of 55 per cent of Net Debt to GDP will not been breached over the medium-term. The graph also shows that if the Government is required to take on the contingent loan, it will stay compliant within these specified thresholds.

**Figure 6-3 Net debt to GDP (percentage of nominal GDP)**




The estimated net debt stands at $213.7 million, equivalent to 37.9 per cent of GDP. Over time, it is projected to decrease in the subsequent years under the assumption that principal is gradually repaid, the Crown refrains from acquiring additional loans, and GDP follows the forecasted growth trajectory.

**Figure 6-4 Crown debt net of Loan Repayment Fund ($ million)**

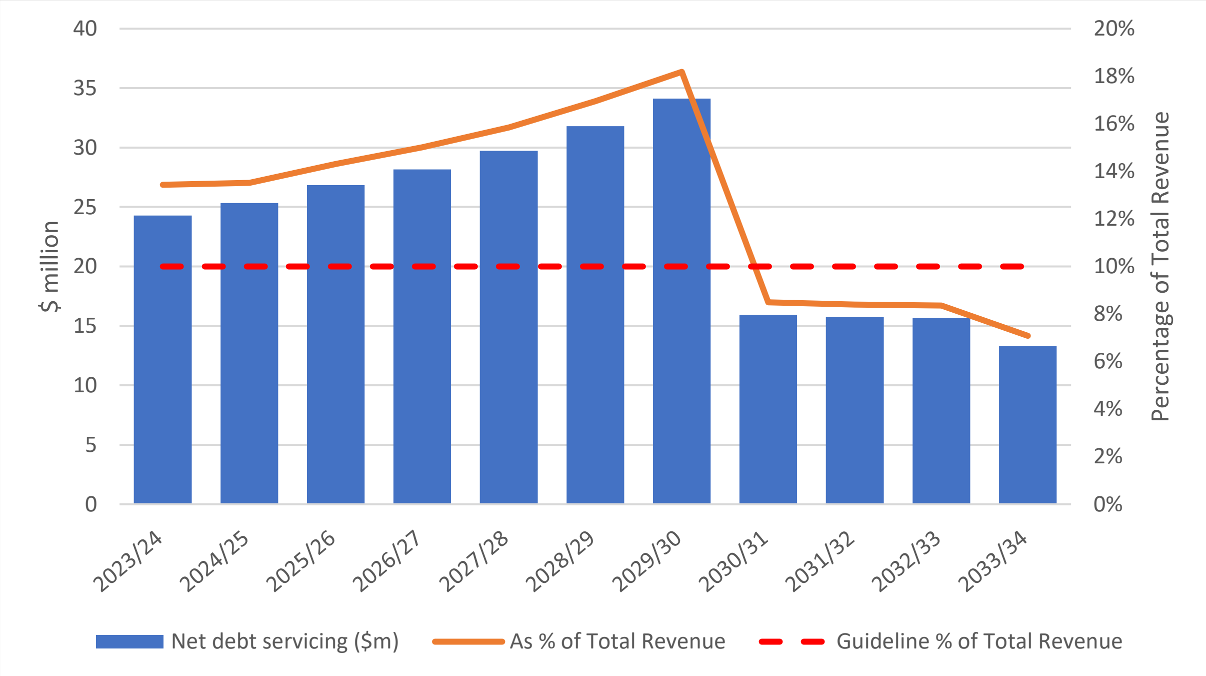



| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Total Gross Debt | 231.03 | 216.57 | 199.36 | 179.97 | 159.97 |
| LRF Balance | 5.05 | 2.84 | 2.90 | 2.95 | 3.01 |
| Debt net of LRF | 225.98 | 213.73 | 196.47 | 177.01 | 156.96 |

While net debt to GDP remains within the fiscal limit of 65 per cent, the proportion of net debt servicing to total revenue is anticipated to exceed 10 per cent from 2023/24 through to 2029/30. This poses a potential concern as it could impact the government's cashflow unless overall spending is not reduced. The Crown's debt servicing is expected to peak at 18 per cent of total revenue, with an annual repayment of $34.1 million in 2029/30, although it is worth noting that $4.7 million of this pertains to State-Owned Enterprise (SOE) debt servicing.

The debt servicing profile is largely influenced by the post COVID-19 loans which were provided under less concessional terms, with shorter average repayment terms of 10 years.

**Figure 6-5 10-year Net Debt Servicing Profile ($ million)**



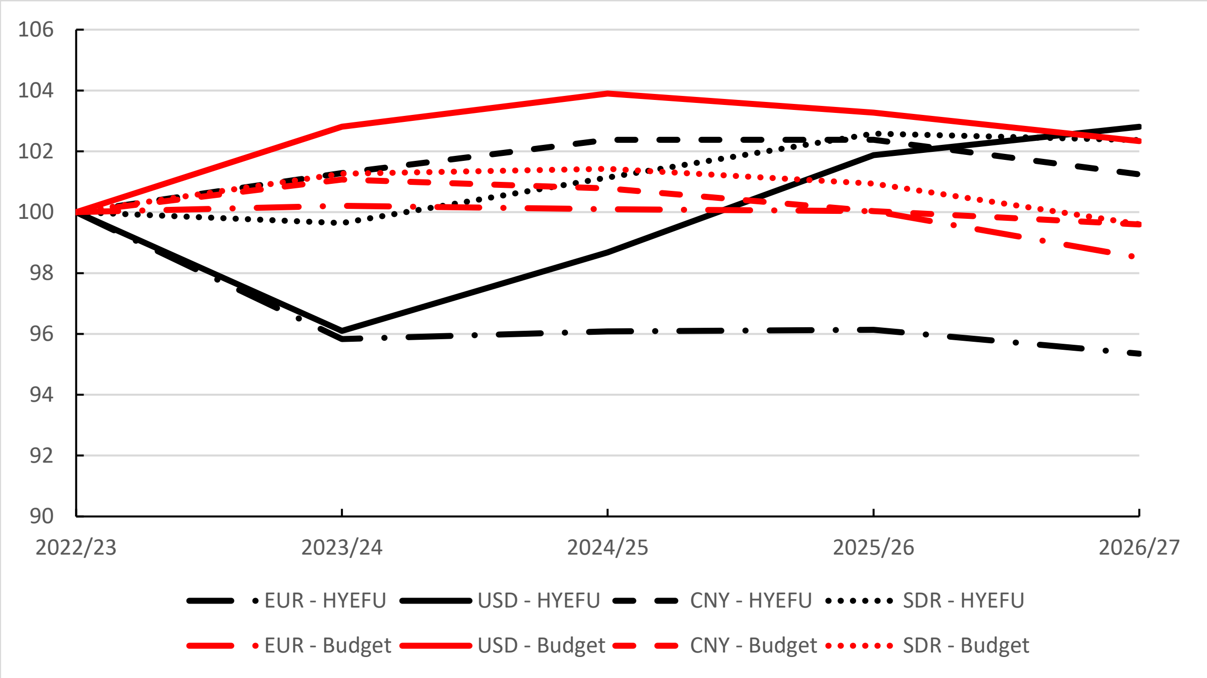

## 6.2. Exchange Rate Analysis

Currency risk arises when debt is held in foreign currency. Adverse movements in the exchange rate against the NZD results in increased costs. To minimise foreign currency risk, the Government prefers new borrowings in the local currency and limits borrowings in currencies that are not favourable to the local currency.

**Table 6-5 Exchange Rate Forecast – 2022/23 to 2026/27**

| Currency | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| NZD/EUR | 0.5935 | 0.5688 | 0.5703 | 0.5706 | 0.5659 |
| NZD/USD | 0.6410 | 0.6160 | 0.6325 | 0.6530 | 0.6590 |
| NZD/CNY | 4.3300 | 4.3857 | 4.4329 | 4.4330 | 4.3837 |
| NZD/SDR | 0.4760 | 0.4743 | 0.4814 | 0.4883 | 0.4873 |

**Figure 6-6 Assumed changes in major exchange rates (indices – 2022/23 = 100)**




The graph above illustrates the volatility and complexity involved in predicting exchange rate movements. Despite initial reports during the budget that anticipated an appreciation of the NZD against its major trading partners for the financial year 2023 (depicted by the red trend), the current HYEFU forecast (indicated by the black trend) confirms an initial movement in the opposite direction, although it still predicts subsequent appreciation.

### 6.2.1. Debt Sensitivity Analysis

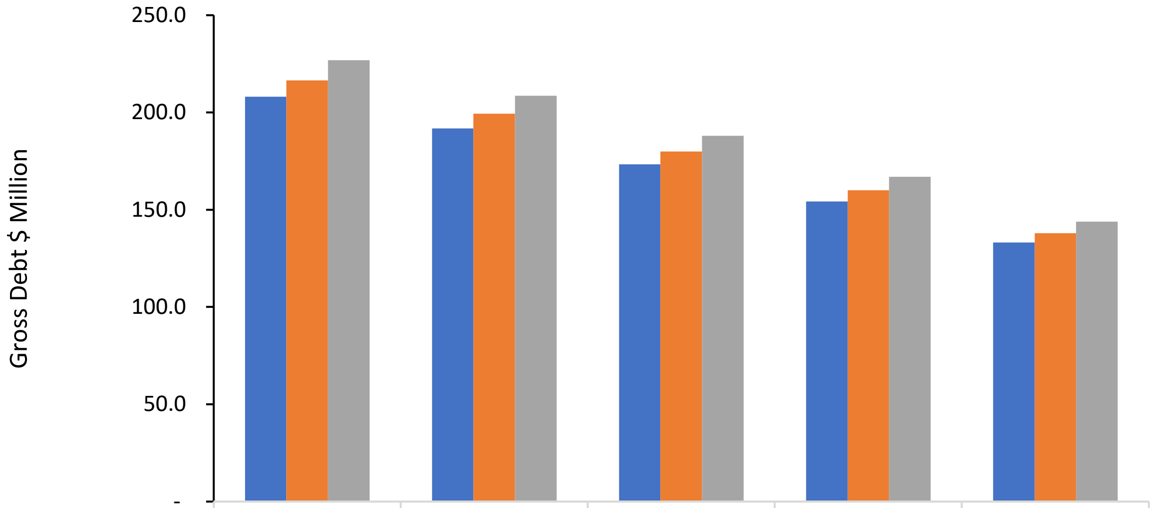
**Table 6-6 Base exchange rates assumptions used in 2023/24 Budget with +/- 10%**

| Foreign Exchange Currency | -10% | Budget base rate | +10% |
|---|---|---|---|
| EUR | 0.5119 | 0.5688 | 0.6257 |
| USD | 0.5544 | 0.6160 | 0.6776 |
| RMB | 3.9471 | 4.3857 | 4.8242 |
| SDR | 0.4269 | 0.4743 | 0.5217 |

Fluctuations in the NZD's value against the currencies of the held loans pose a potential risk. The sensitivity analysis outlines the consequences of a 10 per cent appreciation or depreciation of the NZD, illustrating the impact on gross borrowings and debt servicing costs.

For 2023/24, an unrealised foreign-exchange loss of $3.7 million is estimated, mainly attributed to the reported depreciation of the NZD value against the USD by 7 per cent.

**Figure 6-7 Sensitivity of Crown Goss Debt to NZD movements**

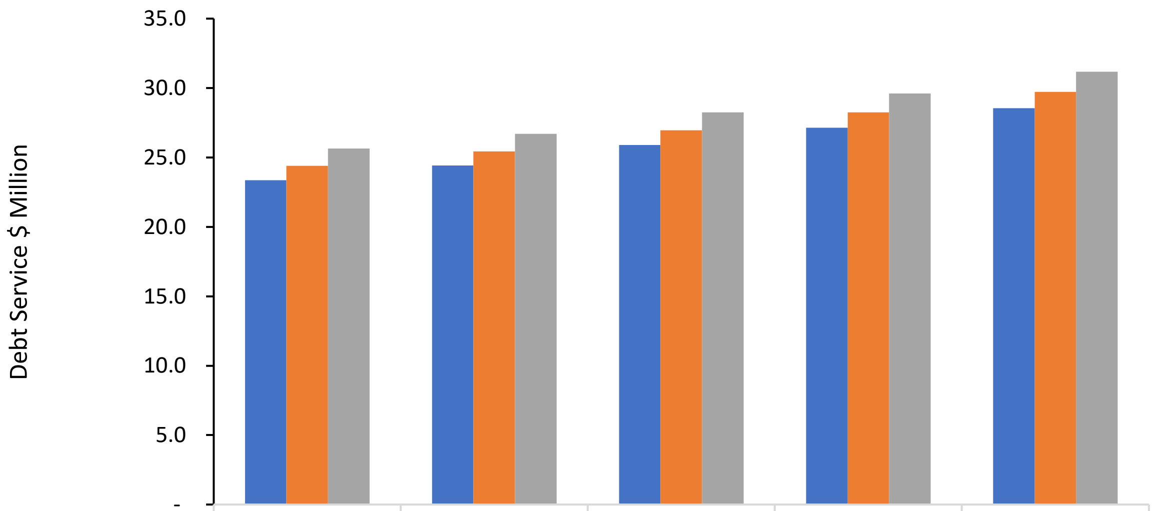



| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Increase by 10% | 208.1 | 191.8 | 173.3 | 154.2 | 133.1 |
| Base Rate | 216.6 | 199.4 | 180.0 | 160.0 | 137.9 |
| Decrease by 10% | 226.9 | 208.6 | 188.1 | 167.0 | 143.8 |

If the relevant NZD exchange rates were to experience a further 10 per cent depreciation against major trading currencies, the Crown's estimated debt for 2023/24 would rise by approximately $10.3 million. In contrast, if the NZD were to appreciate by 10 per cent, the increase would be $8.5 million. This highlights the Crown's gross debt level as being more adversely affected by the depreciation of the NZD.

Likewise, a 10 per cent reduction in the foreign currency value of the NZD would result in an increase in debt servicing costs to the LRF by $1.2 million, as opposed to $1.0 million in the 2023/24 fiscal period if the NZD were to appreciate by 10 per cent.

**Figure 6-8 Sensitivity of Crown Debt Servicing Costs to NZD movements**




| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Increase by 10% | 23.4 | 24.4 | 25.9 | 27.2 | 28.6 |
| Base Rate | 24.4 | 25.4 | 27.0 | 28.3 | 29.7 |
| Decrease by 10% | 25.6 | 26.7 | 28.2 | 29.6 | 31.2 |

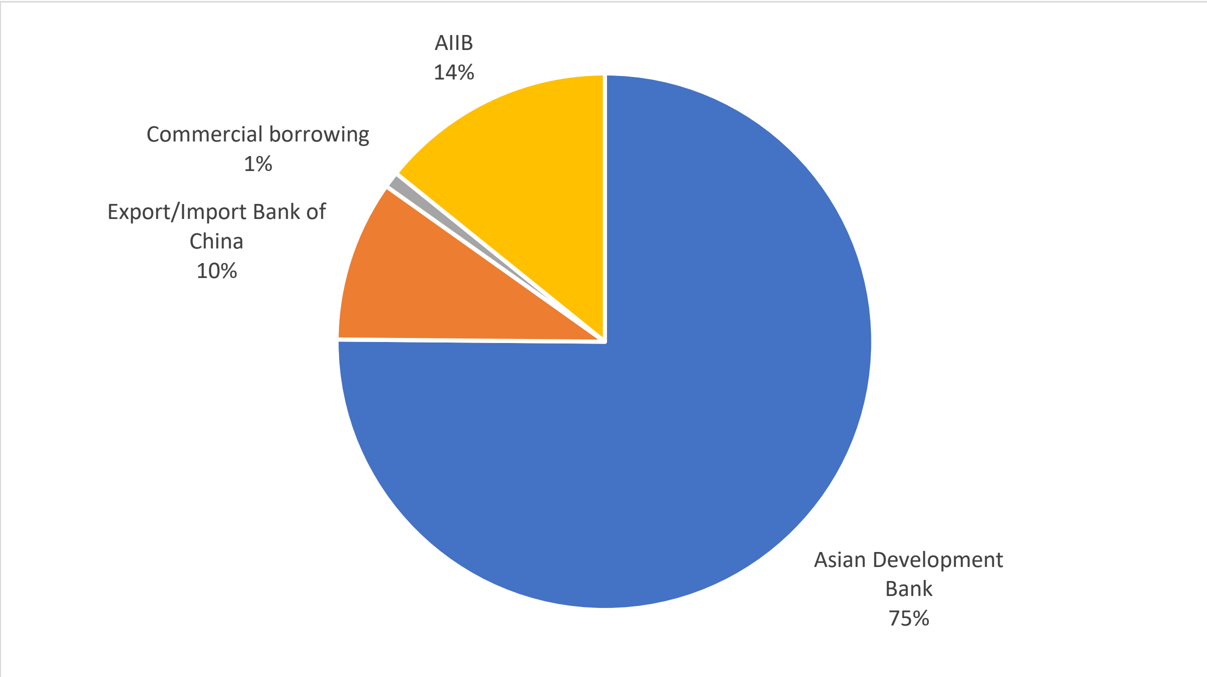
## 6.3. Crown Debt by Lenders

**Table 6-7 Overall Debt by Lenders – June 2024**

| Debt Outstanding | ($ million) |
|---|---|
| ADB | 162.7 |
| AIIB | 30.7 |
| Exim Bank China | 21.0 |
| Commercial Bank | 2.1 |
| **Total** | **216.6** |

The ADB has been the primary source of lending for the Cook Islands, constituting 75 per cent of the existing debt portfolio. While the borrowing terms have been concessional to date, recent limitations in the selection of terms, such as interest rate type and tenure, introduce additional risk to the debt portfolio. However, there is potential for mitigation in the case of new debt, as the ADB might consider reclassifying the Cook Islands to a Group B country post COVID-19. The newly announced improved terms for SIDS are particularly welcomed in this context.

**Figure 6-9 Overall Debt by Lenders – June 2024**



## 6.4. Gross Debt by Individual Loan

**Table 6-8 Status of Government loans to 30 June 2024**

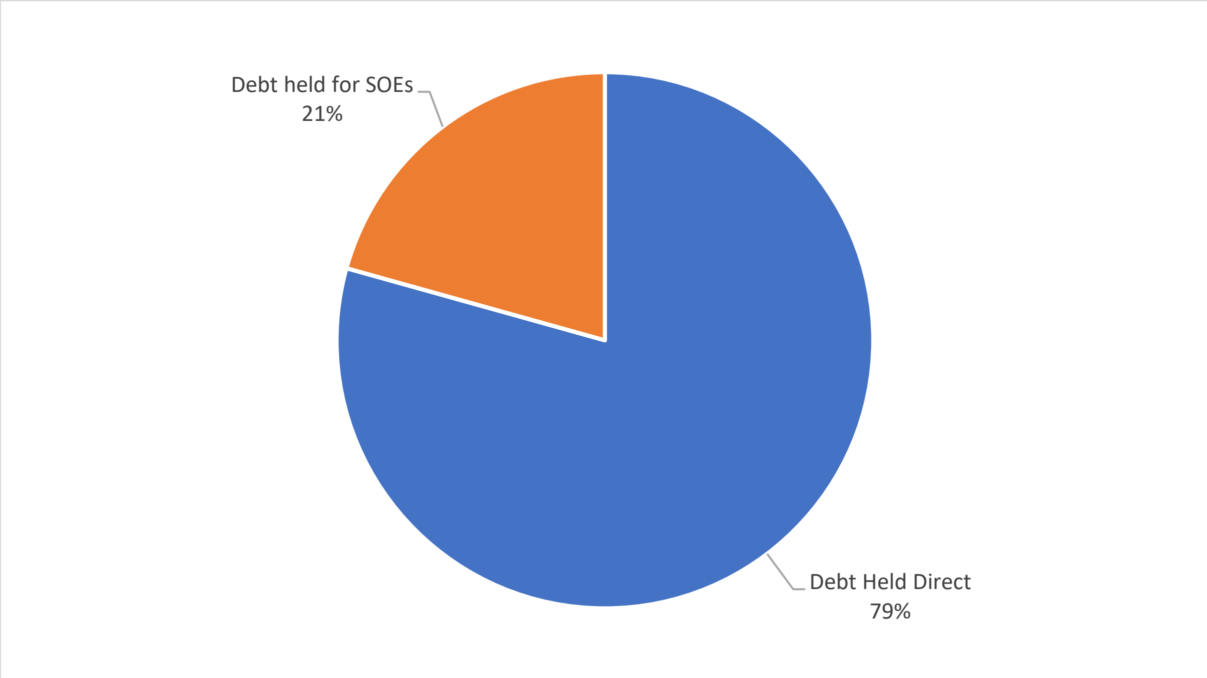
| Loans committed and drawn | Date loan taken | Original loan amount (000's) | Expected date of Repayment | Current Balance ($NZD 000's) |
|---|---|---|---|---|
| ADB 849 (SF) 2nd Multi-Project | December, 1987 | SDR 2,150 | August, 2027 | 591 |
| ADB 1031 (SF) Outer Islands Telecom Project | October, 1990 | SDR 3,578 | August, 2030 | 2,096 |
| ADB 1155 (SF) 2nd CIDB Project | March, 1992 | SDR 1,085 | December, 2031 | 573 |
| ADB 1171 (SF) Emerg. Telecom Rehab Project | August, 1992 | SDR 349 | June, 2032 | 202 |
| ADB 1309 (SF) Pearl Industry Dev. Project | December, 1994 | SDR 272 | August, 2034 | 262 |
| ADB 1317 (SF) Educ'n Dev Project | February, 1995 | SDR 1,852 | August, 2034 | 1,595 |
| ADB 1380 (SF) 3rd CIDB Project | January, 1996 | SDR 1,977 | September, 2035 | 1,411 |
| ADB 1466 (SF) Economic Restructure Program | September, 1996 | SDR 3,430 | September, 2036 | 3,308 |
| ADB 1588 (SF) Cyclone Emergency Rehab Project | January, 1997 | SDR 583 | January, 2038 | 598 |
| ADB 1832 (SF) Waste Mgt Project | December, 2001 | SDR 1,695 | June, 2033 | 1,251 |
| ADB 2174 (SF) Cyclone Emergency Assist Project | June, 2005 | SDR 1,895 | June, 2045 | 3,067 |
| China - Multi-Functional Indoor Sports Stadium | August, 2008 | RMB 74,100 | August, 2028 | 4,947 |
| ADB 2472 (OCR) Avatiu Port Development Project | September, 2009 | NZD 10,309 | November, 2033 | 7,084 |
| ADB 2473 (SF) Avatiu Ports Development project | September, 2009 | SDR 4,524 | November, 2040 | 4,002 |
| ADB 2565 OCR Economic Recovery Support Program 1 | January, 2010 | NZD 11,053 | October, 2024 | 502 |
| ADB 2739 (OCR) Amendment Avatiu Port project | December, 2011 | NZD 5,290 | November, 2035 | 4,184 |
| China - Rarotonga Water Ring Main Upgrade | December, 2012 | RMB 118,000 | December, 2032 | 16,076 |
| ADB 2946 OCR Economic Recovery Support Program 2 | December, 2012 | NZD 11,053 | October, 2027 | 2,115 |
| ADB 3193 Renewable Energy Project | December, 2014 | NZD 12,980 | June, 2036 | 8,639 |
| ADB 001-COO(FA-CDF) - Disaster Resilience Program | December, 2019 | NZD 15,676 | June, 2035 | 14,370 |
| ADB 3632 - Loan for Undersea Broadband Cable | November, 2018 | USD 15,000 | 2031 | 22,524 |
| Commercial - Loan for Rarotonga Airport Equipment | January, 2018 | NZD 3,206 | 2033 | 2,093 |
| ADB 4010 - CPRO Loan | November, 2020 | NZD 30,409 | June, 2030 | 28,795 |
| AIIB - CPRO Loan | December, 2020 | USD 20,000 | June, 2030 | 30,744 |
| ADB 4161 - Sustainable Economic Recovery Program | December, 2021 | NZD 55,540 | December, 2036 | 55,540 |
| **Total Loans Drawn Down** | | | | **216,569** |
| **Contingency Loans** | *Estimated* | | | |
| ADB - Disaster Resilience Program (Phase 3) | *December, 2023* | NZD 30,312 | June, 2035 | 30,312 |
| **Total Committed/Planned but Undrawn** | | | | **30,312** |
| **Total Loans Commitment by the Crown** | | | | **246,881** |

## 6.5. State-Owned Enterprise Debt

Since the enactment of the LRF Act in 2014, all new debt (including SOE debt) must go through a full debt sustainability analysis and receive approval from Cabinet, based on recommendations from the Financial Secretary.

As depicted in the graph below, the existing debt portfolio to the end of June 2024 reveals that approximately 21 per cent of Crown debt is on-lent to SOEs. This includes loans on the Crown's balance sheet for the Ports Authority loan ($15.3 million), the Avaroa Cable Limited loan ($22.5 million) and a direct local commercial loan for the Airport Authority ($2.1 million).

**Figure 6-10 Overall Debt by SOEs and Direct – June 2024**




**Airport Authority**

The Airport Authority is currently repaying its loan from the commercial bank, amounting to $2.1 million for the 2023/24 fiscal period. The estimate includes an additional loan of $1.0 million for the RESA project and the construction of the Air New Zealand cargo shed. The loan is intended to be secured through a registered mortgage debenture over the assets and undertakings of the Authority.

**Ports Authority**

As of July 2023, the Ports Authority has recommenced its debt repayments to the Government, following a repayment hiatus during the pandemic.

Moreover, the Crown ensured that the debt repayments to the ADB were consistently met even during the repayment holiday period.

# 7. Official Development Assistance

**Table 7-1: ODA Expenditure**

| **Cook Islands ODA December 2023 Update** | **($'000)** |
|---|---|
| FY2023/24 Half-Year Economic and Fiscal Update (HYEFU) | 98,849 |
| FY2023/24 ODA Budget (excluding CSS) | 89,749 |
| FY2023/24 HYEFU estimated spend to date | 17,551 |
| Conversion rate December 2023 | 17.8% |

Total Official Development Assistance (ODA) inclusive of Core Sector Support funding for 2023/24 is $98.8 million. Approximately $17.5 million has been utilised as of December 2023, representing a 17.8 per cent spend against the total 2023/24 ODA budget which is consistent with the spend-to-December for previous fiscal years. The 2023/24 ODA budget also includes the full appropriation of the Cook Islands Infrastructure Trust Fund (ITF), totalling $39.4 million, to allow for any projects approved by the ITF to be implemented.

## 7.1. New Zealand Programmes

**Cook Islands Core Sector Support**

The Core Sector Support (CSS) Grant Funding Arrangement (GFA) with New Zealand provides support for the Cook Islands to effectively deliver key development objectives and practical policy reforms. The Budget Support modality focuses on measures that strengthen the tourism, health and education sector.

For the 2023/24 budget, New Zealand provided $9.1 million as bridge funding support due to the completion of the previous GFA in June 2023. Discussions for a new CSS arrangement is expected to commence in early 2024.

An additional $5.1 million is provided under the same CSS arrangement to support public sector strengthening through the provision of technical assistance. Proposals for technical assistance must demonstrate relevance to the Cook Islands' Public Sector Strategy, broader Public Sector reform or strengthening and the Cook Islands' Economic Development Strategy. Total spend for this output as of December 2023 is $425,570.

**Cook Islands-New Zealand Infrastructure Trust Fund**

In December 2019, an initial contribution of $12.0 million was provided by the New Zealand Government to establish the Cook Islands ITF for the purpose of:

- Investing in physical infrastructure to deliver essential services to Cook Islanders
- implementing the National Infrastructure Investment Plan or Medium-term Fiscal Strategy and;
- Supporting the capability development of the Cook Islands' Infrastructure sector (across government and the private sector).

A further grant contribution to the ITF was made in March 2022 of $40.0 million to help stimulate the Cook Islands' economy and strengthen its overall resilience through capital works.

The allocation of funding towards infrastructure projects is mutually agreed between both the New Zealand Government and the Cook Islands Government. The Ministry of Finance and Economic Management (MFEM) provides oversight over the use of these funds.

The following projects have been identified as priority pipeline projects for the ITF:

i) Mei Te Vai Ki Te Vai (MTVKTV);
ii) Rarotonga International Airport Slab Replacement Project;
iii) Manihiki Airport Improvement;
iv) Northern Group Renewable Energy;
v) Avarua Town Plan and the Punanga Nui Market; and
vi) Solid Waste Disposal System for Rarotonga.

Of these projects, a total of $20.0 million from the ITF was approved in November 2022 for the;

(i) Avarua Town Plan – $7.6 million; and
(ii) Manihiki Airport Improvement Project – $12.4 million.

The Avarua Town Plan project began in March 2023 and the total spend to December 2023 is $202,205. The Manihiki Airport Improvement Project has yet to be finalised for implementation.

**Kerekere Moana – Climate Flexible Facility**

The Kerekere Moana arrangement is a partnership agreement between the Cook Islands Government and the Government of New Zealand to address the challenges posed by climate change. The arrangement was signed in June 2023 and extends until 2025. A total of $14.0 million was received upon signing of the arrangement, and a further $10.0 million will be received at a later date.

The partnership arrangement aims to bolster climate principal projects that align with the Cook Islands Government's priorities and actions to enhance the nation's resilience.

The ITF has been nominated as the initial mechanism for fund disbursement. The ITF will not solely concentrate on infrastructure-related responsibilities but it will also focus on supporting the country's priority pipeline projects with a climate change rationale.

The ITF has agreed to support the design phase for the Northern Group Renewable Battery Replacement project. To date, the ITF has approved $255,000 to initiate the following design work:

- Engineering Design - $80,000
- Finalise Business Design - $175,000

The engineering design works are currently underway and expected to be complete by early 2024.

**Manatua Submarine Cable (ICT cable) – New Zealand Grant**

Implementing agency: Avaroa Cable Limited

Total estimated spend to Dec 2023: Nil

The Avaroa Cable Limited (ACL) is a crown corporate entity that manages the Cook Islands involvement in the Manatua cable project and its commercialisation as an international and domestic wholesale operator. The entity constructed the Cook Islands' two cable landing stations and oversaw the cable procurement, construction, and deployment. The Manatua cable went live in the Cook Islands in July 2020 and is now carrying contracted revenue generating customer traffic, achieving 100 per cent availability to date.

**Rarotonga Airport Upgrade Designs**

Implementing agency: Airport Authority Cook Islands

Total estimated spend to Dec 2023: $70,167

A total of $1.5 million has been provided to enable the Airport Authority of the Cook Islands (AACI) to review its airport development plan, to factor the impacts of COVID-19 on airport activity. Associated costs include consulting services to prepare the design and tender documentations to revise the airport terminal requirements and to strengthen the airport apron and storm water drainage system. By having these documents prepared, it will enable the AACI to access construction financing from the private sector, commercial sources or other development partners.

AirBiz Aviation Strategies Limited provided procurement, project management and functional design review services for this project in October 2020. The “Construction Tender Package” for the Rarotonga International Airport Terminal Expansion project consists of five phases:

- Phase 1: Stakeholder consultation, functional and operational requirements, confirming design concepts
- Phase 2: Preliminary Design and Preliminary cost estimates
- Phase 3: Developed Design and refined cost estimates
- Phase 4: Detailed Design and Scheduled
- Phase 5: Construction Tender Package

In December 2021, AACI entered into a contract with GHD to deliver phases one and two of the “Terminal Expansion design”. Delivery of the remaining three phases will be determined upon completion of phase two.

In March 2022, AACI completed a contract with Airport Consultancy Group (ACG) to provide services to the “Apron expansion design”. The scope of works involved a two-stage approach, with five phases:

- Stage 1: Expansion of Apron to provide parking of two wide-body aircraft and one narrow-body aircraft
    - Phase 1: Stakeholder consultation, workshops, design concepts, risk management
    - Phase 2: Concept design
    - Phase 3: Draft detailed design
    - Phase 4: Final detailed design
    - Phase 5: Costings and tender documents
- Stage 2: Expansion east to accommodate three turboprop aircraft
    - Phase 1: Stakeholder consultation, workshops, design concepts, risk management
    - Phase 2: Concept design
    - Phase 3: Draft detailed design
    - Phase 4: Final detailed design
    - Phase 5: Costings and tender documents

The terminal and apron expansion design works are completed. The remaining work to be completed is the storm water upgrade design.

**Improving Geospatial Data - LiDAR**

Implementing agency: Infrastructure Cook Islands

Total estimated spend to Dec 2023: $208,221

This project aims to address existing data gaps by collecting high-resolution topographic data and associated imagery to support applications such as, the assessment of coastal inundation and flooding hazards, environmental monitoring and management, infrastructure and development planning, policy development and implementation as well as responses to climate change impacts across the Cook Islands.

To date, Infrastructure Cook Islands (ICI) has received coverage maps for eight islands; Rarotonga, Mangaia, Atiu, Aitutaki, Takutea, Palmerston, Mitiaro and Mauke.

**Pacific Maritime Safety Programme**

Implementing agency: Ministry of Transport

Total estimated spend to Dec 2023: $113,683

This programme will promote and implement safe, reliable, environmentally-friendly and affordable maritime transport services to connect people and markets in the Pacific and to meet international requirements through the following outputs:

- Maritime safety education delivered in communities;
- Regulatory framework strengthening;
- Marine sector education and training;
- Vessel and navigation safety improvements; and
- Search and rescues and oil spill preparedness.

Implementation of this programme commenced in March 2022.

**SPC Managing Water Scarcity through Strengthened Water Resources**

Implementing agency: Infrastructure Cook Islands

Total estimated spend to Dec 2023: $516,000

This project responds to the Ministry of Foreign Affairs and Trade New Zealand's Water Security Strategic Approach to address the climate change-related water security challenges faced by Pacific Island countries. The Pacific Community (SPC) is implementing this project over a two-year period from September 2021 to December 2023.

This project aims to provide support to specific water-scarce communities to manage resources to improve resilience, to ensure that:

- Communities have the infrastructure and capability required to access, collect, and store water;
- Communities understand, protect, and maintain water resources and infrastructure; and
- Communities are sustainably using water resources and managing risk.

**Cook Islands Climate Change: Improving Access to Finance**

Implementing agency: Climate Change Cook Islands – Office of the Prime Minister

Total estimated spend to Dec 2023: $89,818

This activity is supported by funding from the New Zealand Government to increase capacity for the Climate Change Cook Islands (CCCI) to access and effectively use climate finance resources. The funding will help strengthen capacity and capability through training programmes and capacity building. It will also assist CCCI with the preparations of guidelines and to lead consultations on the draft Cook Islands Climate Change Response Bill. This funding will also assist in the development of the Cook Islands GCF concept note 'Direct financing for communities and businesses to respond to climate change in the Cook Islands' into a full proposal for final submission to the GCF.

**Support to the Cook Islands PIF 2023 Chairing Responsibilities**

Implementing agency: Ministry of Foreign Affairs and Immigration

Total estimated spend to Dec 2023: $350,000

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) provided $350,000 to the Cook Islands to support the Cook Islands with its functions and duties as the incumbent Chair of the Pacific Islands Forum, including the hosting of the Pacific Island Forum (PIF) leader's meeting that was held in the Cook Islands from 6 to 10 November 2023.

## 7.2. European Union Programmes

**European Development Fund – Budget Support to the Sanitation Sector**

Implementing agency: Major Projects and Procurement Division – Ministry of Finance and Economic Management

Total estimated spend to Dec 2023: $99,992

The European Union's 11th cycle of funding (EDF11) will continue to support the Cook Islands' priority to improve the Sanitation Sector. The funding will support upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the *Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014* standards.

**Sustainable Fisheries Partnership Agreement 2022-2024 - Multiyear (Fisheries) Policy Support**

Implementing agency: Ministry of Marine Resources

Total estimated spend to Dec 2023: Nil

The Sustainable Fisheries Partnership Agreement (SFPA) involves an annual fisheries sector contribution of EUR 350,000 by the European Commission for four-years. The new protocol for the period, 2022 to 2024, came into effect on 17 December 2021. The SFPA allows European Union (EU) vessels to fish for tuna stocks in the Cook Islands exclusive economic zone (EEZ), in a legally regulated environment. The agreement also focuses on resource conservation and environmental sustainability, ensuring that all EU vessels are subject to the same rules of control and transparency. A clause concerning respect for human rights has been included in the protocol to the fisheries agreements.

This agreement has a financial and technical support across a four-year period in exchange for fishing opportunities. The financial contribution is composed of two parts:

1. Access rights to the Cook Islands EEZ – the contribution is managed by the MFEM; and
2. Sectoral Support – the contribution is managed by the Ministry of Marine Resources (MMR).

The sectoral support component of the SFPA is used to supplement the MMR budget appropriations through the implementation of a multiannual sectoral programme.

## 7.3. Japan Programmes

**Japan For Poverty Reductions (JFPR) - Supporting Safe Recovery of Travel and Tourism in Cook Islands – (administered by Asian Development Bank)**

Implementing agency: Ministry of Finance and Economic Management

Total estimated spend to Dec 2023: $400,000

The Supporting Safe Recovery of Travel and Tourism project looks at strengthening the capacity and readiness of the Cook Islands to safely receive tourists and to support the country's economic recovery from the impacts of the COVID-19 pandemic. The project provides support to revive tourism and rebuild the economy.

Project outputs include (i) airport readiness through improvements to the Rarotonga Airport terminal to facilitate safe COVID-19 screening and physical distancing; and (ii) health readiness through the improvement of a medium-sized health facility and the procurement and (iii) installation of a medical waste treatment system. It is the Asian Development Bank's (ADB) first assistance to a Pacific developing member country (DMC) for safe recovery of travel and tourism through financial assistance from the Japan Fund for Poverty Reduction.

**Procurement of a cargo and passenger vessel**

Implementing agency: Ministry of Finance and Economic Management

Total estimated spend to Dec 2023: $1,740,000

A grant of ¥520,000,000 (equivalent to NZ$5,797,860) was endorsed for the procurement of a cargo and passenger vessel to strengthen the transportation link between Rarotonga and the Pa Enua. The Pa Enua, particularly those living in the Northern Group islands of the Cook Islands require consistent and reliable shipping for essential goods and services trade.

The Japan Economic and Social Development Programme for the 2023 fiscal year received approval from the Government of Japan in June 2023, with the official endorsement completed in September 2023 between the Embassy of Japan and the Cook Islands High Commission to New Zealand.

The Japan International Cooperation System (JICS) is the nominated procurement agency for this Programme, and they will work directly with the MFEM's Development Coordination Division (DCD) and the Major Projects and Procurement Division (MPPS) as the operational focal point. Both divisions will work together with the Consultative Committee for management oversight and the distribution of the good to the nominated public sector agency. The Consultative Committee consists of a representative from the Government of Japan and the Cook Islands Government.

## 7.4. United Nations Programmes

**Global Environment Facility - Renewable Energy Grant (Southern Group) - (administered by Asian Development Bank)**

Implementing agency: Office of the Prime Minister

Total estimated spend to Dec 2023: Nil

The Global Environment Facility (GEF) Battery Energy storage system (BESS) contract was awarded to M-Power Limited in June 2017 for a fixed price of US$3,092,768 (equivalent). A variation for NZ$103,000 was agreed in August 2018 to allow a larger transformer sizing. The completion and commissioning of the Rarotonga airport's west BESS for load shifting occurred in September 2019.

The BESS is connected to the existing electricity grid to provide flexible response to fluctuating Solar PV output in Te Aponga Uira's (TAU) network. The main function of this BESS is to:

- Minimise the severity and frequency of events that cause low load at the power station and;
- Minimise any curtailment of Solar PV facilities that may be necessary to maintain grid stability

The Airport West BESS is a containerised energy storage and power conversion platform, utilising a flexible open architecture communication. The supplied Battery System has a total energy rated capacity of 6.4MWh at Beginning of Life (BOL) but is expected to de-rate over the 10-year period End of Life (EOL) to 4MWh.

The GEF Battery is operating within limits with some issues to be resolved. The replacement batteries are on-site however, there has been no further progress on the installation of the new batteries. The operational acceptance certificate has yet to be issued.

**First Biennial Transparency and Fourth National Communication Report (BTR1/NC4)**

Implementing partner: Climate Change Cook Islands – Office of the Prime Minister

Total estimated spend to Dec 2023: $21,981

The activity aims to assist the Cook Islands to meet its reporting requirements under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement to prepare a combined First Biennial Transparency and Fourth National Communication Report in accordance with the MPGs and methodological guidance contained in decisions 18/CMA.1 and 5/CMA.3.

Additionally, the funds will provide support for strengthening technical and institutional capacity to prepare and submit Biennial Transparency and National Communication reports to the UNFCCC. It will also assist in building national capacities to fulfil the Cook Islands commitments under the Convention on a continuous basis, whilst also increasing the awareness on climate change issues, fostering better integration of climate change into national, sectoral polices, strategies and programmes.

Within the BTR1/NC4 component of the project, information will be updated on national circumstances, inventories of greenhouse gases up to 2020, measures undertaken to mitigate climate change, assessments of vulnerability to climate change and adaptation measures, and information on steps taken to integrate climate change consideration into national policies and actions.

## 7.5. Green Climate Fund Programmes

The Cook Islands can access climate-related finance of up to approximately NZ$71.5 million (US$50 million) per project directly from the Green Climate Fund (GCF). The country become the first Pacific nation to be accredited to the fund, which was formed to assist developing countries in adaptation and mitigation practices to counter climate change.

The MFEM in collaboration with the Climate Change Cook Islands Division under the Office of the Prime Minister have been implementing readiness programmes since gaining accreditation in 2018.

**Green Resilient Recovery – Readiness 5**

Implementing agencies: Ministry of Finance and Economic Management, Office of the Prime Minister

Total estimated spend to Dec 2023: $127,418

The Green Resilient Recovery (GRR) project is aimed at strengthening the climate change aspects of the Economic Development Strategy (EDS) and the Nationals Sustainable Development Agenda (NSDA) 2020+.

Activities under the GRR process aim to support objective five “greening our economy” of the EDS and goal 12 “building climate change resilience” of the NSDA 2020+. The project is currently under implementation.

**Increasing the Resilience of the Cook Islands through Enhancing a National Adaptation Programme - Readiness 6**

Implementing agencies: Ministry of Finance and Economic Management, Office of the Prime Minister

Total estimated spend to Dec 2023: $269,490

The Enhancing the National Adaptation Programme (ENAP) is the Cook Islands sixth grant under the Readiness Support.

The proposed activities will build the knowledge and capacity to consider the potential impacts of slow-onset events such as sea-level rise and ocean acidification, and the long-term adaptive response to those impacts. The proposal also includes activities to assess vulnerability of privately-owned infrastructure and climate change impacts on businesses at a sector-level.

The ENAP proposal has four specific outcomes:

- Outcome 1: Adaptation planning governance and institutional coordination strengthened.
- Outcome 2. Evidence basis produced to design adaptation solutions for maximum impact.
- Outcome 3. Private sector engagement in adaptation catalysed.
- Outcome 4. Adaptation finance increased

The programme is under implementation. The acquisition of LiDAR survey maps has been completed for 14 islands in the Cook Islands. This activity was co-financed with the New Zealand MFAT.

Two consultancy works are underway to assist with achieving outcome 2 of the ENAP proposal. They are:

1. The Ocean Monitoring Consultancy will undertake an evaluation of the requirements for establishing an Ocean Monitoring Programme (OMP) to monitor the impacts of climate change on the ocean area in the Cook Islands. The fieldwork by the National Institute of Water and Atmospheric Research (NIWA) has begun in November.
2. LiDAR Analysis Consultant will analyse the LIDAR survey data collected and produce relevant products for the vulnerability and adaptation assessment through the internal geographic information systems (GIS) software (ArcGIS Licensed Software). Work has commenced on analysing the LIDAR data.

The finalisation of the vulnerability and adaptation assessment by the Beca Group Limited is almost complete. This work is divided into three parts: 1) Developing a standardised vulnerability and adaptation methodology assessment template; 2) conducting the vulnerability and adaptation assessment using the finalised methodology template for all 15 islands and; 3) conducting an Atoll Impacts Analysis.

Furthermore, the National Climate Statistician position will undergo a review to define to scope of work for the role, since the Cook Islands Statistics Office collect the climate change data in the Cook Islands.

**Facilitating the Cook Islands Ability to Strengthen Long-term Low-emission and Climate-resilient Development (Readiness 9)**

This is the latest Readiness Support grant approved in August 2023 by the GCF for three years, totalling USD $2,977,736.

This multi-year readiness proposal will support activities related to capacity-building, climate finance, low-emission development, pipeline development, enhanced stakeholder engagement and building international networks to share lessons learned. The proposal will also assist the ongoing development of the Direct Access Entity, which is the MFEM. Execution of this project will be led by the Climate Change Cook Islands division under the OPM and the project is scheduled to begin in the second quarter of this fiscal year. The Bank of the Cook Islands and the Chamber of Commerce will also be involved in the implementation of this project.

**Project Preparation Facility – Building Resilient and Healthy Cook Island Communities**

Implementing agency: Ministry of Finance and Economic Management

Total estimated spend to Dec 2023: $62,812

A Project Preparation Facility (PPF) application for US$568,000 was approved by the GCF to undertake technical assessments to support the development of a full proposal for "Building resilient and Healthy Cook Island Communities".

The full project proposal was completed and submitted to the GCF on 30 May 2023 under the title, Akamatutu'anga to tatou Ora'anga Meitaki (ATOM): Building a healthy and resilient Cook Islands community - one block at a time in the Cook Islands. The proposal has been revised twice based on feedback received from the GCF and the MFEM-DCD are addressing the latest round of feedback from the GCF with its consultants. The final proposal is to be considered at the 38th GCF board meeting in March 2024. The key agencies to execute this project proposal are Te Marae Ora and the Cook Islands Investment Corporation.

**Enhancing climate information and knowledge services for resilience in 5 island countries of the Pacific Ocean – (administered by the United Nations Environment Programme)**

Implementing agencies: Ministry of Finance and Economic Management, Ministry of Transport, Office of the Prime Minister

Total estimated spend to Dec 2023: $690,348

The programme will be administered and implemented by the United Nations Environmental Programme (UNEP) with the Cook Islands expected to benefit up to US$5.3 million through direct support and up to US$6 million through regional partners. The implementation of this programme began in April 2022.

The high vulnerability to climate change impacts and climate-related hazards arise from geography, exposure of our population and lack of resilience to shocks. The limited adaptation capacity is worsened by financial and human resource constraints and is compounded by an economic reliance on particularly climate sensitive sectors such as farming, fisheries and tourism.

The Cook Islands is highly vulnerable to climate change impacts and therefore requires reliable, timely and actionable information and early warning on our local weather, climate and ocean environments as well as science-based advice on adaptation planning and early action for longer term climate change impacts.

The project aims to support beneficiaries in five countries of the Pacific Ocean through three outcomes:

1. Increase generation and use of climate information in decision making;
2. Strengthened adaptive capacity and reduced exposure to climate risks; and
3. Strengthened awareness of climate threats and risk reduction processes.

The Cook Islands component is being implemented with core project oversight committees established, including working with other countries and regional technical partners to progress the Cook Islands' activities.

**Green Climate Fund – Renewable Energy Grant (Southern Group) - (administered by the ADB)**

Implementing agency: Office of the Prime Minister

Total estimated spend to Dec 2023: $2,938

The Airport South Battery Energy Storage System (BESS) contract was awarded to Vector in September 2018, to implement two units of 1.0 MW/4.0MWh (a total of 2.0MW/8.0MWh) BESS for load shifting capability at the Rarotonga airport south. This BESS is online and maintains a constant state of charge and is configured to provide network frequency and voltage support.

Operations and Maintenance (O&M) technical assistance – The O&M plan is intended to support initial O&M work, capacity building and training. The funding mechanism for the O&M plan was discussed with ADB in February 2022.

The O&M contracts were advertised in January 2021, however no formal contracts offered or confirmed to date. TAU continues to support the Pa Enua to operate their power stations independently through a MOU signed between TAU and the Island Councils. The MFEM are working on an O&M governance structure in the Pa Enua with the approval processing, the O&M governance structures and recruitment progress will be provided in the next quarterly report, if available.

The Rarotonga BESS Power Station Lot 1 Contract award 1 x 4MW/2MWh modular/containerised grid stability BESS to be installed at Rarotonga power station has had the BESS capacity increased to 1 x 6MW/3MWh. The Contract was awarded to Vector PowerSmart in March 2020.

Full commissioning was carried out during the final week of June, between TAU, Vector PowerSmart and representatives of the BESS Original Equipment Manufacturer (OEM). The commissioning was witnessed by the Project Owners' Engineer (Entura) and was successful as the BESS is in operation although some minor defects were identified which Vector PowerSmart is working to resolve.

## 7.6. Global Environment Facility (GEF)

**GEF 7 National Project**

Implementing agency: National Environment Service

Total estimated spend to Dec 2023: $193,688

The project aims to reduce and mitigate negative environmental impacts of the key development sectors (agriculture, infrastructure, tourism), which are the main national drivers of biodiversity and habitat degradation. This will be achieved through mainstreaming integrated, sustainable management of land and coastal waters across the National Environment Service (NES), Infrastructure Cook Islands (ICI), the Cook Islands Tourism Corporation (CIT), and the Ministry of Agriculture (MoA).

Building upon the achievements of the GEF-5 ridge-to-reef project, the GEF-7 project strategy also includes improving management effectiveness of target protected areas, as well as expansion of the protected area system through establishment of a 118-ha community conserved area safeguarding globally significant biodiversity within the cloud forests of Rarotonga.

Project results are expected to generate multiple environmental benefits, including 3,130 ha of priority catchments, 1,260 ha of terrestrial protected areas and 14,453 ha of marine protected areas, all under improved management. An estimated 9,588 people (75 per cent of the resident population of the country), of whom 51 per cent are women, are expected to directly benefit as a co-benefit of the GEF investment, including local communities living within and benefiting from the ecosystem services provided by the priority catchments, people benefitting from the biodiversity resources and ecosystem services of the target protected areas, and management and staff members of NES, ICI, CIT and MOA, as well as other stakeholders benefitting from strengthened capacities.

Through improved management in the agriculture, forestry and other land use sector there are 288,638 tons of carbon dioxide equivalent of greenhouse gas emissions mitigated are estimated to be achieved through increased carbon sequestration and reduced emissions.

## 7.7. Pacific Community (SPC)

**Cook Islands Coastal Fisheries and Aquaculture TA**

Implementing agency: Ministry of Marine Resources

Total estimated spend to Dec 2023: $155,121

This project aims to build technical and policy capacity within the Ministry of Marine Resources (MMR) using an in-country medium-term support model and by providing technical and policy advisers to support coastal fisheries management and aquaculture programmes. The project will focus on advancing initiatives including community-based fisheries management, livelihoods and food security through targeted workplans, mentoring and skills transfer. The grant agreement between SPC and MMR was signed in September 2023.

**Otolisth and Genetics Container Laboratory**

Implementing agency: Ministry of Marine Resources

Total estimated spend to Dec 2023: $77,047

This project aims to establish a containerised otolith laboratory for the MMR in Rarotonga to undertake ageing and growth analyses, to inform estimates of stock status and marine resource management strategies. The grant agreement between SPC and MMR was signed in September 2023 enabling MMR to progress with the project implementation.

# 8. Schedules

## 8.1. Statement of Fiscal Responsibility (Operating)

| | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|
| **Operating Revenue** | | | | | | |
| Taxation Revenue | 110,700 | 162,193 | 167,473 | 176,869 | 185,386 | 191,623 |
| Other Crown Revenue | 38,991 | 19,272 | 19,670 | 20,438 | 15,305 | 15,314 |
| Trading Revenue | 5,921 | 5,024 | 5,024 | 5,082 | 5,232 | 5,232 |
| Interest on Loans to Subsidiaries | 1,719 | 1,601 | 1,601 | 1,505 | 1,421 | 1,334 |
| Dividends | 0 | 1,000 | 1,000 | 1,600 | 2,300 | 2,750 |
| Interest on Balances | 1,456 | 907 | 907 | 707 | 707 | 707 |
| Core Sector Support | 7,825 | 9,100 | 9,100 | 0 | 0 | 0 |
| **Total Operating Revenue** | **166,612** | **199,097** | **204,774** | **206,201** | **210,350** | **216,960** |
| | | | | | | |
| **Operating Expenditure** | | | | | | |
| **Ministry Outputs** | **120,387** | **151,763** | **157,627** | **144,718** | **145,233** | **144,277** |
| *Personnel* | *63,375* | *71,514* | *72,156* | *71,715* | *71,892* | *71,892* |
| *Operating* | *21,354* | *18,869* | *19,318* | *18,366* | *19,146* | *19,153* |
| *Administered Payments* | *28,369* | *52,797* | *57,570* | *46,003* | *45,562* | *45,200* |
| *Depreciation* | *7,289* | *8,583* | *8,583* | *8,633* | *8,633* | *8,032* |
| POBOC | *32,510* | *32,328* | *32,975* | *31,086* | *30,744* | *30,244* |
| **Total Other Operating** | **17,568** | **15,887** | **15,887** | **17,295** | **16,480** | **15,610** |
| Debt Interest Contribution to LRF | *8,483* | *8,960* | *8,960* | *10,368* | *9,553* | *8,683* |
| Crown Infrastructure Depreciation | *4,603* | *4,603* | *4,603* | *4,603* | *4,603* | *4,603* |
| Transfer to Emergency Response Trust Fund | *0* | *0* | *0* | *0* | *0* | *0* |
| **Depreciation Contingency Fund** | **2,174** | **2,174** | **2,174** | **2,174** | **2,174** | **2,174** |
| *Chinese Equipment* | *0* | *0* | *0* | *0* | *0* | *0* |
| *Rarotonga Water Network* | *803* | *803* | *803* | *803* | *803* | *803* |
| *Northern Pa Enua Renewable Energy System* | *400* | *400* | *400* | *400* | *400* | *400* |
| *Southern Pa Enua Renewable Energy System (excl. Aitutaki)* | *971* | *971* | *971* | *971* | *971* | *971* |
| *Other Assets* | *0* | *0* | *0* | *0* | *0* | *0* |
| Contingency Funds - Operating | *0* | *100* | *100* | *100* | *100* | *100* |
| Contingency Funds – Other Expenses | *1,632* | *0* | *0* | *0* | *0* | *0* |
| Loss on Foreign Exchange | *675* | *0* | *0* | *0* | *0* | *0* |
| **Total Operating Expenses** | **170,465** | **199,978** | **206,489** | **193,099** | **192,457** | **190,132** |
| **Operating Surplus/(Shortfall)** | **(3,853)** | **(881)** | **(1,715)** | **13,102** | **17,893** | **26,828** |

## 8.2. Statement of Fiscal Responsibility (Non-Operating)

| | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|
| **Reductions in Net Borrowings** | **7,438** | **12,436** | **11,191** | **12,880** | **15,128** | **17,204** |
| Loan Receipts/Drawdown | 0 | 0 | 0 | 0 | 0 | 0 |
| Principal repayment | 8,125 | 13,123 | 13,339 | 15,079 | 17,406 | 19,575 |
| Subsidiary Loan Repayments - Principle | (687) | (687) | (2,148) | (2,199) | (2,277) | (2,370) |
| | | | | | | |
| **Capital Expenditures** | **22,415** | **22,761** | **29,313** | **17,215** | **19,159** | **19,588** |
| Ministries and Outer Islands (Including CIIC Capital) | 22,415 | 22,761 | 28,533 | 17,215 | 19,159 | 19,588 |
| *Infrastructure Capital Investment in SOEs* | 0 | 0 | 780 | 0 | 0 | 0 |
| *Airport Authority* | *0* | *0* | *780* | *0* | *0* | *0* |
| *Te Aponga Uira* | *0* | *0* | *0* | *0* | *0* | *0* |
| Contingency Funds - Capital Expenditure | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| **Foreign Aid - Capital** | **0** | **0** | **0** | **0** | **0** | **0** |
| Receipts | 9,003 | 54,003 | 54,003 | 0 | 0 | 0 |
| Expenditure | (9,003) | (54,003) | (54,003) | 0 | 0 | 0 |
| | | | | | | |
| **Other Committed Considerations** | **3,544** | **3,594** | **3,594** | **3,594** | **3,594** | **3,594** |
| Transfer to Reserve Trust Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Stabilisation Fund | 3,544 | 3,544 | 3,544 | 3,544 | 3,544 | 3,544 |
| Advanced Subsidiaries - Avaroa Cable Ltd | 0 | 0 | 0 | 0 | 0 | 0 |
| Infrastructure Trust Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Emergency Response Trust Fund | 0 | 50 | 50 | 50 | 50 | 50 |
| | | | | | | |
| **Total Non-Operating balance** | **(33,397)** | **(38,791)** | **(44,098)** | **(33,689)** | **(37,881)** | **(40,387)** |
| | | | | | | |
| **To be Funded by** | | | | | | |
| Operating Surplus | (3,853) | (881) | (1,715) | 13,102 | 17,893 | 26,828 |
| Depreciation | 14,066 | 15,360 | 15,360 | 15,410 | 15,410 | 14,809 |
| *of which: R.E. Capital Replacement* | 1,371 | 1,371 | 1,371 | 1,371 | 1,371 | 1,371 |
| General Cash Reserves | 12,115 | 2,179 | 8,320 | (20,321) | (22,430) | (29,558) |
| *Pa Enua Accrued Savings* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Stabilisation Fund* | 0 | 0 | 0 | 0 | 0 | 0 |
| Contribution to Loan Reserve Fund | 11,069 | 22,083 | 22,083 | 25,447 | 26,958 | 28,258 |
| Transfer IN and OUT of Infrastructure Trust Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to Emergency Response Trust Fund | 0 | 50 | 50 | 50 | 50 | 50 |
| **Total Funding Items** | **33,397** | **38,791** | **44,098** | **33,689** | **37,881** | **40,387** |
| **Net Surplus/Shortfall** | **0** | **0** | **0** | **0** | **0** | **0** |

## 8.3. Fiscal Indicators Table

| | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Proj. | 2025/26 Proj. | 2026/27 Proj. |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| Taxation Revenue ($m) | 110.7 | 162.2 | 167.5 | 176.9 | 185.4 | 191.6 |
| Social Contributions ($m) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Revenue ($m) | 55.9 | 36.9 | 37.3 | 29.3 | 25.0 | 25.3 |
| **Total Operating Revenue ($m)** | **166.6** | **199.1** | **204.8** | **206.2** | **210.3** | **217.0** |
| Total Operating Revenue Percentage of GDP | 32.4 | 36.8 | 36.3 | 34.6 | 33.7 | 33.2 |
| Tax Revenue Percentage of GDP | 21.6 | 30.0 | 29.7 | 29.7 | 29.7 | 29.3 |
| Total Cyclical Revenue ($m) | 10.8 | 16.8 | 17.4 | 18.0 | 12.8 | 12.8 |
| Total Cyclical Revenue Percentage of GDP | 2.1 | 3.1 | 3.1 | 3.0 | 2.1 | 2.0 |
| Total Structural Revenue ($m) | 155.8 | 182.3 | 187.4 | 188.2 | 197.5 | 204.1 |
| Total Structural Revenue Percentage of GDP | 30.3 | 33.7 | 33.2 | 31.6 | 31.7 | 31.3 |
| **Personnel ($m)** | **70.5** | **78.5** | **79.3** | **78.7** | **78.9** | **78.9** |
| Percentage of Total Revenue | 42.3 | 39.4 | 38.7 | 38.2 | 37.5 | 36.4 |
| Percentage of Structural Revenue | 45.3 | 43.1 | 42.3 | 41.8 | 39.9 | 38.7 |
| **Total Operating Expenditure ($m)** | **170.5** | **200.0** | **206.5** | **193.1** | **192.5** | **190.1** |
| Percentage of GDP | 33.2 | 36.9 | 36.6 | 32.4 | 30.8 | 29.1 |
| Percentage of Operating Revenue | 102.3 | 100.4 | 100.8 | 93.6 | 91.5 | 87.6 |
| Baseline Operating Expenditure (for Fiscal Rule) | 140.3 | 157.2 | 163.7 | 159.8 | 160.7 | 159.3 |
| Cash Operating Expenditure* | 156.1 | 184.7 | 191.1 | 177.9 | 177.5 | 175.2 |
| **Operating Balance ($m)** | **(3.9)** | **(0.9)** | **(1.7)** | **13.1** | **17.9** | **26.8** |
| Percentage of GDP | (0.8) | (0.2) | (0.3) | 2.2 | 2.9 | 4.1 |
| Capital Expenditure | 22.4 | 22.8 | 29.3 | 17.2 | 19.2 | 19.6 |
| Depreciation | 14.1 | 15.4 | 15.4 | 15.4 | 15.4 | 14.8 |
| Non-Operating Balance ($m) | (33.4) | (38.8) | (44.1) | (33.7) | (37.9) | (40.4) |
| **Fiscal Balance surplus/deficit ($m) *** | **(12.2)** | **(8.3)** | **(15.7)** | **11.3** | **14.1** | **22.0** |
| Percentage of GDP | (2.4) | (1.5) | (2.8) | 1.9 | 2.3 | 3.4 |
| **Statement of Financial Position ($m)** | | | | | | |
| Assets ($m) | 598.8 | 639.4 | 633.9 | 630.8 | 630.5 | 637.0 |
| Liabilities ($m) | 415.8 | 395.5 | 401.3 | 384.1 | 364.7 | 344.7 |
| Crown Balance ($m) | 183.0 | 243.9 | 232.6 | 246.6 | 265.7 | 292.3 |
| Percentage of GDP | 35.6 | 45.1 | 41.2 | 41.4 | 42.6 | 44.8 |
| Working Capital ($m) | 67.1 | 48.3 | 40.3 | 38.6 | 37.6 | 42.3 |
| Working Capital (months coverage) | 5.2 | 3.1 | 2.5 | 2.6 | 2.5 | 2.9 |
| Stabilisation Account | *3.5* | *3.5* | *3.5* | *3.5* | *3.5* | *3.5* |
| General Cash Reserves | 70.7 | 51.8 | 43.9 | 42.2 | 41.1 | 45.8 |
| **Statement of Borrowings ($m)** | | | | | | |
| Gross Debt end of FY ($m) | 231.0 | 210.7 | 216.6 | 199.4 | 180.0 | 160.0 |
| Excluding Contingency Loan | 112.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Debt, Percentage of GDP | 45.0 | 38.9 | 38.4 | 33.5 | 28.8 | 24.5 |
| Net Crown Debt, end of FY ($m) | 226.0 | 204.8 | 213.7 | 196.5 | 177.0 | 157.0 |
| Net Debt, Percentage of GDP | 44.0 | 37.8 | 37.9 | 33.0 | 28.4 | 24.0 |
| Loan Repayment Reserves Held ($m) | 5.0 | 5.9 | 2.8 | 2.9 | 3.0 | 3.0 |
| Net Debt Servicing ($m) | 18.5 | 22.1 | 24.4 | 25.4 | 27.0 | 28.3 |
| Percentage of Total Revenue | 11.1 | 11.1 | 11.9 | 12.3 | 12.8 | 13.0 |
| Percentage of Structural Revenue | 11.9 | 12.1 | 13.0 | 13.5 | 13.6 | 13.8 |
| **Development Partner Support ($m)** | | | | | | |
| Grants ($m) | 23.9 | 89.7 | 89.7 | 19.0 | 7.4 | 6.2 |
| Percentage of GDP | 4.7 | 16.6 | 15.9 | 3.2 | 1.2 | 0.9 |
| Memo item: Nominal GDP ($m) | ***513.6*** | ***541.5*** | ***563.9*** | ***595.6*** | ***624.0*** | ***652.9*** |

## 8.4. Schedule 1 – Agency Budget Appropriations

| Agency | Personnel | Operating | Administered Payments | Depreciation | Gross Current Appropriation | Trading Revenue | Net Current Appropriation |
|---|---|---|---|---|---|---|---|
| Agriculture | 1,095,572 | 314,509 | 0 | 45,000 | 1,455,081 | 140,535 | 1,314,546 |
| Audit (PERCA) | 1,215,996 | 178,951 | 0 | 23,250 | 1,418,197 | 156,300 | 1,261,897 |
| Business Trade and Investment Board | 390,000 | 242,267 | 0 | 4,000 | 636,267 | 27,400 | 608,867 |
| Cook Islands Investment Corporation | 1,486,000 | 1,024,000 | 2,200,000 | 51,000 | 4,761,000 | 753,831 | 4,007,169 |
| Corrective Services | 1,560,607 | 230,531 | 0 | 40,999 | 1,832,137 | 100,000 | 1,732,137 |
| Crown Law | 1,117,500 | 173,501 | 218,204 | 3,000 | 1,512,205 | 0 | 1,512,205 |
| Cultural Development | 867,171 | 128,000 | 1,115,000 | 89,500 | 2,199,671 | 170,000 | 2,029,671 |
| Education | 12,534,630 | 2,525,690 | 4,956,602 | 615,000 | 20,631,922 | 0 | 20,631,922 |
| Environment | 1,081,782 | 351,001 | 1,010,000 | 30,000 | 2,472,783 | 35,000 | 2,437,783 |
| Finance and Economic Management | 6,964,507 | 1,027,920 | 26,550,833 | 924,000 | 35,467,260 | 954,341 | 34,512,919 |
| Financial Services Development Authority | 242,800 | 249,800 | 0 | 3,000 | 495,600 | 0 | 495,600 |
| Foreign Affairs | 2,350,031 | 1,090,103 | 172,500 | 45,000 | 3,657,634 | 28,000 | 3,629,634 |
| Head of State | 179,590 | 22,299 | 36,000 | 14,000 | 251,889 | 0 | 251,889 |
| Health | 13,133,557 | 3,598,951 | 3,536,870 | 1,731,000 | 22,000,378 | 350,000 | 21,650,378 |
| Infrastructure Cook Islands | 2,249,871 | 424,129 | 2,505,000 | 345,000 | 5,524,000 | 300,000 | 5,224,000 |
| Internal Affairs | 1,357,376 | 278,000 | 4,222,891 | 12,000 | 5,870,267 | 0 | 5,870,267 |
| *of which: Welfare Payments - Allowances* | | | *1,588,976* | | | | |
| Justice | 2,033,976 | 436,001 | 733,846 | 23,000 | 3,226,823 | 425,000 | 2,801,823 |
| Marine Resources | 1,705,455 | 380,061 | 150,000 | 160,000 | 2,395,516 | 20,000 | 2,375,516 |
| Ombudsman | 233,000 | 62,001 | 0 | 6,000 | 301,001 | 0 | 301,001 |
| Parliamentary Services | 624,605 | 80,000 | 120,000 | 72,720 | 897,325 | 0 | 897,325 |
| Police | 4,209,896 | 331,104 | 215,000 | 1,555,333 | 6,311,333 | 154,783 | 6,156,550 |
| Prime Minister's Office | 1,582,079 | 509,000 | 1,923,000 | 15,000 | 4,029,079 | 0 | 4,029,079 |
| Public Service Commission | 379,874 | 211,636 | 1,941,233 | 5,000 | 2,537,743 | 0 | 2,537,743 |
| Cook Islands Seabed Minerals Authority | 697,101 | 459,056 | 220,000 | 9,500 | 1,385,657 | 240,000 | 1,145,657 |
| Tourism Corporation | 2,098,774 | 1,541,226 | 5,743,000 | 52,000 | 9,435,000 | 20,000 | 9,415,000 |
| Transport | 1,053,500 | 205,221 | 0 | 25,609 | 1,284,330 | 41,221 | 1,243,109 |
| **Total Ministries, Crown & Statutory Agencies** | **62,445,250** | **16,074,958** | **57,569,979** | **5,899,911** | **141,990,098** | **3,916,411** | **138,073,687** |

| Agency | Personnel | Operating | Administered Payments | Depreciation | Gross Current Appropriation | Trading Revenue | Net Current Appropriation |
|---|---|---|---|---|---|---|---|
| **Ministerial Support** | | | | | | | |
| Prime Minister | 406,069 | 121,289 | 0 | 12,642 | 540,000 | 0 | 540,000 |
| Deputy Prime Minister | 298,690 | 70,611 | 0 | 9,589 | 378,890 | 0 | 378,890 |
| Ministerial Support 1 | 181,000 | 115,838 | 0 | 11,162 | 308,000 | 0 | 308,000 |
| Ministerial Support 2 | 164,000 | 132,000 | 0 | 12,000 | 308,000 | 0 | 308,000 |
| Ministerial Support 3 | 217,500 | 85,000 | 0 | 5,500 | 308,000 | 0 | 308,000 |
| Ministerial Support 4 | 188,901 | 137,969 | 0 | 9,590 | 336,460 | 0 | 336,460 |
| Leader Of Opposition | 163,712 | 131,462 | 0 | 12,826 | 308,000 | 0 | 308,000 |
| **Total Ministerial Support Offices** | **1,619,872** | **794,169** | **0** | **73,309** | **2,487,350** | **0** | **2,487,350** |
| **Outer Islands** | | | | | | | |
| Aitutaki | 1,255,531 | 417,547 | 0 | 480,000 | 2,153,078 | 67,828 | 2,085,250 |
| Atiu | 948,406 | 458,918 | 0 | 430,000 | 1,837,324 | 224,318 | 1,613,006 |
| Mangaia | 1,018,612 | 611,848 | 0 | 210,000 | 1,840,460 | 301,000 | 1,539,460 |
| Manihiki | 785,482 | 159,165 | 0 | 460,000 | 1,404,647 | 119,000 | 1,285,647 |
| Mauke | 845,209 | 237,194 | 0 | 380,000 | 1,462,403 | 113,853 | 1,348,550 |
| Mitiaro | 769,222 | 88,527 | 0 | 93,000 | 950,749 | 60,900 | 889,849 |
| Palmerston | 287,705 | 71,851 | 0 | 80,000 | 439,556 | 20,500 | 419,056 |
| Penrhyn | 692,969 | 180,836 | 0 | 180,000 | 1,053,805 | 74,000 | 979,805 |
| Pukapuka-Nassau | 1,042,214 | 155,503 | 0 | 215,000 | 1,412,717 | 73,695 | 1,339,022 |
| Rakahanga | 445,136 | 67,761 | 0 | 82,000 | 594,897 | 52,000 | 542,897 |
| **Total Outer Islands** | **8,090,486** | **2,449,150** | **0** | **2,610,000** | **13,149,636** | **1,107,094** | **12,042,542** |
| **Gross Total** | **72,155,608** | **19,318,277** | **57,569,979** | **8,583,220** | **157,627,084** | **5,023,505** | **152,603,579** |

## 8.5. Schedule 2 – Payments on Behalf of the crown (POBOCS)

| Administering Ministry | POBOC | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate |
|---|---|---|---|
| **Compensation of Employees** | | | |
| Finance & Economic Management | Parliamentary Superannuation | 180,000 | 180,000 |
| Audit | PERC Salaries and Administration Costs | 57,500 | 57,500 |
| Parliamentary Services | Civil List - Personnel | 2,901,961 | 2,901,961 |
| Cultural Development | House of Ariki | 336,690 | 336,690 |
| | **Compensation of Employees POBOCs** | **3,476,151** | **3,476,151** |
| **Use of Goods and Services** | | | |
| Audit | Audit Fees | 103,000 | 103,000 |
| Prime Minister's Office | Local Government Election | 0 | 0 |
| Parliamentary Services | Civil List - Constituency Visits | 170,200 | 170,200 |
| Parliamentary Services | Parliamentary Sitting Expenses | 200,000 | 200,000 |
| Parliamentary Services | QR Travel and Allowances (local and overseas) | 109,000 | 109,000 |
| Parliamentary Services | MP Travel and Allowances (local and overseas) | 250,000 | 553,600 |
| Foreign Affairs | International Maritime Organisation - Maritime Cook Islands | 63,461 | 63,461 |
| Transport | Maritime Radio Coverage | 120,000 | 297,862 |
| | **Use of Goods and Services POBOCs** | **1,015,661** | **1,497,123** |
| **Subsidies** | | | |
| Cook Islands Investment Corporation | Airport Authority subsidy | 1,500,000 | 1,500,000 |
| Cook Islands Investment Corporation | Bank of the Cook Islands - social assistance subsidy | 128,000 | 128,000 |
| Cook Islands Investment Corporation | Ports Authority - subsidy | 110,099 | 110,099 |
| Cook Islands Investment Corporation | Te Aponga Uira - social assistance subsidy | 0 | 0 |
| Cook Islands Investment Corporation | Te Mana Uira o Araura - subsidy | 0 | 0 |
| Cook Islands Investment Corporation | To Tatou Vai (CI) | 3,000,000 | 3,000,000 |
| | **Subsidies POBOCs** | **4,738,099** | **4,738,099** |
| **Social Assistance** | | | |
| Internal Affairs | Welfare Payments | 21,562,805 | 21,562,805 |
| | **Social Assistance POBOCs** | **21,562,805** | **21,562,805** |
| **Other Expense** | | | |
| Finance & Economic Management | Pacific Catastrophe Risk Insurance | 160,000 | 160,000 |
| Finance & Economic Management | CIG Insurance | 40,000 | 40,000 |
| Finance & Economic Management | BEPS Subscription | 45,000 | 45,000 |
| Finance & Economic Management | Competition and Regulatory Authority | 400,000 | 566,246 |
| Foreign Affairs | International Subscriptions | 890,000 | 890,000 |
| | **Other Expenses POBOCs** | **1,535,000** | **1,701,246** |
| **Grand Total** | | **32,327,716** | **32,975,424** |

## 8.6. Schedule 3 – Cook Islands Capital Spending

| | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate |
|---|---|---|
| Cook Islands Government Capital programs | 22,760,914 | 29,313,369 |
| **Total Capital spending** | **22,760,914** | **29,313,369** |

## 8.7. Schedule 4 – Official Development Assistance

| | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate |
|---|---|---|
| Operating or recurrent expenditure | 35,746,234 | 35,746,234 |
| Capital Project Expenditure | 54,002,685 | 54,002,685 |
| **Total Official Development Assistance** | **89,748,919** | **89,748,919** |

*Excludes Budget Support and Core Sector Support appropriated through agencies in Schedule 1.

## 8.8. Schedule 5a – Other Expenses & Financing Transactions

| Category of Expense | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate |
|---|---|---|
| Contingency Funds - Operating | 100,000 | 100,000 |
| Crown Infrastructure Depreciation | 4,603,000 | 4,603,000 |
| Provisional for Doubtful Debts | 0 | 0 |
| Transfer to Emergency Response Trust Fund | 50,000 | 50,000 |
| Advanced Subsidiaries - Avaroa Cable Ltd | 0 | 0 |
| Transfer to Reserve Trust Fund | 0 | 0 |
| Depreciation Contingency Fund | 2,174,000 | 2,174,000 |
| **Total Other Expenses** | **6,927,000** | **6,927,000** |

## 8.9. Schedule 5b – Loan Reserve Fund Appropriation

| Category of Appropriation | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate |
|---|---|---|
| Contribution to LRF - Principal | 13,123,389 | 13,123,389 |
| Contribution to LRF - Interest | 8,959,928 | 8,959,928 |
| **Total Contribution to LRF** | **22,083,317** | **22,083,317** |

## 8.10. Summary

| Category of Payment | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate |
|---|---|---|
| Schedule 1 - Ministry Outputs (Gross Operating) | 151,762,605 | 157,627,084 |
| Schedule 2 - POBOCs | 32,327,716 | 32,975,424 |
| Schedule 3 - CIG Capital Expenditure | 22,760,914 | 29,313,369 |
| Schedule 4 - Official Development Assistance | 89,748,919 | 89,748,919 |
| Schedule 5a - Other Expenses and Financing Transactions | 6,927,000 | 6,927,000 |
| Schedule 5b - Loan Reserve Fund Appropriations | 22,083,317 | 22,083,317 |
| **TOTAL APPROPRIATION** | **325,610,471** | **338,675,113** |

## 8.11. Schedule 6 – Capital Schedule

| MINISTRY/ ISLAND | Project / Programme | Funding Source | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|---|
| **Audit (PERCA)** | | | **0** | **0** | **0** | **0** | **0** | **0** |
| Rarotonga | TeamMate Software Upgrade | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| **Cook Islands Investment Corporation** | | | **4,395,460** | **4,680,700** | **8,845,959** | **4,529,300** | **3,700,000** | **3,670,000** |
| Aitutaki | Aitutaki Harbour Dredging | CIG | 772,035 | 0 | 0 | 0 | 0 | 0 |
| Aitutaki | Arutanga Harbour Project | CIG | 499,769 | 980,000 | 980,000 | 720,000 | 0 | 0 |
| Rarotonga | Arorangi Prison Remedial works | CIG | 27,629 | 0 | 0 | 0 | 0 | 0 |
| Rarotonga | Government Building Projects - Rarotonga | CIG | 1,520,568 | 1,300,700 | 1,950,700 | 100,000 | 0 | 0 |
| Rarotonga | Land Acquisition | CIG | 0 | 550,000 | 645,000 | 250,000 | 0 | 0 |
| Pa Enua | Pa Enua Government Building Projects - Northern Group | CIG | 511,347 | 0 | 90,000 | 859,300 | 0 | 0 |
| Pa Enua | Pa Enua Government Building Projects - Southern Group | CIG | 524,497 | 350,000 | 450,000 | 0 | 600,000 | 1,940,000 |
| Rarotonga | Rarotonga Cyclone Shelters - Remediation | CIG | 179,875 | 400,000 | 400,000 | 600,000 | 1,100,000 | 730,000 |
| Rarotonga | To Tatou Vai | CIG | 359,741 | 1,000,000 | 3,450,259 | 2,000,000 | 2,000,000 | 1,000,000 |
| Rarotonga | Airport Authority - Rarotonga Airport Slab Replacement | | 0 | 0 | 780,000 | 0 | 0 | 0 |
| Rarotonga | Geotech scoping & feasibility | CIG | 0 | 100,000 | 100,000 | 0 | 0 | 0 |
| **Corrective Services** | | | **41,251** | **0** | **0** | **0** | **0** | **0** |
| Rarotonga | Prison Development Programme - Strategic Plan | CIG | 41,251 | 0 | 0 | 0 | 0 | 0 |
| **Cultural Development** | | | **99,432** | **0** | **0** | **160,000** | **0** | **0** |
| Rarotonga | Auditorium Equipment Replacement Programme | CIG | 99,432 | 0 | 0 | 160,000 | 0 | 0 |
| **Education** | | | **333,070** | **400,000** | **400,000** | **300,000** | **300,000** | **300,000** |
| National | Fund to be Prioritised by Education | CIG | 299,599 | 400,000 | 400,000 | 300,000 | 300,000 | 300,000 |
| Rarotonga | Apii Nikao School Sound Proofing | CIG | 33,471 | 0 | 0 | 0 | 0 | 0 |
| **Health** | | | **298,805** | **500,000** | **500,000** | **900,000** | **500,000** | **300,000** |
| National | Fund to be Prioritised by Health | CIG | 298,805 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| National | CT Scanner | CIG | 0 | 0 | 0 | 0 | 0 | 0 |
| National | General X-ray & Mammography | CIG | 0 | 200,000 | 200,000 | 600,000 | 200,000 | 0 |
| **Infrastructure Cook Islands** | | | **13,294,156** | **14,270,214** | **14,985,369** | **9,576,348** | **12,821,800** | **13,941,800** |
| National | Bridges and Structures Asset Management and Improvement Programme | CIG | 763,424 | 4,765,777 | 4,765,777 | 1,490,000 | 1,490,000 | 1,490,000 |
| National | Drainage Asset Management and Improvement Programme | CIG | 30,642 | 719,564 | 719,564 | 1,000,000 | 1,000,000 | 1,000,000 |
| National | Emergency Management and Support Infrastructure | CIG | 88,765 | 0 | 0 | 0 | 0 | 0 |
| Penrhyn | Government Building Projects | CIG | 584,960 | 496,488 | 496,488 | 0 | 0 | 0 |
| Pa Enua | Pa Enua Air Infrastructure Improvement Programme | CIG | 0 | 0 | 0 | 0 | 0 | 0 |

| MINISTRY/ ISLAND | Project / Programme | Funding Source | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|---|
| Pa Enua | Pa Enua Infrastructure Assessments | CIG | 177,897 | 648,981 | 648,981 | 0 | 0 | 0 |
| National | Pa Enua Marine Infrastructure Improvement Programme | CIG | 0 | 0 | 0 | 0 | 400,000 | 400,000 |
| National | Roads Asset Management and Improvement Programme | CIG | 99,996 | 2,469,906 | 2,469,906 | 340,000 | 2,660,000 | 3,780,000 |
| National | Waste Management Infrastructure Improvement Programme | CIG | 11,266,683 | 4,960,198 | 5,629,265 | 6,596,348 | 7,121,800 | 7,121,800 |
| National | Water and Sanitation Infrastructure Improvement Programme | CIG | 49,083 | 50,917 | 50,917 | 0 | 0 | 0 |
| **Internal Affairs** | | | **66,359** | **0** | **0** | **0** | **0** | **0** |
| Rarotonga | Vaka Maintenance Capital Projects | CIG | 66,359 | 0 | 0 | 0 | 0 | 0 |
| **Finance and Economic Management** | | | **2,101,982** | **2,000,000** | **3,672,041** | **738,919** | **827,107** | **366,652** |
| Rarotonga | COVID-19 Response Fund - Capital Needs | CIG | 619,223 | 0 | 0 | 0 | 0 | 0 |
| Rarotonga | Revenue Management System upgrade (RMS10) | CIG | 1,482,759 | 0 | 1,672,041 | 738,919 | 827,107 | 366,652 |
| Rarotonga | Purchase of Protocol Vehicles for PIFs Conference | CIG | 0 | 2,000,000 | 2,000,000 | 0 | 0 | 0 |
| **Prime Minister's Office** | | | **940,957** | **200,000** | **200,000** | **300,000** | **300,000** | **300,000** |
| National | Government IT Network | CIG | 578,937 | 200,000 | 200,000 | 300,000 | 300,000 | 300,000 |
| National | Telecommunications Universal Access Programme | CIG | 197,243 | 0 | 0 | 0 | 0 | 0 |
| National | Renewable Energy Project Management and Support | CIG | 164,777 | 0 | 0 | 0 | 0 | 0 |
| **MINISTRY TOTAL** | | | **21,571,472** | **22,050,914** | **28,603,369** | **16,504,567** | **18,448,907** | **18,878,452** |
| **Capital Funds Administered BY MFEM** | | | **843,926** | **710,000** | **710,000** | **710,000** | **710,000** | **710,000** |
| National | Capital Distribution Fund | CIG | 779,477 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| National | Pa Enua Capital Distribution Fund | CIG | 0 | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Pa Enua | Outer Islands Small Capital Fund | CIG | 64,449 | 110,000 | 110,000 | 110,000 | 110,000 | 110,000 |
| | *Aitutaki* | | *10,847* | *16,000* | *16,000* | *16,000* | *16,000* | *16,000* |
| | *Atiu* | | *0* | *12,000* | *12,000* | *12,000* | *12,000* | *12,000* |
| | *Mangaia* | | *11,747* | *12,000* | *12,000* | *12,000* | *12,000* | *12,000* |
| | *Manihiki* | | *0* | *10,000* | *10,000* | *10,000* | *10,000* | *10,000* |
| | *Mauke* | | *9,512* | *10,000* | *10,000* | *10,000* | *10,000* | *10,000* |
| | *Mitiaro* | | *5,352* | *8,000* | *8,000* | *8,000* | *8,000* | *8,000* |
| | *Palmerston* | | *8,361* | *10,000* | *10,000* | *10,000* | *10,000* | *10,000* |
| | *Penrhyn* | | *11,675* | *12,000* | *12,000* | *12,000* | *12,000* | *12,000* |
| | *Pukapuka-Nassau* | | *0* | *12,000* | *12,000* | *12,000* | *12,000* | *12,000* |
| | *Rakahanga* | | *6,955* | *8,000* | *8,000* | *8,000* | *8,000* | *8,000* |
| **GRAND TOTAL** | | | **22,415,398** | **22,760,914** | **29,313,369** | **17,214,567** | **19,158,907** | **19,588,452** |

# 8.12. Schedule 7 – Revenues on Behalf of the Crown (ROBOCs)

| | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|
| **Taxation Revenue** | | | | | | |
| Value Added Tax (VAT) | 59,114,293 | 78,957,455 | 79,931,342 | 83,181,664 | 86,437,567 | 89,073,539 |
| Income tax | 21,573,955 | 33,729,864 | 37,391,401 | 37,570,476 | 37,323,023 | 37,321,970 |
| Company tax | 4,793,254 | 19,366,270 | 22,153,099 | 24,931,922 | 28,899,958 | 31,346,531 |
| Import levies | 15,229,235 | 15,939,437 | 15,340,351 | 17,445,168 | 18,184,358 | 19,043,428 |
| Withholding tax | 833,051 | 1,622,195 | 1,556,472 | 1,556,472 | 1,556,472 | 1,556,472 |
| Departure tax | 9,156,151 | 12,577,626 | 11,100,222 | 12,183,016 | 12,984,304 | 13,281,161 |
| **Total** | **110,699,939** | **162,192,847** | **167,472,887** | **176,868,718** | **185,385,683** | **191,623,101** |
| **Other Crown Revenue** | | | | | | |
| FSC Vested Assets | 2,309,860 | 0 | 0 | 0 | 0 | 0 |
| FSC Return of Excess | 240,000 | 3,000 | 3,000 | 125,000 | 125,000 | 125,000 |
| Immigration Fees | 1,421,990 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| IMO Subscription - Maritime Cook Islands | 0 | 66,000 | 66,000 | 66,000 | 66,000 | 66,000 |
| Drivers Licences | 329,544 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 |
| Motor Vehicle Registration | 810,778 | 875,000 | 875,000 | 875,000 | 875,000 | 875,000 |
| Upper Air Management Agreement | 455,121 | 338,187 | 251,395 | 338,187 | 338,187 | 338,187 |
| Shipping Registration | 220,592 | 97,858 | 97,858 | 97,858 | 97,858 | 97,858 |
| International Shipping Licence | -7,752 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Liquor Licencing | 62,520 | 50,000 | 60,000 | 50,000 | 50,000 | 50,000 |
| Research Fee | 1,550 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Permits | 20,333 | 10,409 | 10,409 | 10,409 | 10,409 | 10,409 |
| Censorship Fees | 610 | 1,000 | 600 | 1,000 | 1,000 | 1,000 |
| Land Court Fees | 192,344 | 147,000 | 147,000 | 147,000 | 147,000 | 147,000 |
| Tattslotto Grants | 214,692 | 120,000 | 120,000 | 120,000 | 120,000 | 120,000 |
| Motor Vehicle Dealers | 4,690 | 3,000 | 3,400 | 3,000 | 3,000 | 3,000 |
| Court Services | 37,311 | 27,000 | 27,000 | 27,000 | 27,000 | 27,000 |
| Instant Fines | 55,800 | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 |
| **Fishing Revenues** | ***10,234,595*** | ***15,389,187*** | ***15,989,187*** | ***16,605,854*** | ***11,465,854*** | ***11,465,854*** |
| *US Fisheries Treaty (upfront days)* | *3,012,059* | *3,810,000* | *3,810,000* | *6,000,000* | *6,000,000* | *6,000,000* |
| *EU Agreement* | *1,695,149* | *1,400,000* | *1,400,000* | *400,000* | *0* | *0* |
| *Purse seine fishery* | *1,525,985* | *7,000,000* | *7,000,000* | *7,000,000* | *2,260,000* | *2,260,000* |
| *Longline Licenses and QMS* | *3,753,102* | *3,000,000* | *3,600,000* | *3,000,000* | *3,000,000* | *3,000,000* |
| *Other fisheries and auxiliary vessel licensing* | *113,382* | *133,333* | *133,333* | *160,000* | *160,000* | *160,000* |
| *Regional Fisheries Management Organisations - SIOFA and SPRFMO* | *134,918* | *45,854* | *45,854* | *45,854* | *45,854* | *45,854* |
| **Dividends** | ***0*** | ***1,000,000*** | ***1,000,000*** | ***1,600,000*** | ***2,300,000*** | ***2,750,000*** |
| *Bank of the Cook Islands* | *0* | 0 | *0* | *0* | *0* | *250,000* |
| *Te Aponga Uira* | *0* | 0 | *0* | *0* | *500,000* | *500,000* |
| *Telecom Cook Islands* | *0* | 1,000,000 | *1,000,000* | *1,600,000* | *1,800,000* | *2,000,000* |
| Numismatics | 1,187,661 | 849,772 | 849,772 | 840,841 | 845,921 | 853,659 |
| Circulating Currency - Coins | 148,006 | 204,000 | 204,000 | 204,000 | 204,000 | 204,000 |
| Interest on Balances | 1,456,077 | 906,667 | 906,667 | 706,667 | 706,667 | 706,667 |
| *Interest on balances - LRF* | 220,220 | 220,000 | 100,931 | 56,798 | 57,934 | 59,093 |
| Interest on Loans to Subsidiaries | 1,718,784 | 1,601,171 | 1,601,171 | 1,505,061 | 1,420,525 | 1,334,235 |
| Foreign Investment Fees | 27,290 | 34,000 | 28,000 | 34,000 | 34,000 | 34,000 |
| Employer Liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Gains on Foreign Exchange | 1,317,835 | 0 | 0 | 0 | 0 | 0 |
| Core Sector Support | 7,825,000 | 9,100,000 | 9,100,000 | 0 | 0 | 0 |
| General Budget Support | 19,165,033 | 0 | 0 | 0 | 0 | 0 |
| Unanticipated Revenue received | 320,521 | 0 | 0 | 0 | 0 | 0 |
| **Total Other** | **49,991,006** | **31,879,751** | **32,277,890** | **24,250,175** | **19,731,855** | **20,104,462** |
| **Total Crown Receipts** | **160,690,945** | **194,072,598** | **199,750,778** | **201,118,893** | **205,117,538** | **211,727,563** |

## 8.13. Schedule 8a – Administered Payments

| Administering Ministry | Administered Payment | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|
| **Compensation of Employees** | | | | | | | |
| Cook Islands Investment Corporation | Infrastructure Committee | 116,192 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Cook Islands Investment Corporation | Government Facilities Development Division | 356,589 | 420,000 | 420,000 | 420,000 | 420,000 | 420,000 |
| Cook Islands Investment Corporation | School Security | 250,000 | 230,000 | 230,000 | 230,000 | 230,000 | 230,000 |
| Cook Islands Investment Corporation | Joint Venture with Seabed Minerals Authority | 47,874 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Environment | National Heritage Trust | 122,275 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Price Tribunal Committee | 35,833 | 45,000 | 65,000 | 45,000 | 45,000 | 45,000 |
| Finance and Economic Management | The Centre of Research and Policy Studies | 66,464 | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| Finance and Economic Management | National Heritage Trust Fund | 0 | 122,241 | 122,241 | 122,241 | 122,241 | 122,241 |
| Justice | Judges Allowances | 335,960 | 465,000 | 573,846 | 465,000 | 465,000 | 465,000 |
| Justice | Project to bring land records up to date | 86,031 | 120,000 | 120,000 | 120,000 | 120,000 | 120,000 |
| Prime Minister's Office | ICT Support Team | 0 | 0 | 0 | 0 | 0 | 0 |
| Prime Minister's Office | Marae Moana Ambassador | 60,000 | 0 | 0 | 0 | 0 | 0 |
| Public Service Commission | HOM's Salaries | 1,982,873 | 1,903,170 | 1,941,233 | 1,903,170 | 1,903,170 | 1,903,170 |
| | **Compensation of Employees Administered Payments** | 3,460,091 | 3,535,411 | 3,702,320 | 3,535,411 | 3,535,411 | 3,535,411 |
| **Use of Goods and Services** | | | | | | | |
| CI Seabed Minerals Authority | Seabed Minerals Sector Development | 73,319 | 220,000 | 220,000 | 0 | 0 | 0 |
| CI Seabed Minerals Authority | Seabed Minerals Compliance Development | 0 | 0 | 0 | 200,000 | 250,000 | 250,000 |
| Cook Islands Investment Corporation | Provision for Land Rentals | 407,773 | 400,000 | 400,000 | 400,000 | 400,000 | 400,000 |
| Cook Islands Investment Corporation | CIG Buildings Repairs & Maintenance | 0 | 1,000,000 | 1,000,000 | 1,000,000 | 1,500,000 | 1,500,000 |
| Crown Law | Legal Provisions | 171,060 | 100,000 | 138,204 | 100,000 | 100,000 | 100,000 |
| Crown Law | Lexis Nexis - Portal Maintenance | 0 | 0 | 0 | 0 | 0 | 0 |
| Cultural Development | National Events Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Cultural Development | Te Kopapa Reo Maori Board | 0 | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| Cultural Development | Cook Islands Cultural Fund | 499,265 | 500,000 | 1,000,000 | 500,000 | 500,000 | 500,000 |
| Cultural Development | Audio and Visual Digitization | 15,029 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Education | Tertiary Training Institutions | 100,962 | 100,000 | 100,000 | 100,000 | 150,000 | 150,000 |
| Education | Bus Service | 0 | 0 | 0 | 0 | 0 | 0 |
| Environment | E - Waste & Whiteware Collection | 1,092,598 | 1,160,000 | 1,160,000 | 1,160,000 | 1,160,000 | 1,160,000 |
| Environment | Legacy Waste - Vehicles & Whiteware | 36,230 | 26,325 | 26,325 | 26,325 | 26,325 | 26,325 |
| Environment | EIA Process | 0 | 0 | 0 | 0 | 0 | 0 |

| Administering Ministry | Administered Payment | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|
| Environment | Management of Suwarrow Park | 99,877 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Environment | Compliance Development | 39,572 | 0 | 0 | 0 | 0 | 0 |
| Environment | Feasibility Study for Coastal Protection - Rarotonga & Aitutaki | 0 | 400,000 | 400,000 | 0 | 0 | 0 |
| Finance and Economic Management | Public Sector Strengthening-processes and systems | 34,467 | 150,000 | 185,000 | 150,000 | 150,000 | 150,000 |
| Finance and Economic Management | COVID-19 Medical Response Fund | 497,085 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | COVID-19 Economic Response Plan | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Economic Recovery Roadmap | 824,066 | 3,517,000 | 4,489,815 | 1,200,000 | 200,000 | 200,000 |
| Finance and Economic Management | The Centre of Excellence in Information Technology (CEIT) | 88,618 | 60,000 | 60,000 | 0 | 0 | 0 |
| Finance and Economic Management | Audit of Crown Accounts | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 | 30,000 |
| Finance and Economic Management | Standard and Poors Subscription | 75,507 | 70,000 | 70,000 | 70,000 | 70,000 | 70,000 |
| Finance and Economic Management | Special Investigative and Prosecution Services | 42,856 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Finance and Economic Management | Debt Advisory Services | 1,286 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | FMIS Maintenance | 86,671 | 145,000 | 145,000 | 150,000 | 150,000 | 150,000 |
| Finance and Economic Management | Government Broadband Utilities | 30,000 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Border Management System Maintenance | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | ASYCUDA Administrative Fund | 0 | 100,250 | 100,250 | 100,250 | 100,250 | 100,250 |
| Finance and Economic Management | Post Tax Amnesty Work | 32,536 | 0 | 0 | 0 | 0 | 0 |
| Finance and Economic Management | Cook Islands Red Cross | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Finance and Economic Management | IGOR - International Exchange of Information system upgrade | 0 | 55,430 | 144,330 | 55,430 | 55,430 | 55,430 |
| Foreign Affairs | Cook Islands Student Association Support | 2,500 | 10,000 | 17,500 | 10,000 | 10,000 | 10,000 |
| Foreign Affairs | Returned Services Association | 4,975 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Head of State | Domestic Hosting Entertainment | 25,156 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Head of State | KR Social Responsibility Fund | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Head of State | Head of State Rent | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 | 13,000 |
| Health | Pharmaceuticals | 1,167,645 | 1,167,800 | 1,167,800 | 1,167,800 | 1,167,800 | 1,167,800 |
| Health | Law and Order Clinical Psychologist | 2,180 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 |
| Infrastructure Cook Islands | Bridges and Stream Structure Maintenance | 223,936 | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 |
| Infrastructure Cook Islands | Waste Management | 670,769 | 805,000 | 805,000 | 805,000 | 805,000 | 805,000 |
| Infrastructure Cook Islands | Road and Drainage Asset Management | 566,110 | 800,000 | 800,000 | 800,000 | 800,000 | 800,000 |
| Infrastructure Cook Islands | Emergency Response Work | 130,499 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Internal Affairs | Internal Affairs Youth Program | 44,320 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |

| Administering Ministry | Administered Payment | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|
| Internal Affairs | Vaka Maintenance | 400,106 | 450,000 | 450,000 | 450,000 | 500,000 | 500,000 |
| Internal Affairs | Lease extension | 36,000 | 72,000 | 72,000 | 72,000 | 72,000 | 72,000 |
| Parliamentary Services | Special Select Committee | 30,145 | 120,000 | 120,000 | 120,000 | 120,000 | 120,000 |
| Parliamentary Services | Remuneration Tribunal Committee | 0 | 0 | 0 | 0 | 0 | 0 |
| Police | Search and Rescue | 4,873 | 0 | 0 | 0 | 0 | 0 |
| Police | Serious Crime Investigations | 894 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Police | Te Kukupa - Biannual Slipping | 91,773 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Police | Te Kukupa - Fuel Contribution | 0 | 0 | 0 | 0 | 0 | 0 |
| Police | Police Youth Program | 0 | 50,000 | 50,000 | 50,000 | 250,000 | 250,000 |
| Prime Minister's Office | Social Responsibility Fund | 43,776 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Prime Minister's Office | Cabinet Support Fund | 362,771 | 483,000 | 483,000 | 483,000 | 483,000 | 483,000 |
| Prime Minister's Office | Pa Enua Mechanical Overseer | 102,875 | 270,000 | 270,000 | 270,000 | 270,000 | 270,000 |
| Prime Minister's Office | Red Cross | 0 | 0 | 0 | 0 | 0 | 0 |
| Prime Minister's Office | Pa Enua Machinery Maintenance Fund | 97,459 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Prime Minister's Office | OPM ICT Activities | 234,693 | 0 | 0 | 0 | 0 | 0 |
| Prime Minister's Office | OPM ICT Activities - Internet Data and Fiber Connection | 0 | 460,000 | 460,000 | 598,000 | 538,000 | 624,650 |
| Prime Minister's Office | Pa Enua Connectivity | 199,924 | 0 | 0 | 0 | 0 | 0 |
| Prime Minister's Office | OPM ICT Activities - Licenses and Software | 0 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| Tourism Corporation | Marketing Resources - Tourism Growth Strategy | 3,257,000 | 5,743,000 | 5,743,000 | 4,500,000 | 4,500,000 | 4,500,000 |
| Finance and Economic Management | Tarai Vaka Fund | 12,143 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Financial Services Development Authority | Tax Law Review | 30,000 | 0 | 0 | 0 | 0 | 0 |
| | **Use of Goods and Services Administered Payments** | **12,338,034** | **21,200,805** | **22,843,224** | **17,303,805** | **16,733,805** | **16,820,455** |
| **Subsidies** | | | | | | | |
| Education | University of the South Pacific Contribution | 205,000 | 205,000 | 205,000 | 205,000 | 205,000 | 205,000 |
| Finance and Economic Management | Airline Route Development | 2,103,339 | 17,450,000 | 17,896,660 | 15,300,000 | 15,400,000 | 14,600,000 |
| Finance and Economic Management | Subsidy of audio/visual broadcasting in Pa Enua | 32,601 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Finance and Economic Management | Asian Infrastructure Investment Bank (AIIB) Membership | 36,630 | 30,500 | 30,500 | 30,500 | 30,500 | 30,500 |
| Finance and Economic Management | Universal Access Fund | 0 | 400,000 | 538,000 | 400,000 | 400,000 | 400,000 |
| Finance and Economic Management | Provision for Inter Island Shipping | 966,457 | 500,000 | 1,879,037 | 500,000 | 500,000 | 500,000 |
| | **Subsidies Administered Payments** | **3,344,027** | **18,630,500** | **20,594,197** | **16,480,500** | **16,580,500** | **15,780,500** |

| Administering Ministry | Administered Payment | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|
| **Social Assistance** | | | | | | | |
| Education | Government Funded Scholarships | 830,000 | 780,000 | 780,000 | 780,000 | 780,000 | 780,000 |
| Education | Government Funded Scholarships - Fees Free | 0 | 50,000 | 50,000 | 80,000 | 80,000 | 80,000 |
| Health | NCD Fund | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 | 195,000 |
| Health | Patient Referrals | 1,835,736 | 850,000 | 1,850,000 | 850,000 | 850,000 | 850,000 |
| Health | Workforce Development | 234,070 | 234,070 | 234,070 | 234,070 | 234,070 | 234,070 |
| Internal Affairs | Welfare Payments - Allowances | 1,337,524 | 1,588,976 | 1,588,976 | 1,848,971 | 1,854,508 | 1,855,668 |
| Justice | Legal Aid | 9,863 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| | **Social Assistance Administered Payments** | **4,442,193** | **3,738,046** | **4,738,046** | **4,028,041** | **4,033,578** | **4,034,738** |
| **Other Expense** | | | | | | | |
| Cook Islands Investment Corporation | To Tatou Vai | 0 | 0 | 0 | 0 | 0 | 0 |
| Education | Private School Funding | 3,044,431 | 2,735,277 | 2,735,277 | 2,735,277 | 2,758,627 | 2,758,627 |
| Finance and Economic Management | Production of new currency, transportation and sale of old coins | 43,354 | 350,000 | 350,000 | 350,000 | 350,000 | 350,000 |
| Finance and Economic Management | National Census | 42,469 | 0 | 0 | 0 | 0 | 350,000 |
| Finance and Economic Management | Conduct of a Labour Force Survey | 0 | 200,000 | 200,000 | 0 | 0 | 0 |
| Internal Affairs | SIF - Cook Islands Government Contribution | 968,306 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Internal Affairs | SIF - ODA Graduation Support Fund | 0 | 686,915 | 686,915 | 0 | 0 | 0 |
| Internal Affairs | CISNOC Grant | 470,000 | 370,000 | 370,000 | 370,000 | 370,000 | 370,000 |
| Marine Resources | Fisheries Development Facility | 149,476 | 150,000 | 150,000 | 150,000 | 150,000 | 150,000 |
| Marine Resources | Fisheries Development Facility in the Pa Enua | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal Affairs | Religious Advisory Council | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Foreign Affairs | Pacific Islands Forum (PIFs) meeting | 0 | 150,000 | 150,000 | 0 | 0 | 0 |
| Prime Minister's Office | State Events | 56,297 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| | **Other Expenses Administered Payments** | **4,784,333** | **5,692,192** | **5,692,192** | **4,655,277** | **4,678,627** | **5,028,627** |
| **Grand Total** | | **28,368,678** | **52,796,954** | **57,569,979** | **46,003,034** | **45,561,921** | **45,199,731** |

## 8.14. Schedule 8b – Payments on Behalf of Crown (POBOCs)

| Administering Ministry | POBOC | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|
| Finance and Economic Management | Parliamentary Superannuation | 75,202 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 |
| Audit (PERCA) | PERC Salaries and Administration Costs | 52,142 | 57,500 | 57,500 | 57,500 | 57,500 | 57,500 |
| Parliamentary Services | Civil List - Personnel | 3,229,645 | 2,901,961 | 2,901,961 | 2,901,961 | 2,901,961 | 2,901,961 |
| Parliamentary Services | House of Ariki | 0 | 0 | 0 | 0 | 0 | 0 |
| Cultural Development | House of Ariki (CI) | 331,540 | 336,690 | 336,690 | 336,690 | 336,690 | 336,690 |
| | **Compensation of Employees POBOCs** | **3,688,529** | **3,476,151** | **3,476,151** | **3,476,151** | **3,476,151** | **3,476,151** |
| **Use of Goods and Services** | | | | | | | |
| Audit (PERCA) | Audit Fees | 80,700 | 103,000 | 103,000 | 103,000 | 103,000 | 103,000 |
| Parliamentary Services | Civil List - Constituency Visits | 68,052 | 170,200 | 170,200 | 170,200 | 170,200 | 170,200 |
| Parliamentary Services | Parliamentary Sitting Expenses | 201,955 | 200,000 | 200,000 | 200,000 | 200,000 | 200,000 |
| Parliamentary Services | MP Travel and Allowances (local and overseas) | 432,101 | 250,000 | 553,600 | 250,000 | 250,000 | 250,000 |
| Parliamentary Services | KR Travel and Allowances (local and overseas) | 167,215 | 109,000 | 109,000 | 109,000 | 109,000 | 109,000 |
| Transport | Maritime Radio Coverage | 120,000 | 120,000 | 297,862 | 120,000 | 120,000 | 120,000 |
| Prime Minister's Office | Local Government Election | 0 | 0 | 0 | 50,000 | 0 | 0 |
| Foreign Affairs | International Maritime Organization - Maritime Cook Islands | 63,461 | 63,461 | 63,461 | 63,461 | 63,461 | 63,461 |
| | **Use of Goods and Services POBOCs** | **1,133,484** | **1,015,661** | **1,497,123** | **1,065,661** | **1,015,661** | **1,015,661** |
| **Subsidies** | | | | | | | |
| Cook Islands Investment Corporation | Bank of the Cook Islands - social assistance subsidy | 128,000 | 128,000 | 128,000 | 128,000 | 128,000 | 128,000 |
| Cook Islands Investment Corporation | Airport Authority subsidy | 2,047,994 | 1,500,000 | 1,500,000 | 1,000,000 | 500,000 | 0 |
| Cook Islands Investment Corporation | Ports Authority - subsidy | 110,099 | 110,099 | 110,099 | 110,099 | 110,099 | 110,099 |
| Cook Islands Investment Corporation | To Tatou Vai (CI) | 2,987,528 | 3,000,000 | 3,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| | **Subsidies POBOCs** | **5,273,621** | **4,738,099** | **4,738,099** | **3,238,099** | **2,738,099** | **2,238,099** |
| **Social Assistance** | | | | | | | |
| Internal Affairs | Welfare Payments | 20,816,934 | 21,562,805 | 21,562,805 | 21,771,104 | 21,978,793 | 21,979,281 |
| | **Social Assistance POBOCs** | **20,816,934** | **21,562,805** | **21,562,805** | **21,771,104** | **21,978,793** | **21,979,281** |
| **Other Expense** | | | | | | | |
| Finance and Economic Management | Pacific Catastrophe Risk Insurance | 182,682 | 160,000 | 160,000 | 160,000 | 160,000 | 160,000 |
| Finance and Economic Management | Competition and Regulatory Authority | 395,652 | 400,000 | 566,246 | 400,000 | 400,000 | 400,000 |
| Finance and Economic Management | BEPS Subscription | 38,300 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Foreign Affairs | International Subscriptions | 940,890 | 890,000 | 890,000 | 890,000 | 890,000 | 890,000 |
| Finance and Economic Management | CIG Insurance | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| | **Other Expenses POBOCs** | **1,597,524** | **1,535,000** | **1,701,246** | **1,535,000** | **1,535,000** | **1,535,000** |
| **Grand Total** | | **32,510,092** | **32,327,716** | **32,975,424** | **31,086,015** | **30,743,704** | **30,244,192** |

## 8.15. Schedule 9a – Debt Servicing Schedule ($'000)

| Creditor | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|
| Asian Development Bank (ADB) | | | | | | |
| *Principal* | 5,214 | 8,723 | 8,723 | 10,038 | 11,821 | 13,119 |
| *Interest* | 6,598 | 7,190 | 7,190 | 6,813 | 6,369 | 5,857 |
| **Total Debt Servicing to ADB** | **11,812** | **15,912** | **15,912** | **16,851** | **18,190** | **18,977** |
| People's Republic of China (EXIM) | | | | | | |
| *Principal* | 2,819 | 2,789 | 2,789 | 2,797 | 2,818 | 2,830 |
| *Interest* | 525 | 463 | 463 | 409 | 355 | 300 |
| **Total Debt Servicing to China** | **3,344** | **3,252** | **3,252** | **3,206** | **3,173** | **3,131** |
| Asian Infrastructure Investment Board (AIIB) | | | | | | |
| *Principal* | 0 | 1,612 | 1,612 | 2,111 | 2,807 | 3,744 |
| *Interest* | 1,361 | 1,307 | 1,307 | 1,219 | 1,127 | 1,004 |
| **Total Debt Servicing to AIIB** | **1,361** | **2,919** | **2,919** | **3,330** | **3,933** | **4,748** |
| **Total Servicing of Other Debt** | **16,517** | **22,083** | **22,083** | **23,387** | **25,297** | **26,855** |

## 8.16. Schedule 9b – Loan Repayment Fund (LRF) Schedule ($'000)

| Transaction | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|
| **Opening Balance in LRF** | **11,011** | **11,822** | **5,047** | **2,840** | **2,897** | **2,955** |
| Contribution to LRF - Principal | 1,092 | 13,123 | 13,123 | 15,079 | 17,406 | 19,575 |
| Contribution to LRF - Interest | 9,976 | 8,960 | 8,960 | 10,368 | 9,553 | 8,683 |
| **Total Transfer into LRF by Government** | **11,069** | **22,083** | **22,083** | **25,447** | **26,958** | **28,258** |
| Interest earned by LRF (avg. 2%) | 220 | 116 | 101 | 57 | 58 | 59 |
| **Total inflows** | **11,289** | **22,199** | **22,184** | **25,504** | **27,016** | **28,317** |
| **Repayment of prepaid SOE Debt** | | | | | | |
| Contribution from LRF - Principal | 729 | 704 | 716 | 705 | 695 | 697 |
| Contribution from LRF - Interest | 62 | 53 | 54 | 46 | 39 | 32 |
| **Total Repayment of SOE Debt** | **791** | **758** | **770** | **752** | **734** | **729** |
| **Repayment of Other Debt** | | | | | | |
| Contribution from LRF - Principal | 7,396 | 12,419 | 12,623 | 14,373 | 16,710 | 18,878 |
| Contribution from LRF - Interest | 10,341 | 8,907 | 10,998 | 10,322 | 9,514 | 8,652 |
| **Total Repayment of Other Debt** | **17,737** | **21,326** | **23,621** | **24,696** | **26,224** | **27,529** |
| Total Principal paid out of the LRF | 8,125 | 13,123 | 13,339 | 15,079 | 17,406 | 19,575 |
| Total Interest paid out of the LRF | 10,403 | 8,960 | 11,052 | 10,368 | 9,553 | 8,683 |
| **Total outflows** | **18,528** | **22,083** | **24,391** | **25,447** | **26,958** | **28,258** |
| Other Movements - revaluation | (1,275) | 0 | 0 | 0 | 0 | 0 |
| **Closing balance of LRF** | **5,047** | **11,938** | **2,840** | **2,897** | **2,955** | **3,014** |

## 8.17. Schedule 10 – Official Development Assistance Schedule

| Donor Partners | Programs/Projects by Agency | Funding Type | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|---|
| | **Cook Islands General Budget Support** | | | | | | | |
| NZ | Cook Islands Core Sector Support - Budget Support | Budget Support | 7,825,000 | 9,100,000 | 9,100,000 | 0 | 0 | 0 |
| China | COVID-19 Co-operation | Budget Support | 0 | 0 | 0 | 0 | 0 | 0 |
| NZ | COVID-19 Response - 3rd Phase Support | Budget Support | 0 | 0 | 0 | 0 | 0 | 0 |
| NZ | COVID-19 ER Support - November 2021 | Budget Support | 6,443,101 | 0 | 0 | 0 | 0 | 0 |
| NZ | Economic Recovery Support - 2023 | Budget Support | 15,000,000 | 0 | 0 | 0 | 0 | 0 |
| | **Total General Budget Support** | | **29,268,101** | **9,100,000** | **9,100,000** | **0** | **0** | **0** |
| | **Recurrent ODA Expenditure** | | | | | | | |
| NZ | Cook Islands Core Sector Support - TA Component | Grant | 1,341,246 | 2,435,500 | 2,435,500 | 0 | 0 | 0 |
| NZ | COVID-19 Economic Recovery Support - November 2021 | Grant | 3,200 | 47,543 | 47,543 | 0 | 0 | 0 |
| NZ | Cook Islands Climate Change: Improving Access to Finance | Grant | 0 | 369,261 | 369,261 | 0 | 0 | 0 |
| NZ | MFAI Support for the Cook Islands PIF 2023 Chairing Responsibilities | Grant | 0 | 350,000 | 350,000 | 0 | 0 | 0 |
| NZ | New Zealand Climate Finance (managed via ITF) | Grant | 0 | 6,500,000 | 6,500,000 | 10,000,000 | 0 | 0 |
| NZ | Northern Group RE Battery Replacement | Grant | 0 | 7,500,000 | 7,500,000 | 0 | 0 | 0 |
| NZ | COVID-19 Vaccination Programme | 3rd Party Spend | 96,564 | 0 | 0 | 0 | 0 | 0 |
| Australia | Upgrade to Police National Command, Control and Coordinating Centre | Grant | 0 | 0 | 0 | 0 | 0 | 0 |
| China | COVID-19: Cooperation Cash Grant to support recovery | Grant | 28,215 | 0 | 0 | 0 | 0 | 0 |
| China | COVID-19 Co-operation Cash Grant for Administration | Grant | 0 | 50,000 | 50,000 | 0 | 0 | 0 |
| ADB | APDRF COVID-19 Emergency Response Project | 2nd Party Spend | 0 | 0 | 0 | 0 | 0 | 0 |
| Japan | Grant Assistance for Grassroots Projects | 3rd Party Spend | 600,000 | 0 | 0 | 0 | 0 | 0 |
| India | India Grant Fund | Grant | 79,006 | 491,300 | 491,300 | 303,030 | 303,030 | 303,030 |
| UNAF | Pa Enua Action for Resilient Livelihoods (PEARL) | Grant | 82,847 | 0 | 0 | 0 | 0 | 0 |
| GCF | UNOPs COK-RS-003: Green Climate Fund Readiness 4 | Grant | 132,334 | 0 | 0 | 0 | 0 | 0 |
| GCF | GCF COK-PPF-039: Building Resilient and Healthy Cook Islands Communities | Grant | 570,114 | 200,000 | 200,000 | 0 | 0 | 0 |
| GCF | UNEP FP147: Enhancing Climate Information and Knowledge Services | Grant | 335,361 | 3,920,900 | 3,920,900 | 966,486 | 780,200 | 0 |
| GCF | UNEP FP147: Enhancing Climate Information and Knowledge Services | 3rd Party Spend | 2,000,000 | 0 | 0 | 0 | 0 | 0 |
| GCF | UNOPs COK-RS-005: Enhancing a National Adaptation Programmes | Grant | 1,907,001 | 2,618,968 | 2,618,968 | 375,530 | 0 | 0 |
| GCF | UNOPs COK-RS-004: Green Resilient Recovery Rapid Readiness Support | Grant | 295,922 | 248,843 | 248,843 | 0 | 0 | 0 |
| GCF | Enhanced Direct Access - Project Preparation Facility | Grant | 0 | 0 | 0 | 0 | 0 | 0 |
| GCF | DAE Direct Support Readiness | Grant | 0 | 189,735 | 189,735 | 113,270 | 0 | 0 |
| EU | Budget Support to the Sanitation Sector | Grant | 14,701 | 137,014 | 137,014 | 0 | 0 | 0 |
| NZ | NZ Volunteer Services Aboard | 3rd Party Spend | 500,000 | 0 | 0 | 0 | 0 | 0 |
| ADB | Technical Assistance Support | 3rd Party Spend | 500,000 | 0 | 0 | 0 | 0 | 0 |
| UNDP | UNDP SDG Financing Joint Programme - DFA | 2nd Party Spend | 51,135 | 0 | 0 | 0 | 0 | 0 |
| NZ | COVID-19 Rapid Impact Assessment Survey CI NSO | Grant | 35,000 | 33,800 | 33,800 | 0 | 0 | 0 |
| Other | Aid Effectiveness | Budget Support | 100,000 | 200,000 | 200,000 | 100,000 | 100,000 | 100,000 |
| GEF | National Adaptation to CC | Grant | 0 | 0 | 0 | 0 | 0 | 0 |
| GEF | Fourth National Communications - UNFCCC | Grant | 26,353 | 215,689 | 215,689 | 251,712 | 235,061 | 80,871 |

| Donor Partners | Programs/Projects by Agency | Funding Type | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|---|
| SPC | GCCA + SUPA - Enhancing a Climate Resilient Marine Sector | Grant | 146,469 | 0 | 0 | 0 | 0 | 0 |
| SPC | GCCA + SUPA - Enhancing a Climate Resilient Marine Sector | Grant | 330,000 | 0 | 0 | 0 | 0 | 0 |
| UNDP | Western Pacific Multi-Country Integrated HIV/TB programme - UNDP | Grant | 79,678 | 0 | 0 | 0 | 0 | 0 |
| WHO | WHO Biennium Budget Support | 3rd Party Spend | 152,000 | 0 | 0 | 0 | 0 | 0 |
| UNICEF | UNICEF Health and Nutrition Programme | 3rd Party Spend | 335,350 | 0 | 0 | 0 | 0 | 0 |
| EU | Sustainable Fisheries Partnership Agreement - Sectoral Support 2016 - 2021 | Grant | 572,925 | 0 | 0 | 0 | 0 | 0 |
| EU | Sustainable Fisheries Partnership Agreement - Sectoral Support 2022 - 2024 | Grant | 584,893 | 590,000 | 590,000 | 590,000 | 0 | 0 |
| FFA | Project Development Fund - US Fisheries Treaty | 3rd Party Spend | 206,439 | 0 | 0 | 0 | 0 | 0 |
| GEF | Nagoya Protocol on Access to Genetic Resources and Benefit Sharing | Grant | 25,200 | 81,852 | 81,852 | 0 | 0 | 0 |
| UNESCO | UNESCO Social Protection for persons with disability (Pilot Project) | Grant | 2,648 | 0 | 0 | 0 | 0 | 0 |
| Other | National Archive Digitization Programme MOCD | Grant | 0 | 80,000 | 80,000 | 0 | 0 | 0 |
| UNESCO | Intangible Cultural Heritage Funds Programme | Grant | 32,981 | 43,260 | 43,260 | 0 | 0 | 0 |
| NZ | CI Pacific Maritime Safety Programme | Grant | 191,371 | 120,500 | 120,500 | 0 | 0 | 0 |
| UNEP | HCFC Phase-Out Management Plan for PIC Stage I & 2 | Grant | 12,635 | 27,000 | 27,000 | 13,000 | 0 | 0 |
| UNEP | Institutional Strengthening Project (ISP) | Grant | 31,463 | 45,000 | 45,000 | 0 | 0 | 0 |
| GEF | Minimata Convention on Mercury | Grant | 20,664 | 22,347 | 22,347 | 0 | 0 | 0 |
| UNDP | UNPRPD Cook Islands Joint Programme | Grant | 4,995 | 0 | 0 | 0 | 0 | 0 |
| ADB | Strengthening of the Cook Islands Public Sector TA | 3rd Party Spend | 300,000 | 0 | 0 | 0 | 0 | 0 |
| SPC | Technical/In Kind Support | 3rd Party Spend | 163,934 | 0 | 0 | 0 | 0 | 0 |
| SPREP | Pac Waste Plus | Grant | 343,900 | 0 | 0 | 0 | 0 | 0 |
| Aus - SPC | Cook Islands Coastal Fisheries and Aquaculture TA | Grant | 0 | 393,874 | 393,874 | 393,874 | 0 | 0 |
| Aus - SPC | Otolisth Laboratory | Grant | 0 | 97,818 | 97,818 | 0 | 0 | 0 |
| NZ | Cook Islands Domestic ICT Connectivity Improvements | Grant | 0 | 3,000,000 | 3,000,000 | 0 | 0 | 0 |
| GEF | GEF Small Grants Programme | 3rd Party Spend | 378,787 | 0 | 0 | 0 | 0 | 0 |
| Other | Small Projects Grant funding | Grant | 2,330,596 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| FFA | Fisheries Climate Change activities under the US Treaty | Grant | 0 | 501,422 | 501,422 | 0 | 0 | 0 |
| GEF | GEF 7 National Project | Grant | 0 | 164,608 | 164,608 | 856,998 | 990,402 | 716,349 |
| GEF | GEF Enabling Activity for UNCCD | Grant | 0 | 70,000 | 70,000 | 21,324 | 0 | 0 |
| | **Total Recurrent ODA Expenditure** | | **14,945,927** | **35,746,234** | **35,746,234** | **18,985,224** | **7,408,693** | **6,200,250** |

| Donor Partners | Programs/Projects by Agency | Funding Type | 2022/23 Actual | 2023/24 Budget Estimate | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|---|---|
| | **Capital ODA Expenditure** | | | | | | | |
| NZ | Manatua Polynesian Cable Project | Grant | 515,955 | 190,000 | 190,000 | 0 | 0 | 0 |
| NZ | Mei Te Vai Ki Te Vai (MTVKTV) | Grant | 144,259 | 600,000 | 600,000 | 0 | 0 | 0 |
| Japan | Procurement of a cargo and passenger vessel | Grant | 0 | 5,800,000 | 5,800,000 | 0 | 0 | 0 |
| NZ | Cook Islands Infrastructure Trust Fund | Grant | 264,365 | 19,404,104 | 19,404,104 | 0 | 0 | 0 |
| NZ | Cook Islands Infrastructure Trust Fund - Te Tau Papa O Avarua CIIC | Grant | 0 | 7,600,000 | 7,600,000 | 0 | 0 | 0 |
| NZ | Cook Islands Infrastructure Trust Fund - Manihiki Airport Upgrade | Grant | 0 | 12,387,300 | 12,387,300 | 0 | 0 | 0 |
| EU | Budget Support to the Sanitation Sector | Grant | 605,038 | 900,000 | 900,000 | 0 | 0 | 0 |
| Japan | Economic Social Development Programme 2018 | 3rd Party Spend | 4,051 | 0 | 0 | 0 | 0 | 0 |
| Japan | Economic Social Development Programme 2020-1 COVID-19 Response Assistance | 3rd Party Spend | 700,000 | 0 | 0 | 0 | 0 | 0 |
| Japan | Economic Social Development Programme 2020-2 | 3rd Party Spend | 994,495 | 0 | 0 | 0 | 0 | 0 |
| Japan | Domestic Shipping – mixed Cargo / Passenger Ship | 2nd Party Spend | 0 | 2,000,000 | 2,000,000 | 0 | 0 | 0 |
| GEF | Renewable Energy Grant (Southern Group) | 3rd Party Spend | 681,818 | 0 | 0 | 0 | 0 | 0 |
| GCF | Renewable Energy Grant (Southern Group) | 3rd Party Spend | 984,672 | 1,500,000 | 1,500,000 | 0 | 0 | 0 |
| NZ | Rarotonga Airport Upgrade Designs | Grant | 795,615 | 298,000 | 298,000 | 0 | 0 | 0 |
| ADB | JFPR - Supporting Safe Recovery of Travel and Tourism in Cook Islands | 3rd Party Spend | 659,091 | 3,000,000 | 3,000,000 | 0 | 0 | 0 |
| NZ | Improving Geospatial Data - LiDAR | Grant | 1,271,780 | 0 | 0 | 0 | 0 | 0 |
| SPC | Strengthening Water Security of Vulnerable Island States | Grant | 73,816 | 0 | 0 | 0 | 0 | 0 |
| SPC | Managing Water Scarcity through Strengthened Water Resources Project Fund 2 | Grant | 1,308,405 | 0 | 0 | 0 | 0 | 0 |
| NZ | Improving Geospatial Data - LiDAR | Grant | 0 | 323,281 | 323,281 | 0 | 0 | 0 |
| | **Total Capital ODA Expenditure** | | **9,003,359** | **54,002,685** | **54,002,685** | **0** | **0** | **0** |
| | **Total NZD Equivalent ODA Funding** | | **53,217,387** | **98,848,919** | **98,848,919** | **18,985,224** | **7,408,693** | **6,200,250** |
| | **Total NZD Equivalent ODA Funding - (excluding GBS)** | | **23,229,189** | **23,949,286** | **89,748,919** | **89,748,919** | **18,985,224** | **7,408,693** |

# 9. Financial Statements

## 9.1. Statement of Financial Performance

| | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Taxation Revenues | 110,700 | 167,473 | 176,869 | 185,386 | 191,623 |
| Trading Revenue | 5,921 | 5,024 | 5,082 | 5,232 | 5,232 |
| Interest Revenue | 1,676 | 1,008 | 763 | 765 | 766 |
| Dividends | 0 | 1,000 | 1,600 | 2,300 | 2,750 |
| Core Sector Support | 7,825 | 9,100 | 0 | 0 | 0 |
| Other Revenue | 38,771 | 19,569 | 20,382 | 15,247 | 15,254 |
| ***Total Revenue*** | ***164,893*** | ***203,173*** | ***204,696*** | ***208,929*** | ***215,625*** |
| **Expenditure** | | | | | |
| Crown Appropriation | 113,098 | 149,044 | 136,084 | 136,600 | 136,245 |
| Depreciation | 14,066 | 15,360 | 15,410 | 15,410 | 14,809 |
| Payments on Behalf of Crown | 32,510 | 32,975 | 31,086 | 30,744 | 30,244 |
| Debt-servicing interest | 8,685 | 9,451 | 8,863 | 8,132 | 7,349 |
| Other expenditure | 2,308 | 150 | 150 | 150 | 150 |
| ***Total Expenditure*** | ***170,666*** | ***206,981*** | ***191,594*** | ***191,036*** | ***188,798*** |
| | | | | | |
| ***NET OPERATING SURPLUS / (SHORTFALL)*** | ***(5,773)*** | ***(3,807)*** | ***13,102*** | ***17,893*** | ***26,828*** |
| **Grants** | | | | | |
| Foreign Aid Revenue | 14,946 | 35,746 | 18,985 | 7,409 | 6,200 |
| Foreign Aid Expenses | 14,946 | 35,746 | 18,985 | 7,409 | 6,200 |
| **Grant Balance** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| | | | | | |
| **Net Operating Balance after Grants** | ***(5,773)*** | ***(3,807)*** | ***13,102*** | ***17,893*** | ***26,828*** |

## 9.2. Statement of Financial Position

| | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Working Capital Fund | 67,126 | 40,332 | 38,642 | 37,550 | 42,285 |
| Stabilisation Fund | 3,544 | 3,544 | 3,544 | 3,544 | 3,544 |
| General Cash Reserve | **70,670** | **43,876** | **42,186** | **41,094** | **45,829** |
| Loan Reserves Fund (LRF) | 5,047 | 2,840 | 2,897 | 2,955 | 3,014 |
| Disaster Response Trust Fund | 2,028 | 2,078 | 2,128 | 2,178 | 2,228 |
| Other Trust Funds | 46,314 | 46,314 | 46,314 | 46,314 | 46,314 |
| Other Assets | 155,700 | 155,700 | 155,700 | 155,700 | 155,700 |
| Advances to SOEs | 46,980 | 43,148 | 39,778 | 36,717 | 33,657 |
| Plant, Property, and Equipment | 272,016 | 339,972 | 341,776 | 345,525 | 350,304 |
| ***Total Assets*** | ***598,755*** | ***633,927*** | ***630,780*** | ***630,483*** | ***637,046*** |
| **Liabilities** | | | | | |
| Creditors and Other Payables | 132,507 | 132,507 | 132,507 | 132,507 | 132,507 |
| Trust Liabilities | 52,261 | 52,261 | 52,261 | 52,261 | 52,261 |
| Borrowings | 231,029 | 216,568 | 199,363 | 179,965 | 159,970 |
| ***Total Liabilities*** | ***415,797*** | ***401,337*** | ***384,131*** | ***364,733*** | ***344,738*** |
| ***NET CROWN BALANCE*** | ***182,957*** | ***232,591*** | ***246,649*** | ***265,750*** | ***292,308*** |

## 9.3. Statement of Borrowings

| | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|
| ***Total Gross Borrowing*** | ***231,029*** | ***216,568*** | ***199,363*** | ***179,965*** | ***159,970*** |
| **Assets held against Borrowings** | | | | | |
| Advances to Subsidiaries | 46,980 | 43,148 | 39,778 | 36,717 | 33,657 |
| Loan Repayment Fund (LRF) | 5,047 | 2,840 | 2,897 | 2,955 | 3,014 |
| ***Total Assets Held Against Borrowings*** | ***52,027*** | ***45,988*** | ***42,676*** | ***39,672*** | ***36,671*** |
| ***Total Net Borrowing*** | ***179,002*** | ***170,580*** | ***156,687*** | ***140,293*** | ***123,299*** |

# 9.4. Statement of Cashflow

| | 2021/22 Actual | 2022/23 Actual | 2023/24 HYEFU Estimate | 2024/25 Projection | 2025/26 Projection | 2026/27 Projection |
|---|---|---|---|---|---|---|
| **Cashflows from Operating Activities** | | | | | | |
| Cash provided from: | - | | | | | |
| Taxation Revenues | 106,374 | 110,700 | 167,473 | 176,869 | 185,386 | 191,623 |
| Trading Revenue | 5,334 | 5,921 | 5,024 | 5,082 | 5,232 | 5,232 |
| Interest Revenue | 277 | 1,456 | 907 | 707 | 707 | 707 |
| Foreign Aid Income | 23,229 | 23,949 | 89,749 | 18,985 | 7,409 | 6,200 |
| Core Sector Support | 7,825 | 7,825 | 9,100 | 0 | 0 | 0 |
| Other Revenue | 58,606 | 58,535 | 19,569 | 20,382 | 15,247 | 15,254 |
| | ***201,646*** | ***208,386*** | ***291,821*** | ***222,024*** | ***213,980*** | ***219,016*** |
| Cash applied to: | | | | | | |
| Crown Appropriation | 155,655 | 113,098 | 149,044 | 136,084 | 136,600 | 136,245 |
| Depreciation | 0 | 0 | 0 | 0 | 0 | 0 |
| Payments on Behalf of the Crown | 28,168 | 32,510 | 32,975 | 31,086 | 30,744 | 30,244 |
| Foreign Aid Expense | 11,897 | 14,946 | 35,746 | 18,985 | 7,409 | 6,200 |
| Net Debt-Servicing Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Expenditure | 280 | 2,308 | 150 | 150 | 150 | 150 |
| | **195,999** | **162,861** | **217,916** | **186,306** | **174,903** | **172,840** |
| ***Net Cashflows from Operating Activities*** | ***5,647*** | ***45,525*** | ***73,906*** | ***35,719*** | ***39,077*** | ***46,177*** |
| **Cashflows from Financing Activities** | | | | | | |
| Cash provided from: | | | | | | |
| Subsidiary Loan Repayments | 303 | 2,406 | 3,749 | 3,704 | 3,698 | 3,704 |
| Other Investment Receipts | 0 | 0 | 1,000 | 1,600 | 2,300 | 2,750 |
| | ***303*** | ***2,406*** | ***4,749*** | ***5,304*** | ***5,998*** | ***6,454*** |
| Cash applied to: | | | | | | |
| Capital expenditure | 23,820 | 22,415 | 29,313 | 17,215 | 19,159 | 19,588 |
| Capital expenditure - foreign aid | 11,333 | 9,003 | 54,003 | 0 | 0 | 0 |
| Advances to Subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 |
| | ***35,153*** | ***31,419*** | ***83,316*** | ***17,215*** | ***19,159*** | ***19,588*** |
| ***Net Cashflows from Investing Activities*** | ***(34,850)*** | ***(29,013)*** | ***(78,567)*** | ***(11,911)*** | ***(13,161)*** | ***(13,134)*** |
| **Cashflows from Financing Activities** | | | | | | |
| Cash provided from: | | | | | | |
| Loans Drawdown | 55,540 | 0 | 0 | 0 | 0 | 0 |
| Other Financing Receipts | 30 | 0 | 0 | 0 | 0 | 0 |
| | ***55,570*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| Cash applied to: | | | | | | |
| Loan Repayment Fund | 13,215 | 12,344 | 22,083 | 25,447 | 26,958 | 28,258 |
| Other Reserves | 50 | 0 | 50 | 50 | 50 | 50 |
| Other Financing Payments | 0 | (270) | 0 | 0 | 0 | 0 |
| | ***13,265*** | ***12,074*** | ***22,133*** | ***25,497*** | ***27,008*** | ***28,308*** |
| ***Net Cashflows from Financing Activities*** | ***42,305*** | ***(12,074)*** | ***(22,133)*** | ***(25,497)*** | ***(27,008)*** | ***(28,308*** |
| ***)*** | | | | | | |
| Net cash movements | 13,102 | 4,438 | (26,795) | (1,689) | (1,092) | 4,735 |
| Opening General Cash Balance | 53,130 | 66,232 | 70,670 | 43,876 | 42,186 | 41,094 |
| ***Closing General Cash Reserve*** | ***66,232*** | ***70,670*** | ***43,876*** | ***42,186*** | ***41,094*** | ***45,829*** |

## 9.5. Statement of Financial Risks

| Quantifiable Contingent Liabilities | ($'000) |
|---|---|
| Guarantees and indemnities | 50 |
| Uncalled capital | 2,600 |
| Legal proceedings and disputes | 400 |
| Vested Assets | 24,800 |
| **Total Quantifiable Contingent Liabilities** | **27,900** |

The total quantifiable contingent liabilities for 2023/24 is estimated to be $27.9 million with further details outlined below. Possible liabilities stemming from the Island Governments are also discussed.

### 9.5.1. Guarantees and indemnities relate to the following

The Government entered into a programme in 2011/12 under the New Zealand Aid Programme, specifically targeting support for the Pearl Sector through the Cook Islands Pearl Authority. As part of the initiative, the Government guaranteed up to $500,000 as security for loans associated with the Pearl Production Credit Scheme. Although the loan program has been discontinued, there is still an outstanding debt of approximately $50,000 on the loan scheme.

### 9.5.2. Uncalled Capital

The Government holds $1.9 million in uncalled shares with the Asian Development Bank (ADB), represented by 88 uncalled-shares with a par-value of USD 13,500 each. In addition, the Government holds $644,330 in uncalled shares with the Asian Infrastructure Investment Bank (AIIB), consisting of four uncalled-shares with a par-value of USD 100,000 each.

**Table 9-1 Uncalled Capital Breakdown ($)**

| Party | Shares | USD per share ($) | NZD Value ($) |
|---|---|---|---|
| Asian Development Bank | 88 | 13,500 | 1,913,660 |
| Asian Infrastructure Investment Bank | 4 | 100,000 | $644,330 |
| **Total** | | **1,588,000** | **2,557,990** |
| Foreign Exchange Rate (USD/NZD) | 1.61 | | |

The total has been rounded up for conservatism in the total of Contingent Liabilities.

### 9.5.3. Legal Proceedings and Disputes

This contingency consists of various cases and is an estimate of the maximum potential liability (damages and costs) of the Crown known at the time of publication.

### 9.5.4. Financial liabilities relating to Island Governments

The Ministry of Finance and Economic Management (MFEM) has not approved any contract or security from the Island Governments that might lead to potential liabilities. There is no preferential treatment regarding public or other liabilities for the Island Governments, and the likelihood of them incurring such liabilities is minimal. No specific measures have been taken to minimise this risk beyond those applied to other Government agencies located in Rarotonga.

Unsettled invoices pose a risk that could be challenging to address without implementing stricter financial controls beyond those imposed stipulated in the Financial Policies and Procedures Manual, the MFEM Act 1995-96 and the Public Expenditure Review Committee and Audit (PERCA) Act 1995-96. While MFEM is introducing a Financial Management and Information System (FMIS), to enhance invoice payments processes and recording-keeping, the inherent manual aspects of the billing process means that this risk cannot be entirely eliminated.

# 10. Accounting Policies

Accounting Policies for the Forecast Financial Statements of the Government of the Cook Islands

## 10.1. Statement of Compliance

These forecast financial statements have been prepared in accordance with the Ministry of Finance and Economic Management (MFEM) Act 1995-96 and Generally Accepted Accounting Practice (GAAP) with the International Public Sector Accounting Standards Board (IPSASB). The IPSAS standards which the Government does not comply and have yet to adopt are noted at the end of these accounting policies.

The use of public resources by the Government is primarily governed by the MFEM Act 1995-96.

## 10.2. Basis of Preparation

The forecast financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently in each year.

These forecast financial statements have been prepared on the basis of historical cost, modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows and Taxation Revenue).

The financial statements are presented in New Zealand dollars rounded to the nearest million, unless separately identified.

## 10.3. Judgements and Estimations

The preparation of these forecast financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenses.

Forecast new capital spending is an amount provided in the budgets to represent the impact on the financial position and cash flows of capital initiatives expected to be introduced over the forecast period. Forecast new operating spending is an amount included in the budgets to provide for the operating balance impact of policy initiatives, changes to demographics, and other forecasting changes expected to occur over the forecast period.

The estimates and underlying assumptions in these forecasts are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 10.4. Basis of Consolidation

These forecast financial statements combine the following entities:

**Crown Parent Crown entities (46)**

**Ministries (13)**

Infrastructure Cook Islands
Ministry of Agriculture
Ministry of Cultural Development
Ministry of Education
Ministry of Finance and Economic Management
Ministry of Foreign Affairs & Immigration
Ministry of Health
Ministry of Internal Affairs and Social Services
Ministry of Justice
Ministry of Marine Resources
Ministry of Police
Ministry of Transport
Ministry of Corrective Services

**Island administrations (10)**

15 Atiu Island Administration
16 Aitutaki Island Administration
17 Mangaia Island Administration
18 Manihiki Island Administration
19 Mauke Island Administration
20 Mitiaro Island Administration
21 Palmerston Island Administration
22 Penrhyn Island Administration
23 Pukapuka Nassau Island Administration
24 Rakahanga Island Administration

**Crown agencies and offices (16)**

Business Trade and Investment Board
Cook Islands Pearl Authority
Cook Islands Tourism and Marketing Corporation
Cook Islands Seabed Mineral Authority
Crown Law Office
Development Coordination Division
Financial Services Development Authority
Financial Supervisory Commission
Head of State
National Environment Service
Office of the Public Expenditure Review Committee and Audit
Office of the Public Service Commissioner
Office of the Ombudsman
Office of the Prime Minister
Parliament of the Cook Islands
Competition Regulatory Authority
Cook Islands Investment Corporation

**Ministerial support (7)**

40 Prime Minister's Support Office
41 Office of the Deputy Prime Minister
42 Office of the Leader of Opposition
43 Minister Support Office
44 Minister Support Office
45 Minister Support Office
46 Minister Support Office

**Subsidiaries of Cook Islands Investment Corporation**

2 Ports Authority
3 Te Aponga Uira O Tumu Te Varovaro
4 Airport Authority
5 Cook Islands Broadcasting Corporation
6 CIIC Seabed Resources Limited
7 Cook Islands Government Property Corporation

**Subsidiaries of Cook Islands Government Property Corporation**

8 Banana Court Co Limited
9 Cook Islands Property Corporation
10 Bank of the Cook Islands Limited
11 Suwarrow Development Corporation
12 Development Finance limited
13 Cook Islands Telecommunication Holdings Limited
14 Aitutaki Power Supply Limited
15 To Tatou Vai Limited
16 Avaroa Cables Limited

The Government has a full residual interest in all the above entities with the exception of Telecom Cook Islands Limited and CIIC Seabed Resources Limited.

Corresponding assets, liabilities, revenue and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of controlled entities to bring the accounting policies into line with those used by the Government reporting entity.

### 10.4.1. Associate

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor an 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.

Telecom Cook Islands Limited is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. The Government's interest in Telecom Cook Islands Limited is held by Cook Islands Telecommunication Holdings Limited.

The CIIC Seabed Resources Limited was established during the 2018 period. The principal activity of CIIC Seabed Resources Limited is the exploration, classification, exploitation, marketing and selling of polymetallic nodules within the Cook Islands Exclusive Economic Zone and the Cook Islands assigned area within the Clarion Clipperton Zone. The Company is 50% owned by the Cook Islands Investment Corporation and 50% by GSR-CI Limited. The ultimate Parent Company of GSR-CI Limited is Global Sea Mineral Resources NV, a Company incorporated and registered in Belgium.

## 10.5. Accounting treatment

### 10.5.1. Revenue

The Government provides many services and benefits that do not give rise to revenue. Further, 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 sovereign power of the Crown in Parliament.

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

| Revenue Type | Revenue Recognition Point |
|---|---|
| Source deductions | When an individual earns income that is subject to PAYE and payment has been receipted by the Revenue Management Division. |
| Individual Income Tax | Individual income tax is recognised when individual tax return forms are filed and payment has been receipted by the Revenue Management Division. |
| Company Income Tax | Company income tax is recognised when individual company tax return forms are filed and payment has been receipted by the Revenue Management Division. |
| Withholding Tax | Withholding tax is recognised upon payment being receipted by the Revenue Management Division |
| Value Added Tax | VAT is recognised when individual monthly VAT return forms are filed and payment has been receipted by the Revenue Management Division. |
| Customs levies | Customs levies are recognised upon payment being receipted by the Revenue Management Division. |
| Departure Tax | Departure tax is included in the cost of airfares charged by Airlines to its customers. Departure tax is recognised upon payment being receipted by the Revenue Management Division from the respective Airlines. |
| Other Revenue | When the obligation to pay is incurred. |
| ALL Tax | An exception to recognition upon receipt by the Revenue Management Division is an annual accrual for known over-due tax payments including those tax-payers who are on instalment arrangements. There is no provision made for bad debts against this accrual. |

#### 10.5.1.1. Revenue Earned Through Operations

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

#### 10.5.1.2. Sales of goods and services

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received.

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period for the services unless an alternative pattern of recognition better represents the stage of completion of the transaction.

#### 10.5.1.3. Rental revenue

Rental revenue is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental revenue.

#### 10.5.1.4. Dividend revenue

Dividend revenue from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

#### 10.5.1.5. Interest income

Interest income is accrued using the effective interest rate method. The effective interest rate discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

#### 10.5.1.6. Aid revenue, aid expenses and aid liability

Aid revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as aid liability and recognised as revenue when allowable costs, capital or non-capital, are incurred and any conditions are met. Where allowable costs have been incurred but funding not received, government recognises a receivable up to the amount of approved funding. Aid funding received that do not have any conditions are recognised as revenue.

#### 10.5.1.7. Donated assets

Where a physical asset is gifted or acquired by Government for nil or at a subsidised cost, the asset is recognised at fair value and the difference between the consideration provided and the fair value of the asset is recognised as aid revenue.

#### 10.5.1.8. Fines

Fines are economic benefits or services potentially received by the Government 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.

### 10.5.2. Expenses Recognition

Expenses are recognised in the Statement of Financial Performance on an accrual basis.

#### 10.5.2.1. Personnel expenses

Personnel expenses are recognised on an accrual basis and include employer contributions for the Government superannuation scheme.

### 10.5.2.2. Welfare payments

Welfare benefits and entitlements are recognised as an expense in the period the payment has been made.

### 10.5.2.3. Grants and subsidies

Where grants and subsidies are at the Government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the Government.

### 10.5.2.4. Operating lease

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

### 10.5.2.5. Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the Statement of Financial Performance as it accrues using the effective interest method.

### 10.5.2.6. Borrowing costs

Borrowing costs are interest expenses calculated using the effective interest method. Borrowing costs are recognised as an expense in the period in which it was incurred.

### 10.5.2.7. Foreign currency transactions

Transactions in foreign currencies are translated into New Zealand dollar (NZD) 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 reporting date.

### 10.5.2.8. Depreciation

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

Depreciation of property, plant and equipment and infrastructure assets are provided on a straight-line basis so as to allocate the cost of assets to their estimated value over their estimated useful lives. Typically, the estimated useful lives for various asset types are follows:

| Asset type | Useful life |
|---|---|
| Office and computer equipment | 3 – 4 years |
| Motor vehicles | 5 years |
| Furniture and fittings | 4 – 10 years |
| Plant and equipment | 5 – 15 years |
| Buildings and improvements | 10 - 40 years |
| Coastal protection | 25 years |
| Power distribution network | 20 years |
| Road network | 30 years |
| Water network | 15 years |
| Airport runways | 15 – 100 years |
| Harbour and ports structures | 10 – 20 years |
| Waste management facilities | 15 years |
| Plant and equipment Tools | 4 – 5 years |
| Marine equipment | 5 years |
| Leased land and leasehold improvements | Term of the lease |
| Specialised buildings and other buildings | 15 years |

## 10.5.3. Non-Financial Assets

### 10.5.3.1. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation.

Residential buildings held for the primary purpose of providing low-income housing have been classified as property, plant, and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Statement of Financial Performance.

### 10.5.3.2. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation.

The cost of property, plant 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 Government 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.

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

### 10.5.3.3. Impairment

If the estimated recoverable amount of an asset is less than it's carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Financial Performance.

### 10.5.3.4. Additions

The cost of an item of property, plant 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 Government and the cost of the item can be measured reliably.

### 10.5.3.5. Work in progress

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

### 10.5.3.6. Infrastructure assets

Infrastructure assets are recorded at cost less accumulated depreciation. Infrastructure assets are accounted for the same way as property, plant and equipment

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

### 10.5.3.7. Intangible assets

Intangible assets are software acquisition costs and are recorded at cost less accumulated amortisation and accumulated impairment losses.

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.

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:

| Asset Type | Useful Life |
|---|---|
| Software, databases | 3 - 5 years |

### 10.5.3.8. Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are 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.

## 10.5.4. Financial Assets

### 10.5.4.1. Categories of Financial Assets

The Government does not have any financial assets classified as financial assets at fair value through surplus or deficit, held-to- maturity investments or available-for-sale financial assets. The Government only holds financial assets classified as loans and receivables.

### 10.5.4.2. Recognition

Financial assets are measured initially at fair value plus, for an item not at fair value through profit or loss, transactions are directly attributable to its acquisition or issue.

### 10.5.4.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognised in the Statement of Financial Performance.

### 10.5.4.4. Cash and cash equivalents

Cash and cash equivalents include cash holdings, foreign currency cash holdings, short-term cash investments and are carried at amortised cost in the Statement of Financial Position.

### 10.5.4.5. Term deposits

This comprises interest-bearing deposits held with other banks and are measured at amortised cost in the Statement of Financial Position.

### 10.5.4.6. Trust accounts

Trust accounts contain funding that the Government has received which have conditions attached on how the funding can be utilised. A corresponding liability is recognised upon the receipt of funding that have conditions attached.

### 10.5.4.7. Banking portfolio investments (loans)

Within Government, Bank of the Cook Islands ("the Bank") issues loans. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. They arise when the Bank provides money to a debtor with no intention of trading the loans and advances. After initial recognition they are measured at amortised cost using the effective interest method less any impairment loss.

Loans include direct finance provided to customers such as current accounts and term loans.

### 10.5.4.8. Debtors and other receivables

Receivables are initially recognised at fair value and are subsequently adjusted for penalties and interest as they are charged, and as they are tested for impairment.

### 10.5.5. Identification and measurement of impairment

#### 10.5.5.1. Banking portfolio investments (loans)

Refer to Note 2 Areas of significant estimation: Banking portfolio investments - credit provisioning (Bank of the Cook Islands).

#### 10.5.5.2. Tax receivable

Government has not undertaken an assessment on the recoverability of tax receivables. The assumption is that tax receivable is fully recoverable and free from impairment.

#### 10.5.5.3. Other receivables

A receivable is considered uncollectable when there is evidence the amount will not be fully collected. The amount that is uncollectible is the difference between the amount due and the present value of the amount expected to be collected. The assessment of uncollectible is performed on an individual basis, based on past collection history and write-offs.

#### 10.5.5.4. Derecognition of financial assets

Government derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or it transfers the rights to receive the contractual cash flow in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Government is recognised as a separate asset or liability.

### 10.5.6. Categorisation of liabilities

All financial liabilities are classified as other financial liabilities.

#### 10.5.6.1. Recognition

Financial liabilities are measured initially at fair value plus, for an item not at fair value through surplus or deficit, transaction costs that are directly attributable to its acquisition or issue.

#### 10.5.6.2. Other financial liabilities

Other financial liabilities and are subsequently measured at amortised cost using the effective interest rate and include: Creditors and other payables and banking customer deposits.

#### 10.5.6.3. Employee entitlements

Employee entitlements to salaries and wages and annual leave and other similar benefits are recognised as an expense in the Statement of Financial Performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid.

#### 10.5.6.4. Provisions

Government recognises provisions when there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flow.

#### 10.5.6.5. Borrowings

Borrowing liabilities are accounted for at amortised cost on the Statement of Financial Position. Any changes are recognised in the Statement of Financial Performance. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the Statement of the Financial Position. All other borrowings are disclosed as non-current liabilities.

#### 10.5.6.6. Pension liabilities

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

#### 10.5.6.7. 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 and is provided for on a pro-rata basis in the Statement of Financial Position.

#### 10.5.6.8. Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

### 10.5.7. 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. Included in the cash flow statement are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Government.

Investing activities are the acquisition and disposal of long-term assets and other investments. Operating activities identify how much the Government received from its actual operations.

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

Both the direct and indirect cash flow methods have been applied in these financial statements.

### 10.5.8. Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at the balance date.

Commitments are classified as:

- Capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and Lease commitments: non-cancellable operating leases with a lease term exceeding one year.
- Interest commitments on debts, commitments for funding, inventory and commitments relating to employment contracts are not separately reported as commitments.

### 10.5.9. Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is more than remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

### 10.5.10. Changes in accounting policies

The accounting policies are consistent with those applied in the preparation of Government's annual financial statements for the year ended 30 June 2019.

2019 Audit opinion on policies that the Government has not complied with:

- IPSAS3- Accounting Policies
- IPSAS 17-Property Plant and Equipment
- IPSAS 21-Impairment of Non-Cash Generating Assets
- IPSAS 29 – Financial Instruments: Recognition and Measurement – Government elected not to comply due to cost.

As at the preparation date of these forecast financial statements for 2023/24, the following policies have not been applied.

- IPSAS 31 Intangible Assets adopt Jan 19
- IPSAS 32 Service Concession Arrangements adopt Jan 22
- IPSAS 34 Separate Financial Statements adopt Jan 19
- IPSAS 35 Consolidated Financial Statements adopt Jan 19
- IPSAS 36 Investment in Associates and Joint Ventures adopt Jan 19
- IPSAS 37 Joint Arrangements adopt Jan 19
- IPSAS 38 Disclosure of Interest in Other Entities adopt Jan 20
- IPSAS 39 Employee Benefits adopt Jan 19
- IPSAS 40 Public Sector Combinations adopt Jan 21
- IPSAS 41 Financial Instruments adopt Jan 22
- IPSAS 42 Social Benefits adopt Jan 22