



---

# Cook Islands Government

## Quarterly Financial Report

---

**December 2016**

**Prepared by the Ministry of Finance and Economic Management**  
**[www.mfem.gov.ck](http://www.mfem.gov.ck)**



## Table of Contents

Table of Contents .....	3
Introduction.....	4
Key Points .....	4
Summary of the Financial Position of the General Government.....	5
Changes to Expenditure Authority .....	7
General Government Revenue Analysis.....	8
General Government Expenditure Analysis .....	11
Payments on Behalf of Crown (POBOCs) .....	11
Appropriation Analysis .....	13
Other General Government Operating Expenditure .....	15
Capital Expenditure .....	16
State Owned Entities (SOEs) Quarterly Reporting.....	23
Crown Borrowings .....	24
The Crown Loan Reserve Fund (LRF).....	26
General Government Cash Reserves.....	28
OFFICIAL DEVELOPMENT ASSISTANCE (ODA) .....	29
Glossary .....	45

## Introduction

The statements contained in this report have been prepared on an accruals basis as far as practical and outline income and expenses incurred which may not be necessarily received or paid. All figures are rounded to the nearest thousand. In a change from past quarterly reporting, personnel expenses have been accrued for five days ending December 2016 to give a more accurate picture of expenditure.

## Key Points

The net operating balance of the General Government Sector as at 31 December 2016 was a surplus of \$18.48 million.

- Operating revenue was \$82.10 million; and
- Operating expenditure was \$63.61 million.

The estimated overall fiscal balance for December 2016 was a surplus of \$16.53 million. The fiscal balance adjusts the Net Operating Balance for the effects of depreciation and capital expenditure.

**Table 1**  
**Net Operating Balance General Government – December 2016**

<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>	<b>Variance</b>	
<b>Actual</b>		<b>Budget</b>	<b>Actual</b>	<b>(‘000)</b>	<b>%</b>
<b>(‘000)</b>		<b>(‘000)</b>	<b>(‘000)</b>		
70,385	Operating Revenue	75,985	82,095	6,110	8
63,468	Operating Expenditure	66,862	63,612	3,251	5
<b>6,917</b>	<b>Net Operating Balance</b>	<b>9,123</b>	<b>18,483</b>	<b>9,360</b>	<b>103</b>

**Table 2**  
**Fiscal Balance of General Government – December 2016**

<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>	<b>Variance</b>	
<b>Actual</b>		<b>Budget</b>	<b>Actual</b>	<b>(‘000)</b>	<b>%</b>
<b>(‘000)</b>		<b>(‘000)</b>	<b>(‘000)</b>		
6,917	Net Operating Balance	9,123	18,483	9,360	103
1,460	Add Crown Depreciation	1,841	1,841	-	-
995	Add Ministry Depreciation	1,423	1,307	(116)	(8)
155	Add Pa Enuu Depreciation	527	545	18	3
6,673	Less Capital Expenditure - CI Govt Funded	18,562	5,650	12,911	70
<b>2,855</b>	<b>Fiscal Balance</b>	<b>(5,648)</b>	<b>16,526</b>	<b>22,173</b>	<b>(393)</b>

Total revenue collections for the half year ending December 2016/17 were higher than the Budget estimate and were mainly attributable to higher than estimated tax revenues for reasons detailed in the General Government Revenue Analysis section.

Total operating expenses for the half year ending December 2016/17 were lower than the Budget estimate and are largely attributed to lower expenditure of payments on behalf of Crown.

Capital Expenditure was well below expectations due mainly to scheduling.

## Summary of the Financial Position of the General Government

The net operating surplus of the General Government sector for the half year ending December 2016 was \$18.48million, representing an increase of \$9.36 million on the 2016/17 Budget estimates for the half year.

Overall, revenue was \$6.11 million higher than the 2016/17 Budget estimates and operating expenditure was lower by \$3.25 million than the 2016/17 Budget estimates for the half year. The under spend largely attributed to savings in the Air NZ airline subsidy payments. Further detail is provided in the appropriation analysis sections.

This statement has been prepared on an accruals basis as far as practical and outlines income and expenses incurred which may not been necessarily received or paid.

**Table 3**  
**Net Operating Balance as at 31 December 2016**

Dec15 FY2015/16 Actual ('000)		2016/17 Budget ('000)	2016/17 Actual ('000)	Variance ('000)
<u>Operating Revenue</u>				
60,415	Taxation Revenue	59,428	62,606	3,178
5,985	Other Crown Receipts	7,369	12,892	5,522
2,516	Trading Revenue	2,712	3,449	737
537	Interest on Loans to Subsidiaries	351	552	201
18	Dividends	894	35	(858)
914	Interest on Funds	943	684	(258)
-	Higher Modality Partnership NZ	3,788	1,877	(1,912)
-	Public Sector Strengthening -Process and Systems	500	0	(500)
<b>70,385</b>	<b>Total Operating Revenue</b>	<b>75,985</b>	<b>82,095</b>	<b>6,110</b>
<u>Operating Expenditure</u>				
33,337	Ministry/ Pa Enua Expenditure	34,819	33,864	955
24,978	Payments on Behalf of the Crown	26,411	23,723	2,687
1,178	Debt Service Interest	855	1,153	(298)
989	Asset Management	1,089	1,089	(0)
1,460	Crown Infrastructure Depreciation	1,841	1,841	0
-	Transfer to Emergency Reserve Trust Fund	302	302	0
257	Transfer to Reserve Trust Fund	274	274	-
1,245	Depreciation Contingency Fund	1,181	1,181	0
24	Contingency Funds - Operating	90	184	(94)
<b>63,468</b>	<b>Total Operating Expenditure</b>	<b>66,862</b>	<b>63,612</b>	<b>3,250</b>
<b>6,917</b>	<b>Net Operating Balance</b>	<b>9,123</b>	<b>18,483</b>	<b>9,360</b>

## Summary of Crown Cash Position of the General Government

<b>Sept16</b>		<b>December</b>
<b>FY2016/17</b>	<b><u>For the Second Quarter 2016/17</u></b>	<b>2016/17</b>
<b>Actual</b>		<b>Actual</b>
<b>('000)</b>	<b>Key Balance Sheet Items in General Government:</b>	<b>('000)</b>
69,675	Cash and Equivalents (Table 15)	73,406
(27,866)	Committed Cash (Table 15)	(29,259)
<b>41,809</b>	<b>Net Cash Reserve</b>	<b>44,147</b>
100,605	Gross General Government Borrowings (Table 13)	98,757
<b>59,828</b>	<b>Net General Government Borrowings</b>	<b>58,396</b>
	<b>Increase in Net Cash Reserve</b>	<b>2,338</b>
	<b>Decrease in Net General Government Borrowings</b>	<b>1,432</b>
	<b>Net Cash Gain/(Loss) in the period</b>	<b>3,770</b>

The gross borrowings by the Crown were \$98.76 million; net borrowings by the General Government Sector (excluding loan reserves and borrowings by SOEs) were \$58.40 million (down by \$1.4 million on September 2016).

The net cash reserve which is essentially unencumbered increased to \$44.15 million for 31 December 2016 (up by \$2.34 million on September 2016) resulting from the Fiscal surplus in the second quarter reported.

Combined net cash position resulting from the Fiscal surplus was a net cash gain of \$3.77 million for the second quarter.

The following table provides the same analysis for the half year to 31 December 2016. The table shows an overall net cash gain for the year of \$19.34 million

<b>June16</b>		<b>December</b>
<b>FY2015/16</b>	<b><u>For the Six Months (Half Year) to December 2016</u></b>	<b>2016/17</b>
<b>Actual</b>		<b>Actual</b>
<b>('000)</b>	<b>Key Balance Sheet Items in General Government:</b>	<b>('000)</b>
56,535	Cash and Equivalents (Table 15)	73,406
(27,289)	Committed Cash	(29,259)
<b>29,246</b>	<b>Net Cash Reserve</b>	<b>44,147</b>
104,098	Gross General Government Borrowings (Table 13)	98,757
<b>62,831</b>	<b>Net General Government Borrowings</b>	<b>58,396</b>
	<b>Increase in Net Cash Reserve</b>	<b>14,901</b>
	<b>Decrease in Net General Government Borrowings</b>	<b>4,435</b>
	<b>Net Cash Gain/(Loss) in the period</b>	<b>19,336</b>

The net cash gain is greater than the Fiscal surplus for the year to date due to a significant receipt accounted for in 2015/16 being received in July 2017. This is offset partially by unrealised gains from Foreign Exchange movement on Government Debt.

## Changes to Expenditure Authority

Section 70 (3) (b) (i) of the Cook Islands Constitution allows for expenditure to exceed the appropriation provided that the total amount of all sums issued and paid shall not exceed one and one-half percent (1 ½ per cent) of the total amount of all sums appropriated by the Appropriation Act or Acts for that year. The table below illustrates total appropriation \$238,280,290 one-half percent (1 ½ per cent) and approved expenditure and balance remaining for the half year ending December 2016.

Government Approved Excess (1.5%)	\$	3,574,204.35
Less Approved Expenditure	\$	1,542,501.00
Balance	\$	2,031,703.35

Listed below are approved Executive Council passed in the half year ending December 2016:

<b><u>Executive Orders approved under Section 70(3) (b) (i)</u></b>		
<i>Contingency Fund Top-up</i>	\$	100,000
<i>STEPNZ Immigration Programme</i>	\$	72,500
<i>R&amp;M Atiu Genset</i>	\$	41,000
<i>Social Impact Fund topup</i>	\$	260,000
<i>COI Air Raro</i>	\$	26,220
<i>Serious Crime Investigation</i>	\$	81,751
<i>IMF-PFTAC</i>	\$	56,658
<i>CISNOC Grant - U20 Oceania Tournament</i>	\$	15,000
<i>Miss Cook Islands Association</i>	\$	50,000
<i>Civil List Travel &amp; Allowances</i>	\$	330,000
<i>Aitutaki Road Sealing Programme</i>	\$	499,133
<i>Capital Distribution Fund(CDF)</i>	\$	10,239
	<b>\$</b>	<b>1,542,501</b>

## General Government Revenue Analysis

General Government sector revenue as at 31 December 2016 was higher than the Budget estimate by \$6.11 million or 8 per cent. This was mainly attributed to tax revenues performing above budget for respective reasons detailed below.

*Table 4*

### General Government Revenue Summary – December 2016 YTD

2015-16 Actual ('000)		2016-17 Budget ('000)	2016-17 Actual ('000)	Variance ('000)	%
28,947	Value-added Tax	30,481	31,104	623	2
12,495	Income Tax	12,776	11,948	(828)	(6)
6,451	Company Tax	5,545	7,219	1,674	30
5,846	Import Levies	5,353	6,800	1,447	27
2,112	Withholding Tax	0	731	731	100
4,564	Departure Tax	5,273	4,804	(469)	(9)
2,516	Trading Revenue	2,712	3,449	737	27
7,454	Other Revenue	9,557	14,163	4,606	48
-	Higher Modality Partnership NZ	3,788	1,877	(1,912)	(50)
-	Public Sector Strengthening-Process & Systems	500	0	(500)	(100)
<b>70,385</b>	<b>Total Revenue</b>	<b>75,985</b>	<b>82,095</b>	<b>6,110</b>	<b>8</b>

#### Value Added Tax

Actual VAT revenue collected in the half year ending December 2016 was \$0.62 million above Budget estimate (2 per cent).

#### Income Tax

Actual Income Tax revenue collected in the half year ending December 2016 was \$0.83 million below Budget estimate (-6 per cent).

#### Company Tax

Actual Company tax collected in the half year ending December 2016 was \$1.67 million above the 2016/17 Budget estimate (30 per cent) as a result of steady economic activities.

#### Import Levies

Actual Import levies collected in the half year ending December 2016 was \$1.45 million above the Budget estimate (27 per cent). Increased economic activities has resulted in increased imports.

#### Withholding Tax

Actual Withholding tax collections were \$0.73 million above the 2016/17 Q2 Budget estimate (100 per cent).

#### Departure Tax

Departure tax collections were \$0.47 million below the 2016/17 Budget estimate (-9 per cent).

#### Trading Revenue

This will be discussed in the next section (Appropriation Analysis).

#### Higher Modality Partnership Agreements

Agreement has not been reached with New Zealand. Consequently there has been timing issues with receipt of this revenue and only revenue received by 31 December 2016 has been accounted for as revenue. Associated expenditure, particularly related to performance based funding has been managed lower accordingly. \$1.88 million is the remainder of the 2015/16 GFA.



## Other Crown Revenue

Other Crown Revenue was \$4.61 million above the 2016/17 budget estimate (48 per cent). This is primarily due to unrealised foreign exchange gains revenue and fishing licences revenue.

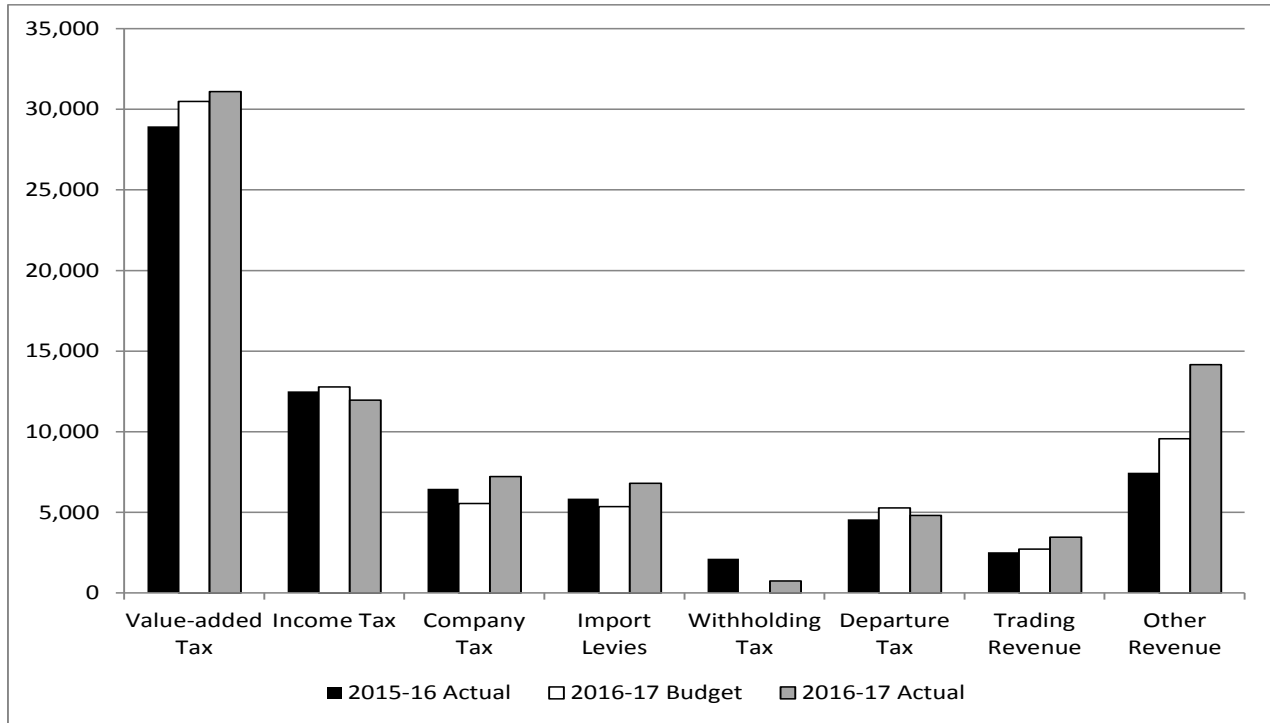
**Table 5**

### **General Government Other Revenue Summary – December 2016 YTD**

<b>2015-16</b>		<b>2016-17</b>	<b>2016-17</b>	<b>Variance</b>	
<b>Actual</b>		<b>Budget</b>	<b>Actual</b>		
<b>('000)</b>		<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>%</b>
130	FSC Fees	147	63	(84)	(57)
288	Vested Assets-FSC	0	0	0	0
368	Immigration Fees	294	405	112	38
-	IMO Subscription - Maritime CI	33	-	(33)	(100)
20	Court Services	25	17	(8)	(30)
7	Instant Fines	10	20	10	99
3,727	Fishing Licences	4,500	7,647	3,147	70
-	Fisheries Catch Rev	0	-	0	0
-	Fisheries US Treaties	600	928	328	55
1	Research Fees	1	1	-	-
6	Permits	12	19	7	60
-	Banana Court -Dividends	5	-	(5)	(100)
-	Bank of the Cook Islands	124	-	(124)	(100)
-	Te Aponga - Dividends	160	35	(124)	(78)
18	Extraordinary SOE-Dividends	30	-	(30)	(100)
0	Telecom-Dividends	575	-	(575)	(100)
127	Numismatic Revenue	175	87	(88)	(50)
31	Drivers Licenses	40	42	2	4
149	Motor Vehicle Registrations	438	138	(300)	(68)
914	Interest on balances	943	684	(258)	(27)
537	Interest on loans to subsidiaries	351	552	201	57
13	Foreign Investment Fees	7	13	6	83
182	Upper Air Management Agreement	373	182	(191)	(51)
75	Shipping Reg/Licenses	134	20	(114)	(85)
15	Intl Shipping Licenses	8	10	3	33
6	Liquor Licensing	15	5	(10)	(67)
103	Tattslotto Grants	60	64	4	7
2	Censorship Fees	5	2	(3)	(67)
763	Circulating Currency- Coins	455	187	(267)	(59)
-	Employers Liability	38	-	(38)	(100)
-	Motor Vehicle Dealers	3	0	(2)	(100)
-	Gain on Forex	0	3,000	3,000	0
-	Other Misc Revenue	0	43	43	0
<b>7,454</b>		<b>9,557</b>	<b>14,163</b>	<b>4,606</b>	<b>48</b>

\*In the 2016/17 budget a policy was established whereby CIG would seed the new sovereign wealth fund with extraordinary revenues that were not budgeted for. Revenue generated from fishing fines and vested assets in the table above will be set aside into this fund once legislative changes are in place.

**Figure 1**  
**General Government Revenue – 2015/16 Actual and 2016/17 Budgets and Actual (\$000)**



**Figure 2**  
**Net Operating Revenue Trends**

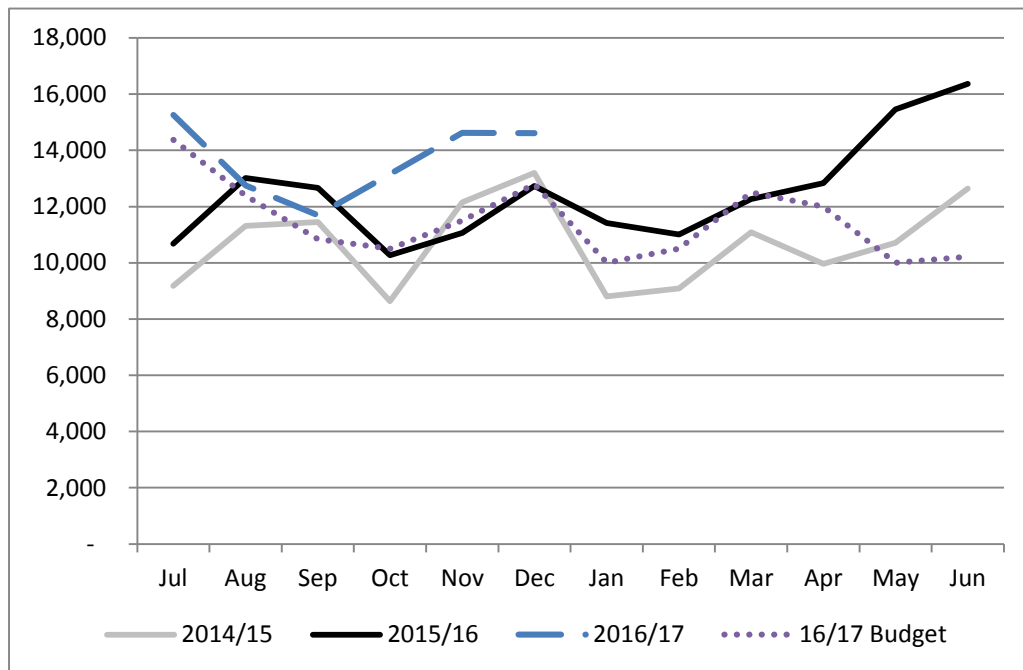


Figure 2 shows that the trends over the previous two financial years of operating revenue and against the 2016/17 budget are quite consistent and significant increase on prior years and budget, mainly from taxes revenues.

# General Government Expenditure Analysis

## Payments on Behalf of Crown (POBOCs)

Table 6

### Payments on Behalf of Crown – December 2016 YTD

2015/16 Actual (000)	Administering Ministry	POBOC	Budget (000)	Actuals (000)	Variance (000)	%
<b>Compensation of Employees</b>						
0	Cook Islands Investment Corporation	Infrastructure Committee	38	42	(5)	(13)
	Cook Islands Investment Corporation	Est of an SOE to manage Consortia on Deep Sea				
0		Minerals Harvesting	65	73	(8)	(12)
76	Finance & Economic Management	Parliamentary Superannuation	90	70	20	23
41	Finance & Economic Management	National Heritage Trust	41	40	2	4
	Finance & Economic Management	Public Sector Strengthening -processess and				
0		systems MFEM	165	5	160	97
20	Audit	PERC Salaries and Administration Costs	21	18	4	17
21	Internal Affairs	Price Tribunal	15	14	1	8
0	Justice	Projects to bring land records up to date	60	0	60	100
108	Justice	Judges Allowances	89	50	39	44
1,042	Parliamentary Services	Civil List - Personnel	987	1,008	(21)	(2)
72	Parliamentary Services	House of Ariki	88	139	(51)	(58)
0	Public Service Commission	HOM's Salaries	614	603	12	2
81	Cook Islands Investment Corporation	School Security	50	66	(16)	(31)
28	Transport	Director of Civil Aviation	28	28	(0)	(1)
<b>1,490</b>			<b>2,351</b>	<b>2,154</b>	<b>197</b>	<b>8</b>
<b>Use of Goods and Services</b>						
24	Audit	Audit Fees	48	0	0	0
555	Cultural Development	Te Maeva Nui Constitution Celebrations	361	247	115	32
32	Cook Islands Investment Corporation	Hosting Te Maeva Nui participants at schools	0	0	0	0
457	Education	Tertiary Training Institutions	380	383	(3)	(1)
0	Finance & Economic Management	Audit of Crown Accounts	15	0	15	100
0	Finance & Economic Management	Border Management System Maintenance	68	0	68	100
134	Finance & Economic Management	National Superannuation Fund	128	67	61	47
0	Finance & Economic Management	Standard and Poors Subscription	20	0	20	100
5	Foreign Affairs	Cook Islands Student Association	3	0	3	100
9	Head Of State	Domestic Hosting Entertainment	8	14	(7)	(87)
496	Health	Pharmaceuticals	334	463	(129)	(39)
42	Infrastructure and Planning	OI Unanticipated Breakdowns	100	42	58	58
206	Infrastructure and Planning	Waste Management	273	206	67	24
30	Internal Affairs	Lease extension	36	36	0	0
196	Internal Affairs	Vaka Maintenance	200	197	3	2
311	Parliamentary Services	Civil List - Operating Expenses	0	0	0	#DIV/0!
	Parliamentary Services	Civil List - Constituency Visits	85	80	5	6
-	Parliamentary Services	Parliamentary Sitting Expenses	60	7	53	88
		QR & MP Travel and Allowances (local and				
-	Parliamentary Services	overseas)	75	156	(81)	(108)
29	Parliamentary Services	PPAPD - FDOC Secretariat	26	27	(1)	(5)
195	Prime Minister's Office	Social Responsibility Fund	98	194	(97)	(99)
628	Prime Minister's Office	Self Government Golden Anniversary	0	0	(0)	0
0	Prime Minister's Office	Local Government Elections	0	1	(1)	#DIV/0!
1	Police	Search and Rescue	10	0	10	100
44	Police	Serious Crime Investigations	25	101	(76)	(302)
	Police	Te Kukupa - Biannual Slipping	75	0	75	100
65	Police	Te Kukupa - Fuel Contribution	70	86	(16)	(23)
0	Police	Youth Program	23	31	(8)	(36)
2,650	Tourism Corporation	Marketing Resources - Tourism Growth Strategy	2,750	3,350	(600)	(22)
-	Prime Minister's Office	Returned Services Association	3	0	3	100
63	Prime Minister's Office	Community Development Fund	50	54	(4)	(8)
46	Environment	E-Waste Collection	32	0	32	100
<b>6,218</b>			<b>5,352</b>	<b>5,741</b>	<b>(437)</b>	<b>(8)</b>

<b>Subsidies</b>						
67	Education	University of the South Pacific Contribution	143	89	53	38
3,507	Finance & Economic Management	Air New Zealand - Subsidies	4,750	3,580	1,170	25
453	Finance & Economic Management	Apex - Profit Guarantee	750	481	269	36
0	Finance & Economic Management	Provision for Inter Island Shipping	250	0	250	100
0	Finance & Economic Management	Subsidy of audio/visual broadcasting in Pa Enuā	23	0	23	100
		Bank of the Cook Islands - social assistance				
-	Cook Islands Investment Corporation	subsidy	60	0	60	100
-	Cook Islands Investment Corporation	Airport Authority subsidy	1,024	1,024	0	0
-	Cook Islands Investment Corporation	Ports Authority - subsidy	55	0	55	100
-	Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	190	0	190	100
<b>4,027</b>			<b>7,244</b>	<b>5,174</b>	<b>2,070</b>	<b>29</b>
53	Education	Government Funded Scholarships	370	141	230	62
441	Health	Patient Referrals	275	300	(25)	(9)
62	Health	Nursing School	117	131	(14)	(12)
128	Health	NCD Fund	98	106	(9)	(9)
8,689	Internal Affairs	Welfare Payments	8,391	8,455	(64)	(1)
0	Justice	Legal Aid	20	0	20	100
<b>9,373</b>			<b>9,271</b>	<b>9,133</b>	<b>138</b>	<b>1</b>
	<b>Other Expense</b>					
		Establishment and implementation of a water				
	Cook Islands Investment Corporation	utility for Rarotonga	50	0	50	100
1,213	Education	Private School Funding	1,074	1,202	(128)	(12)
0	Finance & Economic Management	Pacific Catastrophe Risk Insurance	60	0	60	100
40	Foreign Affairs	International Subscriptions	298	22	276	93
0	Marine Resources	Establishment of Fisheries Development Facility	100	0	100	100
-	Marine Resources	Fisheries Development Facility in the Pa Enuā	50	0	50	100
170	Internal Affairs	CISNOC Grant	110	185	(75)	(68)
76	Internal Affairs	SIF- Cook Islands Government Contribution	0	0	0	0
	Internal Affairs	NGO and Welfare Organisations	141	23	117	83
506	Finance & Economic Management	New coins production	185	0	185	100
0	Finance & Economic Management	2017 Baseline Funding for National Census	125	89	36	0
519	Prime Minister's Office	Te Maeva Nui Transport Costs	0	0	0	0
20	Parliamentary Services	Ui Ariki Day	0	0	(0)	0
<b>2,544</b>			<b>2,193</b>	<b>1,521</b>	<b>621</b>	<b>28</b>
<b>23,653</b>	<b>Grand Total</b>		<b>26,411</b>	<b>23,723</b>	<b>2,590</b>	<b>10</b>

The overall saving in POBOC expenditure (10 per cent) was mainly attributed to the Air New Zealand underwrite (\$1.17 million). The variance in Tourism Corporation's Marketing Resources-Tourism Growth Strategy POBOC of \$0.6 million to budget was a result on Tourism Corporation taking advantage of favourable exchange rates and approved advanced funding to purchase foreign currency to increase efficiency.

Welfare payments were above budget by one per cent.

**Table 7**  
**Welfare Payments – December 2016 YTD**

2015/16		2016/17	2016/17	Variance	
Actual		Budget	Actual	(000)	%
(000)		(000)	(000)		
<b>Legislated Payments</b>					
1,471	Child Benefit	1,327	1,352	(25)	(2)
95	New Born Allowance	100	125	(25)	(25)
6,213	Old Age Pension	6,055	6,035	20	0
230	Destitute & Infirm Persons Payment	264	265	(1)	(1)
68	Govnerment Paid-Maternity Leave	75	48	27	36
<b>Non-legislated Welfare Payments</b>					
134	Caregiver's Allowance	183	153	30	17
273	Christmas Bonus	138	277	(138)	(100)
74	Funeral Assistance	85	59	26	0
17	Power Subsidy	40	60	(20)	(50)
48	Special Assistance	50	26	24	48
66	BCI Transaction Fee	74	55	18	25
<b>8,689</b>	<b>Total Welfare Payments</b>	<b>8,391</b>	<b>8,455</b>	<b>(64)</b>	<b>(1)</b>

## Appropriation Analysis

**Table 8**

### **Ministries, Agencies & Ministerial Office Appropriation Analysis – December 2016 YTD**

<b>Actual 2015/16 (‘000)</b>		<b>Budget 2016/17 (‘000)</b>	<b>Actual 2016/17 (‘000)</b>	<b>Variance</b>	
				<b>(‘000)</b>	<b>%</b>
21,664	Personnel	20,902	21,027	(125)	(1)
6,537	Operating	8,026	7,090	936	12
995	Depreciation	1,423	1,307	116	8
1,884	Trading Revenue	2,176	2,752	576	26
<b>27,312</b>	<b>Net Appropriation</b>	<b>28,175</b>	<b>26,672</b>	<b>1,503</b>	<b>5</b>

#### **Personnel**

Personnel expenditure for December 2016 half year was \$0.13 million - 1% higher than budget estimate.

#### **Operating**

Operating expenditure for December 2016 half year was \$0.94 million, 12% lower than budget estimate. Six months into the financial year most ministries/agencies are closely monitoring their expenses. 24 Ministries under spent and 9 overspent.

#### **Depreciation**

Depreciation expenditure was under budget for December 2016 by \$0.12 million - 8%.

#### **Trading Revenue**

Trading Revenue for December 2016 half year was \$0.58 million - 26% higher than budget estimate. Excess trading revenue was mainly from the Ministry of Finance through its overtime recoveries. Ministry of Justice contributed mainly as a result of increase of fees. Health helped with its continuous improvements in collection of fees and December is a peak month to collect revenue for them. Of the 16 Ministries with trading revenue, 12 have exceeded and 4 were under.

**Table 9**

**Pa Enua (Outer Islands) Appropriation Analysis – December 2016 YTD**

<b>2015/16</b>		<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	
<b>Actual</b>		<b>2016/17</b>	<b>2016/17</b>		
<b>('000)</b>		<b>('000)</b>	<b>('000)</b>	<b>('000)</b>	<b>%</b>
2,907	Personnel	2,862	2,810	52	2
1,079	Operating	1,079	1,085	(6)	(1)
155	Depreciation	527	545	(18)	(3)
632	Trading Revenue	536	697	161	30
<b>3,510</b>	<b>Net Appropriation</b>	<b>3,932</b>	<b>3,743</b>	<b>189</b>	<b>5</b>

**Personnel**

Personnel expenditure for December 2016 was \$0.05 million - 2% above budget. Out of 10 Islands in total - 7 Islands had savings, while 3 Islands overspent with Penrhyn Island re-adjusting their personnel for minimum wage and back pay to employees.

**Operating**

Operating expenditure for December 2016 was \$0.06 million - 1% over budget. 6 Islands had savings with Atiu unable to purchase supplies due to the unavailability of stock and shipment from Rarotonga, while 4 Islands overspent in this half year with Manihiki Island purchasing electrical materials to assist with street lighting on the island and renovating the administrative offices.

**Depreciation**

Depreciation Expenditure for December 2016 Half year has increased \$0.02 million - 3% over budget estimate. It is expected the variance will continue to increase as the islands are slowing accounting for the Chinese machineries without an increase in the depreciation budget to date.

**Trading Revenue**

Trading revenue for December 2016 was \$0.16 million - 30% higher than budget estimates. 8 Islands have exceeded their trading revenue with Mauke having an increase in cargo clearance, machinery hire and agricultural sales, followed by Mangaia having new price increase in trading revenue. 2 Islands did not meet their December budget with Rakahanga having no implemented work plan to generate sufficient revenue and Penrhyn having less power consumption by customers.

## Other General Government Operating Expenditure

**Table 10**  
**Other General Government Operating Expenditure**

2015/16 Actual ('000)		2016/17 Budget ('000)	2016/17 Actual ('000)	Variance	
				('000)	%
986	Asset Management	1,089	1,089	(0)	0
1,178	Debt Servicing Interest	855	1,153	(298)	(35)
24	Contingency Funds - Operating	90	184	(94)	(104)
1,460	Crown Infrastructure Depreciation	1,841	1,841	-	-
230	Cook Islands Primary Schools 50 year Saver	0	0	-	-
25	Transfer to Emergency Response Trust Fund	302	302	-	-
257	Transfer to Reserve Trust Fund	274	274	-	-
1,245	Depreciation Contingency Reserve	1,181	1,181	-	-
<b>5,406</b>	<b>Total Other Operating</b>	<b>5,632</b>	<b>6,024</b>	<b>(392)</b>	<b>(7)</b>

Other operating costs for the General Government sector are 2 per cent above in quarter one budget. Debt servicing interest were main reasons for the variance as a result a offset effect in the Loan Reserve Fund (LRF) where interest earned is accounted for in the Other Crown revenue and not applied against the reported debt servicing interest budget as at 31 December 2016.

**Figure 3**  
**Net Operating Expenditure Trends**

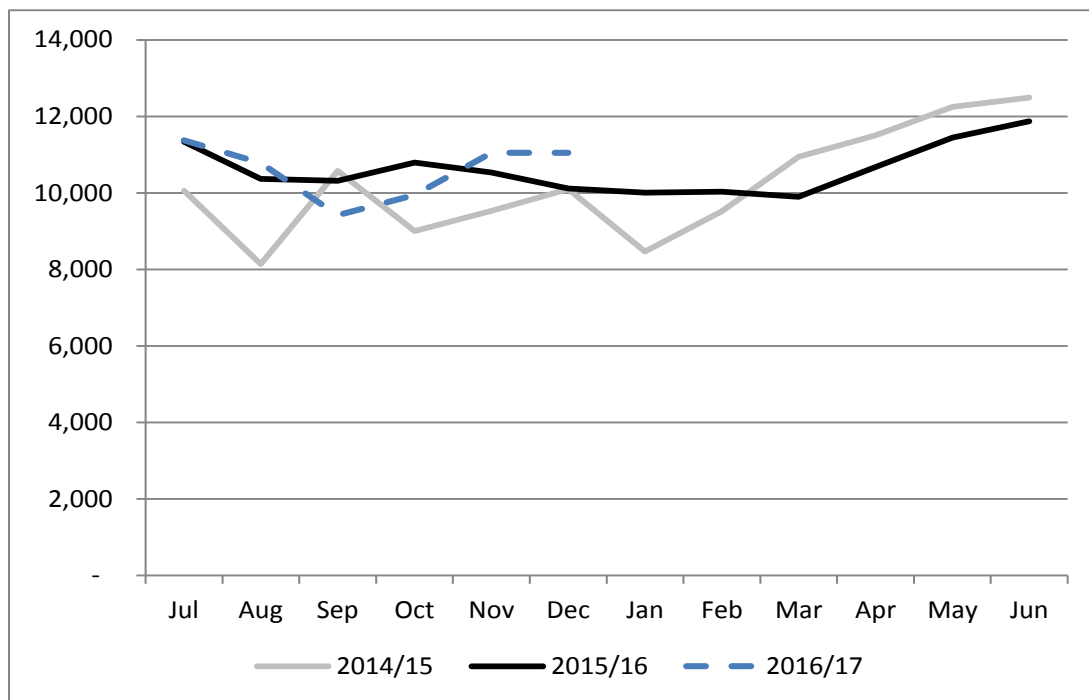


Figure 3 shows the trends over the previous two financial years of operating expenditure.

## Capital Expenditure

The table below summarises the December 2016 half year Capital Expenditure

**Table 11**  
**Capital Expenditure**

Ministry/Island	PROJECT/PROGRAMME	2016/17 (000)	Actual (000)	Variance (000)	%
<b>AITUTAKI ISLAND GOVERNMENT</b>					
Aitutaki	Aitutaki road sealing	0	46	-46	
Aitutaki	Establishing new water galleries	239	0	239	100
		239	46	193	81
<b>AITUTAKI POWER SUPPLY</b>					
Aitutaki	Streetlights for Aitutaki	32	0	32	100
		32	0	32	100
<b>COOK ISLANDS INVESTMENT CORPORATION</b>					
Rarotonga	Apii Nikao design, demolition, construction	192	87	105	55
National	Provision for land rent reviews	321	767	-446	-139
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	125	13	112	89
Pa Enua	Pa Enua Renewable Energy Projects-Land Acquisition	25	799	-774	-3,098
Pukapuka	Pukapuka Hospital Reconstruction	150	0	150	100
Pukapuka	Government House	13	4	9	69
Rarotonga	Vaikapuangi Government Building - design	90	27	63	70
Rarotonga	Vaikapuangi Government Building - construction	960	0	960	100
Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	375	0	375	100
		2,251	1,697	554	25
<b>EDUCATION</b>					
National	Fund to be Prioritised by Education	180	181	-1	-1
National	ICT upgrades (computers & laptops)	44	0	44	100
		224	181	43	19
<b>HEALTH</b>					
National	Fund to be Prioritised by Health for Technical Equipment	138	205	-68	-49
Rarotonga	Ultrasound Machine	80	128	-48	-60
Rarotonga	Medical Service Bed End Panels	155	0	155	100
		372	333	39	11
		<b>2016/17</b>	<b>Actual</b>	<b>Variance</b>	<b>%</b>
<b>Ministry/Island</b>		<b>PROJECT/PROGRAMME</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>
		<b>MME</b>	<b>(000)</b>	<b>(000)</b>	<b>(000)</b>



**AITUTAKI ISLAND GOVERNMENT**

Aitutaki	Aitutaki pickup truck replacement	0	0	0	
Aitutaki	Aitutaki road sealing	0	9	-9	
Aitutaki	Aitutaki rock hammer	0	0	0	
Aitutaki	Establishing new water galleries	120	0	120	100
Aitutaki	Aitutaki Water Pumps (Vaipeka, Tautu, Vaipae)	0	0	0	
		<u>120</u>	<u>9</u>	<u>110</u>	<u>92</u>

**AITUTAKI POWER SUPPLY**

Aitutaki	Streetlights for Aitutaki	16	0	16	100
		<u>16</u>	<u>0</u>	<u>16</u>	<u>100</u>

**COOK ISLANDS INVESTMENT CORPORATION**

Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	96	87	9	10
National	Provision for land rent reviews	161	0	161	100
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	63	13	49	79
Pa Enea	Pa Enea Renewable Energy Projects-Land Acquisition	13	462	-449	-3,595
Pukapuka	Pukapuka Hospital Reconstruction	75	0	75	100
Pukapuka Rarotonga	Government House Vaikapuangi Government Building - design	7	0	7	100
		45	0	45	100
Rarotonga	Vaikapuangi Government Building - construction	480	0	480	100
Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	188	0	188	100
		<u>1,126</u>	<u>562</u>	<u>564</u>	<u>50</u>

**EDUCATION**

National	Fund to be Prioritised by Education	90	0	90	100
National	ICT upgrades (computers & laptops)	22	0	22	100
		<u>112</u>	<u>0</u>	<u>112</u>	<u>100</u>

**HEALTH**

National	Fund to be Prioritised by Health for Technical Equipment	69	0	69	100
Rarotonga	Haematology Instrument	0	0	0	
Rarotonga	Ultrasound Machine	40	0	40	100
Rarotonga	Medical Service Bed End Panels	77	0	77	100
Rarotonga	Theatre bed	0	0	0	
		<u>186</u>	<u>0</u>	<u>186</u>	<u>100</u>

Ministry/Island	PROJECT/PROGRAMME	2016/17	Actual (000)	Variance (000)	%
<b>INFRASTRUCTURE COOK ISLANDS</b>					
Atiu	Atiu Airport Runway Stabilisation	381	100	281	74
National	Bitumen Truck	0	2	-2	
Rarotonga	Bridges & Drainage	674	139	536	79
Mangaia and Pal	Cargo barge repair program for Palmerston &	50	0	50	100
Various	Outboard Motor replacement program	35	21	14	40
Various	Cyclone Centre Program	200	0	200	100
Rarotonga	Avatiu Valley Stream embankment	180	0	180	100
Rarotonga	Rarotonga Road Sealing Programme	1,000	2	998	100
Mangaia	Mangaia Road Sealing	125	4	121	97
Mangaia, Atiu, M	HV Transport Trailer	90	0	90	100
Mangaia	HIAB (includes man cage & fork)	75	0	75	100
Mangaia	Central water project	63	34	29	46
Manihiki	Manihiki Island Airport Terminal - construction	30	0	30	100
Mauke	Medium Genset (42kVA)	10	0	10	100
Mitiaro	Manea Games Upgrade	50	14	36	72
Mitiaro	Water Upgrade	40	0	40	100
Penrhyn	Slasher	2	4	-2	-100
Penrhyn	Omoka Harbour Upgrade	125	0	125	100
Pukapuka	Upgrade of Airport terminal buildings	10	0	10	100
Pukapuka	Yato Cargo Shed Upgrade	4	0	4	100
Rakahanga	Large boat & outboard motor	50	0	50	100
Rarotonga	National Incinerator Feasibility Study	60	78	-18	-31
Pa Enea	Pa Enea Machinery Shelters	0	38	-38	
Rarotonga	Project City Project Management Unit	0	0	0	
Rarotonga	Project City Stage 3 - ADB ERSP	0	138	-138	
Rarotonga	Project City Stage 3 - Retention fund	103	0	103	100
Rarotonga	Road Network Maintenance	315	514	-199	-63
Rarotonga	Rutaki Foreshore Rock Revetment	60	0	60	100
National	Sanitation Upgrade Programme	890	603	287	32
Rarotonga	TMV Titikaveka backroad ringmain pipeline	64	0	64	100
Rarotonga	Water Network Maintenance	250	95	155	62
		4,935	1,786	3,150	64
<b>INTERNAL AFFAIRS</b>					
Rarotonga	Vaka Maintenance Capital Projects	25	0	25	100
		25	0	25	100
<b>MARINE RESOURCES</b>					
Rarotonga	Central Laboratory	250	0	250	100
		250	0	250	100

Ministry/Island	PROJECT/PROGRAMME	2016/17	Actual (000)	Variance (000)	%
<b>MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT</b>					
Rarotonga	Government IT Network	0	0	0	
National	Banking payments system	300	0	300	100
Rarotonga	FMIS purchase and implementation	0	0	0	
Rarotonga	Rarotonga Watertank Subsidy - ADB ERSP	0	27	-27	
Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	3,154	609	2,545	81
		3,454	636	2,818	82
<b>JUSTICE</b>					
National	Online business registry	0	0	0	
		0	0	0	
<b>OFFICE OF THE PRIME MINISTER</b>					
Atiu	Atiu Power Distribution	198	77	121	61
Atiu	Atiu water distribution mains	140	208	-68	-48
Pa Enea	Renewable Energy - Capital works	5,892	0	5,892	100
National	Government IT Network	20	26	-6	-32
National	Computers and Printers	25	25	0	0
National	Renewable Management Project Management and Support	100	34	66	66
		6,375	369	6,005	94
<b>MINISTRY TOTAL</b>					
Capital Funds Administered BY MFEM		175	465	-291	-166
National	Capital Distribution Fund	120	76	44	37
Pa Enea	Outer Islands Small Capital Fund	55	30	25	45
	<i>Aitutaki</i>	8	0	8	100
	<i>Atiu</i>	6	5	1	17
	<i>Mangaia</i>	6	0	6	100
	<i>Manihiki</i>	5	0	5	100
	<i>Mauke</i>	5	0	5	100
	<i>Mitiaro</i>	4	6	-2	-42
	<i>Palmerston</i>	5	1	4	86
	<i>Penrhyn</i>	6	12	-6	-93
	<i>Pukapuka-Nassau</i>	6	4	2	41
	<i>Rakahanga</i>	4	4	0	2
		405	602	-197	-49
<b>GRAND TOTAL</b>		<b>18,562</b>	<b>5,650</b>	<b>12,911</b>	<b>70</b>

Ministry/Island	PROJECT/PROGRAMME	2016/17	Actual	Variance	%
		7	(000)	(000)	)
<b>INFRASTRUCTURE COOK ISLANDS</b>					
Atiu	Atiu Airport Runway Stabilisation	191	0	191	100
Atiu	Atiu Crusher	0	0	0	0
Atiu	Atiu Road Sealing	0	0	0	0
Atiu	Atiu Tipper Truck	0	0	0	0
National	Bitumen Truck	0	0	0	0
Rarotonga	Bridges & Drainage	337	10	327	97

Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	25	0	25	10
Various	Outboard Motor replacement program	18	20	-3	-17
Various	Cyclone Centre Program	100	0	100	10
Rarotonga	Avatiu Valley Stream embankment	90	0	90	10
Rarotonga	Rarotonga Road Sealing Programme	500	0	500	10
Mangaia	Mangaia Road Sealing	63	2	60	97
Mangaia, Atiu, Mauke	HV Transport Trailer	45	0	45	10
Mangaia	HIAB (includes man cage & fork)	38	0	38	10
Mangaia	Central water project	31	2	29	92
Manihiki	Manihiki Island Airport Terminal - construction	15	0	15	10
Mauke	Medium Genset (42kVA)	5	0	5	10
Mitiaro	Manea Games Upgrade	25	14	11	42
Mitiaro	Water Upgrade	20	0	20	10
Penrhyn	Slasher	1	4	-3	-
Penrhyn	Omoka Harbour Upgrade	63	0	63	10
Pukapuka	Upgrade of Airport terminal buildings	5	0	5	10
Pukapuka	Yato Cargo Shed Upgrade	2	0	2	10
Rakahanga	Large boat & outboard motor	25	20	5	18
Mangaia	Mangaia Water and Roads	0	0	0	
Manihiki	Manihiki Harbours	0	0	0	
Rarotonga	National Incinerator Feasibility Study	30	24	6	21
Pa Enea	Pa Enea Machinery Shelters	0	5	-5	
Rarotonga	Project City Project Management Unit	0	0	0	
Rarotonga	Project City Stage 3 - ADB ERSP	0	0	0	
Rarotonga	Project City Stage 3 - Retention fund	51	0	51	10
Rarotonga	Road Network Maintenance	158	200	-42	-27
Rarotonga	RSA Cemetery Rock Wall	0	20	-20	
Rarotonga	Rutaki Foreshore Rock Revetment	30	0	30	10
National	Sanitation Upgrade Programme	445	603	-158	-36
Rarotonga	TMV Titikaveka backroad ringmain pipeline	32	0	32	10
Rarotonga	Water Network Maintenance	125	30	95	76
		2,468	956	1,512	61

**INTERNAL AFFAIRS**

Rarotonga	Internal Affairs Tipper Truck	0	0	0	
Rarotonga	Vaka Maintenance Capital Projects	13	0	13	10
					0
		13	0	13	10
					0

**MARINE RESOURCES**

Rarotonga	Central Laboratory	125	0	125	10
					0
		125	0	125	10
					0

The variance in capital expenditure is thought to be mainly due to timing of spend and the ability to contract for services to date in addition to delays in Te Mato Vai Stage One project and the expenditure of CIG budget for the Renewable Energy –Capital works will only be utilized after donor funds are expended.

## State Owned Entities (SOEs) Half Year Reporting

The table below summarises the December 2016 half year performances of Cook Islands Investment Corporation (CIIC), Airport Authority, Bank of the Cook Islands, Ports Authority and Te Aponga Uira. It should be noted that the budget figures below represent the respective internal budgets of the SOEs. The appropriations approved to SOEs by Parliament are the social responsibility contributions of government.

**Table 12**  
**SOEs Appropriation Analysis – December 2016 YTD**

<b>2015/16 Actuals ('000)</b>		<b>Budget 2016/17 ('000)</b>	<b>Actuals 2016/17 ('000)</b>	<b>Variance</b>	
				<b>('000)</b>	<b>%</b>
4,792	Personnel	5,509	4,997	511	9
10,210	Operating	12,017	12,360	(342)	(3)
4,052	Depreciation	3,389	3,474	(85)	(2)
18,940	Trading Revenue	19,437	21,435	1,998	10
<b>114 Net Activity Cost (Surplus)</b>		<b>1,478</b>	<b>(604)</b>	<b>2,083</b>	<b>141</b>

### Personnel

Personnel expenditure for the December 2016 half year was \$0.51 million lower than Budget estimates (9 per cent). Existing vacancies are yet to be filled.

### Operating

Operating expenditure for the December 2016 half year was \$0.34 million higher than the Budget estimates (-3 per cent). Professional service costs and maintenance costs contributed to this variance.

### Depreciation

Depreciation expenditure was \$0.08 million higher than the budget (-2 per cent). This was mainly driven by Airport Authority's previously impaired assets being reinstated to its previous valuation.

### Trading Revenue

Trading revenue in the December 2016 half year was \$1.10 million higher than the Budget estimate (10 per cent). Te Aponga Uira and Airport Authority both reported better than budget trading revenue.

## Crown Borrowings

The Crown's gross borrowing at the December 2016 half year was \$98.9 million, a decrease of \$1.85 million from the September 2016 quarter. The decrease was attributable to the favourable movement in exchange rates against the New Zealand Dollar (NZD) of \$0.49 million, principal repayments of \$0.76 offset by the variable drawdown of the Renewable Energy Project of \$0.60.

The exchange rates movement for this quarter are shown in the following table:

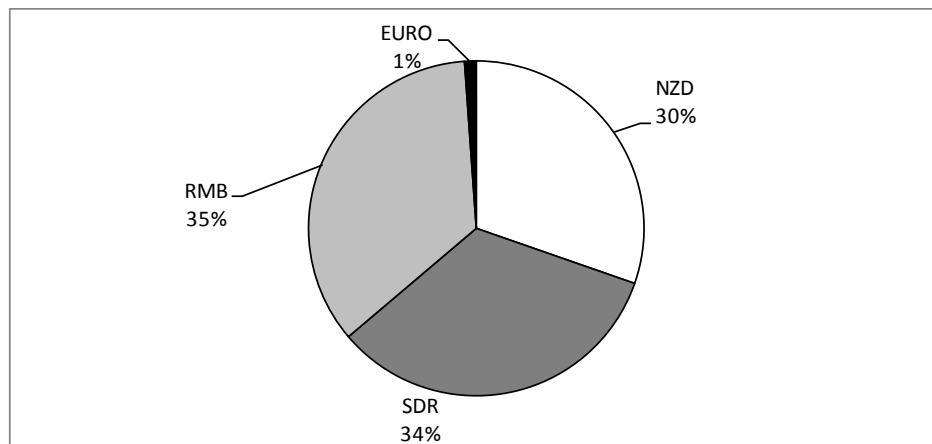
**Table 12**  
**Average Exchange Rates Used**

Foreign Exchange Currency	30-Sep-16 Average	31-Dec-16 Average	Changes
EUR	0.6453	0.66	0.0147
USD	0.7231	0.6968	-0.0263
CNY	4.8225	4.8456	0.0231
SDR	0.518	0.5183	0.00032

The unrealised foreign exchange loss of \$0.49 million is largely the effect of the negative movement in the RMB of 35% and Special Drawing Rights (SDR) as about 34% per cent of the total government borrowing is denominated in SDR as illustrated in Figure 4.

Net borrowings by the General Government at balance date were \$58.39 million, a \$1.43 million decrease from the September 2016 quarter. This decrease was attributable to the favourable movement in exchange rates against the New Zealand Dollar (NZD) of \$0.43 million, principal repayments of \$0.40 and the variable drawdown of the Renewable Energy Project of \$0.60

**Figure 4**  
**Composition of Crown Debt by Currency**



Managing the exchange risk is an ongoing task for the Crown. Working closely with local banks and the services of Bancorp over the global exchange rates movement to accommodate its annual debt servicing plan is paramount to the Crown.

Table 13 below summarised Crown's estimated debt position at December 2016.



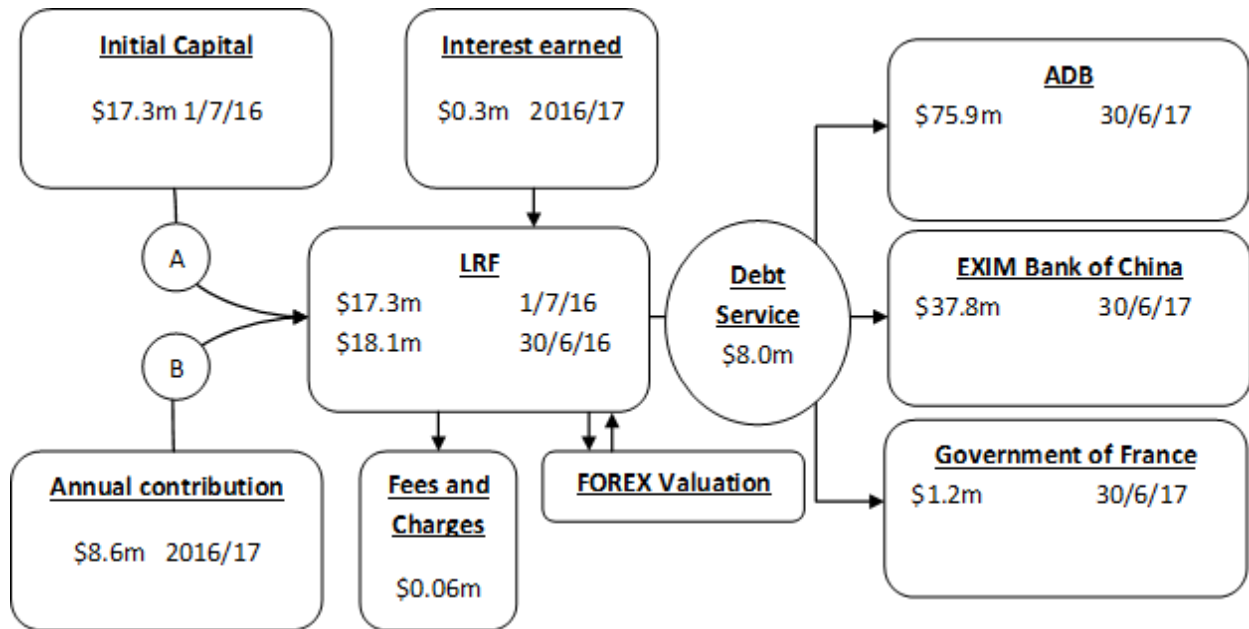
**Table 14**  
**Crown Borrowings – December 2016 YTD**

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Sept 15 Balance ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Revaluation/ Draw Down Adjustments	Dec 2016 Balance ('000)	Change Sept 16 Qtr ('000)
Caisse Francais Development Loans	EURO	5,413	Jan-99	Sep-18	1,405	(213)	(98)	-	1,094	(311)
Import-Export Bank of China	CNY	67,260	Aug-08	Aug-28	10,798	-	(51)	-	10,747	(51)
China - Rarotonga Water Ring Project	CNY	118,000	Dec-12	Dec-13	23,753	-	(113)	-	23,640	(113)
ADB 461 Multi Project Loan	SDR	1,000	Nov-80	Aug-20	406	-	(3)	-	404	(3)
ADB 567 01st CIDB Loan	SDR	1,500	Jul-82	Apr-22	448	(39)	(1)	-	408	(40)
ADB 849 2nd Multi-Project Loan	SDR	2,067	Dec-87	Aug-27	1,699	-	(12)	-	1,687	(12)
ADB 1031 TCI Loan	SDR	3,541	Oct-90	Aug-30	4,133	-	(28)	-	4,105	(28)
ADB 1155 2nd CIDB Loan	SDR	939	Mar-92	Dec-31	1,084	(35)	(7)	-	1,042	(42)
ADB 1171 TCI Emergency Loan	SDR	291	Aug-92	Jun-32	374	(12)	(2)	-	360	(14)
ADB 1309 Pearl Loan	SDR	336	Dec-94	Aug-34	410	-	(3)	-	407	(3)
ADB 1317 Education Loan	SDR	1,836	Feb-95	Aug-34	2,502	-	(17)	-	2,485	(17)
ADB 1380 3rd CIDB Loan	SDR	1,538	Jan-96	Sep-35	2,134	-	(15)	-	2,119	(15)
ADB 1466 Economic Restructuring Loan	SDR	3,430	Sep-96	Sep-36	4,844	-	(35)	-	4,809	(35)
ADB 1588 Cyclone Emergency Rehab Loan	SDR	1,895	Jun-05	Jun-45	814	-	(6)	-	808	(6)
ADB 1832 Waste Management Loan	SDR	1,695	Dec-01	Jun-33	2,164	(68)	(11)	-	2,085	(79)
ADB 2174 Cyclone Emergency Assist Loan	SDR	1,895	Jun-05	Jun-45	3,358	(35)	(23)	-	3,300	(58)
ADB 2472 Avatiu Port Development	NZD	10,309	Sep-09	Nov-33	9,599	(107)	-	-	9,492	(107)
ADB 2473 Avatiu Port Development	SDR	4,524	Sep-09	Nov-40	8,723	-	(62)	-	8,661	(62)
ADB 2739 Amend Avatiu Port Development	NZD	5,322	Dec-11	Nov-35	5,278	(46)	-	-	5,232	(46)
ADB 2946 Economic Restructuring Loan 2	NZD	7,250	Dec-12	Dec-28	6,646	-	-	-	6,646	-
ADB 2565 Economic Restructuring Loan 1	NZD	11,053	Jan-10	Oct-24	8,040	-	-	-	8,040	-
ADB 3913 Renewable Energy	NZD	12,980	Jan-15	Jun-36	1,682	-	-	(605)	1,077	(605)
ANZ - Airport Authority	NZD	8,100	Apr-11	Apr-16	311	(201)	-	-	110	(201)
<b>Total Gross Borrowings</b>					<b>100,605</b>	<b>(756)</b>	<b>(487)</b>	<b>(605)</b>	<b>98,757</b>	<b>(1,848)</b>
<i>Total Loans with ADB</i>					<b>64,338</b>	<b>(342)</b>	<b>(225)</b>	<b>(605)</b>	<b>63,166</b>	<b>(1,172)</b>
<i>Total Loans with Other Sources</i>					<b>36,267</b>	<b>(414)</b>	<b>(262)</b>	<b>-</b>	<b>35,591</b>	<b>(676)</b>
<b>Total Gross Borrowings</b>					<b>100,605</b>	<b>(756)</b>	<b>(487)</b>	<b>(605)</b>	<b>98,757</b>	<b>(1,848)</b>
Less Loan Reserve					16,866	-	-	-	16,866	-
<b>Net Borrowing by the Crown</b>					<b>83,739</b>	<b>(756)</b>	<b>(487)</b>	<b>(605)</b>	<b>81,891</b>	<b>(1,848)</b>
Less Avatiu Port Development					23,600	(153)	(62)	-	23,385	(215)
Less ANZ - Airport Authority					311	(201)	-	-	110	(201)
<b>Net Borrowing by the General Government</b>					<b>59,828</b>	<b>(402)</b>	<b>(425)</b>	<b>(605)</b>	<b>58,396</b>	<b>(1,432)</b>

## The Crown Loan Reserve Fund (LRF)

In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund Act 2014 formally creating an LRF. The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilised for anything outside of debt servicing requirements. The LRF Act also ensures a framework for the prudential management of all sovereign public debt and ensures the timely allocation of money from the Budget for debt servicing.

**Figure 5 - Loan Reserve Fund movements 2016/17**



The LRF currently has sufficient funds to fully cover all debts owed by on behalf of SOEs to lenders. These SOEs include the Bank of the Cook Islands, Te Aponga Uira, and Telecom Cook Islands Limited.

The tender for the analytical services of the LRF was awarded to the New Zealand Company Bancorp, with transactional services and account management being awarded to ANZ in a competitive tender process. Bancorp's fees are outlined in the table below.

**Table 15 Loan Reserve Fund Statement**

	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Opening LRF balance</b>	<b>16,641</b>	<b>17,255</b>	<b>18,970</b>	<b>19,500</b>	<b>18,645</b>
Contribution to LRF principle	5,424	7,490	7,551	7,601	7,161
Contribution to LRF interest	2,246	1,888	1,897	1,905	1,863
Transfer in	7,670	9,378	9,447	9,506	9,024
Interest earned (avg 2%)	359	345	379	390	373
<b>Total transfer in</b>	<b>8,029</b>	<b>9,723</b>	<b>9,827</b>	<b>9,896</b>	<b>9,397</b>
Repayment of SOE debt	-	-	-	-	-
Principal	1,367	732	763	796	796
Interest	131	159	155	150	138
<b>Total repayment from LRF</b>	<b>1,498</b>	<b>892</b>	<b>918</b>	<b>946</b>	<b>934</b>
Repayment of other debt	-	-	-	-	-
Principal	3,733	4,366	5,399	6,956	7,276
Interest	2,123	2,690	2,920	2,788	2,619
<b>Total repayment other debt</b>	<b>5,857</b>	<b>7,056</b>	<b>8,319</b>	<b>9,744</b>	<b>9,895</b>
Other service fees *	60	60	60	60	60
<b>LRF stock balance</b>	<b>17,255</b>	<b>18,970</b>	<b>19,500</b>	<b>18,645</b>	<b>17,153</b>

The table above illustrates the movements in the LRF in the next five years. The transfers into the RF have increased from \$8.029 million in 2015/16 to \$9.723 million in 2016/17 due largely to movements in exchange rates and the rescheduling of some debt payments. This transfer is divided into two components: a debt interest obligation (\$1.888 million) and a debt principal repayment (\$7.490 million); these are the estimated required payments into the LRF and are complimented by retained interest revenue of \$0.345 million.

The LRF payments are smoothed in order to reduce the volatility to Government cash reserves from new debt obligations and exchange rate shocks. Therefore, the payments made into the LRF will not match the debt servicing profile. For example, despite the debt servicing profile peaking at \$10.3 million in 2020/21, the cost to the Government only peaks at \$9.9 million in 2018/19 due to the smoothing effect of LRF contributions.

The payments into the LRF then fall in a stepped manner as the current loan stock is repaid.

The transfers out of the LRF for principal and interest obligations are the estimated debt servicing requirements at the time of the Budget and will be subject to foreign exchange rate and debt drawdown variations.

## General Government Cash Reserves

General government cash reserves at the December 2016 were \$44.15 million, an increase of \$2.34 million from September 2016.

**Table 16**  
**Cash Reserves –December 2016 YTD**

	June 16 Qtr ('000)	Sept 16 Qtr ('000)	Dec 16 Qtr ('000)	Change Dec 16 Qtr ('000)
Total Term Deposit at the Bank				
Westpac	7,992	14,011	17,206	3,195
ANZ	21,050	20,615	21,999	1,384
BCI	18,141	19,434	21,115	1,681
Total Term Deposit at the Bank *	47,183	54,060	60,320	6,260
Operating Capital-Public Account	9,352	15,615	13,086	- 2,529
	56,535	69,675	73,406	3,731
Committed:				
Trust Fund General Reserve	2,911	2,911	2,911	-
Disaster Response Trust 1	901	1,663	1,663	-
Loan Reserve Fund 2	16,903	16,718	18,078	1,360
Trust Account Deposit 4	3,074	3,074	3,106	32
Carry Forward Contingency – OPEX 5	500	500	500	-
Working Capital 6	3,000	3,000	3,000	-
Total Commitment at balance date	27,289	27,866	29,259	1,392
Estimated General Cash Reserve	29,246	41,809	44,147	2,339

\* - This does not include cash balances on the Ministry Operating Bank Accounts or Crown cash operating accounts.

<sup>1</sup> Disaster Response Trust – funds set aside for emergency response in the event of disasters

<sup>2</sup> Loan Reserve Fund – established in 2001 to hold SOE loan repayments to the Crown

<sup>3</sup> ADB USD 10 million loan – ADB Economic Recovery Support Program loan funds used to fund Project City

<sup>4</sup> Trust Account Deposit – funds held on behalf of Land Trust and Workers Compensation Trust

<sup>5</sup> Carry Forward Contingency – funds tagged for any carry forwards of operating expenditure

<sup>6</sup> Working Capital – funds tagged to cover overall Government cash flow requirements

## **OFFICIAL DEVELOPMENT ASSISTANCE (ODA)**

Official Development Assistance budgeted for 2016/17 appropriated the annual ODA expenditure at the value of \$60 million compared to the annual budget in 2015/16 at \$49 million reflecting new ODA programmes and the carry forward of some existing programmes from the 2015/16 financial year to 2016/17. As per publication of Budget 2016/17 in parliament, the estimated spend from July to December 2016 is reported at \$16.3 million representing a 23% spend against the total budget for 2016/17 of \$72 million which includes programmes under 3<sup>rd</sup> Party spends and new ODA programmes. As at 30 June 2016, the ODA conversion rate is reflected a 56% spend for 2015/16. Note delays in significant capital projects such as Te Mato Vai, Apii Nikao, and Sanitation Programme have resulted in lower ODA spends in 2015/16 which is beyond the control of the Development Coordination Division however we should see an increased spend in 2016/17 as a result of this. The following are updates only on development partner programmes with annual budgets of \$100,000 and over.

### **NEW ZEALAND PROGRAMMES**

#### **Consolidated Sector Investments New Zealand (Formerly Performance Based Budget Support)**

The Government of the Cook Islands and New Zealand have completed the first trial of the Performance Based Budget Support (PBBS) programme which ended in June 2016. The Cook Islands Government have just recently received a new GFA which will replace the PBBS GFA. The new GFA is titled Consolidated Sector Investments and is budgeted for two financial years 2016/18 to 2018/19 at a total value of up to \$21 million. This GFA is in effect and was approved and signed on the 11<sup>th</sup> November 2016.

The GFA still focuses on support towards key sectors such as improving the quality of health and education services, support towards the Tourism Industry and Public Sector capacity and capability development.

Total spend as at December 2016 is \$4,638,240 which was disbursed upon signing of the GFA.

#### **Manihiki Lagoon Clean-Up**

In Quarter 4 the main activity of this project involved the signing of the Tender Contract, awarded to Pacific Divers Ltd, in December 2016. The Manihiki Lagoon clean up activity is expected to commence in early February 2017 whereby the Project Manager – Raymond Newnham as well as the Contractor is expected to arrive on Manihiki Island and hold a public meeting with the Island Community to discuss the logistics of the project.

A public notice will also be placed in the social/media to inform the public of this work to be carried out. Manihiki Island Government (MIG) will be the point of contact for any complaints or issues that may arise with farmers.

Furthermore, MIG will also provide their report on Output 1: Pit Site Establishment as per the MOU between MFEM and MIG. Once received and accepted by MFEM, 20% of total contract price will be disbursed to MIG. Total Contract amount is \$25,000 (VAT Inclusive).

Total spend for Quarter 4 is \$114,515.95 reflecting costings associated to Pacific Divers Ltd commencement payment as well as Project Manager expense for services.

#### **Pacific Maritime Technical Assistance**

Work continued as per the agreed project plan and time lines. Some key work items completed in the July - September quarter included the following;

- a) Revision of MoT (Maritime) job descriptions, including provision of key administration items into the revision of the Finance Manager's position following her retirement was completed. The positions were transferred to the new format. The position for Senior Operations Officer, Maritime, will be advertised once the salary level and funding is confirmed.
- b) The oversight policy for the open registry of the Cook Islands, provided by Maritime Cook Islands, was

completed. The procedures for the oversight were completed, and are being implemented from 1 September 2016. Implementation will be reviewed after 4 months.

- c) Following agreement from Cabinet for the establishment of the Cook Islands Hydrographic Service, the inaugural CINHCC (Cook Islands National Hydrographic Coordination Committee) was held 6 September. The work on this item as per the action table for the Voluntary IMO Member State Audit Scheme (VIMSAS) is now complete.

Work continues on updating the action plans for the VIMSAS and the Strategic Plan (Maritime). In addition, the MoT website is nearing completion, with expected launch date in Q4 2016. To promote ongoing capacity building, an International Obligations Oversight Committee (IMOOC) has been implemented, with participation from MoT, MCI and MFAI. The IMOOC has resulted in opportunities to share experiences and learnings with regards to a number of areas related to obligations resulting from various IMO conventions and codes.

Total spend as at December 2016 is \$145,460.

### **Social Impact Fund**

The Social Impact Fund Grant Funding Arrangements the jointly funded Social Impact Fund (SIF) Grant Funding Arrangements (GFA) with the New Zealand Government ended in June 2016. An independent evaluation of the SIF was undertaken from April 2016 to June 2016 and supported the continuation of SIF. The New Zealand Government has shifted its funding arrangements away from individual project related GFA to direct budget support, the procurement process for the continuation of the SIF has ended. New Zealand contribution of \$600,000 annually to the SIF has been programmed into the new Consolidated Sector Investments GFA supporting direct budget support.

The Cook Islands Government is providing the following funding arrangements to continue the programme, approve an additional appropriation of \$260,000 to the existing SIF POBOC in 2016-17, \$600,000 in 2017-18, \$600,000 in 2019-20 and \$340,000 in 2020-21 and to enable the procurement process for multi-year contracts under the Social Impact Fund to commence in November 2016. The Social Impact Fund (SIF) represents the Cook Islands Government's key mechanism to support CSOs in providing services that meet the needs of society's most vulnerable people.

### **Tereora College Redevelopment (Phase 1)**

Phase 1 of the Tereora College Redevelopment Project funded by NZGovt was tendered in the July-September quarter. The contract was awarded to Landholdings Ltd in October 2016. Since then, five buildings have been dismantled, demolished and carted offsite providing clear ground to peg the footprint of the new building. Diversion of utility lines and provision of temporary power supply within the project site are now complete. Classroom reallocation and safe access plans are a critical part of the project as it is imperative that the school operates as normal during the construction period. To support these plans, the Food Technology building has been relocated and traffic management plans will be implemented when necessary.

Construction of the Technologies Centre building is progressing with 60% of the foundation and ground floor slabs complete, and 25% of the walls on the ground floor have taken form. As a result of maintaining close working relationships with key stakeholders, milestones are being achieved ahead of schedule.

Of the 10.85m grant from NZ, CIGov has received 4.05 million, this was received in 2015/16. A further 4.75 million has been received in 2016/17, with the remaining 2.05 million to be received in 2017/18.

ODA spending to date is \$4.05m for construction of building and associated works and components (furnishing, equipment, utilities, landscaping, etc).

## NZ Third Party Spends

There has been a total spend of \$131,311.27 in third party spends for the below New Zealand funded programmes.

<b>Programme</b>	<b>Quarter Spend July - September</b>
Targeted Sector Support	12,997.00
Tertiary Scholarships NZ	47,476.60
Tertiary Scholarships Pacific Regional	35,179.56
Commonwealth Scholars	3,360.00
Cook Islands Emergency Response Ambulance	11,779.67
Head of Mission Fund: Cook Islands	20,518.44
<b>TOTAL</b>	<b>131,311.27</b>

## SECRETARIAT OF THE PACIFIC COMMUNITIES (SPC) PROGRAMMES

### Cook Islands Household Income & Expenditure Survey

The Statistics Office is on track with field work data collection activities since the start of this one year survey in November 2015. For this quarter training of fieldworkers including data collection have been conducted for Manihiki to represent the Northern Group Islands. Trained data collection personnel conducted rounds 10-13 of the staggered two weeks survey periods for the selected household in Rarotonga and Aitutaki, Mangaia, Atiu in the South. At the same time data entry and verification of data collected is also in process and in collaboration with the Statistics Programme at SPC.

Total spend as at December 2016 is \$30,588.

## UNITED NATIONS ADMINISTERED PROGRAMMES

### FAO Improved production, processing and marketing of agricultural produce

For 2013-2017, this is the focus under the Pacific Multi Country Programming Framework (CPF) with the aim to improve agriculture produce supply chain and increase in households engaged in agriculture for own use and for sale. **To date, no monies have been spent** nor direct payment to suppliers from this grant. In the pipeline will be negotiations for priority areas for CPF funding for the next 5 years.

### Green Climate Fund Readiness

The Green Climate Readiness support focuses on strengthening the National Designated Authority and effectively managing climate finance within the Ministry of Finance and Economic Management. The Readiness support has enabled the Government of the Cook Islands to strengthen the capacity of the National Designated Authority within the Climate Change Cook Islands Division (CCCI), OPM and Development Coordination Division, MFEM through the recruitment of two national consultants to progress the Cook Islands engagement with the Fund.

The Green Climate Fund team have been working on two submissions to the Green Climate Fund, one to develop a country programme readiness proposal which will include national prioritised climate change project proposal ideas and the other is to develop a proposal to the GCF board on direct access to the Green Climate Fund. The Cook Islands have recently been approved by the Green Climate Fund to apply for accreditation under the fast-tracked method as a result of the Cook Islands gaining accreditation to the Adaptation Fund in Washington DC on July 14th 2016 under the streamlined approach. The Fast-track approach is an achievement for the Cook Islands as it means we can apply under special conditions as highlighted in the Fast-track application process.

In hiring the national consultants, the Readiness Support has prompted the development of a second readiness application to the GCF. This is to develop a country programme which will consolidate national priority areas

that addresses our national low-carbon development aspirations and to strengthen the resilience of our communities and our economies. This second readiness application will also be applied to assist with the growth and progression of relevant national frameworks and their implementation. The Readiness support has also prompted the strengthening of our institutional processes and in doing so, it has bolstered national ownership, and it underscores the importance of Implementing Entities proposing partnerships that align with national priorities and vice versa.

The Cook Islands has submitted a second readiness proposal to the GCF secretariat at the value of USD \$600,000 over a period of two years to develop our country programme to consolidate key priorities to be funded through the GCF.

Total spend as at December 2016 is \$59,343.

### **UNDP Ridge to Reef**

Key activities involving the Pa Enea were carried out over the majority of Quarter 4. This included consultation on the island of Mitiaro to identify activities that will be carried out in 2017, the Unga Baseline Survey conducted on the island of Mangaia and shipping of mooring buoys to Manuae and Takutea.

Other achievements during Quarter 4 was the GEF Small Grants Programme (SGP) National Dialogue Initiative. This brought Government Ministries and Agencies, Non-Governmental/Civil Society Organisations, Communities, Academic and research institutions and the private sector as well as partners and donors together to realise opportunities for Civil Society Organisations and Government to partner in addressing Waste Management objectives and indications in the Cook Islands National Sustainable Development Plan and GEF SGP Country Programme Strategy.

Continuous training and capacity building is key in the implementation of this project. Compliance trainers sourced from New Zealand conducted a week long workshop for Ministry of Marine Resources (MMR), National Environment Service (NES) and Ministry of Agriculture (MOA). In addition, Geographical Information System (GIS) training was also provided by Reboama Samuel of OPM.

A Communications Officer for MMR as well as a Ra'ui Coordinator for NES has been advertised in December 2016. Interviews and evaluations will be conducted in January 2017 where a position will be confirmed.

Furthermore, Cook Islands Tourism Corporation are working in partnership with CITC to support the launch of the Cook Islands Sustainable Tourism Strategy. The strategy strengthens the commitment of the Tourism Industry to raising awareness on biodiversity conservation. It is envisaged that Tourism will be preparing videos to support the implementation of the strategy including the Ridge to Reef concept.

Ministry of Agriculture component of Ridge to Reef has reported no spends for this quarter. However, it should be noted that training and projects in the Pa Enea have been continuing through this Ministry.

Infrastructure Cook Islands (ICI) have confirmed that the interview process for the recently advertised Project Manager position for R2R will take place from 23<sup>rd</sup> January onwards.

Overall Ridge to Reef spend for quarter 4 is \$236,351.00

### **UNDP GEF Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC)**

The SCRIC programme has been progressing extremely well. For the quarter, a total of 33 projects have been reported, of these projects 7 are new, 18 are continuing and 8 have been completed as listed below:

- a) Aitutaki – Fertilizer
- b) Atiu - Fishing Boat



- c) Manihiki Hydroponic
- d) Mitiaro - Maroro Tu Paiere & Shelter
- e) Palmerston - Worm Fams & Brush Chipper
- f) Pukapuka – Fishing Boat

The SRIC team have carried out a total of x4 workshops. Workshops in this quarter have seen a huge interest of participation in the Pa Enea. Negotiation Workshop – 24 (Women-22 & Men-2) participants in Rarotonga, Maroro Tu Workshop 57 (Women-26 & Men-31) participants in Mitiaro, Raurau Akamatutu in Mitiaro 57 (Women -29 & Men-28) participants, P3D Modelling 67 (Women-46 & Men-21) participants. Typically workshops in the Pa Enea participants range from 20 to 30 people. There is a huge interest and support from the community for SRIC-CC related workshops and projects in the Pa Enea as they have seen many SRIC-CC projects in their communities.

The communications component of SRIC has been extremely active through Media and Print, specifically via the Cook Islands Radio, Cook Islands TV and the Cook Islands News Paper. Our reach on social media has been huge this quarter compared to previous quarters. The summary to date of Social Media activity on Facebook is 1st Quarter - people reach of 6,201, 2nd Quarter of 45,644 people reach and in the 3rd Quarter of 273,796 people reached.

Our total likes are now currently 2,165 which is a great achievement.

Total spend as at December 2016 is \$846,879.

### **UNDP Nagoya Protocol**

Ongoing reviews of the draft legislation Cabinet Submission on ABS is currently being undertaken as well as awareness raising of the implementation of the Nagoya Protocol and National ABS Framework. It should be further noted that the legal paperwork is now ready for signing by the Koutu Nui under phase one of the corporate structure design that has been established for an improved Access and Benefit Sharing Agreement (ABS) framework.

The first direct payment from UNDP to Matheson Enterprises for Component 3 implementation was processed in December 2016. This will assist in resolving issues with the USD/Local Currency exchange rates variances. Expenditure for this quarter included reimbursement for the project coordinator salary since June 2016.

Total spend for Quarter 4 is \$109,971.00

### **UNDP National Biodiversity Planning to Support the implementation of the CBD 2011-2020 Strategic Plan in the Cook Islands**

Dr Dave Butler, NBSAP International Consultant returned for his 2<sup>nd</sup> Country visit from 17<sup>th</sup> October to November 2016. During his visit, various meetings were held with key stakeholders such as NES, OPM, MMR, Agriculture, Natural Heritage, Traditional Leaders and the NBSAP two technical assistance for Group A - environmental economics, finance and biodiversity mainstreaming and Group B - capacity needs assessment for biodiversity management. Further meetings were held separately between the two Groups A & B to finalise their Terms of References which was signed in December 2016.

Further activities in Quarter 4 included a workshop held on the island of Mauke with Island Representatives of the Island Government where both Dr Butler and the Project Coordinator attended, as well as a NBSAP workshop attended by representatives of Te Ipukarea Society (TIS), Marae Moana, National Heritage Trust, Koutu Nui, Ministry of Marine Resources (MMR), Ministry of Health (MOH), Ministry of Agriculture (MOA), National Environment Service (NES) and Seabed Minerals Authority. A brief report of the outcomes is included within the Capacity Needs Assessment Report. A half day Terrestrial and Marine Working Group workshop was also held in

November 2016 to develop action plans on species and ecosystem conservation for inclusion in the NBSAP Action Plan.

Additional meetings and workshops were attended for the Marae Moana Large Marine Protected Areas (LMPA) Task Force Steering Committee focusing on the legislative and governance frameworks managing Marae Moana. A Regional meeting – Strengthening Cooperation between LMPAs in the Pacific will be hosted in the Cook Islands from February 20<sup>th</sup> – 24<sup>th</sup> 2017. The meeting seeks to bring the Managers of LMPAs together to share lessons in areas such as; capacity building, policy and legal frameworks, sustainable financing mechanisms, research and surveillance and enforcement.

Total spend for Quarter 2 is \$19,284.

### **UNDP Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)**

The National Communications work program picked up after the Brilliant Resilient initiation workshop generated a lot of interest and awareness both in government and the public. The 3rd quarter kicked off to a great start, but unfortunately this did not transpire into concrete actions with the sudden passing away of one of the technical working group team leaders and the resignation of the National Project Coordinator.

However, technical working groups were established, the recruitment processes to outsource the greenhouse gas and mitigation components was 90% completed. Appointment has been held off till the new coordinator is on board. There was active participation at the IPCC guidelines training workshop in South Korea. Recruitment process for the vacant National Communications Coordinator position was conducted and completed with the successful applicant appointed and due to commence in January 2017. Presentation was made to the Climate Change and Disaster Risk Platform meeting in September on the IPCC workshop.

Total spend as at December 2016 is \$18,818.

### **World Health Organisation Technical Cooperation Biennium Budget Support**

Biannual funding to the Cook Islands is about US\$400,000 for 2016-17 calendar years. Human resources development including fellowships aligned to the Clinical Workforce Development Plan. Ongoing focus is also on activities towards non communicable diseases action plans, health promotion, nutrition and tobacco control towards implementation of National Health Strategy and the National Strategy and action plan for NCDs.

A review of the National Health Strategy is in the pipeline with emphasis on avoiding duplication of effort especially in the water and sanitation areas with WHO identified to provide technical assistance.

Despite competing priorities MOH has confidence in full implementation of existing programmes with at least 70% targets to be reached by December for 2016. SPC provides technical service towards implementation of health programmes.

Ministry of Health September 2016 month financial report show a year to date spend at \$120,323.38.

### **INDIA GRANT FUND**

To date USD \$700,000 (NZD \$975,000) has been spent on projects funded by the Government of India since the inception of the grant in 2006. A further USD \$710,000 (NZD\$966,000) grant fund request has been submitted to the Government of India for the 2016/2017 round for consideration and is expected to be disbursed in early 2017.

The 2016/2017 process was open for proposals in March 2016, with shortlisted final applications submitted to the National Sustainable Development Committee (NSDC) for prioritisation before submission to the Government of India in August 2016. A few projects from the previous 2013/2014 round were recently completed in 2016 or have yet to be completed due to delays in receiving the funds (disbursed mid 2015), shortage of supplies on island, and other commitments by both project implementers and suppliers towards the 50th Constitution Celebrations.

The 2016/2017 grant round has been endorsed by the India High Commission and is awaiting final assessment by the Government of India; DCD is working closely with MFAI to ensure timely disbursement and finalise a set timeframe for submissions.

DCD met with the High Commissioner His Excellency Vishvas Vidu Sapkal to the Suva office in November and informed that the proposals submitted by the Cook Islands is currently being reviewed by the Embassy and will be in a position to confirm the outcome of funding from India in early 2017.

### **KOREA GRANT FUND**

In 2014/2015 the Republic of Korea approved a grant application for USD200,000 to the Ministry of Cultural Development for Audio Visual Equipment and Operating Room allocating in July 2015 and completed in November 2015. The proposed upgrades would go towards supporting cultural projects for the Cook Islands 50<sup>th</sup> Constitution Celebrations. The funds were requested and provided as a cash grant with national systems used to procure the equipment.

The grant is open for applications annually up to the value of USD200,000, a proposal for utility vehicles for the Pa Enea was submitted in 2015/2016 round however missed the deadline and has been resubmitted for the 2016/2017 Round. To date, a final decision on whether the proposal has been accepted is expected in early 2017.

To date, there have been no spends as DCD is still awaiting final confirmation from the Korean Embassy.

### **CHINA PROGRAMMES**

The CIG hosted a Chinese delegation who conducted on-site inspections and feasibility study for maintenance and repairs work on the Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena (formerly Telecom Sports Arena) that were constructed in 2004, 2006 and 2009 respectively by way of grant and concessional loans from the People's Republic of China (PRC). The team was led by Mr. Yuan Wei which comprised of structural, architectural, electrical, heat & ventilation/air conditioning, water and sanitation experts and engineers accompanied by an interpreter.

The outcome of the visit saw the signing of the comprehensive list of contents for repairs and maintenance works on the three buildings between CEO Tutangata and team leader Wei. The Minutes of Talks relating to the renovations of the said buildings were subsequently signed by Financial Secretary Garth Henderson on behalf of CIG and Counselor Zhang on behalf of the PRC.

On Friday 18 November 2016, the Economic and Technical Cooperation Agreement (ETCA) for renovations to the Ministry of Justice, but not limited to this project, was signed by High Commissioner Teremoana Yala on behalf of the CIG and the Chinese Ambassador Wang Lutong for the PRC to support the maintenance works at the value of RMB Yuan 20 million (approx. NZD \$4.2 million).

Ongoing discussions between CIIC, MFAI and the PRC to finalise the Letter of Exchange relating to the repairs and maintenance work on the Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena continue with the hopes of signing in early 2017.

During his brief visit to the Cook Islands in November, Counsellor Zhang acknowledged that the Apii Nikao is the

last of the major projects that China is involved with and encourages the CIG to identify other priority sectors that may require funding to keep the momentum of cooperation and good relations between the PRC and the Cook Islands.

### **Apii Nikao Construction**

The Cook Islands Investment Corporation (CIIC) received draft preliminary designs for the Apii Nikao School in September, comments were sent to PRCs design team in October regarding amendments to the designs. The PRC design team arrived on Rarotonga in late November to finalise the preliminary design with CIIC. On 5 December 2016, the Apii Nikao Preliminary Design was approved by CIIC.

According to the timelines in the Implementation Agreement for Apii Nikao Rebuild, with the approval of the preliminary designs now signed off, the project will move to the Construction Design phase which is expected to take 4 months for the PRC design team to prepare the construction drawings. A further month has been allowed for approving these drawings, before mobilisation begins.

## **EUROPEAN UNION PROGRAMMES**

### **EU Budget Support**

The European Union (EU) continues its Official Development Assistance via the budget support modality. The unfortunate delay in the implementation of sanitation upgrades resulted in the absence of funding in 2014/15, this has since been remedied with the CIG receiving the final tranche of the EDF 10 budget, EURO 1 million in October 2016. With the 10th cycle (EDF10) approaching its conclusion, focus now moves to the 11th cycle (EDF11) of funding to continue with its incentivized budget support to allocate funding using national systems up until the year 2020. The EU will continue its budget support under the 11th EDF with the continued focus on improving the Sanitation Sector.

There have been no spends for the Cook Islands under the Pacific Island Integration Technical Assistance Project (PITAP) for the quarter. This funding is accessed from the regional indicative package under the 10th EDF, so there is no specific country allocation. It is organized so that funds are expended on regional initiatives as EU recognizes that National Indicative Packages are available to Member States for national specific priorities.

Under the 11th EDF, this may change however this is still being discussed as programming is ongoing.

DCD has submitted all two proposals for utilisation of TA funds from the EU, MFEM received second tranche of the 10th EDF in October, EURO 1 million. There are two submission that will be put forward for Technical Assistance (TA), one has already gone through and this relates to the rehabilitation of the Muri Lagoon. The second TA is for feasibility studies for a Centralised Laboratory.

DCD has sent submissions through for the 11th EDF Funding relating to the Sanitation Sector. The focus of this submission is on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the Public Health Regulations 2014.

### **EU Partnership Multiyear Fisheries Policy Support**

This agreement for sustainable fisheries partnership includes an annual fisheries sector contribution of EURO350,000 by the European Commission under the 4 year protocol. The first tranche of the protocol was received by the CIG in December 2016.

To date, the Ministry of Marine Resources reports no spend.

### **EU-GIZ ACSE Northern Island Water Project Phase II**

The 35.5 million Euro regional European Union (EU) programme Adapting to Climate Change and Sustainable Energy (ACSE) is funded out of the 10<sup>th</sup> European Development Fund (EDF 10).

Under this regional programme, the EU-GIZ ACSE component is administered by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). It aims to enhance sustainable livelihoods in fourteen Pacific Island Countries and Timor Leste by strengthening the countries' capacities to adapt to the adverse effects of climate change and enhancing their energy security at the national, provincial and local/community levels.

The project aims to improve the resilience of Penrhyn, Nassau and Palmerston to natural disasters (including drought proofing) by increasing their capacity to collect, store and manage their precious water resources.

Total cost of project is \$400,000 Euro. Initial funds from GIZ were received in May 2016 however, there were delays in the recruitment of a Project Manager. This position was finally filled and confirmed in October 2016.

For Quarter 4 total spend is \$1,542.

### **FORUM FISHERIES AGENCY (FFA)**

#### **Project Development Fund – US Fisheries Treaty**

The US Multilateral Treaty for fisheries includes an annual allocation of US\$150,000 per Pacific Island party development fisheries projects. Funds are held in trust by the treaty with FFA with direct administration by Ministry of Marine Resources.

To date, the Ministry of Marine Resources reports no spend.

### **MULTILATERAL PROGRAMMES**

#### **Renewable Energy**

It is Government's ambition to increase power generation from renewable sources and enhance the government's institutional capacity for implementing the Cook Islands Renewable Energy Chart Implementation Plan (CIRECIP), 2012–2020, which sets a target of supplying electricity from renewable energy sources on all inhabited islands by 2020.

The goal of the Renewable Energy Programme Support is to establish a solid foundation for renewable energy sector development and operations in the Cook Islands.

New Zealand funding has been used for the construction of renewable energy infrastructure on Rarotonga and islands of the Northern Group and involves the installation of following renewable energy generation infrastructure.

This project is now completed.

### **The focus now moves to the Southern Group.**

The Renewable Energy Programme is in progress with the Cook Islands Renewable Energy Sector Project (CO046453-002) Phase 1 contract for Atiu, Mauke, Mitiaro, Mangaia, signed during this period with NETCON Limited of New Zealand. This is the major component of this project valued at NZ\$7.7 million and EU1 million.

The civil work component for all islands will be tendered in December/January 2016/17. As part of the whole project, the rehabilitation of the power upgrade network for two islands of Mitiaro and Mauke will be upgraded. It is anticipated a civil works contract will be signed and work will commence in March 2017.

A draft pre-feasibility study for Aitutaki was presented to the Aitutaki Island Council and Aitutaki Power Supply. Tenders will occur after Phase 1 contracts have been confirmed. The Aitutaki Phase 1 will cost between NZ\$3.5 – 4.5million.

The feasibility study for the Rarotonga Battery Energy Storage (BESS) project was completed this quarter. The tender for this project was released and a contract should be signed early next quarter. This Project will be funded under the GEF6 for about NZ\$5.5 million.

During this quarter the TA for the Governance and Management of the Outer Islands Power Supply was undertaken. A consultation workshop was carried and draft cabinet paper was circulated for comments. It is envisaged that a paper will be submitted for Cabinet decision in the next quarter. This TA is funded by New Zealand for \$85,000.

An additional \$12mil Grant was agreed by the Green Climate Fund Board in December 2016 to implement 3 battery storage sites in Rarotonga. This grant will be processed through the budget process next financial year.

Total spend as at December 2016 is \$1,555,031.

### **Sanitation Upgrade Programme**

The Sanitation Upgrade Programme (SUP), which commenced following completion of the WMI, was designed to install up to a further 1,000 on-site systems on Rarotonga and Aitutaki. The SUP grant arrangement between the Governments of New Zealand and the Cook Islands was signed in June 2014, and the programme was expected to end on 30 June 2018. This \$18million programme includes funding from New Zealand (\$10 million), the European Union (\$4million), and the Cook Islands (\$4million).

The Sanitation Upgrade Programme was a continuation from the Muri Pilot Waste Management Initiative (WMI). The intention of the SUP was to continue with the installation of on-site effluent treatment systems beyond the Muri area. This work has continued but progress was slow.

The slow progress, and doubts about the impact of the programme led New Zealand to suspend its funding towards SUP from September 2015 and the EU to withhold a \$500,000 Euro payment. These issues and an extensive outbreak of algae and seaweed growth in Muri Lagoon in late 2015, led to a review the Muri Pilot Waste Management Initiative.

This review was commissioned and conducted in December 2015. The recommendations of this review were largely in accord with other reports and suggested that a reticulated collection, treatment and disposal system was the only effective way to completely remove domestic and commercial wastewater from the Muri lagoon environment. The report highlighted gaps in the on-site Sanitation Upgrade Programme which may be a

contributor to the slow delivery of the programme. Cabinet accepted this report's findings and recommendation and directed MFEM to negotiate the redirection of funds with the development partners towards this end.

Following a request received from of the Cook Islands Government, NZ MFAT engaged Calibre Consulting in June 2016 to develop a plan to achieve Cabinets directives. Calibre has completed this work and broadly itemised two parallel work streams, (1) an institutional/organizational work stream, and (2) a technical work stream.

For the technical work stream, as a first step, Calibre identified that essential Project Preparatory Technical Assistance (PPTA) is required to be in a position to provide Cabinet with the additional information it has previously requested. Work to be carried out will includes site investigations, full assessment of collection, treatment disposal options, cost benefit analysis and consultation with relevant stakeholders. This work will require a multi-disciplinary technical assistance package of support. It may be provided by one or multiple consultancies. The 500K Euro technical assistance will be used to complete some of these activities. The work may take up to eighteen months to complete. A specific task to be completed in the PPTA phase is the development of an On-site Effluent Treatment Plan for Rarotonga and Aitutaki. Once this plan is completed, it will be possible to resume with a revised SUP programme if this is delivers an acceptable impact on achieving the long term goal of the protection of public health and the environment.

Calibre recommended that work on the institutional/organisational work stream be completed in parallel but separate to the technical work stream. This work was considered equally important to ensure that there is a viable and sustainable institutional framework in place beyond the life of the project (technical work stream). The clear delineation of the work streams allows specific focus onto each one. The technical work can be continued under the guidance of an expanded TMV PSG/PMU, while the essential institutional/organisational work is driven independently by the Cook Islands Government.

On the 8 November 2016, Cabinet endorsed a proposal to establish a more effective approach to water and waste water (sanitation) planning and management. The existing project management unit (PMU) for Te Mato Vai will incorporate the management of the Wastewater Project (currently the Sanitation Upgrade Programme). This new approach will bring together key government agencies under one steering group enabling consistent government policy development and direction, more effective and broader community and industry consultation and access to finance for technical expertise not available within government agencies. The lessons learnt during the design and delivery of Te Mato Vai Project will strengthen this new approach. This approach is expected to provide a high degree of certainty and confidence to our communities and industry.

The environmental impacts of the growth in domestic housing and tourism development in Rarotonga and Aitutaki in our foreshore area are major concern and need to be addressed urgently. The existing water quality data and bathymetry studies will need to be enhanced to support effective decisions making as well as the consultative process with the communities and general public.

As an immediate step, a full assessment of options to determine the most cost-effective and technically viable long-term solutions for the collection, treatment and disposal of wastewater on Rarotonga and Aitutaki is required. This preparatory work will commence immediately and is expected to take up to 18 months before construction commences.

Government recognises that in the interim period before effective systems are in place that address the treatment of our waste water, decisions need to be made to mitigate the environmental impacts of substandard systems. With special reference to Muri lagoon, government will work within the law, and work with communities to develop interim solutions that minimise the environmental impacts on our lagoons.

The direction of the current onsite domestic system upgrade will be outlined in a detailed work plan under development to determine where the on-site treatment can be installed with maximum effect. A temporary pause to the on-site wastewater treatment upgrade on Rarotonga is required while this plan is being completed.

Developing an effective solution to managing our waste water and its impacts on our environment, our communities and our economy is a complex process and government looks forward to undertaking this process in a participative and consultative manner based upon sound science in the best interest of all.

With regard to ODA spending for the quarter July-September 2016, no funds have been spent. All expenses came from Government shared costs budgets for this project.

### **Te Mato Vai (TMV)**

The TMV project is the largest single infrastructure project in the Cook Islands since the construction of the international airport in Rarotonga in 1974. The project is broadly divided into two stages – Stage 1, the replacement of the ring main; and Stage 2, refurbishment of intakes and provision of storage, filtration and trunk mains. Stage 1 was delivered by the China Civil Engineering Construction Corporation (CCECC) and is practically near complete.

Implementation of the TMV project is being managed by the Project Management Unit (TMV PMU) now led by GHD Ltd. The TMV PMU reports on the following activities:

#### **Stage 1**

The ring main pipeline construction works, carried out by the China Civil Engineering Construction Corporation (CCECC) is completed, and the defects period of 12 months has commenced. During this period, if there are any defects in the construction works, CCECC will remedy the defects found.

Another component of the stage 1 project is to commission the new ringmain, the ringmain carry's the water distributed from all of the intakes around the island. There are existing cross connections located around the island on the main and back roads at 1km intervals, these cross connections distribute water from the existing ringmain pipe line to the submain pipeline where everyone is connected on.

This commissioning project involves connecting the existing cross connections to the new ringmain, this project will involve disruptions to the existing water supply around the island. It is planned to commission the ringmain in 1km sections to minimise disruption to the existing system. It is expected the physical works will start in February 2017, but prior to the work starting in a particular section of Rarotonga, the public will be advised that disruptions will take place within that section.

#### **Stage 2**

Meetings were conducted with landowners of all 10 intakes that are to be upgraded for the Te Mato Vai project, the meetings were conducted from August to December 2016. The purpose of the landowner meetings was to seek agreements from the landowners to allow contractor's early site access to carry out survey works to complete the final designs. The consent form was originally drafted by lawyer Tim Arnold and Manavaroa Philip Nicholas for Avana intake but was adopted for the other 9 intakes. The consent describes obtaining landowner consent for the design contractor early site access to prepare detailed plans which will give the landowners full details of exactly what areas of land will be directly affected by that upgrade. That information will let owners of those areas, for themselves, make a full, informed, decision whether to allow that work to proceed without objection; and whether to seek compensation for loss or damage suffered.



The consent also allows landowners to be present on site when the design and survey works are being carried out. Landowners will be advised to meet and discuss construction works, once the detailed designs and surveys are complete.

To date consents for early site access have been obtained from all intakes.

The Cook Island and New Zealand Governments would like to thank all landowners that attended the landowner meetings and for allowing their consent to allow contractor's early site access to carry out survey works

### **Special TMV Select Committee**

The Te Mato Vai Project Special Select Committee was established by Parliament in June 2016 to consider the grievances and concerns of the petitioners of the Te Mato Vai project in light of the existing status and progress of the project and to report the findings and conclusions of the Committee to Parliament by December 2016.

Committee meetings were held at Parliament Chamber on 24 & 27 October, 03, 10 & 23 November to discuss the petition and to hear presentations from the petitioners, landowner representatives, staff from CIIC, MFEM, NES and the TMV Project Management Unit.

The staff from the different agencies dedicated their time to attend the committee meetings over the period but welcomed the opportunity to work with the Special Select Committee

To date, NZD10, 000 have been spent. All other expenses came from Government budgets.

### **Aid Effectiveness**

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used by the MFEM to support the implementation of the official development assistance policy. The programme currently contributes to several projects including the following: annual meeting of development partners, development of Te Tarai Vaka, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software. The Aid Effectiveness funds was also utilised to commission a national consultant to prepare completion reports for programmes and the Islands submission of the Cook Islands assessment in accordance to the Global Partnership for Effective Development Co-operation Monitoring Framework. The framework assesses our country systems and measuring aid effectiveness principals as outlined in the ODA Policy 2015 of the Cook Islands in accordance to international standards.

An increased budget of 160,000 was allocated for the 2015/2016, and also to the 2016/2017 and 2017/2018 financial years. The Development Partners roundtable has been approved by cabinet shifting to biennially and is currently planned to fall within the 2016/2017 financial year, around late 2016.

Funding, in the interim, will also be allocated to support the new Finance Manager post within the Development Coordination Division, increasingly required within office to uphold fiduciary standards of ODA funds.

### ***NEW PROGRAMMES APPROVED FOR IMPLEMENTATION***

In August 2016, it was brought to the attention of the Development Coordination Division of the Ministry of Finance and Economic Management that several government agencies received funding from Donor partners to execute programmes in the financial year 2016/17. These new programmes were not included in the appropriation schedule for FY2016-17 due non inclusion in the annual budget process. Given that these omissions are less than 5% of the total appropriation for ODA, legal advice allowed for the implementing agencies to expend funds to ensure timely implementation of programmes and transparency in reporting of programmes

already implemented but not captured in the ODA appropriation. The table below outlines ten new programmes and projects to be implemented. The programmes will formally be appropriated in Parliament during the supplementary budget process scheduled for the end of 2016 as the Appropriation Amendment Bill 2016/17.

<b>Govt Agency</b>	<b>Project Name</b>	<b>Development Partner</b>	<b>Start Date</b>	<b>End Date</b>	<b>FY2016-17 Budget NZD<sup>1</sup></b>
MOCD	National Auditorium Indoor and Outdoor Sound Equipment	China	Jul-16	Dec-16	586,180
NES	HCFC Phase-out Management Plan for PIC Countries through Regional Approach Stage 1 Second tranche	MLF/UNEP	Jul-16	Jun-21	35,308
NES	Review and Update the National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (POPs) in the Cook Islands	UN Environment Programme (UNEP)	2016	2018	76,831
NES	Pacific POPs Release Project	GEF/UNEP/SPREP	Jul-16	Jun-18	25,173
NES	Development of Minamata Convention Mercury Initial Assessment in Pacific	GEF/UNEP/SPREP	2016	2018	39,296
NES	Survey of ODS Alternatives at the National level in the Cook Islands	GEF/UNEP/SPREP	2016	2018	35,714
MFEM	RSA Cemetery NZ PDCT Project	New Zealand	2016	2017	50,000

<sup>1</sup> Exchange rate is based on rates provided by BSP dated 18.08.2016. USD conversion rate is 0.7647

<b>Govt Agency</b>	<b>Project Name</b>	<b>Development Partner</b>	<b>Start Date</b>	<b>End Date</b>	<b>FY2016-17 Budget NZD<sup>1</sup></b>
MFEM	The Project for the Upgrade of Avana Harbour	Japan	2016	2017	110,071
MFEM	The Project for the Improvement of the Fire Station in Teimurimotia	Japan	2016	2017	93,653
MFEM	The Project for the Improvement of the Te Kainga Mental Health Respite Centre	Japan	2016	2017	113,000
MFEM	Non Project Grant Aid	Japan	2016	2017	1,335,113
MFEM	Project for Reinforcing Meteorological Training Function of FMS	JICA (Japan)	2016	2017	1,095
MFEM	JICA Training Program for Young Leaders/Local Governance Course	JICA (Japan)	2016	2017	33,151
MFEM	JICA Training Program for Basic Education science, maths, local governance and law and order	JICA (Japan)	2016	2017	90,748
MFEM	Germany Small Grants - Fire Station in Teimurimotia	Germany	2016	2017	14,400
<b>Total</b>					<b>2,639,733</b>



## Glossary

Below are a list of terms which are mentioned at various points in this report and what they are for the purposes of this report:

### *Revenue*

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

### *Revenue Levied Through the Crown's Sovereign Power*

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

<i>Revenue Type</i>	<i>Revenue Recognition Point</i>
Individual Income Tax	When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When airlines remit the departure tax component of tickets sold.
Other Revenue	When the debt to the Crown arises.

### *Expenses*

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

### *Foreign Currencies*

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

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

### *Aid Expenses*

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

### *Appropriation*

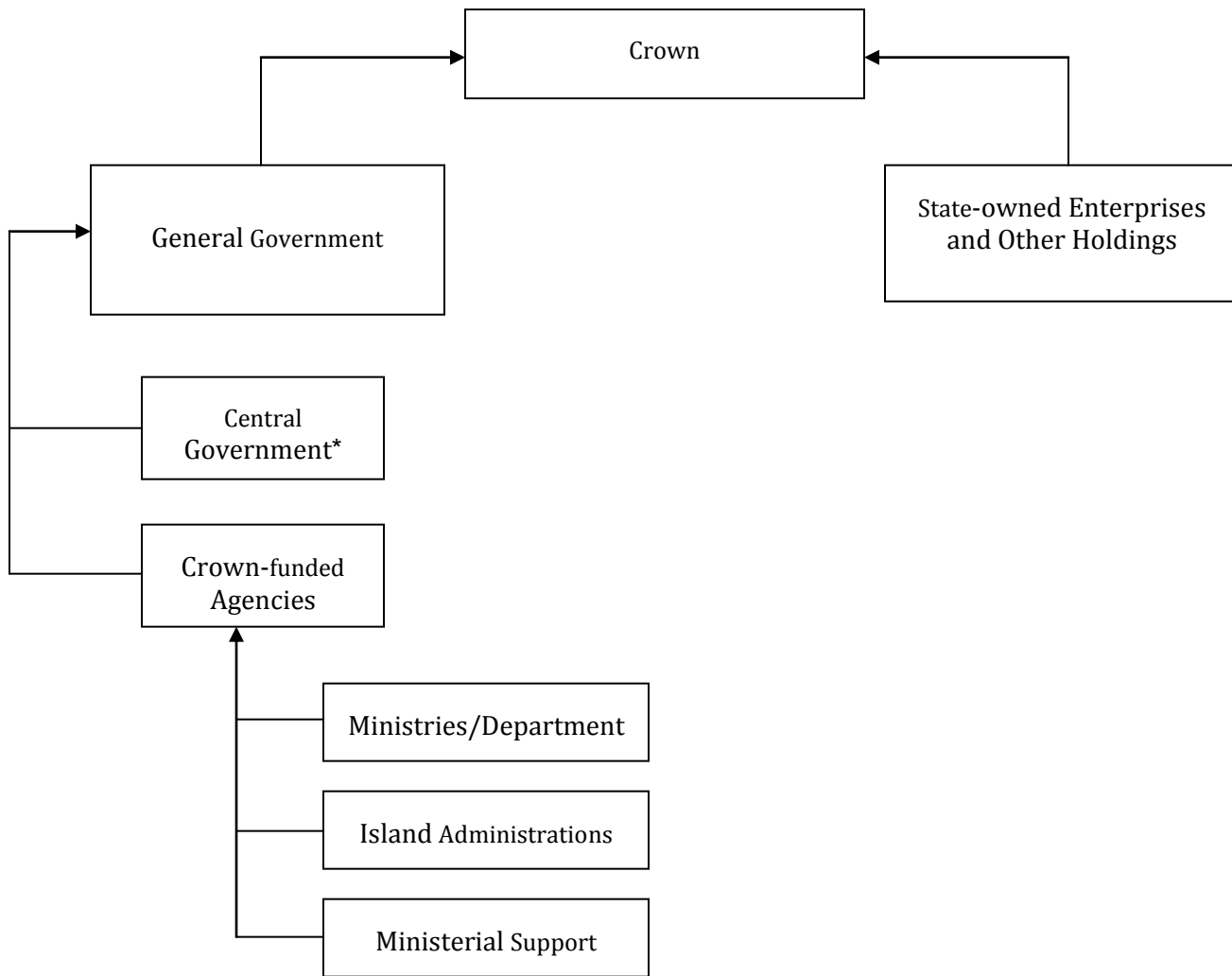
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their purposed operations.

*Crown-funded Agencies/Agencies*

These are recipients of funding via an appropriation. Crown-funded Agencies refer to ministries/departments, island administrations, and ministerial support offices.

*General Government*

General Government consists of Central Government and Crown-funded Agencies. It does not include State-Owned Enterprises or holdings in other entities (eg. Telecom). The diagram below shows how all relate.



\* Parliament and the Head of State are included in the Central Government section