COOK ISLANDS GOVERNMENT

2021/22 Half-Year Economic and Fiscal Update

Hon. Mark Brown

Minister of Finance

8th December 2021

Abbreviations and Acronyms

Term	Definition
ACL	Avaroa Cable Limited
ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
COFOG	Classification of Functions of Government
COVID-19	Coronavirus Disease 2019
CPRO Loan	COVID-19 Pandemic Response Option Loan (Economic Response Plan)
CPI	Consumer Price Index
CSS	Core Sector Support
EDS	Economic Development Strategy
EEZ	Exclusive Economic Zone
ERP	Economic Response Plan
ERR	Economic Recovery Roadmap
GBS	General Budget Support
GDP	Gross Domestic Product
GFA	Grant Funding Agreement
GFS	Government Financial Statistics
HYEFU	Half Year Economic and Fiscal Update
IMF	International Monetary Fund
LRF	Loan Reserve Fund
MTEC	Medium-term Expenditure Ceiling
MTFF	Medium-term Fiscal Framework
MTFS	Medium-term Fiscal Strategy
NSDA	National Sustainable Development Agenda 2020+
NSDP	National Sustainable Development Plan
NZD	New Zealand Dollars
ODA	Official Development Assistance
PFTAC	Pacific Financial Technical Assistance Centre (IMF)
POBOC	Payments on Behalf of Crown
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
ROBOC	Revenue on Behalf of Crown
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SOE	State Owned Enterprise
USD	United States Dollars
WHO	World Health Organization

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

Disclaimer

The 2020/21 actual expenditure and revenue data may differ from the June 2021 Quarterly Financial Report due to the accrual accounting system used by the Cook Islands Government. The data presented in the 2021/22 HYEFU is a more accurate reflection of actual expenditure and revenues in 2020/21. Estimates of future expenditure and performance are based on information known at the time of preparation of this report.

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GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE

P.O. Box 3246 Rarotonga, Cook Islands
Telephone: (+682) 24-875; Facsimile: (+682) 24-178

8 December 2021

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2021/22 Half-year Economic and Fiscal Update (HYEFU).

To enable the Ministry of Finance and Economic Management to prepare the 2021/22 HYEFU, I have ensured that the Financial Secretary has been advised of all Government decisions and other circumstances as at December 2021 of which I was aware and had material economic and fiscal implications.

The 2021/22 HYEFU has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995-96*.

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

Kia Manuia,

Honourable Mark Brown

Minister of Finance

MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
GOVERNMENT OF THE COOK ISLANDS

PO Box 120, Rarotonga, Cook Islands
Phone (+682) 22878 or 22879 Fax (+682) 23877
E-mail: garth.henderson@cookislands.gov.ck

8 December 2021

STATEMENT OF RESPONSIBILITY

This Half Year Economic and Fiscal Update (HYEFU) 2021/22 is prepared in accordance with Section 11 and 16 of the *Ministry of Finance and Economic Management Act 1995-96*. Section 16 further states that the Minister shall no earlier than the 1st day of December, nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Ministry.

Therefore in accordance with Section 30(2) of the *Ministry of Finance and Economic Management Act 1995-96*, the Minister of Finance and the Financial Secretary shall prepare and sign a Statement of Responsibility for the financial statements.

The integrity of the disclosures and consistency with the requirements of the Ministry of Finance and Economic Management Act 1995-96 are warranted in relation to the financial statements included within the 2021/22 HYEFU.

The update incorporates the fiscal and economic implications both of Government decisions and circumstances as at December 2021 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the *Ministry of Finance and Economic Management Act 1995-96.*

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

Kia Manuia,

Garth Henderson

<u>Financial Secretary</u>

1 Introduction and Overview

The Half Year Economic and Fiscal Update (HYEFU) revises the fiscal forecasts that underpin the 2021/22 Budget based on the latest economic data, actual expenditure in 2020/21 and changes in revenue and expenditure forecasts for the 2021/22 Budget.

The Government's Medium-term Fiscal Strategy (MTFS) for the following years, 2022/23 – 2025/26, is also introduced in the HYEFU. The strategy provides details on Government's fiscal planning and anticipated expenditure profile over this period, including performance against the fiscal rules which underpin the MTFS.

The 2021/22 HYEFU has been developed amidst the ongoing economic impacts of the COVID-19 pandemic, which has continued to have a significant effect on the tourism industry of the Cook Islands since March 2020. This economic shock has severely impacted the Gross Domestic Product (GDP) of the Cook Islands, with a sustained flow on effects to Government revenues.

The economic shock has had far reaching impacts in the Cook Islands, disrupting the private sector and affecting households through reduced income. Government responded to this through the Economic Response Plan (ERP) launched in April 2020, with Phase II and Phase III released in the 2020/21 Budget. A limited number of private sector support measures of the ERP have been continued within the Economic Recovery Roadmap (ERR) during 2021/22 in response to the additional border closure in August 2021.

The size of the economic shock triggered the use of the MTFS Exit Clause in the 2019/20 Supplementary Budget, allowing Government to respond to the crisis with all the resources available to it, without being required to adhere to the fiscal rules. This response included the use of funds from the $56.7 million Stabilisation Account to pay for Phases II and III of the ERP.

Government drew on debt to reinforce its resources in 2020/21 and will draw on further debt in 2021/22. Whilst operating surpluses are forecast in 2023/24, fiscal deficits are forecast across the medium-term, decreasing annually to $5.4 million in 2024/25 using conservative revenue and expenditure forecasts.

In consideration of the substantially changed economic and fiscal environment within which Government expects to be operating over the medium-term, the Fiscal Responsibility Rules have been revised to more appropriately position a suitable fiscal response. This includes prioritising the Government's Cash Reserves rule to ensure sufficient operating cash balances, and revising the Net Debt rule to ensure that Government can access financial support whilst remaining within a reasonable level of debt sustainability.

The Cook Islands has received substantial support from our Official Development Assistance partners to date, totalling $142.6 million since the beginning of the pandemic, the bulk of which consists of budget support from the New Zealand Government to support the ERP and ERR initiatives.

The continuing impacts of COVID-19 on the Cook Islands is challenging to forecast due to the substantial unknowns impacting the assumptions. This HYEFU assumes the reopening of borders to New Zealand and commencement of tourism in January 2022 as announced by the Honourable Prime Minister Mark Brown. There remains ongoing uncertainty around further developments related to COVID-19 variants, vaccine efficacy and global supply-chain and logistics.

The assumptions underpinning the economic and fiscal forecasts are detailed in this report consisting of known information as at the time of publication, these are considered conservative, but the COVID-19 pandemic continues to be an evolving situation. The Ministry of Finance and Economic Management continues to monitor developments and will tailor its responses as the situation further develops.

2 COVID-19 Special Note

Coronavirus disease 2019 (COVID-19) is a respiratory illness caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The virus was first reported in December 2019 in Wuhan, China and was declared a Public Health Emergency of International Concern (PHEIC) by the World Health Organization (WHO) on 30 January 2020, and later declared a pandemic on 11 March 2020.

The Cook Islands border was initially closed on 25 March 2020 and subsequently operated on a restricted basis for citizens and residents from 8 May 2020 until 17 May 2021 after the establishment of a quarantine-free travel (QFT) arrangement with the New Zealand Government. The QFT arrangement permitted entry of all passport holders who have been in New Zealand for the previous 14 days into the Cook Islands.

The re-emergence of COVID-19 within the New Zealand community, in particular the delta variant, prompted the closure of the Cook Islands border on 17 August 2021. As a result, only repatriation flights requiring managed quarantine on arrival have been permitted.

On November 4 2021, the Honourable Prime Minister Mark Brown announced that the Cook Islands borders will reopen on 13 January 2022, allowing for two-way QFT from New Zealand under strict travel entry requirements.

The impact of these restrictions and extended border closures have directly impacted a tourism-oriented private sector in the Cook Islands, with a reduction in tourist volumes affecting business viability and employment, with flow-on effects to Government revenues that will persist across the medium-term.

2.1 Fiscal Response

The Government has temporarily departed from the Fiscal Rules since the 2019/20 Supplementary Budget, to implement expenditure measures, such as the Economic Response Plan (ERP) and the Economic Recovery Roadmap (ERR), which would otherwise push expenditure beyond the Medium-term Fiscal Strategy's (MTFS) expenditure ceiling. To support the ERP, the Government utilised its financial reserves, including the Stabilisation Account and debt funding to supplement operating revenues.

In response to the changes in the Cook Islands' economic context with increased debt levels and reduced revenue, the Fiscal Rules were revised for the first time in October 2021 since first introduced in the 2019/20 Budget. The revised rules are applicable to the MTFS 2022/23-2025/26.

The new Fiscal Rule structure sets the Cash Reserve Rule as the fiscal anchor. Forecasts indicate that the Cash Reserves Rule will not be met by the end of the 2021/22 fiscal year, and therefore Government will continue to exercise the Exit Clause and temporarily depart from the Cash Reserves Rule, but expects to meet the remaining Fiscal Rules. Chapter 3 provides further details on the new Fiscal Rules.

To mitigate the fiscal impacts of Government's response to COVID-19, Government has either deferred or reprioritised operational funding to support core work programs and deliverables, including supporting economic stimulus initiatives.

To respond effectively to the evolving health and economic needs of the country due to COVID-19, the Government currently maintains two administered funding lines:

- COVID-19 Medical Response Fund
- Economic Recovery Roadmap

The ERR was introduced in the 2021/22 Budget following the completion of the ERP at 30 June 2021. The ERR provides support for economic stimulus measures to improve economic recovery, as well as continuing certain ERP-based measures to support businesses and households during border closures.

Government has determined that expenditures directly related to both economic stimulus measures, specifically the ERR, and to COVID-19 response measures through the COVID-19 Medical Response Fund will be treated outside of the MTFS for 2022/23.

2.1.1 COVID-19 Medical Response Fund

The medical response fund provides support to respond effectively to emerging health and border control needs to prevent, mitigate and limit the spread of COVID-19 within the Cook Islands.

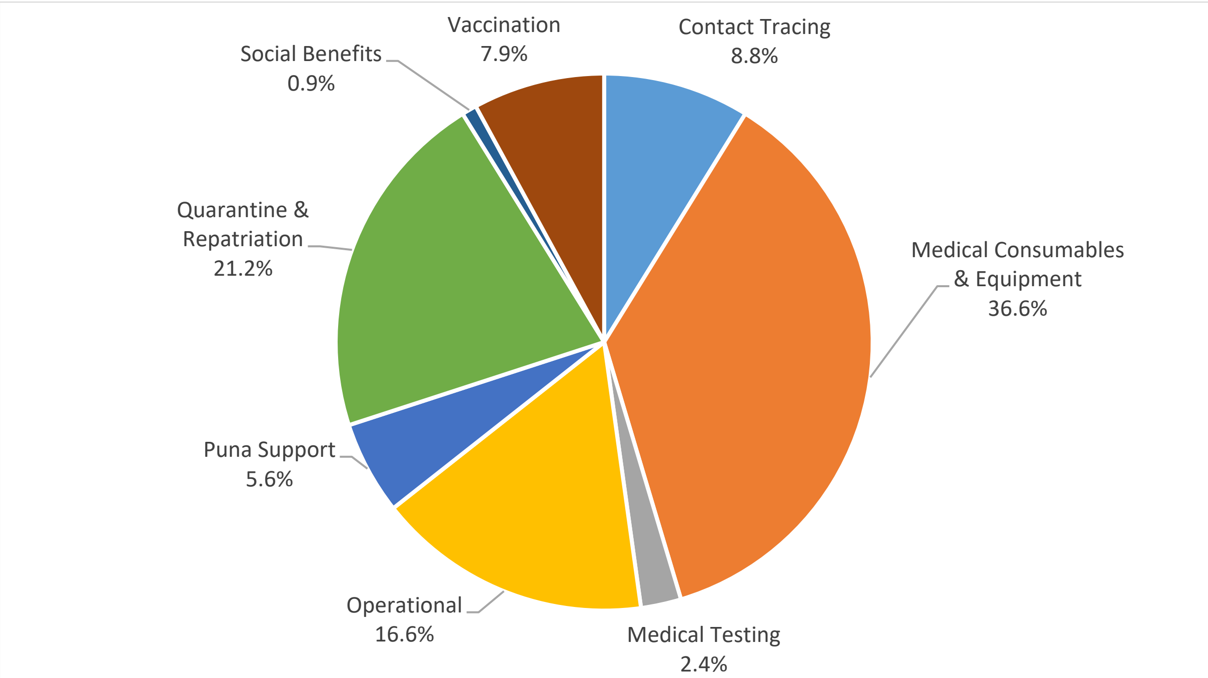
A breakdown of total actual expenditure spent to date (in Table 2-1 and Table 2-2) shows a significant investment in Medical Consumables & Equipment in particular, personal protective gear (PPE), followed by Quarantine & Repatriation costs and Operational costs. Operational costs include COVID-19-related personnel overtime costs, advertising and marketing and other associated costs incurred to support the Cook Islands' COVID-19 health response.

Table 2-1 COVID-19 Medical Response Fund expenditure ($'000)

Administered Funds	2019/20	2020/21	2021/22*	Total
Contact Tracing	5	573	208	786
Medical Consumables & Equipment	2,545	714	0	3,259
Medical Testing	20	160	36	216
Operational	852	348	195	1,395
Puna Support	246	254	0	500
Quarantine & Repatriation	958	100	907	1,965
Social Benefits	80	0	0	80
Vaccination	0	362	345	707
Total Operating Expenditure	**4,707**	**2,510**	**1,691**	**8,908**

*2021/22 Actuals as at 1 December 2021 (excludes committed expenditure).

Figure 2-1 Cumulative breakdown of COVID-19 Medical Response Fund Expenditure



In addition to the COVID-19 Medical Response fund, a capital funding line (known as the COVID-19 Response funds) was created in the 2019/20 Supplementary Budget to help facilitate necessary capital projects required for the health sector to respond to COVID-19. This fund enabled the purchase of oxygen piping and equipment to prepare the hospital for a potential COVID-19 case.

Table 2-2 COVID-19 Medical Response Fund (Capital) Expenditure ($'000)

Capital Expenditure	2019/20	2020/21	2021/22*	Total
Medical Equipment	581	99	0	680
Vehicle	56	0	0	56
Reserve	0	0	1,400	1,400
Total Capital Expenditure	**637**	**99**	**1,400**	**2,079**

*2021/22 Actuals as at 1 December 2021 (excludes committed expenditure).

2.1.2 Economic Response Plan

The ERP provided a multi-faceted economic response which included social benefits such as unemployment support and the wage subsidy, and economic stimulus measures such as the low interest lending facilities and interest relief program through the domestic banks.

A breakdown of actual expenditure for the Economic Response Plan is provided in Table 2-3 and Figure 2-2. Approximately 55.7 per cent of actual expenditure, totalling $54.7 million, has been provided in wage subsidy with a further 35.0 per cent, totalling $34.4 million, being provided through the Interest Relief Program, the Business Continuity Credit Facility, Business Grants and Sole Trader Grants.

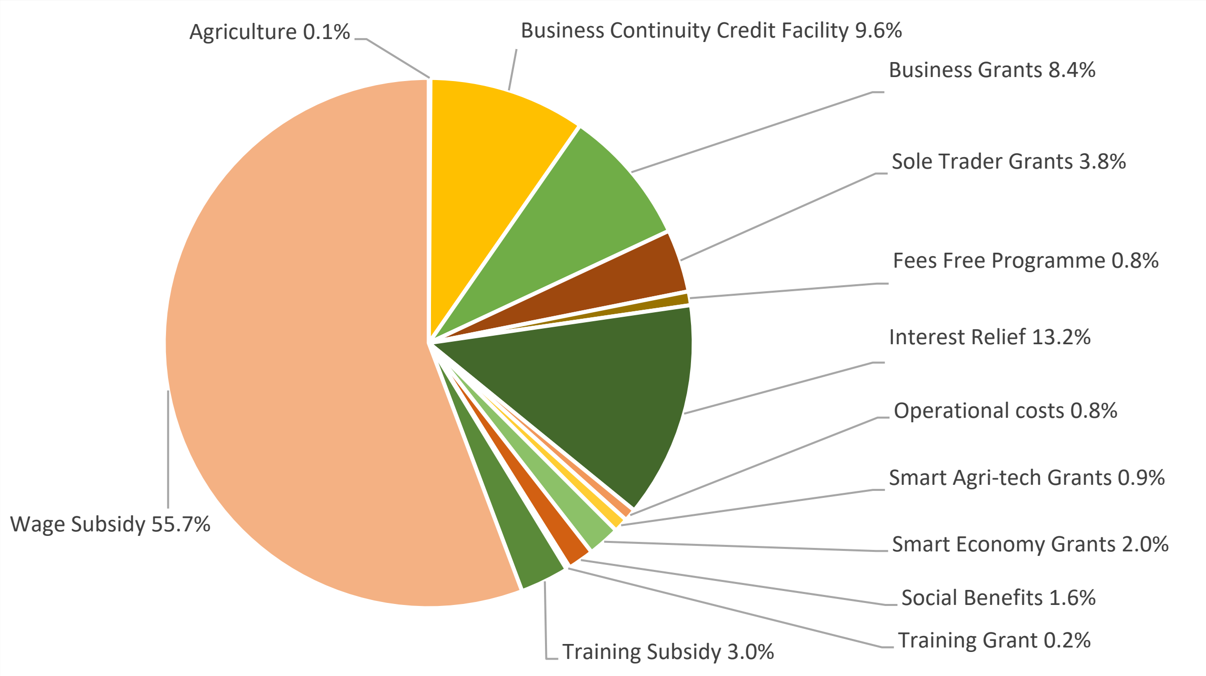
With the cessation of the ERP as at 30 June 2021, actual expenditure in 2021/22 are to cover remaining contractual costs.

Table 2-3 COVID-19 Economic Response Plan Expenditure Breakdown ($'000)

Expenditure	2019/20	2020/21	2021/22*	Total
Agriculture	99			99
Business Continuity Credit Facility		9,400		9,400
Business Grants	2,858	5,366		8,224
Sole Trader Grants	1,002	2,758		3,760
Fees Free Programme		823		823
Interest Relief		12,925		12,925
Operational costs	82	652	5	739
Smart Agri-tech Grants		863		863
Smart Economy Grants		1,925		1,925
Social Benefits	1,478	92		1,571
Training Grant		220		220
Training Subsidy		2,928		2,928
Wage Subsidy	12,222	42,505		54,727
Total	**17,742**	**80,457**	**5**	**98,205**

*2021/22 Actuals as at 1 December 2021 (excludes committed expenditure).

Figure 2-2 Cumulative breakdown of COVID-19 Economic Response Plan Expenditure



2.1.3 Economic Recovery Roadmap

The ERR has eight key areas of focus for driving and facilitating sustainable economic recovery. These areas are:

1. Reducing the cost of borrowing
2. Managing the burden of public debt
3. Infrastructure investment
4. Reducing barriers to competition and business
5. Productivity growth
6. Improved public sector efficiency
7. Growing the labour force and preventing depopulation
8. Attracting foreign investment that will benefit the Cook Islands

The ERR has continued some ERP measures on an as-need basis in consideration of border closures, and if necessary will continue these measures.

Table 2-4 provides a breakdown of expenditure spent to date for the ERR.

Table 2-4 Expenditure of Economic Recovery Roadmap ($'000)

Expenditure	2021/22*	Total
Operational costs	386	386
Smart Agri-tech Grants	39	39
Wage Subsidy	14,517	14,517
Business Grants	100	100
Total	**15,041**	**15,041**

*2021/22 Actuals as at 1 December 2021 (excludes committed expenditure).

2.2 Debt Funding

Debt funding has been used to supplement Government's resources in the 2021/22 – 2024/25 Budgets. Total debt drawn down in 2020/21 was $80.9 million, with a further Policy Based Loan of

$55.5 million[1] with the Asian Development Bank (ADB) to be drawn in 2021/22. A further Precautionary Financing Loan, or 'contingency loan' has been agreed with the ADB for an additional $55.5 million if required, and this may be drawn in part or whole.

A cumulative financing gap of around $41.4 million is presently estimated over the forward-years to 2024/25 to avoid a negative cash balance, reduced from $66.7 million as estimated in the 2021/22 Budget. Additional financial support is expected to be required to ensure that Government cash liquidity targets are maintained. This financing gap includes capital investment projects that are not yet finalised or committed.

This estimate is also subject to substantial change as is it is reliant on economic performance falling in line with conservative forecasts, actual revenue received, expenditure of Government's entire budget appropriation in each year, and no new expenditure decisions over the medium-term.

Debt funding requirements, based on economic estimates of GDP and Government revenues, are explained in Chapter 7.

2.3 Official Development Assistance

The Cook Islands Government would like to acknowledge the following aid partners for their support towards our economic and health response to COVID-19.

Table 2-5 summarises the list of support received from aid partners since March 2020 for the Cook Islands' COVID-19 response. Further details are provided in Chapter 8.

The majority of assistance provided has been in the form of grant funds from the New Zealand Government to support the Economic Response Plan.

The Cook Islands Government particularly acknowledges the support from New Zealand in 2021/22 with the recent announcement of $20.0 million in budgetary support and $40.0 million in capital investment funding.

The $20.0 million in budgetary support has been apportioned $10.0 million into General Budget Support - Revenue on Behalf of Crown and $10.0 million into Official Development Assistance (ODA) – Recurrent (Operating). This approach provides support to Government's cashflow requirements as well as facilitating immediate expenditure through the existing ODA appropriation limit.

Over the coming months, officials from both governments will determine the use of the $40.0 million for the CKI-NZ Infrastructure Trust Fund overseen by the Ministry of Finance and Economic Management (MFEM) for the Cook Islands Government and representatives of the Government of New Zealand.

[1] Both loans ('Policy Based Loan' and 'Precautionary Financing Loan') of $55.5 million New Zealand dollars are loans of USD $40.0 million that have been converted to NZD, removing Foreign Exchange risk.

Table 2-5 Summary of Official Development Assistance related to COVID-19 ($NZD)

Development Partner	Instruments	2019/2020	2020/2021	2021/22	Total
New Zealand Government	Financial Support	7,000,000	35,013,992	90,000,000	132,013,992
	Materials & Equipment		261,688	55,000	316,688
	Total	**7,000,000**	**35,275,680**	**90,055,000**	**132,330,680**
Australian Government	Financial Support	604,308			604,308
	Materials & Equipment		12,147		12,147
	Total	**604,308**	**12,147**	**0**	**616,455**
People's Republic of China	Financial Support		82,658	50,000	132,658
	Materials & Equipment		185,778		185,778
	Total	**0**	**268,436**	**50,000**	**318,436**
Japan	3rd Party spend		1,546,100		1,546,100
	Materials & Equipment		1,418,452		1,418,452
	Total	**0**	**2,964,552**	**0**	**2,964,552**
ADB	3rd Party spend		151,515		151,515
	3rd Party spend		409,091		409,091
	Grant		1,500,000		1,500,000
	Grant		2,900,000		2,900,000
	Technical Assistance		218,436		218,436
	Technical Assistance		174,780		174,780
	Total	**0**	**5,353,822**	**0**	**5,353,822**
ILO	Grant		67,394		67,394
UNICEF	Materials & Equipment		172,036	96,783	268,819
Jack Ma Foundation	Materials & Equipment		351,663		351,663
Mr Stemm	Materials & Equipment		106,609		106,609
The Pacific Community (SPC)	Materials & Equipment			33,671	33,671
UNFPA	Materials & Equipment		1,697		1,697
US Embassy - Wellington	Materials & Equipment			9,069	9,069
WHO	Materials & Equipment		14,078	128,394	142,472
Category Totals	**Grant / Financial Support**	**7,604,308**	**39,564,044**	**90,050,000**	**77,218,352**
	Materials & Equipment	**0**	**2,524,148**	**322,917**	**2,847,065**
	Technical Assistance	**0**	**393,216**	**0**	**393,216**
	3rd Party spend	**0**	**2,106,706**	**0**	**2,106,706**
GRAND TOTAL		**7,604,308**	**44,588,114**	**90,372,917**	**142,565,340**

3 Medium-term Fiscal Strategy 2022/23 – 2025/26

This chapter presents the Cook Islands Government's Medium-term Fiscal Strategy (MTFS) for the period, 2022/23 to 2025/26, and serves as the 2022/23 Budget Policy Statement. The MTFS reconfirms the Government's commitment to sound fiscal and economic management, within the context of a severe global and domestic economic shock.

The MTFS aims to deliver fiscally sustainable budgets. To achieve this, the Government commits to:

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

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

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

The scale of the present economic shock being experienced by the Cook Islands required the temporary departure from the fiscal rules and the utilisation of the reserve funds to achieve an expenditure profile which responds to the current economic context.

In the context of the pandemic and economic shock, the following policy elements are also being considered:

- Stimulating demand through support to local business to ensure that the economy is able to continue to operate, even at a reduced level, during this period of extreme uncertainty surrounding COVID-19.
- Supporting the livelihoods of those that are likely to be most affected by the economic fallout, including those required to self-isolate, those that lose their jobs and the elderly and infirm.
- Focusing the efforts of Government departments on core deliverables and limiting the expansion of new programs and costs.

The Government is committed to the expenditure profile set out in Table 3-1 over the medium-term, with the fiscal space indicating the amount of additional expenditure, or reduction in expenditure, that the Government can undertake in each year.

In determining the recommended expenditure profile for the MTFS, the Ministry of Finance considers two fiscal space measures, both consistent with the MTFS fiscal rules:

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

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

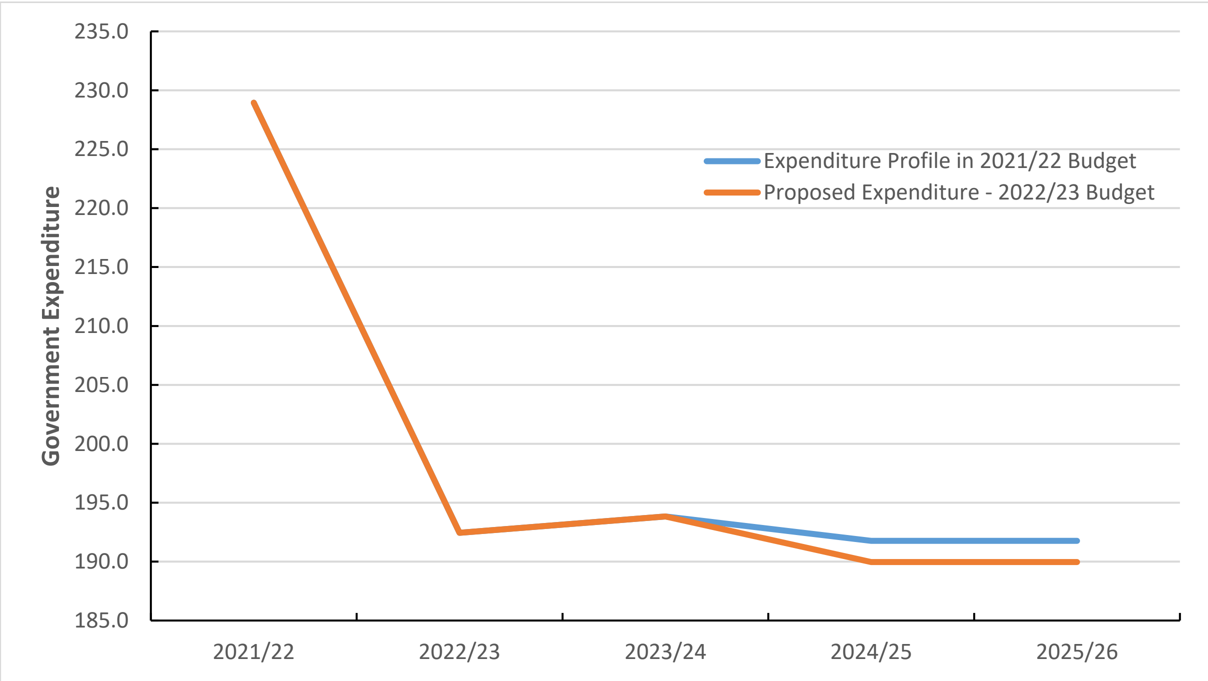
Table 3-1 Medium-term Expenditure Ceilings ($ Million)

$ million	2022/23	2023/24	2024/25	2025/26
Current expenditure planned	199.4	192.7	192.2	192.2
Fiscal Space	0	0	-1.4	-2.2
Total expenditure – 2022/23 Budget	**199.4**	**192.7**	**190.8**	**190.0**

The total expenditure limits will remain the same for 2022/23 and 2023/24 as previously budgeted for, while small reductions in total expenditure are planned for 2024/25 and 2025/26 as debt repayments increase and the need for economic stimulus subsides. Figure 3-1 illustrates the changes in expenditure profile for the medium-term.

To maintain this ceiling for the 2022/23 Budget, Government will prioritise core services and transfer budget between outputs and/or agencies to maximise efficiency in meeting its ongoing deliverables.

Figure 3-1 Expenditure Profile Shift through MTFS ($'000)



3.1 MTFS Economic and Fiscal Forecasts

3.1.1 Economic Forecast

The 2020/21 fiscal year saw the largest economic shock the Cook Islands economy has ever recorded, with an estimated reduction in economic activity of 18.2 per cent in real (inflation-adjusted) terms[2]. This builds on the initial 5.2 per cent decline in 2019/20, as the initial impact of the pandemic saw the final quarter of the year without visitors. As the 2020/21 fiscal year was almost wholly without visitors, the fall in GDP was unprecedented, though large government stimulus programs did offset this decline.

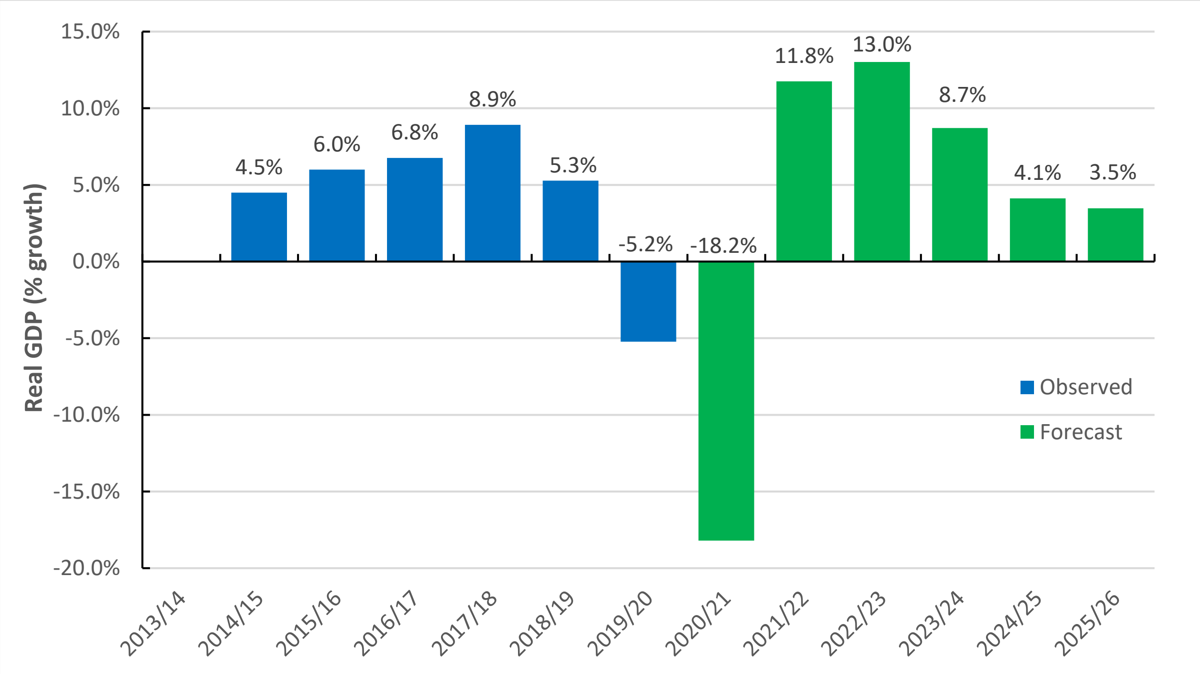
The beginning of the 2021/22 fiscal year was promising, with the return of tourism in the first month and a half exceeding expectations, before the outbreak of COVID-19 in New Zealand ended Quarantine-free Travel (QFT). With this closure, continuing economic activity remains subdued but is expected to rebound once travel is possible again. With the border to New Zealand expected to open

[2] Some technical issues mean the outcome for the 2020/21 year in Real GDP is not yet known

from January 2022, economic growth is expected to increase to 11.8 per cent for the year – from the low base of the 2020/21 fiscal year.

Over the forward years, this growth is expected to be maintained with 13.0 per cent in 2022/23 (the first year expected to not be directly impacted by border closures), before moderating as markets and international travel and logistics stabilise after the pandemic. This strong growth, combined with supply-side constraints in the economy are expected to see a rise in inflationary pressures over the short term, which will provide some headwinds for the economy.

Figure 3-2 Annual real GDP growth



3.1.1.1 Technical Note

Between the 2021/22 Budget and this economic update, the approach to economic modelling was revised with Technical Assistance from the Asian Development Bank. This modelling uses a Computable General Equilibrium (CGE) to build a picture of the economy that better represents relationships through the economy, when an element changes in one part of the economy this now captures the impacts across the whole economy. A change in approach to modelling was required after the impact of the pandemic rendered the previous approach, an Auto-Regressive Integrated Moving Average [ARIMA] method that relies on relatively stable time-series data, unsuitable.

This improved approach has resulted in a more explicit focus on parts of the economy that were not individually identified in the past, including (but not limited to) investment, savings behaviour and the impact of price changes in key markets.

3.1.1.2 MTFS Expenditure Profile

The ongoing COVID-19 pandemic has required a shift in focus of Government expenditure for the medium-term to reduce the severity of the economic impact of COVID-19 to the Cook Islands' economy and to respond to increased medical response and border control requirements. This has continued with the second border closure beginning in August 2021 due to community transmission of the COVID-19 delta variant in New Zealand.

To respond to this closure, Government has continued support measures such as the wage subsidy and business grants, using the Economic Recovery Roadmap (ERR). The use of this contingency has meant 'new' expenditure has not been needed for the support measures, but the longer this closure continues, the less fund there will be available for the proactive growth components of the ERR.

Government expenditure will continue to focus on investment in infrastructure and capabilities of Government agencies to operate effectively and efficiently. However, this will be managed conservatively within the context that no new funding will be available. Therefore, the reprioritisation of existing funding is important and may result in the shift or transfer of funding from one agency to another.

Funding for new programs or expenditures will be prioritised against the need for agencies to focus on the delivery of core services to the community, and the need for Government to provide economic support to households and businesses. This will result in the deferral of most new initiatives.

The Government-wide salary increases will continue to remain on hold until the economic conditions improve and fiscal balances have stabilised. This decision defers a further approximate $5.0 million cumulative increase in Government expenditure in each forward year.

Capital expenditure is being maintained as a key measure to stimulate the economy through this downturn, with any new projects to continue being assessed and monitored to ensure value for money and project timelines are achieved.

3.1.2 Fiscal Rules

The Fiscal Rules have been developed as benchmarks for the Government, to achieve fiscally sustainable budgets. The rules have been revised in preparation for the 2022/23 Budget to more accurately reflect the fiscal context of the COVID-19 economic environment, with a revised focus on Government's fiscal liquidity. It is envisaged that the Fiscal Rules will be reviewed again after the economic situation improves.

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

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

The *Resilience* criterion has been considered in reviewing the revised Fiscal Rules however, the scale and duration of the economic shock of COVID-19 is such that retention of the existing rules would be inconsistent with the economic outcomes intended. The revised structure is expected to be in place throughout the medium-term, with the primary trigger for a further review of the rules being a substantially changed economic environment resulting in sustained positive fiscal balances annually.3

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

Too many rules can complicate fiscal policymaking and result in overlap and inconsistency of targets. As such, selected rules need to minimise the trade-off between the above criteria.[3] Based on these criteria, the rule structure set out in Figure 3-4 has been adapted.

Figure 3-3 Previous MTFS rule structure

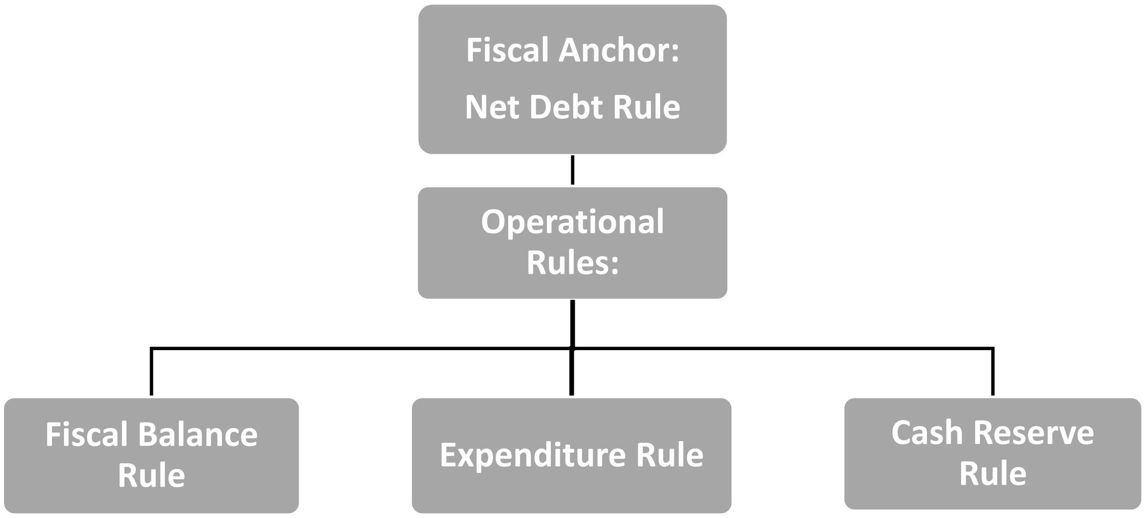
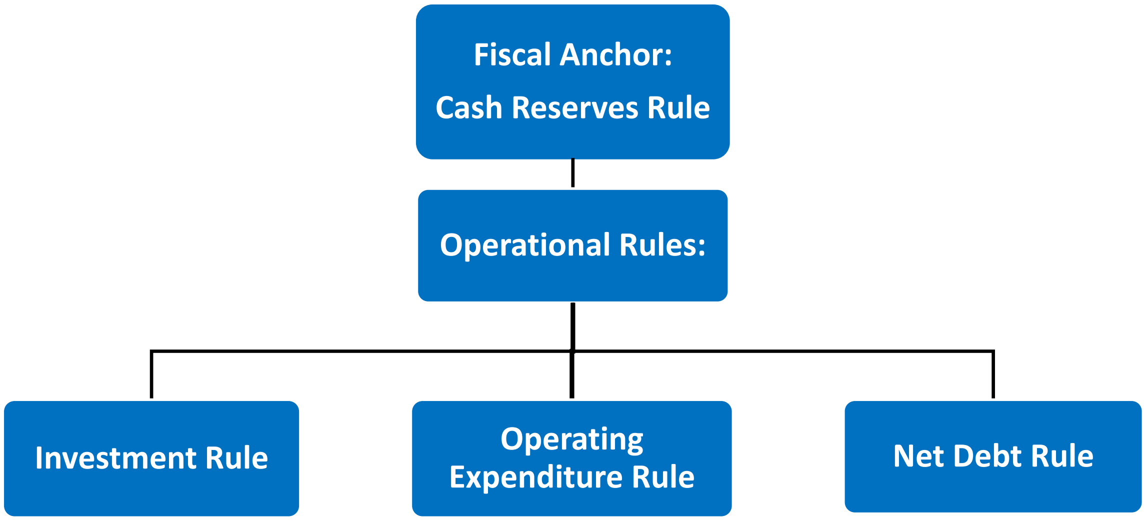


Figure 3-4 New MTFS rule structure



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

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

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

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

The MTFS has an exit clause that allows for a temporary departure from the fiscal rules, including periods of severe economic shock, to enable a Government stimulus response to boost the economy. As noted earlier, the scale of the COVID-19 economic impact to the Cook Islands has triggered a temporary departure from the fiscal rules in order to enable a proportionate response.

Government expects to meet the Investment Rule, Expenditure Rule and Net Debt Rule by the end of the 2021/22 fiscal year. The Cash Reserves Rule is largely unchanged from the previous Fiscal Rule Structure, and is highly dependent on both revenue and expenditure variables. It is not expected to be met at the end of the current fiscal period, and hence the Exit Clause will continue to be utilised for this rule. The preparation of the 2022/23 Budget will see the review of various expenditure decisions that influence expenditure and hence the expected year-end cash reserves over the forward estimates.

Government will continue to measure and publish performance against the rules in the Annual Budget releases.

Prudency

The Government’s aim in the development of the Fiscal Rules is to ensure fiscal prudency - spending within revenues and use of sustainable debt when required. As such, in determining the rules, rounding has been applied to ensure that prudency is reinforced. For example, in the case of the expenditure ratio this has been rounded down from 4.3 to 4.0 per cent of GDP.

Exit clause

The Government agrees to abide by the fiscal anchor and operational rules at all times, with two exceptions. The Government may breach these rules only in the event of a natural disaster (and subsequent calling of a state of emergency), or a severe economic shock (defined as real economic growth of negative 2 per cent or less).

The economic shock resulting from COVID-19, with GDP falling by 5.2 per cent in 2019/20 and estimated to have fallen by a further 18.2 per cent in 2020/21, triggered the temporary departure from the fiscal rules outlined in the MTFS.

With the economic situation having changed considerably since before the pandemic, the Fiscal Rules were revised to fit the new economic context better. Government will continue working towards attainment of all the fiscal rules after which the Exit Clause will no longer be utilised.

The fiscal rule most at risk of breach given current forecasts is the Cash Reserves Rule, as the current forecasts show negative cash balances in the forward years. Therefore, funding sources will need to be identified for this expenditure.

These forecasts will continue to be updated as the economic situation continues to stabilise, and performance against the individual fiscal rules is discussed in further detail below.

3.1.2.1 MTFS Cash Reserves Rule

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

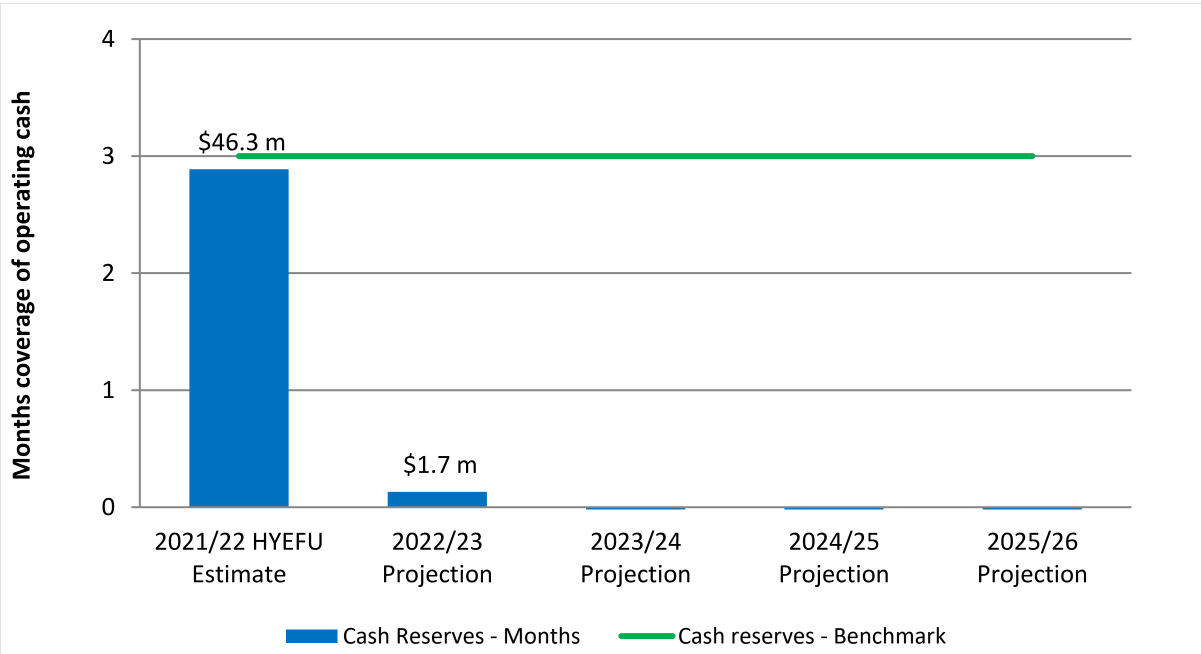
A prudent level of cash reserves is considered to be three months of operating expenditure, either available as cash or liquid cash investments, while one month of operating expenditure is considered to be an emergency-level of cash reserves. This emergency-level is comfortably met in the 2021/22 fiscal year, but is currently not expected to be met in any of the forward years.

Debt drawdowns are expected for the medium-term to supplement liquidity shortages until the economy recovers, as well as identifying key sources of finance for the planned capital expenditure. Should GDP increase over the outer years and Government revenues begin to recover, cash reserve levels will begin to stabilise.

Figure 3-5 shows that the Government's cash reserve is currently expected to be zero or negative over the medium-term due to increased expenditure to provide economic stimulus, in particular through business support measures and capital expenditure. This capital expenditure has been considered in calculating these profiles, while the sources of funding have not yet been – which contributes to this profile becoming negative.

Debt drawdowns are expected for the medium-term to supplement liquidity shortages until the economy recovers, as well as identifying key sources of finance for the planned capital expenditure. Should GDP increase over the outer years and Government revenues begin to recover, cash reserve levels will begin to stabilise.

Figure 3-5 Cash Reserves rule projections



3.1.2.2 MTFS Operating Expenditure Rule

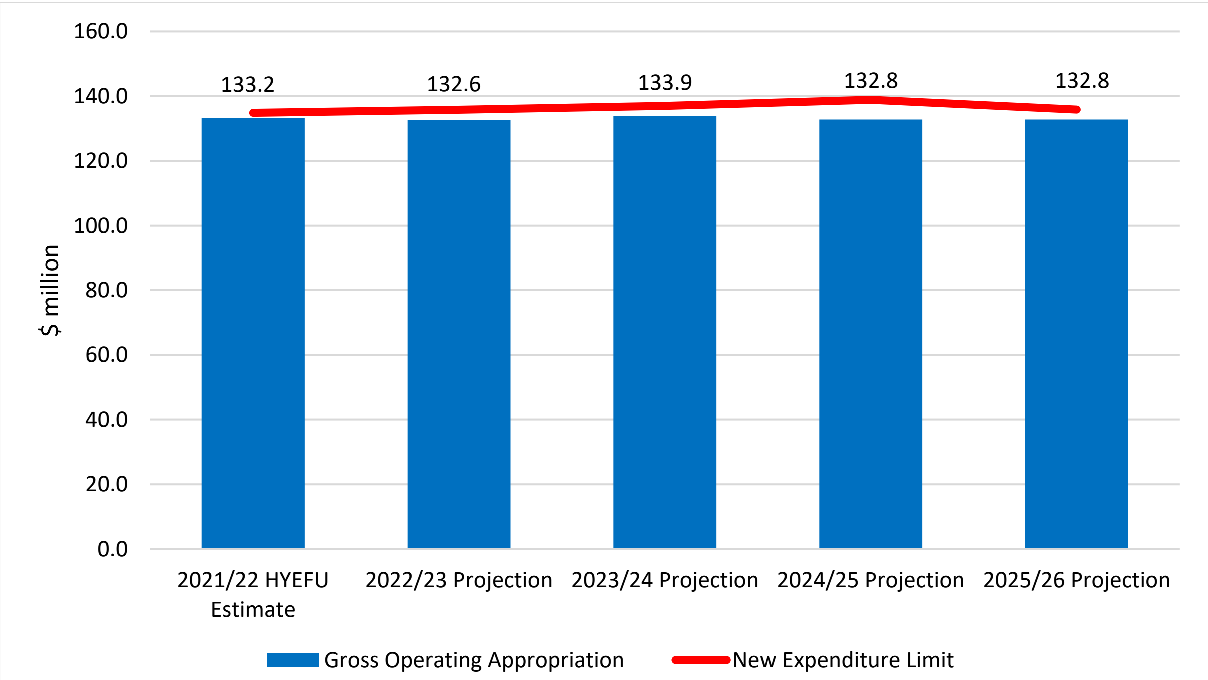
The expenditure rule states that the *"baseline budgeted operating*[4] *expenditure cannot grow by more than the greater of 2 per cent or the average of the past two years growth in the Consumer Price Index (CPI) year-on-year."*

The operating expenditure rule controls Government expenditure by limiting year-on-year growth to a maximum of 2 per cent currently (as average inflation from years 2019-20 and 2020-21 is below this). This rule allows for limitations to be applied to Government's day to day operating budget, but excludes contractual payments such as loan interest and welfare payments. The overall expenditure ceiling does still consider these expenditure requirements into total Government expenditure, thus the operating expenditure rule serves to limit expansion of operating expenditure during periods of increasing fiscal expenditure, but is superseded by other rules during periods of fiscal contraction.

As shown in Figure 3-6, the operating expenditure profile for 2022/23 will be within the limit across the forward years.

This low growth in operating expenditure reflects fiscal restraint aside from the stimulus measures employed through the Economic Response Plan (ERP) and the Economic Recovery Roadmap (ERR), which have been the largest components of expenditure in 2020/21 and 2021/22.

Figure 3-6 Operating Expenditure rule growth projections



3.1.2.3 MTFS Net Debt Rule and Investment Rule

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

Net debt to GDP measures debt relative to national income, and is intended to control the overall level of debt taken on by Government, including state-owned enterprises. The limit agreed to by

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

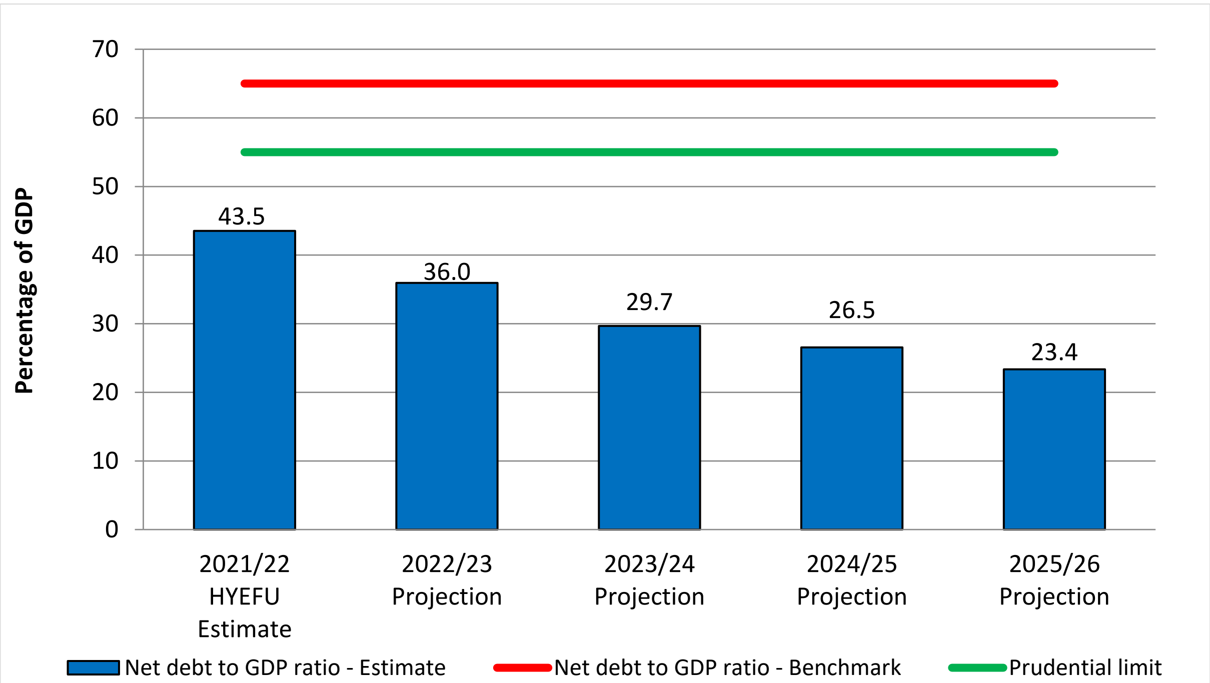
Government is to maintain net debt within 55 per cent of GDP, with room to increase this to 65 per cent for prescribed purposes.

Further revisions have been made to the GDP forecasts since the 2021/22 Budget which have resulted in the 55 per cent soft cap on borrowings to rise from approximately $237.2 million to $268.0 million as at June 30 2022. Government anticipates that it will have drawn a total of $228.3 million[5] of debt by the end of 2021/22 to fund the response to the recession and maintain Government operations. Combined with $13.7 million in the Loan Reserve Fund, this leaves $214.6 million in net debt. Removing a loan of $2.6 million held by the Airport Authority to reflect only Crown debt results in a net debt ratio of 43.5 per cent as shown in Figure 3-7.

Government has a further US$40 million in contingent financing available from April 2022 in case there is an emergency need for funds, as well as a $30.3 million disaster contingency loan in the case of a natural disaster. If these are drawn down in 2021/22, gross debt would be approximately $297 million, and net debt would total 60.9 per cent of GDP. Excluding these contingent loans, or additional debt, the net debt ratio is projected to fall year-on-year to 23.4 per cent by 2025/26 due primarily to GDP growth.

These ratios should not be looked at in isolation. Any proposal to take on additional borrowing should be looked at in the context of the whole of the Government Budget, the Crown's ability to pay annual debt servicing and international best practice. The latter aspect includes prudential requirements set by the Crown's lenders. Proposals to take on new loans must be assessed under transparent processes as required by the MFEM Act 1995/96 and the Loan Repayment Fund Act 2014.

Figure 3-7 Net Debt rule projections



The evolution of the Net Debt limits to GDP and the Investment Rule debt headroom are displayed in Figure 3-8 and Figure 3-9 respectively.

[5] This includes debt held by the Airport Authority. Excluding this has gross debt of $225.7 million and net debt of $212.1 million

Figure 3-8 GDP and Net Debt Movements ($million)

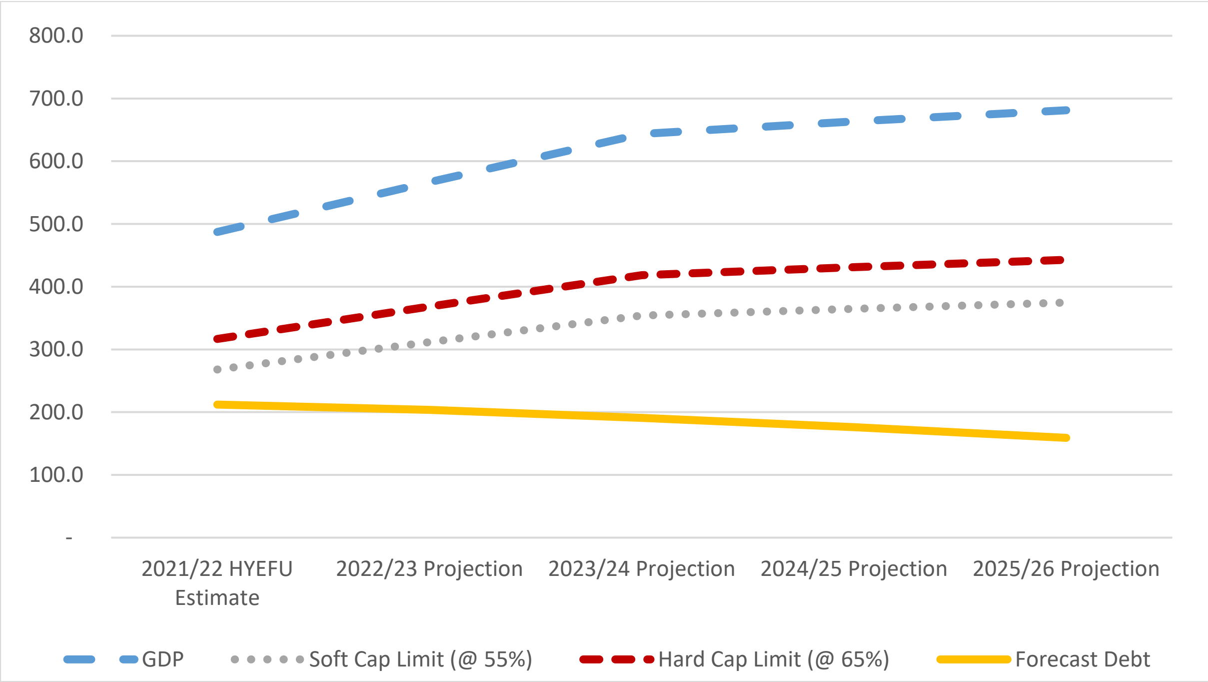
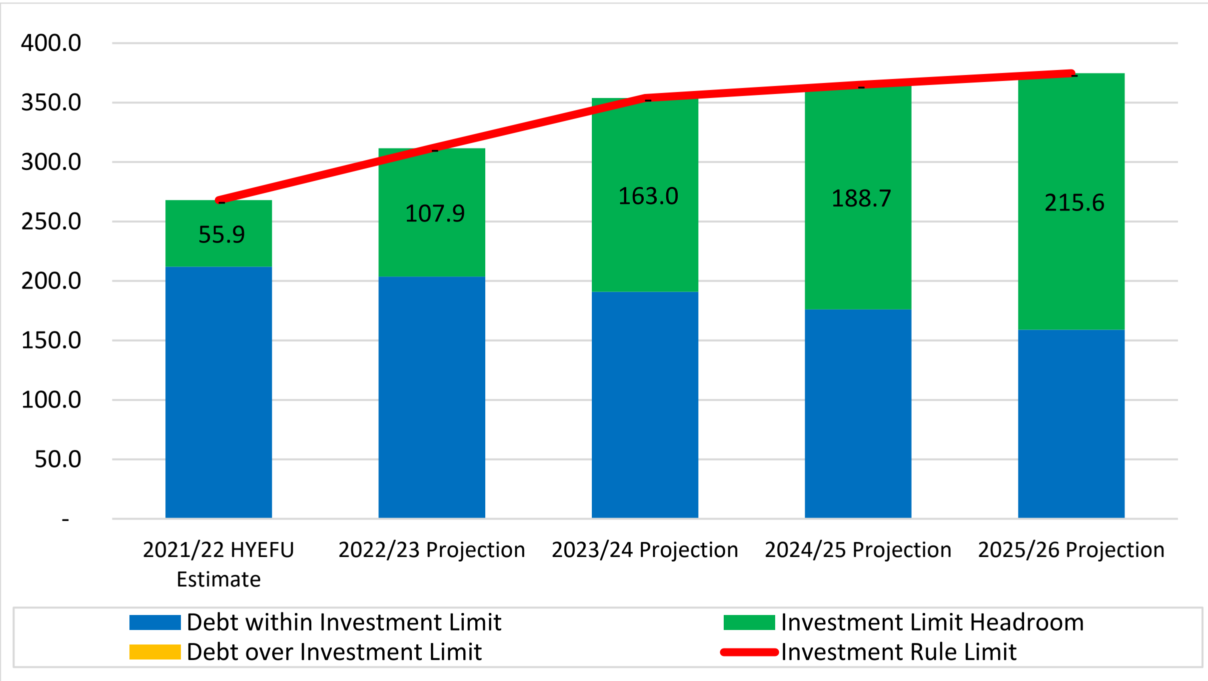


Figure 3-9 Investment Rule Debt Headroom ($ million)



3.2 Medium-term National Priorities

The MTFS also incorporates the Medium-term National Priorities to align the fiscal planning with the achievement of national priorities. The national priorities are set using the National Sustainable Development Plan (NSDP) of the National Sustainable Development Agenda 2020+, which captures the Cook Islands' aspirations and ambitions under 16 national development goals and helps to guide the application of the Medium-term Expenditure Ceilings (MTEC) at Government department level.

While the NSDP is referenced in this MTFS, its use as an expenditure guide will be reduced again in 2022/23 as the overriding priority remains Goal 2, Economic Opportunity, to reduce the size and severity of the economic impact of COVID-19 to the Cook Islands. This in turn will limit the economic scarring, or long-term negative impacts, to the Cook Islands economy.

Falling within the medium-term national priorities structure, Government's Economic Development Strategy (EDS) maps out the economic priorities for Government through to 2030. The EDS will guide the expenditure priorities of Government agencies in the 2022/23 Budget, within the priorities determined through the Economic Recovery Roadmap.

3.3 Assumptions underlying the economic and fiscal projections

Various assumptions have been made in the 2021/22 HYEFU to forecast the Cook Islands economic outlook and the Government's fiscal performance and position in the outer years.

3.3.1 Economic assumptions

3.3.1.1 Introduction

The Cook Islands National Statistics Office (NSO) publishes current price and real price (2016 base year) estimates of Gross Domestic Product (GDP) on a quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data received from the NSO relates to the June quarter 2021, however there remains some technical issues with the real GDP data, so only the nominal GDP data for 2020/21 have been used here.

The Government has relied on a Computable General Equilibrium (CGE) model to forecast GDP, utilising Cook Islands data and appropriate proxies where the relevant data does not exist. This model generates the forecasts for the period from 2021/22 to 2025/26 for a range of variables.

3.3.1.2 Gross Domestic Product production model

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

- Gross Domestic Product
- Trade aggregates
- Investment and savings
- Household consumption
- Consumer Price Index
- Wages
- Operating surpluses

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

3.3.1.3 Data

The key data sets used for the model are:

- Nominal GDP – quarterly data to June 2021
- Real GDP – quarterly data to June 2020
- Trade, imports and exports – monthly data to April 2020
- Consumer Price Index (CPI) – quarterly index data to June 2021

- International arrivals – Customs and Immigration monthly data to September 2021
- Building approvals – quarterly data to March 2021

3.3.1.4 Key economic indicator assumptions

Nominal GDP is expected to grow by:

- 12.8 per cent in 2021/22
- 16.3 per cent in 2022/23
- 13.6 per cent in 2023/24
- 3.1 per cent in 2024/25
- 2.7 per cent in 2025/26

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

- 3.2 per cent in 2021/22
- 3.5 per cent in 2022/23
- 4.0 per cent in 2023/24
- 0.6 per cent in 2024/25
- 1.6 per cent in 2025/26

Refer to Chapter 6 for more information on the economic forecasts and indicators.

3.3.2 Fiscal assumptions

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

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

3.4 Fiscal Risks

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

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including explicit and implicit liabilities such as those created by public corporations and sub-national Governments.[6]

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

3.4.1 Risk Categories

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

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

3.4.1.1 Global Economic Risks

While the impact of the COVID-19 pandemic appears to be waning across much of the world as safe and effective vaccines are rolled out, there remains risk of further mutations which will necessitate additional mitigation measures. Any other developments which may impact key trading partners and source markets for the Cook Islands with regard to travel are also risks to the economic recovery.

Economic fluctuations in the economies of those key trading partners will also impact the willingness of tourists to travel, and while the New Zealand economy has been resilient through the pandemic, there are some building inflationary pressures on the horizon. These pressures may necessitate a move away from the current very expansionary monetary policy stance, posing some risks to growth.

Exchange rate variations are a further source of risk due to the potential impact on the Cook Islands debt portfolio as a number of loans are denominated in US dollars and other international currencies. The IMF notes that the impact of exchange rate depreciations is immediate, and can be especially strong when a large share of the debt is in foreign currency. The potential impact of exchange rate movements on the Cook Islands debt position is assessed below.

3.4.1.2 Natural disasters

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

The Cook Island has a high exposure to disaster risk due to its geographic location in the South Pacific cyclone belt, the remoteness and low-lying nature of many of the outer islands, and the proximity of many buildings and infrastructure services to the coast. In addition, the heavy reliance on revenues from the tourism sector makes the economy vulnerable to the impact of disasters.

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

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

3.4.1.3 Contingent liabilities

The Government's contingent liabilities are summarised in Table 3-2. Adjustments have been made to some contingent liabilities since the publication of the 2021/22 Budget in June 2021.

Table 3-2 Quantifiable contingent liabilities, as at 1 December 2021

Category	$'000
Guarantees and indemnities	50
Uncalled capital	2,500
Legal proceedings and disputes	4,800
Vested Assets	19,740
Total	**27,090**

3.4.1.4 Guarantees and indemnities

In 2011/12, Government entered into a program under the New Zealand Aid programme focused on Pearl Sector Support previously operated by the Cook Islands Pearl Authority and now under the Ministry of Marine Resources.

Through the program, Government agreed to guarantee up to $0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

The loan program has since been discontinued however, there is outstanding debt on the loan scheme of approximately $50,000. A solution to close this contingent liability is under investigation.

3.4.1.5 Uncalled capital

Through the Cook Islands Property Corporation, Government holds $1.7 million in uncalled shares with the Asian Development Bank (ADB). This takes the form of 88 uncalled shares with a par value of USD 13,500 each[7].

In addition, the Government is a member of the Asian Infrastructure Investment Bank (AIIB) since 1 June 2020 and holds $0.6 million in uncalled shares. This takes the form of four uncalled shares with a par value of USD 100,000 each.

3.4.1.6 Legal proceedings and disputes

This consists of various cases and is a realistic estimate of the potential liability (damages and costs) of the Crown known as at the time of publication.

3.4.1.7 Vested Assets

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

Table 3-3 Vested Asset Contingent Liability Expiry Schedule

Tranche	Expiry Date	Value ($)
2	20/12/2024	6,500,000.00
3	31/10/2026	8,263,815.41
4	1/09/2027	4,978,080.11
Total		**19,741,895.52**

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

3.4.1.8 Financial liabilities relating to Island Governments

The Ministry of Finance and Economic Management (MFEM) has not approved any contract or security from the Island Governments that could result in a potential liability.

There is no preferential treatment of public liability or other liability for the Island Governments and the risk of the Island Governments generating such liabilities is estimated to be low. No mitigation has been undertaken to minimise the risk any more than for other Government agencies based in Rarotonga.

[7] Assumed NZD FX Rate of 0.698 USD, Consensus Economics October Foreign Exchange Forecast for 2021 Q4

Unpaid invoices are a potential risk that could be difficult to mitigate without tighter financial controls than those imposed on other Government agencies through the Cook Islands Financial Policies and Procedures Manual, the MFEM Act 1995/96 and the Public Expenditure Review Committee and Audit (PERCA) Act 1995/96. MFEM is in the process of implementing a Financial Management and Information System (FMIS) which will improve invoice payment processing and recording keeping, however manual elements inherent to billing processes mean that this risk cannot be completely mitigated.

3.4.1.9 State-owned enterprises

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

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

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

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

The Cook Islands Government has put in place a range of measures to mitigate against SOE fiscal risk. These include:

- placing all SOEs under the CIIC umbrella, with one of its principal objectives being the efficient, profitable and professional management of SOEs;
- ensuring that SOE debt falls under the broader Government debt ceiling target and new debts undergo a Debt Sustainability Analysis prior to approval, as required by the Loan Repayment Fund (LRF) Act 2014; and
- providing for a portion of SOE debt repayments in the Loan Reserve Fund.

3.4.2 Assessing the impact of fiscal and macroeconomic shocks

3.4.2.1 Introduction

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

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

The model provides for three types of shock:

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

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

This section shows the potential impact of a selected range of fiscal and macroeconomic shocks on the 2021/22 Budget profile using the fiscal impact tool.

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

Revenue shock

Two revenue shocks are applied: low and high, increasing and decreasing the forecasts by a simultaneous amount. These shocks applied to the base case as presented above, which has already factored in the expected impacts of COVID-19.

The low revenue case, with revenues falling by 10 to 20 per cent per year over the modelling period, is presented in Table 3-4. The fiscal balance breaches the -1.9 per cent of GDP guideline in each year through to 2025/26. While the base case sees a return to the fiscal guideline in 2024/25, the revenue impact sees this delayed.

Table 3-4 Low revenue shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-17.0	-24.0	-28.9	-34.3
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-8.0	-5.8	-5.1	-4.3

The high revenue case, with revenues higher by 10 to 20 per cent per year over the modelling period, is presented in Table 3-5. The key result is a strengthening of the fiscal balance, especially in two outer years, with a much faster return to fiscal surplus from 2023/24.

Table 3-5 High revenue shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		0	0	0	0
Change in capex($m)		0	0	0	0
Change in tax revenue ($m)		17.0	24.0	28.9	34.3
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-2.0	1.8	3.8	5.8

Operating shock

A higher than expected operating expenditure shock is applied, assuming a 10 per cent increase above the estimates over the forward period. The impact of the additional expenditure over the modelling period is presented in Table 3-6. The fiscal balance deteriorates by approximately 2 percentage points in all four years. However, there is a positive impact on GDP of around two per cent per year in each year.

Table 3-6 High Opex Shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		17	17	17	17
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		0.7	2.2	3.8	4.1
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-7.9	-4.4	-2.6	-1.2
Impact on nominal GDP (%)	%	1.0	1.9	2.3	2.2
	$m	5.8	12.0	14.8	15.0

Capital Shock

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

The impact of the reduced expenditure over the modelling period is presented in Table 3-7. The negative impact on GDP of about $17.0 million per year by 2025/26 has a flow-on effect to revenue of $3.9 million. The net effect on the fiscal balance is slightly positive, with the capital expenditure reduction outweighing the fall in revenue.

Table 3-7 Low Capex Shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		0	0	0	0
Change in capex ($m)		-7	-7	-7	-7
Change in tax revenue ($m)		-0.6	-2.0	-3.6	-3.9
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-4.0	-1.3	-0.2	1.1
Impact on nominal GDP (%)	%	-0.9	-1.8	-2.3	-2.5
	$m	-5.2	-11.1	-14.7	-17.0

GDP Shock

A low GDP shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of drop in GDP is presented in Table 3-8. Tax revenue falls by $7.4 million in 2023/24, causing the fiscal balance widen to -3.4 per cent of GDP. In 2024/25 this impact increases to $12.3 million, pushing the fiscal balance to -2.7 per cent of GDP, outside of the fiscal guideline. The GDP impact in 2024/25 and 2025/26 is minus 7.3 and 7.5 per cent, or a reduction of close to $50 million.

Table 3-8 Low GDP Shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-3.3	-7.4	-12.3	-13.2
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-5.8	-3.4	-2.7	-1.3
Impact on nominal GDP (%)	%	-4.2	-6.1	-7.3	-7.5
	$m	-24.1	-38.1	-47.7	-50.8

Arrivals shock

A low international visitor arrivals shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of the reduction in arrivals is presented in Table 3-9. Tax revenue falls by over $8 million per year by 2024/25, which reduces the fiscal balance by close to 1.5 percentage points in each year. The impact on GDP is more muted than it often would be in the earlier years, due to the reduced visitors as a result of the pandemic, but by the later years exceeds 5 per cent.

Table 3-9 Low Arrivals Shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-1.7	-4.5	-8.1	-8.7
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-5.4	-2.9	-2.0	-0.6
Impact on nominal GDP (%)	%	-2.2	-4.0	-5.1	-5.2
	$m	-12.5	-25.2	-32.9	-35.4

Severe Arrivals shock

In the context of the COVID-19 experience, a severe low international visitor arrivals shock is applied, assuming a 50 per cent decrease on the forecast for 2022/23, and a 25 per cent decrease in 2023/24. The impact of the reduction in arrivals is presented in Table 3-10. Tax revenue falls by over $21 million per year by 2024/25, which reduces the fiscal balance by 3.5 percentage points in that year.

The impact on GDP is still more muted than it often would be in the earlier years, due to the reduced visitors as a result of the pandemic, but is still over 13 per cent of GDP in each of the shocked years. The lack of change in operating expenditure does not reflect any specific decisions which may be taken by government if this situation were to occur – such as the Economic Response Plan that was enacted in response to the pandemic.

Table 3-10 Severe Low Arrivals Shock

		2022/23	2023/24	2024/25	2025/26
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-10.7	-19.1	-21.4	-23.2
Fiscal balance (% of GDP)	Base	-5.0	-2.0	-0.6	0.7
	Shock	-8.2	-5.8	-4.1	-2.7
Impact on nominal GDP (%)	%	-13.7	-13.8	-5.9	-1.7
	$m	-76.2	-88.5	-38.5	-11.6

Exchange rate shock

Chapter 7 sets out the Cook Islands Government current and future debt position. A key ongoing risk to the Crown's debt liability is movement in the value of the New Zealand Dollar (NZD) against the currencies in which the Crown's loans are denominated.

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

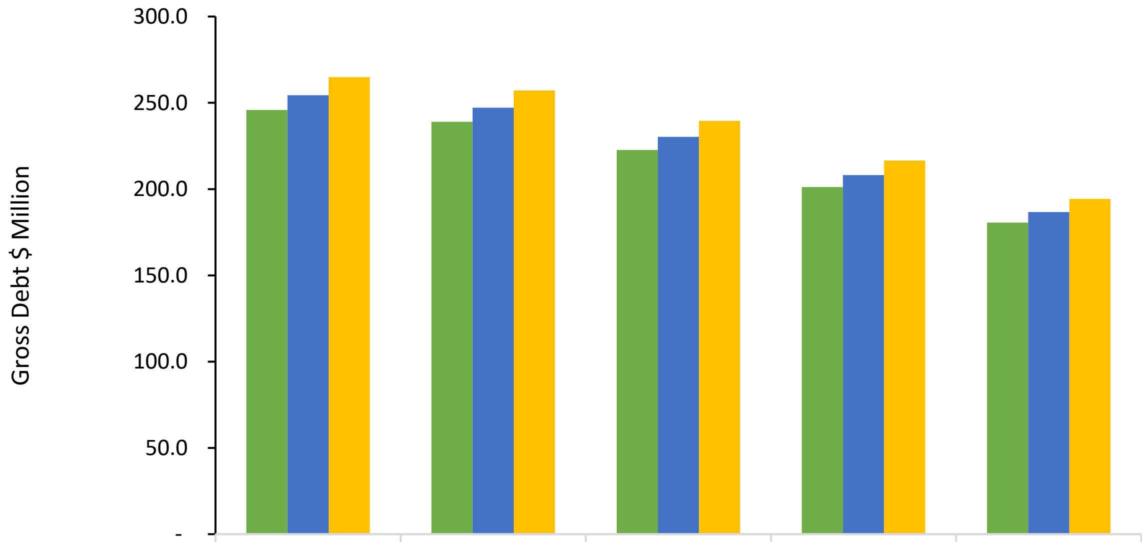
Table 3-11 Exchange rates assumptions used in 2021/22 HYEFU, +/- 10 per cent

Foreign Exchange Currency	-10%	Budget Base rate	+10%
EUR	0.5396	0.5995	0.6595
USD	0.6458	0.7176	0.7894
RMB	4.2012	4.6681	5.1349
SDR	0.4511	0.5012	0.5513

If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at December 2021 would increase by an estimated $10.5 million compared to a decrease of

$8.6 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 3-10 Sensitivity of direct Crown gross debt to NZD movements



	2021/22	2022/23	2023/24	2024/25	2025/26
Increase by 10%	245.89	239.01	222.65	201.19	180.57
Base Rate	254.45	247.18	230.26	208.09	186.74
Decrease by 10%	264.90	257.17	239.57	216.53	194.28

A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs by $0.6 million in the 2021/22 year.

4 Fiscal Update

This chapter provides an update on the current fiscal estimates, including further revisions and movements in Government revenue and expenditure since the passing of the 2021/22 Budget in June 2021. It does not include the projected changes that are outlined in the Medium-term Fiscal Strategy, nor does it consider the use of debt to fund the financing gap. As such, this chapter should be read in conjunction with the Medium-term Fiscal Strategy 2022/23 – 2025/26 when considering the forecasts.

The fiscal balance for the 2020/21 fiscal year improved by $13.0 million as at 30 June 2021. This was largely due to a significant underspend in capital expenditure of $10.0 million and increased revenue received through other revenue such as gains on foreign exchange and fisheries revenue.

For 2021/22, the fiscal balance is expected to improve by $6.3 million due to higher than anticipated revenue received through General Budget Support[8] funding from the New Zealand Government and vested assets.

Across the medium-term, an operating surplus of $8.2 million is projected in 2023/24, as operating revenues increase gradually while operating expenditure remains at a moderate level. Moreover, the fiscal balance is projected to improve steadily across the medium-term to a fiscal deficit of $5.4 million in 2024/25.

4.1 Fiscal Indicators and Projections

Table 4-1 provides an overview of Government's fiscal position, including the revisions made to the fiscal projections reported in the 2021/22 Budget.

Due to increased revenue received in 2020/21 and expected for 2021/22, Government's operating and fiscal balance has improved, resulting in a reduction in Government's operating and fiscal deficits.

At the time of the 2021/22 Budget, the operating balance for 2020/21 and 2021/22 was estimated to be a deficit of $78.2 million and a deficit of $43.0 million, respectively. This has improved to an operating deficit of $75.2 million in 2020/21 and a deficit of $30.9 in 2021/22. The fiscal balance improved from an estimated deficit of $105.5 million to a $92.5 million deficit in 2020/21. For 2021/22, the fiscal balance improved from an estimated deficit of $61.1 million to a deficit of $54.8 million.

As such, the reduction in the fiscal deficit reduces the amount of debt funding required to support Government expenditure in 2021/22.

Government has committed to one new loan in the 2021/22 Budget of $55.5 million to fund the Economic Recovery Roadmap (ERR) and provide liquidity for operating expenditures. The net debt ratio (including commercial debt with State-Owned Enterprises) is expected to be $212.1 million (43.5 per cent of GDP) in 2021/22, before decreasing to $176.1 million (26.5 per cent of GDP) by 2024/25.

It is also important to note that a precautionary financing loan (Contingency Loan) is available to Government totalling $55.5 million however, this option is not considered in this analysis.

[8] The New Zealand Government has provided a total of $20.0 million in Budgetary Support. Of this amount, $10.0 million will be treated as General Budget Support in Other Revenue. The remaining $10.0 million will be treated as recurrent Official Development Assistance for the 2021/22 fiscal period. Any remaining unspent balance will be transferred to General Budget Support upon the finalisation of the 2022/23 Budget.

Table 4-1 Fiscal Indicators Summary

Fiscal Indicator	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Statement of Financial Performance						
Taxation Revenue ($m)	86.5	107.3	106.0	126.7	161.7	166.8
Social Contributions ($m)	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue ($m)	75.3	55.1	69.5	28.0	20.0	19.3
Total Operating Revenue ($m)	**161.9**	**162.3**	**175.5**	**154.6**	**181.7**	**186.1**
Total Operating Revenue Percentage of GDP	37.5	37.6	36.0	27.3	28.2	28.1
Tax Revenue Percentage of GDP	20.0	24.9	21.8	22.4	25.1	25.1
Total Cyclical Revenue ($m)	2.4	10.9	11.1	12.0	12.1	11.1
Total Cyclical Revenue Percentage of GDP	0.6	2.5	2.3	2.1	1.9	1.7
Total Structural Revenue ($m)	159.5	151.4	164.4	142.7	169.5	175.0
Total Structural Revenue Percentage of GDP	36.9	35.1	33.7	25.2	26.3	26.4
Personnel ($m)	**69.7**	**74.8**	**74.8**	**74.9**	**75.1**	**75.1**
Percentage of Total Revenue	43.1	46.1	42.6	48.4	41.3	40.3
Percentage of Structural Revenue	43.7	49.4	45.5	52.5	44.3	42.9
Total Operating Expenditure ($m)	**237.2**	**205.4**	**206.4**	**172.6**	**173.5**	**171.8**
Percentage of GDP	54.9	47.6	42.4	30.5	27.0	25.9
Percentage of Operating Revenue	146.6	126.5	117.6	111.6	95.5	92.3
Cash Operating Expenditure*	224.2	191.4	192.4	158.9	160.0	157.7
Operating Balance ($m)	**-75.4**	**-43.0**	**-30.9**	**-17.9**	**8.2**	**14.3**
Percentage of GDP	-17.5	-10.0	-6.3	-3.2	1.3	2.2
Capital Expenditure	30.0	32.0	37.8	33.5	33.9	33.7
Depreciation	12.7	13.9	13.9	13.9	13.9	13.9
Non-Operating Balance ($m)	-36.7	-14.1	-6.9	-43.9	-49.2	-47.2
Fiscal Balance surplus/deficit ($m) *	**-92.7**	**-61.1**	**-54.8**	**-37.5**	**-11.9**	**-5.4**
Percentage of GDP	-21.5	-14.2	-11.3	-6.6	-1.8	-0.8
Statement of Financial Position ($m)						
Assets ($m)	545.3	591.5	591.5	566.7	562.2	562.0
Liabilities ($m)	361.4	410.5	410.5	402.4	389.9	375.4
Crown Balance ($m)	183.9	181.0	181.0	164.3	172.3	186.6
Percentage of GDP	42.6	42.0	37.1	29.0	26.8	28.1
Working Capital ($m)	51.2	43.0	43.0	-1.6	-25.5	-44.7
Working Capital (months coverage)	2.7	2.7	2.7	-0.1	-1.9	-3.4
Stabilisation Account	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*
General Cash Reserves	54.7	46.5	46.5	1.9	-22.0	-41.2
Statement of Borrowings ($m)						
Gross Debt end of FY ($m)	176.6	225.7	225.7	217.7	205.1	190.6
Gross Debt, Percentage of GDP	40.9	52.3	46.3	38.4	31.9	28.7
Net Crown Debt, end of FY ($m)	165.0	212.1	212.1	203.7	190.9	176.1
Net Debt, Percentage of GDP	38.2	49.2	43.5	36.0	29.7	26.5
Loan Repayment Reserves Held ($m)	11.7	13.7	13.7	13.9	14.2	14.5
Net Debt Servicing ($m)	10.0	12.9	11.1	11.8	16.9	18.4
Percentage of Total Revenue	6.2	8.0	6.3	7.6	9.3	9.9
Percentage of Structural Revenue	6.3	8.5	6.8	8.3	10.0	10.5
Development Partner Support ($m)						
Grants ($m)	21.6	53.8	53.8	18.7	11.4	9.2
Percentage of GDP	5.0	12.5	11.0	3.3	1.8	1.4
Memo item: Nominal GDP ($m)	*431.8*	*431.3*	*487.2*	*566.7*	*643.5*	*663.4*

4.2 Fiscal Rules

This section measures Government's performance against the fiscal rules taking into consideration revisions to the 2021/22 Budget due to executive orders and carry-forwards; revisions for final adjustments made to the 2020/21 actuals, and expenditure changes during the 2021/22 fiscal year. It does not include proposed funding adjustments outlined in the MTFS, nor the filling of the financing gap as these are both addressed in the rules presented in Chapter 3.1.2.

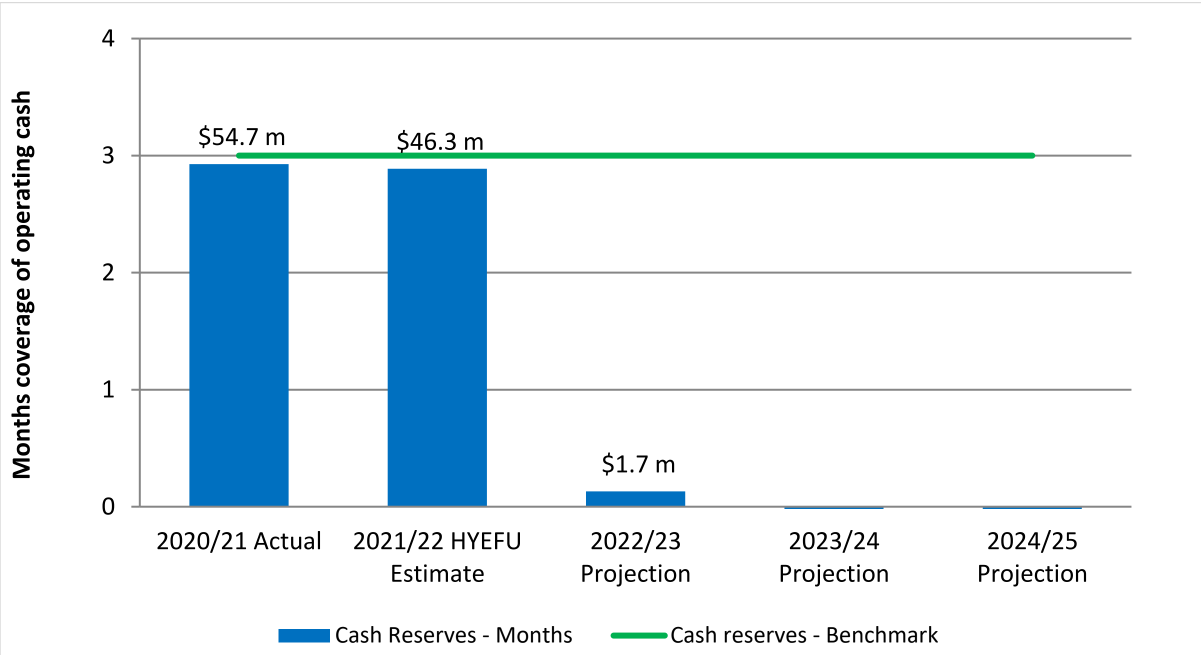
4.2.1 Cash Reserves rule

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

Actual cash reserves for 2020/21 increased by $16.4 million at year-end compared to $35.0 million as estimated at the time of the 2021/22 Budget due to higher than expected revenue, mainly through Other revenue. Although revenue increased, operating expenditure for 2020/21 was relatively large compared to other budgets because of the Economic Response Plan (total spend of $80.5 million). As a result, the coverage of general cash reserves to cover operating cash expenditure of $224.0 million at year-end was relatively less than the threshold limit of three months.

The subsequent increase in revenue for 2021/22, has also resulted in a significant increase in the cash reserves expected by $26.7 million compared to $19.8 million as projected at the time of the 2021/21 budget. Against an operating cash expenditure of $192.4 million, the general cash reserves for 2021/22 is estimated to almost meet the cash reserve rule.

Figure 4-1 Cash Reserves rule



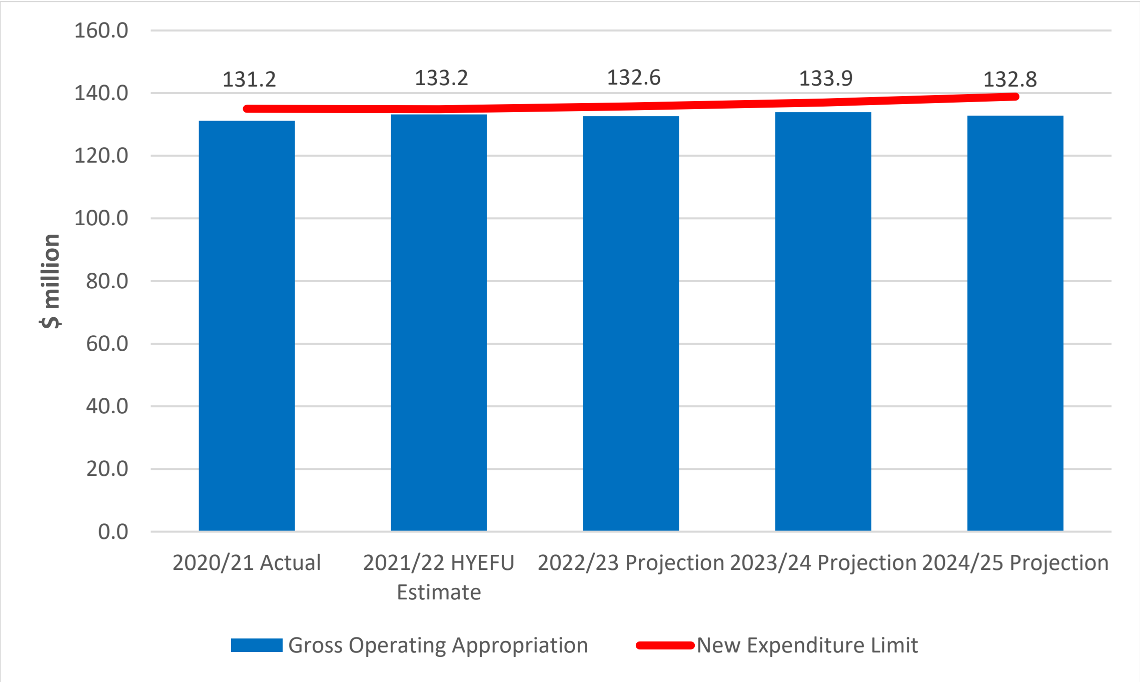
4.2.2 Operating Expenditure rule

"Baseline budgeted operating expenditure cannot grow more than 2 per cent or the average of the past two years growth in the Consumer Price Index (CPI) year-on-year."

Actual expenditure for 2020/21 is well below the expenditure limit with a total of $120.9 million in operating expenditure against an expenditure limit of $201.7 million. Total operating expenditure for 2020/21 excludes the Government's support to mitigate the impacts of COVID-19 through the ERP and the medical response fund. If considered, the operating expenditure for 2020/21 would meet the expenditure limit.

Although operating expenditure in 2021/22 is higher than 2020/21 actuals, Government expenditure for 2021/22 onwards are fiscally constrained by the expenditure limit to restrict Government from spending on operating expenditure as the need to repay Government debt increases year-on-year.

Figure 4-2 Expenditure Rule



4.2.3 Net Debt and Investment rule

"Net debt should not exceed a soft cap of 55 per cent of GDP, and cannot exceed a hard cap of 65 per cent of GDP".

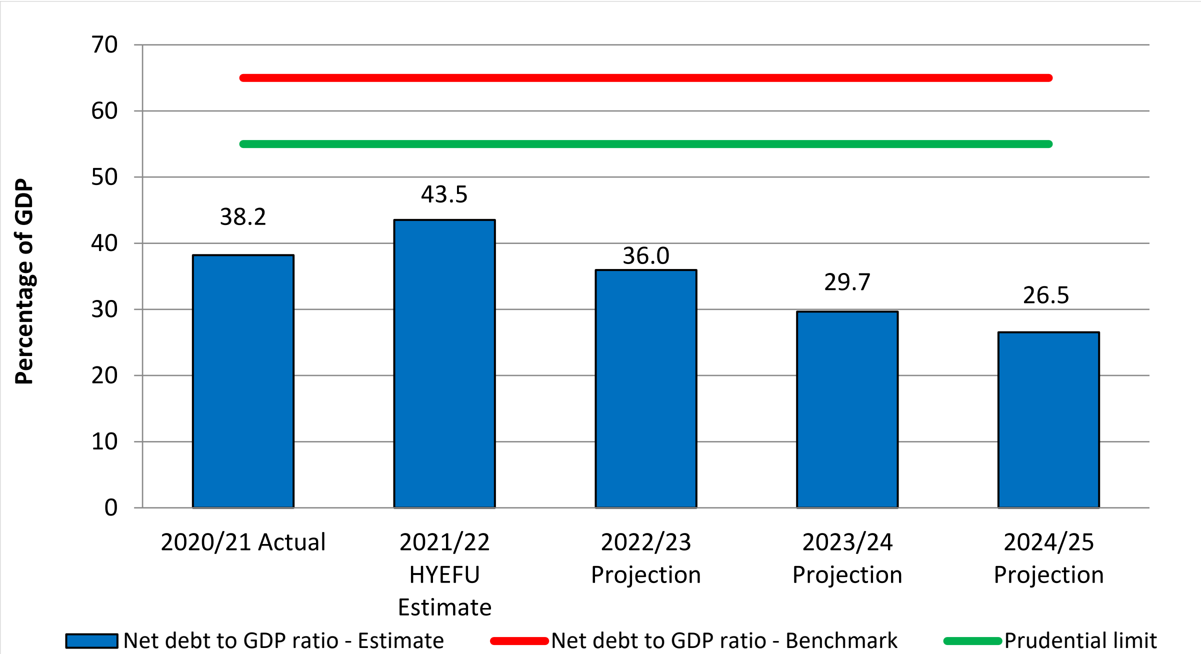
"Any additional borrowing above 55 per cent of GDP must go towards capital investment and/or targeted GDP stimulus purposes only"

With the increase in thresholds for the net debt to GDP rule, actual net debt to GDP for 2020/21 is well below the threshold at 38.2 percent of GDP – a total of $165.0 million as at 30 June 2021.

Net debt to GDP is expected to be 43.5 percent for 2021/22 due to additional borrowings to support Government operations resulting in a total net borrowing of $212.1 million[9]. The net debt to GDP ratio is expected to decrease gradually as the economic situation improves and GDP recovers, with expected revenue going towards repaying the debt Government has taken during the COVID-19 pandemic.

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

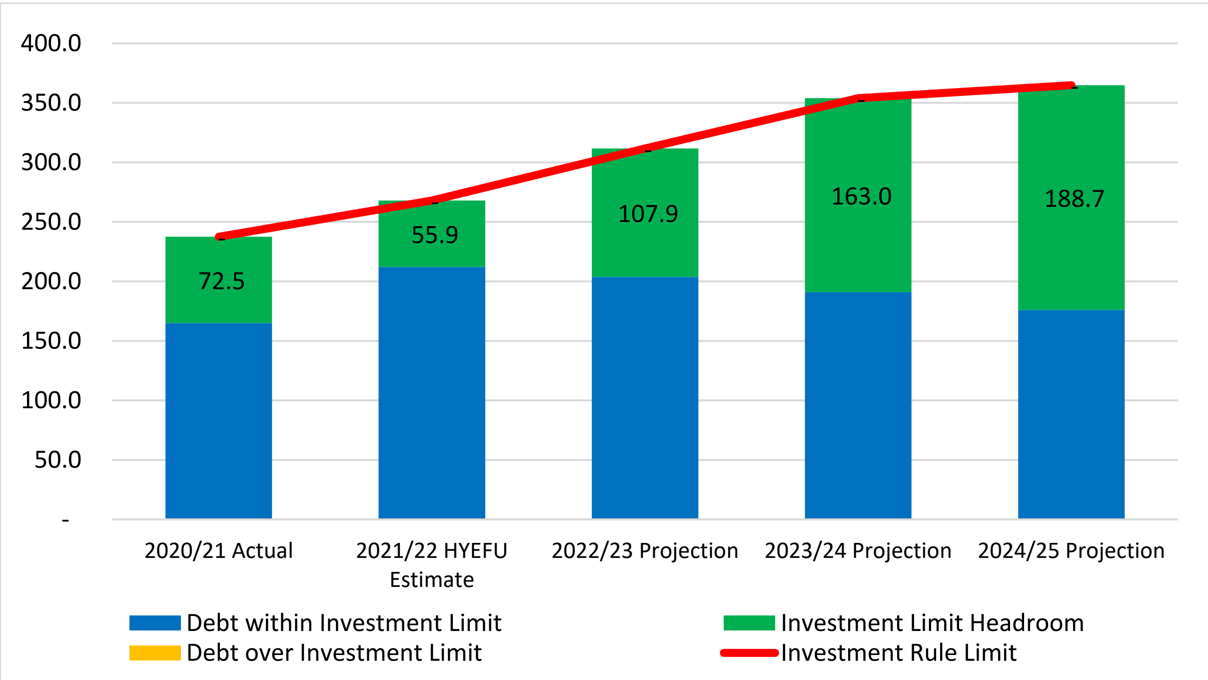
Figure 4-3 Net debt to GDP ratio



In conjunction with the net debt, Figure 4-4 reflects Government's ability to take on more debt before exceeding the soft cap debt limit of 55 per cent of GDP whereby, any additional borrowing above this limit can only be utilised for capital investments or targeted GDP stimulus measures.

For 2020/21, a debt headroom of $72.5 million was available at year-end. The debt headroom is expected to be lower in 2021/22 reflecting the additional debt taken, before increasing again from 2022/23 onwards as debt borrowings decrease due to improved GDP allowing Government to focus more on debt repayments.

Figure 4-4 Investment rule headroom ($millions)



4.3 Updates to Previously Reported Budget Data

4.3.1 Finalisation of 2020/21 Actuals

This section provides an update on Government's performance for the 2020/21 fiscal year based on actual expenditure as at 30 June 2021 and published in the Governments' Quarterly Financial Report.

At year-end, total operating revenue for 2020/21 improved by $7.9 million compared to the 2020/21 actual of $154.0 million estimated at time of the budget. Other revenue contributed to this increase by $7.3 million, from $68.0 million to $75.3 million, predominantly through gains on foreign exchange and fisheries revenue.

Taxation revenue increased slightly by $0.5 million to $86.5 million as at 30 June 2021, due to the significant reduction in value-added tax (VAT) collected by $5.5 million, offsetting the higher than anticipated revenue collected through other tax categories.

Total Operating Expenditure for 2020/21 increased by $4.9 million at year-end compared to the 2020/21 estimated actual. Higher than anticipated operating expenditure by $2.7 million, administered payments of $2.0 million and personnel of $0.7 million were key contributors to this increase.

Due to increased operating revenue compared to the increased operating expenditure, the operating balance improved by $3.0 million, from a projected operating deficit of $78.2 million to an operating deficit of $75.4 million reported as at 30 June 2021

Capital expenditure for 2020/21 was $30.0 million, a revision of $10.0 million compared to the estimated actual expenditure reported in the 2021/22 Budget of $40.0 million. Logistical and capacity constraints due to the impacts of COVID-19 resulted in project delays and implementation hence a significant underspend in capital expenditure.

As a result, the fiscal balance (capital expenditure less depreciation) improved by $12.8 million with a reported fiscal deficit of $92.7 million for 2020/21 compared to the estimate of $105.5 million.

4.3.1.1 Executive Orders approved in the 2020/21 Budget

Article 70(3)(b) of the Cook Islands Constitution Act 1964 allows for the approval of expenditure beyond the Appropriation Bill provided that the total amount of all sums issued and paid do not exceed one and a half percent (1.5%) of the overall expenditure appropriation for the fiscal year. Approved expenditure outside the scope of the Appropriation Bill are known as 'Executive Orders'.

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

As at 30 June 2021, a total of **$647,997** was approved through Executive Order in the 2020/21 Budget. These approved Executive orders consist of:

- **$69,373** top-up to the Special Select Committee administered fund cost to accommodate increased Select Committee activities.
- **$240,000** for the establishment and operations of the Honourable Minister Patrick Arioka's Ministerial Support Office.
- **$110,000** top-up to the appropriation of the Prime Minister's Support office to cover a personnel shortfall and office renovations.
- **$25,378** to cover costs associated with the funeral and State Memorial Service of two former Prime Ministers of the Cook Islands, Dr Joseph Williams and the Honourable Jim Marurai.
- **$203,246** top-up to the Parliamentary Sittings expenses, Civil List personnel and the Special Select Committee administered fund to cover funding shortfalls in these expenditure lines.

4.4 Movements from the 2021/22 Budget

The 2021/22 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments – revisions from estimated to final actual expenditure, retentions of excess trading revenue;
- Reclassification of expenses, which includes intra-agency adjustments for example transfers of operating into personnel; and
- Parameter changes – movements that occur due to economic changes that are outside of a decision by the Government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs on the airline underwrite.

Table 4-2 shows the changes in revenue and expenditures for the medium-term since the passing of the 2021/22 Budget in June 2021.

Total revenue for 2021/22 is expected to improve significantly by $13.1 million at year-end. This is largely due to General Budget support funding received from New Zealand recorded at $10.0 million to support immediate Government's balance sheet. In addition to this, $5.0 million was received through the vested assets and taxation revenue is expected to increase for income tax, import levies and company tax.

These increases have offset the reduction in departure tax of $4.1 million and value-added tax of $3.0 million due to the impacts of extended border closures from COVID-19.

Taxation revenue is expected to reduce by $9.7 million in 2022/23, reflecting a slower recovery from the ongoing effects of COVID-19 on the Cook Islands' economy, with minimal changes expected for other revenue from 2022/23 onwards.

For 2021/22, operating expenditure has increased by $1.0 million to support the completion of certain work programmes approved for Carry-Forward from the 2020/21 Budget.

Capital expenditure estimate for 2021/22 has also increased by $5.8 million, from $32.0 million to $37.8 million due to carry forwards from the 2020/21 Budget for final payment and completion of certain capital projects.

Table 4-2 Reconciliation of Operating Statement ($'000)

Statement of Government Operations	2020/21	2021/22	2022/23	2023/24	2024/25
Operating balance as at 2021/22 Budget	(78,241)	(43,045)	(8,999)	7,115	15,547
Revenue					
Revenue Parameter Changes	**529**	**(1,287)**	**(9,680)**	**274**	**(792)**
Adjustments to:					
Value Added Tax (VAT)	(5,480)	(2,975)	(4,621)	(3,181)	(2,075)
Income tax	1,290	1,952	(4,998)	684	953
Import levies	2,738	1,283	45	(752)	(760)
Company tax	1,522	2,194	3,189	4,101	1,482
Departure tax	39	(4,089)	(3,689)	(818)	(634)
Withholding tax	421	348	395	241	241
Other Revenue Changes	**7,301**	**14,430**	**460**	**462**	**(636)**
Other revenue	6,912	4,566	599	591	(418)
Trading Revenue	389	0	0	0	0
Dividend	0	(136)	(139)	(129)	(218)
Core Sector support	0	10,000	0	0	0
Total Revenue Changes to 2021/22 HYEFU	**7,830**	**13,144**	**(9,220)**	**736**	**(1,428)**
Expenditure					
Expenditure Decisions by Government	0	0	0	0	0
Technical adjustments	0	0	0	0	0
Reclassifications of expenditure	0	0	0	0	0
Parameter changes	4,960	1,030	(303)	(301)	(205)
Total Expenditure Changes to 2021/22 HYEFU	**4,960**	**1,030**	**(303)**	**(301)**	**(205)**
OPERATING BALANCE as at 2021/22 HYEFU	**(75,371)**	**(30,932)**	**(17,916)**	**8,152**	**14,324**
Capital Expenditure	30,036	37,830	33,510	33,945	33,670
Depreciation	12,676	13,931	13,931	13,931	13,931
FISCAL BALANCE - as at 2021/22 HYEFU	**(92,731)**	**(54,832)**	**(37,496)**	**(11,862)**	**(5,416)**

4.4.1 Revenue

Total Revenue estimates for 2021/22 has increased significantly due to funding received through General Budget support and vested assets. This has offset the reduction in taxation revenues as a result of the extended border closure due to COVID-19.

Key contributors to the movement in revenue are as follows:

Taxation Revenue

- $3.0 million reduction in Value Added tax
- $2.0 million increase in Income tax
- $1.3 million increase in Import levies
- $2.2 million increase in Company tax
- $4.1 million reduction in Departure tax

Other revenue

- $10.0 million increase in General Budget Support
- $5.0 million received from vested assets

Expected revenue in 2022/23 has significantly reduced by $9.3 million due to a large reduction in VAT, income tax and departure tax. A slight increase in total revenue is expected in 2023/24 before total revenue decreases further by $1.4 million in 2024/25.

4.4.2 Expenditure

4.4.2.1 Carry Forwards from 2020/21 Budget

A total of **$6.9 million** was approved for carry forward from the 2020/21 appropriation to the 2021/22 Budget, to carry out ongoing work programs and capital projects.

Of this total, **$5.8 million** was approved to continue the following capital projects:

- **$518,617** to cover the remaining costs of the CT scan project such as installation and personnel training (Health).
- **$35,498** for the remaining works required to complete the ICT Upgrade (Health).
- **$126,896** to complete the set-up and accreditation of the PCR Laboratory (Health).
- **$1.7 million** for the Bridges and Structures Asset Management and Improvement Programme to enable the implementation of the Empire Bridge Replacement program (ICI).
- **$1.3 million** for the Emergency Management and Support Infrastructure to complete the construction of the Penrhyn Cyclone Centres. Delay in completion of this project was due to the island's water shortage crisis during the festive season and the shipping availability to deliver the required materials to the island (ICI).
- **$760,781** for the Government Building Project to construct the Te Tautua Medical Centre (ICI).
- **$1.1 million** for the Pa Enua Air Infrastructure Improvement to design for the Manihiki and Penrhyn airports (ICI).
- **$114,388** for the Water and Sanitation Infrastructure Improvement to complete the Oneroa water upgrade (ICI).

A total of **$1.0 million** was approved for the following operating expenditure, administered payments and Payments on behalf of the Crown.

Operating - $130,000

- **$130,000** for the Seabed Minerals Authority to support legal and technical expertise, licensing panel costs and stakeholder engagement.

Administered Payments - $871,071

- **$10,000** for the Cook Islands Student Association to support the delivery of programs which seek to engage the Cook Islands tertiary students in New Zealand (MFAI).
- **$155,250** for the Border Management System Maintenance to pay the amount owing for the annual maintenance fee of the border management system upon receipt of invoice (MFEM).
- **$369,053** for the Economic Response Plan to pay the remaining tranche payments for the SMART AgriTech and SMART Economy as well as various administrative costs (MFEM).
- **$166,769** for the Post Tax Amnesty work to make the final payments for the completion of six system change projects (MFEM).
- **$100,000** for the National Events fund (previously titled as Te Maeva Nui Constitution Celebrations) to support the 200 years Bicentennial Celebration for the arrival of Christianity to the Cook Islands event to be hosted in October 2021 on Aitutaki due to expenditure delays (MOCD).
- **$70,000** for the Seabed Minerals Sector Development to support ongoing development work (SBMA).

Payments on behalf of Crown - $29,177

- **$29,177** for the House of Ariki to cover operational costs (Parliament).

4.4.2.2 Executive Orders since the 2021/22 Budget

As at 1 December 2021, no executive order funding has been approved since the passing of the 2021/22 Budget.

4.4.3 Fiscal Forecast

The forecast for future economic performance and revenues have been developed conservatively due to the uncertainty of the external shock of COVID-19.

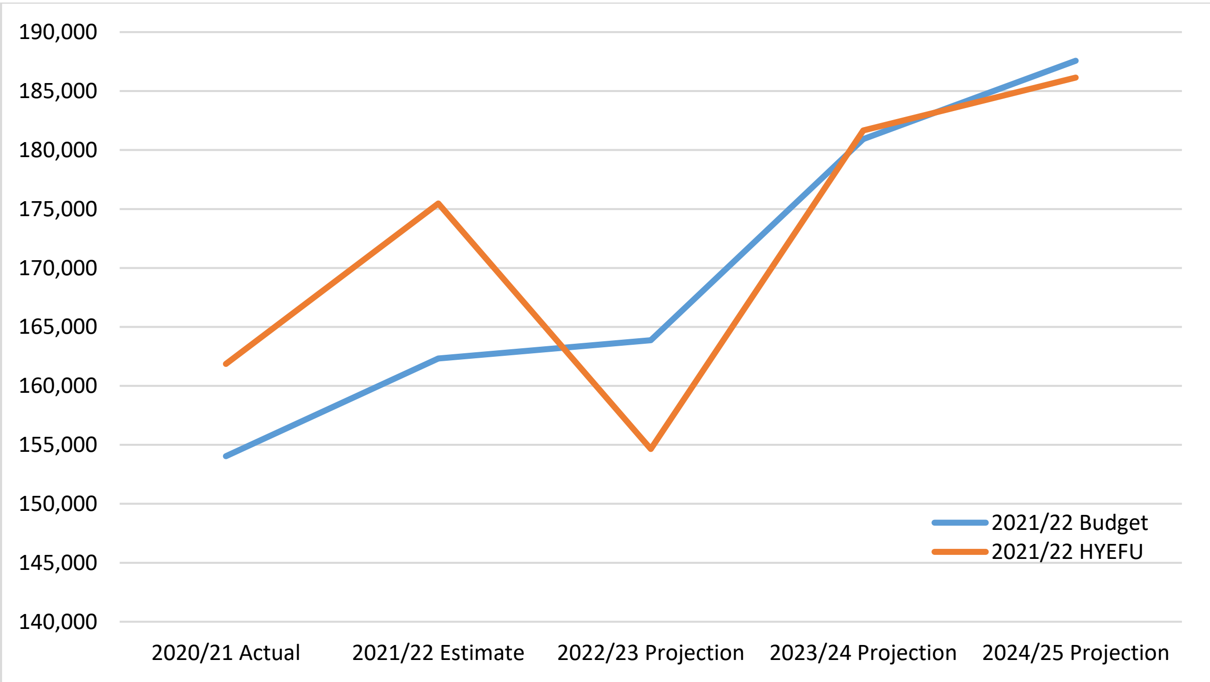
Revenues forecasts for 2021/22 has increased by $13.1 million due to additional funding received to assist in the Cook Islands' response to COVID-19 and the receipt of vested assets. This increase offsets the decrease in taxation revenue which has been impacted by the extended border closure. The revised forecasts are compared in Table 4-3.

The economic impacts of the second closure of the Cook Islands border with New Zealand is expected to reduce Government revenues further by $9.2 million in 2022/23 with a gradual recovery in 2023/24 and 2024/25.

Table 4-3 Updated Government Revenue Forecasts

Revenue Projections	2020/21 Actual	2021/22 Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
2021/22 Budget	154,038	162,329	163,866	180,932	187,572
2021/22 HYEFU	161,868	175,472	154,646	181,668	186,144
Difference	**7,830**	**13,144**	**-9,220**	**736**	**-1,428**

Figure 4-5 Government Revenue Forecast Comparison



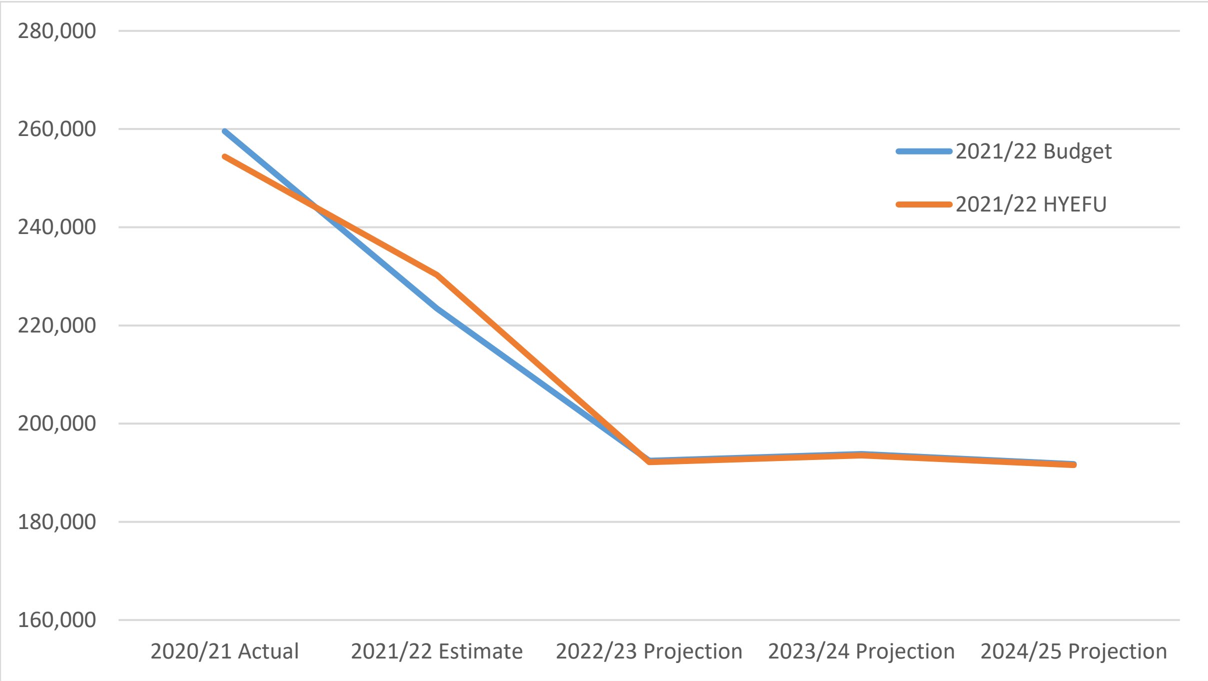
The expenditure estimate for 2021/22 is expected to increase by $6.9 million, reflecting the amount of carry-forward requests approved from the 2020/21 Budget for continuation in the 2021/22 fiscal year, most relating to capital expenditure.

Expenditure forecast from 2022/23 onwards is expected to reduce slightly compared to the expenditure projected at the time of the 2021/22 Budget.

Table 4-4 Updated Government Expenditure Forecasts[10]

Expenditure Projections	2020/21 Actual	2021/22 Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
2021/22 Budget	259,554	223,444	192,445	193,831	191,764
2021/22 HYEFU	254,396	230,304	192,141	193,530	191,559
Difference	**-5,158**	**6,859**	**-303**	**-301**	**-205**

Figure 4-6 Government Expenditure Forecast Comparison



The fiscal balance for 2021/22 is expected to improve by $6.3 million, representing a fiscal deficit of 11.3 per cent of GDP compared to the previous estimate of -14.2 per cent of GDP at the time of the 2021/22 Budget.

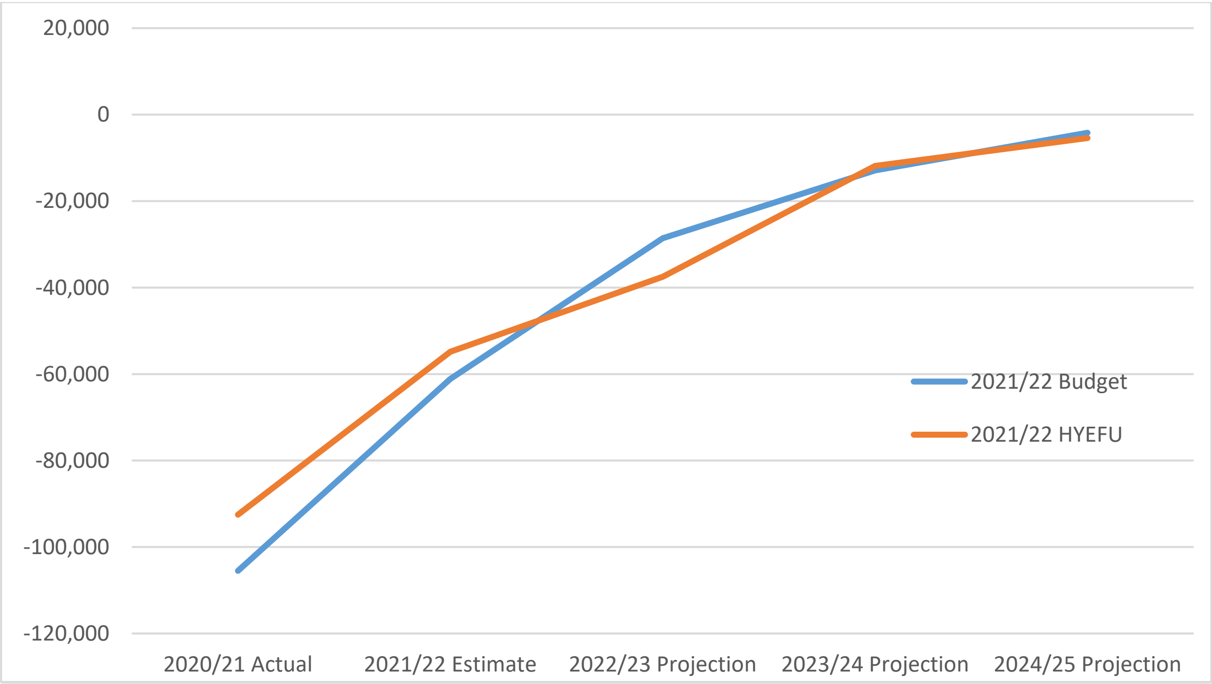
For 2022/23, the fiscal balance is forecast to reduce significantly by $8.9 million compared to the forecast projected at the time of budget, reflecting a slower recovery as tourism-oriented businesses attempt to recover lost revenue due to the impact of extended border closures during the 2021/22 fiscal year. The fiscal balance is expected to improve slightly in 2023/24 however, further reductions are expected in 2024/25.

Table 4-5 Fiscal Balance

Fiscal Balance	2020/21 Actual	2021/22 Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
2021/22 Budget	-105,516	-61,116	-28,578	-12,899	-4,192
2021/22 HYEFU	-92,731	-54,831	-37,495	-11,862	-5,415
Difference	**12,785**	**6,284**	**-8,917**	**1,038**	**-1,223**

[10] The data Table 4-4 is presented without the adjustment planned through the Medium-term Fiscal Strategy of negative $1.4 million in 2024/25. Data includes operating and capital expenditures reported through Table 4-1 and does not consider certain non-operating expenditures.

Figure 4-7 Government Fiscal Balance



Government has drawn on additional debt funding in 2021/22, and has a precautionary financing loan (contingency loan) of $55.6 million should the need arise. This loan may be drawn upon incrementally once triggered rather than requiring full draw down.

5 Government Financial Statistics Statement

The Government Financial Statistics (GFS) Operating Statement provides a breakdown of the Government's financial performance. All funds managed at the general Government level such as the Loan Reserve fund and Official Development Assistance are also included in the statement.

Table 5-1 GFS Statement

Statement of Government Operations	**2020/21 Actual**	**2021/22 HYEFU Estimate**	**2022/23 Projection**	**2023/24 Projection**	**2024/25 Projection**
REVENUE	**183,446**	**229,287**	**173,342**	**193,082**	**195,388**
Taxes	86,520	105,991	126,671	161,714	166,817
Social contributions	0	0	0	0	0
Grants	21,578	53,814	18,696	11,414	9,244
Current	10,869	25,341	17,831	11,414	9,244
Capital	10,709	28,473	864	0	0
Other revenue	75,348	69,481	27,975	19,954	19,327
EXPENSE	**248,108**	**231,745**	**190,393**	**184,929**	**181,064**
Compensation of employees	69,686	74,821	74,851	75,089	75,089
Use of goods and services	129,403	95,859	50,713	45,355	43,076
Depreciation	12,676	13,931	13,931	13,931	13,931
Interest	0	4,051	4,103	4,212	3,915
Subsidies	4,675	9,967	13,467	12,919	12,419
Grants	0	0	0	0	0
Social benefits	22,951	23,642	23,862	24,075	24,286
Other expense	8,717	9,474	9,467	9,348	8,348
NET OPERATING BALANCE	**-64,661**	**-2,458**	**-17,051**	**8,153**	**14,324**
Plus NON CASH APPROPRIATIONS					
Depreciation	12,676	13,931	13,931	13,931	13,931
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	**-51,985**	**11,473**	**-3,121**	**22,083**	**28,255**
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	47,713	66,274	34,374	33,945	33,670
Gross transactions in Non-Financial Assets	60,389	80,205	48,305	47,876	47,601
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	-12,676	-13,931	-13,931	-13,931	-13,931
NET (BORROWING)/LENDING	**-99,699**	**-54,801**	**-37,495**	**-11,862**	**-5,415**
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	**-19,235**	**-8,405**	**-44,568**	**-23,897**	**-19,203**
Domestic Transactions	-19,235	-8,405	-44,568	-23,897	-19,203
Foreign Transactions	0	0	0	0	0
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	**-80,464**	**-46,397**	**7,072**	**12,035**	**13,788**
Domestic Transactions	0	0	0	0	0
Foreign Transactions	-80,464	-46,397	7,072	12,035	13,788
NET CASH FINANCING TRANSACTIONS	**-99,698**	**-54,802**	**-37,495**	**-11,862**	**-5,415**
Statistical discrepancy	0	0	0	0	0

5.1 GFS Net Operating Balance

The net operating balance for 2020/21 improved by $2.9 million due to higher than anticipated operating revenue generated, particularly from Other revenue compared to the actual estimated at the time of the 20221/22 Budget for 2020/21.

For 2021/22, the net operating balance is expected to improve by $12.1 million as a result of a 5.7 per cent increase in revenue since the 2021/22 Budget, from $216.1 million to $229.3 million. This is due to an increase in other revenue in the form of General Budget Support of $10.0 million and $5.0 million of vested assets from the Financial Services Commission. Offsetting these increases are the downward revisions made to fishery and taxation revenues.

Operating expenditures for 2021/22 has also increased by $1.0 million from $230.7 million to $231.7 million, to undertake ongoing work programmes that have been approved for carry-forward from the 2020/21 Budget, as outlined in Chapter 4.4.2.

5.1.1 GFS operating revenue

Table 5-2 Total GFS revenue ($'000)

Operating Revenue	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Taxes	86,520	105,991	126,671	161,714	166,817
Social contributions	0	0	0	0	0
Grants	21,578	53,814	18,696	11,414	9,244
Current	10,869	25,341	17,831	11,414	9,244
Capital	10,709	28,473	864	0	0
Other revenue	75,348	69,481	27,975	19,954	19,327
Total GFS Revenue	**183,446**	**229,287**	**173,342**	**193,082**	**195,388**

Changes in Government revenue forecasts are detailed in Chapter 4.4.1, and no changes to total Official Development Assistance funding[11] have been recorded as at the time of publication.

As shown in Figure 5-1, operating revenue consists primarily of taxation receipts (46.2 per cent of total revenue in 2021/22 versus 47.2 per cent in 2020/21), grants from other Governments (23.5 per cent of total revenue in 2021/22 versus 11.8 per cent in 2020/21) and other revenues, which include general budget support, agency trading revenues, interest and dividend receipts (30.3 per cent versus 41.1 per cent in 2020/21).

GFS Operating revenues in 2020/21 totalled $183.4 million, of which $86.5 million was taxation revenue. This includes higher than anticipated revenues received in other revenue of $6.9 million, predominantly due to increased fisheries revenue by $2.1 million and gain on foreign exchange of $2.5 million. Tax receipts have also been reported slightly higher than anticipated by $0.5 million, due to increases in Import tax ($2.7 million), Company tax ($1.5 million) and Income tax ($1.3 million), offsetting a decrease in Value Added Tax (VAT) of $5.5 million.

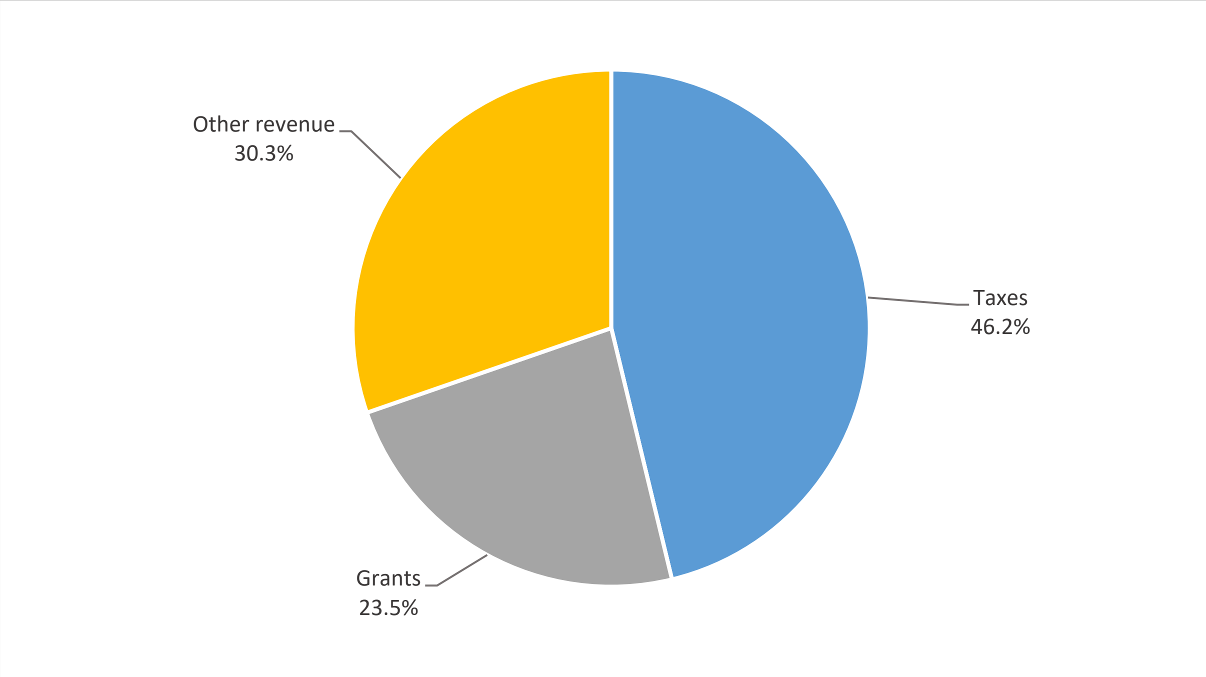
Shifts in the composition of Government revenues continue to be primarily due to the impact of COVID-19 on taxation revenues, and the increased receipt of Official Development Assistance as general budget support. These shifts are expected to stabilise over the medium-term, returning to normal average levels.

[11] Aid support in the form of 'General Budget Support', or cash funding to supplement Government's fiscal resources, are not classified under Official Development Assistance but instead are classified as 'Other Revenue'.

ODA grant funding values are typically overstated within the Budget Estimates as these include projects which may not achieve the indicated expenditure due to approval processes or other requirements, but are subject to provisional approval at the time of the budget.

Other Revenue includes General Budget Support funding, this remains at elevated levels compared to normal averages due to the additional support provided to the Cook Islands Government in response to the economic shock of the pandemic. Further detail is provided in Chapter 7.2.1.

Figure 5-1 Breakdown of GFS Revenue



5.1.2 GFS Operating Expenditure

Table 5-3 highlights the increased expenditure in 2021/22 which is principally in the 'Use of goods and services' category, capturing the additional expenditure of the extension of the Economic Response Plan (ERP) due to the unexpected border closure in August (reinstatement of parts of the ERP) and capital expenditure.

Table 5-3 Total GFS expenditure ($'000)

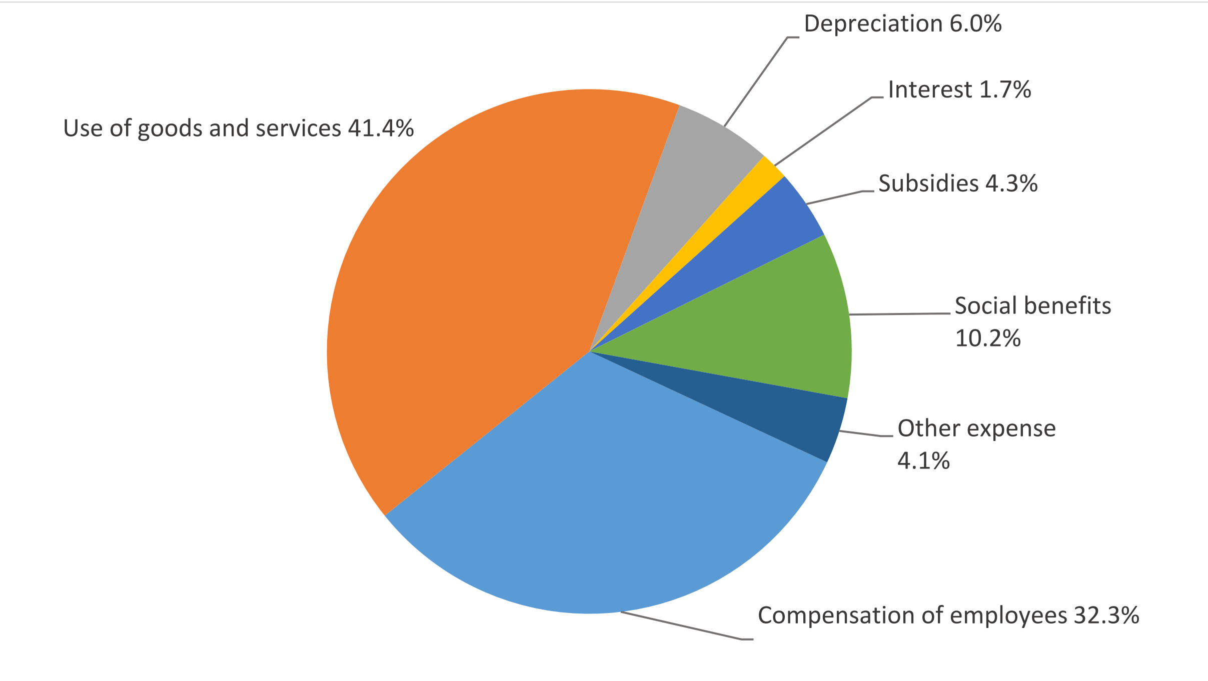
GFS Statement Classifications	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Compensation of employees	69,686	74,821	74,851	75,089	75,089
Use of goods and services	129,403	95,859	50,713	45,355	43,076
Depreciation	12,676	13,931	13,931	13,931	13,931
Interest	0	4,051	4,103	4,212	3,915
Subsidies	4,675	9,967	13,467	12,919	12,419
Grants	0	0	0	0	0
Social benefits	22,951	23,642	23,862	24,075	24,286
Other expense	8,717	9,474	9,467	9,348	8,348
Gross Expenditure	**248,108**	**231,745**	**190,393**	**184,929**	**181,064**
Less Current ODA	10,869	25,341	17,831	11,414	9,244
Underlying Expenditure	**237,238**	**206,404**	**172,562**	**173,515**	**171,820**

Total gross operating expenditure for 2020/21 is $248.1 million, decreasing to $231.7 million in 2021/22 before stabilising over the medium-term to the 2024/25 fiscal year as the Economic Recovery Roadmap (ERR) and the COVID-19 Medical Response Fund draws to a close.

As shown in Figure 5-2, use of goods and services is the largest operating expenditure for Government making up approximately 41.4 per cent of total operating expenditure in 2021/22 (52.2 per cent in 2020/21) capturing expenditure related to the ERR. This is followed by expenditure through compensation of employees at 32.3 per cent (28.1 per cent in 2020/21).

These proportions are expected to return towards normal allocations as the additional expenditure through the ERR, in particular the ongoing business and wage support, ceases.

Figure 5-2 GFS Operating Expenditure (percentage)



Compensation of Employees

Expenditure on compensation of employees is estimated to be $74.8 million in 2021/22, in line with estimates reported at the time of the 2021/22 Budget.

Use of Goods and Services

$95.9 million is estimated to be spent on use of goods and services in 2021/22, representing an increase of $1.0 million compared to the 2021/22 Budget forecast. This is predominantly due to the carry forward of expenditure from the 2020/21 Budget to allow for the completion of planned works such as the ERP to cover the remaining tranche payments for the SMART AgriTech and SMART Economy initiatives.

Expenditure through the use of goods and services will continue to decrease over the medium-term, falling to $50.7 million in 2022/23, with expenditure projections over the forward years decreasing towards normal Government expenditure average levels. These ongoing decreases are primarily due to the cessation of the ERR and COVID-19 Medical Response Fund.

Consumption of Fixed Capital

Total depreciation over the medium-term is estimated to be $13.9 million, in line with the estimates reported at the time of the 2021/22 Budget.

Debt Servicing Payments

The debt interest contribution to the Loan Repayment Fund (LRF) was revised to zero in the 2020/21 Budget due to the diversion of funds into the general cash reserves for one year to finance Phase II of the Economic Response Plan. Debt interest contributions to the LRF resumed in 2021/22 onwards with $4.1 million transferred.

Interest expense will increase going forward due to the increased debt taken on. For further information on debt and repayments refer to Chapter 7.

5.2 GFS Non-Operating Items

Cash transactions in non-financial assets are transactions relating to capital. This spending includes public works, the purchase of plant and equipment, and investments in ICT by both the Crown and development partners. Total purchases of non-financial assets (excluding depreciation) are estimated to be $80.2 million in 2021/22 ($60.4 million in 2020/21), representing an increase in expenditure by $5.8 million due to the carry forward of various capital projects that are expected to be completed in the 2021/22 fiscal year.

This value includes Official Development Assistance capital funds that are subject to finalisation and may not be expended in 2021/22. Cash transaction in non-financial assets are forecast to reduce in the forward years due to the completion of capital projects and forward funding allocations for new projects not yet determined.

5.2.1 Net Borrowing / Lending and Cash Financing Transactions

The Net Borrowing/Lending Requirement outlines the amount of financing required to fund both operating and capital balances, with these funds being sourced from either assets (predominantly accumulated cash reserves) or liabilities (predominantly loan finance).

The net financing requirement is $54.8 million in 2021/22, and will be funded by a mixture of revenues, cash reserves and the drawdown of loans.

There are some smaller movements not captured in the GFS schedules, with most of these relating to the classification of reserves in the financial schedules.

5.3 Classification of Functions of Government

The Classification of the Functions of Government (COFOG) classifies Government expenditure data by the purpose for which the funds are used. This standard classification allows for comparisons on functional expenditure across different jurisdictions

The COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level.

Table 5-4 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA, excluding categories without expenditure.

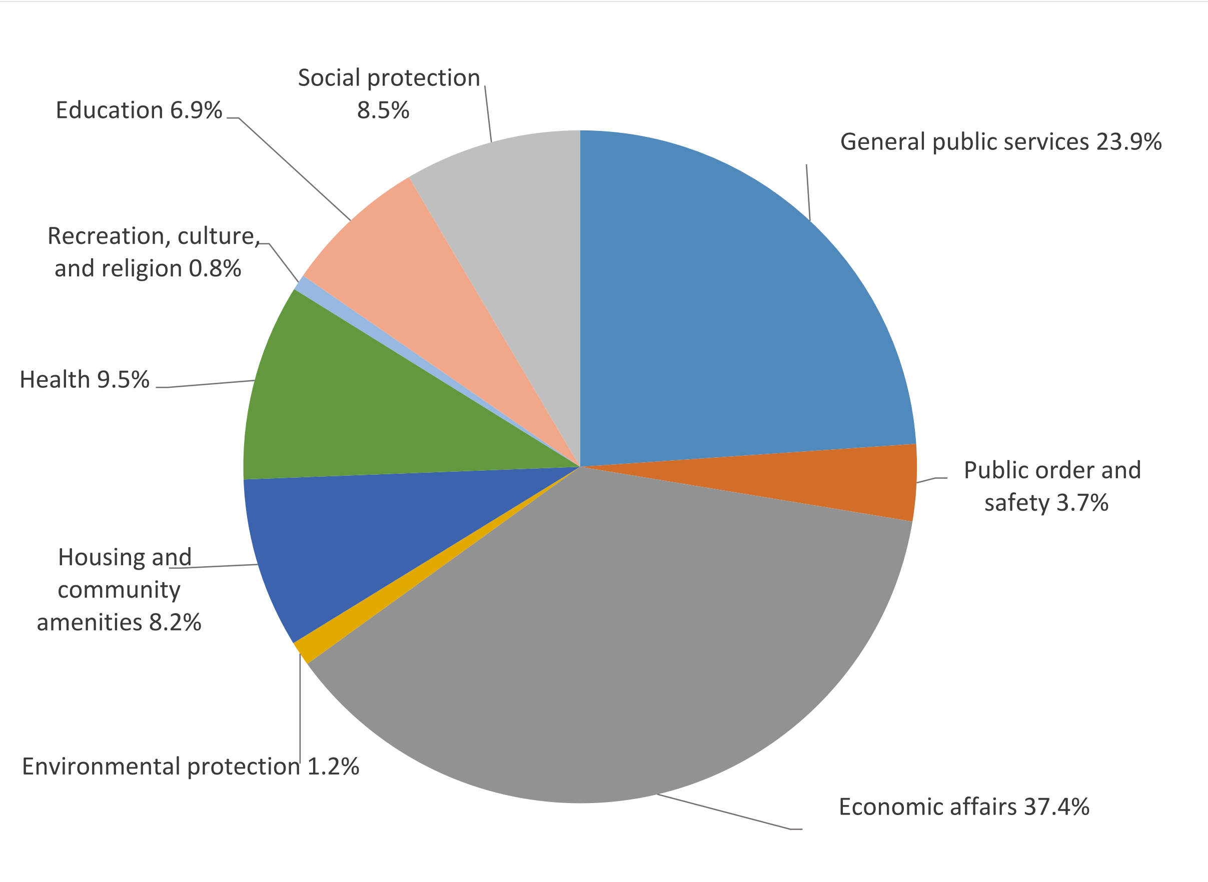
Table 5-4 Classification of Functions of Cook Island Government ($'000)

Function of Government	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Cook Islands Government (CIG) Expenditure					
General public services	***36,417***	***46,420***	***45,600***	***45,315***	***45,859***
Executive and legislative organs, financial and fiscal affairs, external affairs	28,633	33,441	33,001	31,476	32,366
General services	7,023	7,938	7,506	8,631	8,581
R&D General public services	26	26	26	26	26
General public services	735	964	964	969	969
Public debt transactions	0	4,051	4,103	4,212	3,915
Defence	***0***	***0***	***0***	***0***	***0***
Public order and safety	***10,248***	***10,996***	***10,690***	***10,808***	***10,808***
Police services	5,837	5,866	5,866	5,866	5,866
Law courts	3,694	4,217	3,888	3,988	3,988
Prisons	718	914	937	954	954
Economic affairs	***125,944***	***89,654***	***61,067***	***58,824***	***56,849***
General economic, commercial, and labour affairs	89,656	43,043	9,174	9,174	9,174
Agriculture, forestry, fishing, and hunting	5,515	5,356	5,357	5,282	5,282
Fuel and energy	1,595	3,109	6,028	6,028	4,928
Mining, manufacturing, and construction	4,027	6,745	880	5,740	5,740
Transport	15,434	22,070	30,432	23,384	22,509
Communication	664	559	375	375	375
Tourism	8,518	8,196	8,246	8,266	8,266
R&D Economic affairs n.e.c.	506	448	448	448	448
Economic affairs n.e.c.	30	128	128	128	128
Environmental protection	***2,145***	***2,130***	***2,070***	***2,070***	***2,070***
Waste management	213	241	241	241	241
Protection of biodiversity and landscape	297	222	222	222	222
Environmental protection n.e.c.	1,635	1,667	1,607	1,607	1,607
Housing and community amenities	***24,487***	***23,578***	***19,993***	***23,568***	***22,818***
Community development	8,369	11,427	9,505	7,180	4,730
Water supply	11,204	8,153	6,489	12,389	14,089
Housing and community amenities n.e.c.	4,914	3,998	3,999	3,999	3,999
Health	***23,101***	***25,236***	***20,155***	***20,155***	***20,155***
Medical products, appliances, and equipment	4,629	4,176	495	495	495
Outpatient services	2,341	2,750	2,750	2,750	2,750
Hospital services	1,204	1,151	1,151	1,151	1,151
Public health services	69	0	0	0	0
Health n.e.c.	14,859	17,158	15,758	15,758	15,758
Recreation, culture, and religion	***1,944***	***2,185***	***2,085***	***2,215***	***2,215***
Recreational and sporting services	287	417	417	417	417
Cultural services	1,657	1,768	1,668	1,798	1,798
Education	***20,068***	***20,405***	***20,540***	***20,420***	***20,420***
Pre-primary and primary education	2,511	2,810	2,663	2,663	2,663
Tertiary education	2,252	2,399	2,389	2,389	2,389
Education n.e.c.	15,305	15,195	15,488	15,368	15,368
Social protection	***22,920***	***23,631***	***23,871***	***24,085***	***24,296***
Sickness and disability	446	476	479	480	481
Old age	12,809	13,026	13,160	13,292	13,422
Family and children	7,139	7,537	7,619	7,700	7,779
Housing	58	85	85	85	85
Social exclusion n.e.c.	48	26	26	26	26
Social protection n.e.c.	2,420	2,482	2,503	2,503	2,503
Total CIG Expenditure	**267,275**	**244,234**	**206,072**	**207,460**	**205,490**

Function of Government	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Official Development Assistance (ODA) Expenditure*					
General public services	7,375	24,854	16,632	10,524	8,354
Defence	0	0	0	0	0
Public order and safety	0	0	0	0	0
Economic affairs	11,364	21,912	323	323	323
Environmental protection	800	1,400	0	0	0
Housing and community amenities	0	811	370	352	352
Health	520	2,950	864	0	0
Recreation, culture, and religion	94	90	90	90	90
Education	125	128	93	0	0
Social protection	1,300	1,671	325	125	125
Total ODA Expenditure	**21,578**	**53,814**	**18,696**	**11,414**	**9,244**
TOTAL PUBLIC EXPENDITURE	**288,853**	**298,049**	**224,768**	**218,874**	**214,734**

Figure 5-3 classifies the combined Cook Islands Government and ODA spending in the 2021/22 HYEFU at the 10 main functional levels.

Figure 5-3 Classification of Functions of Cook Island Government



Economic affairs make up 37.4 per cent (or 89.7 million) of total public expenditure, predominantly due to the financing of the ERR in 2021/22, totalling $33.5 million (classified under general economic, commercial and labour affairs). Other expenditure areas under Economic affairs include transport expenditure of $22.1 million and tourism expenditure of $8.2 million.

General public services is the second largest area of public spending, comprising of expenditure relating to the executive and legislative functions of Government, financial and fiscal affairs, and external affairs which totals $46.4 million.

6 Economic Update

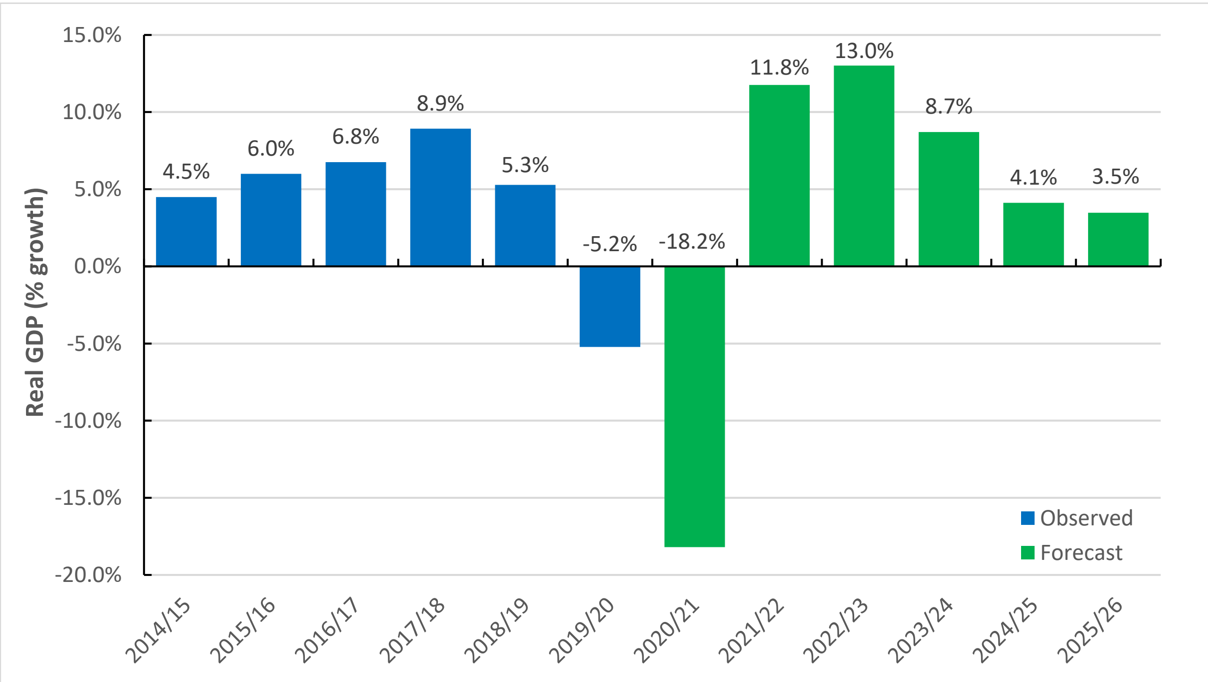
6.1 Overview

6.1.1 Performance

The Cook Islands' economy has been one of the most severely impacted by the COVID-19 pandemic and the associated restrictions on travel. Given the role played by tourism in the economy (directly responsible for around 65 per cent of economic activity and around 85 per cent when considering indirect influence), this impact is to be expected, though this does not mean the challenge is any less severe.

Restrictions on arrivals of visitors have led to an estimated decline in real (inflation-adjusted) Gross Domestic Product (GDP) of almost a fifth – the largest decline recorded in Cook Islands history. Large government support and stimulus in the form of the Economic Response Plan (ERP) and subsequent Economic Recovery Roadmap (ERR) reduced this decline considerably. The fact that this recession came after several years of strong economic growth meant that the economy was in a strong position to withstand such a large impact – with considerable financial resources available in the form of a stabilisation account which was quickly mobilised at the onset of the pandemic in March 2020.

Figure 6-1 Annual percentage change in Real GDP



This recent strong performance prior to COVID-19 can be seen in Figure 6-1 with economic growth achieving highs of 8.9 per cent in 2017/18 up from a low of 4.5 per cent in 2014/15. This has been driven by record visitor arrivals, with 2009/10 being the first-time total visitor arrivals exceeded 100,000, and 2016/17 breaking the 150,000 barrier. This growth has primarily come from the New Zealand and Australian markets, which have increased by 34 per cent and 38 per cent respectively over the four years to the 2018/19 peak.

Construction has also contributed to maintaining economic activity through the downturn as well, with a combination of public and private sector projects keeping demand to a consistent level across 2019/20 and 2020/21. This has been vital to maintain employment within the sector through the recession as well as to make progress on key housing and infrastructure projects.

This strong economic performance up to 2020 resulted in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list in January 2020. Graduation has resulted in greater difficulty, or even an inability for a number of donor countries to provide support to the Cook Islands during the pandemic. Pre-pandemic estimates by the Ministry of Finance and Economic Management (MFEM) Cook Islands suggested that the impact of graduation on economic growth would be approximately 0.4 per cent of GDP. These impacts are likely higher given the need for strong economic stimulus in response to the pandemic.

Table 6-1 provides a summary of the key indicators for the budget appropriation year and three forward years of the 2021/22 Budget cycle.

Table 6-1 Summary of Economic Indicators

Economic Indicator	2019/2020 Act.	2020/2021 Act.	2021/2022 Est.	2022/2023 Proj.	2023/2024 Proj.	2024/2025 Proj.
Economic Activity						
Nominal GDP ($'000)	505,541	431,776	487,238	566,681	643,506	663,362
Percentage change (YOY)	-7.9	-14.6	12.8	16.3	13.6	3.1
Real GDP[12] (2016 prices, $'000)	503,427	411,799	460,227	520,130	565,433	588,729
Percentage change (YOY)	-5.2	-18.2	11.8	13.0	8.7	4.1
Inflation (CPI)						
Percentage change (YOY)	0.7	2.2	3.2	3.5	4.0	0.6
Construction/Capital Investment						
Construction value-add ($'000)	17,282	14,057	10,961	12,598	14,168	14,568
Productive Sector Indicators						
Visitor Arrivals	123,786	7,538	42,089	105,642	159,246	167,801
Percentage change (YOY)	-25.8	-93.9	458.4	151.0	50.7	5.4
Estimated Visitor Expenditures ($'000)	247,356	18,309	89,617	226,399	343,924	362,269
Agriculture & fisheries value-added ($'000)	12,844	10,742	11,354	11,872	12,279	12,702
External Sector						
Merchandise Trade Balance ($'000)	-152,004	-96,927	-94,265	-129,530	-169,704	-177,592
Services Trade Balance ($'000)	247,356	18,309	89,617	226,399	343,924	362,269
Exchange Rate (USD/NZD Average)	0.65	0.69	0.72	0.72	0.73	0.73

6.1.2 Outlook

The immediate economic outlook for the Cook Islands is all about the recovery from the pandemic. With borders planned to open on January 13 2022, the return of tourism is key for the economic recovery and moving away from the crucial support that has kept the economy afloat through this period. Opening the border is expected to lead to nominal GDP growth of 12.8 per cent, after two years of significant negative growth.

This recovery is anticipated to continue in 2022/23, which is expected to be the first full fiscal year without border closures since 2018/19 – resulting in (nominal) GDP growth of 16.3 per cent, before further post-pandemic recovery in international travel is expected to lead to 13.6 per cent growth in 2023/24, and returning closer to trend growth levels thereafter.

Part of this strong growth is driven through rising prices, with inflation expected to be much stronger than it has been in recent years. This is a result of supply-side constraints (particularly with regard to labour) and global logistics challenges pushing prices higher. Growth in the Consumer Price Index (CPI)

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

is forecast to rise from 2.2 per cent in 2020/21 to 3.2 per cent in 2021/22, 3.5 per cent in 2022/23 before peaking at 4.0 per cent in 2023/24.

The Government's fiscal stance was strongly expansionary in 2020/21 before moving to be less expansionary in 2021/22, especially when the borders reopen, before moving toward a neutral, then more contractionary stance as the economy recovers from 2022/23 onward. The inflation outlook is expected to have stronger price growth than in recent years as supply-side constraints (such as pressure on wages) domestically and global supply chain issues contribute to higher import prices.

6.2 The Global Economy

The Cook Islands is a small, open economy whose growth is heavily reliant on the export of goods and services to a few key partner countries, New Zealand, Australia and the United States in particular. This has been shown starkly through the impacts of the COVID-19 pandemic on the movement of people and trade. As such, it is necessary to examine the economic conditions and outlook for our key partners, as well as the regional and global economy.

New Zealand

In November 2021, the Reserve Bank of New Zealand (RBNZ) announced a second step to ease the monetary stimulus in the New Zealand economy by raising the official cash rate (OCR) to 0.75 per cent, after initially moving from the historic low of 0.25 per cent in October. These moves are supported by underlying economic strength, despite the recent lockdowns and restrictions in Auckland in particular, with headline CPI inflation expected to measure above 5 per cent in the near term before moving back within the RBNZ's target range of 1-3%.

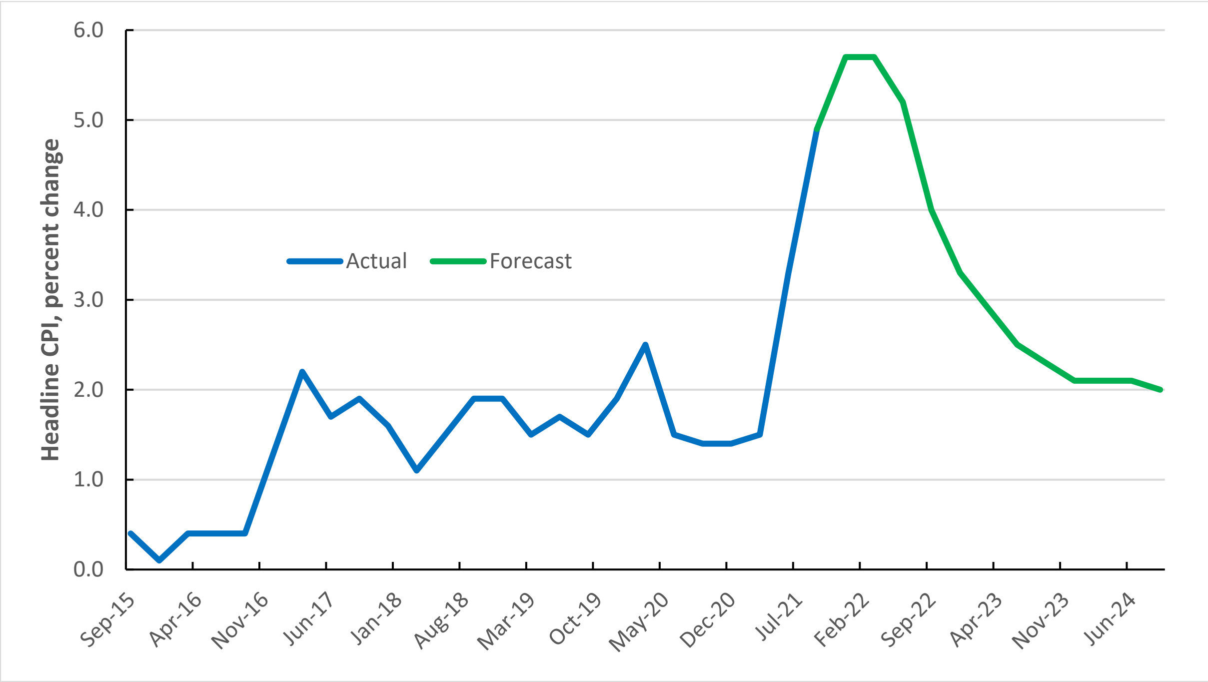
The New Zealand economy was in a strong position before the August delta outbreak, and despite the impact of the virus as the country transitions into a new approach through the COVID-19 Protection Framework, capacity pressures have continued to tighten. Employment levels are considered by the RBNZ to be above the 'maximum sustainable level' with unemployment at the lowest levels in over a decade – and there are early signs of increasing wage growth.

The RBNZ Monetary Policy Statement November 2021 reports annual GDP declining by 1.4 per cent in the year to March 2021, due to impacts from the pandemic – including the historic 9.9 per cent fall in the June quarter of 2020. The year to March 2022 is expected to see growth of 4.5 per cent, despite a fall of 7.0 per cent in the September 2021 quarter on the back of the delta outbreak. This is expected to maintain in the following year with 4.2 per cent growth, before slowing thereafter.

Inflation is expected to be strong, with consumer prices anticipated to grow by 5.7 per cent in the year to March 2022, and 2.9 per cent in the following year (see Figure 6-2).

The New Zealand Dollar has been largely stable against the United States Dollar in recent months, after small depreciations in the early part of 2021 (Figure 6-3).

Figure 6-2 New Zealand CPI growth



Source: RBNZ, Monetary Policy Statement November 2021.

Australia

In November 2021, the Reserve Bank of Australia (RBA) released the *Statement on Monetary Policy*, which stated that the Australian recovery from the delta variant outbreak in mid-2021 was underway. This outbreak had caused a contraction on GDP of around 2 ½ per cent in the September quarter, but this impact was very uneven – being strongest in contact-intensive industries in the south-eastern part of the country (NSW and Victoria) as this is where the longest lockdowns occurred.

With vaccinations rapidly reaching high levels, the Australian economy is expected to recover rapidly – based on the strong underlying economic conditions prior to the COVID-19 delta variant outbreak. GDP is expected to grow by around 3 per cent over 2021 as a whole, picking up to 5 ½ per cent in 2022 and falling back closer to pre-pandemic levels with 2 ½ per cent in 2023.

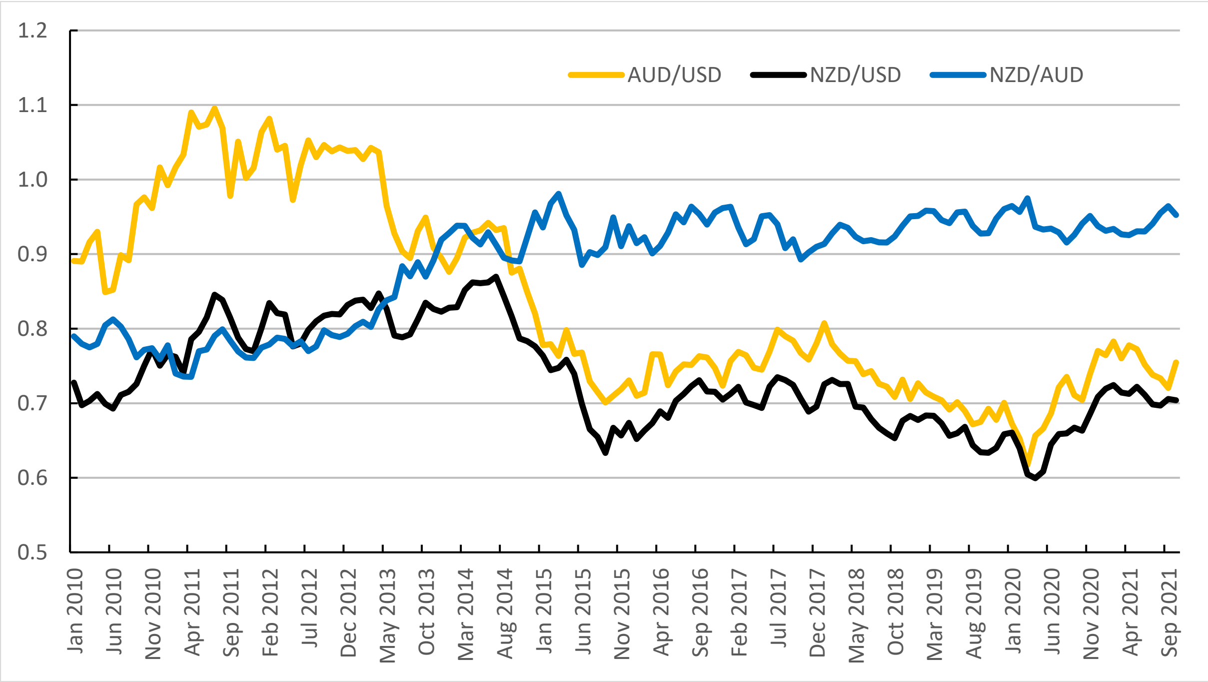
Spare capacity in the labour market is expected to keep inflationary pressures lower than those seen in other countries, with a number of people having left the labour market during the pandemic expected to return – adding to labour supply. While inflation was a little higher in the September quarter, two thirds of this is a result of rises in fuel prices and building costs – reflecting global trends. Underlying inflation is expected to be around 2 ¼ per cent at the end of 2022, and 2 ½ per cent by the end of 2023.

United States

The International Monetary Fund's (IMF) World Economic Outlook (WEO) October 2021 expects United States' GDP to grow by 6.0 per cent in 2021 – a full percentage point lower than the April report - before 5.2 per cent growth in 2022. The changes to the outlook from the April 2021 report reflect a softer consumption outlook in the United States.

Stubborn COVID-19 case levels in parts of the country also pose a risk that new variants of the virus may mutate and cause vaccine efficacy to reduce, having a subsequent impact on the American economy. Inflation is rising with a tightening labour market showing signs of wage growth – in particular for those with lower incomes or lower levels of education and training.

Figure 6-3 US dollar exchange rate, New Zealand and Australia



Asia Pacific – economic prospects worsen due to the COVID-19 pandemic

The Asian Development Bank's (ADB) September 2021 *Asian Development Outlook (ADO) 2021 Update* notes that the growth across the region will be 'somewhat slower', forecast at 7.1 per cent in 2021 and 5.4 per cent in 2022 as the recovery takes divergent paths. East and Central Asia have had their prospects revised upward, while other sub-regions (including the Pacific) have been revised downward. In the case for tourism-dependent nations in the Pacific, this is a story of depressed tourism through travel restrictions.

The ADO Update discusses how uneven access to vaccines is a key contributor to the divergent paths of recovery from the pandemic, with vaccines enabling outbreaks to be contained and economies to avoid restrictions. This allows countries with low rates of virus to take advantage of the rising global demand and drive economic recovery.

For the Pacific, the ADB has revised the 2021 outlook from growth of 1.4 per cent to – 0.6 per cent, largely through downward revisions to the outlook in Fiji, Papua New Guinea and Vanuatu. This downturn then results in a higher growth rate for 2022, where prospects are improved right across the region – with the only downward revision being Palau.

Global — IMF downgrades global growth forecasts

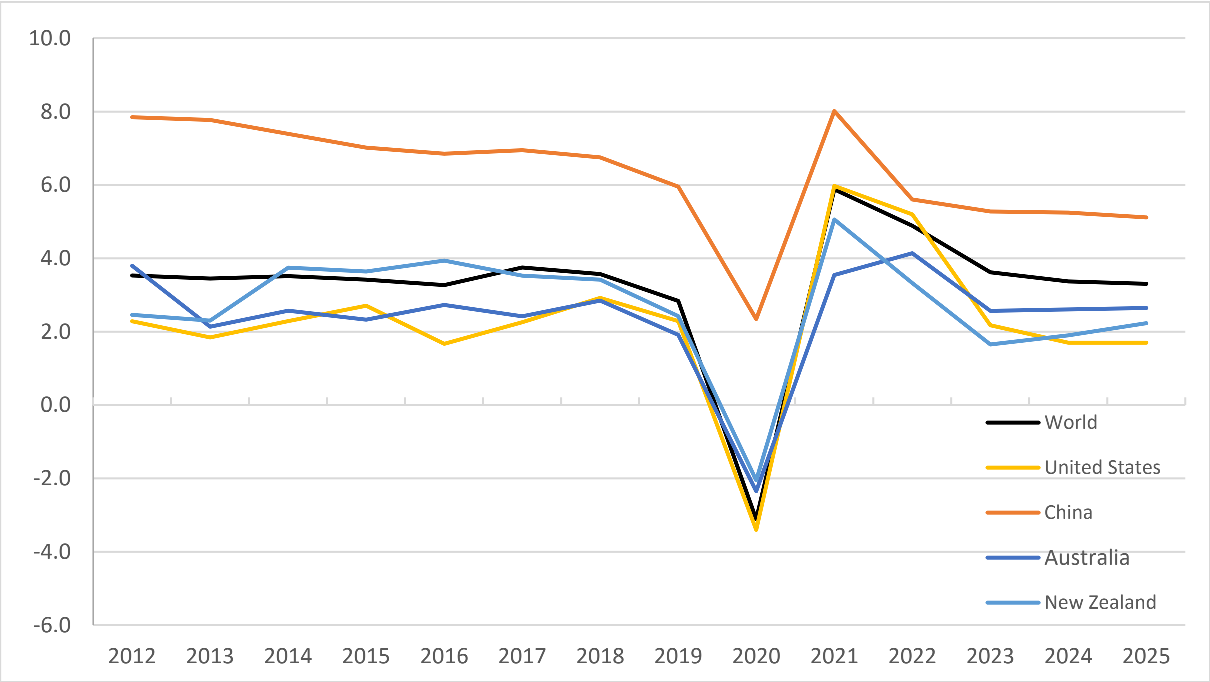
The International Monetary Fund (IMF) in its October 2021 W*orld Economic Outlook* presents an outlook that, while relatively unchanged, carries some significant risks due to the 'highly transmissible delta variant'. Global output is expected to grow by 5.9 per cent in 2021 (marginally lower than the April release), before 4.9 per cent in 2022, however this is highly dependent on vaccine uptake.

Discrepancies in access to vaccines have led to a "dangerous divergence in economic prospects across countries" and remains a major concern for the Global South in particular. Economic prospects will rely to a substantial extent on advanced economies meeting commitments to vaccine donations through the COVAX program. In October, almost 60 per cent of the population in advanced economies were fully vaccinated (and some receiving a booster shot), while for low-income countries this share was 4.0 per cent.

Along with the immediate threat of the pandemic in much of the world, the IMF notes that climate change also poses a risk to economic divergence and encourages advanced economies to deliver on previous commitments to climate financing.

Beyond 2021, the IMF expects growth to stabilise at around 3.3 percent over the medium-term, however it sees the potential for new variants to emerge before vaccination rates rise sufficiently as a key risk (see Figure 6-4).

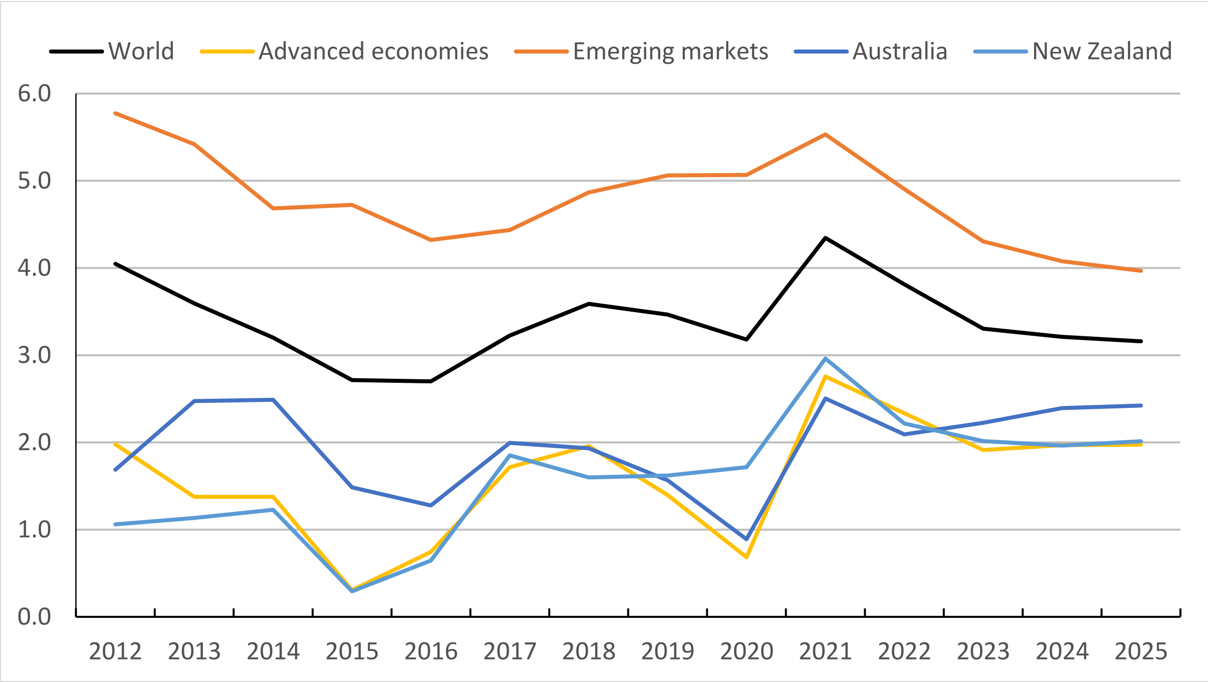
Figure 6-4 IMF GDP growth estimates, selected countries



The IMF continues to note that gaps in expected recoveries across country groups has widened since previous forecasts – especially between advanced economies and low-income developing countries. This poses the risk of persistent scarring in countries where the pandemic persists, leading to considerable risks for emerging markets and low-income developing countries in particular.

Inflation has begun to rise in some economies (such as the United States) as a result of pandemic-related supply issues, combined with rising commodity prices. However, how this plays out across the globe depends on the uncertain path of the pandemic and how this might impact inflationary expectations. With this, Advanced Economies are forecast to experience 2.8 per cent consumer price growth in 2021, before 2.3 per cent in 2022 – both higher than anticipated in April, while Emerging Markets are only slightly higher than previously forecast (5.5 per cent and 4.9 per cent, respectively) (see Figure 6-5).

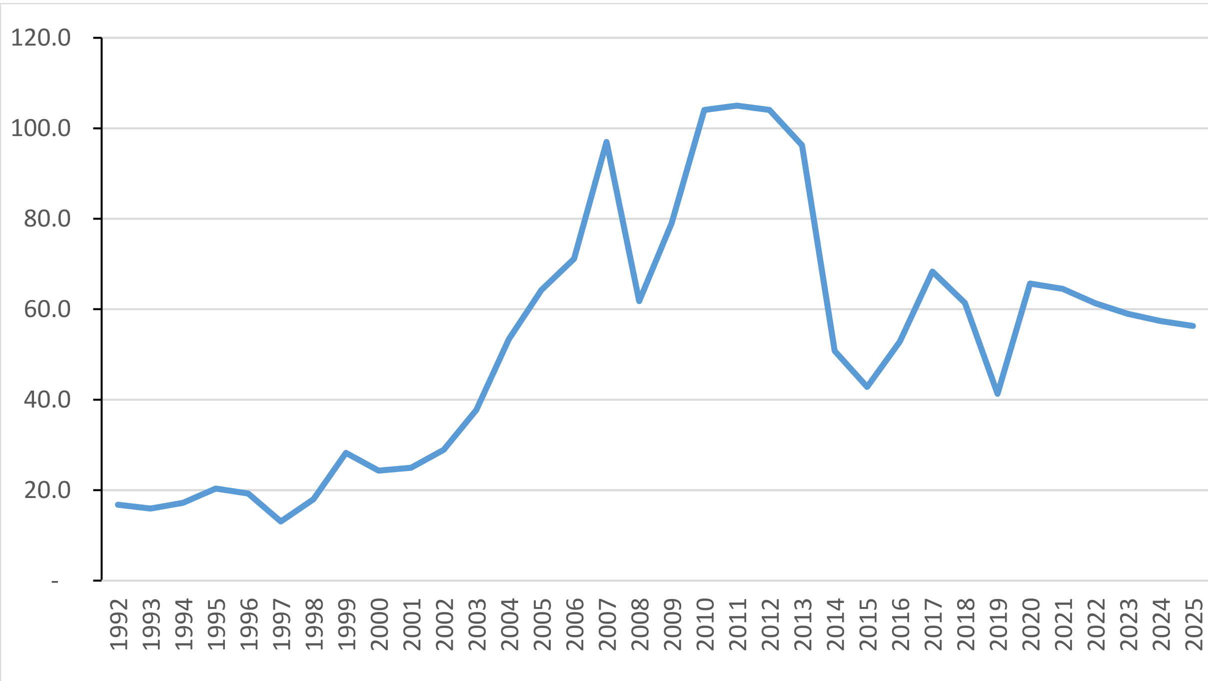
Figure 6-5 IMF inflation estimates, selected groupings and countries



The IMF states that oil prices are expected to continue to increase in 2021, from the very low base of 2020 – up by almost 60 per cent. The outlook (using futures prices) suggest a slight downward trend in oil prices, falling from around $65 per barrel in 2021 to $56 in 2026 as curbs on oil production are eased.

The IMF projects average oil prices at US$61.31 in 2022 and US$59 in 2023, continuing towards the slightly lower medium-term levels (see Figure 6-6).

Figure 6-6 Crude oil (petroleum) price estimates, simple average of three spot prices; Dated Brent, West Texas Intermediate, Dubai Fateh, 1992 to 2025, US$/barrel



6.3 Cook Islands Economy

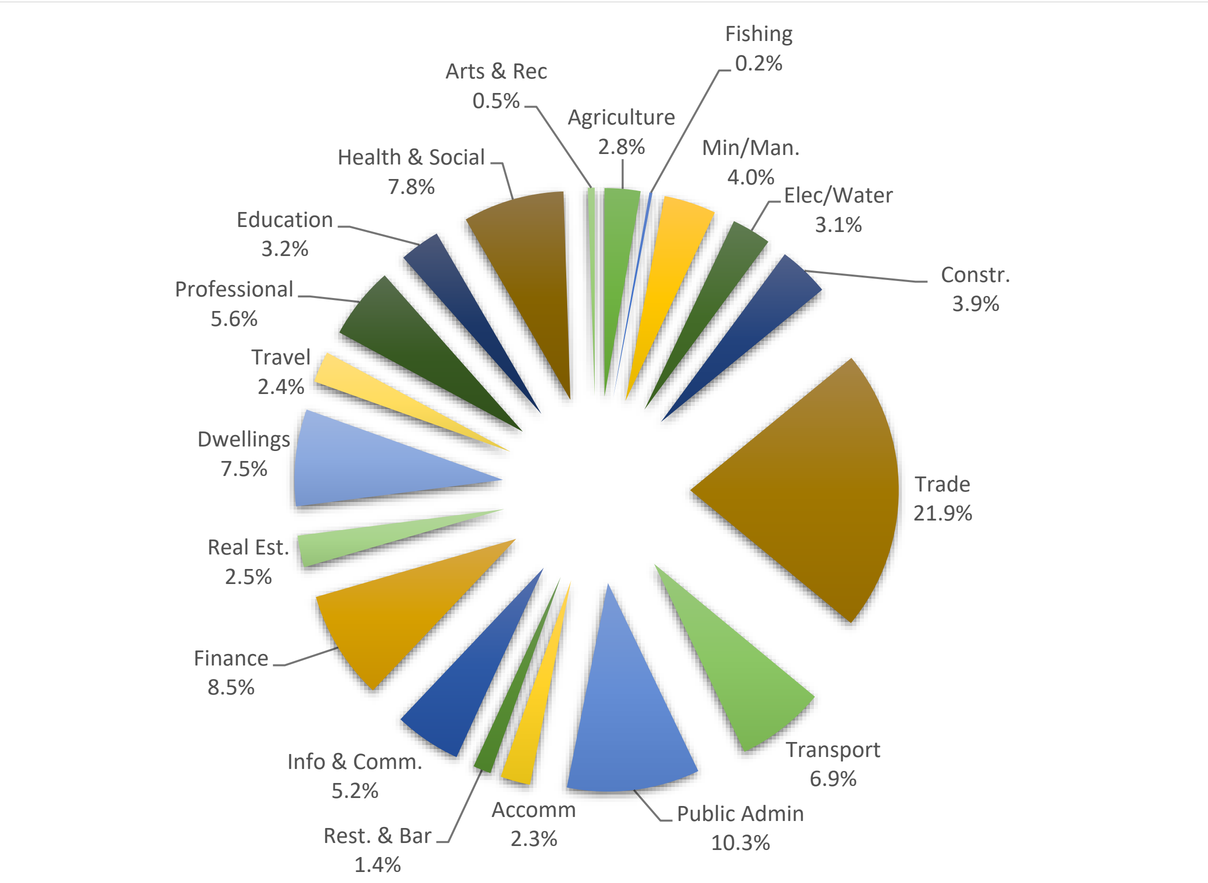
6.3.1 Structure and Performance

Even with the border restrictions in place through most of 2020/21 meaning the role played by tourism was greatly diminished, the Services sector accounted for the majority of economic activity – with 85.9 per cent. Given the peculiar nature of the year, the largest components were in Trade (21.9 per cent), Public Administration (10.3 per cent) and Finance (8.5 per cent). The size of the Trade sector is somewhat inflated at the moment due to some changes in inventories through the year as border closures impacted expected demand for goods and traders adjusted their stock levels accordingly.

A key change from 2019/20 is the decline in the share from the Accommodation sector, which fell from an already reduced 13.3 per cent in 2019/20 to 2.3 per cent in 2020/21 due to border restrictions.

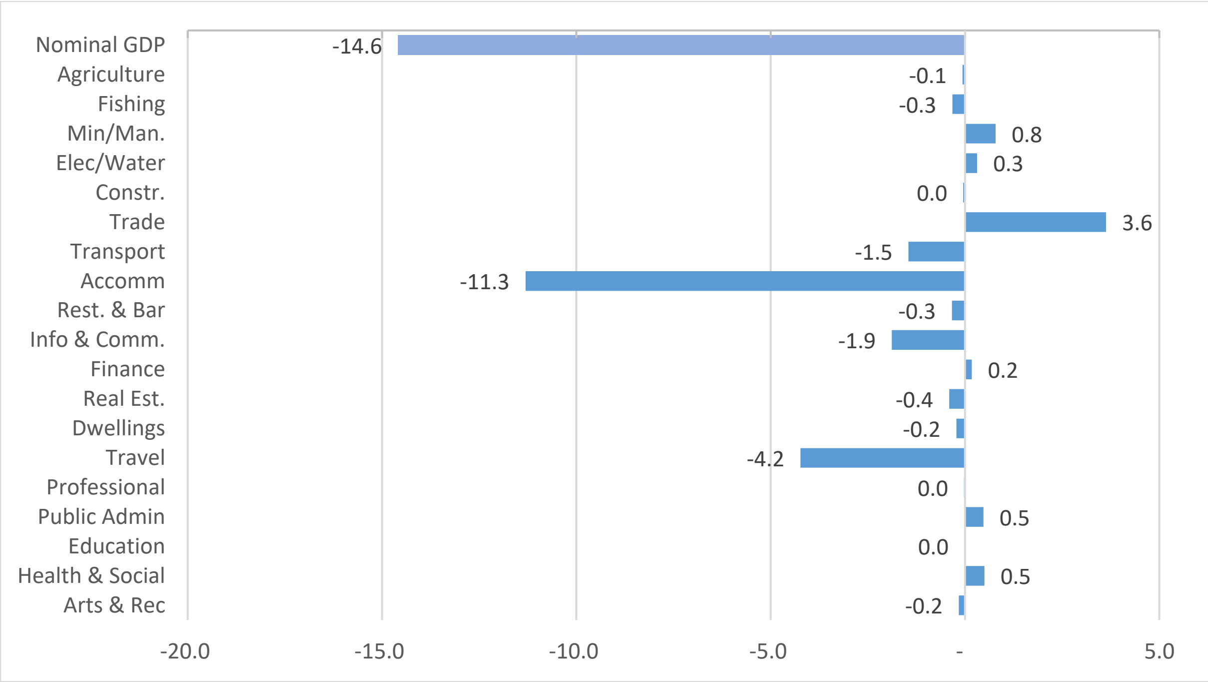
Figure 6-7 shows the breakdown of the Cook Islands economy by industry in 2020/21. This shows the dominance of the services sector, and how other industries, such as Agriculture (2.8 per cent) and Construction (3.9 per cent) contribute to the economy.

Figure 6-7 Cook Islands economy by industry, 2020/21



In 2020/21, the largest contribution to the decline in economic growth has clearly been in the Accommodation sector, which contributed 11.3 percentage points of the 14.6 percentage point total loss (see Figure 6-8), combined with a 4.2 percentage point decline in Travel. Partially offsetting the declines are positive contributions from Trade in particular (3.6 percentage points), Manufacturing (0.8 percentage points), Public Administration (0.5 percentage points) and Healthcare and Social Work (0.5 percentage points).

Figure 6-8 Contribution to 2020/21 nominal growth (percentage point)



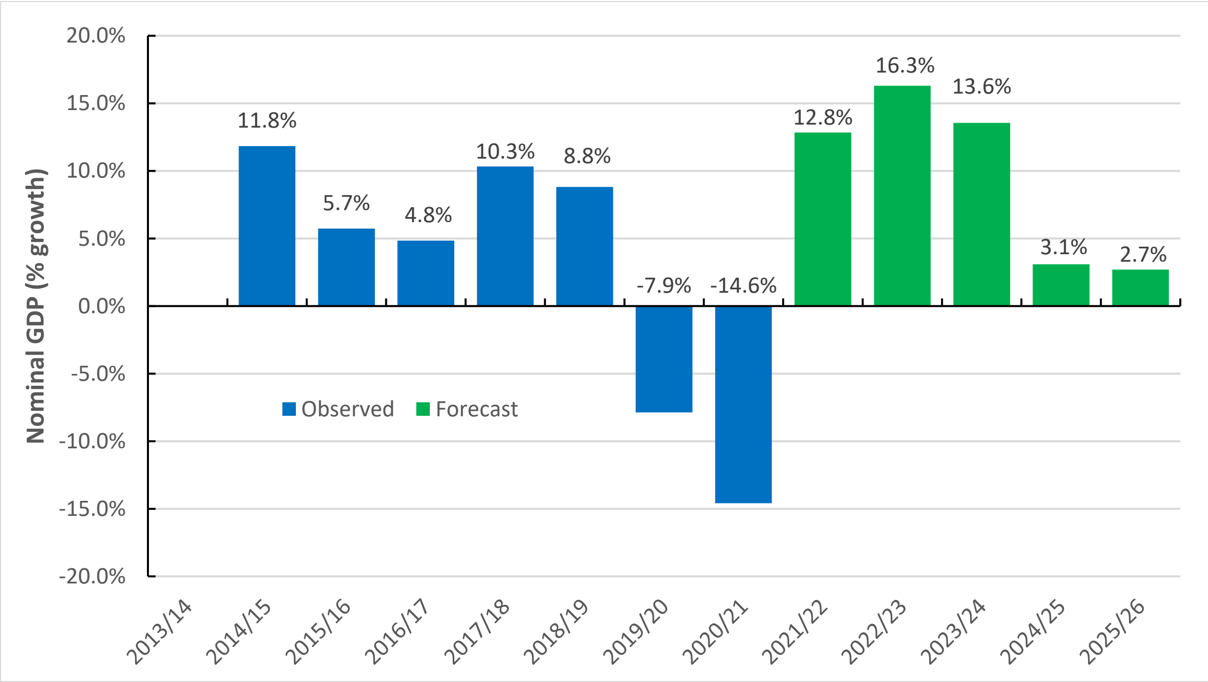
6.3.2 Nominal Outlook

Figure 6-9 shows the forecast percentage change in nominal GDP. The contraction of 7.9 per cent in 2019/20 was followed by a further contraction of 14.6 per cent in 2020/21. Despite the current border closure, opening to visitors from January 2022 will mean that the 2021/22 year shows considerable recovery, with growth of 12.8 per cent anticipated. The recovery is forecast to continue in 2022/23 with growth of 16.3 per cent on the back of a full year of tourist arrivals. The 2023/24 year follows a similar growth trajectory, with 13.6 per cent growth, though a larger part of this is made up of price growth than in earlier years. From 2024/25 onward, growth is expected to be closer to trend.

This profile is based on a number of key assumptions and is sensitive to these assumptions, given the uncertainty surrounding how key markets will recover from the pandemic. The most crucial of these concerns the border opening between the Cook Islands and New Zealand (and subsequently Australia, and other markets). With the announcement that New Zealanders will recommence travel in January 2022, the assumption is that this will be followed by Australians in June 2022 and other markets in late 2022. These markets all follow a slow and gradual return to 'normal', due to economic headwinds in source markets, though the New Zealand market is informed by the experience between May and August 2021. The New Zealand market is expected to recover by mid-2023, with slower recoveries in other markets. There remains a considerable degree of uncertainty around these profiles, with the appetite to travel, incomes and some restrictions on travel of children impacting the number of potential visitors.

Assumptions have also been made about the growth of the construction industry during the downturn. The reduction in private investment is likely to smaller than previously expected, however this does rely on the broader economic situation to keep improving. The outlook does also take into account the large programme of government infrastructure work planned over the forward years.

Figure 6-9 Annual change in nominal GDP (percentage)



In summary, as shown in Table 6-2, nominal and real GDP growth are expected to recover strongly in the short-term before levelling off. The divergence between the two in 2022/23 and 2023/24 shows that inflation is expected to increase over the next two to three years as also shown in the growth in the GDP deflator.

Table 6-2 Annual GDP growth summary

	2020/21	2021/22f	2022/23f	2023/24f	2024/25f
Nominal GDP growth (%)	-14.6	12.8	16.3	13.6	3.1
Real GDP growth (%)	-18.2	11.8	13.0	8.7	4.1
Implicit GDP deflator[13] (index)	104.9	105.9	109.0	113.8	112.7

6.4 Consumer price index

Inflation in the Cook Islands is measured by the consumer price index (CPI), which is reported on a quarterly basis by the Cook Islands Statistical Office. Aggregate inflation had fallen steadily since 2011/12, from 2.8 per cent per year to -0.1 per cent in 2016/17, and remained close to zero until 2019/20 saw the first signs of increased growth with 0.7 per cent over the year. In 2020/21, CPI rose faster than in almost a decade to an average of 2.2 per cent over the year (Figure 6-10).

[13] A deflator is the factor used to account for a difference in prices between the current year and the base year (which is 2016 in Real GDP). This allows for changes in prices to be removed from changes in volume production when Real GDP is calculated.

Figure 6-10 CPI, year average, 2011-12 to 2020-21 (percentage change)

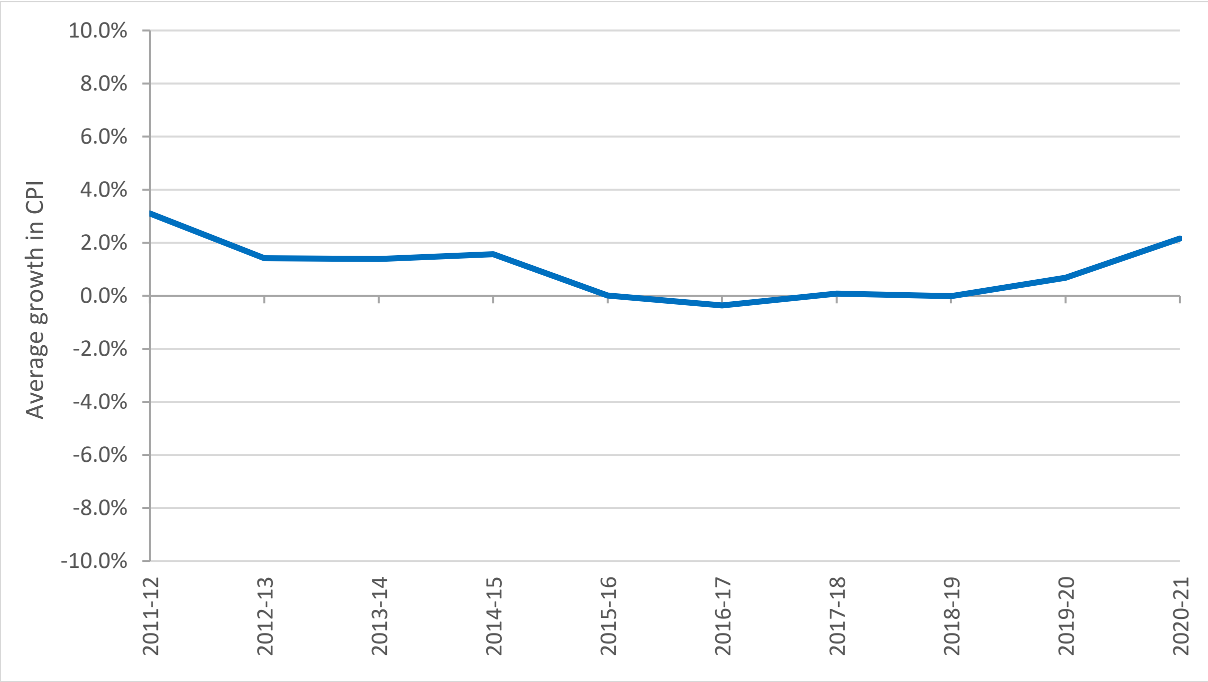
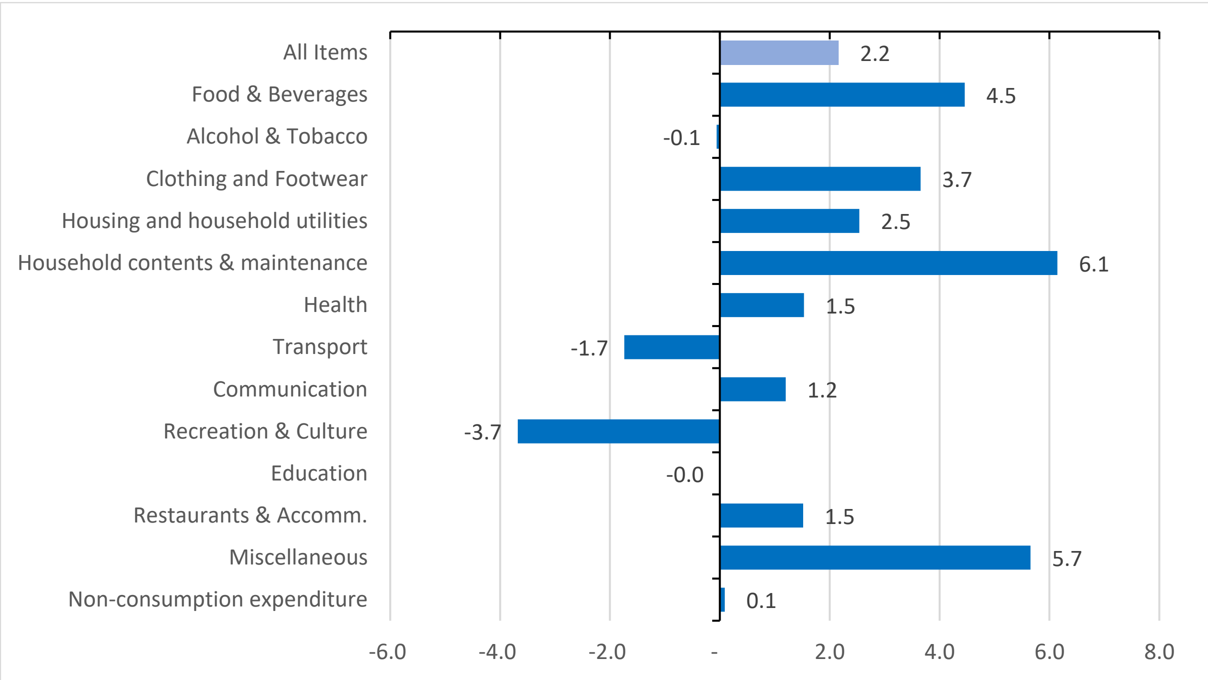


Figure 6-11 shows the contribution to aggregate inflation in 2020/21 by major category. In 2020/21, increases in the Household, Miscellaneous (particularly personal effects) and Food groups were partially offset by a fall in the Recreation and Transport groups.

Figure 6-11 Contribution to 2020/21 average inflation (percentage point).



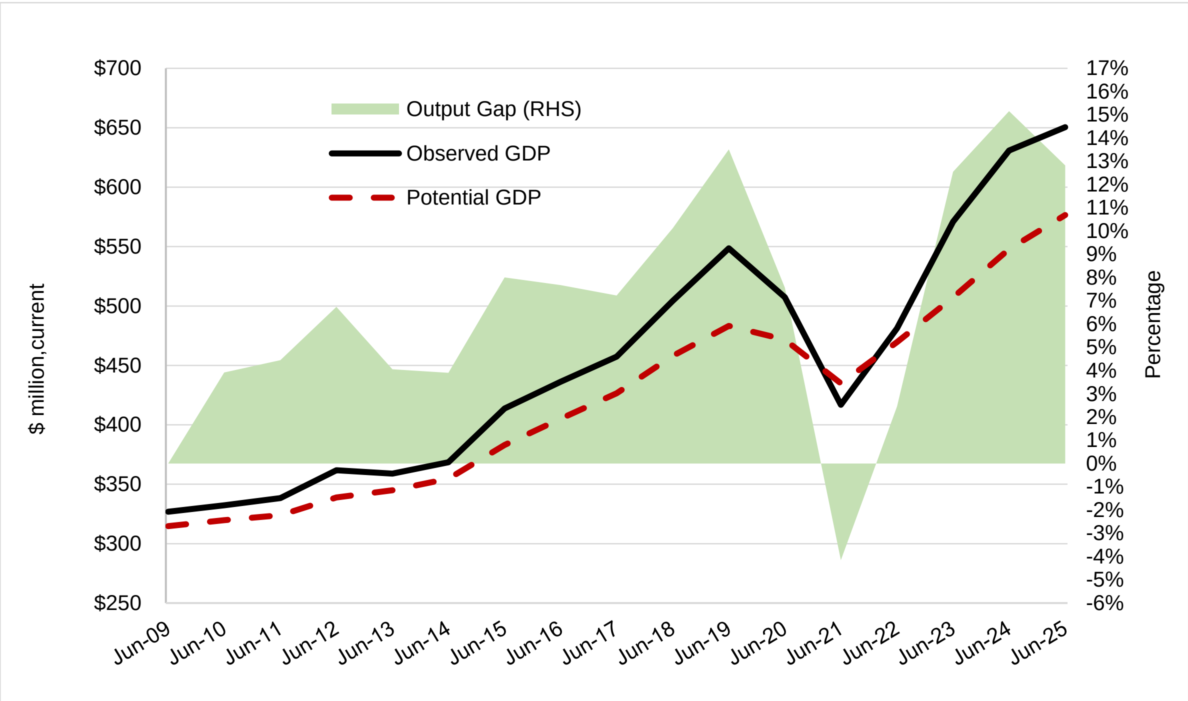
6.4.1 Inflation forecasts

As discussed in Section 6.2, the IMF October 2021 World Economic Outlook noted that there is rising inflationary pressures in parts of the world, fuelled by supply and demand mismatches and global logistics challenges. This has caused inflation forecasts for both Advanced Economies and Emerging Market and Developing Economies to be revised upwards for the short-term.

Analysis of the Cook Islands real output gap, using a multivariate Kalman filter approach, as shown in Figure 6-12, suggests that until the onset of the pandemic, the Cook Islands was confronting a positive output gap of considerable size.[14] The impact of the pandemic will see a short-lived negative output gap opening up while the border is closed (which largely reflects the unutilised capacity in the economy), before the recovery and subsequent growth returns to a positive output gap.

This then shows that constraints are likely to lead to higher inflation in the coming years – which is demonstrated with the CPI forecasts that show strong price growth over the next three years. This pressure is expected to ease slightly at the end of the forecast period, as some of those constraints are relaxed.

Figure 6-12 Cook Islands Nominal output gap, univariate Kalman filter forecast



As shown in Figure 6-13 and Table 6-3, inflation was 2.2 per cent in 2020/21 – the highest growth for some time, and is estimated to increase to 3.2 per cent in 2021/22, 3.5 per cent in 2022/23 and 4.0 per cent in 2023/24 due to constraints on the supply-side of the economy. This inflation is stronger than experienced at any time in the last decade and will result in some pressures. Price growth is forecast to reduce from 2024/25 as the economy returns more to trend growth, and investments in productivity-growth are expected to bear fruit.

[14] For more information, see *Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2*, available at: http://www.mfem.gov.ck/economics.

Figure 6-13 Annual average change in CPI (percentage)

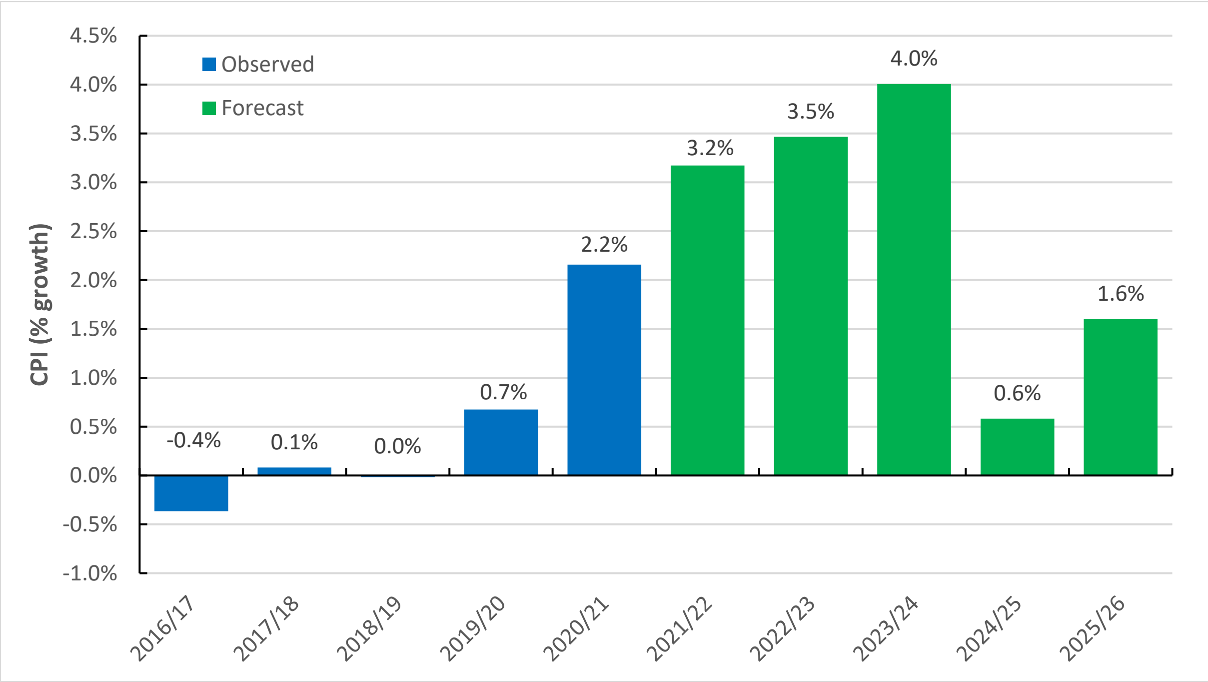


Table 6-3 Annual CPI forecast summary

	2020/21	2021/22f	2022/23f	2023/24f	2024/25f
CPI average annual index	102.2	105.5	109.1	113.5	114.1
CPI average annual percentage change	2.2	3.2	3.5	4.0	0.6

6.5 Tourism

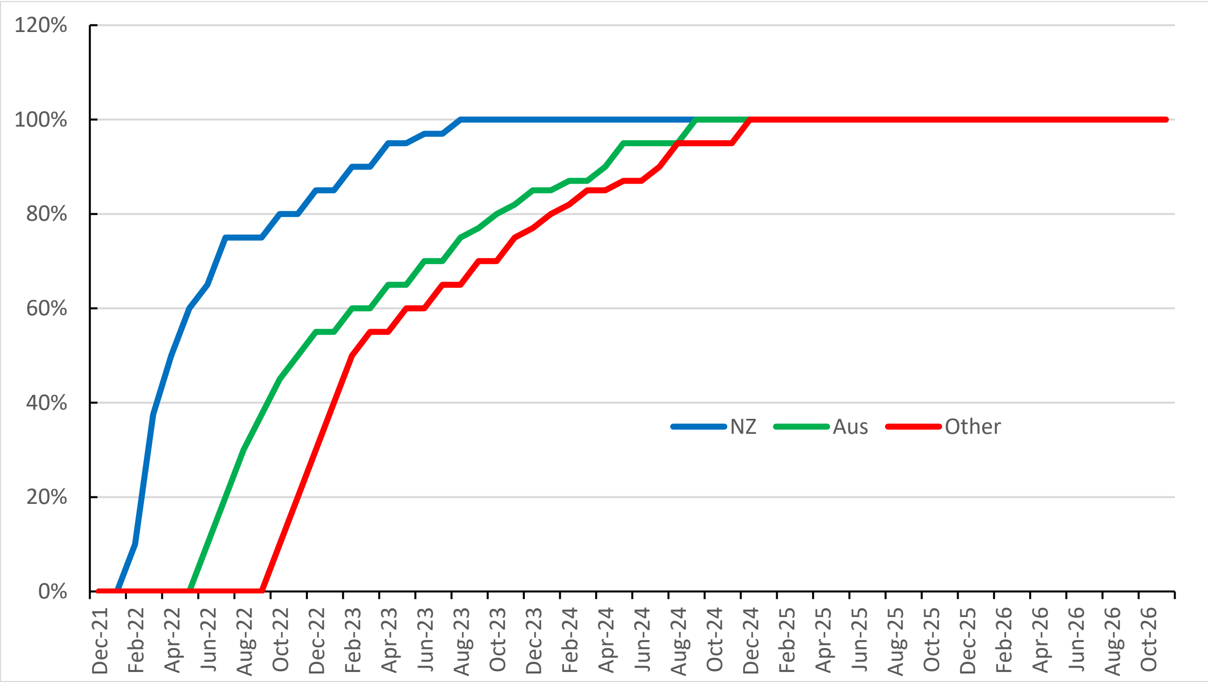
6.5.1 Aggregate visitor activity

Tourism, the Cook Islands' largest economic contributor, continues to be the industry most impacted by COVID-19 due to the border closures. The three-month period between May and August 2021 saw more rapid return of visitors than expected, which was welcome although it did put pressure on the supply-side aspects of the economy.

During the period where the border was open over 25,000 visitors came to the Cook Islands and the early evidence suggests they were staying longer and spending more on average than prior to the pandemic.

The speed of the return of visitors is unknown, but some assumptions can be made through the experience in 2021 for the New Zealand market at least. These assumptions can be seen in Figure 6-14, which shows how arrivals from key markets will take time to return to a pre-pandemic 'normal'.

Figure 6-14 Visitor arrivals, return to 'normal' by market (percentage of 'normal' market)



The 2021/22 fiscal year is expected to see 42,089 visitors, based on assumptions such as the profiles shown in this section, and the 18,261 visitor arrivals in July and the first half of August. With visitors returning in January, estimates of arrivals are anticipated to be slower than in May and June, due to it being off-peak season.

This opening is followed by around 105,000 visitors expected in 2022/23, before further growth in 2023/24 brings the level of visitors close to the total numbers experienced before the pandemic. In the outer forecast year, growth rates are expected to stabilise, with five per cent in 2024/25. The number of unknown factors creates a significant degree of uncertainty with these forecasts. A small but possible downside risk would be further outbreaks of COVID-19 variants that are unresponsive to the impact of available vaccines which necessitate borders closing again. Assumptions surrounding these risks are discussed in Section 6.3.2.

Figure 6-15 Total visitor arrivals, rolling 12-month total, 2010 to 2026

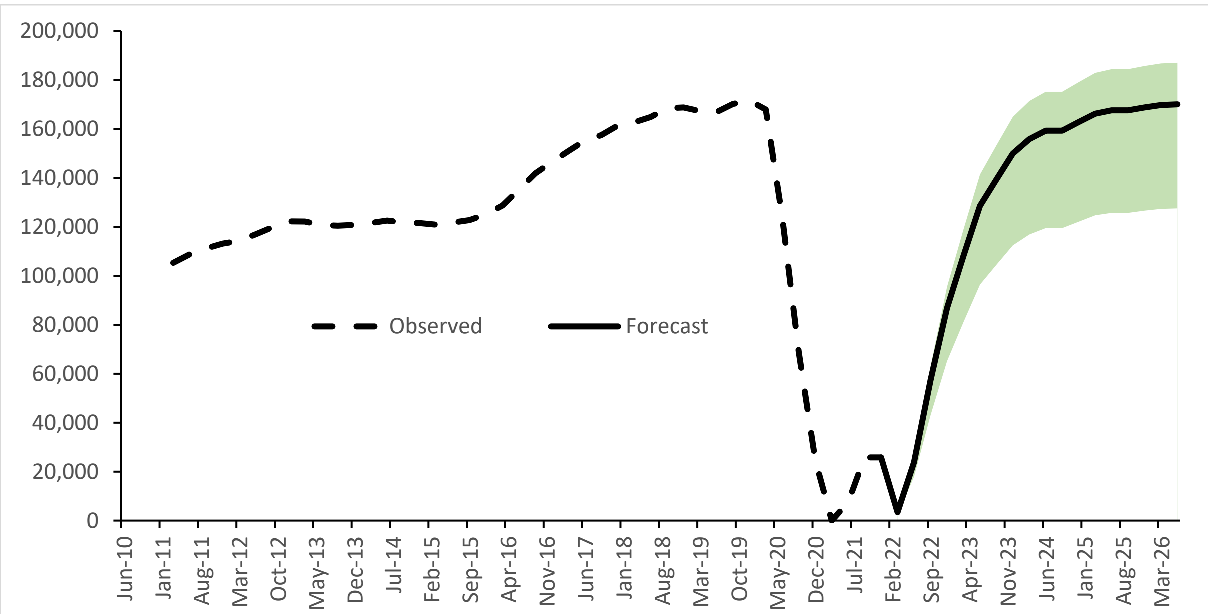


Table 6-4 Estimated total arrivals, quarterly, 2020/21 to 2024/25

Quarters	2020/21	2021/22f	2022/23f	2023/24f	2024/25f
September	0	18,261	27,503	44,200	44,255
December	0	0	24,226	40,102	43,704
March	0	3,396	20,354	30,643	34,106
June	7,538	20,434	33,560	44,301	45,736
Annual total	**7,538**	**42,089**	**105,642**	**159,246**	**167,801**

Given the reductions in expected arrivals, previously considered capacity constraints are not expected to be binding during the forecast period. However, as some parts of the holiday home market are moving to long-term rental this may create a temporary artificial shortage of accommodation if arrivals grow faster than expected. Other constraints may be a more pressing issue – in particular with regard to labour which was a binding constraint in the 2021 open period.

Toward the end of the forecast period, as arrivals reach levels similar to before the pandemic, accommodation and transport constraints may become an issue again on Rarotonga, especially if investment in this sector remains low.

The shift within the rental accommodation market is expected to be temporary as the return of tourists will likely see long-term rentals shift back to short-term accommodation, rebuilding the holiday home market and mitigating these constraints initially, before returning to long-term levels. This will simultaneously create shortages in the long-term rental market.

6.5.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand, comprising 67 per cent of total arrivals in the last pre-pandemic year (2018/19), followed by Australia with 17 per cent and Europe and North America making up 7 per cent and 8 per cent, respectively. Other markets make up the remaining 2 per cent. Over the forecast years, the market share taken by New Zealand initially grows because it is the first market to open. The other markets are slower to expand as can be seen in Table 6-5, which shows the aggregate tourist arrivals forecasts broken down by major market and financial year.

Table 6-5 Forecast total tourism numbers, by major market, 2020/21 to 2024/25

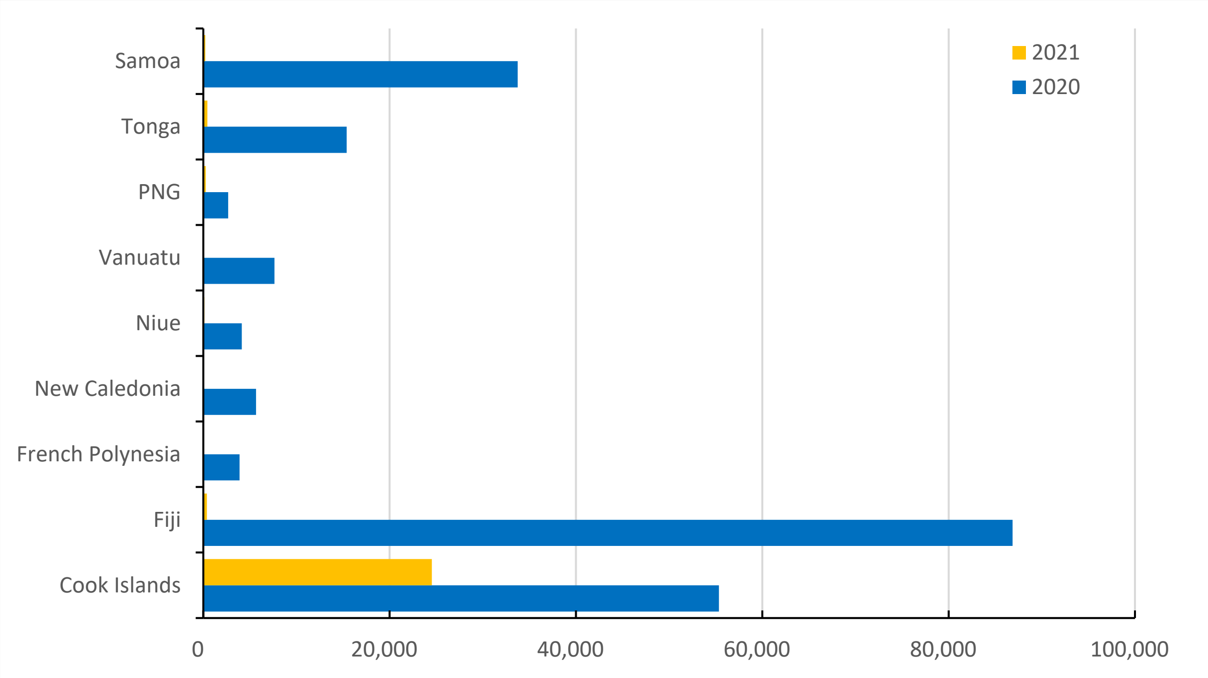
Markets	2020/21[15]	2021/22f	2022/23f	2023/24f	2024/25f
New Zealand	7,448	41,797	85,518	114,496	113,410
Australia	48	250	13,009	24,934	29,800
North America	7	13	2,907	8,128	10,081
Europe	31	26	3,189	8,866	10,999
Other	4	2	1,019	2,822	3,510
Total	**7,538**	**42,089**	**105,642**	**159,246**	**167,801**

New Zealand

Prior to COVID-19, over 100,000 New Zealanders visited the Cook Islands per year, falling to just over 82,000 in 2019/20 and 7,448 in 2020/21. This makes the Cook Islands the second-largest market for outbound New Zealand tourists in the Pacific, after Fiji. As can be seen in Figure 6-16, the ‘travel bubble’ in operation between May and August 2021 meant that the Cook Islands saw the only substantial outbound tourism from New Zealand.

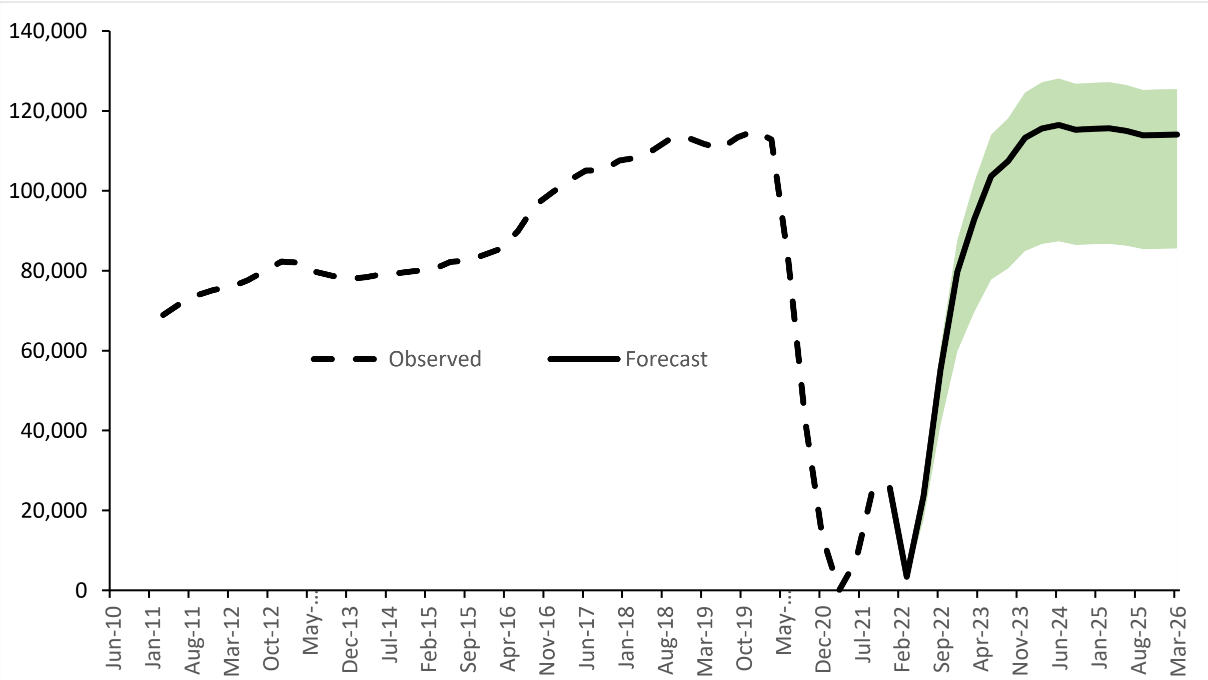
[15] Arrivals in 2020/21 needed to spend two weeks in NZ prior to entry, so non-NZ visitors were still sourced from the NZ market.

Figure 6-16 New Zealand resident Pacific arrivals, by main country visited (year to August)



New Zealand remains the largest market for visitors to the Cook Islands and will increase in importance over the near-term, being the first market to safely open to the Cook Islands. Arrival numbers for New Zealand visitors to the Cook Islands will commence recovery after the border with New Zealand is opened, however the full recovery will take some time (see Figure 6-17). Post-pandemic, the number of visitors from New Zealand can be expected to be lower than anticipated due to the impacts on household incomes.

Figure 6-17 New Zealand arrivals, rolling 12-month total, 2010 to 2026



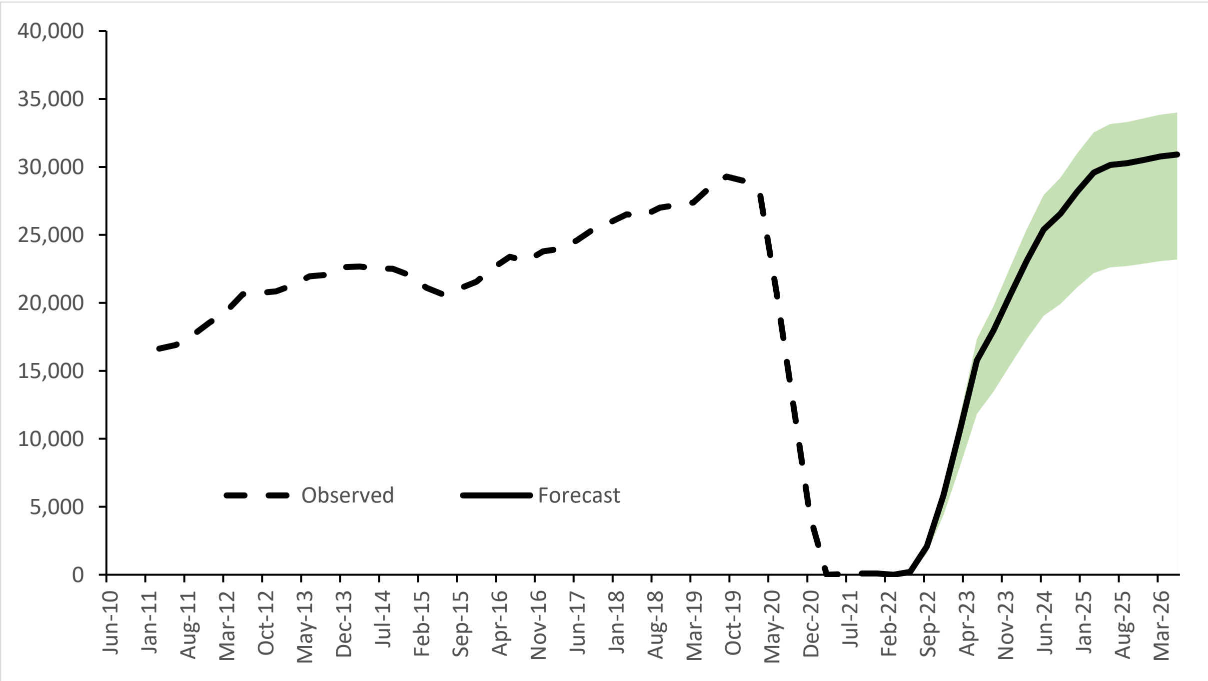
Australia

Australia is the second largest tourism market for the Cook Islands. The Cook Islands saw significant growth in Australian visitors over the nine years to 2018-19, with growth averaging 7 per cent per year. This growth has been halted by the impact of the pandemic, and the recovery will depend on the success of combatting the virus in Australia. Pre-pandemic growth was related to strong growth in Australian outbound tourism (8 per cent in 2018/19) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities.

Australian arrivals are subject to considerable uncertainty going forward – as are all arrivals, particularly outside of New Zealand where a border opening date has been announced. For these forecasts, Australians are assumed to be able to travel to the Cook Islands in June 2022 – this is a technical assumption.

Australian arrivals are expected to slowly move back towards normal levels, reaching almost 30,000 in 2024-25 (see Figure 6-18).

Figure 6-18 Australia arrivals, rolling 12-month total, 2010 to 2026



Other markets

Other tourism markets are likely to be unavailable to the Cook Islands for a longer period of time as the rates of infection of COVID-19 in Europe and North America have been consistently much higher than in New Zealand and Australia. These markets, once open, will continue to be small in number, but important from a strategic point of view since they attract visitors in the shoulder- and off-seasons, and are often higher-yield visitors.

Prior to the border closure, other markets were showing relatively weak results for the eight-month period to February 2020. The United States was the outlier with an increase of 500 visitors on the same period in the year prior, with 8,767 visitors. The only other market growing in this time was Asia which only saw an increase of around 100 visitors resulting in a large proportional change given its low base of 1,700 visitors. The Canadian and European markets saw 200 (from 3,400) and 100 (from 12,500) fewer visitors, respectively, over the same timeframe.

It is assumed that these markets will open in October 2022, with slow growth at first before moving back toward the levels seen prior to the pandemic by late in 2024.

6.6 Trade in Goods

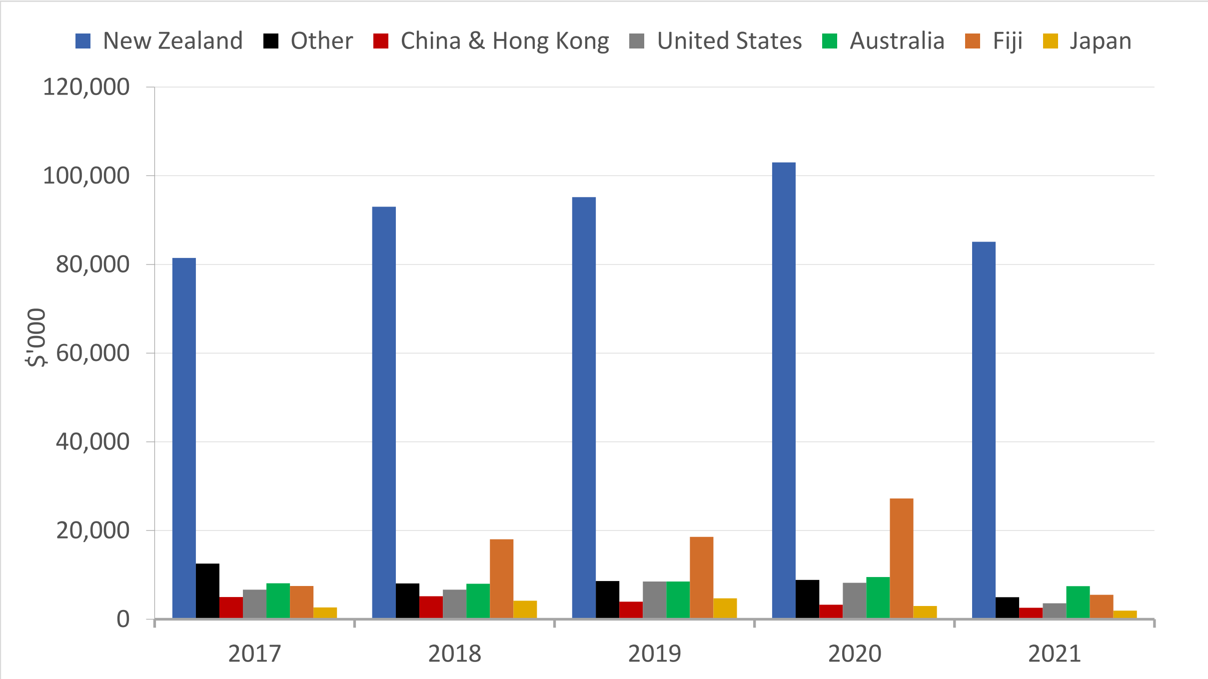
6.6.1 Goods imports

Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods in order to provide a range of goods and services.

The pandemic has seen a reduction in imports due to lower demand within the Cook Islands due to lack of tourists, with total imports in the year to March 2021 (latest available data) being over 30 per cent lower than the year to March 2020. This represents $51.9 million less in imports for the year.

The largest percentage falls came in imports from Fiji (-79.7 per cent) and the United States (-56.5 per cent), while the largest falls in terms of total value is from New Zealand, where the majority of imports are sourced – falling by $17.9 million (see Figure 6-19).

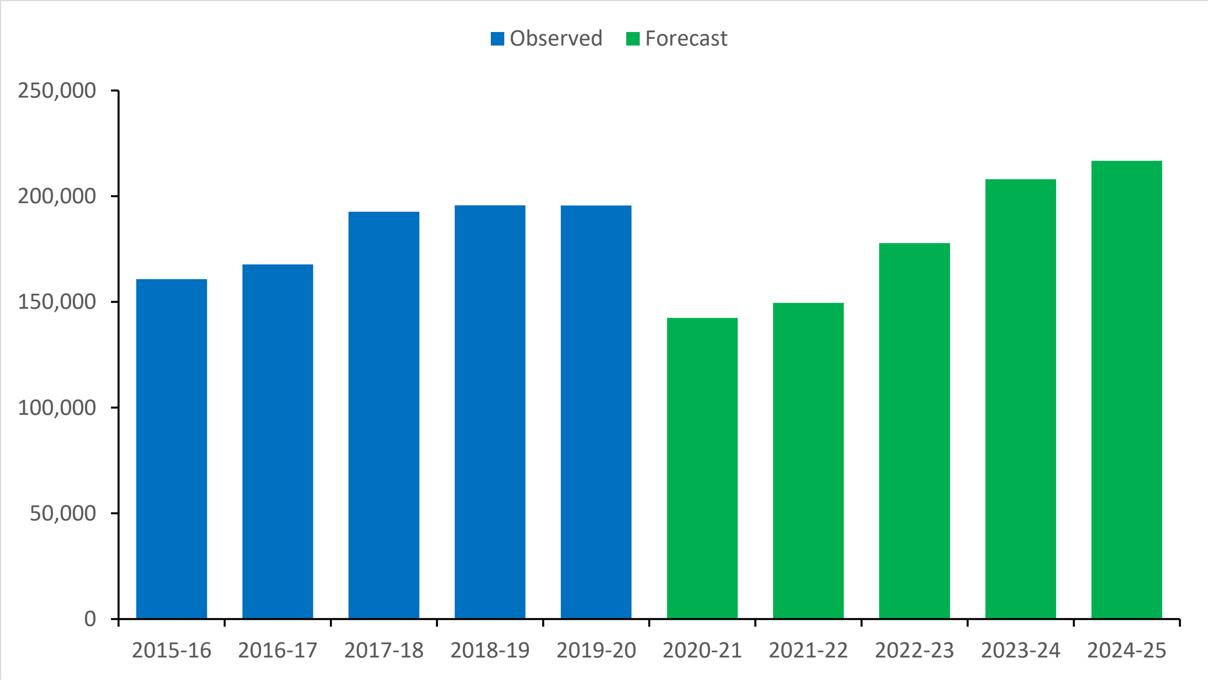
Figure 6-19 Import value by country of origin, year to March ($'000)



Import growth is expected to follow a similar, but muted, profile to visitor arrivals, with visitors increasing demand for goods in the tourism-related sectors of the economy. The drop of 27.2 per cent in imports in 2020/21 when compared to 2019/20, results in the lowest level of imports in five years, before increasing again as arrivals grow.

There has been some potential growth in import substitution which is keeping increases of imports below that of visitors, growing by 5.0 per cent in 2021/22 and 18.9 per cent in 2022/23.

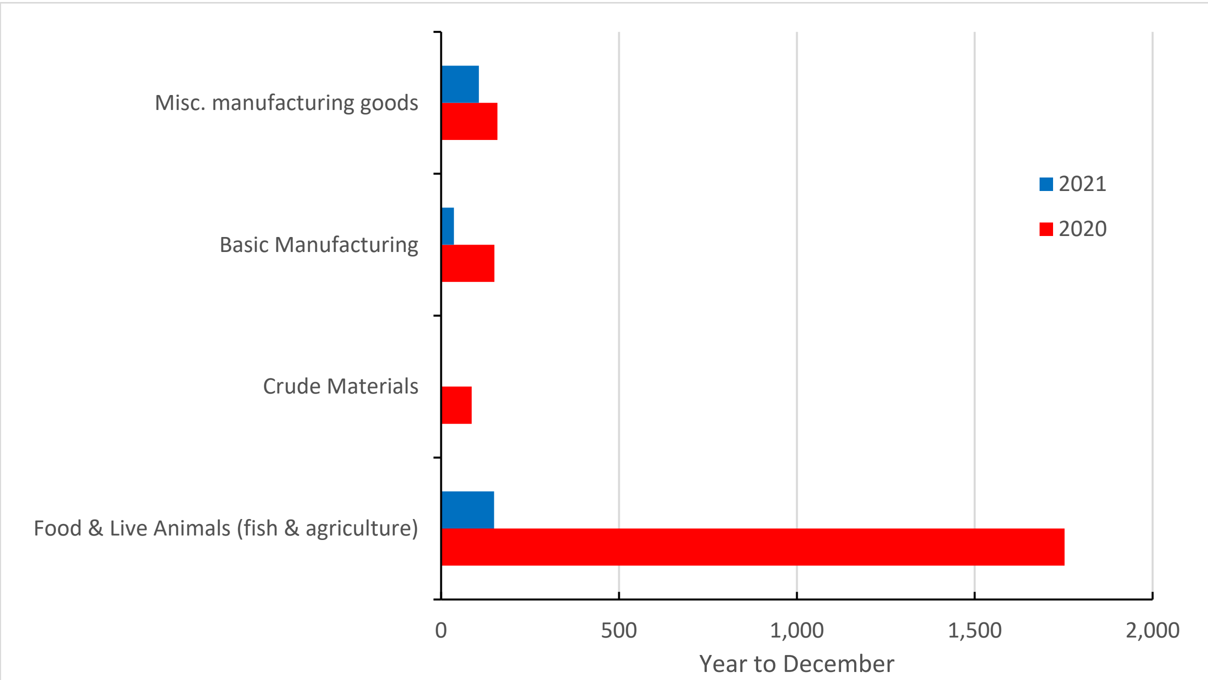
Figure 6-20 Value of total goods imports, annual, 2015-16 to 2024-25, year to June ($'000)



6.6.2 Goods exports

Total goods exports in the year to March 2021 (latest available data) fell severely by around 87 per cent from $1.84 million to $0.25 million (after adjustments to remove fishing exports from foreign boats which do not make landfall in the Cook Islands and the one-off E-waste recycling shipments in 2019). This decline has been in most major categories, though Miscellaneous Manufacturing remained the most stable (see Figure 6-21).

Figure 6-21 Major goods exports, 2020 and 2021, year to March ($'000)



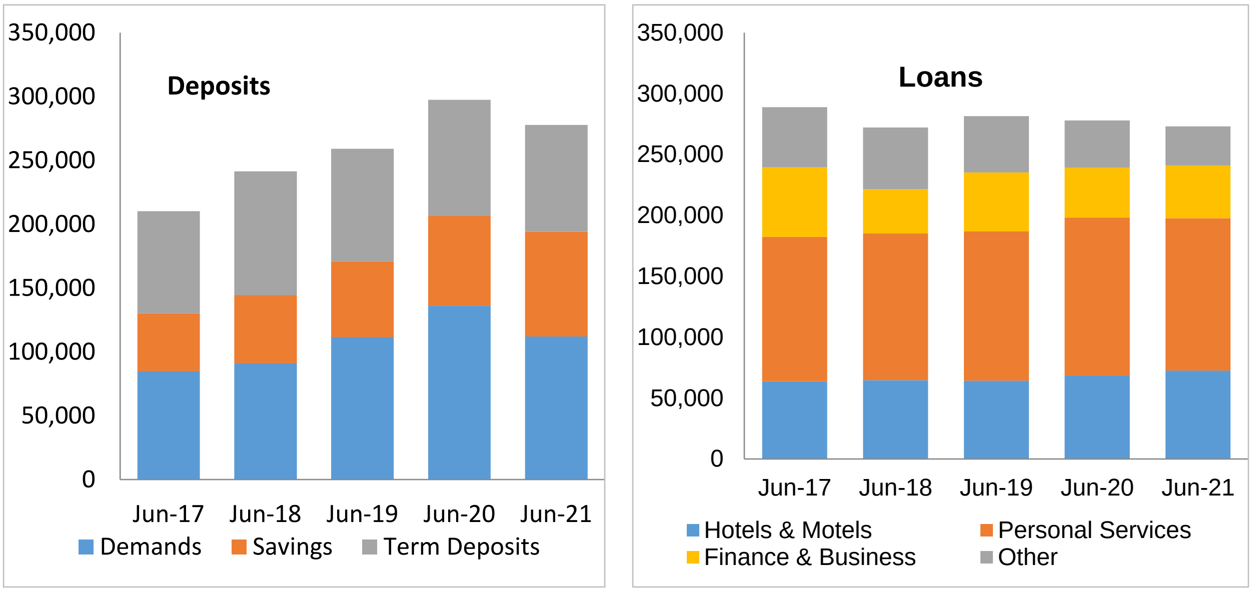
6.7 Other key industries

6.7.1 Banking and finance

Deposits

Total deposits in Cook Islands banks in June 2021 were 6.6 per cent lower than at June 2020, decreasing from $297.4 million to $277.8 million. The key driver of this fall was through decreases in demand deposits, from $136.3 million to $112.0 million as people have used their savings in the pandemic. Partially offsetting this was an increase in the 'savings' accounts of $12.0 million – mostly in the June quarter which may reflect the return of tourists and bookings in particular.

Figure 6-22 Total value of bank deposits and loans, June 2017 to June 2021 ($'000)



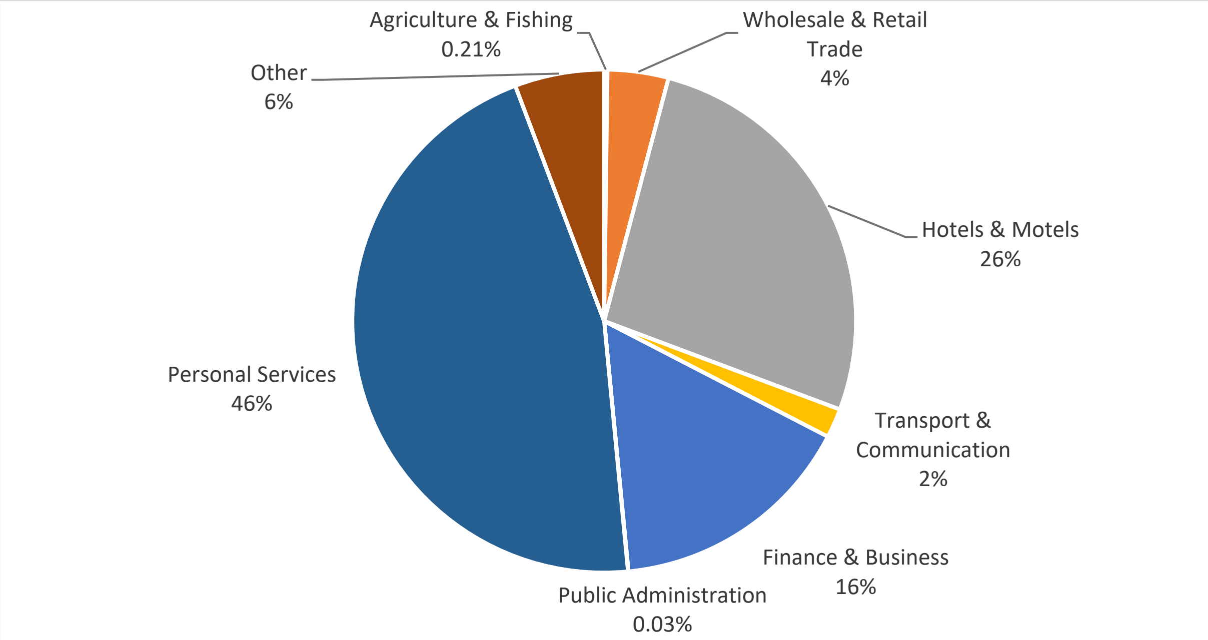
Loans

Total lending by Cook Islands' banks in June 2021, when compared to June 2020, fell by 1.7 per cent from $277.9 million to $273.1 million (Figure 6-22). This is due to falls in lending to the 'other'[16] sector ($6.7 million) and personal services ($4.6 million), partially offset by increases in hotels and motels ($4.1 million) and finance and business ($2.5 million).

Lending by Cook Islands banks is dominated by loans to the Personal Services, Hotels and Motels and Finance and Business industry sectors. In June 2021, these sectors accounted for 46, 26 and 16 per cent of the total loan portfolio, respectively (Figure 6-23).

[16] Including Agriculture and Fishing, Wholesale and Retail Trade, Transport and Communications and Public Administration, as well as anything which does not fit into a named category.

Figure 6-23 Loans and Advances by Industry (June 2021, share of total)



6.7.2 Financial services industry

The industry

The financial services industry, by statutory definition, includes those Cook Islands' businesses licensed to carry on banking, insurance and trustee company business, both domestically and internationally.

The Cook Islands is a member of the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. In 2015, the Forum's Phase 2 Peer review rated the Cook Islands as "largely compliant" with the next Global Forum Peer review scheduled for 2019 but yet to be undertaken.

The Cook Islands has passed laws to ensure its financial institutions comply with the OECD's Common Reporting Standard, requiring the automatic exchange of an individual's financial information with the country where that individual is tax resident. Similarly, the Cook Islands has passed laws specifically requiring that financial institutions provide the United States Internal Revenue Service with financial information held on US taxpayers.

In October 2018, the Financial Action Task Force ("**FATF**") published the Cook Islands second Mutual Evaluation Report ("**MER**"). The FATF is an inter-governmental body responsible for policy making on international AML/CFT standards. The evaluation process rated the Cook Islands as "largely compliant" or above on 38 of the FATF's 40 recommendations for technical compliance, and issued 5 "substantial" ratings for the effectiveness of its AML/CFT regime.

In 2017, the European Union ("**EU**") identified certain areas that it considered amounted to preferential and harmful tax regimes in the Cook Islands legislation. Those concerns were addressed in December 2019. In particular, the International Companies Act 1981-82 ("**Act**") was amended to remove tax exemptions granted to companies incorporated or registered under the Act, and amendments to the Income Tax Act (1997) will require international companies to become resident for tax purposes in the Cook Islands.

The licensed trustee companies are responsible for the administration of approximately 3,200 entities and trusts on the Cook Islands international registers. The registration and renewal fees provided

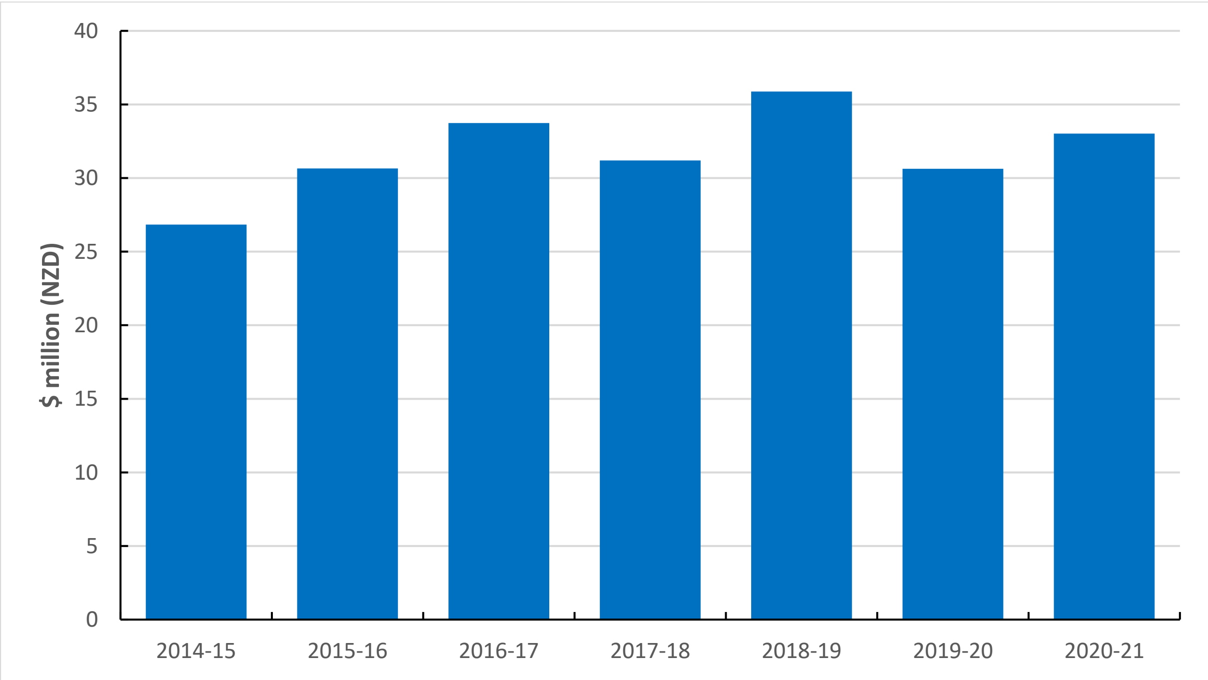
Government approximately $1.3 million in 2020/21. The growth of these numbers depends on the impact of international tax and regulatory requirements and the licensed trustee companies' ability to operate efficiently and diversify. The Cook Islands financial services industry is currently developing a new international product to add to its diverse suite of international products and services in an effort to increase registration numbers.

Financial services industry – domestic and international

The industry employs approximately 260 staff, accounting for approximately 4.5 per cent of total employment in the Cook Islands.[17]

The Cook Islands Statistics Office identifies the financial services industry as the finance and insurance sector. The sector's contribution to GDP, shown in Figure 6-24, fell from $34.8 million in 2016/17 to $30.6 million in 2019/20 followed by an increase to $33 million in 2020/21.

Figure 6-24 Finance sector contribution to nominal GDP (millions, NZD)

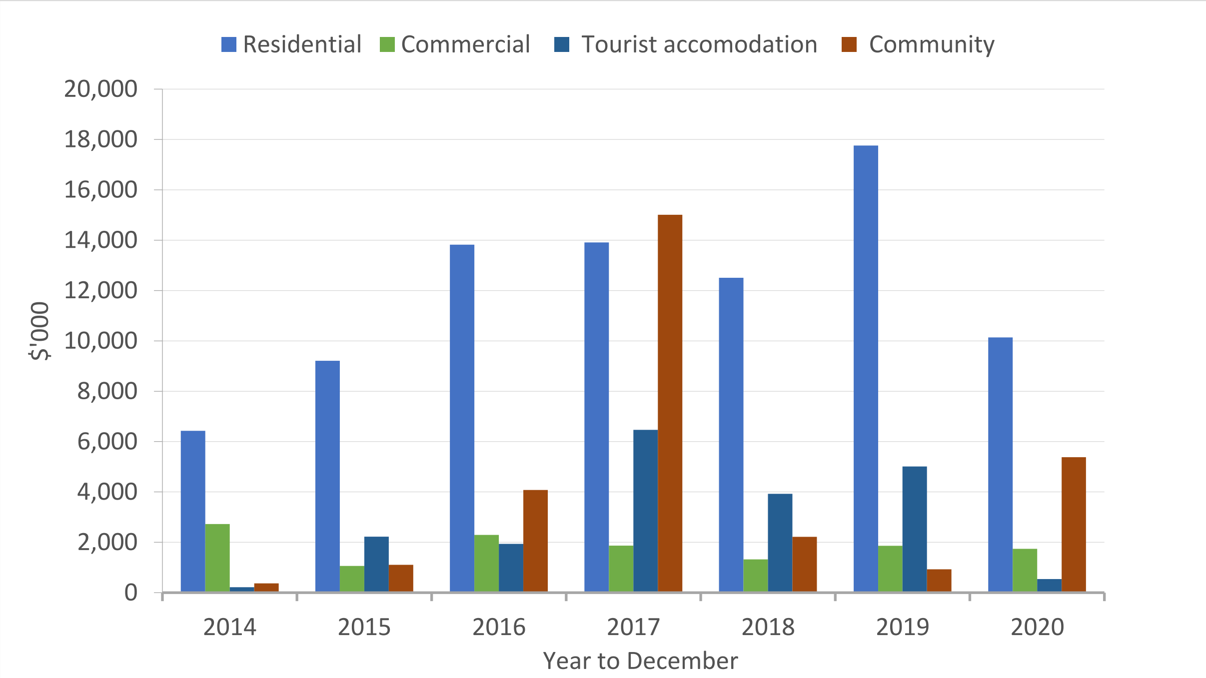


6.7.3 Housing and construction

The total value of Cook Islands building approvals in the year to December 2020 fell 30 per cent to $17.8 million from $25.6 million the previous year. The decreases were across the board (except for Community building), with the largest decrease in proportionate terms being in the tourism sector – with the uncertainty causing a fall of 89 per cent ($4.5 million). Residential buildings also saw a fall of 43 per cent ($7.6 million), while Community buildings saw an increase of $4.5 million to partially offset the falls (Figure 6-25).

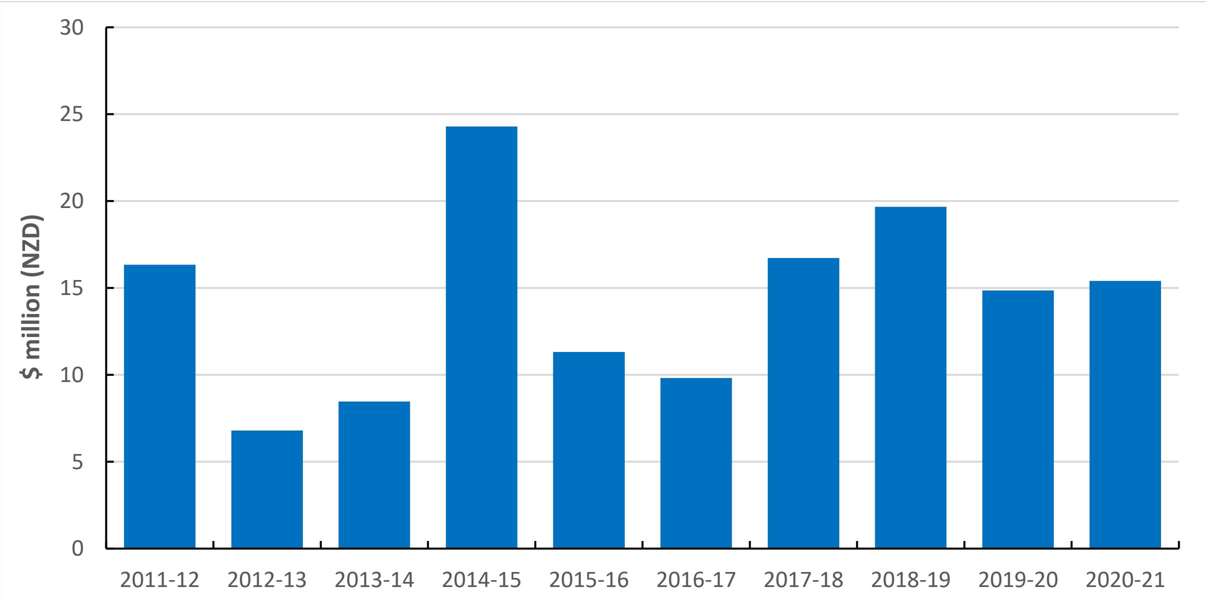
[17] Based on a survey conducted as at 31 March 2020 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands. As at 31 December 2019 there were 5,747 active members.

Figure 6-25 Building approvals, 2014 to 2020, ($'000)



The high value of building approvals in recent years is reflected in the performance of the construction sector of the Cook Islands economy. The construction sector's contribution to GDP, shown Figure 6-26, has risen from $11.3 million in 2015/16 to $19.6 million in 2018/19 and $15.4 million in 2020/21.

Figure 6-26 Construction sector contribution to nominal GDP, 2011-12 to 2020-21 ($'000)

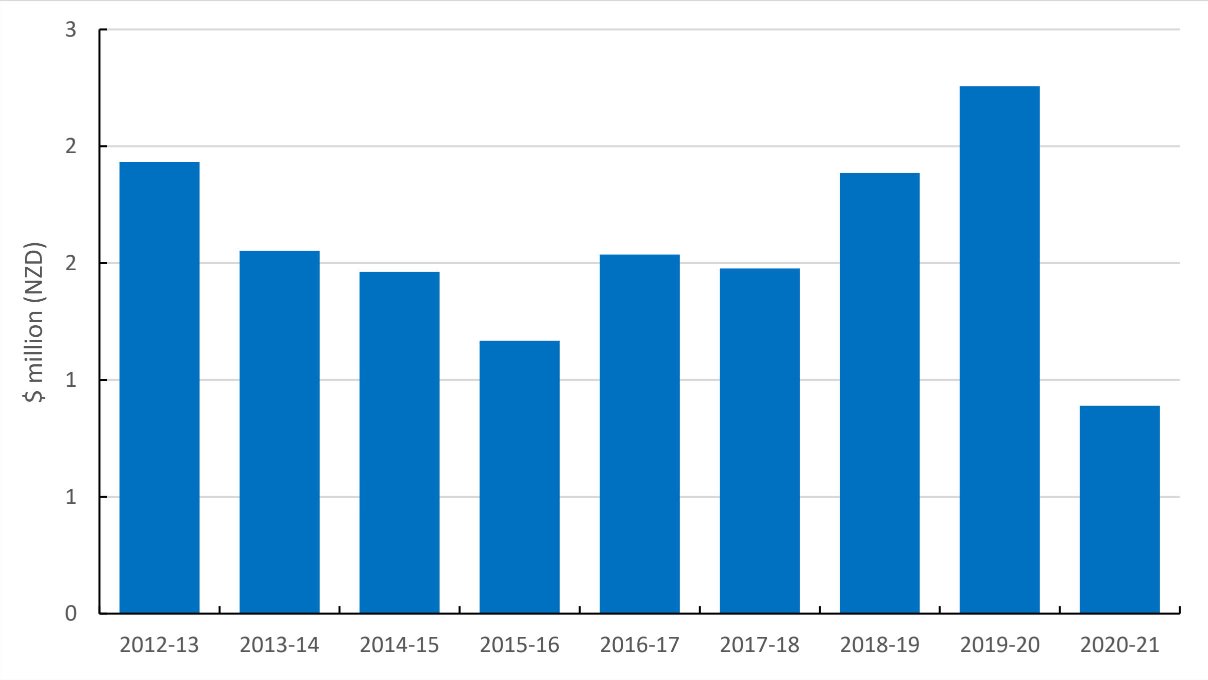


6.7.4 Marine resources

Fishing

The Fishing and Pearl sector saw a large decline in the contribution to nominal GDP in the 2020-21 year, with a fall of over 60 per cent from $2.3 million in 2019/20 to $0.9 million in 2020/21 (see Figure 6-27).

Figure 6-27 Fisheries contribution to nominal GDP, annual, 2012-13 to 2020-21 ($ million)



6.7.4.1 Fishing

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, purse seine fishing bilateral arrangements, license fees and the sale of catch quotas.

Under the Quota Management System (QMS), a total allowable catch (TAC) of 9,750t of albacore tuna (ALB) and 3,500t of bigeye tuna (BET) per calendar year are allowed. The quota system was implemented in January 2017. Revenue from this sector is expected to decline from around $4 million received annually to about $2.5 million for this FY due poor fishery conditions and low catch rates due to prevailing La Nina conditions.

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands Exclusive Economic Zone (EEZ) has a total limit of 1,250 fishing days in accordance with conservation and management measures implemented by the Western Central Pacific Fisheries Commission (WCPFC).

During 2016, the US and Pacific Island Parties negotiated a new US Multilateral Treaty with a six-year term. Under the Treaty, the Cook Islands commit a pool of 350 fishing days annually before the start of the calendar year. US fleets operate under Cook Islands pool days through the treaty, or purchase additional days.

In November 2021, the Government is expected to renew annual licenses for at least three EU purse seine fishing vessels under the European Union (EU) Sustainable Fisheries Partnership Arrangement. Under the eight-year Sustainable Fisheries Partnership Agreement (SFPA), a three-year revised protocol provides fisheries access allowing up to four EU Purse Seiners. This arrangement accounts for approximately 100 days of the total 1,250-vessel day limit.

Climatic conditions compounded by COVID-19 measures have affected fisheries revenue in the 2021/22 financial year. Strong La Nina climatic conditions in 2020 and the beginning of 2021 resulted in a westward shift in distribution of skipjack and tropical tuna stocks. With predictions indicated a re-emergence of La Nina conditions likely to persevere through early 2022. This will continue to see significant reductions in the demand for purchasing purse seine vessel days within the Cook Islands EEZ. With uncertainty around El Nino (ENSO) predictions beyond June 2022, conservative estimates are used for revenue forecasting beyond this period.

Projected fisheries revenue for this 2021/22 half year is $9.5 million. The sources of revenues include:

- $ 2.5 million from the longline licensing, development fees and QMS
- $ 3.3 million from the US Treaty
- $ 2 million from the purse seine vessel days
- $1.4 million from the EU SFPA fishing authorisations
- $295,000 from other fisheries and fines

These half year adjustments reflect declines across all fishery sectors, except for the multiyear bilateral and multilateral fishery access arrangements that provide for some buffering and revenue security against interannual variability in fishery conditions.

Purse seine and longline related revenue are largely dependent on both seasonal and interannual fishing conditions influenced by oceanographic and ENSO climatic conditions, and experiences year on year fluctuations in west-east migrations. Fisheries management arrangements and differences in pricing for purse seine vessel days also influence where and when fleets choose to fish.

Major disruptions in the fresh fish market (in particular Japan) supply chains and the reduction in our locally based longline fleet will affect the export of these products from Rarotonga and its contribution to GDP. Opportunities to maintain and enhance revenue streams to mitigate some of the impact of COVID-19 on the economy will be investigated.

Efforts to support continued market access by the fishing industry across all sectors is ongoing. In particular submissions by the Ministry of Marine Resources to comply with the US Marine Mammal Protection Act due in November 2021.

The artisanal fisheries sector has experienced depressed catch rates consistent with that experienced in the commercial sector influenced by the strong La Nina conditions, and therefore reduced profitability of operations. This is in contrast to 2020 where catch rates were higher

One domestic commercial fishing company operates in the southern Cook Islands' waters, and offloads their catch at the Avatiu port predominantly for the domestic market. The company's fleet has reduced from three vessels in 2019, down to two in 2020 and now it only has one Cook Islands' flagged longline vessels. Economic analyses have indicated that a major factor for this is the increased costs associated with the Marae Moana 50nm exclusion zone, particularly around Rarotonga. There were no exports over this period due to the impacts of the pandemic and disruptions to supply chains, as well as high demand for fresh fish on the local market. There has been no landed catch by foreign vessels in Rarotonga since 2017.

A fisheries development fee of $10,000 is charged to each foreign fishing license, which contributes to funding the Fisheries Development Facility administered by MMR and the Cook Islands Fishermen's Association (CIFA) that funds the Fisheries Small Grants Scheme, Cook Islands Fishing Association Grants, and the Pa Enua Tokerau fisheries grant.

6.7.4.2 Black pearls

The pearl industry in the Cook Islands has declined markedly over the past 15 years after total pearl exports reached a peak in 2000 at just over $18 million. Since then, the industry has reached lows below $200,000 and although it has rebounded somewhat in recent years is still low by comparison.

In 2019/20, the provisional value of pearl and pearl shell exports was $166,000, down from $215,000 in 2018/19 due to a 76% drop in pearl exports. In the same year, a reintroduction of pearl shell exports valued at $115,000 surpassed pearl exports accounting for 69% of total pearl and pearl shell exports.

There has been a distinctive shift by a few farmers investing in vertically integrated business models, with a focus on visitors and sales on the more lucrative and cost-effective domestic market. As a result, export values have not been representative of the levels of production.

Flight restrictions due to COVID19 and the reliance on foreign seeding technicians has resulted in delays to harvesting from the second half of 2019 through to June 2021. MMR facilitated locally based pearl technician trainings to complete harvest cycles and to maintain commercial arrangements with foreign seeding technicians, and to address both short and long-term sustainability objectives for farming operations and contribute to maintaining pearl production, albeit at lower levels. The reduction of visitors to the country has also affected sales in 2020 and 2021, with farmers and retailers unable to move pearl products, affecting cash flow, which may result in a decline in the number of existing farmers, and retailers.

Pearls harvested during the technician training and harvests in 2021 will supply a pearl auction in December 2021, through the Pearl Exchange managed by MMR.

6.7.5 Agriculture

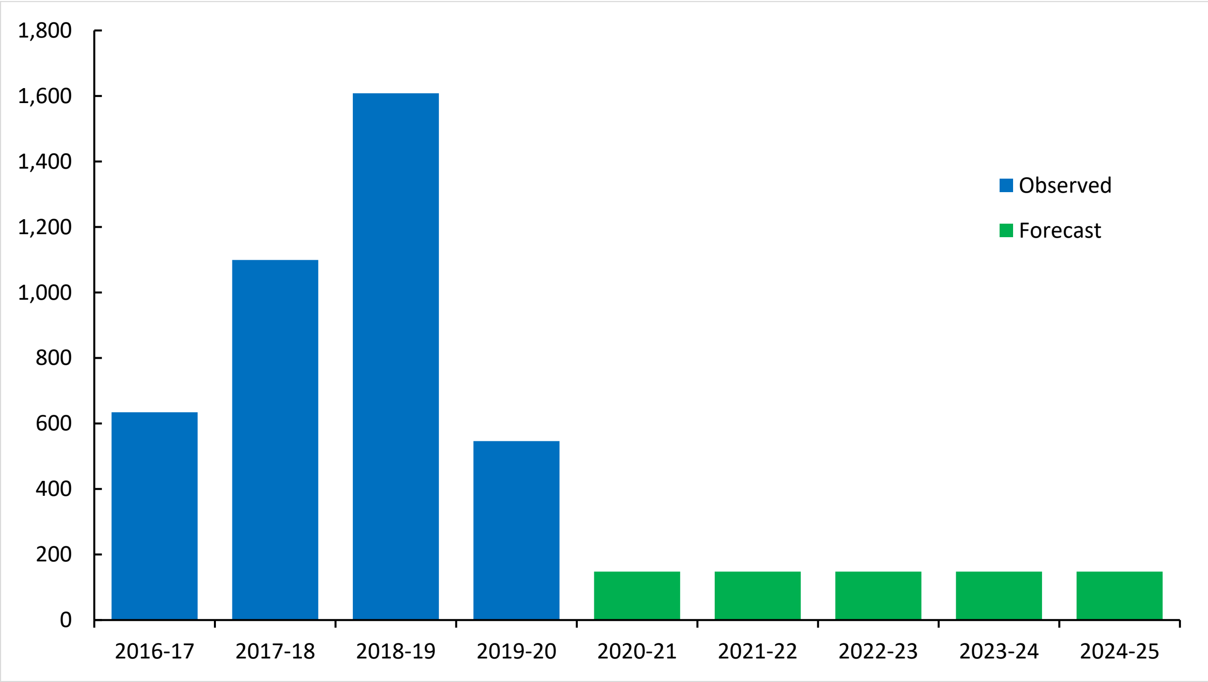
6.7.5.1 Agricultural activity and exports

The Agricultural sector accounted for about 2.8 per cent of nominal GDP in 2020/21, making up a larger share as a result of increasing activity (from $10.6 million in 2019/20 to $10.9 million in 2020/21) while many other sectors decreased. Despite this overall increase in activity, the level of exports declined in the year. [18] Limited flights and lockdowns in the primary export markets due to COVID-19 led to a reduction in the processing of noni juice from 2019/20 to 2020/21, undermining a significant expansion in agricultural exports during 2016/17 to 2018/19.

Noni Juice remains the main agricultural export commodity product from the Cook Islands. Primary export markets were Japan, China and, more recently, South Korea. Total agricultural exports for the year to April 2021 (latest available data), almost entirely comprise of noni, amounted to $0.15 million, a reduction of 73 percent when compared to $0.55 million in the year to April 2020 (see Figure 6-28).

[18] Latest available data is to April 2021, which shows $58,000 in noni exports in the 10 months of the year so far, down from $546,000 in the previous year.

Figure 6-28 Agriculture exports 2016-17 to 2024-25 ($'000)



The Government continues to support farmers through a range of activities that include the supply of fruit and vegetable seedlings. For the 2020/2021 fiscal year, more than 250,000 ready-to-plant vegetable seedlings of assorted fruits and vegetables were continuously distributed to commercial and subsistence farmers on both Rarotonga and the Pa Enua.

The extended border closure has resulted in an increase in activity within the domestic agricultural sector, with average annual crop production increase of 10.6 percent in 2020/21, attributed to an increase in production from commercial and subsistence growers on Rarotonga and in the Pa Enua.

Table 6-6 Total value of produce ($'000)

Type	Fruits		Root crops		Vegetables		Herbs		Fruits/ Vegetables		Total Value		2 Years Total
Year	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	
Rarotonga	1,481	861	80	581	408	115	13	3	0	0	1,982	1,560	3,542
Aitutaki	62	51	27	71	13	6	0	0	0	0	102	128	230
Atiu	0	1	1	1	0	1	0	0	0	0	1	3	4
Mangaia	60	9	20	7	20	2	0	0	0	0	100	18	118
Mauke	42	26	7	10	12	4	0	0	0	0	61	40	101
Mitiaro	0	2	0	1	0	0	0	0	0	0	0	3	3
Total	**1645**	**950**	**135**	**671**	**453**	**128**	**13**	**3**	**0**	**0**	**2,246**	**1,752**	**3,998**

The Ministry of Agriculture has established better data systems for more robust information to help the ministry and farmers to understand the various challenges and the trends in the agricultural industry. This includes the AgINTEL data system, which forms the basis of the Punanga Nui Market bulletins that circulate important information to farmers. This system is being extended to the Pa Enua, including training programs to maximise the benefit of the use.

The Ministry of Agriculture has provided support for the establishment of Hydroponic systems to the Northern group islands through the Strengthening the Resilience of our Islands and own communities to Climate Change (SRICC) and now the Pa Enua Action for Resilient Livelihoods (PEARL) project. The Hydroponic setup for Nassau, Penrhyn (2) and Palmerston has been operational from December 2020, and all islands in the northern group now have a community Hydroponic system run by their respective island's agriculture department. These Hydroponic systems are now providing these Islands with fresh leafy vegetables.

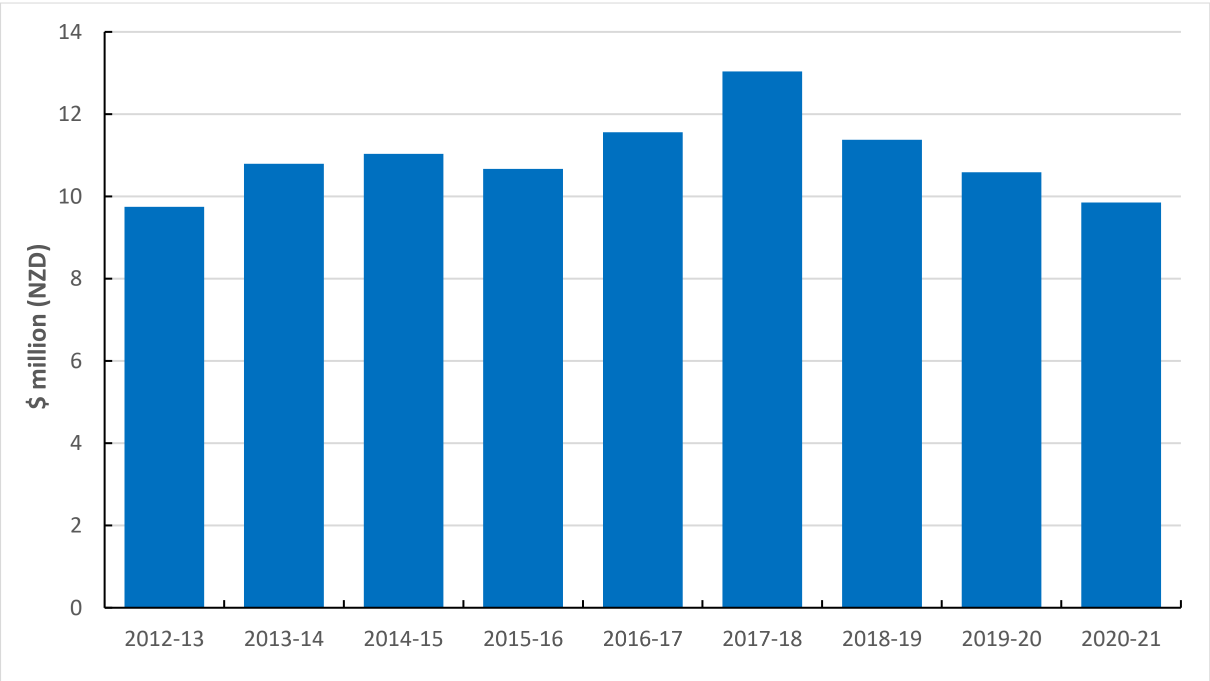
The Hydroponic initiative was extended to the Southern group islands of Mauke, Atiu and Mitiaro. Located within the school compound for Mauke and Atiu, these hydroponic systems are being utilised by the schools as part of their agriculture curriculum.

As part of Government's Economic Response to COVID-19, the SMART AgriTech scheme was established in July 2020. The scheme provided grant funding to commercial farmers and agribusiness ventures to encourage investment in technology and smart processes to improve yield, efficiency and profitability across the agricultural value chain.

The objective was to encourage and support the agricultural industry and agribusinesses servicing the industry, to develop and implement innovative solutions to assist with transformational change within agricultural value chains by improving yields, efficiency and profitability. We needed to utilise technology as a tool to transform the agriculture sector to improve agriculture production and sustainability, as well as processing capabilities.

The scheme resulted in 19 applications approved for grant funding ranging from honey production, establishing temperature-controlled greenhouses, aquaponics, processing of agricultural produce and the purchase of technology to improve efficiencies. This is a step for us to encourage investment in technology and the ministry will continue to pursue avenues to stimulate innovation, the use of technology and digitization of the agriculture sector.

Figure 6-29 Agriculture contribution to nominal GDP, annual, 2012-13 to 2020-21 ($ million)



7 Crown Debt and Net Worth

The government has responded to the ongoing recession caused by the COVID-19 pandemic, funding direct government support through the current temporary border closure, stimulus measures through public investment and key economic reforms through the Economic Recovery Roadmap (ERR). The 2021/22 appropriation included an additional $33.5 million towards ERR – taking the overall ERP related budget since the pandemic to $129.5 million.

Section 12 of the Loan Repayment Fund (LRF) Act 2014 requires the Ministry of Finance and Economic Management (MFEM) to provide Cabinet with a report on all proposed new debt and how it fits within the current economic, financial or fiscal policies of the government and in accordance with the MFEM Act.

7.1 Debt Headroom

Due to the extended economic impact of the pandemic, government has been required to exercise the 'Exit Clause' previously laid out in the *Medium-term Fiscal Strategy 2019/20 – 22/23,* and establish a new set of fiscal rules to reflect the changing needs of the economy. Consequently, the net debt rule has been modified from a threshold of net debt to GDP of 35% to 65% in order to allow government debt headroom to access the funds needed to support and stimulate the economy.

Table 7-1 Financing Requirements 2022-2025 ($'000)

Financing Requirements	2021/22	2022/23	2023/24	2024/25
Net Operating Balance	($30,571)	($17,640)	$8,434	$14,611
Net Non-Operating Balance (excl debt)	($45,090)	($40,309)	($45,701)	($47,173)
Depreciation	$13,931	$13,931	$13,931	$13,931
Payments made from LRF	$0	$0	$0	$0
Financing Requirements (excl debt)	**($61,731)**	**($44,019)**	**($23,337)**	**($18,632)**
add: General Cash Reserves (start)	*$6,191*	*$44,019*	*$2,647*	*$0*
add: Debt Financing	*$55,540*	*$0*	*$0*	*$0*
Financing Requirements	**$0**	**$0**	**($20,690)**	**($18,632)**
Current debt level	$228,290	$219,997	$207,232	$192,468
Estimated Debt Inc Financing	**$228,290**	**$219,997**	**$227,922**	**$231,791**
GDP forecast	$487,238	$566,681	$643,506	$663,362
Gross Debt to GDP	**46.9%**	**38.8%**	**35.4%**	**34.9%**
LRF Balance	$13,665	$13,938	$14,217	$14,501
Estimated net debt level	$214,625	$206,059	$213,705	$217,289
Net Debt to GDP	**44.0%**	**36.4%**	**33.2%**	**32.8%**

Government has estimated a $61.73 million financing deficit for consideration in the Half-Year Economic and Fiscal Update (HYEFU) 2021/22. To fund this shortfall, the government is taking additional debt of $55.54 million from the ADB with the balance to be funded from cash reserves of $6.19 million. The current estimates of financing requirements will be in deficit for the forecasting periods 2023/24 and 2024/25, however as a matter of practice, government will be required to return a positive cashflow for those financial years by June 2023 and June 2024 respectively.

As GDP moves back toward trend levels once the pandemic and related restrictions are finished, this will have positive impacts on both the net debt to GDP ratio and the total revenue amounts. The economic recovery is expected to begin this year (2021/22), with stronger growth in subsequent years once temporary setbacks such as the current border closure are in the past.

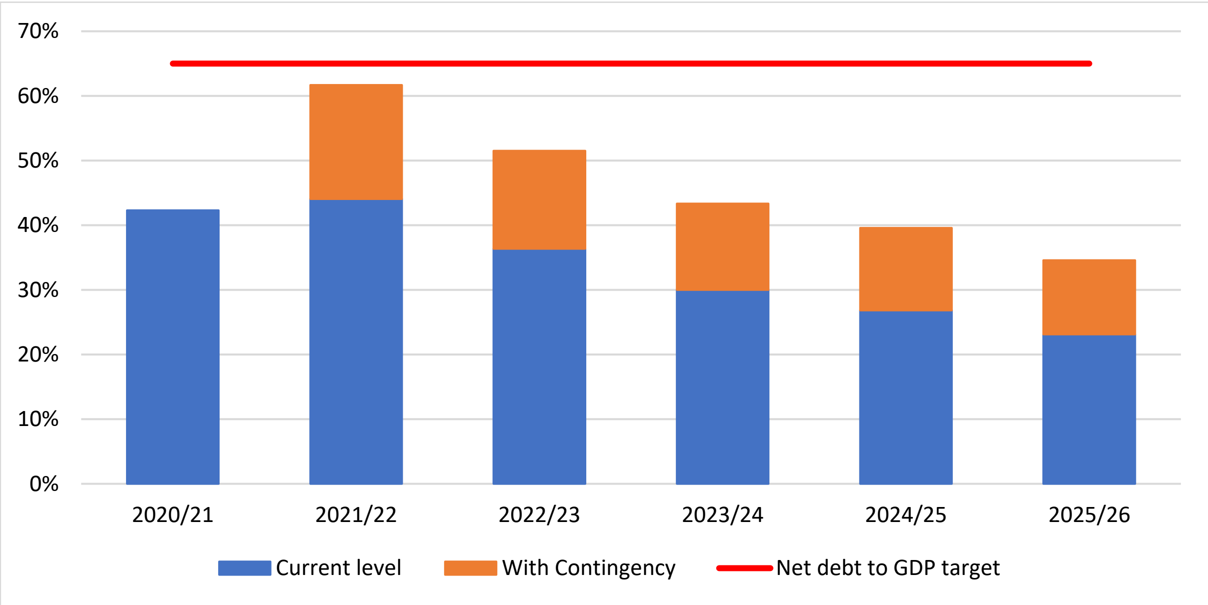
Table 7-2 Nominal GDP growth, percentage change

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Nominal GDP growth	-14.6%	12.8%	16.3%	13.6%	3.1%	2.7%

Taking on the new $55.5 million debt will increase net debt to GDP to 44.0% by June 2022, and slowly decline over the forward estimates, largely due to recovery in the level of GDP. However, this does not take into account two contingent loans totalling $85.8 million:

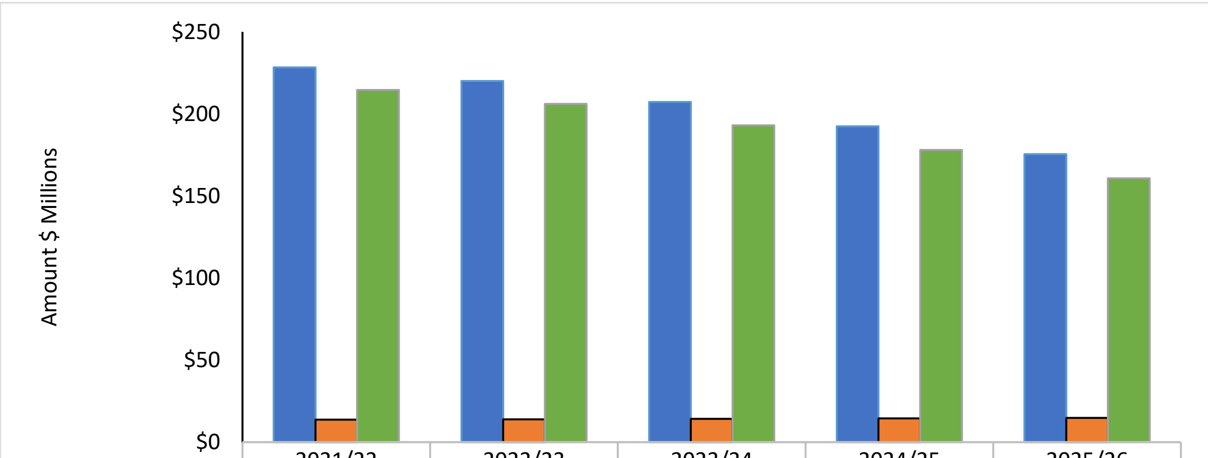
1. Disaster contingency loan of $30.3 million that will only be drawn in the event of disasters triggered by natural hazards or health emergencies.
2. Precautionary financing loan (ADB) of $55.5 million to support government's cashflow when pre-established conditions are met.

Figure 7-1 Net debt to GDP including financing requirements (percentage of nominal GDP)



As illustrated in Figure 7-1, even if government is required to take on the two contingent loans, it will still be within the 65% net debt to GDP rule. This should be noted as being close to a 'worst case scenario' as it involves a cash crunch, triggering the PFO loan as well as a natural disaster occurring.

Figure 7-2 Crown debt net of Loan Repayment Fund ($ million)

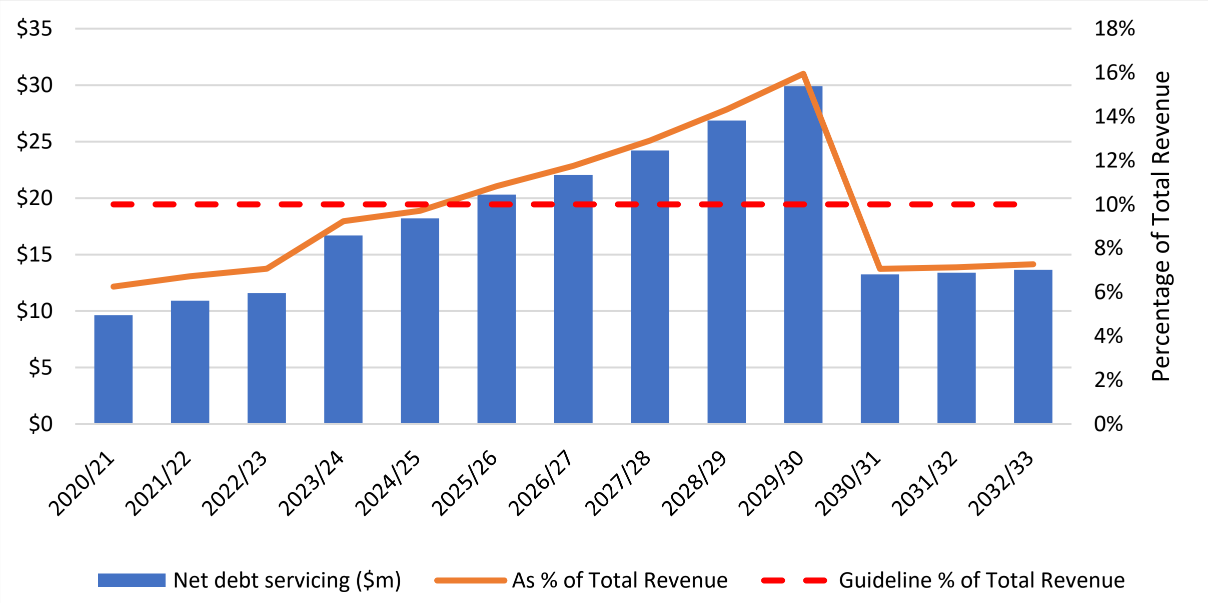


	2021/22	2022/23	2023/24	2024/25	2025/26
Total Gross Debt	228.29	220.00	207.23	192.47	175.50
LRF Balance	13.66	13.94	14.22	14.50	14.79
Debt net of LRF	214.63	206.06	193.02	177.97	160.71

Net debt is estimated at $214.6 million and gradually reduces in the outer years on the assumption that principal is repaid and Crown does not take on new loans.

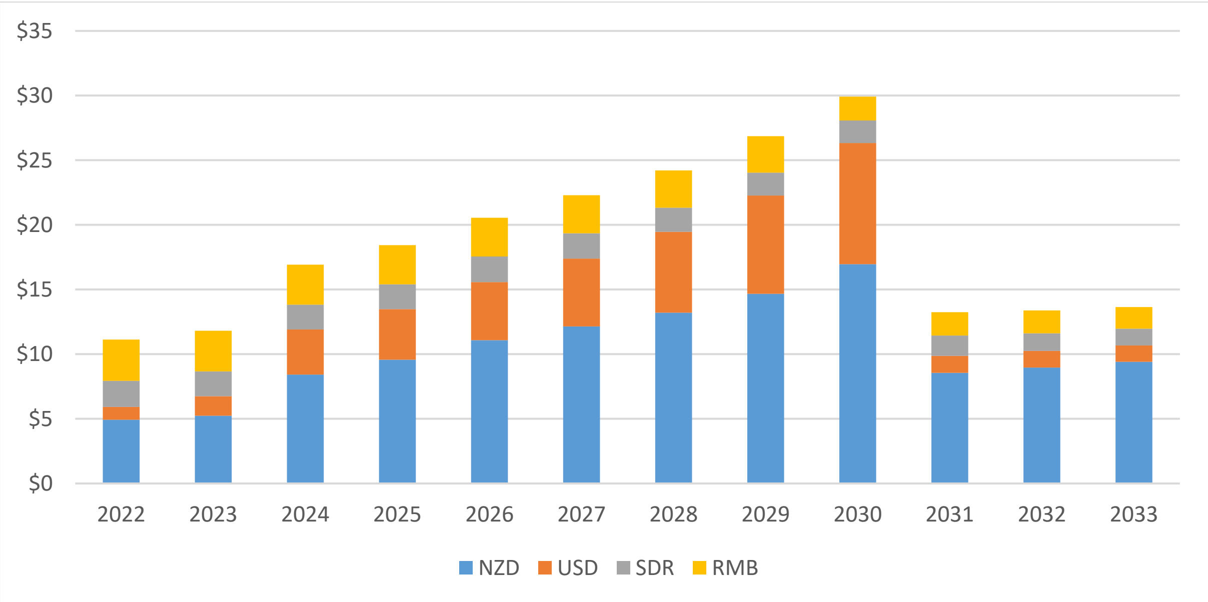
The LRF has become the official means by which the Cook Islands government manages its debt portfolio mandated by the LRF Act 2014.

Figure 7-3 10-year Debt Servicing Profile ($ million)



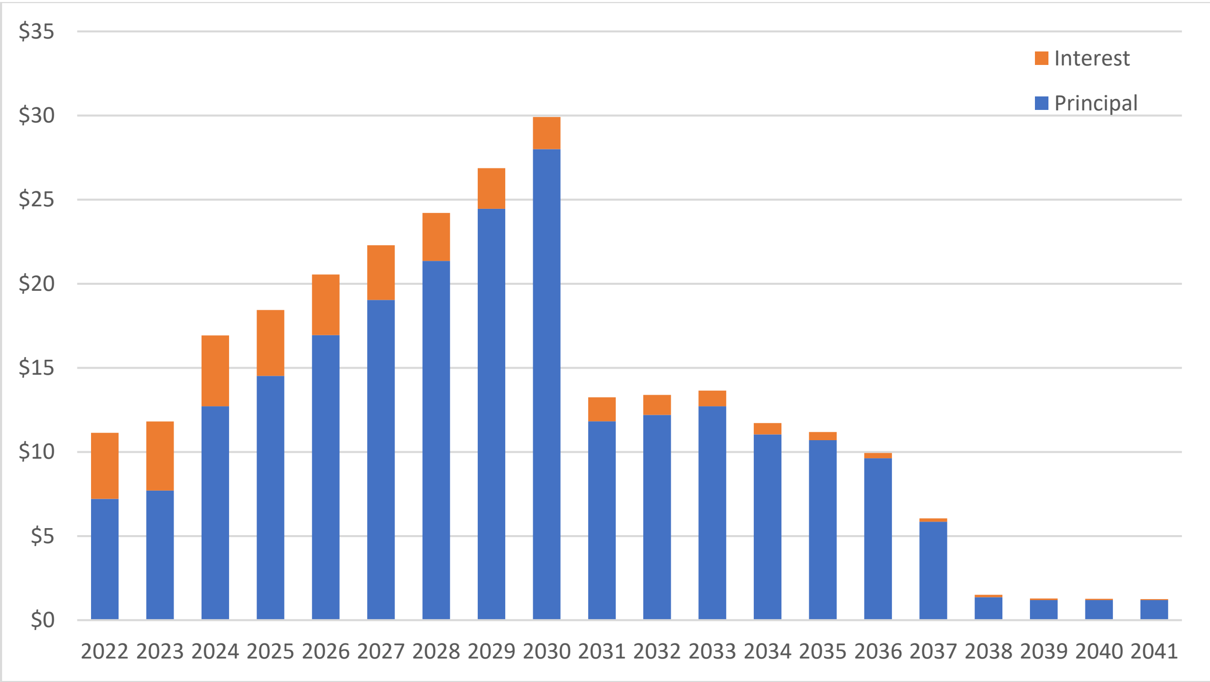
Although net debt to GDP is within the fiscal limit of 65%, net debt servicing to total revenue is estimated to surpass 10% in 2025/26, which could indicate a cashflow issue if overall government spending is not being closely monitored or reduced to accommodate the additional debt servicing requirements. The debt servicing peaks at 16% ($29.9 million) of total revenue in 2029/30, as some loans with back-ended repayment profiles have higher demands.

Figure 7-4 10-year Debt Servicing Profile by currency (NZ$ million equivalent)



As demonstrated in Figure 7-4, the NZD share of overall debt service repayments takes up a significant portion, this is due to government taking on new debt in local currency to mitigate against exchange risk exposure.

Figure 7-5 20-year Debt Servicing Profile by Principal/Interest ($ million)



Refinancing risk is a concern over the medium-term. With the revised Net Debt to GDP rule of 65%, there is still room available for the government to take on additional debt if needed – however any new debt should be considered in conjunction with the impact on debt servicing and cash balances. Debt servicing is expected to become a larger concern over the medium-term as grace periods on new debt end and principal repayments begin.

7.1.1 Debt Management Strategy

Most loans, domestic and foreign currency, are contracted on concessional terms with a weighted average interest rate of 2.1% and interest payments as a share of GDP estimated at 1% on the total debt portfolio.

Table 7-3 Cost and Risk Indicators of Existing Debt Portfolio (as at June 2022)

Risk Indicators		FX debt	NZD debt	Total debt
Amount (in millions of NZD)		95.9	132.4	228.3
Amount (in millions of USD)		68.2	94.1	162.3
Nominal debt as % of GDP		19.7	27.2	46.9
Cost of debt	Interest payment as % of GDP	0.3	0.6	1.0
	Weighted Average IR (%)	1.8	2.3	2.1
Refinancing risk	ATM (years)	6.8	7.6	7.3
	Debt maturing in 1yr (% of total)	5.1	2.3	3.5
	Debt maturing in 1yr (% of GDP)	1.0	0.6	1.6
Interest rate risk	ATR (years)	6.8	0.6	3.2
	Debt re-fixing in 1yr (% of total)	5.1	98.2	59.2
	Fixed rate debt (% of total)	100.0	1.9	43.1
FX risk	FX debt (% of total debt)			42.0

The large proportion of variable rate debt instruments in the portfolio makes interest rate risk one of the main risks. The shortness in the average time to refixing (ATR) of total debt of 3.2 years, exposes the portfolio to increasing costs with changing interest rate environments.

The Cook Islands has maximized concessional borrowing when necessary and where possible grants from development partners are utilised rather than debt. Much of the debt portfolio has been contracted from multilateral and bilateral institutions on concessional terms. Prior to 2010, loans were contracted with long maturities and low, fixed rate interest rates. After 2010, duration shortened, with loans dominated in domestic currency on floating interest rate terms. This reflects a change of lending terms mainly on the part of the ADB, it is part of the Cook Islands strategy to apply for reclassification with the ADB considering the current state of the economy.

7.2 Exchange Rate Assumptions

Currency risk arises when debt is held in foreign currency and adverse movements in the exchange rate against the NZD lead to increase costs. To minimize foreign currency risk, the government will constrain new borrowings in the local currency and restrict borrowings in currencies that are not favourable to the local currency.

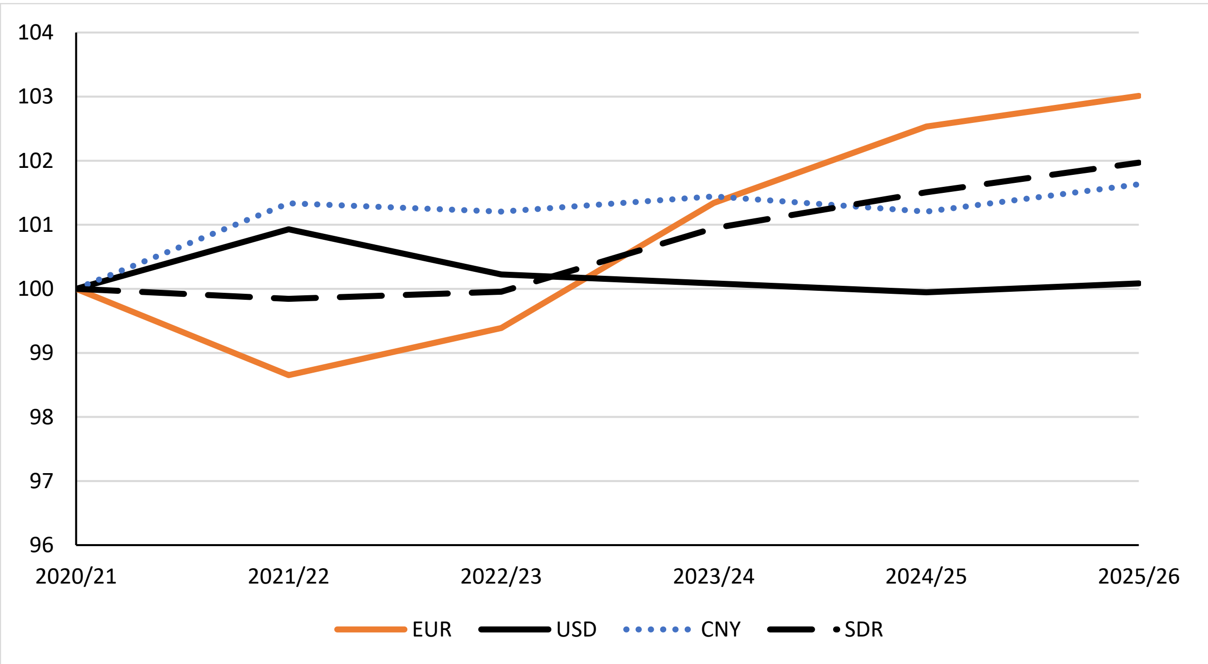
Table 7-4 Exchange Rate Forecast – 2021/22 to 2025/26

Currency	2021/22	2022/23	2023/24	2024/25	2025/26
USD	0.7110	0.7160	0.7170	0.7180	0.7170
SDR	0.5020	0.5014	0.4965	0.4937	0.4915
EUR	0.6077	0.6032	0.5916	0.5847	0.5820
RMB	4.6066	4.6125	4.6017	4.6124	4.5931

NZD appreciated against major trading currencies compared to the 2020 financial year, and into the first half of the 2021/22 financial year as the Reserve Bank of New Zealand began to return interest rates to more normal settings. With rising inflation becoming an increasing concern for the RBNZ, and unemployment levels suggesting rates at or exceeding 'full employment' rates are anticipated to rise further through 2022.

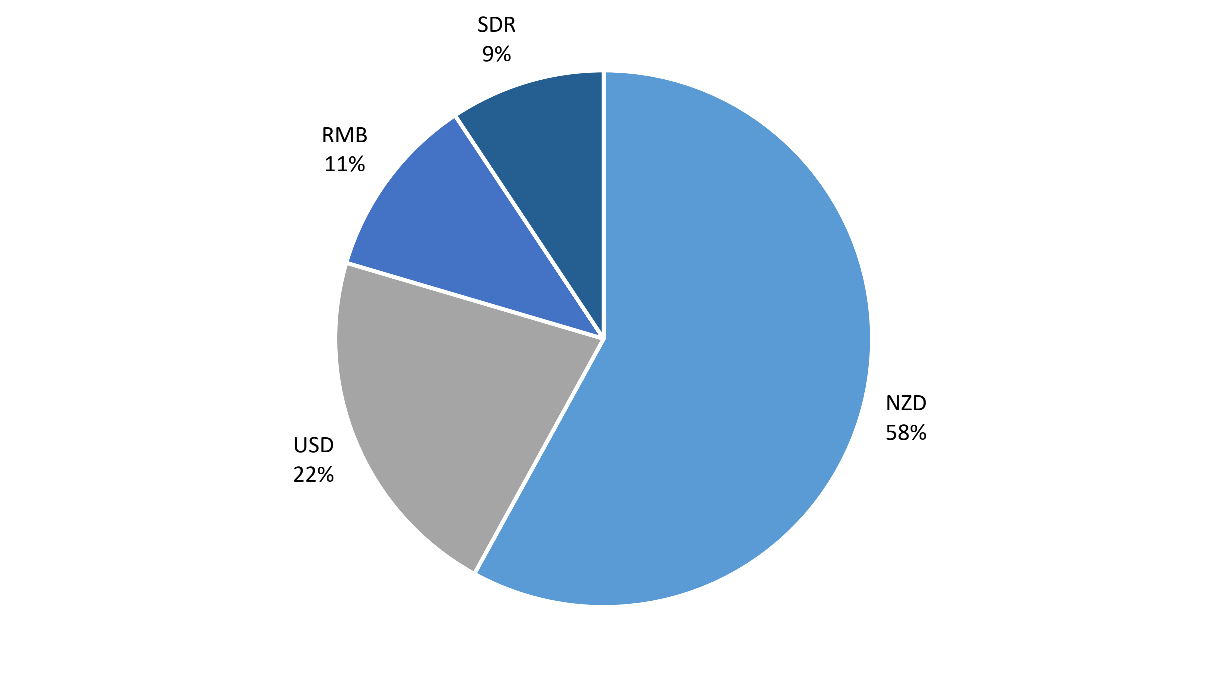
New Zealand labour market data has kept the NZD strong through 2021, and aside from any unforeseen stumbles in the post-lockdown approach of the New Zealand government, are expected to continue.

Figure 7-6 Assumed changes in major exchange rates (indices – 2020/21 = 100)



7.2.1 Crown Debt by Currency

Figure 7-7 Overall debt by currency (as at June 2022)



The NZD share of the total gross debt has increased by 16%, from 42% in the 2021/22 appropriation to 58%, mainly as a result of taking on the additional new debt of $55.54 million in the local currency – it was forecasted in USD during the 2021/22 Budget.

Accordingly, the total USD share has reduced from 40% to 22%. The Cook Islands receive fisheries income in USD, making for a natural hedge to the exchange rate exposure in the debt portfolio by allocating USD to the LRF based on USD annual debt servicing payments.

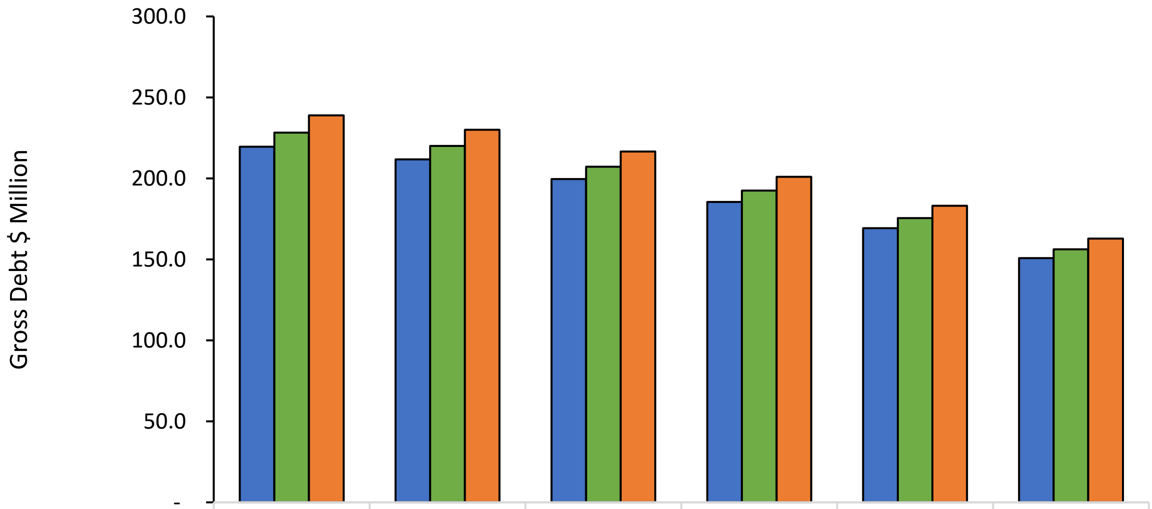
7.2.2 Debt Sensitivity Analysis

Table 7-5 Base exchange rates assumptions used in 2021/22 Budget with +/- 10%

Foreign Exchange Currency	-10%	Budget base rate	+10%
EUR	0.5396	0.5995	0.6595
USD	0.6458	0.7176	0.7894
RMB	4.2012	4.6681	5.1349
SDR	0.4511	0.5012	0.5513

Movements in the value of the NZD against Crown's major trading currencies remains a risk. The sensitivity analysis demonstrates the impact of a 10% appreciation or depreciation by the NZD to determine the impact on the gross borrowings and the debt servicing cost.

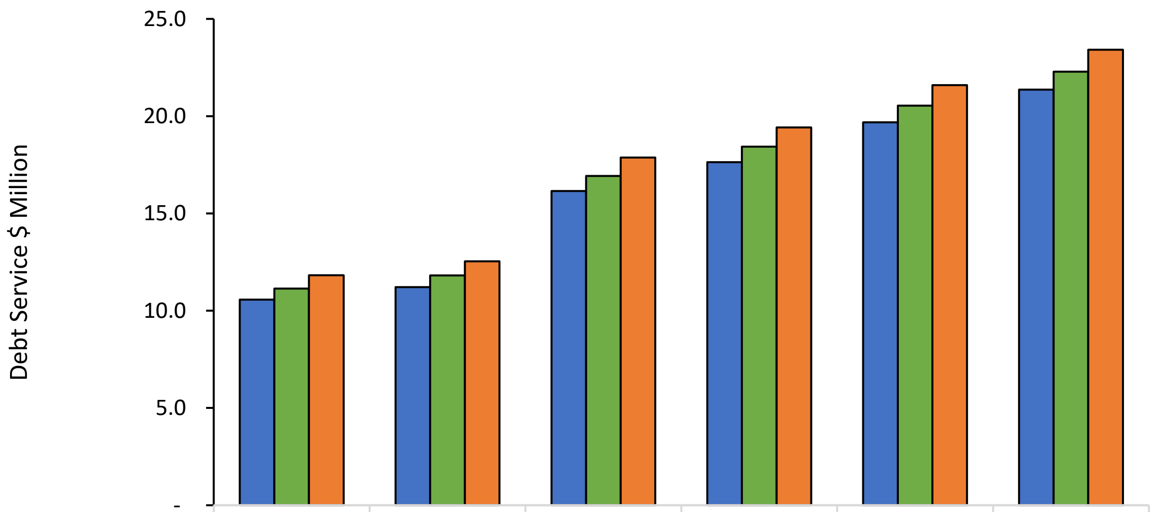
Figure 7-8 Sensitivity of Crown Gross Debt to NZD movements



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Increase by 10%	219.57	211.76	199.60	185.51	169.26	150.81
Base Rate	228.29	220.00	207.23	192.47	175.50	156.23
Decrease by 10%	238.94	230.07	216.55	200.97	183.12	162.86

If the relevant NZD exchange rates were to depreciate by 10% against major trading currencies, Crown debt estimated to the end of June 2022 would increase by an estimated $10.65 million compared to an $8.72 million if the NZD were to appreciate by 10%. This demonstrates the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 7-9 Sensitivity of Crown Debt Servicing Costs to NZD movements



	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Increase by 10%	10.57	11.21	16.15	17.63	19.68	21.37
Base Rate	11.13	11.81	16.92	18.44	20.54	22.29
Decrease by 10%	11.82	12.54	17.87	19.42	21.59	23.42

A 10% decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by $0.69 million in the 2021/22 financial year.

7.3 Gross Debt by Individual Loan

The Crown's total committed gross debt is $314.14 million, this is further broken down into loans that are drawn of $228.29 million and loans that are undrawn of $85.85 million. The undrawn loan includes $55.54 million of debt financing that may be drawn from December 2021.

Table 7-6 Status of Government loans to 30 June 2022

Loans committed and drawn	Date loan taken	Original loan amount (000's)	Expected date of Repayment	Current Balance ($'000 NZD)
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	August, 2027	877
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	August, 2030	2,590
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	December, 2031	686
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	June, 2032	240
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	August, 2034	294
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	August, 2034	1,794
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	September, 2035	1,565
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	September, 2036	3,625
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	January, 2038	647
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	June, 2033	1,445
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	June, 2045	3,040
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	August, 2028	6,594
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	NZD 10,309	November, 2033	7,907
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	November, 2040	4,531
ADB 2565 OCR Economic Recovery Support Program 1	January, 2010	NZD 11,053	October, 2024	2,512
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	NZD 5,290	November, 2035	4,542
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	December, 2032	18,721
ADB 2946 OCR Economic Recovery Support Program 2	December, 2012	NZD 11,053	October, 2027	3,323
ADB 3193 Renewable Energy Project	December, 2014	NZD 12,980	June, 2036	9,947
ADB 001-COO(FA-CDF) - Disaster Resilience Program	December, 2019	NZD 15,676	June, 2035	15,676
ADB 3632 - Loan for Undersea Broadband Cable	November, 2018	USD 15,000	2031	21,097
Commercial - Loan for Rarotonga Airport Equipment	January, 2018	NZD 3,206	2033	2,559
ADB 4010-COO - CPRO Loan	November, 2020	NZD 30,409	June, 2030	30,409
AIIB - CPRO Loan	December, 2020	USD 20,000	June, 2030	28,129
ADB - Sustainable Economic Recovery Program	December, 2021	USD 40,000	December, 2036	55,540
Total Loans Drawn Down				**228,290**
Committed/Planned but Undrawn				
ADB - Precautionary Financing Option (PFO)	December, 2021	USD 40,000	December, 2036	55,540
ADB - Disaster Resilience Program (Phase 3)	December, 2021	NZD 30,312	June, 2035	30,312
Total Committed/Planned but Undrawn				**85,852**
Total Loans Commitment by the Crown				**314,142**

7.4 Crown Debt by Lenders

Figure 7-10 Overall Debt by Lenders (as at June 2022)

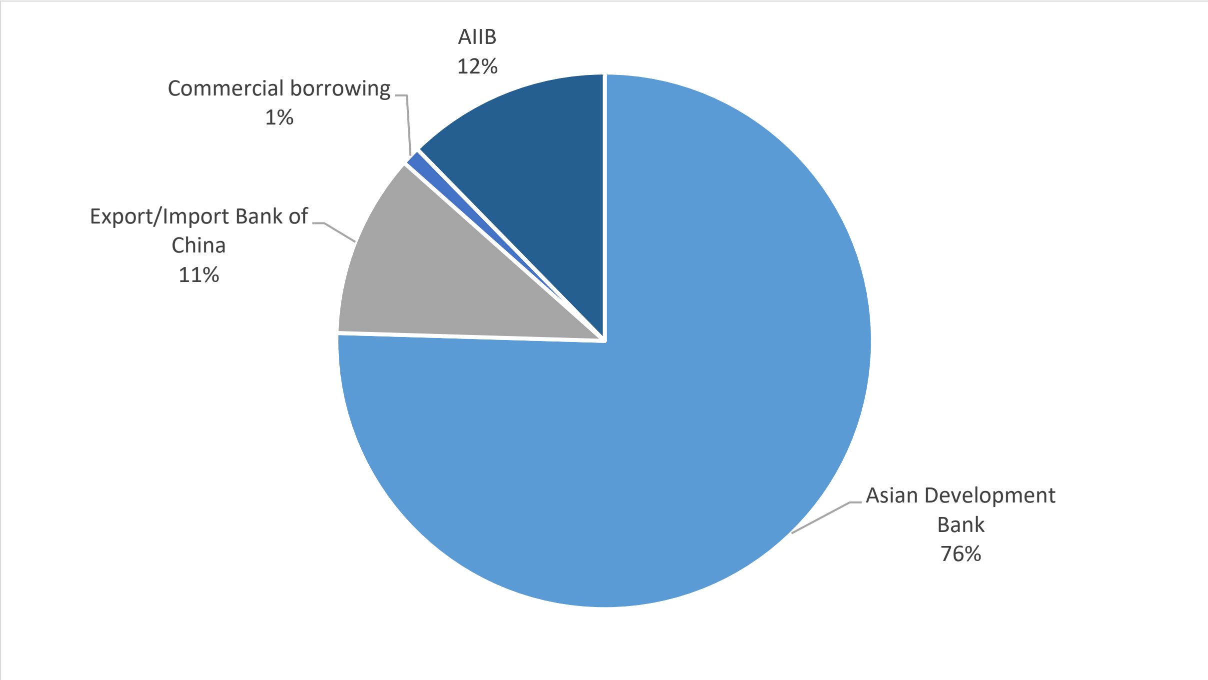


Table 7-7 Overall Debt by Lenders (as at June 2022)

Debt Outstanding ($ million)	
ADB	172.3
AIIB	28.1
Exim Bank China	25.3
Commercial Bank	2.6
Total	**228.3**

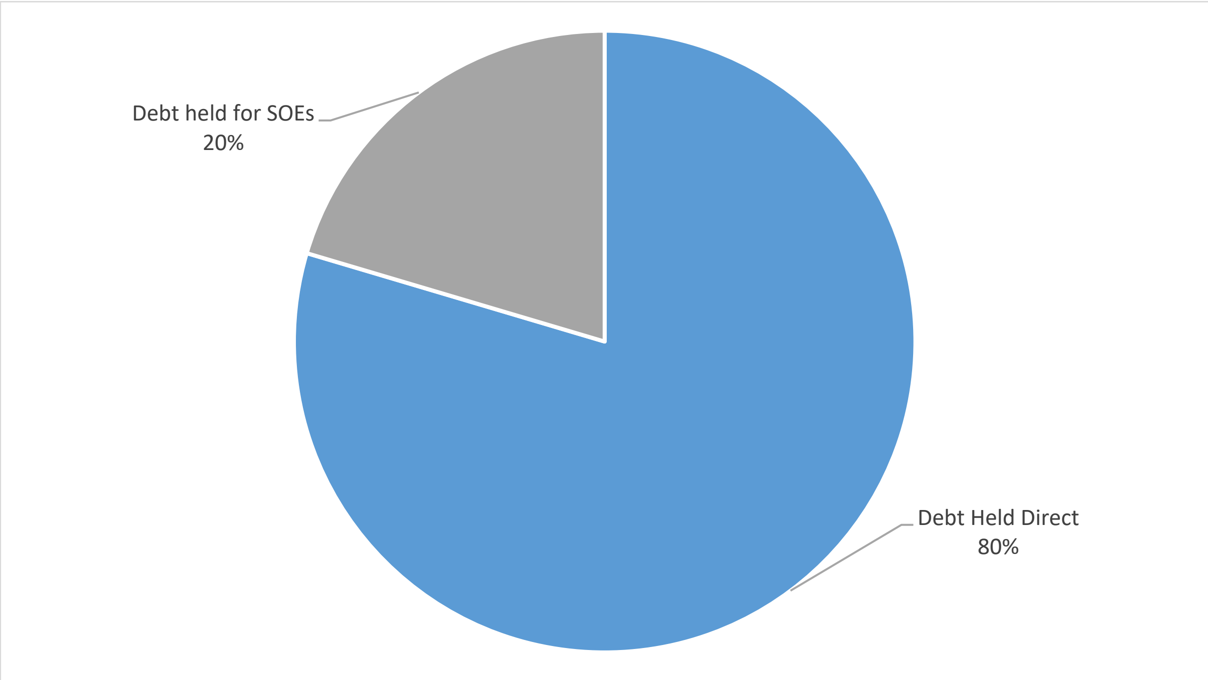
A large proportion of existing debt is limited to one multilateral institution. The ADB have provided the large proportion of lending to the Cook Islands, making up 76% (Up from 57% during the budget) of the current debt portfolio. The terms of borrowing have been concessional to date, however increasing limitations in selection of terms, for example interest rate type and tenure, increases the risk within the debt portfolio.

7.5 Other State-Owned Enterprise Debt

Since the enactment of the LRF Act, all new Crown debt (including SOE debt) must go through a full debt sustainability analysis and be approved by Cabinet (via the Minister of Finance), on the advice of the Financial Secretary.

The existing debt portfolio to the end of June 2022 as illustrated on the graph below, 20% of Crown debt are on-lent to SOEs. This includes loans on the Crown's balance sheet for the Ports Authority loan (2022: $16.98 million), the Avaroa Cable Limited loan (2022: $21.1 million) and a local commercial loan by the Airport Authority (2022: $2.56 million).

Figure 7-11 Overall Debt by SOEs and Direct (as at June 2022)



Airport Authority

The Airport Authority is currently paying off its loan from the commercial bank (2022: $2.56 million). The estimate includes an additional loan of $1.0 million for the RESA project and for the building of the Air NZ cargo shed. The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Authority.

Ports Authority

The Ports Authority has received two years of debt repayment holiday from government due to the pandemic's impact on the Authority's revenue, the debt repayments during the repayment holiday period will be paid for by the Crown until financial year 2022/23.

8 Official Development Assistance

Table 8-1 ODA Expenditure

Cook Islands ODA December 2021 Update	($'000)
FY2021/22 Half Year Update	101,731
FY2021/22 ODA Budget (excluding CSS)	53,814
FY2021/22 HYEFU estimated spend to date	46,809
Conversion rate December 2021	**46%**

Official Development Assistance (ODA) for 2021/22 was appropriated as an annual ODA expenditure at the value of $101.7 million. Estimated expenditure to date is reported at $46.8 million, representing a 46 per cent spend against the total budget for 2021/22. This includes programmes under 3rd Party spends and new ODA programmes.

8.1 New Zealand Programmes

Cook Islands Core Sector Support

A Core Sector Support (CSS) Grant Funding Arrangement (GFA) with New Zealand was signed in 2019, valued at NZD$31.3 million and allocated over 2019/20 to 2022/23. The goal of the support is to enhance the Cook Islands self-sufficiency through the first four-years of the country's graduation to a High-Income Status by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. The Budget Support modality focuses on supporting measures to strengthen the tourism sector, health sector and the education sector.

Under the same CSS Arrangement, New Zealand will provide NZD$5.1 million in funding over the same period to support public sector strengthening through the provision of specialist technical assistance. Technical assistance proposals must demonstrate relevance to the Cook Islands' Public Sector Strategy, broader Public Sector reform/strengthening and the Cook Islands Economic Development Strategy. Total estimated spend to date for this output is NZD$966,990.

COVID-19 Economic Recovery Roadmap Support – July 2021

The New Zealand Ministry of Foreign Affairs and Trade acting through the New Zealand High Commission in Rarotonga provided a contribution of $30.0 million to the Government of the Cook Islands to support the Cook Islands' Economic Recovery Roadmap (ERR). This contribution is made available under the New Zealand Aid Programme for the Cook Islands and is treated as a general budget support.

The contribution is managed and administered by the Ministry of Finance and Economic Management (MFEM) to achieve the purposes under the Cook Islands ERR to facilitate sustainable economic recovery from the impacts of COVID-19.

COVID-19 Economic Recovery Budget Support – November 2021

In November 2021, the New Zealand Government's Ministry of Foreign Affairs and Trade acting through the New Zealand High Commission in Rarotonga provided a further contribution of $20.0 million to the Government of the Cook Islands to strengthen Government's cash reserves and to help fund the short-term costs of supporting livelihoods, social protections, core public services and COVID-19 preparedness in the Cook Islands.

The contribution is managed and administered by MFEM with $10.0 million allocated through general budget support to support the Government's balance sheet, and the remaining balance made available under the New Zealand Aid Programme for the Cook Islands to support programmes and initiatives under the Cook Islands Economic Recovery Roadmap. Funding will be used as planned through the Economic Recovery Roadmap administered payment.

Cook Islands-New Zealand Infrastructure Trust Fund

The New Zealand Government recently announced a grant contribution of $40.0 million to be allocated to the Cook Islands/ New Zealand (CK-NZ) Infrastructure Trust Fund to help stimulate the Cook Islands' economy and strengthen its overall resilience via capital works. Over the coming months, officials from both governments will confirm details relating to the use of the $40.0 million which will be administered and managed by MFEM.

New Zealand Volunteers Services Abroad – New Zealand

Volunteers Services Abroad (VSA) is New Zealand's largest and most experienced volunteer agency working in international development. VSA offers both long (12 months and over) and short-term volunteering assignments, as well as e-volunteering, which has been central to VSA operations since the onset of COVID-19.

The VSA program with the Cook Islands Government was established to provide expertise to meet capacity gaps on a temporary basis in the Cook Islands and to promote the development of Cook Islanders through transfer of valuable skills, knowledge and experience.

The ongoing COVID-19 pandemic has affected volunteers entering into the Cook Islands due to border closures however, the VSA programme is set to continue once the Cook Islands' borders reopen.

Manatua Submarine Cable (ICT cable) – New Zealand Grant

Implementing Agencies: Avaroa Cable Ltd

Total estimated spend to date: $829,414

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

Mei Te Vai Ki Te Vai (MTVKTV) Project

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date: NIL

The purpose of the Mei Te Vai Ki Te Vai project is to improve the water quality of the lagoons in Rarotonga and Aitutaki for the benefit of our health, environment and economy. The following project activities are the progress to date:

- In early 2020, MFEM confirmed a reticulated wastewater system with tertiary-level treatment and land-based disposal is the preferred approach to the MTVKTV project.

Next steps are:

- Public information sessions on the draft Environmental Impact Assessment and draft design
- Phase two of the social/cultural impact assessment
- Begin detailed design of wastewater infrastructure

For further information please visit https://www.totatouvai.co/mei-te-vai-ki-te-vai

Asset Management

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date: $2,500,000

The Cook Islands received a $13.0 million grant from NZ in December 2018 towards supporting Asset Management. This will contribute towards the maintenance and repair of Te Mato Vai (TMV). For more information please visit https://www.totatouvai.co/te-mato-vai-1.

Following completion of the physical works in 2020, the project entered an operation and training phase, as To Tatou Vai employs local people to operate and maintain the new water supply system. The system will incorporate water meters and a control and distribution system (known as a SCADA system) to enable efficient water usage monitoring and management.

Rarotonga Airport Upgrade Designs

Implementing Agencies: Cook Islands Airport Authority

Total estimated spend to date: $30,149

Funding of NZ$1,473,200 under this Agreement will be provided to Airport Authority Cook Islands via the Cook Islands Government. The funding will be used to review the airport development plan in light of the impact of COVID-19 on anticipated airport activity and to fund consulting services to prepare design and tender documentation for the revised airport terminal requirements and the required strengthening of the airport apron and storm water drainage system. By having the design work and construction documentation prepared, it will enable Airport Authority Cook Islands to access contraction financing from the private sector, commercial sources or other development partners.

8.2 European Union Programmes

European Development Fund – Budget Support to the Sanitation Sector

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date: NIL

The focus of the incentivised budget support under the EU's 11th cycle of funding (EDF11) will be to support the Cook Islands priority of improving its Sanitation Sector. The Cook Islands submission under the 11th EDF funding cycle approved by the EU focusses on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014 standards. In 2020/21, an amount of NZ$2.0 million was received. The implementing agency for this program is the Ministry of Finance of Economic Management through its Major Projects and Procurement Support division.

Sustainable Fisheries Partnership Agreement - Multiyear (Fisheries) Policy Support

Implementing Agency: Ministry of Marine Resources

Total estimated spend to date: NIL

This Sustainable Fisheries Partnership Agreement (SFPA) includes an annual fisheries sector contribution of EUR 350,000 by the European Commission under a 4 year protocol. The sectoral support component of the SFPA is utilised to supplement the Ministry of Marine Resources Budget Appropriations and Business Plan through the implementation of the Multiannual Sectoral Programme.

Global Climate Change Alliance Plus: Scaling up Pacific Adaption Project

Implementing Agencies: Office of the Prime Minister / Ministry of Marine Resources

Total estimated spend to date: $288,800

This European Union (EU) funded project focuses on Enhancing a Climate Resilient Marine Sector in the Cook Islands. Implemented by the Pacific Community, the project aims to strengthen the adaptive management of marine systems through strengthened, climate-focussed monitoring, education and awareness. Working closely with the Ministry of Marine Resources and Climate Change Cook Islands, the project will focus primarily on improving the marine research centre in Aitutaki. Supplementary funding of EU$160,000 was recently approved for the Cook Islands to further support and assist the improvement of the Aitutaki Marine Research Centre.

8.3 Japan Programmes

Economic and Social Sector Programme 2018 – Japanese Machinery and Equipment

Implementing Agencies: Ministry of Finance and Economic Management

Total estimated spend to date: $436,259

A provisional Manufacture Japan Market test was carried out by Japan International Cooperation Systems (JICS) to seek interest from Japan's manufacturers in providing the items identified in a list of sixteen (16) prioritised capital items and establish cost estimates. Japan's manufacturers showed an interest in providing six (6) of the items and these were approved by the Japanese authorities.

Using JICS procurement process, five of the six items have been procured and officially handed over to the respective Government agencies. These items were excavators, water trucks and a sprinkler truck for Infrastructure Cook Islands and the Ministry of Agriculture; two ambulances for the Ministry of Health and a tractor truck with a low bed semi-trailer for Infrastructure Cook Islands.

Procurement of the remaining three ambulances for the Ministry of Health and a road sweeper for Infrastructure Cook Islands are complete. The three ambulances have arrived in Rarotonga and are currently undergoing final contractual requirements prior to handing over to the Ministry of Health. The shipment of the road sweeper from Japan is planned for May 2022 with the estimated time of arrival in Rarotonga being November 2022.

Subsequent to the procurement of the above agreed items, the remaining funds from the programme allowed for the procurement of an additional item from the original list. As such, an excavator for the Ministry of Agriculture was procured and awarded to the preferred supplier on 28 September 2021. Estimated arrival of the excavator to Rarotonga is July 2022.

Co-financing on the part of the Cook Islands Government includes exemptions of relevant import value added taxes in accordance with the Cook Islands Value Added Tax (VAT) Act 1997 for approved ODA imports. The Cook Islands Government financial procedures and procurement processes will be adhered to.

Economic and Social Sector Programme 2020 – COVID-19 Response Assistance

Implementing Agencies: Ministry of Finance and Economic Management

Total estimated spend to date: $797,383

The Government of Japan approved a 100 million Japanese yen grant in May 2020 for the procurement of medical equipment to support the Cook Islands' preparedness and capability to respond to COVID-19 and to strengthen the medical capacity of the Cook Islands in the long-term.

Out of the 15 prioritised medical equipment list submitted by the Cook Islands, JICS identified interest from suppliers in Japan to provide six specialised medical items. Using JICS procurement process, five of the six items procured have been received and handed over to the Ministry of Health. These are defibrillators, ultrasonic cleaners, ICU beds, x-ray protection screens and x-ray protection aprons. The procurement process for the remaining item, a back-up generator, is currently underway.

Co-financing on the part of the Cook Islands Government includes the exemptions of relevant import VAT taxes in accordance with the Cook Islands VAT Act 1997 for approved ODA imports. Cook Islands Government financial procedures and procurement processes will be adhered to.

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

The aim of the 'Supporting Safe Recovery of Travel and Tourism' project is to strengthen the capacity and readiness of the Cook Islands to safely receive tourists and support the country's economic recovery from the negative impacts of COVID-19. The project complements the efforts of the Cook Islands Government, the business community, and the general public to revive tourism and rebuild the economy. Project outputs include:

3. airport readiness through improvements to the Rarotonga Airport terminal to facilitate safe COVID-19 screening and physical distancing; and
4. health readiness through the improvement of a medium-sized health facility and the procurement and installation of a medical waste treatment system.

The proposed project will be the Asian Development Bank's (ADB) first assistance to a Pacific developing member country, for safe recovery of travel and tourism through financial assistance from the Japan Fund for Poverty Reduction (JFPR).

8.4 United Nations Programmes

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

Implementing Agencies: Office of the Prime Minister

Total estimated spend to date: NIL

The Global Environment Facility (GEF) battery energy storage system (BESS) contract was awarded to M-Power Limited on 1 June 2017 for a fixed price of US$3,092,768 (equivalent). A variation for NZ$103,000 was agreed in August 2018 to allow a larger transformer sizing. Completion and commissioning of Rarotonga airport west BESS for load shifting occurred in September 2019.

The BESS will be connected to the existing electricity grid to provide flexible response to fluctuating Solar PV output in the TAU network. The main function of this BESS is to:

- minimise the severity and frequency of events that cause low load at the Power Station
- minimise any curtailment of Solar PV facilities that may be necessary to maintain grid stability

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

Due to travel restrictions as a result of the COVID-19 pandemic, some works yet to be completed have been placed on hold.

Western Pacific Multi-Country Integrated HIV/TB program – United Nations Development Programme

Implementing Agencies: Ministry of Health

Total estimated spend to date: $32,789

The United Nations Development Programme (UNDP) manages the Multi-Country Western Pacific Integrated HIV/TB Programme. It aims to improve the coverage and quality of HIV/TB prevention, treatment and care in 11 participating Western Pacific countries. The HIV activities includes strengthening mobile HIV testing and counselling initiative, continuation of the counselling and testing program. The TB activities include monitoring and evaluation of policies implemented in hospitals and centres, training of community volunteers, community awareness and training of health staff on contact tracing.

8.5 Green Climate Fund Programmes

The Cook Islands can access climate-related finance of up to approximately $71.5 million (US$50 million) per project directly from the Green Climate Fund (GCF), which is a significant achievement for the Cook Islands.

The country has become the first nation in the Pacific to be accredited to the fund which was formed to assist developing countries in adaptation and mitigation practices to counter climate change.

MFEM in collaboration with Climate Change Cook Islands have been implementing Readiness programmes since gaining accreditation in 2018 to strengthen the capacity of agencies in implementing GCF projects.

Green Climate Fund Readiness

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

Total estimated spend to date: $217,697

Readiness 4 is predominately based on concept note development and capacity building within the Office of the Prime Minister, MFEM, the Bank of the Cook Islands (BCI) and the Private sector. The Readiness support is assisting BCI's accreditation to the fund. To date, the Cook Islands have submitted two concept notes to GCF under the Simplified Approval Process (SAP) and Enhanced Direct Access (EDA).

The SAP Concept Note aims to enhance the capacity of the Cook Islands' health system to protect and improve population health in an unstable and changing climate by seeking GCF financing of approximately US$9.9 million. Objectives of the SAP proposal will assist in the following areas:

- Component 1: Strengthening the capacity and capabilities of the Ministry of Health, partners and stakeholders to integrate climate change considerations in their health operations;
- Component 2: Building institutional capabilities to respond to climate change health issues and effectively deliver health services to the Cook Islands' population;
- Component 3: Preventative measures to reduce health impacts from climate change in communities;

The EDA Concept Note will provide direct financing for communities and businesses to respond to climate change in the Cook Islands. This proposal seeks to access approximately US$29 million to support the following areas:

- Component 1 - build capacity at local and central Government levels and among key stakeholders which aims to support communities to increase the resilience of essential community buildings and to ensure that construction-sector activities are sustainable;

- Component 2 – is the establishment of two funds that will:
  - upgrade existing private buildings to comply with the new 2019 Building Code, in particular private buildings belonging to self-employed, sole traders, and micro- and small- enterprises
  - support communities and local governments to increase the resilience of essential community buildings

Green Resilient Recovery – Readiness 5

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

The Green Resilient Recovery (GRR) Readiness proposal is aimed at strengthening the climate change aspects of the Economic Development Strategy (EDS) and the National Sustainable Development Agenda (NSDA).

Activities under GRR will support Objective 5; "Greening our Economy" of the EDS and to build climate change resilience.

The NSDA provides an opportunity to have climate change as a central component of the primary development planning document for the Cook Islands, by increasing and developing the 'green' and climate change aspects of this strategy, as it evolves.

The Green Resilient Recovery Readiness programme for US$300,000 has been approved by the GCF and is currently undergoing legal arrangements to enable implementation.

Enhancing National Adaptation Programme

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

The Enhancing the National Adaptation Programme (ENAP) proposal is designed to address climate change related knowledge gaps in the Cook Islands adaptation approach, and to strengthen our adaptation planning and legal frameworks to support the implementation of the Country Programme.

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

The ENAP proposal has four specific outcomes:

Outcome 3.1: Adaptation planning governance and institutional coordination strengthened.
Outcome 3.2: Evidence basis produced to design adaptation solutions for maximum impact.
Outcome 3.3: Private sector engagement in adaptation catalysed.
Outcome 3.4: Adaptation finance increased

The ENAP proposal has been approved by the GCF for US$3.0 million and legal arrangements are currently underway to enable implementation.

Project Preparation Facility – Building Resilient and Healthy Cook Island Communities

Implementing Agencies: Ministry of Finance and Economic Management

Total estimated spend to date: $10,000

A Project Preparation Facility (PPF) application for US$568,000 was approved by the GCF to undertake technical assessments to support the development of "Building resilient and Healthy Cook Island Communities". The project proposal aims to develop, promote and implement increased resilience of the Cook Islands population to the health impacts of climate change. The project will facilitate transformational change within the Cook Islands Health sector by building the technical and institutional capacity to monitor, model and address health related climate change impacts. The project will also strengthen awareness of the health concerns exacerbated by climate change at household and community levels in the outer islands, including undertaking Island Health Assessments that highlight the solution-based approach to adaptive measures.

The Project Preparation Facility Grant Agreement is now effective with disbursement of funding from GCF currently underway.

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

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

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

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

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

- increase generation and use of climate information in decision making;
- strengthened adaptive capacity and reduced exposure to climate risks; and
- strengthened awareness of climate threats and risk reduction processes

The programme will be administered and implemented by the United Nations Environmental Programme (UNEP) with the Cook Islands expected to benefit up to US$5.3 million through direct support and up to US$6.0 million through regional partners. The legal arrangements between MFEM and UNEP are currently underway to enable implementation.

Green Climate Fund – Renewable Energy Grant (Southern Group) - (administered by Asian Development Bank)

Implementing Agencies: Office of the Prime Minister

Total estimated spend to date: NIL

The Airport South BESS contract was awarded to Vector on 30 September 2018, to implement two units of 1.0 MW/4.0MWh (a total of 2.0MW/8.0MWh) battery energy storage system (BESS) for load shifting capability at the Rarotonga airport south. This BESS is online and maintains constant state of charge and is configured to provide network frequency and voltage support.

Rarotonga Power Station BESS Lot 1 turnkey contract site is now substantially ready for installation of BESS containers. The shipping of the containers has been delayed due to logistical impacts caused by COVID-19. The containers are tentatively scheduled to arrive in Rarotonga in November 2021.

8.6 Adaptation Fund Programmes

Pa Enua Action for Resilient Livelihoods (PEARL)

Implementing Agencies: Office of the Prime Minister

Total estimated spend to date: $1,011,373

The funds have been utilised to strengthen national and local capacity to reduce climate change risks, to establish climate resilient water management instruments and to revitalise agricultural production systems to support greater food security and protect livelihoods in the Pa Enua island communities.

The Project comprises of three components:

- Strengthening disaster risk governance to manage disaster risk and enhancing disaster preparedness for effective response to "Build Back Better" in recovery, rehabilitation and reconstruction
- Integrated water security management planning and implementation
- Revitalised agricultural production systems strengthening island food sources and livelihoods in the Pa Enua.

The Adaptation Fund Board approved a six-month extension, allowing for the Project to be completed on 6 June 2022. As at September 2021, 35 of the 37 targets for the Project have been achieved.

8.7 Private Donor

National Archive Digitization

Implementing Agencies: Ministry of Cultural Development

Total estimated spend to date: $140,301

The late Julie Gayle Speaker from the United States dedicated part of her estate to be shared with the Cook Islands National Archives to support the digitisation of document resources from the 1950s to date. The aim of the programme is to preserve our heritage and history, protect our traditional knowledge and develop our language, creative and cultural endeavours. This project is now in its implementation stage.

Aid Effectiveness

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used to support the implementation of official development assistance policy. The program currently contributes to several projects including the following: annual meeting of development partners, surge capacity to catch-up and standardise Crown financial statements, training and set-up of project financial management software and support project development in the areas of climate finance. Total estimated spend to date is $76,516.

9 Schedules

9.1 Statement of Fiscal Responsibility (Operating)

	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Operating Revenue						
Taxation Revenue	86,520	107,278	105,991	126,671	161,714	166,817
Other Crown Revenue	62,556	42,255	56,821	13,749	13,384	12,381
Trading Revenue	4,041	4,444	4,444	4,707	4,727	4,727
Interest on Loans to Subsidiaries	0	0	0	582	831	737
Dividends	0	136	0	717	812	1,282
Interest on Balances	926	391	391	395	200	200
Core Sector Support	7,825	7,825	7,825	7,825	0	0
Total Operating Revenue	**161,868**	**162,329**	**175,472**	**154,646**	**181,668**	**186,144**
Operating Expenditure						
Ministry Outputs	**201,716**	**165,711**	**166,711**	**132,626**	**133,909**	**132,805**
Personnel	*62,855*	*67,589*	*67,589*	*68,086*	*68,159*	*68,159*
Operating	*21,368*	*18,222*	*18,352*	*18,373*	*18,583*	*18,533*
Administered Payments	*111,593*	*72,746*	*73,617*	*39,013*	*40,014*	*38,959*
Depreciation	*5,900*	*7,154*	*7,154*	*7,154*	*7,154*	*7,154*
POBOC	28,597	28,685	28,714	28,906	28,467	28,173
Total Other Operating	**6,926**	**10,978**	**10,978**	**11,030**	**11,139**	**10,842**
Debt Interest Contribution to LRF	*0*	*4,051*	*4,051*	*4,103*	*4,212*	*3,915*
Crown Infrastructure Depreciation	*4,603*	*4,603*	*4,603*	*4,603*	*4,603*	*4,603*
Transfer to Emergency Response Trust Fund	*50*	*50*	*50*	*50*	*50*	*50*
Depreciation Contingency Fund	**2,174**	**2,174**	**2,174**	**2,174**	**2,174**	**2,174**
Chinese Equipment	*0*	*0*	*0*	*0*	*0*	*0*
Rarotonga Water Network	*803*	*803*	*803*	*803*	*803*	*803*
Northern Pa Enua Renewable Energy System	*400*	*400*	*400*	*400*	*400*	*400*
Southern Pa Enua Renewable Energy System (excl. Aitutaki)	*971*	*971*	*971*	*971*	*971*	*971*
Other Assets	*0*	*0*	*0*	*0*	*0*	*0*
Contingency Funds - Operating	*100*	*100*	*100*	*100*	*100*	*100*
Total Operating Expenses	**237,238**	**205,374**	**206,404**	**172,562**	**173,515**	**171,820**
Operating Surplus/(Shortfall)	**-75,370**	**-43,045**	**-30,932**	**-17,916**	**8,153**	**14,324**

9.2 Statement of Fiscal Responsibility (Non-Operating)

	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Reductions in Net Borrowings	**(73,742)**	**(46,128)**	**(48,330)**	**6,749**	**11,706**	**13,453**
Loan Receipts/Drawdown	(80,923)	(54,988)	(55,540)	0	0	0
Principal repayment	7,182	8,860	7,210	7,708	12,713	14,521
Subsidiary Loan Repayments - Principle	(1)	0	0	(959)	(1,006)	(1,068)
Capital Expenditures	**30,036**	**32,001**	**37,830**	**33,510**	**33,945**	**33,670**
Ministries and Outer Islands (Including CIIC Capital)	30,036	32,001	37,830	33,510	28,945	28,670
Infrastructure Capital Investment in SOEs	0	0	0	0	5,000	5,000
Airport Authority	*0*	*0*	*0*	*0*	*5,000*	*5,000*
Te Aponga Uira	*0*	*0*	*0*	*0*	*0*	*0*
Contingency Funds - Capital Expenditure	0	0	0	0	0	0
Foreign Aid - Capital	**0**	**0**	**0**	**0**	**0**	**0**
Receipts	10,709	28,473	28,473	864	0	0
Expenditure	(10,709)	(28,473)	(28,473)	(864)	0	0
Other Committed Considerations	**7,018**	**50**	**3,594**	**3,594**	**3,594**	**50**
Transfer to Reserve Trust Fund	0	0	0	0	0	0
Stabilisation Fund	0	0	3,544	3,544	3,544	0
Advanced Subsidiaries - Avaroa Cable Ltd	6,968	0	0	0	0	0
Infrastructure Trust Fund	0	0	0	0	0	0
Emergency Response Trust Fund	50	50	50	50	50	50
Total Non-Operating balance	**(36,688)**	**(14,077)**	**(6,906)**	**(43,853)**	**(49,245)**	**(47,173)**
To be Funded by						
Operating Surplus	(75,370)	(37,545)	(30,932)	(17,916)	8,153	14,324
Depreciation	12,676	13,931	13,931	13,931	13,931	13,931
of which: R.E. Capital Replacement	1,371	1,371	1,371	1,371	1,371	1,371
General Cash Reserves	99,332	24,699	10,915	35,977	10,188	432
Pa Enua Accrued Savings	0	30	30	0	0	0
Stabilisation Fund	0	0	0	0	0	0
Contribution to Loan Reserve Fund	0	12,912	12,912	11,811	16,924	18,437
Transfer IN and OUT of Infrastructure Trust Fund	0	0	0	0	0	0
Transfer to Emergency Response Trust Fund	50	50	50	50	50	50
Total Funding Items	**36,688**	**14,077**	**6,906**	**43,853**	**49,245**	**47,173**
Net Surplus/Shortfall	**0**	**0**	**0**	**0**	**0**	**0**

9.3 Fiscal Indicators Table

	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Statement of Financial Performance						
Taxation Revenue ($m)	86.5	107.3	106.0	126.7	161.7	166.8
Social Contributions ($m)	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenue ($m)	75.3	55.1	69.5	28.0	20.0	19.3
Total Operating Revenue ($m)	**161.9**	**162.3**	**175.5**	**154.6**	**181.7**	**186.1**
Total Operating Revenue Percentage of GDP	37.5	37.6	36.0	27.3	28.2	28.1
Tax Revenue Percentage of GDP	20.0	24.9	21.8	22.4	25.1	25.1
Total Cyclical Revenue ($m)	2.4	10.9	11.1	12.0	12.1	11.1
Total Cyclical Revenue Percentage of GDP	0.6	2.5	2.3	2.1	1.9	1.7
Total Structural Revenue ($m)	159.5	151.4	164.4	142.7	169.5	175.0
Total Structural Revenue Percentage of GDP	36.9	35.1	33.7	25.2	26.3	26.4
Personnel ($m)	**69.7**	**74.8**	**74.8**	**74.9**	**75.1**	**75.1**
Percentage of Total Revenue	43.1	46.1	42.6	48.4	41.3	40.3
Percentage of Structural Revenue	43.7	49.4	45.5	52.5	44.3	42.9
Total Operating Expenditure ($m)	**237.2**	**205.4**	**206.4**	**172.6**	**173.5**	**171.8**
Percentage of GDP	54.9	47.6	42.4	30.5	27.0	25.9
Percentage of Operating Revenue	146.6	126.5	117.6	111.6	95.5	92.3
Cash Operating Expenditure*	224.2	191.4	192.4	158.9	160.0	157.7
Operating Balance ($m)	**-75.4**	**-43.0**	**-30.9**	**-17.9**	**8.2**	**14.3**
Percentage of GDP	-17.5	-10.0	-6.3	-3.2	1.3	2.2
Capital Expenditure	30.0	32.0	37.8	33.5	33.9	33.7
Depreciation	12.7	13.9	13.9	13.9	13.9	13.9
Non-Operating Balance ($m)	-36.7	-14.1	-6.9	-43.9	-49.2	-47.2
Fiscal Balance surplus/deficit ($m) *	**-92.7**	**-61.1**	**-54.8**	**-37.5**	**-11.9**	**-5.4**
Percentage of GDP	-21.5	-14.2	-11.3	-6.6	-1.8	-0.8
Statement of Financial Position ($m)						
Assets ($m)	545.3	591.5	591.5	566.7	562.2	562.0
Liabilities ($m)	361.4	410.5	410.5	402.4	389.9	375.4
Crown Balance ($m)	183.9	181.0	181.0	164.3	172.3	186.6
Percentage of GDP	42.6	42.0	37.1	29.0	26.8	28.1
Working Capital ($m)	51.2	43.0	43.0	-1.6	-25.5	-44.7
Working Capital (months coverage)	2.7	2.7	2.7	-0.1	-1.9	-3.4
Stabilisation Account	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*
General Cash Reserves	54.7	46.5	46.5	1.9	-22.0	-41.2
Statement of Borrowings ($m)						
Gross Debt end of FY ($m)	176.6	225.7	225.7	217.7	205.1	190.6
Gross Debt, Percentage of GDP	40.9	52.3	46.3	38.4	31.9	28.7
Net Crown Debt, end of FY ($m)	165.0	212.1	212.1	203.7	190.9	176.1
Net Debt, Percentage of GDP	38.2	49.2	43.5	36.0	29.7	26.5
Loan Repayment Reserves Held ($m)	11.7	13.7	13.7	13.9	14.2	14.5
Net Debt Servicing ($m)	10.0	12.9	11.1	11.8	16.9	18.4
Percentage of Total Revenue	6.2	8.0	6.3	7.6	9.3	9.9
Percentage of Structural Revenue	6.3	8.5	6.8	8.3	10.0	10.5
Development Partner Support ($m)						
Grants ($m)	21.6	53.8	53.8	18.7	11.4	9.2
Percentage of GDP	5.0	12.5	11.0	3.3	1.8	1.4
Memo item: Nominal GDP ($m)	*431.8*	*431.3*	*487.2*	*566.7*	*643.5*	*663.4*

9.4 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	1,106,072	314,509	0	30,000	1,450,581	70,535	1,380,046
Audit (PERCA)	996,953	119,701	0	18,000	1,134,654	60,700	1,073,954
Business Trade and Investment Board	432,796	242,866	0	4,000	679,662	28,000	651,662
Cook Islands Investment Corporation	1,508,000	974,000	4,250,000	45,000	6,777,000	753,831	6,023,169
Corrective Services	1,469,826	229,131	0	53,000	1,751,957	75,000	1,676,957
Crown Law	987,500	163,500	251,029	3,000	1,405,029	0	1,405,029
Cultural Development	742,000	128,000	765,000	133,000	1,768,000	100,000	1,668,000
Education	11,675,431	2,429,740	4,834,602	620,000	19,559,773	0	19,559,773
Environment	990,826	201,000	372,241	30,000	1,594,067	35,000	1,559,067
Finance and Economic Management	6,316,094	808,174	45,846,822	260,000	53,231,090	954,341	52,276,749
Financial Services Development Authority	242,797	177,906	80,000	4,000	504,703	0	504,703
Foreign Affairs	1,928,889	987,886	25,000	45,000	2,986,775	20,000	2,966,775
Head of State	177,448	29,388	36,000	8,000	250,836	0	250,836
Health	12,473,111	3,598,951	2,446,870	1,570,000	20,088,932	250,000	19,838,932
Infrastructure Cook Islands	2,319,297	299,129	2,520,000	145,000	5,283,426	200,000	5,083,426
Internal Affairs	1,336,376	270,000	3,213,000	27,000	4,846,376	0	4,846,376
of which: Welfare Payments - Allowances			*1,316,000*				
Justice	1,883,976	449,999	560,000	30,000	2,923,975	375,000	2,548,975
Marine Resources	1,271,815	670,185	200,000	150,000	2,292,000	28,000	2,264,000
Ombudsman	233,000	62,000	0	6,000	301,000	0	301,000
Parliamentary Services	619,000	80,000	170,000	114,220	983,220	0	983,220
Police	4,154,896	286,104	415,000	1,010,000	5,866,000	154,783	5,711,217
Prime Minister's Office	1,518,000	499,000	976,077	31,000	3,024,077	0	3,024,077
Public Service Commission	350,000	185,000	1,940,000	15,000	2,490,000	0	2,490,000
Cook Islands Seabed Minerals Authority	490,000	370,000	215,000	9,500	1,084,500	200,000	884,500
Tourism Corporation	2,173,913	1,396,087	4,500,000	52,000	8,122,000	0	8,122,000
Transport	1,024,000	161,000	0	63,609	1,248,609	32,000	1,216,609
Total Ministries, Crown & Statutory Agencies	**58,422,016**	**15,133,256**	**73,616,641**	**4,476,329**	**151,648,242**	**3,337,190**	**148,311,052**

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	406,069	121,289	0	12,642	540,000	0	540,000
Deputy Prime Minister	297,800	70,611	0	9,589	378,000	0	378,000
Minister Vaine Mokoroa	217,500	85,000	0	5,500	308,000	0	308,000
Minister Vainetutai Toki-Brown	181,000	115,838	0	11,162	308,000	0	308,000
Minister George Angene	164,000	132,000	0	12,000	308,000	0	308,000
Minister Patrick Arioka	188,901	109,509	0	9,590	308,000	0	308,000
Leader of Opposition	163,712	137,488	0	6,800	308,000	0	308,000
Total Ministerial Support Offices	**1,618,982**	**771,735**	**0**	**67,283**	**2,458,000**	**0**	**2,458,000**
Outer Islands							
Aitutaki	1,229,593	416,985	0	480,000	2,126,578	67,828	2,058,750
Atiu	882,437	458,918	0	430,000	1,771,355	224,318	1,547,037
Mangaia	959,732	611,848	0	210,000	1,781,580	301,000	1,480,580
Manihiki	736,603	158,514	0	460,000	1,355,117	119,000	1,236,117
Mauke	804,159	237,194	0	380,000	1,421,353	113,853	1,307,500
Mitiaro	698,687	88,527	0	93,000	880,214	60,900	819,314
Palmerston	279,845	71,851	0	80,000	431,696	20,500	411,196
Penrhyn	650,381	180,836	0	180,000	1,011,217	74,000	937,217
Pukapuka-Nassau	894,374	154,719	0	215,000	1,264,093	73,695	1,190,398
Rakahanga	412,181	67,761	0	82,000	561,942	52,000	509,942
Total Outer Islands	**7,547,992**	**2,447,153**	**0**	**2,610,000**	**12,605,145**	**1,107,094**	**11,498,051**
Gross Total	**67,588,990**	**18,352,144**	**73,616,641**	**7,153,612**	**166,711,387**	**4,444,284**	**162,267,103**

9.5 Schedule 2 – Payments on Behalf of the crown (POBOCS)

Administering Ministry	POBOC	2021/22 Budget Estimate	2021/22 HYEFU Estimate
Compensation of Employees			
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000
Audit	PERC Salaries and Administration Costs	57,500	57,500
Parliamentary Services	Civil List - Personnel	2,901,961	2,901,961
Parliamentary Services	House of Ariki	348,420	377,597
	Compensation of Employees POBOCs	**3,487,881**	**3,517,058**
Use of Goods and Services			
Audit	Audit Fees	95,600	95,600
Prime Minister's Office	Local Government Election	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	200,000	200,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	180,000	180,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461
Transport	Maritime Radio Coverage	120,000	120,000
	Use of Goods and Services POBOCs	**938,261**	**938,261**
Subsidies			
Finance & Economic Management	Apex - Profit Guarantee	0	0
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	128,000	128,000
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	0
Cook Islands Investment Corporation	Te Mana Uira o Araura - subsidy	0	0
	Subsidies POBOCs	**2,286,096**	**2,286,096**
Social Assistance			
Internal Affairs	Welfare Payments	20,227,000	20,227,000
	Social Assistance POBOCs	**20,227,000**	**20,227,000**
Other Expense			
Finance & Economic Management	Pacific Catastrophe Risk Insurance	160,000	160,000
Finance & Economic Management	CIG Insurance	40,000	40,000
Finance & Economic Management	BEPS Subscription	35,000	35,000
Finance & Economic Management	Competition and Regulatory Authority	620,574	620,574
Foreign Affairs	International Subscriptions	890,000	890,000
	Other Expenses POBOCs	**1,745,574**	**1,745,574**
Grand Total		**28,684,812**	**28,713,989**

9.6 Schedule 3 – Cook Islands Capital Spending

	2021/22 Budget Estimate	2021/22 HYEFU Estimate
Cook Islands Government Capital programs	32,001,262	37,830,490
Total Capital spending	**32,001,262**	**37,830,490**

9.7 Schedule 4 – Official Development Assistance

	2021/22 Budget Estimate	2021/22 HYEFU Estimate
Operating or recurrent expenditure	25,340,981	25,340,981
Capital Project Expenditure	28,473,479	28,473,479
Total Official Development Assistance	**53,814,460**	**53,814,460**

9.8 Schedule 5a – Other Expenses & Financing Transactions

Category of Expense	2021/22 Budget Estimate	2021/22 HYEFU Estimate
Contingency Funds - Operating	100,000	100,000
Crown Infrastructure Depreciation	4,603,000	4,603,000
Provisional for Doubtful Debts	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000
Advanced Subsidiaries - Avaroa Cable Ltd	0	0
Transfer to Reserve Trust Fund	0	0
Depreciation Contingency Fund	2,174,000	2,174,000
Total Other Expenses	**6,927,000**	**6,927,000**

9.9 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2021/22 Budget Estimate	2021/22 HYEFU Estimate
Contribution to LRF - Principal	8,860,401	8,860,401
Contribution to LRF - Interest	4,051,495	4,051,495
Total Contribution to LRF	**12,911,896**	**12,911,896**

9.10 Summary

Category of Payment	2021/22 Budget Estimate	2021/22 HYEFU Estimate
Schedule 1 - Ministry Outputs (Gross Operating)	165,710,315	166,711,387
Schedule 2 - POBOCs	28,684,812	28,713,989
Schedule 3 - CIG Capital Expenditure	32,001,262	37,830,490
Schedule 4 - Official Development Assistance	53,814,460	53,814,460
Schedule 5a - Other Expenses and Financing Transactions	6,927,000	6,927,000
Schedule 5b - Loan Reserve Fund Appropriations	12,911,896	12,911,896
TOTAL APPROPRIATION	**300,049,745**	**306,909,222**

9.11 Schedule 6 – Capital Schedule

MINISTRY/ ISLAND	Project / Programme	Funding Source	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Ministry of Agriculture			**49,038**	**0**	**0**	**0**	**0**	**0**
Rarotonga	Upgrade of Nursery Facilities	CIG	49,038	0	0	0	0	0
Audit			**0**	**35,000**	**35,000**	**0**	**0**	**0**
Rarotonga	TeamMate Software Upgrade	CIG	0	35,000	35,000	0	0	0
Cook Islands Investment Corporation			**5,815,021**	**8,100,000**	**8,100,000**	**3,885,000**	**9,050,000**	**7,600,000**
Aitutaki	Aitutaki Harbour Dredging	CIG	879,601	1,000,000	1,000,000	0	0	0
Rarotonga	Arorangi Prison Remedial works	CIG	129,913	150,000	150,000	0	0	0
Rarotonga	Government Building Projects - Rarotonga	CIG	2,323,509	2,200,000	2,200,000	0	0	0
Rarotonga	Land Acquisition	CIG	0	700,000	700,000	0	0	0
Pa Enua	Pa Enua Government Building Projects - Northern Group	CIG	427,146	550,000	550,000	300,000	650,000	200,000
Pa Enua	Pa Enua Government Building Projects - Southern Group	CIG	1,053,300	400,000	400,000	485,000	300,000	300,000
Rarotonga	Rarotonga Cyclone Shelters - Remediation	CIG	0	100,000	100,000	100,000	100,000	100,000
Rarotonga	To Tatou Vai	CIG	460,619	3,000,000	3,000,000	3,000,000	3,000,000	2,000,000
Rarotonga	Rarotonga Airport Infrastructure Upgrade	CIG	0	0	0	0	5,000,000	5,000,000
Rarotonga	Rarotonga Airport Refurbishment	CIG	118,758	0	0	0	0	0
Rarotonga	Rarotonga Health Projects	CIG	215,000	0	0	0	0	0
Rarotonga	Relocation of Oral Health Services	CIG	68,504	0	0	0	0	0
Various	FM and TV Telecommunications for the Pa Enua	CIG	138,673	0	0	0	0	0
Rarotonga	MFEM Building	CIG	0	0	0	0	0	0
Rarotonga	Removal of AM radio mast	CIG	0	0	0	0	0	0
Rarotonga	Vaikapuangi Government Building-Design	CIG	0	0	0	0	0	0
Corrective Services			**0**	**50,000**	**50,000**	**0**	**0**	**1,000,000**
Rarotonga	Prison Development Programme - Strategic Plan	CIG	0	50,000	50,000	0	0	1,000,000
Tourism			**0**	**50,000**	**50,000**	**0**	**0**	**0**
Rarotonga	Local Data Server	CIG	0	50,000	50,000	0	0	0
Education			**333,201**	**447,000**	**447,000**	**360,000**	**360,000**	**360,000**
National	Fund to be Prioritised by Education	CIG	333,201	300,000	300,000	360,000	360,000	360,000
Rarotonga	Apii Nikao School Sound Proofing	CIG	0	147,000	147,000			
Health			**1,923,368**	**300,000**	**981,011**	**300,000**	**300,000**	**300,000**
National	Fund to be Prioritised by Health for Technical Equipment	CIG	125,169	300,000	300,000	300,000	300,000	300,000
National	CT Scanner	CIG	891,383	0	518,617	0	0	0
National	Health ICT Upgrade	CIG	614,502	0	35,498	0	0	0
National	PCR Laboratory	CIG	292,314	0	126,896	0	0	0
Rarotonga	Ambulance	CIG	0	0	0	0	0	0

MINISTRY/ ISLAND	Project / Programme	Funding Source	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Infrastructure Cook Islands			**14,089,565**	**15,878,262**	**20,865,713**	**21,375,000**	**13,425,000**	**10,550,000**
National	Bridges and Structures Asset Management and Improvement Programme	CIG	1,133,799	3,250,000	4,926,201	6,050,000	50,000	50,000
National	Drainage Asset Management and Improvement Programme	CIG	979,832	1,950,000	1,950,000	500,000	2,000,000	0
Various	Emergency Management and Support Infrastructure	CIG	2,417,759	0	1,300,652	0	2,000,000	2,000,000
Penrhyn	Government Building Projects	CIG	89,220	1,000,000	1,760,781	0	0	0
Rarotonga	Inland and Coastal Waters Asset Management and Improvement Programme	CIG	533,317	0	0	0	0	500,000
Various	Pa Enua Air Infrastructure Improvement Programme	CIG	539,237	128,262	1,263,691	5,625,000	625,000	0
Various	Pa Enua Air Infrastructure Improvement Programme[1]	ITF	0	5,500,000	5,500,000	0	0	0
National	Pa Enua Marine Infrastructure Improvement Programme	CIG	0	1,700,000	1,700,000	1,700,000	0	0
National	Roads Asset Management and Improvement Programme	CIG	7,969,226	7,000,000	7,000,000	7,500,000	7,750,000	8,000,000
National	Waste Management Infrastructure Improvement Programme	CIG	7,549	200,000	200,000	0	0	0
National	Water and Sanitation Infrastructure Improvement Programme	CIG	285,612	650,000	764,388	0	1,000,000	0
National	Capital Procurement (Plant & Equipment)	CIG	0	0	0	0	0	0
National	Atiu Road Improvement	CIG	134,013	0	0	0	0	0
Rarotonga	Avatiu Valley Stream embankment	CIG	0	0	0	0	0	0
National	Manea Games Upgrade	CIG	0	0	0	0	0	0
Mitiaro	Mitiaro Water Upgrade	CIG	0	0	0	0	0	0
Rarotonga	Rutaki Foreshore Rock Revetment	CIG	0	0	0	0	0	0
Aitutaki	Establishing new water galleries	CIG	0	0	0	0	0	0
Pukapuka	Nassau Ferry	CIG	0	0	0	0	0	0
Rarotonga	Contingent Liability Capital Projects Account	CIG	0	0	0	0	0	0
Internal Affairs			**50,000**	**50,000**	**50,000**	**50,000**	**50,000**	**50,000**
Rarotonga	Vaka Maintenance Capital Projects	CIG	50,000	50,000	50,000	50,000	50,000	50,000
Ministry of Finance and Economic Management			**7,053,700**	**4,530,000**	**4,530,000**	**1,830,000**	**5,000,000**	**9,200,000**
Rarotonga	FMIS purchase and implementation	CIG	75,771	300,000	300,000	0	0	0
Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	6,822,369	1,000,000	1,000,000	0	0	0
Rarotonga	Mei Te Vai ki Te Vai	CIG	0	0	0	100,000	5,000,000	9,200,000
Rarotonga	COVID-19 Response Fund - Capital Needs	CIG	98,950	1,400,000	1,400,000	0	0	0
Rarotonga	Revenue Management System upgrade (RMS10)	CIG	0	1,830,000	1,830,000	1,730,000	0	0
Rarotonga	Shipping Vessel	CIG	0	0	0	0	0	0
Rarotonga	MFEM Extension - Furniture and materials	CIG	0	0	0	0	0	0
Rarotonga	The Centre of Excellence in Information Technology (CEIT) - Capital Purchases	CIG	56,610	0	0	0	0	0
Justice			**0**	**0**	**0**	**0**	**50,000**	**0**
Rarotonga	National ID Card System Development	CIG	0	0	0	0	50,000	0

MINISTRY/ ISLAND	Project / Programme	Funding Source	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Office of Prime Minister			**242,977**	**1,921,000**	**2,081,766**	**5,000,000**	**5,000,000**	**3,900,000**
National	Government IT Network	CIG	116,103	1,600,000	1,760,766	0	0	0
National	Renewable Energy Upgrades	CIG	0	0	0	5,000,000	5,000,000	3,900,000
Atiu	Atiu Power Distribution	CIG	65,537	0	0	0	0	0
Aitutaki	Aitutaki Renewable Energy Project	CIG	0	0	0	0	0	0
National	Renewable Energy Project Management and Support	CIG	61,337	321,000	321,000	0	0	0
MINISTRY TOTAL			**29,556,870**	**31,361,262**	**37,190,490**	**32,800,000**	**33,235,000**	**32,960,000**
Capital Funds Administered BY MFEM			479,554	640,000	640,000	710,000	710,000	710,000
National	Capital Distribution Fund	CIG	383,104	230,000	230,000	300,000	300,000	300,000
National	Pa Enua Capital Distribution Fund	CIG	0	300,000	300,000	300,000	300,000	300,000
Pa Enua	Outer Islands Small Capital Fund	CIG	96,450	110,000	110,000	110,000	110,000	110,000
	Aitutaki		*23,404*	*16,000*	*16,000*	*16,000*	*16,000*	*16,000*
	Atiu		*0*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
	Mangaia		*9,559*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
	Manihiki		*6,887*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
	Mauke		*0*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
	Mitiaro		*7,005*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*
	Palmerston		*28,593*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
	Penrhyn		*10,273*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
	Pukapuka-Nassau		*3,900*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
	Rakahanga		*6,830*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*
GRAND TOTAL			**30,036,424**	**32,001,262**	**37,830,490**	**33,510,000**	**33,945,000**	**33,670,000**

9.12 Schedule 7 – Revenues on Behalf of the Crown (ROBOCs)

	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Taxation Revenue						
Value Added Tax (VAT)	36,573,991	54,601,559	51,626,685	62,970,902	81,236,646	84,873,094
Income tax	17,841,667	17,035,613	18,988,097	21,742,775	32,058,856	33,109,816
Company tax	16,712,040	14,277,428	16,471,057	17,936,912	20,071,948	19,753,027
Import levies	13,407,730	12,872,749	14,156,055	14,256,220	14,356,387	14,456,551
Withholding tax	1,553,631	1,202,162	1,550,313	1,735,370	1,887,399	1,887,399
Departure tax	430,612	7,288,085	3,198,731	8,028,814	12,102,725	12,736,909
Total	**86,519,671**	**107,277,596**	**105,990,937**	**126,670,994**	**161,713,961**	**166,816,797**
Other Crown Revenue						
FSC Vested Assets	8,263,815	0	4,978,080	0	0	0
FSC Return of Excess	400,000	159,000	159,000	159,000	159,000	159,000
Immigration Fees	856,142	480,000	480,000	1,000,000	300,000	300,000
IMO Subscription - Maritime Cook Islands	69,248	66,000	66,000	66,000	66,000	66,000
Border Management Fees	0	0	0	0	0	0
Drivers Licenses	119,342	100,000	100,000	100,000	260,000	260,000
Motor Vehicle Registration	923,604	875,000	675,000	875,000	875,000	875,000
Upper Air Management Agreement	185,669	170,154	87,196	510,257	653,490	653,490
Shipping Registration	74,180	92,000	92,000	92,000	95,000	95,000
International Shipping License	0	15,000	15,000	15,000	15,000	15,000
Liquor Licensing	62,882	30,000	40,000	40,000	50,000	50,000
Research Fee	560	1,500	1,500	1,500	1,500	1,500
Permits	4,846	10,409	10,409	10,409	10,409	10,409
Censorship Fees	978	1,000	1,000	1,000	1,000	1,000
Land Court Fees	0	125,000	125,000	125,000	125,000	125,000
Tattslotto Grants	213,922	120,000	120,000	120,000	120,000	120,000
Motor Vehicle Dealers	2,588	3,000	3,000	3,000	3,000	3,000
Court Services	30,541	30,000	30,000	30,000	40,000	40,000
Instant Fines	87,131	40,000	40,000	40,000	40,000	40,000

	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Fishing Revenues	***10,739,793***	***9,259,143***	***9,077,810***	***9,798,768***	***9,798,768***	***8,787,897***
Fishing Licenses	3,841,612	0	0	0	0	0
Fisheries - US Treaties (purse seining)	5,888,188	0	0	0	0	0
South Indian Ocean Fisheries Agreement (SIOFA)	173,528	0	0	0	0	0
South Pacific Fisheries Management Organisation (SPRFMO)	0	0	0	0	0	0
US Fisheries Treaty (upfront days)	0	3,243,370	3,311,166	3,243,370	3,243,370	3,243,370
EU Agreement	0	400,000	1,410,871	1,410,871	1,410,871	400,000
Purse seine fishery	0	2,260,000	2,000,000	2,260,000	2,260,000	2,260,000
Longline Licenses and QMS	0	3,000,000	2,000,000	2,500,000	2,500,000	2,500,000
Other fisheries and auxiliary vessel licensing	0	160,000	160,000	160,000	160,000	160,000
Regional Fisheries Management Organisations - SIOFA and SPRFMO	0	195,773	195,773	224,527	224,527	224,527
Fishing Fines and Settlements	836,465	0	0	0	0	0
Dividends	***0***	***135,500***	***0***	***717,000***	***812,000***	***1,282,000***
Banana Court - dividend	0	0	0	0	0	0
Bank of the Cook Islands - dividend	0	135,500	0	117,000	212,000	282,000
Ports Authority - dividend	0	0	0	0	0	0
Punanga Nui Market - dividend	0	0	0	0	0	0
Te Aponga Uira - dividend	0	0	0	0	0	0
Extraordinary SOE - dividend	0	0	0	0	0	0
Telecom Cook Islands - dividend	0	0	0	600,000	600,000	1,000,000
Numismatics	661,531	450,000	450,000	450,000	450,000	450,000
Circulating Currency - Coins	13,464	5,000	5,000	5,000	5,000	5,000
Interest on balances	926,259	391,000	391,000	395,000	200,000	200,000
Interest on balances - Loan Reserve Fund	409,160	190,974	233,074	273,295	278,761	284,336
Interest on loans to subsidiaries	0	0	0	581,606	830,752	737,145
Foreign Investment Fees	23,528	32,000	32,000	34,000	37,000	39,000
Employer Liabilities	0	0	0	0	0	0
Gains on FOREX	2,526,991	0	0	0	0	0
Core Sector Support	7,825,000	7,825,000	7,825,000	7,825,000	0	0
General Budget Support	35,082,658	30,000,000	40,000,000	0	0	0
Unanticipated Revenue received	1,803,614	0	0	0	0	0
Total Other	**71,307,446**	**50,606,680**	**65,037,069**	**23,267,835**	**15,226,679**	**14,599,777**
Total Crown Receipts	**157,827,117**	**157,884,276**	**171,028,006**	**149,938,829**	**176,940,640**	**181,416,574**

9.13 Schedule 8a – Administered Payments

Administering Ministry	Output	Administered Payment	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Compensation of Employees								
Cook Islands Investment Corporation	1	Infrastructure Committee	130,000	100,000	100,000	100,000	100,000	100,000
Cook Islands Investment Corporation	1	Special Projects Units	0	420,000	420,000	420,000	420,000	420,000
Cook Islands Investment Corporation	1	School Security	230,000	180,000	180,000	230,000	230,000	230,000
Cook Islands Investment Corporation	2	Joint Venture with Seabed Minerals Authority	83,817	50,000	50,000	50,000	50,000	50,000
Environment	1	National Heritage Trust	156,427	122,241	122,241	122,241	122,241	122,241
Finance and Economic Management	1	Price Tribunal Committee	23,914	60,000	60,000	45,000	45,000	45,000
Finance and Economic Management	2	The Centre of Research and Policy Studies	14,553	80,000	80,000	80,000	80,000	80,000
Justice	1	Judges Allowances	200,870	400,000	400,000	300,000	465,000	465,000
Justice	2	Project to bring land records up to date	110,080	120,000	120,000	120,000	120,000	120,000
Prime Minister's Office	4	ICT Support Team	229,798	183,077	183,077	0	0	0
Prime Minister's Office	8	Marae Moana Ambassador	60,000	60,000	60,000	0	0	0
Public Service Commission	3	HOM's Salaries	1,976,681	1,940,000	1,940,000	1,810,000	1,810,000	1,810,000
		Compensation of Employees Administered Payments	**3,216,140**	**3,715,318**	**3,715,318**	**3,277,241**	**3,442,241**	**3,442,241**
Use of Goods and Services								
CI Seabed Minerals	1	Seabed Minerals Sector Development	116,543	100,000	170,000	100,000	0	0
CI Seabed Minerals	1	Seabed Minerals Compliance Development	0	45,000	45,000	40,000	0	0
Cook Islands Investment Corporation	1	Provision for Land Rentals	370,962	500,000	500,000	500,000	500,000	500,000
Cook Islands Investment Corporation	1	Land Rent Reviews	0	0	0	0	0	0
Cook Islands Investment Corporation	2	Avaroa Cable	150,000	0	0	0	0	0
Cook Islands Investment Corporation	2	Renewable Energy Maintenance	100,000	0	0	0	0	0
Cook Islands Investment Corporation	2	CIG Buildings Repairs & Maintenance	0	0	0	0	1,000,000	1,000,000
Crown Law	2	Legal Provisions	5,143	251,029	251,029	0	0	0
Crown Law	1	Lexis Nexis - Portal Maintenance	0	0	0	0	80,000	80,000
Cultural Development	1	National Events Fund	412,743	500,000	660,000	500,000	500,000	500,000
Cultural Development	1	Te Kopapa Reo Maori Board	14,337	15,000	15,000	15,000	15,000	15,000
Cultural Development	1	Cook Islands Cultural Fund	198,076	150,000	90,000	150,000	150,000	150,000
Cultural Development	2	Audio and Visual Digitization	0	0	0	0	0	0
Education	3	Tertiary Training Institutions	1,158,846	1,160,000	1,160,000	1,160,000	1,160,000	1,160,000

Administering Ministry	Output	Administered Payment	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Education	4	Bus Service	26,325	26,325	26,325	26,325	26,325	26,325
Environment	3	E - Waste & Whiteware Collection	0	0	0	0	0	0
Environment	2	EIA Process	140,257	150,000	150,000	150,000	150,000	150,000
Environment	3	Management of Suwarrow Park	140,873	100,000	100,000	100,000	100,000	100,000
Finance and Economic Management	1	Public Sector Strengthening-processes and systems	38,442	150,000	150,000	200,000	150,000	150,000
Finance and Economic Management	6	COVID-19 Medical Response Fund	2,510,221	3,000,000	3,000,000	0	0	0
Finance and Economic Management	1	COVID-19 Economic Response Plan	80,799,615	0	369,053	0	0	0
Finance and Economic Management	1	Economic Recovery Roadmap	0	33,500,000	33,500,000	0	0	0
Finance and Economic Management	2	The Centre of Excellence in Information Technology (CEIT)	49,882	100,000	100,000	80,000	60,000	0
Finance and Economic Management	2	Audit of Crown Accounts	0	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	1	Standard and Poor’s Subscription	64,185	70,000	70,000	70,000	70,000	70,000
Finance and Economic Management	2	Special Investigative and Prosecution Services	42,912	30,000	30,000	50,000	50,000	50,000
Finance and Economic Management	2	Debt Advisory Services	31,233	60,000	60,000	60,000	60,000	60,000
Finance and Economic Management	2	FMIS Maintenance	79,279	80,000	80,000	80,000	80,000	80,000
Finance and Economic Management	2	Government Broadband Utilities	27,416	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	3	Border Management System Maintenance	0	155,250	310,500	155,250	155,250	155,250
Finance and Economic Management	3	Post Tax Amnesty Work	17,745	0	166,769	0	0	0
Foreign Affairs	5	Cook Islands Student Association Support	0	10,000	20,000	10,000	10,000	10,000
Foreign Affairs	5	Returned Services Association	4,634	5,000	5,000	5,000	5,000	5,000
Head of State	1	Domestic Hosting Entertainment	14,640	15,000	15,000	15,000	15,000	15,000
Head of State	1	QR Social Responsibility Fund	8,000	8,000	8,000	8,000	8,000	8,000
Head of State	1	Head of State Rent	13,042	13,000	13,000	13,000	13,000	13,000
Health	4	Pharmaceuticals	867,760	1,167,800	1,167,800	1,167,800	1,167,800	1,167,800
Infrastructure Cook Islands	3	Bridges and Stream Structure Maintenance	827,302	740,000	740,000	740,000	700,000	700,000
Infrastructure Cook Islands	5	Waste Management	671,365	730,000	730,000	730,000	730,000	730,000
Infrastructure Cook Islands	4	Road and Drainage Asset Management	1,096,228	850,000	850,000	850,000	800,000	800,000
Infrastructure Cook Islands	1	Emergency Response Work	198,466	200,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	1	Pa Enua Machinery Maintenance Funds	187,590	0	0	0	0	0
Infrastructure Cook Islands	4	Road Assets Management	0	0	0	0	0	0
Internal Affairs	2	Children Forum	0	0	0	0	0	0
Internal Affairs	2	Internal Affairs Youth Program	41,319	45,000	45,000	45,000	45,000	45,000

Administering Ministry	Output	Administered Payment	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Internal Affairs	4	Vaka Maintenance	399,603	400,000	400,000	400,000	450,000	450,000
Internal Affairs	5	Lease extension	36,000	72,000	72,000	72,000	72,000	72,000
Parliamentary Services	1	Special Select Committee	227,467	150,000	150,000	120,000	120,000	120,000
Parliamentary Services	2	Remuneration Tribunal Committee	0	20,000	20,000	0	0	0
Police	1	Search and Rescue	0	20,000	20,000	20,000	20,000	20,000
Police	1	Serious Crime Investigations	74,655	100,000	100,000	100,000	100,000	100,000
Police	1	Te Kukupa - Biannual Slipping	0	0	0	0	0	0
Police	1	Te Kukupa - Fuel Contribution	121,252	250,000	250,000	250,000	250,000	250,000
Police	2	Police Youth Program	39,362	45,000	45,000	45,000	45,000	45,000
Prime Minister's Office	1	Social Responsibility Fund	363,000	363,000	363,000	363,000	363,000	363,000
Prime Minister's Office	1	Community Support Fund	101,793	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	3	Pa Enua Mechanical Overseer	86,669	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	5	Energy Commissioner	0	0	0	0	0	0
Prime Minister's Office	6	Red Cross	50,000	50,000	50,000	50,000	50,000	50,000
Prime Minister's Office	3	Pa Enua Machinery Maintenance Fund	0	100,000	100,000	100,000	100,000	100,000
Tourism Corporation	1	Marketing Resources - Tourism Growth Strategy	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Finance and Economic Management	6	Tarai Vaka Fund	0	20,000	20,000	20,000	20,000	20,000
Financial Services Development Authority	1	Tax Law Review	0	80,000	80,000	0	0	0
		Use of Goods and Services Administered Payments	**96,425,182**	**50,356,404**	**51,227,476**	**13,520,375**	**14,350,375**	**14,290,375**
Subsidies								
Education	3	University of the South Pacific Contribution	108,282	205,000	205,000	205,000	205,000	205,000
Finance and Economic Management	1	Airline Underwrite	0	6,500,000	6,500,000	10,000,000	10,000,000	10,000,000
Finance and Economic Management	2	Subsidy of audio/visual broadcasting in Pa Enua	38,109	45,000	45,000	45,000	45,000	45,000
Finance and Economic Management	2	Asian Infrastructure Investment Bank (AIIB) Membership	0	30,500	30,500	30,500	30,500	30,500
Finance and Economic Management	1	Pacific Financial Regional Technical Assistance (PFTAC) Contribution	13,448	0	0	0	0	0
Finance and Economic Management	1	Universal Access Fund	220,000	400,000	400,000	400,000	400,000	400,000
Finance and Economic Management	6	Provision for Inter Island Shipping	607,094	500,000	500,000	500,000	500,000	500,000
		Subsidies Administered Payments	**986,933**	**7,680,500**	**7,680,500**	**11,180,500**	**11,180,500**	**11,180,500**

Administering Ministry	Output	Administered Payment	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Social Assistance								
Education	2	Government Funded Scholarships	877,524	780,000	780,000	780,000	780,000	780,000
Health	1	NCD Fund	195,000	195,000	195,000	195,000	195,000	195,000
Health	4	Patient Referrals	850,000	850,000	850,000	850,000	850,000	850,000
Health	5	Workforce Development	107,163	234,070	234,070	234,070	234,070	234,070
Internal Affairs	1	Welfare Payments - Allowances	1,291,374	1,316,000	1,316,000	1,322,700	1,328,300	1,333,900
Justice	1	Legal Aid	1,500	40,000	40,000	40,000	40,000	40,000
		Social Assistance Administered Payments	**3,322,561**	**3,415,070**	**3,415,070**	**3,421,770**	**3,427,370**	**3,432,970**
Other Expense								
Cook Islands Investment Corporation	2	To Tatou Vai	2,708,297	3,000,000	3,000,000	3,000,000	3,000,000	2,000,000
Education	2	Private School Funding	2,510,708	2,663,277	2,663,277	2,663,277	2,663,277	2,663,277
Finance and Economic Management	1	Competition and Regulatory Authority	479,929	0	0	0	0	0
Finance and Economic Management	2	Production of new currency, transportation and sale of old coins	334,615	15,000	15,000	350,000	350,000	350,000
Finance and Economic Management	4	National Census	0	300,000	300,000	0	0	0
Finance and Economic Management	4	Conduct of a Labour Force Survey	0	0	0	0	0	0
Internal Affairs	2	SIF - Cook Islands Government Contribution	992,556	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Internal Affairs	5	CISNOC Grant	370,000	370,000	370,000	370,000	370,000	370,000
Marine Resources	3	Fisheries Development Facility	245,863	200,000	200,000	200,000	200,000	200,000
Internal Affairs	5	Religious Advisory Council	0	10,000	10,000	10,000	10,000	10,000
Prime Minister's Office	9	State Events	0	20,000	20,000	20,000	20,000	20,000
		Other Expenses Administered Payments	**7,641,968**	**7,578,277**	**7,578,277**	**7,613,277**	**7,613,277**	**6,613,277**
Grand Total			**111,592,784**	**72,745,569**	**73,616,641**	**39,013,163**	**40,013,763**	**38,959,363**

9.14 Schedule 8b – Payments on Behalf of Crown (POBOCs)

Administering Ministry	Output	POBOC	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Compensation of Employees								
Finance and Economic Management	2	Parliamentary Superannuation	100,604	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	3	PERC Salaries and Administration Costs	52,579	57,500	57,500	57,500	57,500	57,500
Parliamentary Services	1	Civil List - Personnel	3,129,690	2,901,961	2,901,961	2,901,961	2,901,961	2,901,961
Parliamentary Services	1	House of Ariki	331,674	348,420	377,597	348,420	348,420	348,420
		Compensation of Employees POBOCs	**3,614,547**	**3,487,881**	**3,517,058**	**3,487,881**	**3,487,881**	**3,487,881**
Use of Goods and Services								
Audit (PERCA)	2	Audit Fees	84,600	95,600	95,600	95,600	95,600	95,600
Parliamentary Services	1	Civil List - Constituency Visits	154,505	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	1	Parliamentary Sitting Expenses	246,452	200,000	200,000	200,000	200,000	200,000
Parliamentary Services	1	MP Travel and Allowances (local and overseas)	153,906	180,000	180,000	230,000	250,000	250,000
Parliamentary Services	1	QR Travel and Allowances (local and overseas)	19,337	109,000	109,000	109,000	109,000	109,000
Transport	2	Maritime Radio Coverage	0	120,000	120,000	120,000	120,000	120,000
Prime Minister's Office	3	Local Government Election	13,655	0	0	0	0	0
Foreign Affairs	5	International Maritime Organisation - Maritime Cook Islands	67,748	63,461	63,461	63,461	63,461	63,461
		Use of Goods and Services POBOCs	**740,203**	**938,261**	**938,261**	**988,261**	**1,008,261**	**1,008,261**
Subsidies								
Cook Islands Investment Corporation	2	Bank of the Cook Islands - social assistance subsidy	29,941	128,000	128,000	128,000	128,000	128,000
Cook Islands Investment Corporation	2	Airport Authority subsidy	3,047,997	2,047,997	2,047,997	2,047,997	1,500,000	1,000,000
Cook Islands Investment Corporation	2	Ports Authority - subsidy	110,100	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	2	Te Aponga Uira - social assistance subsidy	0	0	0	0	0	0
Cook Islands Investment Corporation	2	Te Mana Uira o Araura - subsidy	500,000	0	0	0	0	0
		Subsidies POBOCs	**3,688,038**	**2,286,096**	**2,286,096**	**2,286,096**	**1,738,099**	**1,238,099**
Social Assistance								
Internal Affairs	1	Welfare Payments	19,628,578	20,227,000	20,227,000	20,440,000	20,647,900	20,853,200
		Social Assistance POBOCs	**19,628,578**	**20,227,000**	**20,227,000**	**20,440,000**	**20,647,900**	**20,853,200**
Other Expense								
Finance and Economic Management	2	Pacific Catastrophe Risk Insurance	143,947	160,000	160,000	160,000	160,000	160,000
Finance and Economic Management	1	Competition and Regulatory Authority	0	620,574	620,574	579,148	460,148	460,148
Finance and Economic Management	2	BEPS Subscription	35,000	35,000	35,000	35,000	35,000	35,000
Foreign Affairs	5	International Subscriptions	566,217	890,000	890,000	890,000	890,000	890,000
Finance and Economic Management	2	CIG Insurance	180,000	40,000	40,000	40,000	40,000	40,000
		Other Expenses POBOCs	**925,164**	**1,745,574**	**1,745,574**	**1,704,148**	**1,585,148**	**1,585,148**
Grand Total			**28,596,530**	**28,684,812**	**28,713,989**	**28,906,386**	**28,467,289**	**28,172,589**

9.15 Schedule 9a – Debt Servicing Schedule ($'000)

Creditor	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Asian Development Bank (ADB)						
Principal	4,567	6,264	4,560	5,062	8,579	9,917
Interest	2,267	2,967	2,816	3,052	3,220	3,010
Total Debt Servicing to ADB	**6,834**	**9,231**	**7,376**	**8,114**	**11,799**	**12,927**
People's Republic of China (EXIM)						
Principal	2,615	2,596	2,650	2,646	2,652	2,646
Interest	591	535	546	492	441	387
Total Debt Servicing to China	**3,206**	**3,131**	**3,196**	**3,139**	**3,093**	**3,033**
Asian Infrastructure Investment Board (AIIB)						
Principal	0	0	0	0	1,481	1,958
Interest	0	550	563	559	551	518
Total Debt Servicing to AIIB	**0**	**550**	**563**	**559**	**2,032**	**2,477**
Total Servicing of Other Debt	**10,040**	**12,912**	**11,134**	**11,811**	**16,924**	**18,437**

9.16 Schedule 9b – Loan Reserve Fund (LRF) Schedule ($'000)

Transaction	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Opening Balance in LRF	**21,285**	**11,654**	**11,654**	**13,665**	**13,938**	**14,217**
Contribution to LRF - Principal	0	8,860	8,860	7,708	12,713	14,521
Contribution to LRF - Interest	0	4,051	4,051	4,103	4,212	3,915
Total Transfer into LRF by Government	**0**	**12,912**	**12,912**	**11,811**	**16,924**	**18,437**
Interest earned by LRF (avg. 2%)	409	198	233	273	279	284
Total inflows	**409**	**13,110**	**13,145**	**12,084**	**17,203**	**18,721**
Repayment of prepaid SOE Debt						
Contribution from LRF - Principal	0	0	0	959	1,006	1,068
Contribution from LRF - Interest	0	0	0	582	831	737
Total Repayment of SOE Debt	**0**	**0**	**0**	**1,541**	**1,837**	**1,805**
Repayment of Other Debt						
Contribution from LRF - Principal	7,182	8,860	7,210	6,749	11,706	13,453
Contribution from LRF - Interest	2,858	4,051	3,924	3,521	3,381	3,178
Total Repayment of Other Debt	**10,040**	**12,912**	**11,134**	**10,270**	**15,087**	**16,632**
Total Principal paid out of the LRF	7,182	8,860	7,210	7,708	12,713	14,521
Total Interest paid out of the LRF	2,858	4,051	3,924	4,103	4,212	3,915
Total outflows	**10,040**	**12,912**	**11,134**	**11,811**	**16,924**	**18,437**
Other Movements - revaluation	0	0	0	0	0	0
Closing balance of LRF	**11,654**	**11,852**	**13,665**	**13,938**	**14,217**	**14,501**

9.17 Schedule 10 – Official Development Assistance Schedule

Agency	Development Partner	Programs/Projects by Agency	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
		Cook Islands General Budget Support						
MFEM	New Zealand	Cook Islands Core Sector Support - Budget Support	7,825,000	7,825,000	7,825,000	7,825,000	0	0
MFEM	New Zealand	COVID-19: Pacific Financial Support Package	0	0	0	0	0	0
MFEM	New Zealand	COVID-19 Response - 2nd Phase Budget Support	15,000,000	0	0	0	0	0
MFEM	Australia	Cook Islands Budget Support	0	0	0	0	0	0
MFEM	China	COVID-19 Co-operation	82,658	91,584	91,584	0	0	0
MFEM	New Zealand	COVID-19 Response - 3rd Phase Support	20,000,000	30,000,000	30,000,000	0	0	0
MFEM	New Zealand	COVID-19 Economic Recovery Support - November 2021	0	0	10,000,000	0	0	0
		Total General Budget Support	**42,907,658**	**37,916,584**	**47,916,584**	**7,825,000**	**0**	**0**
		Recurrent ODA Expenditure						
MFEM	New Zealand	Cook Islands Core Sector Support - TA Component	1,859,746	1,275,000	1,275,000	1,275,000	0	0
MFEM	New Zealand	COVID-19 Economic Recovery Support - November 2021	0	0	10,000,000	0	0	0
MOH	New Zealand	COVID-19 Vaccination Programme	500,000	300,000	150,000	0	0	0
MFEM	ADB	APDRF COVID-19 Emergency Response Project	1,500,000	0	0	0	0	0
MFEM	Japan	Grant Assistance for Grassroots Projects	260,648	600,000	250,000	0	0	0
MFEM	India	India Grant Fund	0	680,000	580,000	200,000	200,000	200,000
MFEM	UN Adaptation Fund	Pa Enua Action for Resilient Livelihoods (PEARL)	1,300,000	1,105,864	1,105,864	0	0	0
MFEM	Green Climate Fund	Green Climate Fund Readiness	624,289	909,087	909,087	0	0	0
MFEM	Green Climate Fund	Building Resilient and Healthy Cook Islands Communities - Project Preparation Facility	0	885,486	885,486	0	0	0
MFEM	Green Climate Fund	Enhancing Climate Information and Knowledge Services for Resilience	0	3,138,330	838,330	5,720,556	1,524,816	988,122
MFEM	Green Climate Fund	Enhancing Climate Information and Knowledge Services for Resilience	0	731,141	731,141	1,260,466	672,335	554,345
MFEM	Green Climate Fund	Enhancing National Adaptation Programmes	0	1,515,152	515,152	1,515,152	1,515,152	0
MFEM	Green Climate Fund	Green Resilient Recovery	0	454,545	254,545	0	0	0
MFEM	Green Climate Fund	Enhanced Direct Access - Project Preparation Facility	0	363,636	363,636	0	0	0
MFEM	European Union	Budget Support to the Sanitation Sector	0	154,524	154,524	0	0	0

Agency	Development Partner	Programs/Projects by Agency	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
OPSC	New Zealand	NZ Volunteer Services Aboard	0	200,000	200,000	200,000	200,000	200,000
MFEM	Japan	JICA Training and Development	0	125,000	125,000	125,000	125,000	125,000
MFEM	UNDP	Pacific Parliamentary Development Project	0	150,000	150,000	0	0	0
MFEM	ADB	Cook Islands Emergency Response to Covid-19	150,000	0	0	0	0	0
MFEM	ADB	Technical Assistance Support	357,006	500,000	250,000	0	0	0
MFEM	ADB	JFPR - Supporting Safe Recovery of Travel and Tourism in Cook Islands	0	2,900,000	0	0	0	0
MFEM	UNDP	Sustainable Financing for the 2030 Agenda	0	72,570	72,570	0	0	0
MFEM	New Zealand	COVID-19 Socio Economic Rapid Assessment Survey	0	120,000	120,000	0	0	0
MFEM	Other	Aid Effectiveness	55,000	100,000	100,000	100,000	100,000	100,000
OPM	Global Environment Facility	Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	0	0	0	0	0	0
OPM	Global Environment Facility	Fourth National Communications - UNFCCC	207,187	322,727	172,727	322,727	322,727	322,727
OPM	ADB	E-Government TA Support	0	178,788	0	0	0	0
OPM	SPC	GCCA + SUPA - Enhancing a Climate Resilient Marine Sector	88,133	759,325	559,325	0	0	0
MOH	UNDP	Western Pacific Multi-Country Integrated HIV/TB programme - UNDP	79,517	90,000	90,000	90,000	90,000	90,000
MOH	WHO	WHO Biennium Budget Support	0	152,000	95,220	152,000	152,000	152,000
MOH	UNICEF	UNICEF Health and Nutrition Programme	0	335,350	135,350	17,650	0	0
MOT	UNDP	Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands)	33,930	0	0	0	0	0
MMR	European Union	Sustainable Fisheries Partnership Agreement - Sectoral Support	444,915	593,220	150,000	593,220	593,220	593,220
MMR	Japan	Japan Trust Fund	0	0	0	0	0	0
MMR	Forum Fisheries Agency	Project Development Fund - US Fisheries Treaty	0	206,439	0	206,439	206,439	206,439
MFAI	Forum Fisheries Agency	Project Development Fund - US Fisheries Treaty	0	30,303	0	30,303	30,303	30,303
MFAI	New Zealand	PACER Plus Outreach and Consultation	40,377	0	0	0	0	0
MFAI	Korea	Korea Grant Aid	0	303,030	218,560	303,030	303,030	303,030
NES	UNDP	6th National Report to the Convention Biological Diversity	25,000	0	0	0	0	0

Agency	Development Partner	Programs/Projects by Agency	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
NES	Global Environment Facility	Ridge to Reef	1,400,000	0	0	0	0	0
NES	Global Environment Facility	Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	0	0	0	0	0	0
MFEM	Green Climate Fund	MOH Building Resilient and healthy Cook Islands Communities - SAP	0	0	0	0	0	0
ICI	SPC	Accurately Positioning Cook Islands (Modernizing Cook Islands Positioning Infrastructures)	0	0	0	0	0	0
ICI	SPC	ICI COOKGEO Geo-Portal	0	0	0	0	0	0
ICI	SPC	Managing Water Scarcity through Strengthened Water Resources Management	125,000	127,500	127,500	92,500	0	0
INTAFF	ILO	COVID-19 Support to Social and Economic Effects	20,218	47,176	47,176	0	0	0
INTAFF	ILO	Workplace Health and Safety & Workers Compensation	14,975	0	0	0	0	0
INTAFF	UNESCO	Disability Inclusive Development	0	300,000	300,000	200,000	0	0
MOCD	Other	National Archive Digitization	0	140,000	140,000	0	0	0
MOCD	UNESCO	Intangible Cultural Heritage	0	96,000	96,000	48,600	0	0
REDCROSS	Global Environment Facility	GEF Small Grants Programme	187,429	378,788	378,788	378,788	378,788	378,788
MFEM	Other	Small Projects Grant funding	1,596,009	5,000,000	3,800,000	5,000,000	5,000,000	5,000,000
		Total Recurrent ODA Expenditure	**10,869,379**	**25,340,981**	**25,340,981**	**17,831,432**	**11,413,811**	**9,243,974**
		Capital ODA Expenditure						
CIIC	China	Chinese Building Repairs	0	0	0	0	0	0
MFEM	Japan	Non-Project Grant Aid - Palmerston Cyclone Centre	0	0	0	0	0	0
MFEM	New Zealand	Manatua Polynesian Cable Project	865,129	1,300,000	1,300,000	0	0	0
MFEM	New Zealand	Assets Management	1,292,772	3,207,228	3,207,228	0	0	0
MFEM	New Zealand	Mei Te Vai Ki Te Vai (MTVKTV)	800,000	900,000	900,000	0	0	0
MMR	New Zealand	Mei Te Vai Ki Te Vai (MTVKTV) - Environmental Investigation	0	0	0	0	0	0
MFEM	New Zealand	Cook Islands Infrastructure Trust Fund	0	5,500,000	5,500,000	0	0	0
MFEM	New Zealand	Cook Islands Infrastructure Trust Fund - Rarotonga Airport Refurbishment	4,500,000	2,000,000	2,000,000	0	0	0
MFEM	European Union	Budget Support to the Sanitation Sector	384,861	1,615,139	1,615,139	0	0	0
MFEM	Japan	Economic Social Development Programme 2018	739,349	874,609	874,609	0	0	0

Agency	Development Partner	Programs/Projects by Agency	2020/21 Actual	2021/22 Budget Estimate	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
MFEM	Japan	Economic Social Development Programme 2020-1 COVID-19 Response Assistance	0	1,546,100	1,546,100	0	0	0
MFEM	Japan	Economic Social Development Programme 2020-2	0	1,056,495	1,056,495	864,405	0	0
MFEM	Japan	Purpose-built shipping vessel for inter-island services TA Support	0	150,000	150,000	0	0	0
MFEM	ADB	JFPR - Supporting Safe Recovery of Travel and Tourism in Cook Islands	0	0	2,900,000	0	0	0
ICI	Japan	Japan Grassroots Human Security - Resource Recovery Centre Upgrades	0	0	0	0	0	0
ICI	New Zealand	LiDAR	0	0	1,500,000	0	0	0
OPM	Global Environment Facility	Renewable Energy Grant (Southern Group)	0	500,000	500,000	0	0	0
OPM	Green Climate Fund	Renewable Energy Grant (Southern Group)	1,922,480	9,034,358	4,634,358	0	0	0
OPM	EU-German Development Cooperation	Northern Water Project Phase 2	0	0	0	0	0	0
AA	New Zealand	Rarotonga Airport Upgrade Designs	204,450	789,550	789,550	0	0	0
		Total Capital ODA Expenditure	**10,709,041**	**28,473,479**	**28,473,479**	**864,405**	**0**	**0**
		Total NZD Equivalent ODA Funding	**64,486,078**	**91,731,044**	**101,731,044**	**26,520,837**	**11,413,811**	**9,243,974**
		Total NZD Equivalent ODA Funding – (excluding GBS)	**21,578,420**	**53,814,460**	**53,814,460**	**18,695,837**	**11,413,811**	**9,243,974**

10 Financial Statements

10.1 Statement of Financial Performance

	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Revenue					
Taxation Revenues	86,520	105,991	126,671	161,714	166,817
Trading Revenue	4,041	4,444	4,707	4,727	4,727
Interest Revenue	1,335	624	668	479	484
Dividends	0	0	717	812	1,282
Core Sector Support	7,825	7,825	7,825	0	0
Other Revenue	62,147	56,588	13,476	13,105	12,096
Total Revenue	***161,868***	***175,472***	***154,065***	***180,837***	***185,407***
Expenditure					
Crown Appropriation	195,815	159,558	125,472	126,756	125,651
Depreciation	12,676	13,931	13,931	13,931	13,931
Payments on Behalf of Crown	28,597	28,714	28,906	28,467	28,173
Debt-servicing interest	2,858	3,924	3,521	3,381	3,178
Other expenditure	150	150	150	150	150
Total Expenditure	***240,097***	***206,277***	***171,980***	***172,684***	***171,083***
NET OPERATING SURPLUS / (SHORTFALL)	***-78,229***	***-30,804***	***-17,916***	***8,153***	***14,324***
Grants					
Foreign Aid Revenue	10,869	25,341	17,831	11,414	9,244
Foreign Aid Expenses	10,869	25,341	17,831	11,414	9,244
Grant Balance	***0***	***0***	***0***	***0***	***0***
Net Operating Balance after Grants	***-78,229***	***-30,804***	***-17,916***	***8,153***	***14,324***

10.2 Statement of Financial Position

	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Assets					
Working Capital Fund	51,160	42,754	-1,813	-25,710	-44,913
Stabilisation Fund	3,544	3,544	3,544	3,544	3,544
General Cash Reserves	**54,704**	**46,298**	**1,731**	**-22,166**	**-41,369**
Loan Repayment Fund	11,654	13,665	13,938	14,217	14,501
Disaster Response Trust Fund	1,978	2,028	2,078	2,128	2,178
Other Trust Funds	46,314	46,314	46,314	46,314	46,314
Other Assets	155,730	155,700	155,700	155,700	155,700
Advances to SOEs	41,954	41,954	40,995	39,989	38,921
Plant, property, and equipment	232,951	285,324	305,768	325,782	345,522
Total Assets	***545,283***	***591,283***	***566,523***	***561,963***	***561,766***
Liabilities					
Creditors and other payables	132,507	132,507	132,507	132,507	132,507
Trust liabilities	52,261	52,261	52,261	52,261	52,261
Borrowings	176,615	225,731	217,670	205,138	190,607
Total Liabilities	***361,383***	***410,499***	***402,438***	***389,906***	***375,375***
Net Crown Balance	***183,901***	***180,784***	***164,085***	***172,058***	***186,391***

10.3 Statement of Borrowings

	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Total Gross Borrowing	***176,615***	***225,731***	***217,670***	***205,138***	***190,607***
Assets held against Borrowings					
Advances to Subsidiaries	41,954	41,954	40,995	39,989	38,921
Loan Repayment Fund (LRF)	11,654	13,665	13,938	14,217	14,501
Total Assets Held Against Borrowings	***53,608***	***55,619***	***54,933***	***54,206***	***53,422***
Total Net Borrowing	***123,007***	***170,112***	***162,737***	***150,932***	***137,185***

10.4 Statement of Cashflow

	2020/21 Actual	2021/22 HYEFU Estimate	2022/23 Projection	2023/24 Projection	2024/25 Projection
Cashflows from Operating Activities					
Cash provided from:					
Taxation Revenues	86,520	105,991	126,671	161,714	166,817
Trading Revenue	4,041	4,444	4,707	4,727	4,727
Interest Revenue	926	391	395	200	200
Foreign Aid Income	21,578	53,814	18,696	11,414	9,244
Core Sector Support	7,825	7,825	7,825	0	0
Other Revenue	62,147	56,588	13,476	13,105	12,096
	183,037	***229,054***	***171,770***	***191,160***	***193,084***
Cash applied to:					
Crown Appropriation	195,815	159,558	125,472	126,756	125,651
Depreciation	0	0	0	0	0
Payments on Behalf of the Crown	28,597	28,714	28,906	28,467	28,173
Foreign Aid Expense	10,869	25,341	17,831	11,414	9,244
Net Debt-Servicing Interest	0	0	0	0	0
Other Expenditure	150	150	150	150	150
	235,432	**213,763**	**172,360**	**166,787**	**163,218**
Net Cashflows from Operating Activities	***-52,394***	***15,291***	***-590***	***24,374***	***29,867***
Cashflows from Financing Activities					
Cash provided from:					
Subsidiary Loan Repayments	0	0	1,541	1,837	1,805
Other Investment Receipts	0	0	717	812	1,282
	0	***0***	***2,258***	***2,649***	***3,087***
Cash applied to:					
Capital expenditure	30,036	37,830	33,510	33,945	33,670
Capital expenditure - foreign aid	10,709	28,473	864	0	0
Advances to Subsidiaries	6,968	0	0	0	0
	47,713	***66,304***	***34,374***	***33,945***	***33,670***
Net Cashflows from Investing Activities	***-47,713***	***-66,304***	***-32,117***	***-31,296***	***-30,583***
Cashflows from Financing Activities					
Cash provided from:					
Loans Drawdown	80,923	55,540	0	0	0
Other Financing Receipts	0	30	0	0	0
	80,923	***55,570***	***0***	***0***	***0***
Cash applied to:					
Loan Repayment Fund	0	12,912	11,811	16,924	18,437
Other Reserves	50	50	50	50	50
Other Financing Payments	0	0	0	0	0
	50	***12,962***	***11,861***	***16,974***	***18,487***
Net Cashflows from Financing Activities	***80,873***	***42,608***	***-11,861***	***-16,974***	***-18,487***
Net cash movements	-19,235	-8,405	-44,568	-23,897	-19,203
Opening General Cash Balance	73,938	54,704	46,298	1,731	-22,166
Closing General Cash Reserve	***54,704***	***46,298***	***1,731***	***-22,166***	***-41,369***

10.5 Statement of Financial Risks

Quantifiable Contingent Liabilities	($'000)
Guarantees and indemnities	50
Uncalled capital	2,500
Legal proceedings and disputes	4,800
Vested Assets	19,740
Total Quantifiable Contingent Liabilities	**27,090**

The total quantifiable contingent liabilities are estimated at $27.1 million in 2021/22. This is made up of the guarantees and indemnities outlined below. Possible liabilities stemming from the Outer Island Governments are also discussed.

10.5.1.1 Guarantees and indemnities relate to the following

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

10.5.1.2 Uncalled Capital

Uncalled capital relates to shares in the Asian Development Bank – Coo k Islands Government Property Corporation owns 88 uncalled shares with a par value of US$13,500 each.

10.5.1.3 Legal Proceedings and Disputes

Total quantifiable risk to the Crown under legal proceedings and disputes is $4.8 million.

10.5.1.4 Financial liabilities relating to Island Governments

Currently, MFEM has not approved any of the Island Governments to take out any contract or security that could result in a potential liability for the Crown.

In terms of public liability or other indemnity, the Island Administrations are not treated differently to other Government agencies. The capacity for the Island Administrations to generate such liabilities is estimated to be low. No risk mitigation has been undertaken to ameliorate risk any more than for other Government bodies that are based in Rarotonga.

Unpaid invoices are a potential risk that would be difficult to mitigate without tighter financial controls than those imposed on other Government agencies. Island Administrations are fully covered by the MFEM Act, MFEM financial policies and procedures, and are accountable to the National Audit Office and the Cook Islands Parliament.

11 Statement of Accounting Policies

There have been no changes since the Fiscal Update 2020/2021. There are no major changes to accounting policies anticipated in the foreseeable future.

11.1 Basis of Preparation

11.1.1 Reporting Entity

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

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

11.1.2 Statement of Compliance

The financial statements in Chapter 10 have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board.

11.1.3 Measurement Base

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

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

11.2 Significant Accounting Policies

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

11.2.1 Basis of Consolidation

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

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

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

11.2.2 Associate

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

11.2.3 Revenue

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

11.2.3.1 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 revenue is met.

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

11.2.4 Revenue Earned Through Operations

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

11.2.4.1 Fines

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

11.2.4.2 Investment Income

Investment income is earned from the leasing or rental of Crown assets to third parties that is neither a Crown entity nor a Crown related party. Investment income is recognised in the period in which it is earned.

11.2.4.3 Gains

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

11.2.4.4 Dividends

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

11.2.4.5 Aid (Development Partners) Revenue

Revenue is recognised when donor funds are expensed on approved projects and upon receipt of aid donated assets.

11.2.5 Expenses

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

11.2.5.1 Welfare Benefits

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

11.2.5.2 Grants and Subsidies

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

11.2.5.3 Losses

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

11.2.5.4 Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar (NZD) using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Comprehensive Revenue and Expenses.

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

11.2.5.5 Aid Expenses

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

11.2.5.6 Depreciation

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

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

Asset Type	Useful Life
Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and Equipment	5 – 15 years
Buildings and improvements	20 - 40 years
Coastal protection	25 years
Power distribution network	20 years
Road network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years
Plant and equipment tools	4 – 5 years
Marine equipment	5 years
Specialised buildings and other buildings	15 years

11.2.6 Non-Current Assets

11.2.6.1 Plant, Property, and Equipment

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

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

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

11.2.6.2 Disposals

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

11.2.6.3 Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.6.4 Additions

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

11.2.6.5 Work in Progress

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

11.2.6.6 Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

Infrastructure assets are accounted for the same way as property, plant and equipment

Infrastructure assets include: road networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures, and waste management and airport assets. When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Comprehensive Revenue and Expenses.

11.2.6.7 Intangible Assets

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

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. Intangible assets might include: databases, software purchased, or software developed.

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

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

Asset Type	Useful Life
Software, databases	3 - 5 years

11.2.6.8 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

11.2.6.9 Debtors and other receivables

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

Tax receivables have been calculated on a subsequent receipt bases. All tax revenue received in the years subsequent to 30 June 2015 has been disclosed as tax receivables at year end

11.2.6.10 Inventories

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

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

11.2.6.11 Investments

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

11.2.6.12 Banking portfolio investments

Loans are valued at net realisable value after provisions. Applicable security is obtained depending on the size and nature of loans. Non-performing loans are reviewed monthly on a case by case basis.

11.2.6.13 Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement and in accordance with the Financial Supervisory Commission's (FSC) guidelines.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability. Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment. There is no general provision against banking portfolio Investments.

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

11.2.6.14 Aid (Development Partner) Assets

Donor funds are deposited into bank accounts until expensed on approved assets. Where an asset is acquired at no cost, or is donated for use by the Crown or other Crown entity, it is recognised at fair value as at the date of acquisition.

11.2.7 Liabilities

11.2.7.1 Borrowings

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

11.2.7.2 Pension Liabilities

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

11.2.7.3 Aid Liabilities

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

11.2.7.4 Employee Entitlements

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

11.2.7.5 Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed and is provided for on a pro-rata basis in the statement of financial position. Annual leave and long service leave to be settled within 12 months of the balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

11.2.8 Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date. Included in the cash flow statement are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown.

Investing activities are the acquisition and disposal of long term assets and other investments.

Operating activities identify how much the Crown received from its actual operations.

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

11.2.9 Leases

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

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Operating leases are recognised as an expense in the Statement of Comprehensive Revenue and Expenses in the periods in which they are incurred.

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

11.2.10 Commitments

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

11.2.11 Contingent Liabilities

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

11.2.12 Changes in Accounting Policies

There have been no changes to the accounting policies. All policies were applied on a consistent basis with the prior year.