



Cook Islands Government

Quarterly Financial Report

September 2012

Prepared by the Ministry of Finance and Economic Management
www.mfem.gov.ck

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Key Points

The net operating balance of the General Government Sector as at 30 September 2012 was a surplus of \$1.1 million.

- Operating revenue was \$29.8 million; and
- Operating expenditure was \$28.7 million.

Table 1
Net Operating Balance General Government – September Quarter 2012

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Operating Revenue	28,616	29,745	1,129	4%
Operating Expenditure	29,212	28,656	-556	-2%
Net Operating Balance	-596	1,089	1,685	283%

Table 2
Fiscal Balance of General Government – September Quarter 2012

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Net Operating Balance	-596	1,089	1,685	283%
<i>Add</i> Depreciation	860	605	-255	-30%
<i>Less</i> Capital Expenditure	1,521	1,521	0	0%
Fiscal Balance	-1,257	173	1,430	114%

Total revenue collected was higher than the budget estimates for the quarter and was mainly attributable to the favourable collection of VAT revenue as a result of the high visitor numbers brought about by the Pacific Leaders Forum in August.

The lower level of operating expenses compared to the budget estimate for the quarter is largely attributed to the favourable variance from the Air New Zealand underwrite (20%) plus saving in overall line ministries spending (6%).

Summary of the Financial Position of the General Government

The net operating balance of the General Government Sector at 30 September 2012 quarter was a savings of \$1.1 million, representing an increase of \$1.7 million on the deficit estimated at the time of the 2012/13 budget.

Overall, revenue was \$1.1 million higher than the 2012/13 budget estimate and operating expenditure was lower than the estimate by \$0.6 million.

Prudence needs to be exercised when analysing these figures as revenues and expenses do vary from quarter to quarter and it is difficult to identify any obvious trend after the first quarter.

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

Table 3
Net Operating Balance as at 30 September 2012

	Budget ('000)	Actuals ('000)	Variance ('000)
Operating Revenue			
Taxation Revenue	25,445	26,068	623
Other Crown Receipts	1,125	1,483	358
Trading Revenue	1,303	1,451	148
Interest on Loans to Subsidiaries	456	456	0
Dividends	287	287	0
Total Operating Revenue	28,616	29,745	1,129
Operating Expenditure			
Ministry Expenditure Outputs	16,081	15,057	1,024
Air NZ Subsidy	3,400	2,724	676
TOA Guarantee	375	372	3
Other POBOCs	7,021	8,118	-1,097
Total POBOCs	10,796	11,213	-418
Airport Authority	560	723	-163
Bank of Cook Islands	45	45	0
Te Aponga Uira	88	88	-1
Ports Authority	50	50	0
Debt Servicing Interest	248	87	161
Building Maintenance	450	450	0
Crown Infrastructure Depreciation	870	870	0
Disaster/Contingency	25	72	-47
Bank Fees	0	1	-1
Total Operating Expenditure	29,212	28,656	556
Net Operating Balance	-596	1,089	1,685

Key Balance Sheet Items in General Government:

Cash and Equivalents	51,899
Committed Cash	-38,905
Net Cash Reserve	12,994
Gross General Government Borrowings	77,069
Net General Government Borrowings	34,728

Note: the cash reserves detailed at the bottom of Table 3 do not include cash held with the Crown-funded Agencies.

General Government Revenue Analysis

General Government sector revenue as at 30 September

2012 was:

- lower than the 2012/13 September quarter budget estimate (\$0.8 million or 3 per cent); and
- higher than the 30 September 2011 outcome (\$2.1 million or 8 per cent).

Table 4

General Government Revenue Summary – September 2012 YTD

	2011/12 Actuals ('000)	2012/13 Budget ('000)	2012/13 Actuals ('000)	Variance vs 2011/12 ('000)	Percent Variance	Variance vs Budget ('000)	Percent Variance
Value-added Tax	9,564	10,565	11,439	1,875	20%	874	8%
Income Tax	6,480	6,705	6,693	213	3%	(12)	0%
Company Tax	2,242	2,570	2,381	139	6%	(189)	-7%
Import Levies	3,463	3,433	3,298	(165)	-5%	(135)	-4%
Withholding Tax	0	225	292	292	0%	67	30%
Departure Tax	1,860	1,947	1,965	105	6%	18	1%
Trading Revenue	1,400	1,303	1,451	51	4%	148	11%
Other Revenue	2,616	1,868	2,226	(390)	-15%	358	19%
Total Revenue	27,625	28,616	29,745	2,120	8%	1,129	4%

Value Added Tax

VAT was above the budget estimate for the quarter (8%) and the 2011/12 September quarter (20%). This increase was attributed to the high visitor numbers (total arrivals 40,842) this September quarter predominantly driven by the Pacific Island Leaders Forum meeting in August. The Cook Islands saw an increase in visitor numbers (and likewise spending) of 1,866 in comparison to the same quarter last year.

Income Tax

Income tax performed consistently against budget and was slightly higher than the 2011/12 September quarter (3%). The September and December 2011 quarters recorded a significant increase in income taxes as a result of the increase in individuals registered from the Avatiu Harbour development. In March, we saw these numbers coming into line with budget as a result of the completion of the harbour work.

Company Tax

Company tax was slightly below the budget estimate for the quarter (-7%), and higher (6%) than the 2011/12 September quarter, reflecting improved collections and improved efforts in compliance.

Import Levies

Import levies were below the budget estimate for the quarter (-4%) and lower than the 2011/12 September quarter (-5%). Import levies are directly proportionate to the number of vessels per year. A total of 9 cargo/gas/oil vessels were cleared by Customs during this quarter. This is consistent with the September 2011/12 quarter but the slight decrease is attributed to a decrease in the number of other vessel types that were cleared in comparison to last year.

Withholding Tax

Withholding tax was higher than the budget estimate for the quarter (30%). This variance is a result of phasing issues and the fact that withholding tax was only implemented from 1 September 2011 last year.

Departure Tax

Departure tax was higher than the budget estimate for the quarter (1%) and higher than the 2011/12 September quarter (6 %) due to higher visitor numbers.

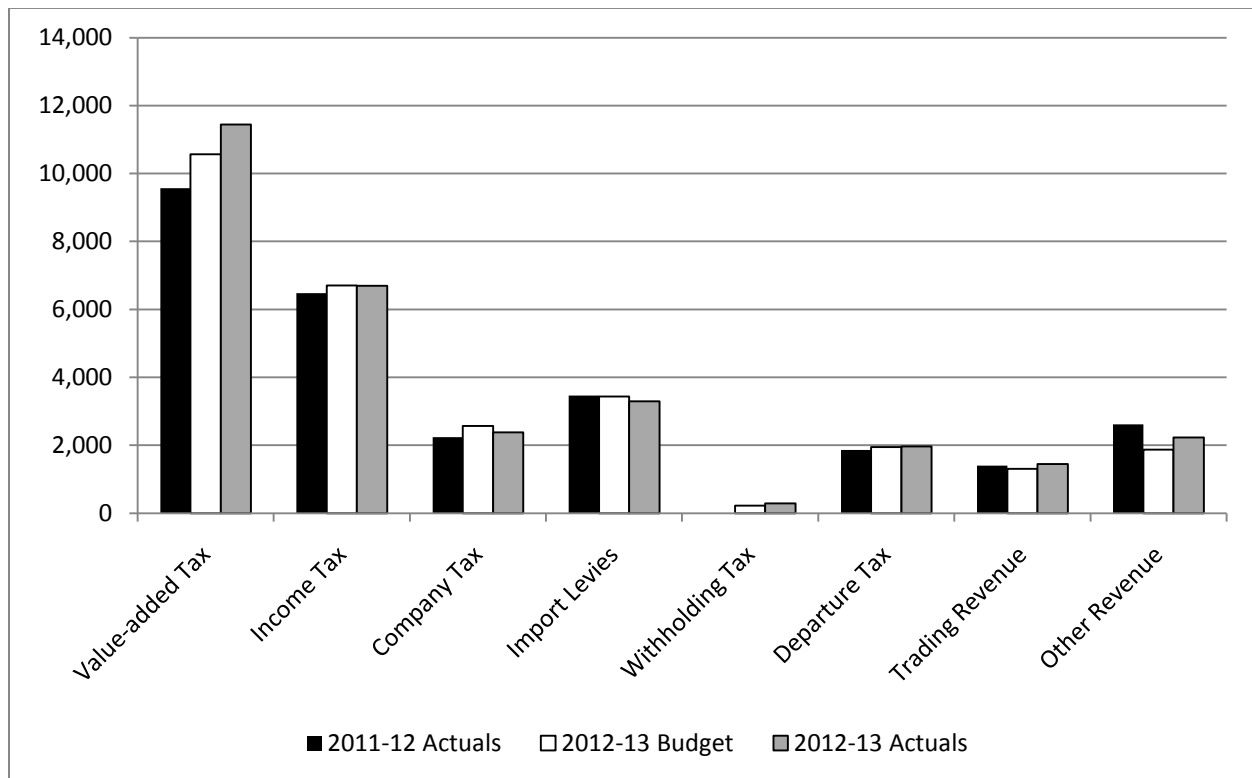
Trading Revenue

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

Other Crown Revenue

Other Crown Revenue was higher than the budget estimate for the quarter (19%) and lower than the 2011/12 September quarter (-15%). The increase to budget is predominantly due to the increase collection of a number of revenue items, namely drivers licenses (14%), BTIB registrations (25%), liquor licenses (600%) and numismatic sales (232%) and budget phasing issues.

Figure 1
General Government Revenue - September 2012 YTD (\$000)



General Government Operating Expenditure Analysis

Payments on Behalf of Crown (POBOCs)

Table 5

Payments on Behalf of Crown – September 2012 YTD

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Air New Zealand Underwrite	3,400	2,724	676	20%
Apex (Toa) Profit Support	375	372	3	1%
Other POBOCs	7,021	8,118	-1,097	-16%
Total POBOCs	10,796	11,213	-418	-4%

Expenditure on underwrite of the Air New Zealand Sydney and Los Angeles long haul routes were 20 per cent below budget.

Other POBOCs expenditure exceeded the quarter budget by 16 per cent. The overspending in the Te Maire Maeva Nui and the phasing issues reflected by other significant POBOCs were the major contributing factors of this variance.

Appropriation Analysis

Table 6

Appropriation Analysis – September 2012 YTD

	2011/12 Actuals	2012/13 Budget	2012/13 Actuals	Var vs 2011/12	% Var	Variance vs Budget	% Var
Personnel	11,394	11,094	10,970	-424	-4%	-124	-1%
Operating	4,324	4,127	3,482	-842	-19%	-645	-16%
Depreciation	714	860	605	-109	-15%	-255	-30%
Trading Revenue	1,400	1,303	1,451	51	4%	148	11%
Net Appropriation	15,032	14,778	13,606	-1,426	-9%	-876	-6%

After three months there is an overall savings of six per cent in the Net Appropriation for Crown-funded Agencies. This amounts to \$876,000.

As it is still early in the financial year, an increase in savings on personnel is expected as the filling of vacant positions is delayed. Ministries appear to be more conscious of spending at the beginning of the financial year and phasing appears to be more consistent.

Personnel

Personnel expenditure is one per cent under budget due to a number of vacancies that have remain unfilled as a result of retirement and resignation, predominately in Police and Transport.

Operating

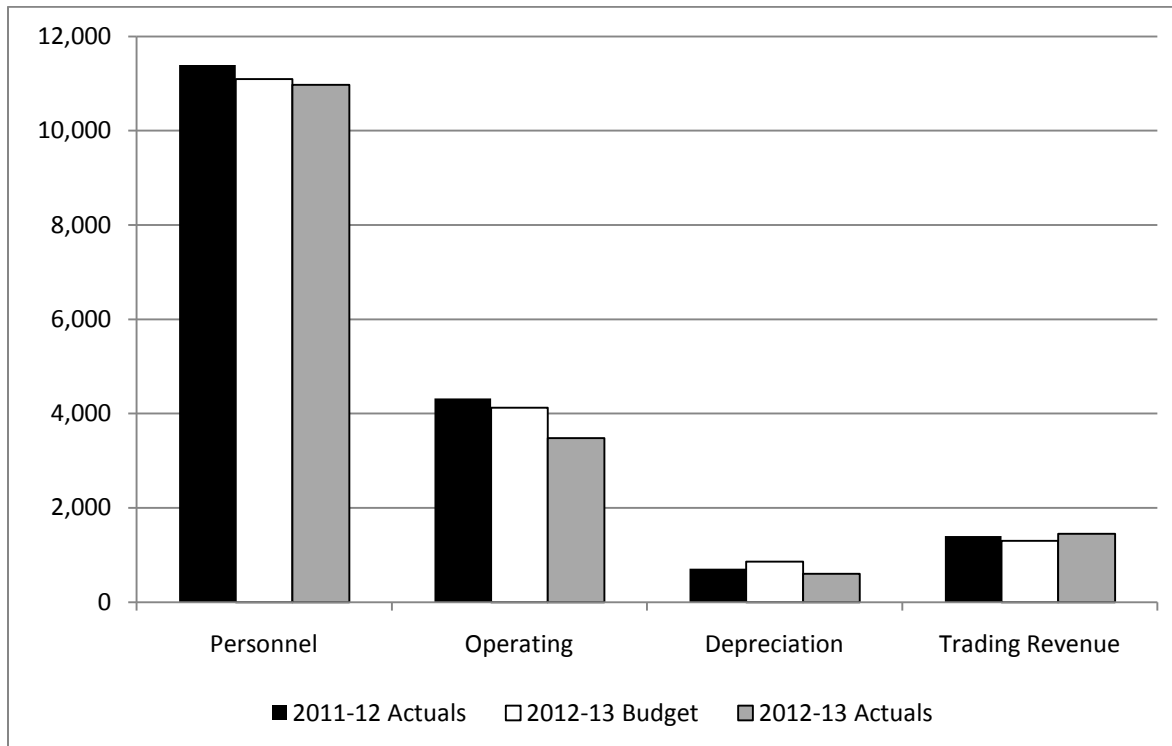
Operating expenditure for this quarter shows a savings of 16 per cent to budget and 19 per cent to the September 2011/12 quarter.

27 ministries contributed to this under-spending, while 15 have spent over their budgets for the past three months due to phasing issues and unforeseen repairs or maintenance cost. Three Ministries have savings over \$120,000. A major contributor to the under-spending was the Ministry of Health who has been closely monitoring their expenditure, followed by Ministries of Foreign Affairs and Education.

Trading Revenue

Ministry trading revenue is higher than budget (11%) and also higher in comparison to the 2011/12 September quarter (4%). The Ministry of Finance and Economic Management (MFEM) and the Ministry of Culture continues to be the major contributors to this increase due to the after-hour flight processing and Te Maeva Nui Celebration compensation.

Figure 2
Appropriation Analysis – September 2012 YTD



Other General Government Operating Expenditure

Table 7
Other General Government Operating Expenditure

	Budget	Actuals	Variance	
	('000)	('000)	('000)	Per cent
Airport Authority	560	723	-163	-29%
Bank of Cook Islands	45	45	0	1%
Te Aponga Uira	88	88	-1	-1%
Debt Servicing Interest	248	87	161	65%
Building Maintenance	450	450	0	0%
Crown Infrastructure Depreciation	870	870	0	0%
Disaster/Contingency	25	72	-47	-188%
Total Other Operating	2,286	2,335	-49	-2%

Other operating costs for the General Government sector are two per cent below the 2012/13 Budget. The most significant variation being reduced interest paid on foreign loans due to further favourable movements in the exchange rate.

Crown Borrowings

Crown's gross borrowing for the September 2012 quarter is \$77.1 million, a reduction of \$1.5 million from the June 2012 quarter. The cause of this reduction was derived from a:

- favourable movement in the general foreign exchange rates of -\$1.1 million;
- principal repayment of -\$0.4 million during the quarter.

The exchange rates used for this quarter were extracted from the Reserve Bank of New Zealand (RBNZ) and International Monetary Fund (IMF) average for the month of September 2012 as shown in the following table:

Table 8
Average Exchange Rates Used

Foreign Exchange Currency	30 September 2012 Average	30 June 2012 Average	Changes
EUR	0.6357	0.6217	0.0140
USD	0.8174	0.7801	0.0373
CNY	5.1693	4.9646	0.2047
XDR	0.6502	0.6598	(0.0096)

Net borrowing by the General Government for this quarter is \$34.7 million, a \$0.9 million reduction from the June 2012 quarter. This reduction is made up of \$0.4 million principal payments and \$0.5 million foreign exchange adjustment.

As previously reported, the second tranche of the Economic Recovery Loan of about USD 6.0 million, now converted to NZD 7.3 million, is not included in this report because it has not been drawn down yet. The loan is currently under negotiation and is expected to be drawn down during the latter half of the 2012/13 financial year.

The Crown also has received the approval of ADB to convert three of its OCR loans to the local currency. This conversion will give us more certainty when estimating debt service repayments and are not vulnerable to exchange rate risk. These loans will be reflected in the next quarterly report.

Managing the exchange risk is an ongoing task for the Crown and it will continue to do so by working closely with local banks counterpart over the global exchange rates movement to accommodate its annual debt servicing plan.

Table 9 below summarised Crown's estimated debt position for September 2012 quarter:

Table 9
General Government Borrowings – September 2012 YTD

Loan	Source (Currency)	Original Loan Amount in Currency ('000)	Loan Start Date	Loan Finalisation Date	Jun 12 Balance ('000)	Principal Payments ('000)	FOREX Adjustment ('000)	Loan Drawn Down	Sep 12 Balance ('000)	Change June 12 Qtr ('000)
New Zealand GSF Loan	NZD	5,849	Nov-80	Jun-13	929	0	0	0	929	0
Caisse Francais Development Loans	EURO	5,413	Jan-99	Sep-18	3,773	-27	-56	0	3,690	-83
Import-Export Bank of China	CNY	67,260	Aug-08	Aug-28	13,548	0	-537	0	13,011	-537
ADB 461 Multi Project Loan	SDR	1,000	Nov-80	Aug-20	681	-48	58	0	691	10
ADB 567 01st CIDB Loan	SDR	1,500	Jul-82	Apr-22	587	0	9	0	596	9
ADB 849 2nd Multi-Project Loan	SDR	2,067	Dec-87	Aug-27	1,880	-72	99	0	1,907	27
ADB 1031 TCI Loan	SDR	3,541	Oct-90	Aug-30	4,289	-138	202	0	4,353	64
ADB 1155 2nd CIDB Loan	SDR	939	Mar-92	Dec-31	1,070	0	16	0	1,086	16
ADB 1171 TCI Emergency Loan	SDR	291	Aug-92	Jun-32	367	0	6	0	373	6
ADB 1309 Pearl Loan	SDR	336	Dec-94	Aug-34	381	0	5	0	386	5
ADB 1317 Education Loan	SDR	1,836	Feb-95	Aug-34	2,319	-33	68	0	2,354	35
ADB 1380 3rd CIDB Loan	SDR	1,538	Jan-96	Sep-35	1,917	-26	55	0	1,946	29
ADB 1466 Economic Restructuring Loan	SDR	3,430	Sep-96	Sep-36	4,232	-57	119	0	4,294	62
ADB 1588 Cyclone Emergency Rehab Loan	SDR	1,895	Jun-05	Jun-45	708	9	2	0	719	11
ADB 1832 Waste Management Loan	SDR	1,695	Dec-01	Jun-33	2,099	0	31	0	2,130	31
ADB 2174 Cyclone Emergency Assist Loan	SDR	1,895	Jun-05	Jun-45	3,060	0	45	0	3,105	45
ADB 2472 Avatiu Port Development	USD	8,630	Sep-09	Nov-33	11,063	0	-505	0	10,558	-505
ADB 2473 Avatiu Port Development	SDR	4,524	Sep-09	Nov-40	6,857	0	101	0	6,958	101
ADB 2739 Amend Avatiu Port Development	USD	4,700	Dec-11	Nov-35	6,025	0	-276	0	5,749	-276
ADB 2565 Economic Restructuring Loan 1	USD	10,000	Jan-10	Oct-24	12,819	0	-585	0	12,234	-585
Total Gross Borrowings					78,308	-387	-1,148	0	77,069	-1,535
<i>Total Loans with ADB</i>					60,678	-360	-555	0	59,439	-915
<i>Total Loans with Other Sources</i>					18,250	-27	-593	0	17,630	-620
Total Gross Borrowings					78,928	-387	-1,148	0	77,069	-1,535
Less Loan Reserve					19,076	0	0	0	19,076	0
Net Borrowing by the Crown					59,852	-387	-1,148	0	57,993	-1,535
Less Avatiu Port Development					23,945	0	-680	0	23,265	-680
Net Borrowing by the General Government					35,583	-387	-468	0	34,728	-855

Note: This excludes debt held by State Owned Enterprises.

General Government Cash Reserves

General government cash reserves at 30 September 2012 quarter stands at \$13 million, an increase of \$6.5 million from the June 2012 quarter.

This increase is mainly due to an increase of \$3.3 million in new term deposit with the ANZ bank. The bulk of this deposit came from favourable tax collection for the year end 2011-12 but received in July. In addition to the increase was \$2.9 million committed as at June 2012 for carried forward capital projects now being added back to government general reserves.

Table 10
Cash Reserves – September 2012 YTD

	March 12 Qtr ('000)	June 12 Qtr ('000)	Sep 12 Qtr ('000)	Change June 12 Qtr ('000)
Total Term Deposit at the Bank				
Westpac	15,121	8,778	8,814	36
ANZ	13,122	18,927	22,218	3,291
ANZ - NZAID Fund 5 million	0	5,512	3,052	-2,460
ANZ - ADB USD 10 million	7,371	7,443	7,511	68
BCI	9,985	9,999	10,304	305
Total Term Deposit at the Bank	45,599	50,659	51,899	1,240
	*			
Committed:				
Trust Fund General Reserve	2,935	2,935	2,935	0
Disaster Response Trust	200	200	200	0
Debt/Loan Reserve	19,076	19,076	19,076	0
ADB USD 10 million loan - Project pending	7,371	7,443	7,511	68
DCD - NZAID Project Fund 5 million	0	5,512	3,052	-2,460
Trust Account Deposit	2,425	2,628	2,631	3
Carry Forward Approved - CAPEX	3,266	2,884	0	-2,884
Carry Forward Contingency - OPEX	500	500	500	0
Working Capital	3,000	3,000	3,000	0
	#			
Total Commitment for this year	38,773	44,178	38,905	-5,273
Estimated General Cash Reserve	6,826	6,481	12,994	6,513

* - This does not include cash balances on the Ministry Operating Bank Accounts.

- This is the Working Capital Reserve.

Official Development Assistance

The Development Coordination Division (DCD) of MFEM administers all official development assistance (ODA). The New Zealand Aid program funds approximately 90 per cent of ODA contributions to the Cook Islands annually.

Balance of Funds on Hand

This represents the bank accounts that are held by DCD for various development partners, and are include:

- \$10.2 million of NZ dollar accounts ; and
- \$0.9 million of US dollar accounts (NZD \$0.1 million)

Table 11
ODA Expenditure for the quarters ending September 2012 (\$)

	July 2012	August 2012	September 2012	Total
NZ Aid Program	797,259	272,807	2,336,012	3,406,078
UNDP	18,819	33,897	13,380	66,096
India	-	-	73,899	73,899
CI Government	-	-	6,381	6,381
AusAid	3,516	9,548	25,164	38,228
European Union	150	3,940	-	4,090
Pacific Is Forum	1,343	-	-	1,343
TOTAL	821,087	320,192	2,454,836	3,596,115

Indicative allocations show that the Mauke and Mitiaro Harbours and the Arorangi Jetty are in its final year of development support from NZAID. In the next quarter an increase in spending will go towards the Renewable Energy Activities.

The increase in the NZAID program from last quarter resulted from by funds released for capital projects Mauke and Mitiaro Harbours and the alternative Jetty in Arorangi. This also includes development funds designated to the Tourism Sector.

The increase for India funding is towards purchase of a specialised disability van for the Red Cross.

Increased AusAID funding is specifically through climate change projects with Implementing Agencies NES and OPM.

Appendix – Key Operating Trends

Figures 3 and 4 below demonstrate the trends over the previous two financial years of operating revenue, expenditure.

Figure 3
Net Operating Revenue Trends

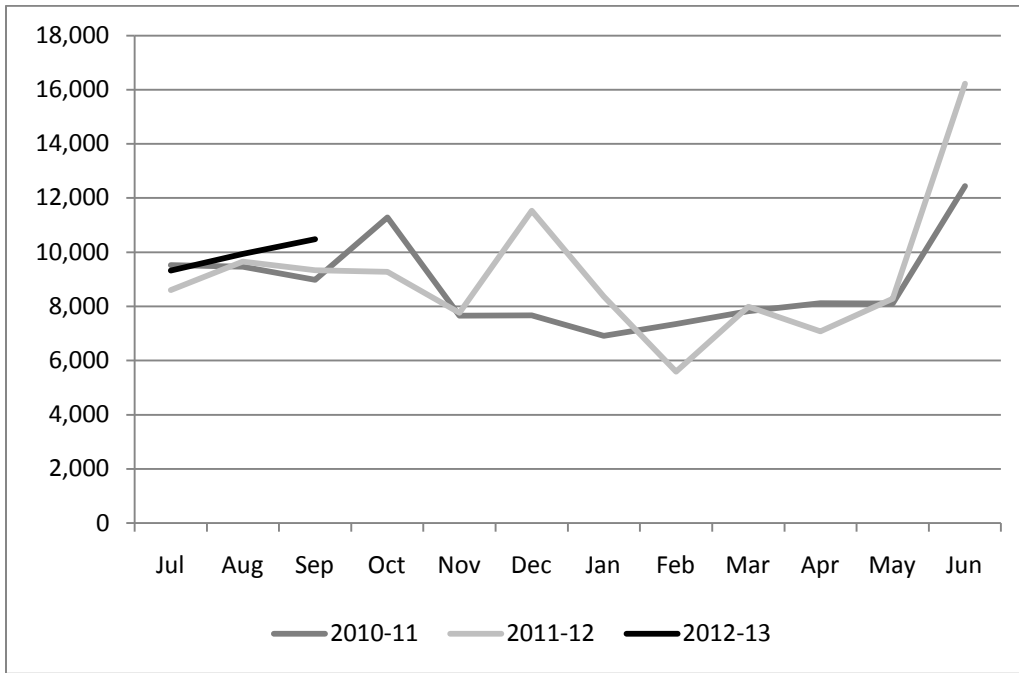
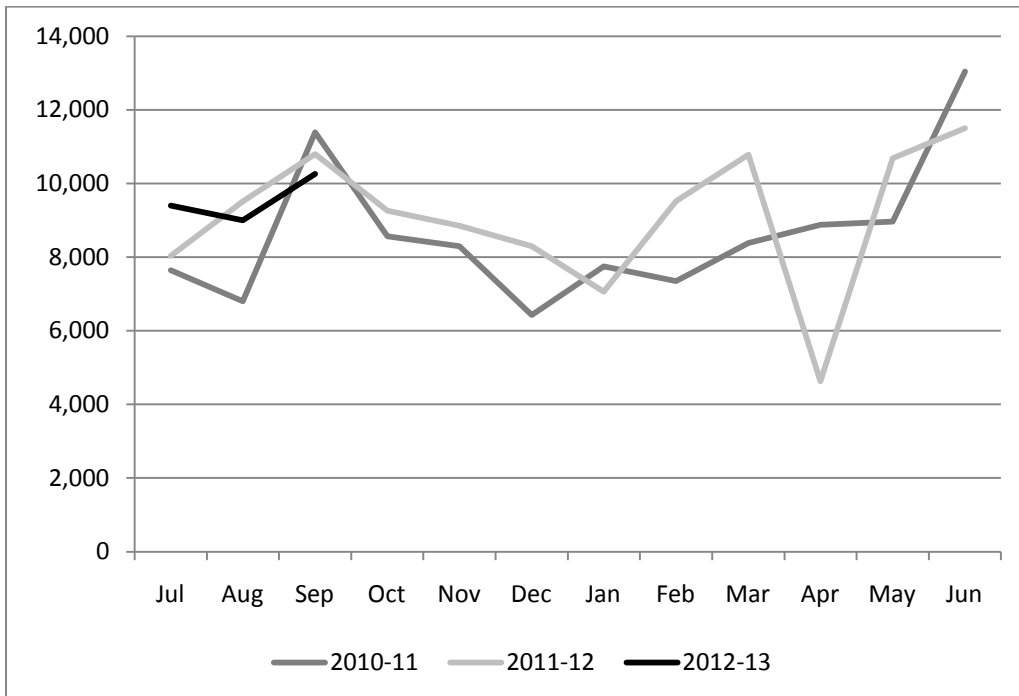


Figure 4
Net Operating Expenditure Trends



Glossary

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

Revenue

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

Revenue Levied Through the Crown's Sovereign Power

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

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

Expenses

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

Foreign Currencies

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

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

Aid Expenses

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

Appropriation

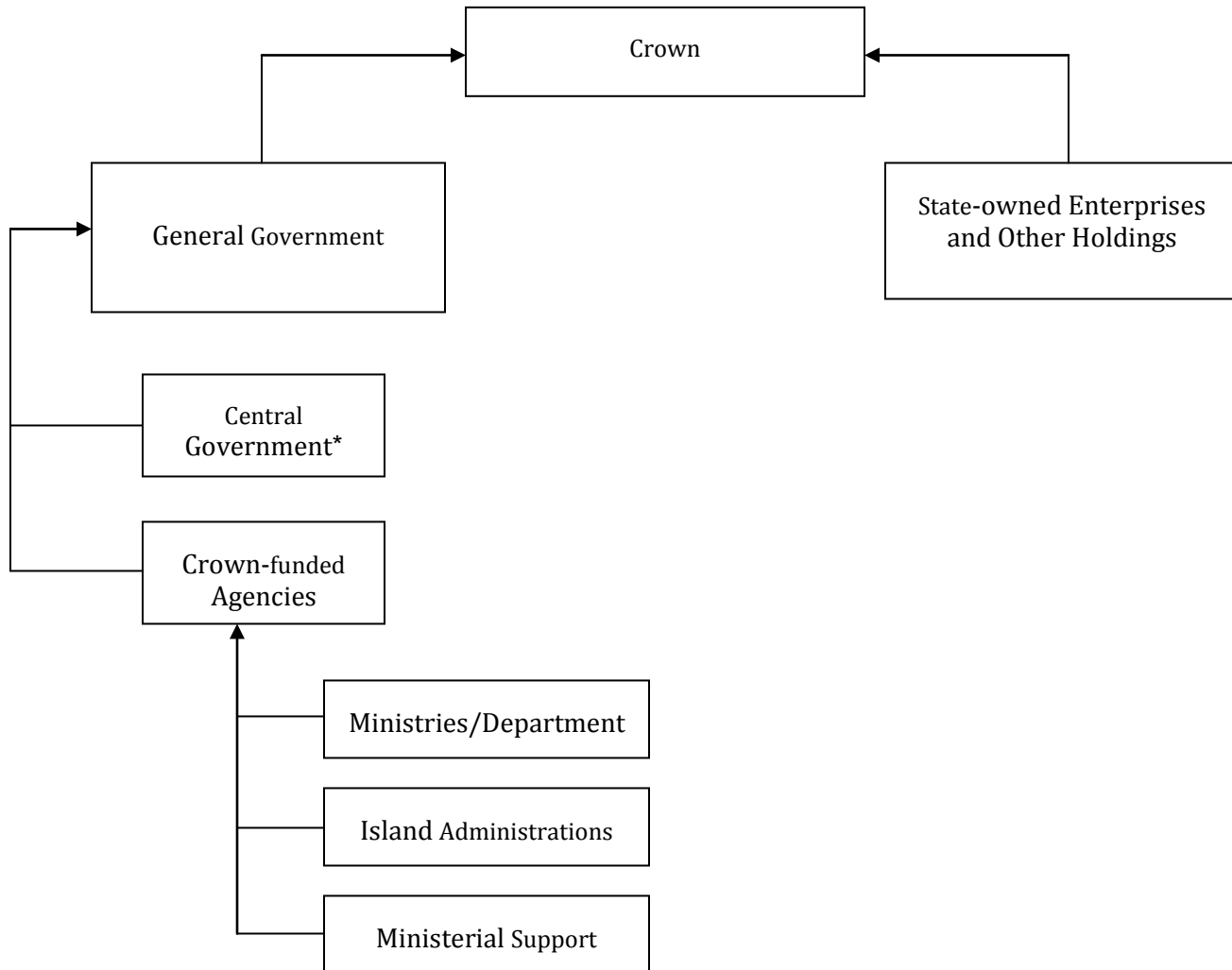
Appropriations are the funding-source provided by the Crown (as a Central Government entity) to allow the recipients (Crown-funded Agencies – see term below) to carry out their purposed operations.

Crown-funded Agencies/Agencies

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

General Government

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



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