

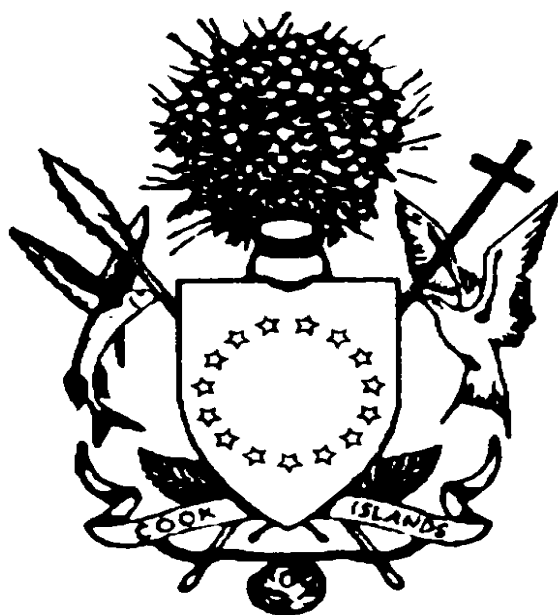
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**COOK ISLANDS GOVERNMENT**  
**BUDGET ESTIMATES**

2017/2018

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**Book 1**  
**Appropriation Bill**  
**Appropriations and Commentary**



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

**June 2017**



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23<sup>rd</sup> June 2017

**STATEMENT OF RESPONSIBILITY**

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2017/18.

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

I accept the overall responsibility for the integrity of the Budget Appropriation 2017/18 and the compliance with the *Ministry of Finance and Economic Management Act 1995/96*.

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

Honourable Mark Brown  
**Minister of Finance**



**MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT  
GOVERNMENT OF THE COOK ISLANDS**

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23<sup>rd</sup> June 2017

**STATEMENT OF RESPONSIBILITY**

The Budget Appropriation 2017/18 has been produced in accordance with the Ministry of Finance and Economic Management Act 1995/96 (the Act).

The 2017/18 Budget process involved the annual publication of the Budget Policy Statement in December 2016, which was available on the [mfem.gov.ck](http://mfem.gov.ck) website, and the establishment of the Budget Support Group which was commissioned to review agency budget proposals prior to Cabinet consideration and approval.

In compliance with Section 24 (1) of the Act, the Ministry of Finance and Economic Management provided Cabinet with the:

- estimated revenue of the Crown;
- details of each Government Department's bid for funds; and
- Crown's debt management responsibilities.

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

The information in the supporting documentation is comprehensive, going well beyond the requirements of the Act, and includes a Statement of Fiscal Responsibility that clearly sets out the position in terms of fiscal responsibility as required in section 23 (2) (a) of the Act.

It should be noted that financial information relating to national public finances is consistent with the standards outlined in the International Monetary Fund (IMF) 2001 manual on Government Finance Statistics.

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

Kia Manuia,

A handwritten signature in black ink, appearing to read 'G Henderson'.

Garth Henderson  
**Financial Secretary**



# PARLIAMENT OF THE COOK ISLANDS

## APPROPRIATION BILL

### EXPLANATORY NOTE

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

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

**Clause 1** provides that, on enactment, the Bill will be called the Appropriation Act 2017.

**Clause 2** is the application provision, which specifies the financial year to which the Bill relates. In this case it is the financial year ending 30<sup>th</sup> June 2018.

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

Subsection 5 limits any expenditure which may be charged to the 2017/18 appropriation to actual expenditure incurred in the period 1 July 2017 to 30 June 2018.

Subsections 6-7 limit any expenditure which may be charged to the 2017/18 appropriation to actual expenditure incurred up to 30 June 2017.

Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2016/17 to actual expenditure incurred up to 30 June 2017.



## Hon. Mark Brown



## Appropriation Bill 2017

### Contents

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<b>Schedule 2</b>	<b>Payments on Behalf of Crown (POBOC)</b>
<b>Schedule 3</b>	<b>Cook Islands Capital Spending</b>
<b>Schedule 4</b>	<b>Official Development Assistance</b>
<b>Schedule 5a</b>	<b>Other Expenses and Financing Transactions</b>
<b>Schedule 5b</b>	<b>Loan Reserve Fund (LRF) Appropriations</b>
	<b>Summary</b>

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**An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2018 and to appropriate the supplies granted in this period**

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

**1. Title**

This Act is the Appropriation Act 2017.

**2. Application**

This Act applies to the year ending on the thirtieth day of June 2018 ("the year").

**3. Grant and appropriation out of the Cook Islands Government Account**

- (1) The Minister responsible for Finance may authorise the incurrence of expenses or expenditure and may issue and apply out of the Cook Islands Government Account, towards making good the supplies granted to Her Majesty for the services of the year, any sums which in total do not exceed the sum of **\$273,247,094**.
- (2) Subject to subsection (3) the sums authorised to be supplied are appropriated for the services set out in the votes specified in the Schedules to this Act.
- (3) The votes identified in Schedule 4 to this Act as being funded through loans from financing partners or from grants by development partners are further limited to the lesser of the votes specified in those Schedules and the loan proceeds or grants received for the purpose of financing the expense or expenditure in relation to those votes.
- (4) Notwithstanding Section 37 of the Ministry of Finance and Economic Management Act 1995-96, the appropriations made under this Act will lapse on 30 June 2018.
- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2018 are limited to—
  - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2018; or
  - (b) expenses incurred or payments due during the year ended 30 June 2018 for which a valid invoice was submitted before 30 June 2018, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2018.
- (6) The appropriations made in the Appropriation Act 2016 will lapse on 30 June 2017.
- (7) Payments that may be charged after 30 June 2017 against any appropriation that lapses under the provisions of subsection (6) are limited to—
  - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2017; or
  - (b) Expenses incurred or payments due during the year ended 30 June 2017 for which a valid invoice was submitted before 30 June 2017, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2017.
- (8) Where in the period ended 30 June 2017, the Financial Secretary appointed under section 4 of the Ministry of Finance and Economic Management Act 1995-96 had directed that an unexpended appropriation from an Appropriation Act for a previous year be available for expenditure in the year ended 30 June 2017, those appropriations will also lapse on 30 June 2017.
- (9) Payments that may be charged after 30 June 2017 against any appropriation that lapses under the provisions of subsection (8) are limited to—
  - (a) self balancing journal entries to correct posting errors during the year ended 30

Appropriation Bill 2017/18

June 2017; or

- (b) expenses incurred or payments due during the year ended 30 June 2017 for which a valid invoice was submitted before 30 June 2017, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2017.

Schedule 1

Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	882,138	134,643	0	22,182	1,038,962	90,535	948,427
Audit (PERCA)	936,350	68,180	0	26,678	1,031,208	60,700	970,508
Crown Law	601,549	144,100	0	5,983	751,632	0	751,632
Cultural Development	621,760	128,782	737,500	96,655	1,584,697	110,000	1,474,697
Business Trade and Investment Board	440,094	232,575	0	9,000	681,669	23,380	658,289
Education	11,842,082	3,232,101	4,101,882	412,364	19,588,429	0	19,588,429
Environment	849,690	148,724	182,241	30,381	1,211,036	35,000	1,176,036
Finance and Economic Management	3,425,445	662,189	14,367,678	128,530	18,583,842	603,500	17,980,342
Financial Services Development Authority	240,339	177,906	0	9,867	428,112	0	428,112
Foreign Affairs	1,266,905	598,151	10,000	77,726	1,952,782	28,000	1,924,782
Head Of State	168,038	34,080	23,000	15,057	240,175	0	240,175
Health	8,953,286	2,531,330	1,726,870	886,814	14,098,300	350,000	13,748,300
Infrastructure Cook Islands	1,814,113	303,351	745,000	241,596	3,104,060	295,626	2,808,434
Internal Affairs	1,040,000	121,085	2,585,893	17,264	3,764,241	6,000	3,758,241
<i>of which: Welfare Payments - Allowances</i>	0	0	982,893	0	0	0	0
Justice	1,577,855	399,371	337,000	133,947	2,448,173	500,000	1,948,173
Marine Resources	1,204,964	358,125	350,000	95,000	2,008,089	28,000	1,980,089
Ombudsman	219,695	61,840	0	5,822	287,357	0	287,357
Parliamentary Services	487,567	71,192	62,000	24,579	645,338	0	645,338
Pearl Authority	217,600	234,688	0	28,303	480,591	0	480,591
Police	3,108,483	461,724	255,000	218,622	4,043,829	93,421	3,950,408
Prime Minister's Office	1,265,016	236,849	978,000	36,069	2,515,934	0	2,515,934
Public Service Commission	398,609	72,447	1,230,316	79,293	1,780,665	0	1,780,665
Tourism Corporation	1,744,118	2,756,016	5,400,000	31,500	9,931,634	352,000	9,579,634
Transport	537,571	135,964	56,000	39,047	768,582	36,000	732,582
Cook Islands Investment Corporation	941,950	3,298,194	4,417,000	371,189	9,028,333	2,455,943	6,572,390
Cook Islands Seabed Minerals Authority	179,021	111,940	0	7,200	298,161	0	298,161
Capital Funds Committee- Administered by MFEM	0	0	0	45,000	45,000	0	45,000
<b>Total Ministries, Crown &amp; Statutory Agencies</b>	<b>44,964,236</b>	<b>16,715,546</b>	<b>37,565,380</b>	<b>3,095,668</b>	<b>102,340,829</b>	<b>5,068,105</b>	<b>97,272,724</b>

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Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
<b>Ministerial Support</b>							
Prime Minister	301,176	109,773	0	11,100	422,049	0	422,049
Deputy Prime Minister	134,894	85,372	0	11,503	231,769	0	231,769
Minister Mark Brown	202,666	81,613	0	6,802	291,081	0	291,081
Minister Kiriau Turepu	129,514	56,931	0	11,162	197,607	0	197,607
Minister Nandi Glassie	107,704	78,415	0	12,000	198,119	0	198,119
Minister Albert Nicholas	78,447	117,000	0	5,500	200,947	0	200,947
Leader Of Opposition	154,185	48,200	0	6,800	209,185	0	209,185
<b>Total Ministerial Support Offices</b>	<b>1,108,586</b>	<b>577,304</b>	<b>0</b>	<b>64,867</b>	<b>1,750,757</b>	<b>0</b>	<b>1,750,757</b>
<b>Outer Islands</b>							
Aitutaki	1,137,762	367,829	0	143,884	1,649,476	67,828	1,581,648
Aitutaki Power Supply	0	0	0	0	0	0	0
Atiu	785,426	407,041	0	138,561	1,331,029	224,318	1,106,711
Mangaia	861,498	552,165	0	204,700	1,618,363	301,000	1,317,363
Manihiki	638,449	150,438	0	92,199	881,086	117,500	763,586
Mauke	653,141	201,413	0	178,982	1,033,535	113,853	919,682
Mitiaro	541,364	69,446	0	55,200	666,009	58,899	607,110
Palmerston	257,571	65,528	0	42,000	365,099	20,599	344,500
Penrhyn	460,817	155,124	0	62,407	678,348	74,000	604,348
Pukapuka-Nassau	752,172	142,467	0	140,552	1,035,191	73,695	961,496
Rakahanga	372,496	59,373	0	37,829	469,698	49,336	420,362
Outer Islands Capital Fund-Administered by MFEM	0	0	0	27,500	27,500	0	27,500
<b>Total Outer Islands</b>	<b>6,460,697</b>	<b>2,170,824</b>	<b>0</b>	<b>1,123,813</b>	<b>9,755,334</b>	<b>1,101,028</b>	<b>8,654,306</b>
<b>Gross Total</b>	<b>52,533,519</b>	<b>19,463,674</b>	<b>37,565,380</b>	<b>4,284,348</b>	<b>113,846,920</b>	<b>6,169,133</b>	<b>107,677,787</b>

## Schedule 2

### PAYMENTS ON BEHALF OF THE CROWN (POBOCs)

Administering Ministry	POBOC	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
<b>Compensation of Employees</b>				
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000	0
Audit	Transfer of PERC Salaries and Administration Costs	42,500	42,500	0
Parliamentary Services	Civil List - Personnel	1,974,607	2,011,461	36,854
Parliamentary Services	House of Ariki	176,341	178,337	1,996
<b>Compensation of Employees POBOCs</b>		<b>2,373,448</b>	<b>2,412,298</b>	<b>38,850</b>
<b>Use of Goods and Services</b>				
Audit	Audit Fees	95,600	95,600	0
Justice	General Elections, Petitions and By-Elections	0	0	0
Parliamentary Services	Civil List - Operating Expenses	0	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	0
Parliamentary Services	Parliamentary Sitting Expenses	120,000	120,000	0
Parliamentary Services	QR & MP Travel and Allowance (local and overseas)	150,000	0	(150,000)
Parliamentary Services	QR Travel and Allowances (local and overseas)	0	109,000	109,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	0	41,000	41,000
Prime Minister's Office	Local Government Election	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	0
<b>Use of Goods and Services POBOCs</b>		<b>599,261</b>	<b>599,261</b>	<b>0</b>
<b>Subsidies</b>				
Finance & Economic Management	Apex - Profit Guarantee	1,500,000	750,000	(750,000)
Finance & Economic Management	FSC - subsidy to meet depreciation expenses	0	0	0
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	0
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	0
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	0
<b>Subsidies POBOCs</b>		<b>4,158,096</b>	<b>3,408,096</b>	<b>(750,000)</b>
<b>Social Assistance</b>				
Internal Affairs	Welfare Payments	15,799,966	17,353,517	1,553,551
<b>Social Assistance POBOCs</b>		<b>15,799,966</b>	<b>17,353,517</b>	<b>1,553,551</b>
<b>Other Expense</b>				
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	0
Finance & Economic Management	CICC Mission Training Center Construction Grant	0	600,000	600,000
Foreign Affairs	International Subscriptions	596,705	625,667	0
<b>Other Expenses POBOCs</b>		<b>717,399</b>	<b>1,346,361</b>	<b>0</b>
<b>Grand Total</b>		<b>23,648,170</b>	<b>25,119,533</b>	<b>842,401</b>

### Schedule 3

#### Cook Islands Capital Spending

	2016/17 Budget Estimates	2017/18 Budget Estimates	Variance
Cook Islands Government Capital programs (see Schedule 6 for details)	36,663,124	44,904,336	8,241,212
<b>Total Capital spending</b>	<b>36,663,124</b>	<b>44,904,336<sup>1</sup></b>	<b>8,241,212</b>

### Schedule 4

#### Official Development Assistance<sup>2</sup>

	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Operating or recurrent expenditure	16,082,833	28,053,720	11,970,886
Capital Project expenditure	44,577,755	41,338,420	-3,239,335
<b>Total Borrowing Expenses and Debt Repayment</b>	<b>60,660,588</b>	<b>69,392,140</b>	<b>8,731,552</b>

### Schedule 5a

#### Other Expenses and Financing Transactions

Category of Expense	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Contingency Funds - Capital Expenditure	0	0	0
Contingency Funds - Operating	100,000	100,000	0
Crown Infrastructure Depreciation	3,682,397	4,602,897	920,500
Concession Loan Fund - Top Ups	0	0	0
Public Sector Strengthening	0	0	0
ADB Share Capital	0	0	0
Transfer to Emergency Response Trust Fund	603,858	50,000	553,858
Transfer to Reserve Trust Fund	548,172	592,044	43,872
Depreciation Contingency Fund	2,362,134	3,957,454	1,595,320
Contributions to Cook Islands Sovereign Wealth Fund	0	0	0
<b>Total Other Expenses</b>	<b>7,296,561</b>	<b>9,302,396</b>	<b>2,005,834</b>

### Schedule 5b

#### Loan Reserve Fund (LRF) Appropriations

Category of Appropriation	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Contribution to LRF - Principal	6,893,059	8,618,817	1,725,758
Contribution to LRF - Interest	1,710,050	2,062,953	352,903
<b>Total Contribution to LRF</b>	<b>8,603,108</b>	<b>10,681,769</b>	<b>2,078,661</b>

<sup>1</sup> This includes the Manatua Submarine Cable

<sup>2</sup> Excluding Budget Support and appropriated through agencies or POBOCs in schedule 1.

### Summary

<b>Category of Payment</b>	<b>2016/17 Budget Estimate</b>	<b>2017/18 Budget Estimate</b>	<b>Variance</b>
Schedule 1 - Ministry Outputs (Gross Operating)	101,408,738	113,846,920	12,438,182
Schedule 2 - POBOCs	23,648,170	25,119,533	1,471,363
Schedule 3 - CIG Capital Expenditure	36,663,124	44,904,336	8,241,212
Schedule 4 - Official Development Assistance	60,660,588	69,392,140	8,731,552
Schedule 5a - Other Expenses and Financing Transactions	7,296,561	9,302,396	2,005,834
Schedule 5b - Loan Reserve Fund Appropriations	8,603,108	10,681,769	2,078,661
<b>TOTAL APPROPRIATION</b>	<b>238,280,290</b>	<b>273,247,094</b>	<b>34,966,805</b>

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

Printed under the authority of the Cook Islands Parliament – 2017.



### 3 Government Financial Statistics Statement

The Government Financial Statistics (GFS) Operating Statement reflects the financial performance of Government and discusses general trends and revisions of forecasts for operating revenues, operating expenditures and the resultant operating balance.

**Table 3.1 GFS Statement**

Statement of Government Operations	2016/17 Estimate	2017/18 Budget	2018/19 Projection	2019/20 Projection	2020/21 Projection
<b>REVENUE</b>	<b>174,626</b>	<b>223,926</b>	<b>181,996</b>	<b>168,523</b>	<b>156,122</b>
Taxes	119,869	118,409	121,847	125,128	127,688
Social contributions	75	75	75	75	75
Grants	24,570	77,763	31,996	15,263	422
<i>Current</i>	16,911	36,424	15,149	14,872	111
<i>Capital</i>	7,659	41,338	16,847	391	311
Other revenue	30,112	27,680	28,078	28,057	27,937
<b>EXPENSE</b>	<b>143,687</b>	<b>177,793</b>	<b>155,539</b>	<b>154,419</b>	<b>137,217</b>
Compensation of employees	52,384	56,571	55,285	55,501	55,501
Use of goods and services	37,966	60,871	42,380	41,968	25,706
Depreciation	9,644	12,423	12,529	12,529	12,529
Interest	1,710	2,063	2,058	2,022	2,022
Subsidies	14,928	17,068	15,718	15,718	15,718
Grants	-	-	-	-	-
Social benefits	17,903	19,674	19,206	19,370	19,370
Other expense	9,153	9,123	8,363	7,311	6,371
<b>NET OPERATING BALANCE</b>	<b>30,939</b>	<b>46,133</b>	<b>26,457</b>	<b>14,105</b>	<b>18,905</b>
<b>Plus NON CASH APPROPRIATIONS</b>					
Depreciation	9,644	12,423	12,529	12,529	12,529
<b>CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS</b>	<b>40,583</b>	<b>58,556</b>	<b>38,986</b>	<b>26,634</b>	<b>31,433</b>
<b>CASH TRANSACTIONS IN NONFINANCIAL ASSETS</b>					
Net Cash Applied to the Acquisition of Fixed Assets	34,325	86,243	57,593	24,978	16,376
Gross transactions in Non-Financial Assets	43,968	98,666	70,122	37,507	28,905
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	(9,644)	(12,423)	(12,529)	(12,529)	(12,529)
<b>NET (BORROWING)/LENDING</b>	<b>6,258</b>	<b>(27,687)</b>	<b>(18,607)</b>	<b>1,655</b>	<b>15,057</b>
<b>CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>13,866</b>	<b>(22,589)</b>	<b>(14,244)</b>	<b>(3,874)</b>	<b>7,877</b>
Domestic Transactions	13,866	(22,589)	(14,244)	(3,874)	7,877
Foreign Transactions	-	-	-	-	-
<b>CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES</b>	<b>(7,333)</b>	<b>(4,501)</b>	<b>(2,903)</b>	<b>7,918</b>	<b>9,742</b>
Domestic Transactions	-	-	-	-	-
Foreign Transactions	(7,333)	(4,501)	(2,903)	7,918	9,742
<b>NET CASH FINANCING TRANSACTIONS</b>	<b>6,553</b>	<b>(27,091)</b>	<b>(17,147)</b>	<b>4,043</b>	<b>17,619</b>
<i>Statistical discrepancy</i>	295	596	1,461	2,388	2,562

#### 3.1 GFS Net Operating Balance

The GFS net operating balance is the balance of operating revenues less operating expenditure by the Government and its development partners. The GFS net operating balance in 2016/17 is estimated to be a \$30.9 million.

Going forward, changes in expenditure and revenue estimates are predicted to result in a \$46.1 million operating balance in 2017/18, \$26.5 million in 2018/19, \$14.1 million in 2019/20 and \$18.9 million in 2020/21.

Across all years, the large net operating balance is due to grant funding and government revenues being channeled towards capital spending in both Crown funded and ODA funded projects. Even

without the impact of grant revenues, the Crown runs sizable operating surpluses in all years, with these operating surpluses being used to fund the overall fiscal balance (which includes capital) in 2017/18 and 2018/19. This is shown in the accumulation of cash reserves in 2016/17, and a drawdown of these reserves in 2018/19 and 2019/20.

### **3.1.1 GFS Operating Revenue**

Operating revenues are made up of taxation receipts (27.8 per cent in 2016/17), grants from other governments (5.7 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (6.9 per cent). These revenue streams are used to finance the on-going operational expenditure of government, with surpluses used for investing activities such as infrastructure development projects or accumulated in reserves.

GFS Operating revenues in 2016/17 were estimated to tally to \$174.6 million, of which \$119.8 million is expected to be collected in taxes alone.

For 2017/18, operating revenue is expected to reach \$223.9 million, driven largely by a significant increase in grant funding from other governments. Tax revenue is anticipated to be \$1.5 million lower than 2016/17, due to a one-off collection of withholding tax in 2016/17 and considering the tax amnesty package.

### **3.1.2 GFS Operating Expenditure**

Operating expenditure is made up of compensation of employees (12.2 per cent in 2016/17), use of goods and services (8.8 per cent), social benefits (4.2 per cent), subsidies (3.5 per cent), depreciation (2.3 per cent), other expenses (2.2 per cent), and interest expenses (0.4 per cent).

Total operating expenditure is expected to increase to \$177.8 million in 2017/18, a \$34.1 million increase on 2016/17, due largely to increases in use of goods and services (up \$22.9 million) and subsidies (up \$2.2 million).

## **3.2 GFS Non-Operating Items**

Cash Transactions in Non-Financial Assets outlines the transactions relating to capital, the details of which are outlined in schedule 6 (Capital) or Chapter 16. This spending includes public works, purchase of plant and equipment and investments in ICT.

Total purchases of non-financial assets (excluding depreciation) will rise to an estimated \$86.3 million in 2017/18. Large purchases of non-financial assets, mainly in infrastructure (renewable energy, Te Mato Vai, Manatua Submarine Cable and others) are spread across 2017/18 and 2019/20. In particular, this reflects significant construction activity over this period, with water, energy, and road infrastructure investment, two large school projects, cyclone shelters and a new multi-agency government building.

### **3.2.1 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).

Consistent with the large capital works currently underway, the net borrowing requirement is \$27.7 million in 2017/18. This requirement is serviced by a combination of cash and debt financing, with net cash transactions contributing \$22.6 million and net debt finance (new loans minus repayments) contributing \$4.5 million.

This financing requirement falls to \$18.6 million in 2018/19, with much of this due to the

continuation of Te Mato Vai Stage 2 and the Water Sanitation Programme – Mei te vai ki te Vai. The net position of Government reverses in 2020/21, with a significant accumulation of cash reserves in that year due almost exclusively to low levels of committed capital programs in those years. Debt principal repayments continue across all years.

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. Most of the statistical discrepancy shown in the GFS Operating Statement relates to timing issues between when projects are executed and when their funding is received into the Crown account. The sum of the statistical discrepancy across the years shown is not considered to be significant.

### 3.3 Classification of Functions of Government (COFOG)

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 3.2 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA.

**Table 3.2 Classification of Functions of Cook Island Government 2017/18 Budget**

Function of Government	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
<b>Cook Islands Government (CIG) Expenditure</b>					
General public services	<b>34,606,552</b>	<b>43,485,814</b>	<b>38,625,846</b>	<b>43,606,409</b>	<b>41,247,166</b>
Executive and legislative organs, financial and fiscal affairs, external affairs	30,482,257	38,347,434	33,492,426	38,509,102	36,149,859
General services	1,433,168	2,733,360	2,733,360	2,733,360	2,733,360
General public services	981,077	342,067	341,650	341,650	341,650
Public debt transactions	1,710,050	2,062,953	2,058,410	2,022,297	2,022,297
<b>Public order and safety</b>	<b>5,949,509</b>	<b>5,927,101</b>	<b>5,970,246</b>	<b>5,836,519</b>	<b>5,836,519</b>
Police services	4,075,775	4,043,829	4,210,640	4,076,913	4,076,913
Law courts	1,151,216	1,155,955	1,034,123	1,034,123	1,034,123
Prisons	722,518	727,317	725,483	725,483	725,483
<b>Economic affairs</b>	<b>47,770,723</b>	<b>55,928,294</b>	<b>48,442,131</b>	<b>37,262,756</b>	<b>37,012,975</b>
General economic, commercial, and labor affairs	8,995,178	23,279,275	22,713,323	11,685,167	11,685,167
Agriculture, forestry, fishing, and hunting	3,810,219	4,087,052	3,894,031	3,900,319	3,900,319
Fuel and energy	14,262,666	4,807,044	1,340,427	1,336,350	1,086,569
Mining, manufacturing, and construction	291,140	298,161	299,105	300,049	300,049
Transport	701,081	1,209,383	273,964	260,464	260,464
Communication	-	35,000	-	-	-
Tourism	19,480,339	21,982,280	19,691,182	19,550,308	19,550,308
Economic affairs n.e.c.	230,099	230,099	230,099	230,099	230,099
<b>Environmental protection</b>	<b>3,743,414</b>	<b>4,616,194</b>	<b>13,229,589</b>	<b>9,440,955</b>	<b>9,440,955</b>
Waste management	296,554	226,554	126,554	123,168	123,168
Waste water management	2,382,831	3,278,604	11,487,449	8,197,758	8,197,758
Protection of biodiversity and landscape	270,350	305,164	305,164	305,164	305,164
Environmental protection n.e.c.	793,679	805,872	810,422	814,865	814,865
<b>Housing and community amenities</b>	<b>12,735,606</b>	<b>26,219,138</b>	<b>22,289,213</b>	<b>16,024,470</b>	<b>7,911,214</b>

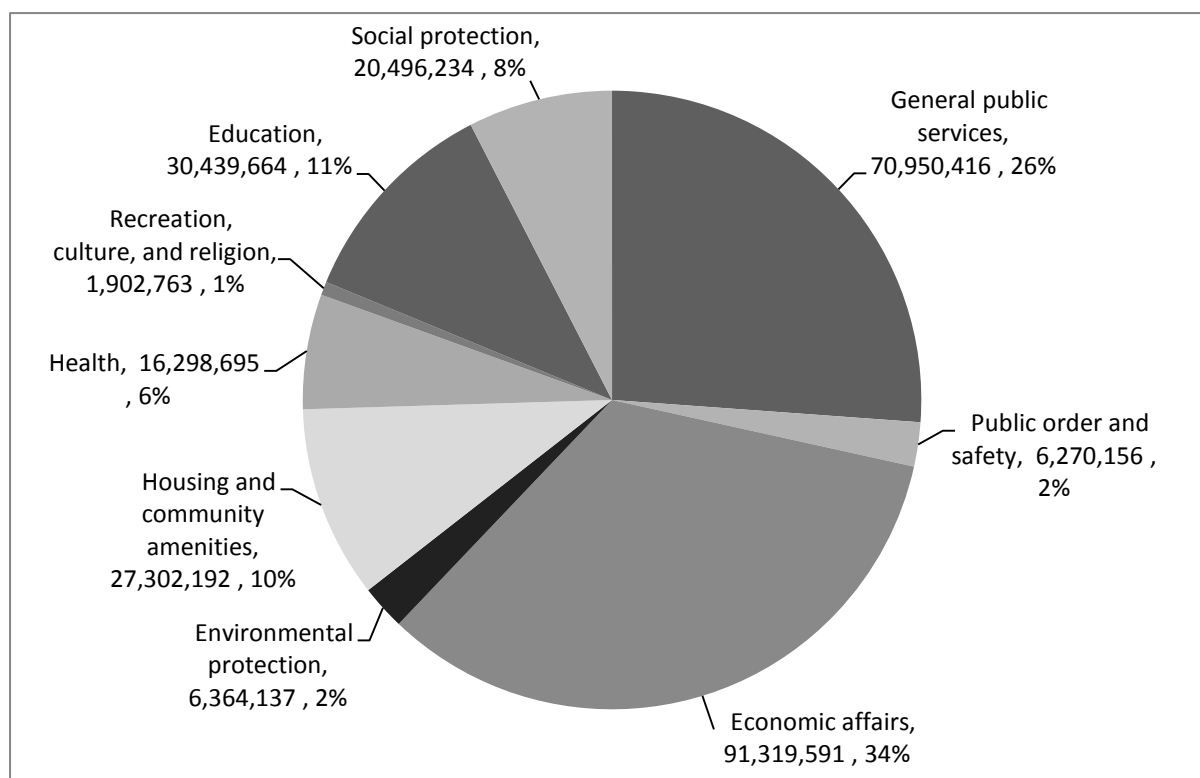
Function of Government	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Community development	299,047	492,000	250,000	250,000	-
Water supply	2,299,699	14,861,462	12,239,939	7,644,843	581,807
Street lighting	63,000	-	-	-	-
Housing and community amenities n.e.c.	10,073,860	10,865,676	9,799,274	8,129,627	7,329,406
<b>Health</b>	<b>14,867,795</b>	<b>15,082,800</b>	<b>13,599,500</b>	<b>13,645,813</b>	<b>13,645,813</b>
Medical products, appliances, and equipment	2,490,300	2,202,300	1,492,800	1,492,800	1,492,800
Hospital services	9,090,237	8,991,199	8,267,399	8,313,712	8,313,712
Public health services	2,115,823	2,115,823	2,115,823	2,115,823	2,115,823
Health n.e.c.	1,171,435	1,773,478	1,723,478	1,723,478	1,723,478
<b>Recreation, culture, and religion</b>	<b>1,994,654</b>	<b>1,902,763</b>	<b>1,905,241</b>	<b>1,908,503</b>	<b>2,008,503</b>
Recreational and sporting services	433,066	318,066	318,066	318,066	418,066
Cultural services	1,561,588	1,584,697	1,587,175	1,590,437	1,590,437
<b>Education</b>	<b>19,980,840</b>	<b>20,367,361</b>	<b>15,793,047</b>	<b>15,858,905</b>	<b>15,858,905</b>
Pre-primary and primary education	558,286	300,000	-	-	-
Tertiary education	1,790,655	1,959,855	1,329,855	1,329,855	1,329,855
Education not definable by level	2,147,027	2,147,027	2,007,027	2,007,027	2,007,027
Education n.e.c.	15,484,872	15,960,479	12,456,165	12,522,023	12,522,023
<b>Social protection</b>	<b>18,161,266</b>	<b>20,051,843</b>	<b>20,218,744</b>	<b>20,128,360</b>	<b>9,788,360</b>
Sickness and disability	506,400	506,400	506,400	506,400	506,400
Old age	12,109,659	12,281,285	12,455,538	12,632,459	12,632,459
Family and children	3,393,307	4,775,232	4,762,024	4,748,882	4,748,882
Housing	79,200	79,200	79,200	79,200	79,200
Social exclusion n.e.c.	290,373	290,848	291,348	291,873	291,873
Social protection n.e.c.	1,782,327	2,118,878	2,124,234	1,869,546	1,529,546
<b>Total CIG Expenditure</b>	<b>159,810,359</b>	<b>193,581,309</b>	<b>180,073,558</b>	<b>163,712,691</b>	<b>152,750,411</b>
<b>Official Development Assistance (ODA) Expenditure*</b>					
<b>General public services</b>	<b>9,886,686</b>	<b>27,464,602</b>	<b>3,614,975</b>	<b>1,604,283</b>	<b>400,000</b>
Executive and legislative organs, financial and fiscal affairs, external affairs	9,411,930	23,817,835	703,030	703,030	400,000
Foreign economic aid	459,459	2,756,887	2,411,945	901,253	-
General public services	15,297	889,880	500,000	-	-
<b>Public order and safety</b>	<b>203,019</b>	<b>343,055</b>	<b>11,074</b>	<b>11,074</b>	-
Police services	-	11,074	11,074	11,074	-
Fire protection services	203,019	331,981	-	-	-
<b>Economic affairs</b>	<b>6,926,258</b>	<b>35,391,297</b>	<b>23,806,310</b>	<b>9,247,137</b>	<b>22,148</b>
Agriculture, forestry, fishing, and hunting	3,274,274	20,073,003	11,834,931	75,758	-
Fuel and energy	3,524,651	12,670,062	9,160,305	9,160,305	-
Mining, manufacturing, and construction	44,979	43,937	-	-	-
Transport	82,354	2,570,494	2,811,074	11,074	11,074
Multi-purpose development projects	-	33,800	-	-	11,074
<b>Environmental protection</b>	<b>459,062</b>	<b>1,747,943</b>	<b>244,275</b>	<b>121,212</b>	-
Waste management	-	1,371,754	-	-	-
Waste water management	413,388	72,464	-	-	-
Protection of biodiversity and landscape	-	36,641	-	-	-
Environmental protection n.e.c.	45,675	267,084	244,275	121,212	-
<b>Housing and community amenities</b>	<b>285,100</b>	<b>1,083,054</b>	<b>125,000</b>	<b>125,000</b>	-
Housing development	-	87,101	-	-	-
Community development	-	15,714	-	-	-
Water supply	285,100	952,340	125,000	125,000	-

Function of Government	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Housing and community amenities n.e.c.	-	27,899	-	-	-
<b>Health</b>	<b>320,000</b>	<b>1,215,895</b>	<b>1,016,638</b>	<b>2,105,400</b>	-
Hospital services	-	114,000	-	-	-
Public health services	120,000	770,000	669,657	2,105,400	-
Health n.e.c.	200,000	331,895	346,981	-	-
<b>Education</b>	<b>6,173,445</b>	<b>10,072,303</b>	<b>3,101,729</b>	<b>1,973,329</b>	-
Pre-primary and primary education	132,981	547,605	-	-	-
Secondary education	5,661,755	8,100,000	2,550,000	1,500,000	-
Tertiary education	53,388	715,718	-	-	-
Education n.e.c.	325,321	708,980	551,729	473,329	-
<b>Social protection</b>	<b>121,923</b>	<b>444,391</b>	<b>75,758</b>	<b>75,758</b>	-
Sickness and disability	76,923	212,932	75,758	75,758	-
Social exclusion n.e.c.	-	215,517	-	-	-
Social protection n.e.c.	45,000	15,942	-	-	-
<b>Total ODA Expenditure</b>	<b>24,375,494</b>	<b>77,762,540</b>	<b>31,995,759</b>	<b>15,263,193</b>	<b>422,148</b>
<b>TOTAL PUBLIC EXPENDITURE</b>	<b>184,185,853</b>	<b>271,343,849</b>	<b>212,069,317</b>	<b>178,975,884</b>	<b>153,172,559</b>

Note: there is a small statistical discrepancy in the COFOG totals versus GFS, mainly stemming from the classifications of balance sheet transactions.

Figure 3.1 classifies the combined Cook Islands Government and ODA spending in the 2017/18 Budget at the 10 main functional levels.

**Figure 3.1 Classification of Functions of Cook Island Government 2017/18 Budget**



Economic affairs is by far the largest area of total public expenditure at 34 per cent of the total spending, driven by tourism spending through the Cook Islands Government appropriation, and energy infrastructure in the ODA spend.

General public services is next, at around 26 per cent of total public spending, with the Cook Islands Government administration costs being the main driver.

Education is the third largest area of spending at 11 per cent, driven mainly by the Cook Islands Government's own expenditures, but also the construction activity by the Chinese and New Zealand Governments at Apii Nikao and Tereora respectively.

Other major areas of spending are housing and community amenities (which includes general community infrastructure) at 10 per cent, social protection (social welfare) at 8 per cent, and Health at 6 per cent.

## 4 Fiscal Update

### 4.1 Overview

**Table 4.1 Fiscal Indicators Summary**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Statement of Financial Performance</b>					
Taxation Revenue (\$m)	119.9	118.4	121.8	125.1	127.7
Social Contributions (\$m)	0.1	0.1	0.1	0.1	0.1
Other Revenue (\$m)	38.7	35.4	28.1	28.1	27.9
<b>Total Operating Revenue (\$m)</b>	<b>158.6</b>	<b>153.9</b>	<b>150.0</b>	<b>153.3</b>	<b>155.7</b>
Total Operating Revenue Percentage of GDP	36.8	34.4	32.7	32.7	32.5
Tax Revenue Percentage of GDP	27.8	26.5	26.6	26.7	26.6
Total Structural Revenue Percentage of GDP	30.2	28.5	27.0	27.1	27.0
<b>Personnel (\$m)</b>	<b>53.5</b>	<b>58.9</b>	<b>57.0</b>	<b>57.2</b>	<b>56.6</b>
Percentage of Total Revenue	33.7	38.3	38.0	37.3	36.4
Percentage of Structural Revenue	41.0	46.2	46.1	45.1	43.8
<b>Total Operating Expenditure (\$m)</b>	<b>135.4</b>	<b>149.7</b>	<b>140.4</b>	<b>139.5</b>	<b>137.1</b>
Percentage of GDP	31.4	33.5	30.6	29.8	28.6
Percentage of Operating Revenue	85.3	97.3	93.6	91.1	88.1
<b>Operating Balance (\$m)</b>	<b>23.3</b>	<b>4.2</b>	<b>9.6</b>	<b>13.7</b>	<b>18.6</b>
Percentage of GDP	5.4	0.9	2.1	2.9	3.9
Capital Expenditure	26.7	44.9	40.7	24.6	16.1
Depreciation	10.1	12.8	12.9	12.9	12.9
<b>Fiscal Balance surplus/deficit (\$m) *</b>	<b>6.7</b>	<b>-27.9</b>	<b>-18.2</b>	<b>2.1</b>	<b>15.5</b>
Percentage of GDP	1.5	-6.2	-4.0	0.4	3.2
<b>Statement of Financial Position (\$m)</b>					
Assets (\$m)	616.8	692.5	740.8	766.8	780.5
Liabilities (\$m)	149.7	166.1	155.8	151.2	149.8
Crown Balance (\$m)	467.1	526.4	585.0	615.6	630.7
Percentage of GDP	108.2	117.7	127.7	131.3	131.5
Cash & Equivalents (\$m)	46.4	23.8	9.6	5.7	13.6
Cash & Equivalents (months coverage)	4.5	2.1	0.9	0.5	1.3
<b>Statement of Borrowings (\$m)</b>					
Gross Debt end of FY (\$m)	129.8	150.2	143.4	135.9	128.0
Percentage of GDP	30.1	33.6	31.3	29.0	26.7
Net Crown Debt, end of FY (\$m)	111.4	130.3	123.8	116.7	110.7
Percentage of GDP	25.8	29.1	27.0	24.9	23.1
Loan Repayment Reserves Held (\$m)	18.3	19.9	19.6	19.2	17.3
Net Debt Servicing (\$m)	8.3	10.3	10.3	9.8	9.8
Percentage of Total Revenue	5.2	6.7	6.8	6.4	6.3
Percentage of Structural Revenue	6.3	8.1	8.3	7.8	7.6
<b>Development Partner Support (\$m)</b>					
Grants (\$m)	65.9	69.4	32.0	15.3	0.4
Percentage of GDP	15.3	15.5	7.0	3.3	0.1
Memo item: Nominal GDP (\$m)	431.6	447.3	458.2	468.9	479.6

The Cook Islands' fiscal strategy has been developed in a positive environment following consistent growth in the tourism sector which has increased revenues from a range of taxes, while also seeing

an increase in fishing days sold through treaties. Despite this, an attempt has been made at being fiscally conservative due to the continued uncertainty around the prospects for the global and regional economies, and the Government’s ambitious capital plan.

This Budget sees the Government continue to appropriate funding towards underwriting two long haul service routes between Rarotonga and Sydney, and Rarotonga and Los Angeles as a means of diversifying the tourism industry (for both market and seasonality) and increasing the number of tourists coming to the Cook Islands.

#### 4.1.1 Budget Policy Statement

The 2017/18 Budget was developed with the aim of providing public services to Cook Islanders and supporting growth in a constrained economic environment. The 2017/18 Budget Policy Statement, identified the following goals from the National Sustainable Development Plan 2016-2020 as priorities for 2017/18:

- Goal 1: Improve welfare, reduce inequity and economic hardship;
- Goal 2: Expand economic opportunities for all; improve economic resilience, and productive employment to ensure decent work for all;
- Goal 4: Sustainable management of water and sanitation;
- Goal 5: Build resilient infrastructure and Information Communications Technologies to improve our standard of living;
- Goal 6: Improve access to affordable, reliable, sustainable energy and transport;
- Goal 7: Improve Health and promote healthy lifestyles
- Goal 13: Strengthen resilience to combats the impacts of climate change and natural disasters
- Goal 15: Ensure a sustainable population promoting development by Cook Islanders for Cook Islanders;
- Goal 16: Promote peaceful and just society and practice good governance promoting transparency and accountability.

A summary of the new expenditure initiatives for each of these goals is outlined below.

**Table 4.2 Summary of New Operating and Capital Initiatives (000’s)**

Summary of New Initiatives	2017/18	2018/19	2019/20	2020/21	Total
Improving Welfare	1,529	1,529	1,529	1,529	6,116
Expanding Economic Opportunities	150	-	-	-	150
Water and Sanitation	565	-	-	-	565
Build resilient infrastructure	13,828	11,350	259	-	25,438
Sustainable energy and transport	2,950	-	-	-	2,950
Improve Health	586	124	124	124	958
Climate Change	550	-	-	-	550
Governance	9,492	8,242	8,207	5,767	31,708
<b>Total Expenditure from Decisions</b>	<b>29,650</b>	<b>21,245</b>	<b>10,119</b>	<b>7,420</b>	<b>68,435</b>

#### 4.1.2 The 2017/18 Budget

The 2017/18 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;



- Technical adjustments;
- Reclassification of expenses; 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 underwrite.

At the time of the last official update to the financial estimates at the Half Year Economic and Fiscal Update (HYEFU) in December 2016, it was anticipated that the 2016/17 operating balance would be in surplus of \$16.9 million. After updating revenue and economic forecasts, including an analysis of revenue collected and expenditures to the end of April 2017, the estimated operating budget balance has remained stable at \$16.4 million, while the fiscal balance has become positive due to delays in capital expenditure.

Once new expenditure and revenue decisions are factored in, the operating surplus in 2017/18 is revised down significantly from the \$16.4 million expected at HYEFU to \$4.2 million.

Large expenditure measures aimed at building capacity within the public service and providing support to the community, as well as the downward revision to revenue from the Government's tax amnesty package, far exceed minor gains in income and departure taxes. The tax amnesty has had the overall impact of decreasing revenue estimates for 2017/18 compared to HYEFU forecasts. Revenue will begin to rebound in 2018/19. Similarly, operating surpluses are projected to steadily increase over the next three years, with \$9.6 million forecast in 2018/19, \$13.7 million projected in 2019/20 and increasing to \$18.6 million in 2020/21.

**Table 4.3 Operating Budget Balance 2016/17 to 2020/21(\$000)**

	2016/17	2017/18	2018/19	2019/20	2020/21
	Est. Actual	Budget	Estimate	Projection	Projection
Operating Revenue	158,663	153,930	150,000	153,260	155,700
Operating Expenditure	135,353	149,740	140,390	139,546	137,106
<b>Operating Balance</b>	<b>23,280</b>	<b>4,190</b>	<b>9,610</b>	<b>13,714</b>	<b>18,594</b>

Record capital expenditure by government results in a large fiscal deficit of \$27.9 million estimated in 2017/18 (or 6.2 per cent of GDP), following a revised estimate of a surplus of \$6.6 million in 2016/17. The estimates for 2016/17 are significantly higher than the deficit estimated at HYEFU due to the carry forward of a large number of capital projects.

Going forward a number of capital projects have been shifted to the forward years, resulting in reasonably high projected levels of capital expenditure over the forwards. Capital expenditure does however slowly decrease from the peak in 2017/18 resulting in improvements in the fiscal balance going forward. The fiscal balance is estimated at a deficit of \$18.2 million in 2018/19, before a slight surplus of \$2.1 million in 2019/20 which increases to \$15.5 million in 2020/21.

Actual revenue collections in 2016/17 have been slightly higher than expected at HYEFU, owing to increases in provisional taxes paid, and some other one-off factors such as large withholding tax collections which are not forecast, and higher than anticipated fishing revenues.

**Table 4.4 Reporting of budget balance 2016/17 to 2020/21 (\$000)**

	2016/17 Est.	2017/18	2018/19	2019/20	2020/21
Statement of Government Operations	Actual	Budget	Estimate	Projection	Projection
NET GFS Operating Balance	30,939	46,133	26,457	14,105	18,905
GFS Operating Revenue	174,626	223,926	181,996	168,523	156,122
Remove ODA Revenue	15,993	69,392	31,996	15,263	422
Revenue, net of ODA	158,633	154,534	150,000	153,260	155,700
GFS Operating Expenditure	143,687	177,793	155,539	154,419	137,217

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Statement of Government Operations</b>					
Remove ODA-funded operating expenditure	8,334	28,054	15,149	14,872	111
Expenditure, net of ODA spending	135,353	149,740	140,390	139,546	137,106
<b>OPERATING BUDGET BALANCE<sup>3</sup></b>	<b>23,280</b>	<b>4,794</b>	<b>9,610</b>	<b>13,714</b>	<b>18,594</b>

In terms of fiscal policy and macroeconomic stability, the 2017/18 Budget reflects the fiscal responsibility principals as outlined in the MFEM Act:

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

#### 4.1.3 Movements from 2016/17 HYEPU

The following table shows the movements from the 2016/17 HYEPU to the 2017/18 Budget, which are explained in greater detail below.

#### Reconciliation of Operating Statement Reconciliation of Operating Revenue and Expense between 2016/17 Budget and 2019/20 Budget All Values (\$000)

Statement of Government Operations	2016/17	2017/18	2018/19	2019/20
<b>Operating balance as at 2016/17 HYEPU</b>	<b>16,896</b>	<b>16,379</b>	<b>18,042</b>	<b>19,774</b>
<b>Revenue</b>				
<i>Revenue Parameter Changes</i>	<b>2,366</b>	<b>-927</b>	<b>484</b>	<b>2,163</b>
Adjustments to:				
Value Added Tax (VAT)	738	-126	591	1,254
Income tax	615	-27	178	473
Import levies	-778	-455	-258	143
Company tax	842	-682	-545	-281
Departure tax	-113	363	518	575
Withholding tax	1,063	-	-	-
<b>Other Revenue Changes</b>	<b>4,822</b>	<b>1,305</b>	<b>2,257</b>	<b>2,236</b>
Other Revenue	4,822	2,255	2,237	2,216
Trading Revenue	-	20	20	20
Dividend	-	-160	-	-
Adjustment to Core Sector Support	-	-810	-	-
<b>Total Revenue Changes to 2017/18 Budget</b>		<b>378</b>	<b>2,741</b>	<b>4,399</b>
<b>Expenditure</b>				
<i>Expenditure Decisions by Government</i>		<b>11,292</b>	<b>9,895</b>	<b>9,860</b>
Executive Orders since 2016/17 HYEPU	805	-	-	-
Decisions in 2017/18 Budget, by BPS Goal				
Improving Welfare	-	1,529	1,529	1,529
Expanding Economic Opportunities	-	50	-	-
Build resilient infrastructure	-	35	-	-
Improve Health	-	186	124	124

<sup>3</sup> The ODA amounts in this table have the revenue received from, and the expenditure related to, the Performance Based Budget Support included, which is a different treatment to the Statement of Operating in Chapter 16.

<b>Statement of Government Operations</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Sustainable Population				
Governance	-	9,492	8,242	8,207
<b>Technical adjustments</b>	-	<b>266</b>	<b>266</b>	<b>266</b>
<b>Reclassifications of expenditure</b>	-	<b>642</b>	<b>642</b>	-
<b>Parameter changes</b>	-	<b>367</b>	<b>370</b>	<b>334</b>
<b>Total Expenditure Changes to 2017/18 Budget</b>	<b>805</b>	<b>12,566</b>	<b>11,173</b>	<b>10,460</b>
<b>OPERATING BALANCE 2017/18 Budget June 2016</b>	<b>23,279</b>	<b>4,191</b>	<b>9,611</b>	<b>13,714</b>
Capital Expenditure	26,715	44,904	40,747	24,587
Depreciation	10,065	12,845	12,950	12,950
<b>FISCAL BALANCE - 2017/18 BUDGET</b>	<b>6,629</b>	<b>-27,869</b>	<b>-18,186</b>	<b>2,076</b>

## 4.2 Changes to Revenue

Total operating revenue in 2017/18 is estimated to reach \$153.9 million; consisting of \$118.4 million in tax revenue and \$35.5 million in non-tax revenue. These estimates include the impact of the following policy changes or initiatives committed to by Government:

- Five per cent indexation of the levies on tobacco, alcohol, and sweetened drinks;
- Decrease in the income tax rate for income between \$11,000 and \$30,000 from 17.5 per cent to 17 per cent from 1 January 2018 and also lowering the upper income bracket from 27.5 per cent to 27 per cent.
- Tax Amnesty package granted by Government to clear additional debts paid by tax payers who will make arrangement with the Revenue Management Division to pay core taxes.
- The Revenue on Behalf of Crown (ROBOC) estimates, including additional fishing days associated with the US Treaty Bilateral which is expected to bring in an additional \$2 million in the 2017/18 fiscal year.

**Table 4.5 Changes to Tax Revenue (\$000)<sup>4</sup>**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
VAT	738	-126	591	1,254	1,254
Income tax	615	-27	178	473	473
Company tax	842	-682	-545	-281	-281
Import levies	-778	-455	-258	143	143
Withholding tax	1,063	-	-	-	-
Departure tax	-113	363	518	575	575
<b>Total Changes in Taxation</b>	<b>2,336</b>	<b>-927</b>	<b>484</b>	<b>2,163</b>	<b>2,163</b>

Note: a negative number indicates a negative impact on the Budget (a decline in revenue)

Total revenue changes are reflected in the table above. Overall movements indicate that tax revenue will decrease slightly in 2017/18 to \$119.3 million from the 2016/17 Half-Year Economic and Fiscal Update (HYEFU) estimate of \$118.4 million. These revisions take into consideration the Tax Amnesty package which will decrease collectable debts.

Income tax is expected to be \$23.0 million in 2017/18, only \$27,000 lower than previously forecast. Company tax is estimated to decline to around \$12.9 million, a downward revision of \$682,000. Both income and company taxes are expected to decrease in 2017/18 due to the tax amnesty however collections of both taxes will recover going forward.

The 15 per cent withholding tax applies to dividends generated by local companies which are subsequently repatriated overseas. This item cannot be reasonably forecast. As a result, no

<sup>4</sup> Changes are as compared to the 2016/17 HYEFU

withholding tax is forecast, but some revenue is expected to be collected from future transactions if and when they occur. It is expected that the classification of withholding tax will expand on 1 January 2018, with land revenue that is repatriated overseas to be included. No forecasts have been made for the impact of this on revenues.

VAT is expected to reach \$58.7 million in 2017/18, a downward revision of \$126,000 again due to the tax amnesty. This level is still \$575,000 higher than the estimated outcome for 2016/17.

Departure Tax is estimated to increase to \$10.2 million in 2017/18, after an upward revision of \$363,000 was made to account for the high actual arrivals to April 2017 which are expected to continue throughout 2017/18. This represents an increase of \$598,000 on the \$9.6 million estimated outcome for 2016/17 which is partially due to the two per cent increase in the rate of the departure tax to \$68.36 on 1 July 2017. The two per cent increase is part of the annual indexation of departure tax to maintain the real value of the tax over time. The departure tax is competitive when compared to other destinations and source markets.

Import and excise-equivalent duties are estimated to fall to \$13.5 million in 2017/18, a downward revision of \$455,000. This is due to lower economic growth forecasts than at HYEPU, which have an impact on the value of imports brought into the Cook Islands.

Movements in other revenues:

- Fisheries Revenue estimated has been revised up to \$12.7 million in 2017/18. Fisheries revenue is composed of the revenue from both purse seining and long-line fishing, as well as Fishing Licences and is estimated to remain at this level in the forward years.
- Shipping vessels charged fishing penalties for illegal fishing in 2016/17 of \$200,000. This is one off revenue as charges are not forecasted and only collected once an event occurs.
- Liquor Licensing has doubled due to the increase in fees collected from managers acquiring certificates and the addition of the annual liquor license renewal.
- Motor Vehicle Registration has been conservatively estimated to remain around \$875,000 throughout the forecast period.
- Sale of Circulating Currency Cook Islands Coins has been merged with Circulating Currency due to the sale of the old Cook Islands currency coins coming to an end. The main focus will be on the distribution of the new Cook Islands currency coins. In addition to the merge, the expected revenue has increased by \$14,000.
- Due to the recent increase in license fees, the revenue collected has been revised downwards by \$10,000 due to a decrease in tourist licences.

Other minor adjustments to 'Other Revenue' include changes to trading revenues collected by various agencies and Island Administrations based on service delivery to the community and increased fees charged.

### **4.3 Changes to Expenditure**

Changes in expenditure are made up of three broad types of changes, parameter changes, policy changes and technical changes. Following the HYEPU there have been significant changes in expenditures, predominantly expenditure decisions on behalf of the Government as detailed below.

Total operating expenditure for 2017/18 is estimated to reach \$149.7 million which represents a \$14.4 million increase on the 2016/17 estimated spend. The key adjustments between 2016/17 and 2017/18 are the assumed increases in spending based on new initiatives included in this Budget. These expenditures aim to build capacity within government, increase welfare and adjust salaries for public servants.

The 2017/18 Budget includes some of the following key expenditure changes:

- The government has implemented the new minimum wage which will increase to \$7 from \$6.25 on 1 July 2017, this will be applied to all staff currently earning below the new minimum. Salary bands will also be shifted upwards to account for the minimum wage which in turn will result in employees who are on the minimum of their band receiving pay increases. Remaining staff salaries will shift upwards to one of the new salary increments.
- In addition to the minimum wage and salary adjustment, performance increments are provided to Heads of Ministries to assist and recognise high performing staff in accordance to the public service management framework.
- Welfare payment will also grow as a result of an increase in child benefit payments from \$66 to \$100 a month. The Government is also extending the child benefit for disabled children from the age of 12 to 15 to bridge the gap between the child benefit and receiving the disability benefit.
- In addition to the capital investment that Government has undertaken around the Cook Islands, funding has been tagged to warrant lands and clear previous land debts. This support will continue for the next 3 years and can also contribute to the review of land and housing rentals.
- The Government is providing additional resources to Ministry of Education to continue the remuneration of disability and inclusive education teacher aides in schools.
- To better support local members of our community and the Pa Enua, government is supporting a certificate in dental therapy which will generate qualified dental therapists and cover the shortage of dentists in Rarotonga and the Pa Enua.
- Whole of Government procurement will be strengthened with the addition of another procurement officer to the Ministry of Finance and Economic Management who will focus on centralised procurement.
- Whole of government consolidation of assets will be improved and data will become more accessible through the appointment of an asset management officer to Cook Islands Investment Corporation.
- Public Sector Strengthening funds have been made available to provide support to the Ministry of Justice and Infrastructure Cook Islands to improve service delivery and clear short term operational issues faced by both ministries.
- Government has also decided to fund Employers liability insurance for all agencies, including the Pa Enua, for compensation with respect to workplace related accidents or illness.
- Critical positions required within Government have been considered to strengthen the mechanics of Government. In addition to the procurement and asset management officers mentioned above, an economic policy advisor, senior litigation officer, economic statistician, senior tax auditor and Marae Moana officer have been considered by Government.

The Budget also includes technical adjustments to the budget baselines reflecting: an update to the Funding Model for the Pa Enua; reclassification of some items; more up-to-date data being available; as well as adjustments to the forward year estimates as result of contracts and projects coming to an end.

Refer to the Expenditure Chapter (Chapter 8) for a more detailed description of the new initiatives, technical adjustments and other expenditures in 2017/18 and forward years.

### 4.3.1 Core Sector Support Funding

The previously named Performance Based Budget Support (PBBS), now called Core Sector Support, is an arrangement that provides for \$7.7 million in core funding under the 2015/16 Grant Funding Arrangement<sup>5</sup> with New Zealand. These funds are dispersed through the Cook Islands Government, for key sectors such as education, health and tourism, as well as targeting the strengthening of public financial management and institutions.

The core sector support funding is included in the 2017/18 fiscal year and will come to an end in June 2018. The breakdown of funding per agency is outlined in the table below.

**Table 4.6 Core Sector Support Funding**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Funding received under PBBS</b>	<b>7,576,820</b>	<b>7,766,400</b>	-	-	-
<i>Fund held by Ministries</i>	-	-	-	-	-
<i>Ministry of Health</i>					
Operating Funding	760,000	760,000	-	-	-
<i>Ministry of Education</i>					
Private Schools	140,000	140,000	-	-	-
Personnel Funding	1,214,064	1,214,064	-	-	-
Operating Funding	2,245,936	2,245,936	-	-	-
Government Funded Scholarships	460,800	630,000	-	-	-
<i>Tourism Corporation</i>					
Growth Strategy	1,900,000	1,900,000	-	-	-
<i>Ministry of Finance and Economic Management</i>					
Public Sector Strengthening <sup>6</sup>	156,020	876,400	-	-	-
<b>Total Expenditure from PBBS Funding</b>	<b>7,576,820</b>	<b>7,766,400</b>	-	-	-

## 4.4 Capital Budget – Cook Islands Government Expenditure

Total capital spending, from both the Cook Islands Government and donor sources in 2017/18 is now estimated to reach \$86.2 million, including significant rollovers of deferred and delayed projects.

The Cook Islands' Government (CIG) funded capital expenditure will be funded by the Crown's cash reserves, loans which have already been agreed to as per the Loan Repayment Act, or new loans which will also fall under the Act.

In the 2016/17 Budget, capital expenditure by the CIG was planned at \$34.4 million in 2017/18. Due to additional projects being approved, cost changes, rollovers and delays in projects, \$44.9 million of capital is now planned for 2017/18. Some of the key projects Government is working to implement are:

- Southern Renewable Energy Project
- Te Mato Vai water project
- Apii Nikao reconstruction
- Stabilisation of the Atiu Airport Runway
- Road sealing in Aitutaki, Mangaia and Atiu

<sup>5</sup> There is also a \$0.604 million incentive payment available if certain milestones are met, however this is not included in expected revenue.

- Cyclone Centre construction for Palmerston and Rakahanga (2017/18), Nassau and Penrhyn for 2018/19
- Repair work for bridges and drainage on Rarotonga
- Water and Sanitation Programme (WASP)
- Manatua Submarine Cable

Refer to the Capital Chapter 16 for a detailed analysis of all capital projects for 2017/18 to 2020/21. This includes all capital projects funded through the Cook Islands Government, official development assistance, loans and other commitments.

## **4.5 Fiscal Responsibility Ratios**

To limit the role of Government budgets on fiscal and macroeconomic stability, the Government of the day must operate within the fiscal responsibility principles outlined in the Ministry of Finance and Economic Management Act 1995/96 as follows:

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

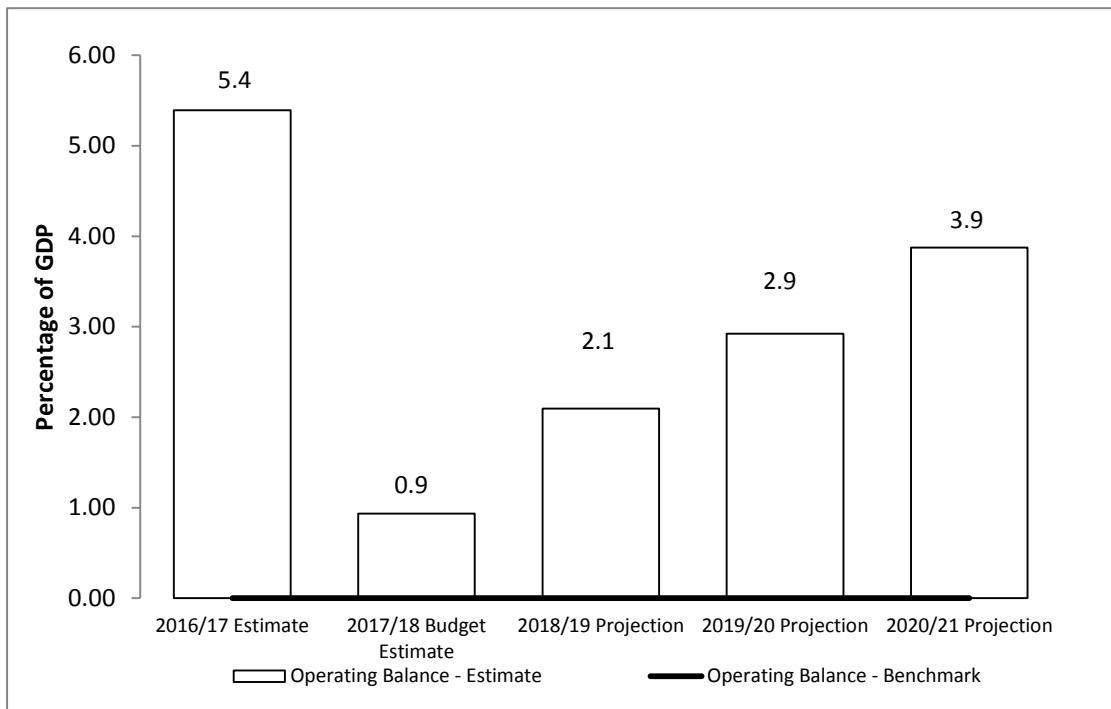
The Ministry of Finance and Economic Management (MFEM) quantifies these principles through the Fiscal Responsibility Ratios (FRR) as reported in the 2017/18 Budget. The current performance, and expected performance, of each of the FRRs is discussed below.

### **4.5.1 Net Operating Balance to GDP**

Maintaining a positive operating balance indicates that Government is able to afford the operational costs of performing the functions of government from its own revenue streams. The Government has set a benchmark of running an operating surplus in each Budget. As illustrated below, it is anticipated that Government has an operating surplus to GDP of \$0.9 million in 2017/18.

Going forward, changes in expenditure and revenue estimates are predicted to result in an operating surplus to GDP of \$2.1 million in 2018/19, followed by \$2.9 million in 2019/20, and \$3.9 million in 2020/21.

**Figure 4.1 Operating Balance to GDP 2016/17 to 2020/21**



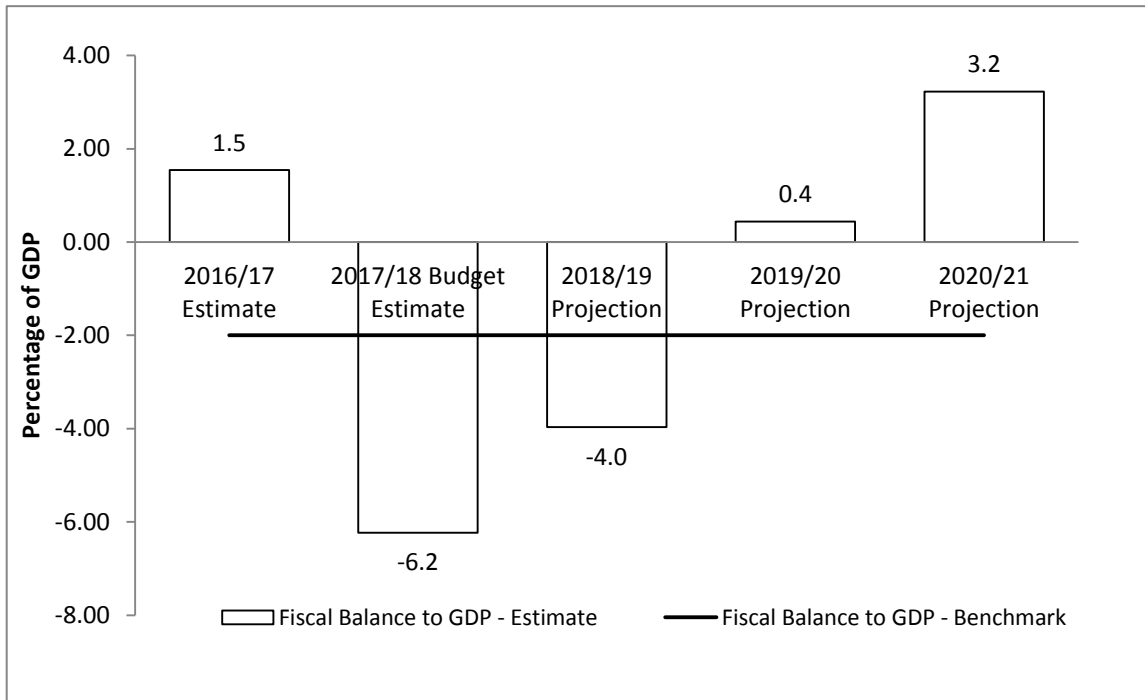
#### 4.5.2 Fiscal Balance to GDP

The Fiscal Balance is the operating balance less net capital expenditure (total capital expenditure less depreciation). Where the fiscal balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The benchmark is set to be maintained within  $\pm 2$  per cent of GDP to ensure that government does not accumulate debt too quickly, and taken together with the debt servicing to total revenue and net debt to GDP ratios, ensures that debt is managed and taken on within sustainable levels.

As the Figure below illustrates, the Government breaches the fiscal balance for the 2017/18 fiscal year due to large scale infrastructure projects which are financed by a combination of concessional lending and the utilization of cash reserves. This is expected to be a short term problem due to the nature of the projects in question, as evidenced below, with major fiscal deficits only seen in 2017/18 and 2018/19. It is expected that fiscal surpluses will return from 2019/20.



**Figure 4.2 Fiscal Balance to GDP 2016/17 to 2020/21**

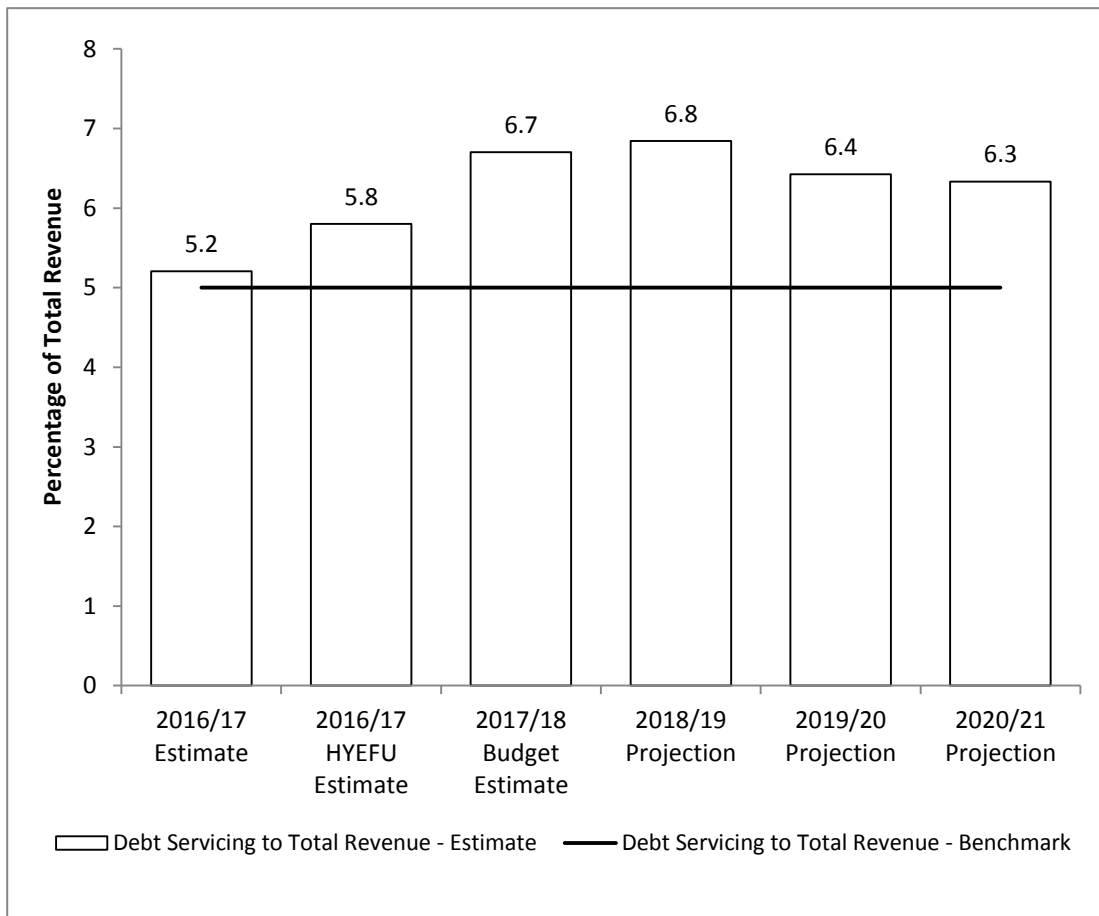


### 4.5.3 Debt Servicing to Revenue

Debt servicing to total revenue measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principle. The figure shown below represents the debt servicing payment as a per cent of GDP going out of the Loan Repayment Fund (LRF), minus any interest earnings of the LRF (rather than the amount paid into the LRF in the specified year). The ratio of debt servicing over the short to medium term is breached from 2017/18 onward. Further details around debt sustainability can be found in the debt section below.

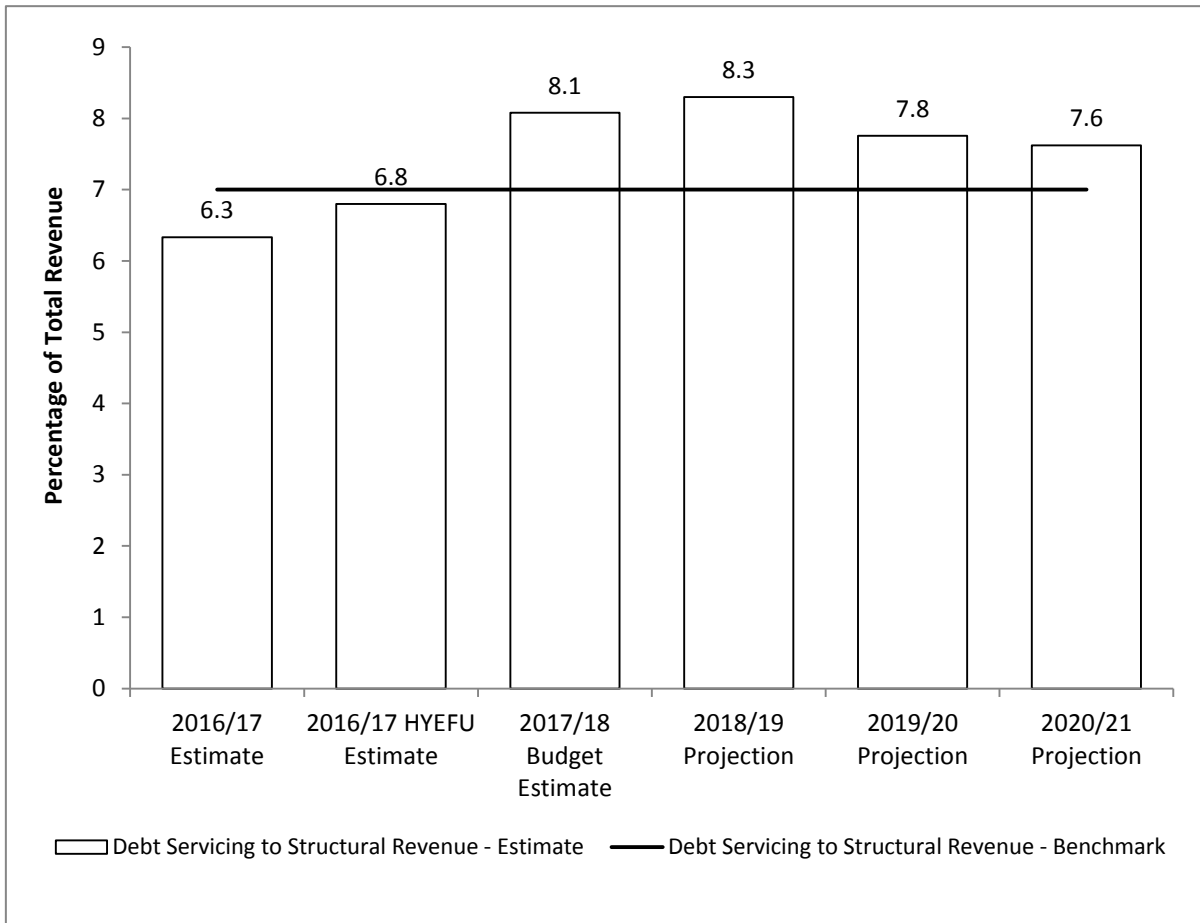
Debt servicing has significantly increased since the 2016/17 budget due to government plan to take out a new loan in 2017/18 for the Manatua Submarine Cable.

**Figure 4.3 Debt Servicing to Revenue 2016/17 to 2020/21**



It is useful to compare debt servicing with structural revenue to form an opinion of government’s ability to meet debt obligations in the longer term. This is displayed below, using the same structural revenue definition as above. When considering debt servicing to structural revenue we must adjust the benchmark level, as structural revenue is, by definition, smaller than total revenue.

**Figure 4.4 Debt Servicing to Structural Revenue**

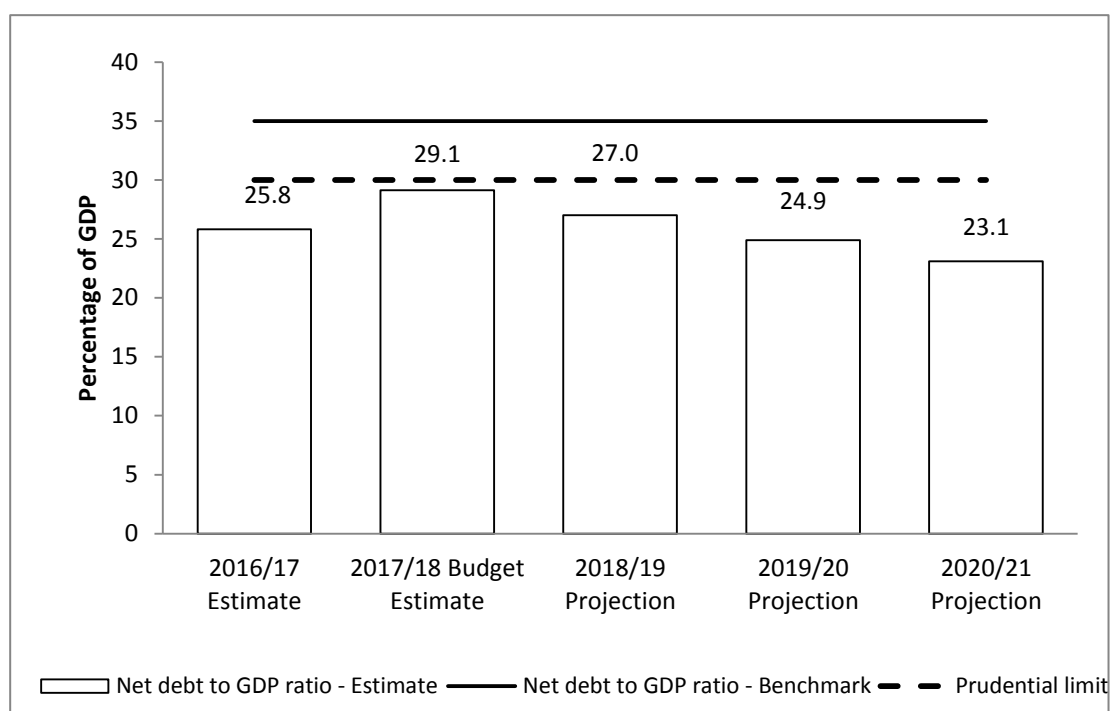


**4.5.4 Net Debt to GDP**

Net debt (taken here to be gross debt obligations, net of the funds in the LRF) to GDP measures the level of debt relative to national income, and is intended to control the overall level of debt taken on by Government including SOE’s. The limit agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of around \$156.5 million in 2017/18. The Government remains within the net debt benchmark over the short and medium term with a net debt position of around \$129.2 million or 28.9 per cent of GDP in 2017/18.

The graph below also shows a 30 per cent debt target that the Government is committed to staying below (this would be equivalent to approximately \$134 million). This ensures that there is at least 5 per cent of GDP available in debt financing should there ever be a major economic or natural disaster before the Government breaches the voluntary debt limit.

**Figure 4.5 Net Debt to GDP Ratio 2016/17 to 2020/21**



The Cook Islands has adopted a conservative approach towards the definition of net debt. The internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (this means like for like, for example cash). Under this definition the Cook Islands net debt position is \$117.7 million in 2017/18.

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.

There is a question of the appropriateness of the five per cent debt servicing to revenue level and whether it is in fact too low. The net debt servicing to total revenue ratio controls the servicing of debt, which includes interest and principal payments. It primarily ensures that there are sufficient means to service debt from the operating revenue. Taken together with the tax revenue envelope, this ratio measures how much debt servicing is crowding out other components of government spending.

An independent assessment undertaken by the ADB in 2013 concluded that the five per cent debt servicing to revenue ratio was likely too conservative and inconsistent with the debt to GDP ratio constraint. The review noted that a more reasonable and consistent ratio of debt servicing to revenue would be 10 per cent.

Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014. The fiscal responsibility ratios assist Government to prudently manage its future loan obligations and borrowing plan.

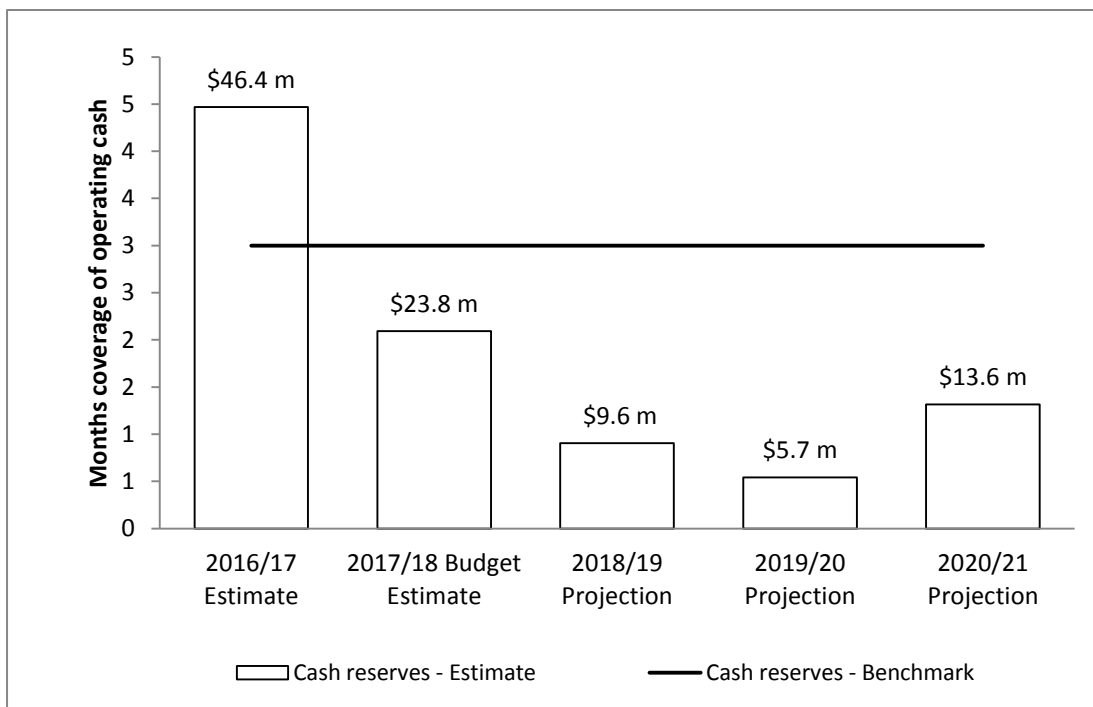
The LRF Act 2014 requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of the Government’s lending policy, including the amortisation schedule, the impact on debt service burden of the government over the life of the loan, and an assessment of the sustainability of aggregate government debt. Reports should be made in advance of loan agreements being finalised.

### 4.5.5 Cash reserves

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. 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 this scenario. A prudent level of cash reserves is considered to be three months of operating expenditure, which is shown in the Figure below.

In the medium term, this threshold is not satisfied, particularly in 2018/19 and 2019/20 increasing the risk of cashflow difficulties if there was a major disaster.

**Figure 4.6 Months of Operational Expenditure covered by Cash Reserves**



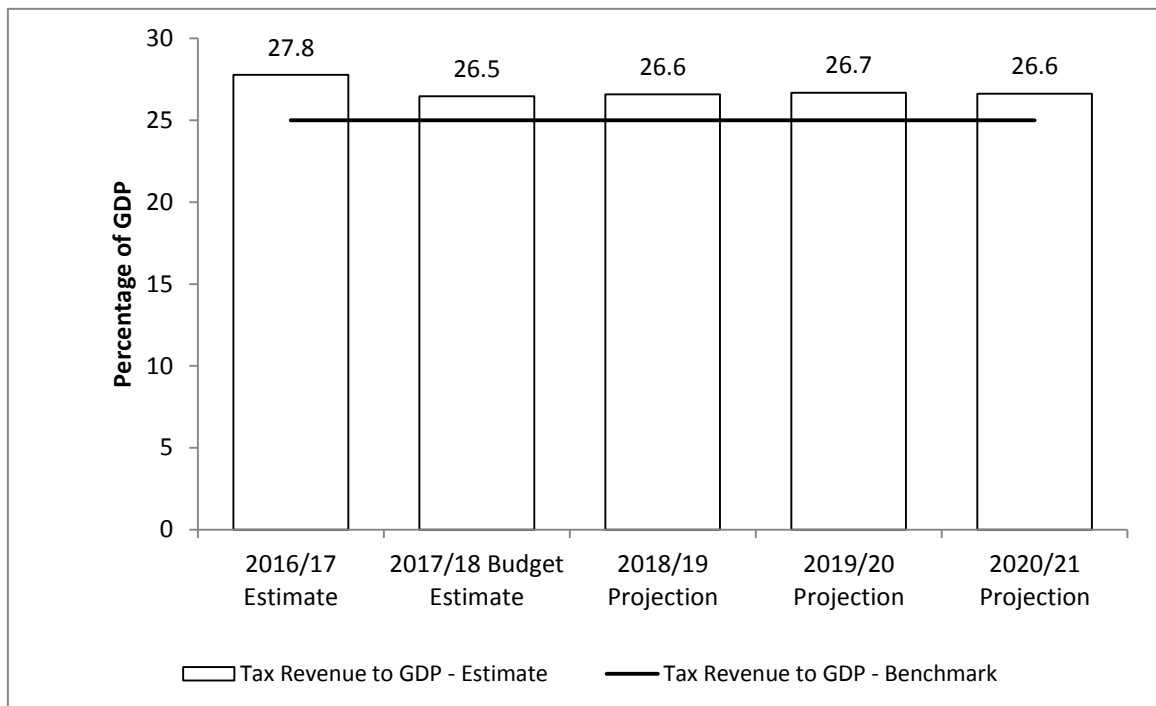
### 4.5.6 Tax Revenue to GDP

This ratio establishes boundaries on the collection of revenue and ensures government limits the diversion of resources away from the private sector. The benchmark that current and previous governments have agreed to work within is to maintain collections to within 25 per cent of GDP. The expected performance against this benchmark is illustrated in the Figure below.

Current forecasts estimate that the Government has slightly exceeded the benchmark at 26.5 per cent in 2017/18 and will remain around this level going forward. A key reason behind the worsening of the estimate since the 2016/17 HYEPU is significant downward revisions to both historical and forecast GDP.

However, the Government intends to further lower the income tax rate from 17.5 per cent to 17 per cent from 1 January 2018, keeping the effective tax rate close to the 25 per cent target.

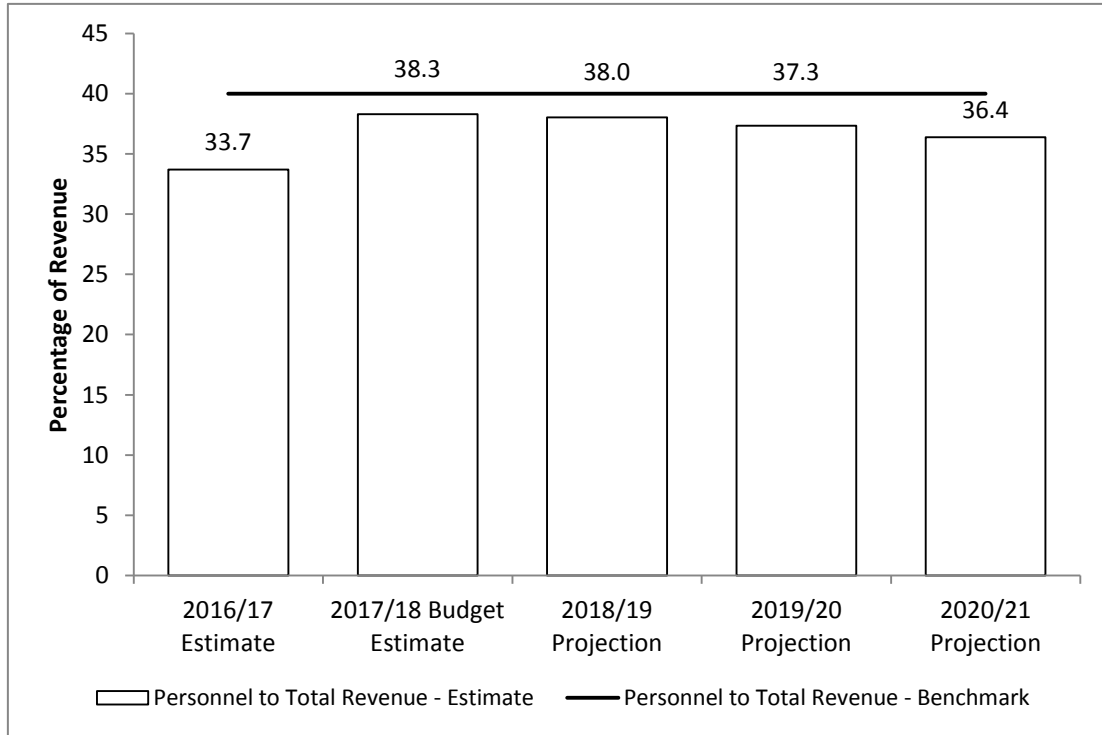
**Figure 4.7 Tax Revenue to GDP 2016/17 to 2020/21**



### 4.5.7 Personnel Expenditure to Revenue

This ratio is aimed at controlling the expansion in the size of the public sector. The benchmark that current and previous governments agreed to work within is maintaining the expenditure on personnel within 40 per cent of total revenues. As is illustrated in Figure 4.8 below, this target is currently being achieved.

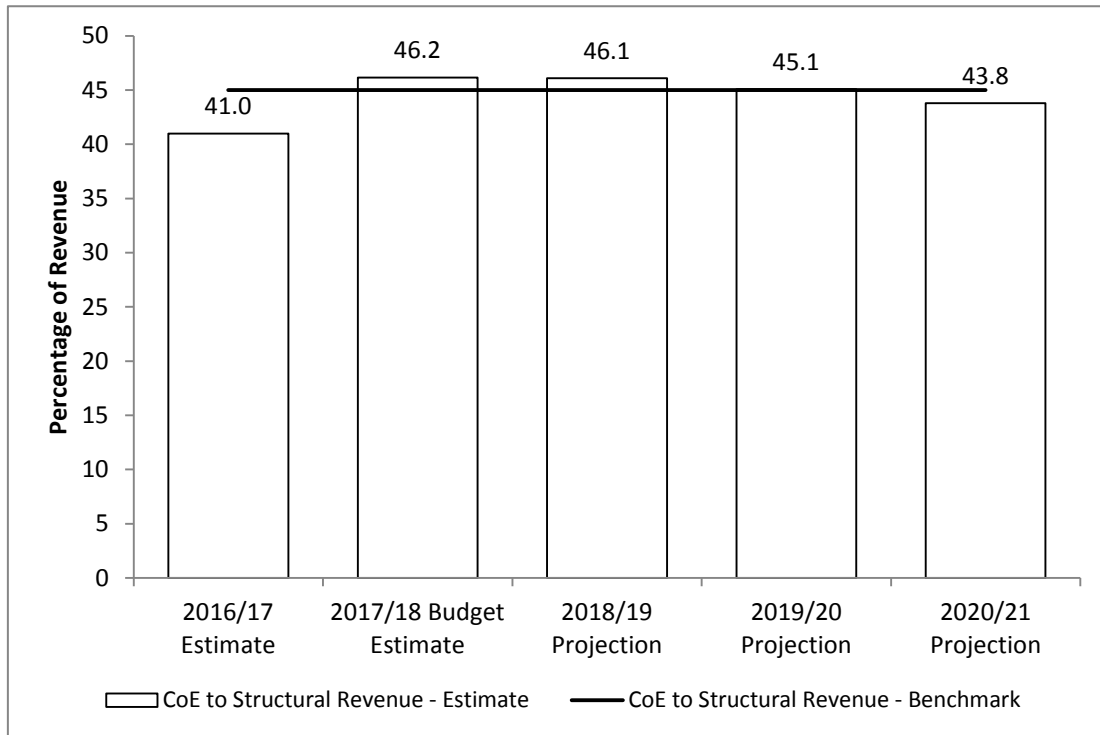
**Figure 4.8 Personnel Expenditure to Total Revenue 2016/17 to 2020/21**



However, as personnel spending is a structural spending component, and some of the revenue included in the ratio for Figure 4.8 is not structural in nature, it is useful to consider the ratio shown in Figure 4.9. This ratio compares total ‘Compensation of Employees’ (a Government Financial Statistics measure of personnel expenditure, which includes personnel funded through POBOCs) with structural revenue to indicate the level of personnel spending as a proportion of structural revenue.<sup>7</sup>

<sup>7</sup> Structural revenue is estimated to be locally sourced (non-grant) revenue, excluding withholding tax, revenues from seabed mining and fishing revenue. While fishing revenues are likely to be smoother over longer time horizons, due to large changes in recent times, it has been excluded here.

**Figure 4.9 Compensation of Employees to Structural Revenue - Estimate 2016/17 to 2020/21**



Part of the ongoing public financial management improvements will be to identify a more suitable ratio than the current Personnel-to-Revenue measure, and Figure 4.9 offers a different perspective on the challenge of maintaining fiscal sustainability, with a benchmark ratio of 45 per cent used as an indicator.



## 4.6 Assumptions Underlying the Fiscal Projections

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

Operating Revenues are forecasted on the basis of recent trends in economic activity as well as one off considerations.

GDP and trade data is updated to December 2016 (provisional estimates). The data sets used were those available as at 23 May 2017.

Nominal GDP is expected to grow by:

- 4.0 per cent in 2016/17
- 3.6 per cent in 2017/18
- 2.4 per cent in 2018/19
- 2.3 per cent in 2019/20
- 2.3 per cent in 2020/21

The general model used to forecast nominal economic growth is based on the expenditure national accounting measure and uses estimates of public sector consumption and investment (including aid assistance), net merchandise trade, total tourism spending, domestic investment, and domestic consumption.

Tourism expenditure is the largest single component of the forecasts, and is based on:

An average stay of 8.2 days for New Zealand arrivals, 8.7 for Australia, 7.7 for USA, 8.6 for Canada, 8.6 for Europe, 6.1 for Asia, and 7.3 for other markets. This is estimated off data collected from the Customs and Immigration database of arrivals and departures, which uses the passport numbers of visitors to determine how long an individual passport holder is in the country.

Average visitor spend of NZD 236-250.00 per day, which is estimated from quarterly visitor surveys and a CPI indexation of a basket of tourist services.

Public consumption is the second largest single item and is estimated based on the personnel and operating appropriation for both Government and aid spending. Public investment is also a significant component of the model, and is estimated based on capital plans over the forecast period (including ODA investment), for which a smoothing approach is taken to reflect assumed delays and rollovers.

Government consumption expenditure is based on the Operating Estimates for 2016/17, and adjusted for key appropriations in 2017/18. It is expected to increase by 2.6 per cent in 2017/18, before decreasing in 2018/19 by 1.2 per cent.

Domestic (private) consumption is estimated based on consumption patterns as observed through the VAT series, along with expected inflation and population changes. The methodology derives a "consumption per head per day" metric and scales back to the full population.

Growth in prices measured through movements in the Consumer Price Index are projected based on global commodity prices and exchange rate movements as forecast by the IMF and World Bank (used to construct a 'Tradeables' series), as well as historical trends for non-tradeable components of the CPI basket. Growth in the CPI has been, and is expected to be:

- 0.0 per cent in 2016/17
- 1.3 per cent in 2017/18
- 1.0 per cent in 2018/19
- 1.5 per cent in 2019/20

- 1.4 per cent in 2020/21

Operating Expenditure movements in the outer years are based on actual commitments and are modeled through the Medium Term Budgeting Framework.

The level of borrowings is based on exchange rates provided by Bancorp, derived using Consensus Economics forecasts.

## 5 Economic Update

### 5.1 Introduction

The Cook Islands is a microstate in the South Pacific composed of 15 islands scattered across 1.8 million squared kilometres of ocean. The geography of the Cook Islands has both advantages and disadvantages for the economy. On the upside, the country's natural beauty, together with its unique culture have allowed it to develop into a tourism based economy with around 150,000 tourist arrivals estimated in 2016/17. Strong growth in tourism in recent years has seen the Cook Islands experience unusually high rates of economic growth and allowed it to continue its progression towards higher levels of economic prosperity.

On the downside, the strong tourism growth and heavy reliance on this sector makes the Cook Islands vulnerable to shocks in external markets and natural disasters. As noted in Section 5.12 (Sensitivity Analysis), if New Zealand were to experience an economic downturn the Cook Islands would be at risk of losing up to 65 per cent of its current tourism base. Furthermore, if a major cyclone were to hit Rarotonga, it would take time before the tourism industry could rebuild to a standard acceptable to tourists, affecting both economic growth and government revenues.

The layout of the Cook Islands also has a significant impact on the economy. Rarotonga is the hub of commercial activities and tourism, and was home to around 72 per cent of the population as at Census 2016. Only a small per cent of the population lives on the remaining islands, with around 20 per cent of the population living in the five southern group islands and 7 per cent living in the northern group islands. Due to the small populations on the outer islands, the economies are largely built on subsistence farming, with some islands working towards small tourism, agriculture and pearl industries. The Cook Islands Government thus provides high levels of support to the outer islands to ensure that a reasonable standard of living is achieved for all residents. Despite this, inequality between Rarotonga and the Pa Enea remains an issue.

Strong growth in tourism appears to slowly be seeping towards non-tourism sectors of the economy with growth in both residential and commercial construction. The government is also in the process of implementing an ambitious capital plan which is expected to have a positive impact on the economy through the employment of local staff and contractors over the medium term, with some projects such as water sanitation expected to continue into the long-term. Growth in tourism and construction whilst encouraging growth in the national accounts, both increase imports which can detract from some of the positive growth estimated. This is expected to occur over the forwards, with increases in imports.

The high cost of living in the Cook Islands relative to wages has been a concern of the government. As a result, the minimum wage will increase on 1 July 2017 from \$6.25 to \$7.00. The government will also increase government salary bands in line with the minimum wage increase. These measures will increase the real wage of the lowest paid workers, which has eroded over the last ten years, although less so in recent times with low inflation. A number of positive economic effects are expected out of this namely, as the real wages of the lowest 20 per cent of workers will increase, it is expected that inequality should decrease. Furthermore, the increase in wages is expected to provide further economic stimulus across all islands.

The Asian Development Bank (ADB) Outlook 2017 provides a positive outlook on the Cook Islands, although noting that it must maintain prudent macroeconomic management against rising risks from economic and climatic shocks. The ADB estimates economic growth of 5 per cent in 2016/17 and 2017/18 with higher growth prevented as a result of capacity constraints in the tourism industry which are difficult to resolve over the short term, predominantly issues with land-ownership and leasing arrangements. Furthermore, the ADB notes structural impediments to private sector growth, in particular rules around foreign direct investment (FDI). The Cook Islands Government is looking to

review current FDI policy in the coming months to assess any changes required to encourage FDI, while ensuring that local businesses are also supported.

## **5.2 The Global Economy**

The outlook on the global economy has improved over the last year, however it is still facing a number of risks, predominantly due to the unsettled global political environment. The International Monetary Fund (IMF) has increased its growth estimates for 2017 to 3.5 per cent, up 0.1 per cent. Despite this, the growth outlook has not improved going forward, with the expectation that growth will remain subdued, particularly in advanced economies. A key threat noted by the IMF is the recent political support for protectionism in many advanced nations, however the impacts of these are yet to be seen.

In the case of emerging economies, China has managed to maintain strong growth as a result of government policy support, however high levels of debt create a risk going forward. Results have not been as positive for some other emerging economies with growth slowing in India, although this is expected to improve going forward, while it is anticipated that Brazil will slowly recover from a severe recession.

Growth in the global economy is expected to have a positive impact on the Cook Islands' economy through increased tourism, although it does pose a risk of increased inflation. The IMF forecasts that growth will be positive for the Cook Islands' three key markets namely New Zealand, Australia and the United States in 2017 and 2018.

Recent growth in New Zealand from high net migration, elevated tourist arrivals and construction, among others, is expected to slow going forward resulting with the IMF anticipating growth of 3.1 per cent in 2017 and 2.9 per cent in 2018.

In its 26th year of continuous economic growth, Australia is expected to see growth of 3.1 and 3.0 per cent in 2017 and 2018 as it slowly recovers from the drag caused by the decrease in mining investment. Despite this, a number of risks remain in both the New Zealand and Australian markets, notably the high levels of private debt resulting in part from over-priced housing markets. Any negative shocks to the respective housing markets could have serious negative impacts on both economies, predominantly due to the high level of dependence between the respective banks.

It is estimated that the United States will see real growth of 2.3 per cent in 2017 and 2.5 per cent in 2018 reflecting an assumption by the IMF of fiscal policy easing and an improvement in confidence. Risks around this include political uncertainty.

Oil prices have increased globally following an OPEC agreement with some other producers in February to cut oil production. Oil prices are now oscillating around \$50 USD a barrel. This is expected to have an impact on inflation in the Cook Islands going forward through higher transport costs.

## **5.3 Economic Indicators**

Strong tourism growth since 2015 is expected to continue going forward with growth of 12.8 per cent estimated in 2016/17 and 5.4 per cent expected in 2017/18. Growth is being seen in all major tourist markets. This has the effect of increasing the diversification of the market and decreasing the reliance on New Zealand as the key source market. Increases in fuel prices may have a negative impact on the tourism industry going forward through higher airfares; however this is yet to be seen and has not been factored into projections, with prices remaining low for the current period. The scheduling of larger planes on the SYD-RARO and RAR-LAX legs during the high season are also

expected to assist in increasing tourist arrivals.

Following these developments and global economic growth, nominal gross domestic product is expected to grow at 4.0 per cent in 2016/17, with higher import levels than previously seen expected to detract slightly from growth. Going forward growth is expected to slowly decrease to around 2.3 per cent

**Table 5.1 Summary of Economic Indicators**

	2016/17	2017/18	2018/19	2019/20	2020/21
	Est. Actual	Budget	Estimate	Projection	Projection
<b>Economic Activity</b>					
Nominal GDP (\$'000)	431,589	447,269	458,222	468,854	479,591
Percentage change (YOY)	4.0	3.6	2.4	2.3	2.3
Real GDP (at Constant 2006 Prices, \$'000)	343,660	352,691	360,868	364,056	367,698
Percentage change (YOY)	4.2	2.6	2.3	0.9	1.0
<b>Inflation (CPI)</b>					
Percentage change (YOY)	0.0	1.3	1.0	1.5	1.4
<b>Construction/Capital Investment</b>					
Commercial Building Approvals (\$'000)	9,949	5,949	5,949	5,949	5,949
Residential Building Approvals (\$'000)	14,874	14,861	14,849	14,836	14,823
Public Works (\$'000) (includes Dev Partners)	41,379	39,469	31,010	23,735	26,973
<b>Productive Sector Indicators</b>					
Visitor Arrivals	152,456	160,686	165,689	169,197	172,123
Percentage change (YOY)	12.8	5.4	3.1	2.1	1.7
Estimated Visitor Expenditures (\$'000)	315,233	329,238	342,763	355,158	366,299
Pearl Exports (\$'000)	313	313	313	313	313
Fish Exports (\$'000)	18,453	18,453	18,453	18,453	18,453
<b>External Sector</b>					
Merchandise Trade Balance (\$'000)	(158,208)	(163,494)	(161,065)	(158,029)	(159,904)
Services Trade Balance (\$'000)	315,233	329,238	342,763	355,158	366,299
Exchange Rate (USD/NZD Average)	0.6959	0.6900	0.6800	0.6800	0.6700

## 5.4 Gross Domestic Product (GDP)

The Cook Islands is currently experiencing a sustained period of economic growth with positive real growth every year since 2011/12. Over this period real growth has averaged 3.9 per cent per year, with growth reaching a high of 8.8 per cent in 2015/16. Strong growth is expected to continue going forward, albeit at lower rates than previously seen, based on robust tourism numbers and an ambitious capital program planned by the government.

Both real and nominal GDP for the 2015/16 year have been revised downward since HYEFU (Table 5.2). As a result, the economy is now growing from a lower base than previously anticipated. Despite this, real GDP is estimated to grow at 4.2 per cent in 2016/17, compared to 3.5 per cent expected at HYEFU.

Nominal GDP is also expected to grow strongly, although again from a lower base. Growth of 4.0 per cent is estimated in 2016/17, an increase from \$415 million in 2015/16 to \$431.6 million in 2016/17.

**Table 5.2 GDP growth revisions**

	2015/16		2016/17		2017/18		2018/19	
	2016/17 HYEFU	2017/18 Budget	2016/17 HYEFU	2017/18 Budget	2016/17 HYEFU	2017/18 Budget	2016/17 HYEFU	2017/18 Budget
Nominal GDP growth (%)	7.8	5.7	4.1	4.0	1.9	3.6	1.9	2.4
Real GDP growth (%)	9.0	8.8	3.5	4.2	1.1	2.6	0.5	2.3
Implicit GDP deflator (percentage change)	-0.1	-2.9	1.7	-0.2	1.5	1.0	1.7	0.1

Robust tourism arrivals saw strong real economic growth of 8.8 per cent during 2015/16. Without strong tourism, economic growth would have been much lower. The tertiary (services) sector is by far the strongest sector in the Cook Islands growing by 7.4 per cent in real terms. Both restaurants and accommodation, and transport and communication grew by 12 per cent in 2015/16.

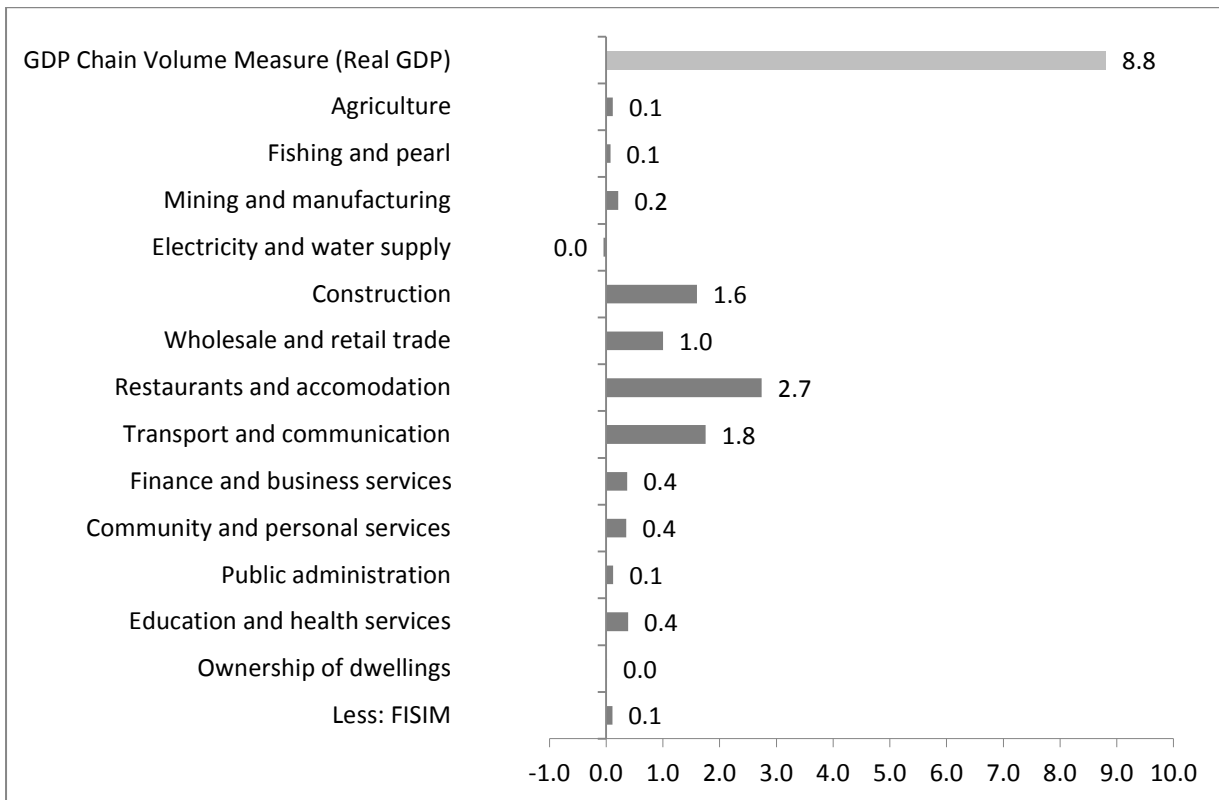
Wholesale and retail trade grew by 5.3 per cent year on year in real terms. Stronger growth would have been expected in this sector as a result of the high growth in tourism. Further investigation is required to determine the real flow-on effect that tourism has on wholesale and retail trade.

In terms of the overall contribution to economic growth in 2015/16, the tertiary sector, which includes wholesale and retail trade, restaurants and accommodation, transport and communication, finance and business services, community and personal services, public administration, education and health services and ownership of dwellings contributed 6.7 percentage points to real economic growth. Restaurants and accommodation contributed 2.7 percentage points, accompanied by transport and communication which contributed 1.7 percentage points. Wholesale and retail trade contributed 1 percentage point to growth in 2015/16.

In real terms construction made a positive contribution to growth, contributing 1.6 percentage points to growth. High building approvals in 2015/16 and to March 2017 are expected to contribute to continued growth in the construction sector during 2016/17 and 2017/18. In addition to high building approvals, the government's capital plan will assist in maintaining higher levels of construction going forward. In nominal terms construction detracted from growth, this is expected to be the result of lower input prices in the sector, and with the possibility of some data collection issues.

A number of other sectors made small but positive contributions to economic growth in 2015/16. Education and health services contributed 0.4 percentage points to growth, growing by 6.7 per cent in 2015/16 to \$18.7 million. While Finance and Business also contributed 0.4 percentage points to growth, growing by 2.7 per cent to \$41.8 million.

**Figure 5.1: Contribution to 2015/2016 real growth (percentage point)**



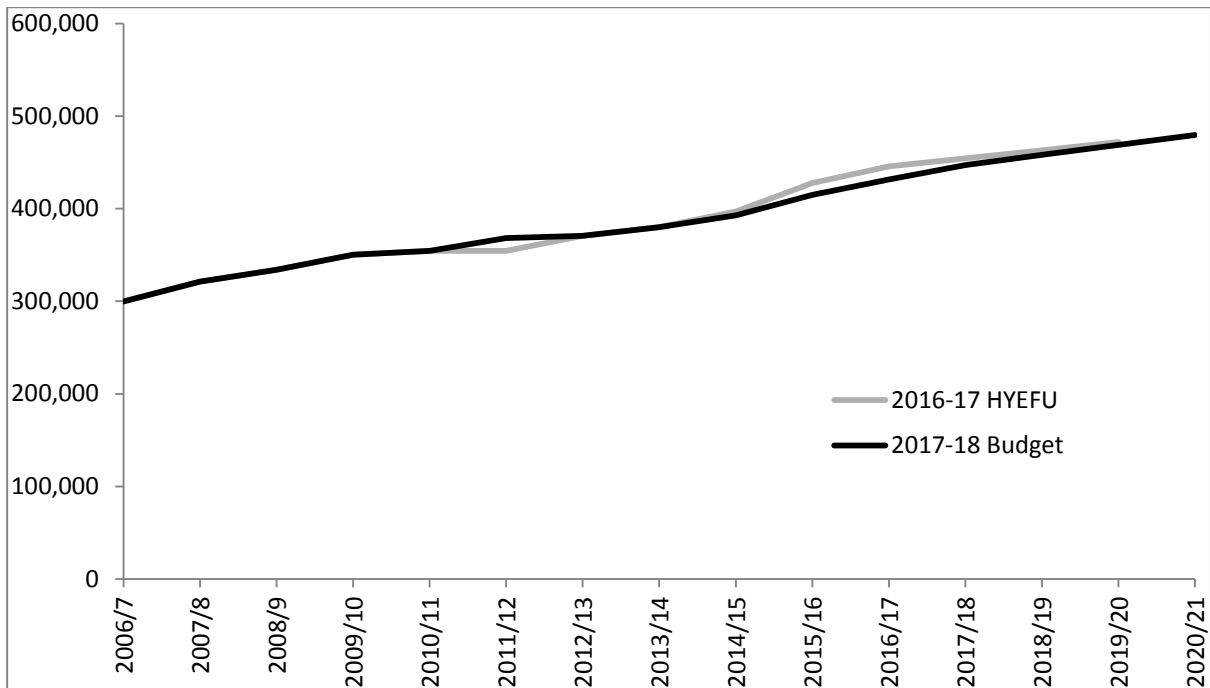
Growth is expected to remain strong in 2016/17 and 2017/18 due to continued growth in tourism and investment (public and private). Nominal growth is estimated at 3.6 per cent in 2017/18 due to a slowdown in tourism growth to 5.4 per cent and mild growth in consumption and investment.

On the consumption side, government consumption is expected to contribute 1.0 percentage point to nominal growth in 2016/17 and 0.9 percentage points in 2017/18. While private consumption is expected to contribute 0.8 and 0.7 percentage points in the respective years. It is anticipated that private consumption will increase going forward as a result of the government salary increase which will increase total salaries by around \$3 million to be spread across approximately 1,800 workers. Although the effect of such an adjustment has not been calculated due to lack of data, it is expected that the marginal propensity to consume in the Cook Islands is high and that much of the \$3 million will be spent on private consumption. The risk is that part of the increase in private consumption could be sourced directly from overseas, reducing the economic benefit to local businesses.

Gross fixed investment (public and private) is expected to contribute 0.9 percentage points to growth in 2016/17, and 0.8 percentage points in 2017/18. This is largely due to investment in machines, transport and equipment. The contribution of gross fixed investment is the result of continued growth in construction and capital projects. As these levels are expected to remain over the forward years, positive contributions to economic growth from investment are expected to be maintained.

Increases in imports and imported components of capital expenditure are estimated to be higher than historically seen and are expected to detract 2.1 percentage points from nominal growth in 2016/17 and 1.9 in 2017/18. Tourism arrivals are expected to contribute 3.2 percentage points to growth in 2016/17 and 2.9 in 2017/18 outweighing the negative impacts being felt from increased imports.

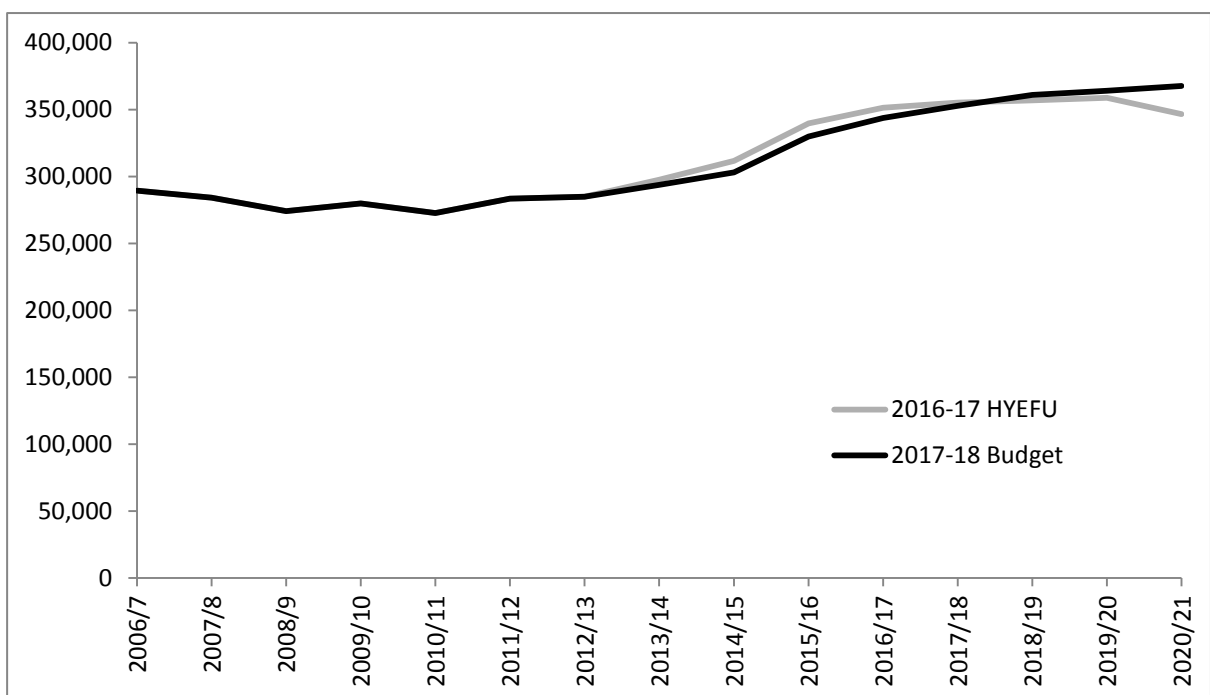
**Figure 5.2 Nominal GDP growth 2006/07 to 2020/21**



As can be seen in Figure 5.2, GDP has been revised down in 2015/16 and 2016/17. Nominal growth is now expected to follow a steady upward trend, rather than the steep growth in 2015/16 and subsequent slowing to 1.9 per cent which was estimated at HYEUFU. Growth is expected to be between 2.0 and 2.5 per cent over the forward estimates as it returns to trend.

As is the case for nominal GDP, real GDP has been revised down since HYEUFU in 2014/15, 2015/16 and 2016/17. Going forward growth is expected to be stronger than previously anticipated due to sustained growth in tourism and construction.

**Figure 5.3 Real GDP 2006/07 to 2020/21**





There are a number of risks to the above projections, both positive and negative. On the upside growth in tourism could be sustained at higher levels than anticipated due to one of the following:

- Higher economic growth in key tourism markets than currently expected, increasing arrivals
- Oil prices remain at their current level or decrease, allowing airlines to maintain current low ticket prices
- Investment in private construction continues which decreases capacity constraints in the tourism industry

On the downside a number of risks are evident:

- Global growth could stall causing downturns in both Australia and New Zealand, which would impact upon tourism arrivals
- Inflation and oil prices could increase at higher rates than expected, impacting upon tourism numbers (through high travel costs) and import values.
- Further delays could be seen in the capital plan, pushing back wage earnings and improvements to infrastructure
- The CIG's ambitious capital plan could crowd out private investment in capital, pushing down construction

## 5.5 Consumer Price Index (CPI)

Inflation in the Cook Islands is measured by the Consumer Price Index (CPI), which is reported on a quarterly basis. Inflation has been fairly steady over the last ten years, averaging 2.9 per cent annually (2 per cent if oil spikes in 2008-09 are removed). In recent quarters however inflation has slowed and in some cases reversed resulting in inflation through the year to March 2017 of -0.3 per cent. CPI was unstable during this period – with a strong drop in prices in the December quarter 2016. A mild increase was seen in March quarter 2017, however more is required to reach positive inflation over 2016/17. As a result, CPI is estimated to be 0.0 per cent for the 2016/17 year.

Oil prices were slow to recover in early 2016/17, with some decreases resulting in subsequent reductions in price control levels for local petrol and diesel purchases. Low oil prices assisted airlines in decreasing ticket prices. This was further supported by increased competition in flights from New Zealand to the Cook Islands which helped to keep ticket prices low. At the same time, global inflation has been steady, removing any external pressures from higher import prices.

March quarter 2017 year average inflation was -0.4 per cent. Deflation can largely be attributed to decreases in the cost of transport, as discussed above, which detracted 0.7 percentage points from March quarter 2017 year average inflation. A decrease in the cost of housing has caused deflation in the housing sector, detracting a further 0.2 percentage points from inflation despite limited housing supply and an increase in the use of private homes for tourist accommodation.

Deflation in transport and housing have partially been offset by inflation in the cost of food which had a positive contribution of 0.3 percentage points. Prices of tobacco and alcohol also rose over the period contributing 0.2 percentage points to March quarter 2017 year average inflation. The costs of tobacco and alcohol only increased by 1 per cent through the year to March, despite being subject to five per cent indexation of levies each year.

**Figure 5.4 Contribution to March quarter 2017 year average inflation (percentage point contribution)**



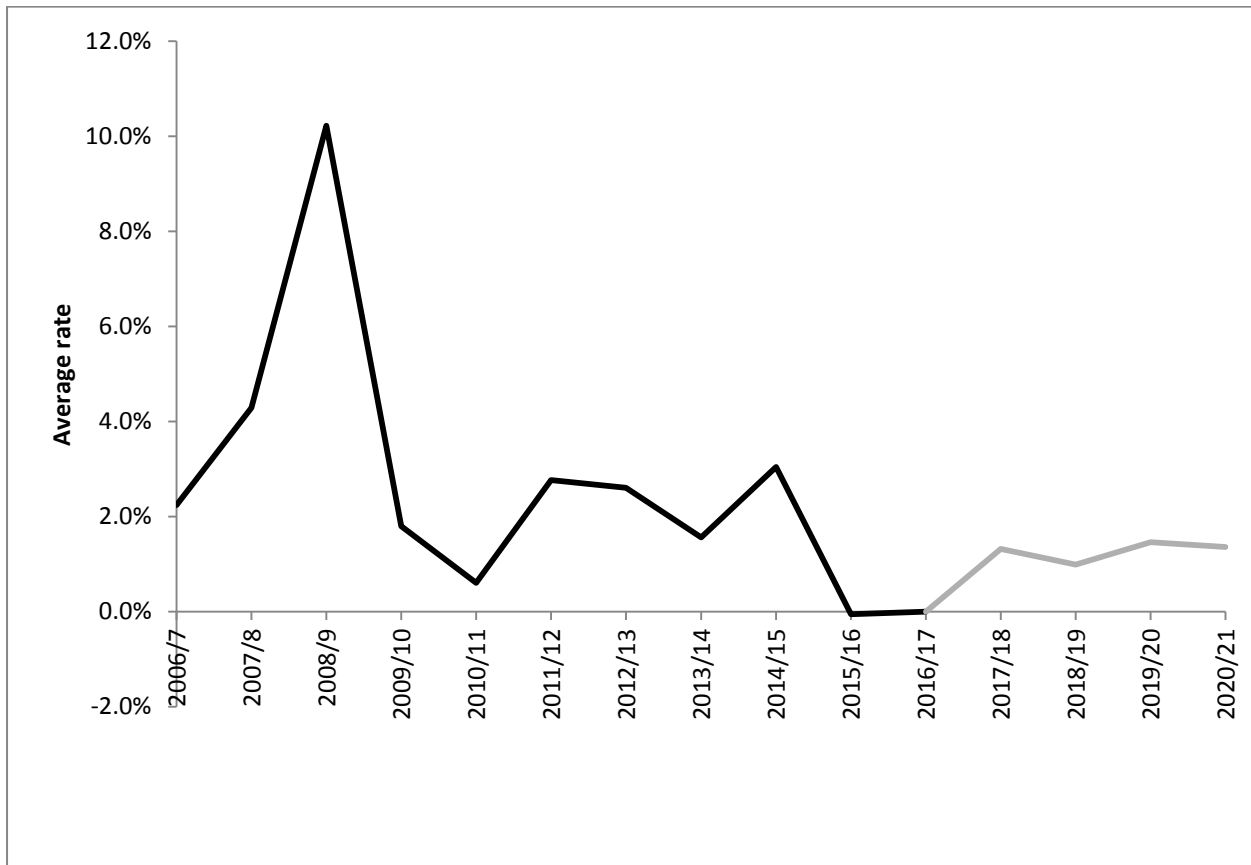
Despite deflation to March 2017, it is expected that inflation will recover somewhat in the June quarter, with the result being 0.0 per cent inflation in 2016/17. Historically, quarter-on-quarter growth for June is strong, with prices, particularly airfares, increasing in time for the high season.

Use of the New Zealand dollar as the national currency has helped to ensure that inflation in the Cook Islands has been relatively stable over the past 10 years (with the exception of a peak in 2008/09). The IMF

forecasts improvements in the US economy and a tightening of interest rates going forward both of which are expected to result in increased strength in the US dollar. Thus, it is expected that the value of the NZD will decrease somewhat over the forwards. This, together with the expectation that global inflation will increase to around 3.5 per cent in 2017, should help to push domestic inflation up slightly going forward (through increased costs of imports).

As a result of these factors, CPI growth is expected to increase slightly in 2017/18 to 1.3 per cent. Globally the price of petroleum and industrial inputs is expected to slow in 2018, which should have an impact in the Cook Islands during 2018/19 through a slowing of inflation. Beyond 2018/19 inflation is expected to hover around 1.5 per cent.

**Figure 5.5 Consumer Price Index (CPI), year average, 2006/07 – 2020/21**



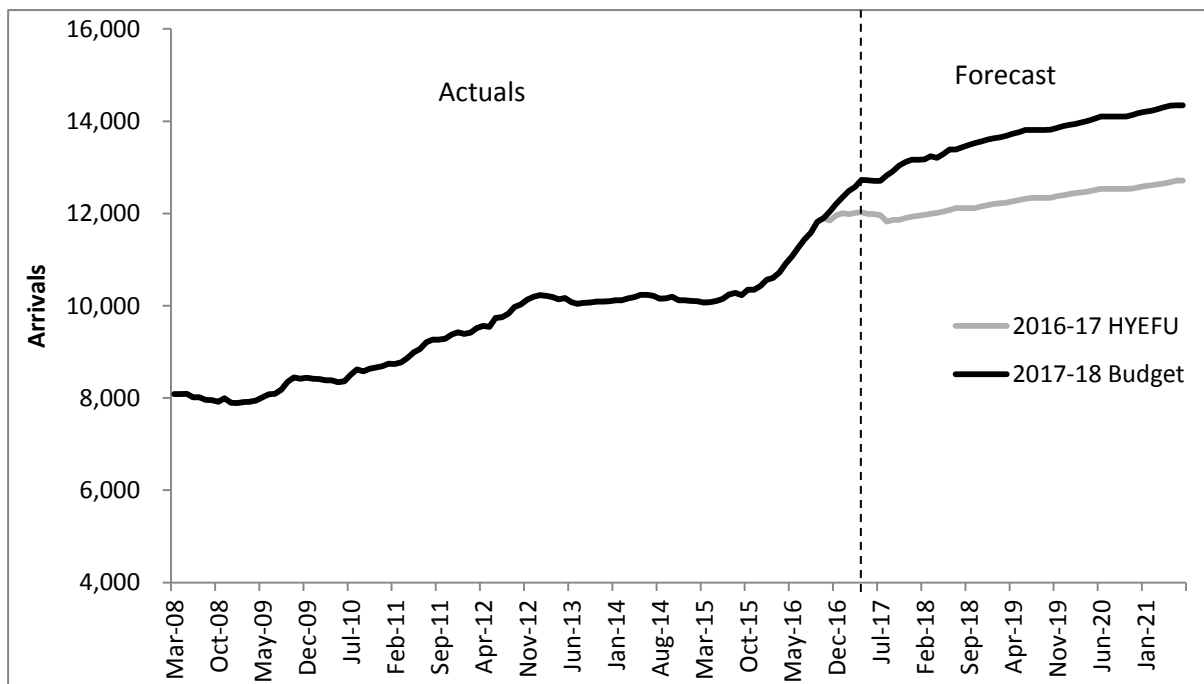
## 5.6 Tourism

Strong growth in tourist arrivals in 2016/17 has ensured that tourism remains the focal point of economic activity in the Cook Islands. After contracting by 0.9 per cent in 2014/15, the tourism market saw growth of 11 per cent in 2015/16 and is expected to achieve further growth of 12.8 per cent in 2016/17. In the year to April, arrival numbers had grown by 16.7 per cent.

Growth has been strong across most markets, with the largest growth seen arrivals from the United States, Canada and Asia, with each expected to see growth of around 22 per cent, albeit from lower bases than New Zealand and Australia. Tourist arrivals from Europe and New Zealand have also grown strongly, at 11.5 and 14.9 per cent respectively.

It is expected that total arrivals for 2016/17 will be around 152,000, up from the 135,000 seen in 2015/16. As can be seen in Figure 5.6, the steep growth in arrivals throughout 2016 and early 2017 has continued for a longer period of time than previously anticipated. This growth is expected to level out during 2017-18 with more sustainable growth expected going forward.

**Figure 5.6 Total monthly visitor arrivals (12 month moving average) 2008-2021**



Despite the strong growth in tourism arrivals, the industry faces growing capacity constraints. The limited number of accommodation providers restricts the number of tourists that can sustainably visit the Cook Islands at any given time. Further to this, the standard of infrastructure in the country places further limits on capacity.

Maximum tourist capacity in the Cook Islands is currently assumed to be 16,500 per month, based on the number of arrivals in July 2016. To ensure that higher visitor levels are sustainable, further investment is needed in room stock and general infrastructure, especially on Rarotonga where the industry is closer to saturation point. If arrivals continue to grow at the current rate without corresponding improvements to infrastructure, the likelihood of negative outcomes occurring increases, through increased costs to the tourism industry, decreased visitor satisfaction and the dissatisfaction of local residents

Tourism capacity is expected to grow in the short term based on an increase in building approvals for commercial developments. These approvals are for both expansions of current businesses and new

business developments. In addition, there has been a large increase in holiday home rentals through online sales such as Airbnb, with 266 rentals listed in April 2017. The increase in rental homes and alternative accommodation can be seen in the decreasing proportion of tourists planning to stay in hotels.

Environmental issues in Muri lagoon in 2015 and 2016 have been a cause for concern for the tourism industry, however it appears that arrival numbers have been unaffected thus far. Links between high tourist numbers and the Muri lagoon problem have been made, although further examination of this issue is still being undertaken. The Government is currently working towards upgrading the sanitation system around Muri lagoon to remediate the situation.

Government is taking steps in this Budget to account for the full impact that tourism has on the Cook Islands economy by employing an economic statistician to evaluate this area. Current GDP figures suggest that tourism is having a strong positive impact on restaurants and accommodation and transport and communication, however the extent to which this is flowing through to the rest of the economy is yet to be quantified.

**Table 5.3 Estimated total tourism numbers by quarter 2015/16 to 2020/21**

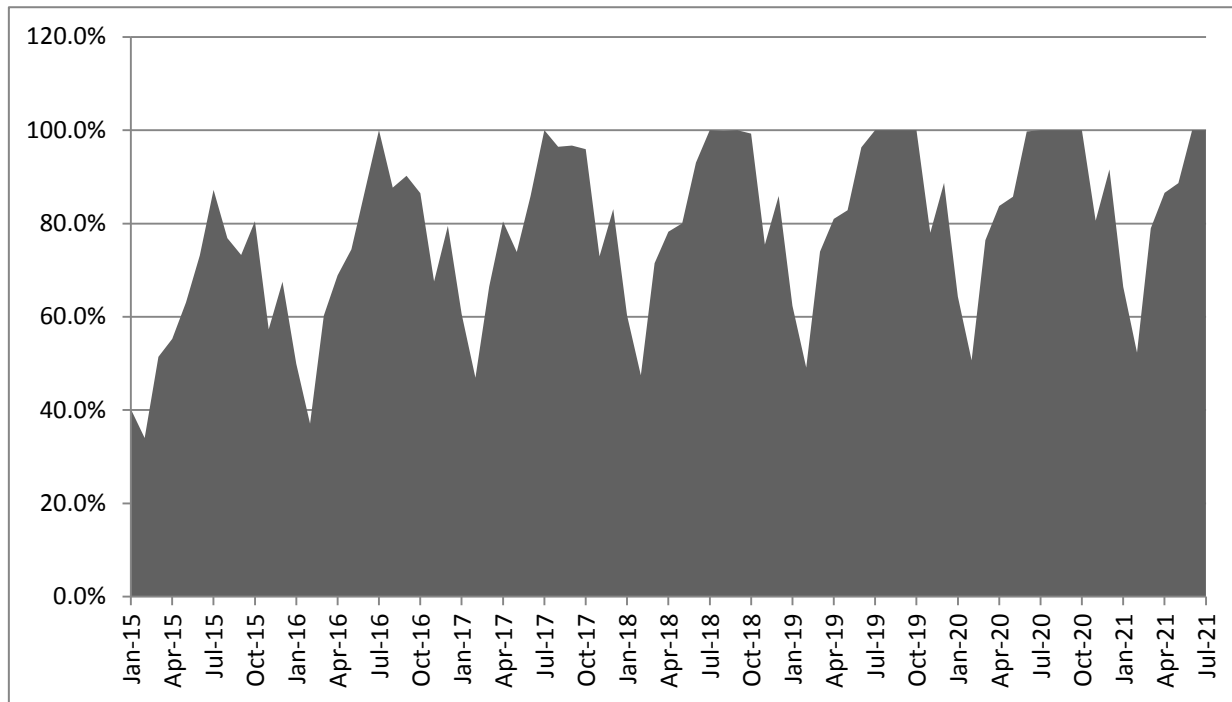
	<b>Qtr 1</b>	<b>Qtr 2</b>	<b>Qtr 3</b>	<b>Qtr 4</b>	<b>Total</b>
<b>2015/16</b>	39,084	33,813	24,261	37,978	135,136
<b>2016/17</b>	45,770	38,464	28,661	39,600	152,500
<b>2017/18</b>	48,300	41,500	29,500	41,400	160,700
<b>2018/19</b>	49,400	42,900	30,500	42,800	165,700
<b>2019/20</b>	49,400	43,900	31,500	44,300	169,200
<b>2020/21</b>	49,400	44,800	32,600	45,300	172,100

As Table 5.3 indicates, September quarter (Qtr 1) is the busiest time for tourists, with numbers expected to reach their maximum capacity in each month of the quarter by 2018/19. Capacity limitations during the quarter are expected to have a flow on effect to other quarters going forward, with increased arrivals in the remaining three quarters.

Figure 5.7 below highlights the capacity limitations being experienced in the Cook Islands. During 2017/18 maximum capacity is expected to be reached in 3 months of the year, with 90 per cent capacity expected to be reached during a further 2 months. This situation worsens during each financial year going forward with maximum capacity expected to be reached during 5 months of the year in 2019/20.

To address capacity constraints, the current tourism strategy is to encourage greater visitor numbers during the low and shoulder seasons. This strategy intends to also diversify the visitor source market by attracting visitors from the Northern Hemisphere who traditionally travel south during their winter months. Diversifying the tourism base will decrease the current reliance on New Zealand tourists, and decrease the vulnerability to a natural disaster or economic downturn in New Zealand. In addition to this strategy, further investment in tourist infrastructure, such as accommodation will be required to accommodate increasing tourist numbers going forward. The recent increase in investment in room stock is a sign of the industries confidence in attracting more visitors, however more investment will be required for the Cook Islands to continue to capitalize on higher levels of arrivals.

**Figure 5.7 Tourism capacity utilisation by month – 2014 to 2021**



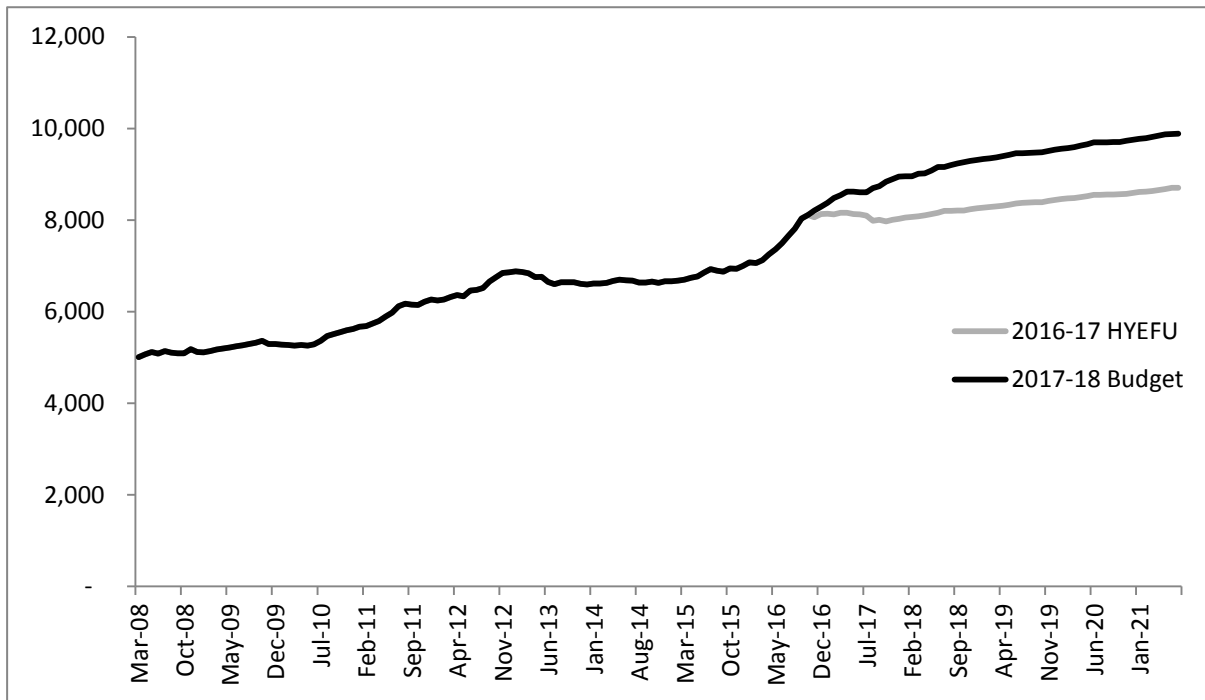
### 5.6.1 New Zealand

Stronger than expected growth in the New Zealand market in 2016/17 sees New Zealand visitors continuing to make the strongest contribution to tourist arrival numbers at around 68 per cent of arrivals. New Zealand arrivals are expected to reach 103,000 in 2016/17, a 14.9 per cent increase over 2015/16.

Growth in tourism numbers from New Zealand is consistent with the general growth in New Zealand outward tourists to the Pacific, which has increased steadily in recent years. Over the past ten years, New Zealand arrivals have grown an average of 6 per cent a year. The Cook Islands is receiving an increasingly larger share of New Zealand tourists to Oceania (excluding Australia) with the Cook Islands receiving 29.1 per cent of all New Zealand visitors in quarter 1 of 2016/17, second only to Fiji. This is up on an average of 25 per cent in 2015, although one quarter is not enough data to assess trends, one could suggest that it indicates a slight increase in preferences towards the Cook Islands over other Pacific destinations.

The introduction of Jetstar to the Cook Islands' market and the direct flight from Christchurch with Virgin Australia have had a positive impact on New Zealand visitor numbers. The introduction of the route from Christchurch during the peak season has increased access to the South Island market by increasing the competitiveness of ticket prices to the Cook Islands. Further investigation is needed to more accurately establish the impact of these changes and whether they should be expected to continue over the long-term.

**Figure 5.8 New Zealand monthly visitor arrivals (12 month moving average) 2008-2021**



Arrival numbers for New Zealand visitors to the Cook Islands are expected to continue to increase going forward. Growth is projected to be 6.4 per cent in 2017/18 before slowing down to around 2 per cent in 2020/21.

**Table 5.4 Estimated New Zealand tourism numbers by quarter 2015/16 to 2020/21**

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
<b>2015/16</b>	28,084	21,089	13,627	27,112	89,912
<b>2016/17</b>	34,563	24,188	16,657	27,900	103,300
<b>2017/18</b>	36,200	26,700	17,400	29,700	109,900
<b>2018/19</b>	37,100	27,600	18,000	30,800	113,500
<b>2019/20</b>	37,200	28,400	18,700	32,000	116,300
<b>2020/21</b>	37,300	29,100	19,400	32,800	118,500

## 5.6.2 Australia

Australia is the second largest tourism market for the Cook Islands, making up 16 per cent of total arrivals, however growth has tended to be quite cyclical in recent years.

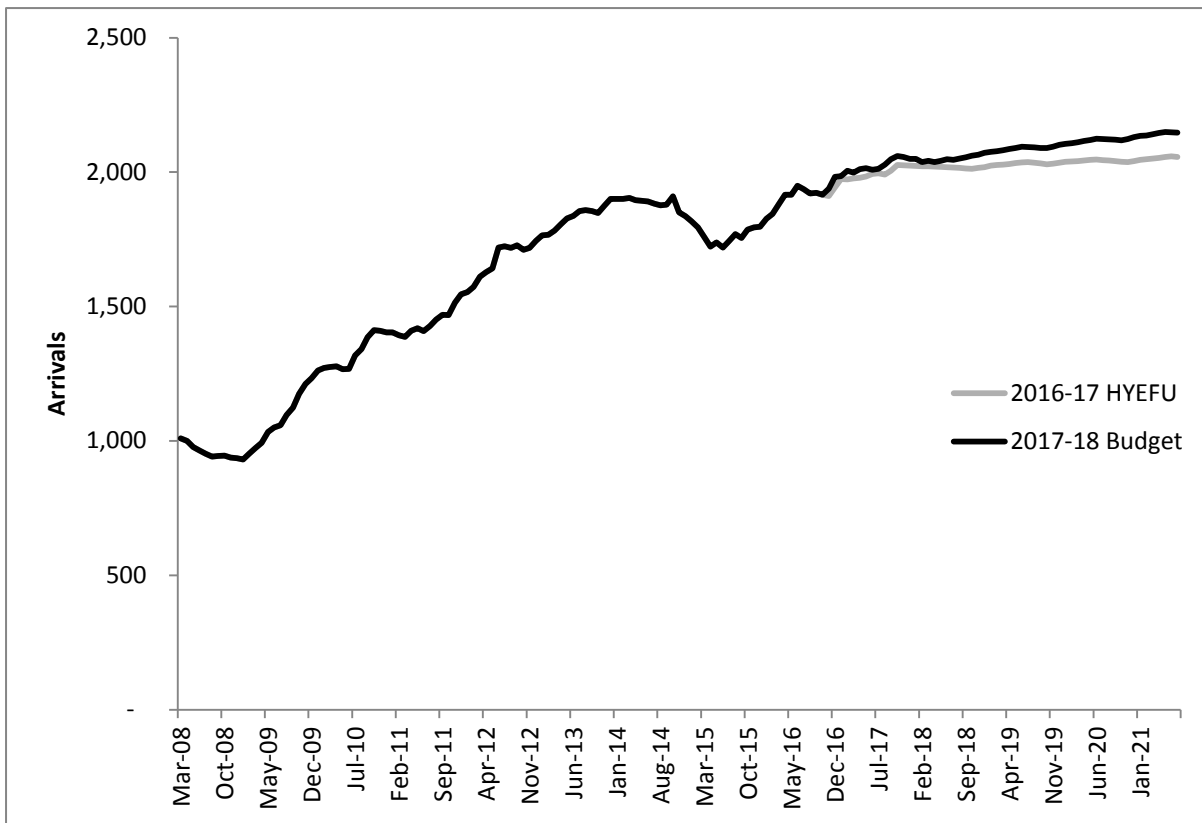
After experiencing a 9.1 per cent decrease in arrivals in 2014/15, Australian visitor numbers recovered to achieve an increase of 13.4 per cent in 2015/16. Growth is expected to continue in 2016/17, albeit at a lower rate of 3.1 per cent.

The Cook Islands has seen significant growth in Australian visitors over the past ten years, with growth averaging 8.2 per cent per year. This is off the back of strong growth in Australian outbound tourism (4.4 per cent in 2015-16). Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, albeit at a slower rate of between 3.6 and 3.9 per cent going forward.

The introduction of Jetstar has allowed indirect flights from most Australian cities into the Cook Islands. In light of this, the Australian market has seen an increase in visit numbers of 6.8 per cent year on year to March 2017. However growth has not been consistent over this period, resulting in the need for more data

to assess the impact of Jetstar’s introduction into the market.

**Figure 5.9 Australia monthly visitor arrivals (12 month moving average) 2008-2021**



**Table 5.5 Estimated Australian tourism numbers by quarter 2015/16 to 2020/21**

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2015/16	6,363	7,043	4,299	5,684	23,389
2016/17	6,051	7,762	4,473	5,800	24,100
2017/18	6,500	7,800	4,400	5,900	24,600
2018/19	6,600	8,000	4,500	6,000	25,100
2019/20	6,600	8,100	4,600	6,200	25,500
2020/21	6,500	8,200	4,700	6,300	25,800

### 5.6.3 Other markets

The strong growth experienced in other markets in 2015/16 has continued into 2016/2017. This level of growth is expected to continue, albeit at a slower rate over the forward estimates.

Arrivals from the United States increased by 16 per cent in 2015/16, with growth in 2016/17 projected to be 22.2 per cent. Growth is then expected to slowly return to longer term growth rates. The impacts of the new and larger Boeing 777/789 aircraft on the underwritten route between Rarotonga and Los Angeles has yet to be quantified and has not been included in the forecasts. On current forecasts, arrivals from the United States are projected to surpass the historic peak in US arrivals experienced in the early 2000s during the 2018/19 financial year.

As with the United States, there has been strong growth in Canadian visitors in the past two years. Growth in 2015/16 totaled 9.9 per cent, and is expected to increase to 21.7 per cent in 2016/17 on the back of high arrivals through to April 2017. As with the United States, this growth is expected to gradually return



to long term rates over the medium term. However, unlike the United States, Canada still has much ground to gain before surpassing the peaks experienced in the early 2000s.

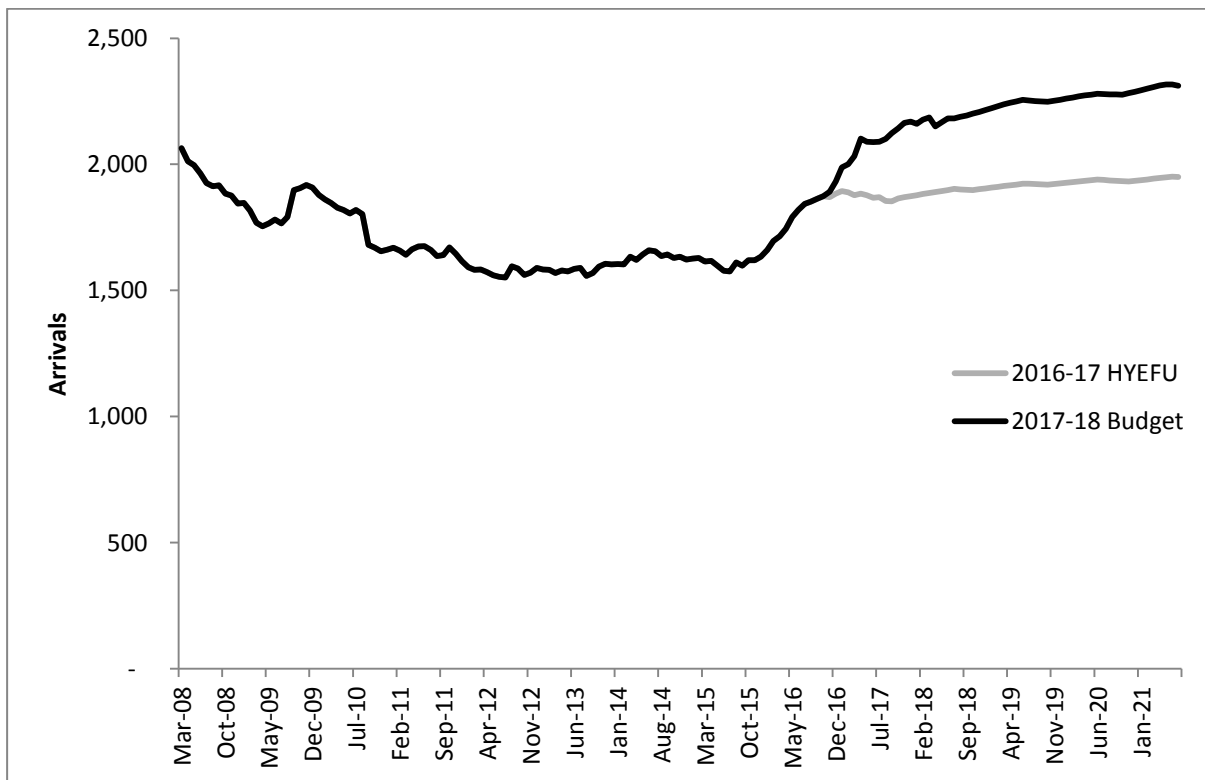
Downside risks to the North American market largely center on the long-term plans for the underwritten route which is currently out for tender, as well as any unfavourable political and economic developments in the region. However, a strengthening US dollar should have a positive impact on tourist numbers.

Visitor numbers from Europe grew by 6.8 per cent in 2015/16 after a decrease of 1.6 per cent in 2014/15. Growth has continued through 2016/17 with arrivals expected to expand by 11.5 per cent before slowing to around 2 per cent over the long term.

Strong growth has been seen in arrivals from Asia, albeit from a low base. Arrivals increased by 31.5 per cent in 2015/16 and are expected to increase further to 1,977 visitors (growth of 22.8 per cent) in 2016/17.

After a strong increase of 36.7 per cent in visitors from French Polynesia in 2015/16 growth is expected to contract going forward.

**Figure 5.10 Other major markets monthly arrivals (12 month moving average) 2008-2021**



**Table 5.6 Estimated tourism arrivals for other markets by quarter 2015/16 to 2020/21**

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
<b>2015/16</b>	4,637	5,681	6,335	5,182	21,835
<b>2016/17</b>	5,156	6,514	7,531	5,900	25,100
<b>2017/18</b>	5,600	7,100	7,700	5,800	26,200
<b>2018/19</b>	5,700	7,300	8,000	6,000	27,100
<b>2019/20</b>	5,600	7,400	8,200	6,200	27,400
<b>2020/21</b>	5,600	7,500	8,400	6,300	27,800

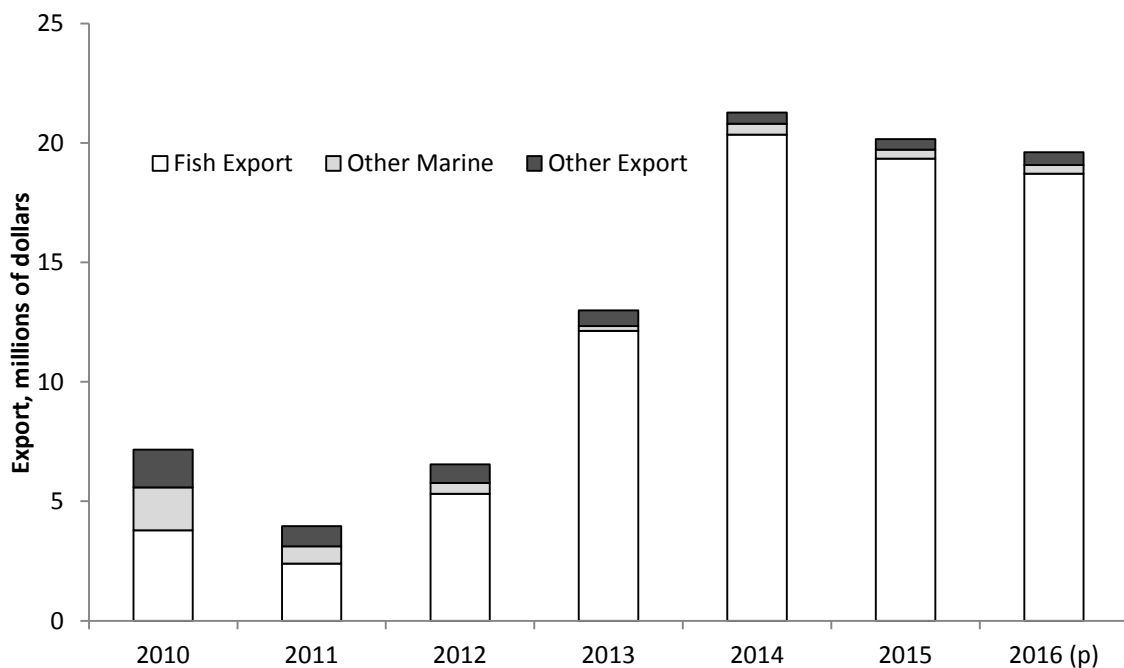
## 5.7 Marine Resources

### 5.7.1 Exports and Revenues

In the past three years the value of marine exports has averaged around \$20 million annually, accounting for 98 per cent of total goods exports.

In 2016, fish accounted for \$18.7 million of the total marine exports of \$19.1 million. Other marine exports included \$22,000 of live fish, \$297,000 of black pearls, and \$42,000 worth of mother of pearl shell products (Figure 5.11).

**Figure 5.11 Marine exports 2010 to 2016, (\$m)**



The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. The provisional revenue estimate for 2016/17 is for \$14.9 million.

In December 2016 new longline regulations for the Quota Management System (QMS) were enacted. Under the QMS a total allowable catch of 9,750 tonnes of albacore tuna and 3,500 tonnes of bigeye tuna per calendar year has been set. The quota system was implemented in January 2017, with revenue returns of around \$3 million per year received, exceeding previous licensing arrangements which returned around \$2.4 million per year.

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands has been assigned a total of 1,250 fishing days for the 2017 calendar year by the Western Central Pacific Fisheries Commission (WCPFC).

During 2016, the US and Pacific Island states negotiated a new US Multilateral Treaty with a six year term. Under the agreement the Cook Islands will commit 350 fishing days annually before the start of the calendar year. In 2017 the US acquired 323 fishing days under this pool. In addition, the US fishing industry also entered into bilateral arrangements for 200 additional fishing days for vessels which have not acquired pooled days or whose days are short.

In January 2017, the Government licensed two Spanish purse seine fishing vessels under the European Union Sustainable Fisheries Partnership Arrangement. Under the 5 year agreement there is a 4 year protocol for fisheries access allowing up to 7,000 tonnes per year to be fished by EU Purse Seiners. This arrangement accounts for 158 of the 1,250 vessel days assigned annually by WCPFC.

Part of the funds provided under the EU protocol are collected by government as an aid contribution to the provision of government fisheries policies.

For the 2017 calendar year, the average price for a fishing day is expected to be between \$11,500 to \$13,500 dollars, depending on exchange rates which affect the US Treaty; and the EU fisheries partnership.

Projected fisheries revenue for 2017/2018 is \$12.7 million. The sources of revenues will be:

- \$4.0 million from the longline quota system;
- \$1.2 million from the US treaty equal shares;
- \$4.4 million from the US treaty annual pool;
- \$1.8 million from the US treaty bilateral arrangements;
- \$1.3 million from the EU agreement.

### **5.7.2 Fishing Activities**

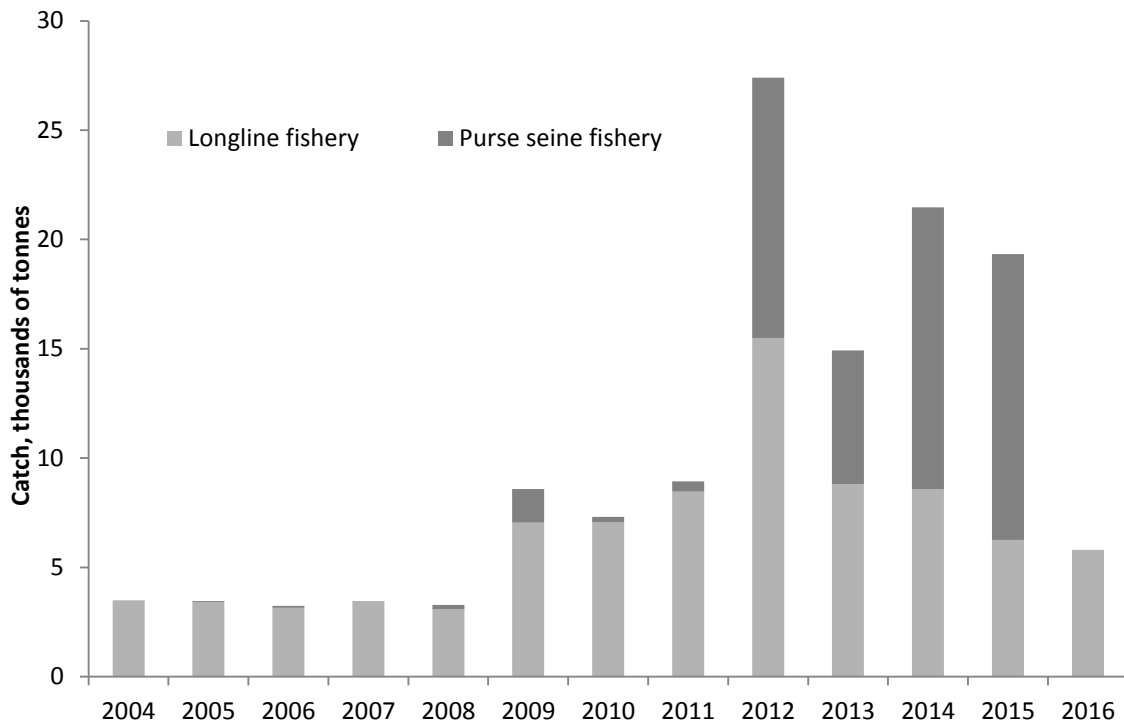
The Cook Islands EEZ is divided into the Northern and Southern fishery grounds, with the majority of fishing activity taking place in the Northern fishery which is more stable and productive. The Northern fishery borders are from Penrhyn in the east to Pukapuka in the west, and south to Suwarrow.

The longline albacore fishery catch is generally unloaded or transshipped in Apia, Samoa or Pago Pago, American Samoa. However, recent transshipment activities have been carried out in Pukapuka, and been supervised by Cook Islands Fisheries Officers.

The long line catch peaked at 15,500 tonnes in 2012 during exploratory fishing for bigeye tuna. This has declined to 5,795 tonnes in 2016 as the fishery has reverted back to its regulated albacore catches. Over the same period purse seining has become the dominant fishery in the Cook Islands, rapidly expanding from 476 tonnes in 2010 to a peak of 13,080 tonnes in 2015. The catch information for 2016 is not yet provided as it is being verified.

The total commercial catch for all vessels was 19,334 tonnes in 2015, a decrease from 21,466 in 2014. This is entirely driven by a decrease in the longline catch.

**Figure 5.12 Fishery Catch in the Cook Islands Exclusive Economic Zone**



The Cook Islands also supports a small local fishery of artisanal and game Figureer operators. In 2015, 142 tonnes was caught by local fishers, increasing to 163 tonnes in 2016.

Albacore and yellow fin tuna together accounted for around 80 per cent of species caught by long line in 2016; with a decrease in yellow fin in 2016 compared to 2015 (Table 5.7). With the increase in purse seining, it is expected that Skipjack will be the most caught species overall in 2016, once the purse seining data is included.

**Table 5.7 Fishery Catches in the Cook Islands EEZ by Species (tonnes)**

	2014			2015			2016	
	<i>Longline</i>	<i>Purse Seine</i>	<i>Local</i>	<i>Longline</i>	<i>Purse Seine</i>	<i>Local</i>	<i>Longline</i>	<i>Local</i>
Albacore	6,098	-	1	3,816	-	2	2,434	2
Bigeye	534	217	<1	576	204	-	354	-
Yellowfin	1,025	431	180	1,190	823	71	808	117
Skipjack	85	5,479	10	134	11,874	12	123	14
Other	927	-	80	541	-	57	363	30
<b>Total</b>	<b>8,669</b>	<b>6,127</b>	<b>271</b>	<b>6,257</b>	<b>12,901</b>	<b>142</b>	<b>4,082</b>	<b>163</b>

In 2016, a total of 90 licensed vessels were managed by the MMR. These include 47 long liners, 33 purse seiners, 2 high seas trawlers and 8 bunker vessels. In addition there were 285 local artisanal and game Figureer fishing boats reporting catches to the MMR (Table 5.8).

**Table 5.8 Number of active fishing vessels**

Licensed and active vessels	2012	2013	2014	2015	2016
<b>Offshore fishery</b>					
Long liner	60	45	36	38	47
Purse seiner	16	17	18	65	33
Other commercial	4	4	5	5	10
<b>Total</b>	<b>80</b>	<b>66</b>	<b>59</b>	<b>108</b>	<b>90</b>
<b>Local artisanal and game fishery</b>					
	-	223	302	301	285

The estimated value of catches from the Cook Islands EEZ for 2015 was \$63 million dollars, based on Pacific Forum Fisheries Agency (FFA) estimates (Table 5.9); a decrease of \$16 million in value of catch from 2014, despite significantly higher catches in 2015. The decrease is largely due to different methodology used by FFA in 2014 and 2016 to estimate catch values. The exchange rate of NZD to USD and Japanese Yen are also important factors.

**Table 5.9 Landed value of fishery catches (\$m)**

Landed value	2012	2013	2014	2015
Longline fishery	40	32	44	30
Purse seine fishery	25	15	33	30
Local artisanal and game fishery	-	2	2	3
<b>Total</b>	<b>65</b>	<b>49</b>	<b>79</b>	<b>63</b>

One domestic commercial fishing company, with three Cook Islands' flagged vessels, operates in the southern Cook Islands waters, and offloads its fresh catch at Rarotonga for sale in the domestic market and to be exported. For Cook Islands' flagged vessel, an estimated 179 tonnes of fresh catch was offloaded in 2016 from domestic sale compared to 188 tonnes in 2015. The volume of exports increased from 115 to 125 tonnes over this period.

Landed frozen catch by Chinese flagged vessels in Rarotonga totalled nearly 400 tonnes in 2016, up from 363 tonnes in 2015. In 2014, the total catch landed by Chinese vessels was 1,900 tonnes, a very large spike compared to normal catch levels.

**Table 5.10 Catch Landed into Avatiu port (tonnes)**

	2013	2014	2015	2016
<b>Cook Islands flagged vessels</b>				
Fresh catches offloaded	105	194	188	179
Fresh catches to be exported by airfreight	15	23	115	125
<b>Chinese flagged vessels</b>				
Frozen by-catch sold locally	23	18	-	-
Frozen catches to be exported by seafreight	121	1,882	363	399
<b>Total</b>	<b>264</b>	<b>2,117</b>	<b>666</b>	<b>703</b>

The small scale fishery remains an important economic activity for game-charter operators, semi-commercial sales and artisanal fishermen. Catch data per island is expected in the near future, with better information anticipated as a result of a fuel subsidy program instituted by MMR.

The Fisheries Development Facility (FDF) is a grant scheme administered by MMR and funded by a

development fee of \$10,000 charged to each foreign fishing license. 2016 is the fifth year that the FDF has been in operation. In 2016, \$300,000 was made available to support the local fishers comprising \$100,000 for the Cook Islands Fishing Association, \$150,000 in small grants to individuals and \$50,000 for the fishing clubs of the Pa Tokerau (Northern Group).

An ongoing program to expand the deployment of Fish Aggregate Devices (FADs) complements the support of FDF. Nine FAD deployments were completed in 2016 bringing the total number of devices to 25 FADs. The program costs an estimated \$100,000 annually.

### 5.7.3 Black Pearls

The Pearl Industry in the Cook Islands has declined markedly over the past 15 years. Total pearl exports reached an all-time high in 2000 at just over \$18 million, however the industry saw a decline in the value of total exports as of 2003, following unregulated farming practices, poor oyster health conditions and bacterial disease. Since its peak in 2000, the industry reached a low of \$191,000 in 2013. The industry has rebounded somewhat in recent years, however its value remains very low.

French Polynesia continues to be the major supplier of raw and finished black pearl products to the international market, keeping prices relatively low.

In the Cook Islands there has been a distinctive shift by farmers towards sales on the domestic market, with a focus on visitors. As a result, export values are no longer representative of levels of production.

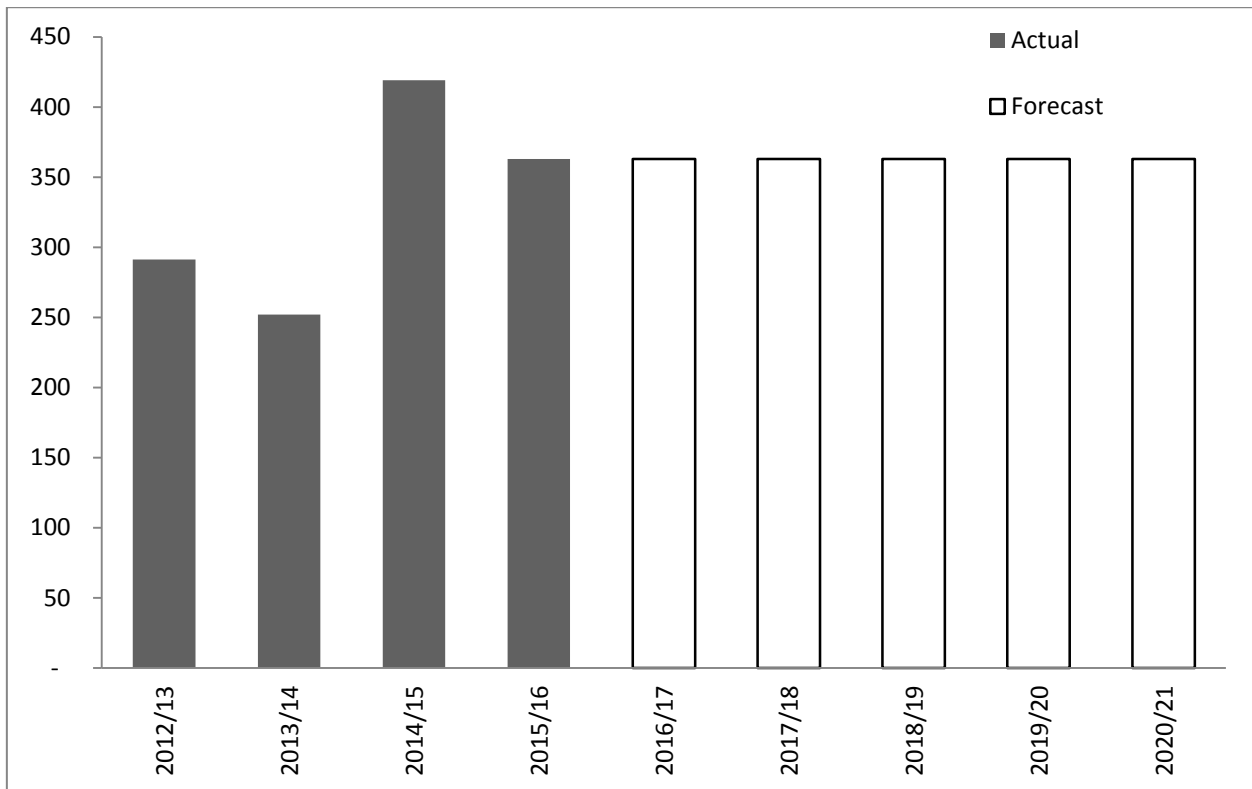
The total levels of production based on seeding and harvest reports submitted by farmers to MMR indicate that annual production levels average just below 200,000 farmed oysters (Table 5.11). Data for 2016 was incomplete at the time of writing.

**Table 5.11 Pearl production, 2009-2016**

Year	Total farmed oysters	Total shells seeded	Total shells harvested	Total saleable pearls
2009	40,429	21,623	23,713	3,005
2010	59,373	87,822	16,193	11,182
2011	173,501	89,850	39,318	17,856
2012	252,286	172,755	41,718	20,199
2013	153,918	108,053	44,699	20,987
2014	245,671	127,528	88,359	40,611
2015	143,142	67,477	48,720	21,459
2016	60,965	28,149	40,769	17,835

In 2016 the value of pearl exports increased to \$297,000, up from \$158,000 in 2015. The export of pearl shell, also known as Mother-of-Pearl, was \$42,000 in 2016, down from 2015 exports of \$167,000. It is common for exports of pearl shells to fluctuate annually as stockpiles are replenished after exports.

**Figure 5.13 Pearl Export, 2012/13 -2020/21**



#### 5.7.4 Water Quality Monitoring

The lifestyle and economy of the Cook Islands is largely dependent on healthy marine and freshwater ecosystems. Growing visitor arrivals place increasing stress on marine and freshwater environments. Routine monitoring of water quality parameters is crucial in managing water resources effectively.

Regular water quality monitoring is undertaken on the islands of Rarotonga, Aitutaki and Manihiki. Water parameters are analysed, reported and graded against three standards of reference: bacterial count, water clarity and nutrient concentration. Monthly reports are then disbursed to key stakeholders and other interested groups to help advise and guide management decisions. In Manihiki, these monthly reports are essential for advising pearl farmers when water conditions are, or are not, suitable for farming activities.

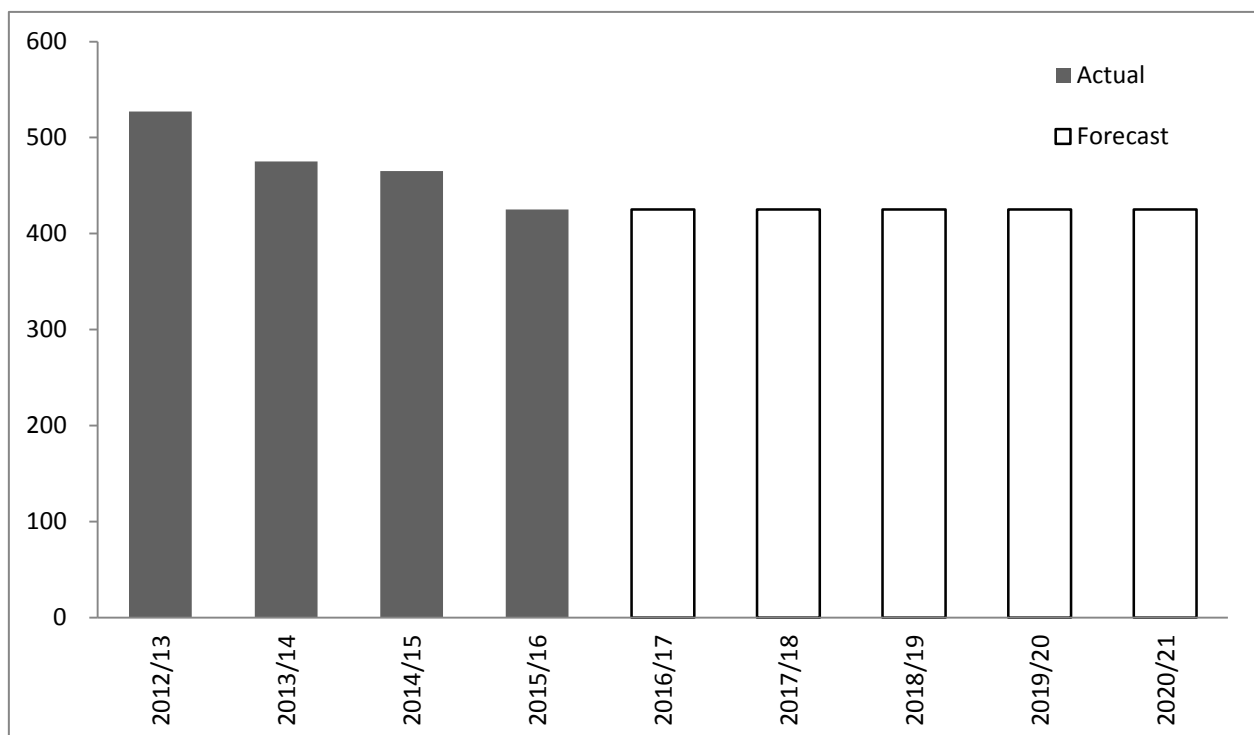
Water quality checks suggest that the overall quality of water is improving in Muri, possibly as a result of better sanitation and new building regulations, however spikes of poor water quality do occur. The health of Muri lagoon is crucial to the success of the tourism sector.

Similar tests in Manihiki between 2010 and 2016 highlight incidents of poor bacterial conditions amongst relatively good water quality in Manihiki. Such information is vital to maintaining a healthy and sustainable pearl industry within the lagoon.

## 5.8 Agriculture

The Agricultural sector accounted for 3.3 per cent of nominal GDP in 2015/16. Agricultural exports decreased between 2014/15 and 2015/16, suggesting that production is shifting towards the domestic market. In addition, exports have fallen due to the termination of Maire Lei exports to Hawaii in 2016 and declining coffee production from Atiu. Further negative impacts on export have been felt from challenges related to technical barriers to trade (i.e. Quarantine compliance to export standards requirements and other trade related issues). However, more robust information is required to understand the various trends in the agricultural industry.

**Figure 5.14 Agriculture Exports 2012/13 to 2020/21, (\$000)**



The Ministry of Agriculture’s provisioning of fruit and vegetable nursery products to all growers on Rarotonga and the Pa Enua is part of an initiative to improve the supply of fruit and vegetable products by strengthening up-stream supply chains. This aims to support local production in competing with imported produce, such as Capsicums, Tomatoes, Broccoli, etc., helping to create a comparative advantage for our growers.

The United Nations (UN) Food and Agriculture Organization (FAO) continues to support MOA’s nursery program, providing technical assistance and materiel in 2016, and a large supply of seeds and assorted vegetables in 2017. The supply is sufficient enough to supply the country with enough seedling and nursery products for the next two years. Varieties supplied include lettuce, Chinese cabbage, watermelon, cucumber, tomato, eggplants, and capsicums.

The Livestock Division of the Ministry continues to support small livestock and poultry production in Rarotonga and the Pa Enua to help farmers meet the needs of domestic consumers. The Ministry of Agriculture is also engaged in assisting growers to upskill to ensure that they can make the most of the growth in tourism.

Domestic hydroponic and summer vegetable production continues to grow, bridging the gap in fruit and vegetable supply value chains during the ‘production off-season’. There has also been an increase in the



number of hydroponics and summer house facilities on Rarotonga and Aitutaki. The FAO continues to provide support to hydroponic and summer house vegetable producers on how best to manage their farming systems and be economically sustainable.

The Cook Islands has potential for increased domestic agricultural production of products such as drinking coconuts, noni, vanilla, maire, coffee, cocoa, root crops, ornamentals, tropical fruits, vegetables, honey, hydroponic and value added products, including handicraft products. However, despite this potential, there are numerous constraints that limit further development in the agriculture sector including substandard biosecurity treatment facilities for international market access and quarantine compliance, labour shortages and costs and poor transportation. Other constraints include water irrigation access, limited commercial experience among domestic farmers and supply chain failures.

The Ministry of Agriculture is in the process of establishing 8 vanilla shade houses for production of vanilla products and is promoting exports of organic noni products, on Mangaia and Mitiaro. In addition, MOA is providing support towards the FAO fruit tree and vegetable model orchard farms, implemented by the Chamber of Commerce, to revitalise Agricultural fruit tree and vegetable production to service the needs of the tourism market.

## 5.9 Goods Exports and Imports

### 5.9.1 Goods Imports

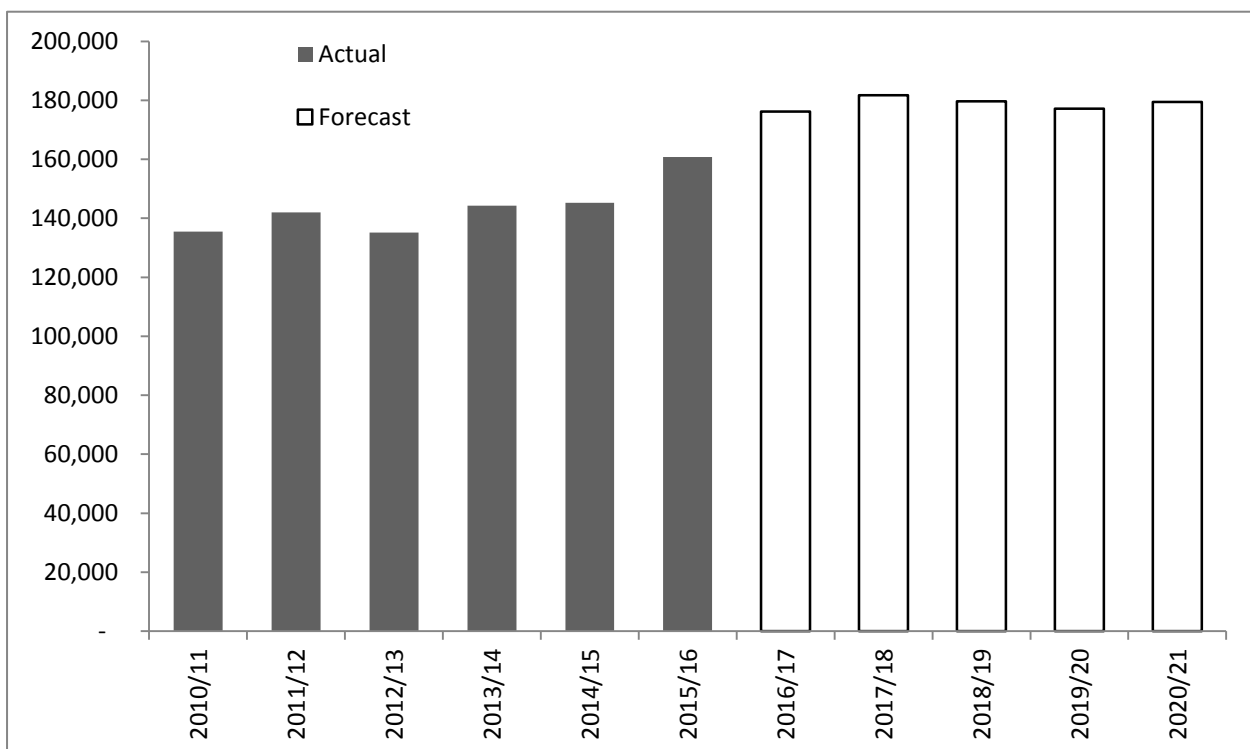
Goods imports are continuing to grow with growth of 10.2 per cent expected in 2016/17 following growth of 10.7 per cent in 2015/16. Growth in construction and the expectation of further growth in this sector, based on a surge in building approvals, in addition to strong government capital investment is having an impact on the value of crude materials and machines, transport and equipment imports, which are expected to increase by 46.9 per cent and 34.3 per cent respectively in 2016/17. This is off the back of strong growth in 2015/16 in the same sectors (33.9 per cent for crude materials and 34.1 per cent for machines, transport and equipment).

Imports of beverages and tobacco grew by 32.5 per cent to total 11.9 million in 2015/16. Other sectors that experienced growth, albeit at slower rates in the same period were food and live animals (3.5 per cent), basic manufacturing (2.5 per cent) and miscellaneous manufactured goods (13 per cent).

A decrease in the value of imports was seen in some sectors. The value of mineral and fuel imports decreased by 2.9 per cent in 2015/16 due to continued decreases in fuel prices. Chemicals also dropped by 4.3 per cent.

Going forward imports are expected to grow in 2017/18 due to the expectation of strong construction growth, capital projects and visitor arrivals. Import growth is expected to slow from 2018/19 once current planned capital projects slow, although maintained tourism arrivals should keep imports buoyant. In the case that new capital projects arise over the forwards, imports would be expected to increase in line with these – largely due to sourcing of raw materials and required machinery from overseas.

**Figure 5.15 Value of total imports 2010/11 to 2020/21, (\$'000)**



In 2016/17, it is estimated that import leakage will be approximately 41 per cent, that is, for every dollar spent in the Cook Islands economy, 41 cents flowed overseas. The high import levels expected in 2016/17 are having a negative impact on economic growth, through reducing the net exports estimates to below

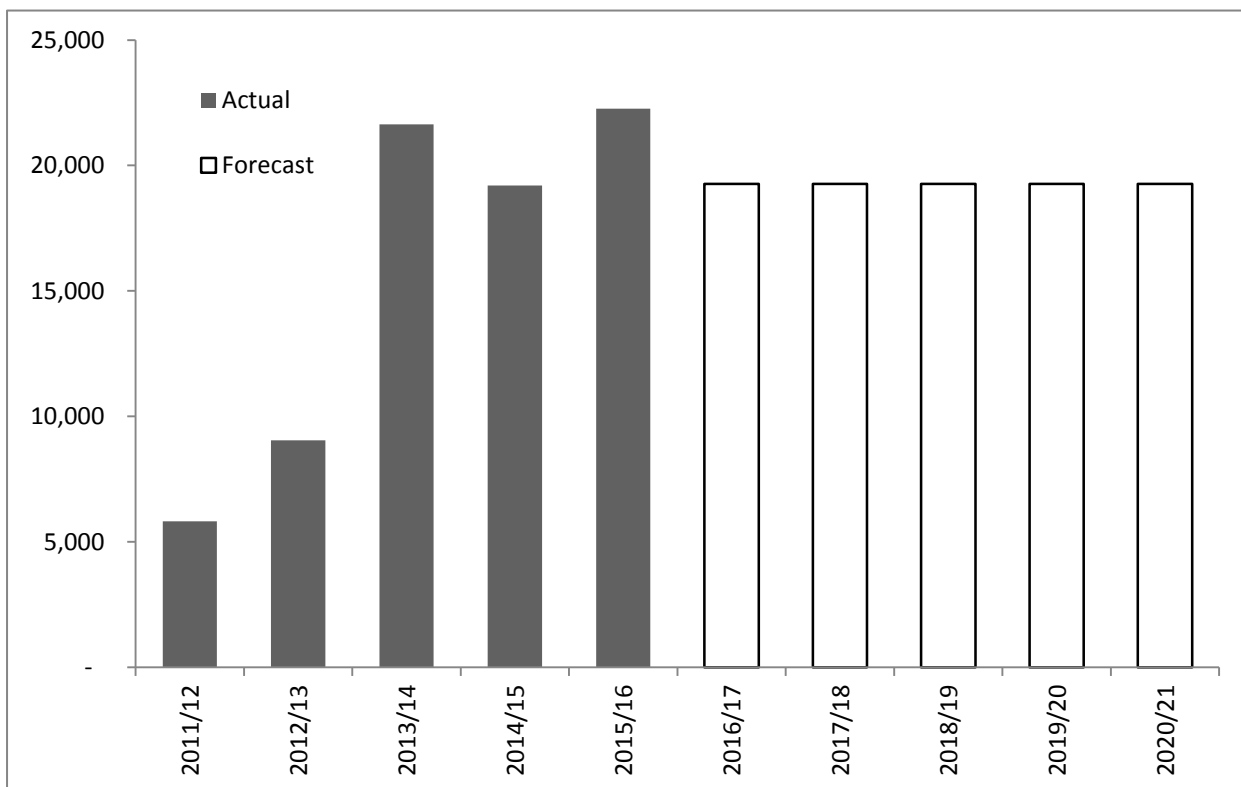
2015/16 levels (a decrease from \$130.7 million to \$127.8 million in 2016/17). These forecasts reinforce the reliance that the Cook Islands has on foreign goods in order to experience economic growth.

### 5.9.2 Goods Exports

Goods exports performed strongly in 2015/16, increasing by 15.9 per cent to \$22.3 million. This growth is largely attributed to growth of 18 per cent in the export value of fresh and chilled fish. Manufactured exports also increased by 4 per cent, albeit from a low base, to \$313,000 from \$301,000. These improvements were offset by slight decreases in exports of agriculture of 8.6 per cent, or \$40,000, largely due to a decrease in Noni exports from \$362,000 to \$139,000. It is expected that Noni exports will rebound in 2016/17, with a total of \$238,000 of Noni exports in quarters 1 and 2.

September quarter 2016 fish exports were significantly lower than previous quarters, resulting in a downward revision of fishing exports for 2016/17. The overall impact of this is a forecast of a decrease in exports of 13.5 per cent in 2016/17 to \$19.3 million.

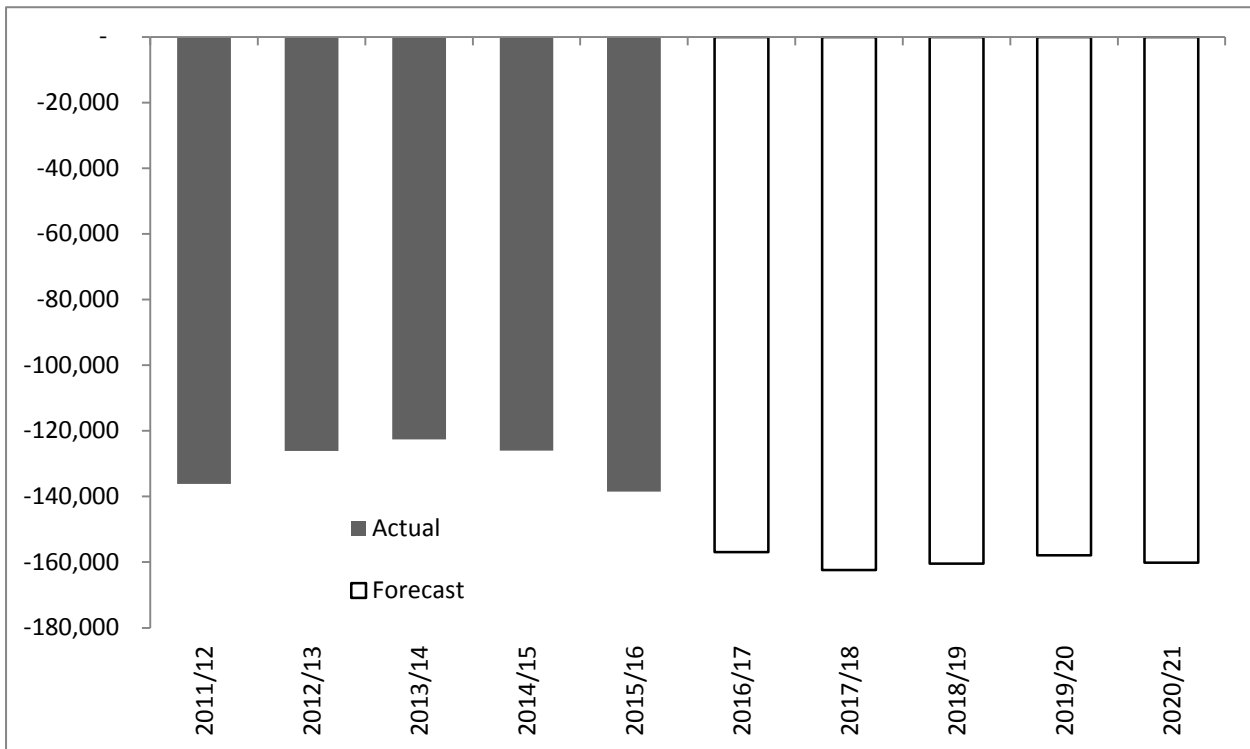
**Figure 5.16 Total exports 2011/12 to 2020/21, (\$'000)**



### 5.9.3 Merchandise Balance and Balance of Trade

Due to the strong growth in imports, a negative merchandise balance of \$157.9 million is forecast in 2016/17, an increase from \$138.5 million in 2015/16. The increase in imports in 2017/18 is expected to worsen the balance, before improving slightly over the forwards following a decrease in capital projects. Exports are expected to remain stable going forward.

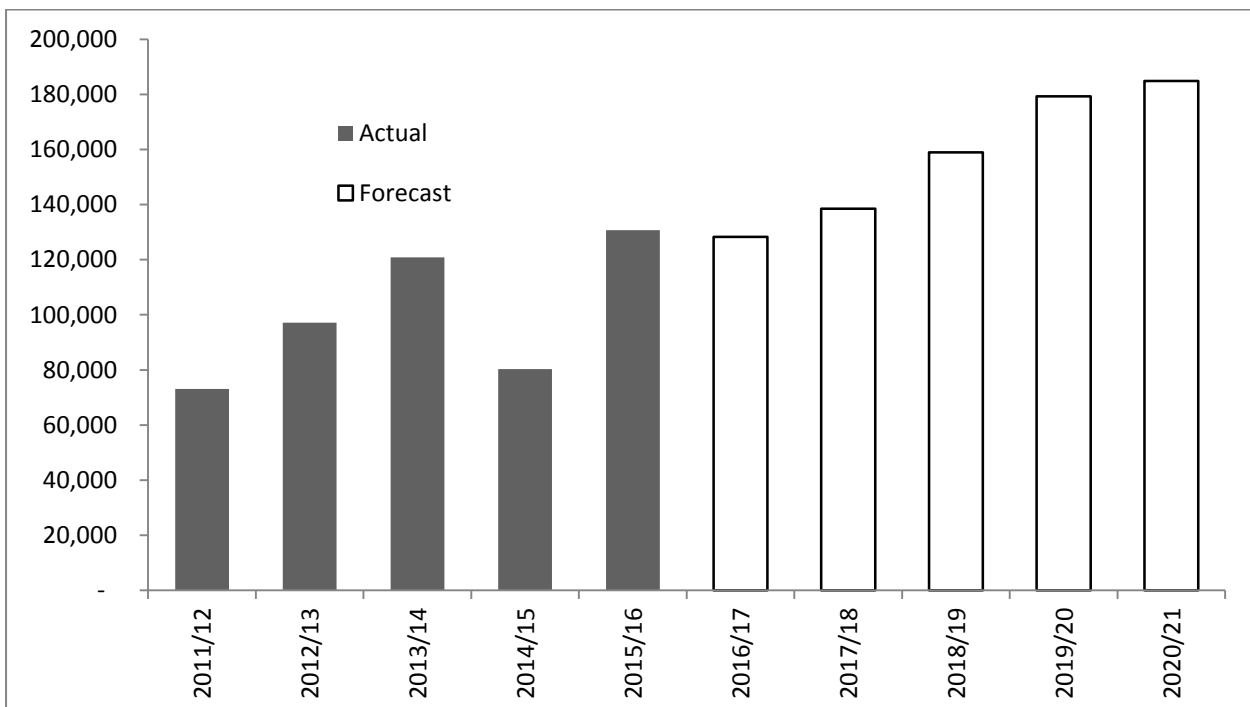
**Figure 5.17 Balance of Merchandise (goods) Trade 2011/12 to 2020/21, (\$'000)**



Despite the increasingly large deficit in the merchandise balance, the overall trade balance is highly positive due to strong exports in services that result from tourism. After falling slightly in 2016/17 to 127.8 million from \$130.7 million in 2015/16 as a result of high imports, the overall trade balance is expected to improve from 2017/18 to \$138 million.

The trade surplus is expected to grow over the forwards in line with growth in tourism spending.

**Figure 5.18 Overall Balance of Trade 2011/12 to 2020/21, (\$'000)**



## 5.10 Banking and Finance

The global financial market has improved somewhat over 2016-17, with expectations of stronger consumer prices and economic growth going forward than previously anticipated.

In the United States, the Federal Open Market Committee (Fed) increased the target federal funds rate by 25 basis points in March to 0.75-1 per cent. This was on the back of a strengthening labour market and inflation moving closer to the goal of 2 per cent. The Fed has signaled that further tightening is likely during 2017, contingent on the ruling administration's policy decisions.

The Reserve Bank of Australia has indicated that it is content with recent changes in the Australian and global economies. Notably that the transition after the mining boom is progressing and that growth is improving in those states affected. Mild improvements are expected in consumer prices in Australia, although slow wages growth is not expected to improve significantly. As a result, the RBA appears to be happy to leave the cash rate as it is, with no plan at this stage to decrease it. The one risk repeatedly noted by the RBA is the high exposure of commercial banks to the Australian and New Zealand housing markets. If decreases in either housing market occurred, the effect could be very unsettling for Australian Banks.

New Zealand are facing a similar story to Australia, although increases in inflation in the March quarter make an increase in the cash rate somewhat more likely in 2017. Like Australia, this could place significant pressure on the housing sector, with high properties prices in Auckland increasing vulnerabilities.

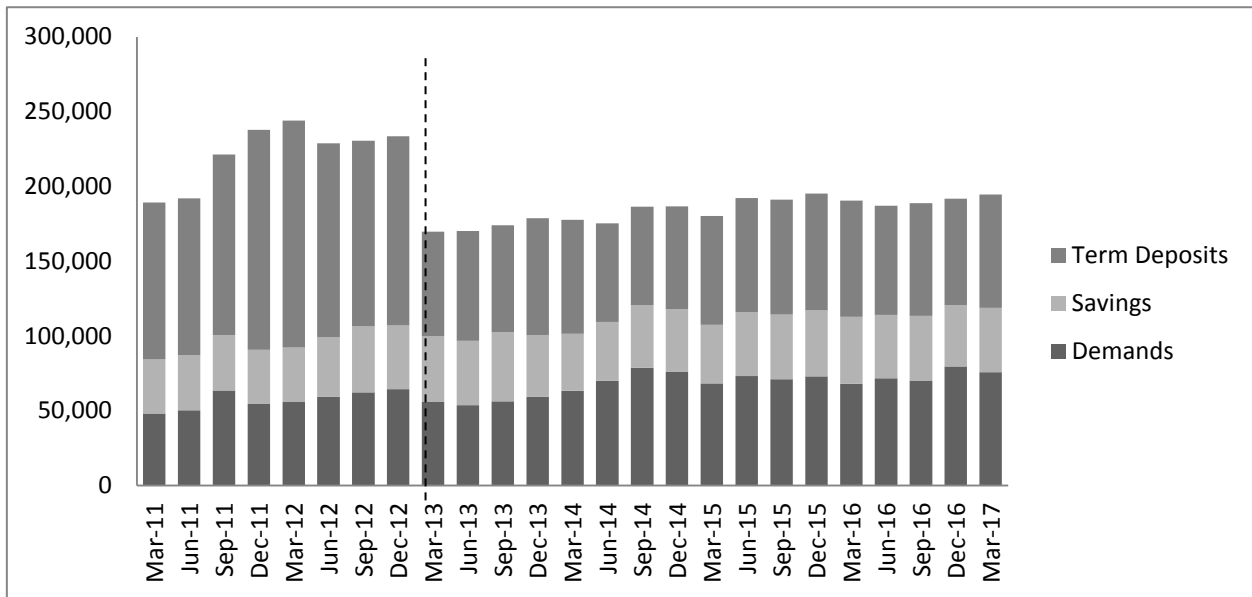
In Asia, Japan is expecting an improvement in its economy; however it is maintaining a very accommodative monetary policy based on global risks. China has seen increased market interest rates in 2017 and an increase of 20 basis points in a number of the People's Bank of China (PBC) lending facilities. This is part of the PBC's push to decrease leverage in China's financial market system.

In the Cook Islands, the proportion of non-performing loans (NPL) to total gross lending has increased through the year to March 2017 to 7.8 per cent, from 7.3 per cent in the same quarter of 2016. This is the highest level seen in recent years and is due to both an increase in the value of non-performing loans and a decrease in the value of gross loans. Further monitoring and analysis needs to be undertaken on this to assess the likely causes and implications.

### 5.10.1 Deposits

Deposits have remained relatively stable since September 2014 at between \$180 million and \$196 million. As of March 2017 total deposits were \$194.6 million, the highest level achieved since the December quarter 2015. Term deposits were fairly stable through the year to March, hovering around \$75 million, albeit at a slightly lower amount than seen in 2015, between \$76 and \$78 million. This can be seen to be the result of lower fixed term deposit interest rates in 2016 than 2015, averaging 2.45 per cent as compared with 2.8 per cent. This decreases the incentive to place money into a fixed interest account, particularly as some of the major banks, have reintroduced interest rates on personal savings accounts.

**Figure 5.19 Total Value of Deposits, March 2011 to March 2017 (\$000)**



### 5.10.2 Loans

After increasing significantly in the March quarter 2016 to \$311 million, the value of loans has decreased through to March quarter 2017 to \$292 million.

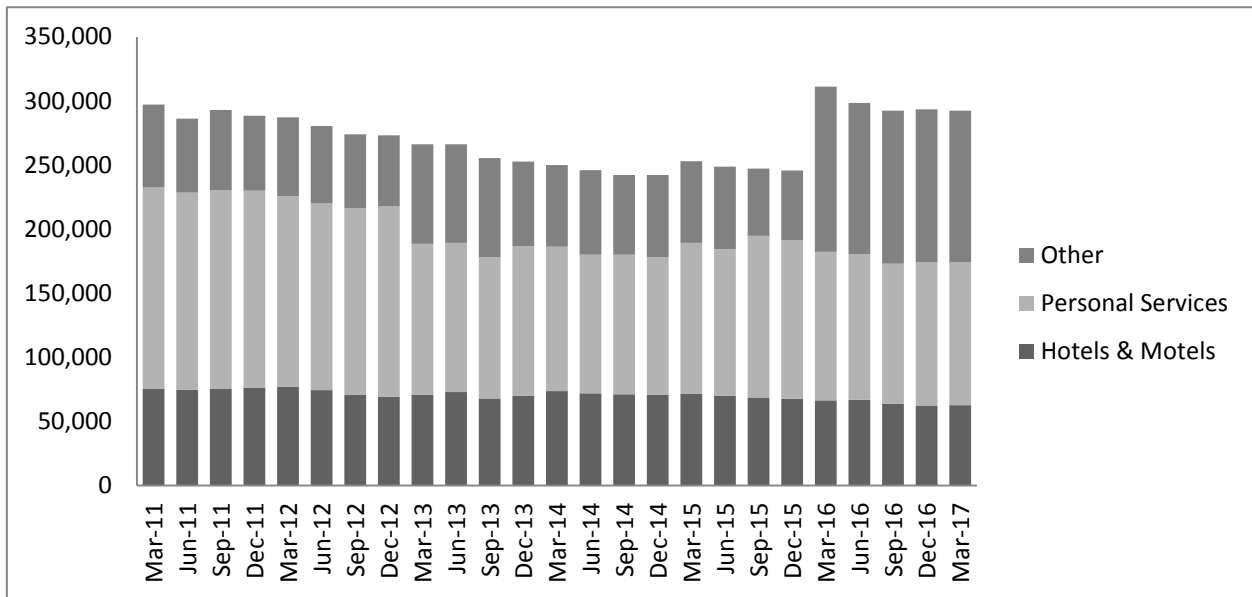
When comparing with March quarter 2016, lending to both hotels and motels and personal services have decreased, by per cent (to \$62.8 million) and 3.8 per cent respectively (\$111.5 million). Loans to hotels and motels are now around the lowest level since adjustments were made to classifications in 2013, which makes prior years incomparable.

Other loans have increased significantly after a new loan was entered into in March quarter in the finance and business sector. Loans in this sector increased from \$9.1 million in December quarter 2015 to \$73 million in March quarter 2016, an increase of 700 per cent. As a result, other loans increased from \$54 million to \$129 million over the same period. Since March 2016, the value of finance and business sector loans has decreased to \$61 million in March 2017.

Loans in the retail and trade sector also increased in the March quarter 2016, from \$7.2 million to \$12 million (an increase of 66 per cent). This has remained fairly stable through to March 2017, decreasing only slightly to \$11.8 million.

The loan data indicates that domestic firms are ramping up investment, most likely due to the country's recent economic growth. Conversely, the hotel and motel sector's decrease in total loans is interesting. Firms in the sector may be using the strong tourism growth as an opportunity to pay down loans, or may be accessing capital from private or international sources to fund recent construction. However, further information is required to undertake comprehensive analysis on the sector.

**Figure 5.20 Total Value of Loans, March 2011 to March 2017 (\$000)**

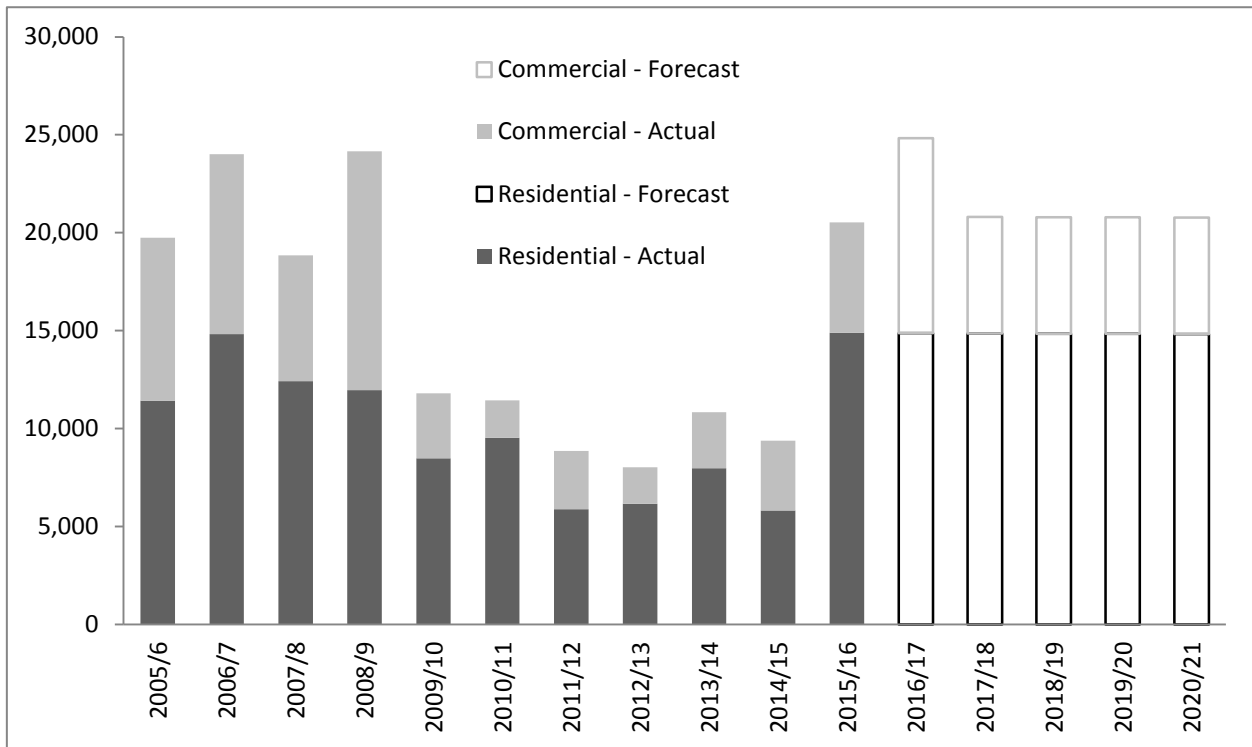


### 5.10.3 Housing and Construction

The value of building approvals has been much higher than trend in 2015/16 and 2016/17. In 2015/16 residential approvals increased by 155.6 per cent to \$14.9 million. Actuals to March quarter 2017 indicate that residential approvals are retaining their strength, with 2016/17 figures expected to come in just slightly lower than 2015/16. This lends support to the idea that greater investment is taking place in residential properties to increase the supply of holiday homes, allowing locals to capture excess tourist numbers.

Commercial building approvals are up significantly in 2016/17. These are due in part to approvals for Apii Nikao and Tereora College, with both undertaking major redevelopment in 2016/17 and 2017/18. Approvals have also been sought for a number of hotel expansions and new developments. These include the building of a new 24 room hotel in Titikaveka and applications for at least 5 other small complexes with 3 or more units. These developments indicate that the tourism sector is expanding to meet the increases in arrivals, however more will be required if capacity constraints are to be reduced. Going forward it is expected that commercial building approvals will return to the lower levels seen in 2015/16, of approximately \$5.9 million.

**Figure 5.21 Value of building approvals 2005/06 to 2020/21 (\$000)**



## 5.11 Financial Services Industry

The financial services industry is estimated to collect fees of a net value of \$1.5 million for services undertaken in 2017/18. The estimated value is affected by changes in USD exchange rates, as registration fees are generally denominated in USD.

There is a decline in trust registrations, which can be attributed in part to the closing of HSBC Trustee (Cook Islands) Limited (HSBC). However, it is projected that the number of trust registrations will increase with the establishment of new trustee companies in the Cook Islands, which increased after the closing of HSBC. Foundation registrations have increased but are still relatively small in number, and expected to continue growing. Captive Insurance is the newest service, with legislation passed in June 2013. The first Captive registration occurred in April 2015 and slow growth is anticipated given the nature of the global captive industry.

New products and services, as well as amended legislation for existing services, are part of the effort to grow and diversify client markets. The International Trusts Act is in the process of being reviewed and updated. Focus continues on promotion of the Cook Islands in Asia, particularly for trusts, foundations, and companies.

The industry continues to comply with international regulatory standards. At the end of 2013, numerous amendments to existing industry legislation were enacted to address areas of improvement highlighted in the country's 2012 OECD Global Forum Phase One Peer Review. The Phase Two Peer Review took place in May 2014 and a positive report was adopted at the Global Forum's session in early 2015. New legislation has also been passed to allow banks and trustee companies to comply with international tax information exchange agreements (namely FATCA out of the United States) and each financial institution has registered under FATCA. In October 2015 the Cook Islands announced its commitment towards implementing the automatic exchange of information (AEOI) for tax purposes by 2018 and legislation to this effect was passed in 2016.

The Cook Islands currently has 21 tax information exchange agreements in place. In 2017 and 2018 the financial services industry will engage with the Asia Pacific Group who will be conducting a lengthy and in-



depth review of the Cook Islands which will culminate in a new Mutual Evaluation Report (MER) on Anti-Money Laundering and Know Your Customer laws and practices. The last MER was conducted in 2009 and was very positive for the Cook Islands as we were rated in the top 20% of approximately 165 countries assessed on implementing international regulatory standards. In the 2009 review the Cook Islands ranked higher than countries such as New Zealand and Australia.

The financial services industry in the Cook Islands accounts for approximately 5% of total employment in the Cook Islands. The industry continues to improve in implementing international standards and was chosen by international bodies, such as the World Bank, as the jurisdiction of choice to establish the Pacific Catastrophe Risk Insurance Facility in 2016. The financial services industry continues to serve as an important contributor to the Cook Islands economy as an industry that has a low environmental-footprint, and encourages gainful employment of highly educated and qualified locals.

## 5.12 Sensitivity Analysis

There are several risks surrounding the forecasts presented. Modeling alternate scenarios assists officials in planning for possible contingencies should the outlook change and these risks are realized. Three scenarios which are viewed as most likely to affect the forecasts have been modeled and are summarized below:

**Scenario 1: Capital projects experience slippage** – Capital projects contribute a substantial amount to the local economy and missed deadlines delay the economic benefit from wages, contractor fees, and the benefit of the completed infrastructure. In scenario 1, we assume six month delays on major projects underway and private capital spending as the absorptive capacity of CIG and local contractors nears saturation point.

**Scenario 2: Continued tourism growth** – The visitor numbers from the end of 2015 year to mid-2017 have reached historic levels. In this scenario, we assume that strong growth in arrivals projected in 2017/18 will continue over 2018/19, and project the impact of this continued increase in tourist numbers on GDP and government revenue.

**Scenario 3: A decline in visitor arrivals** – Scenario 3 modeled the impact of a 1% decline in arrivals (based on similar drop that occurred in 2014/15) on the national economy. This scenario assumes an external shock, such as a tropical cyclone on Rarotonga or an economic recession in New Zealand, as the catalyst for reduced tourism numbers.

**Table 5.12 Sensitivity Analysis of economic forecasts**

Scenario	Impact on nominal GDP in 2017/18 (percentage contribution)	Impact on total revenue in...	
		2017/18 (\$000)	2018/19 (\$000)
Scenario 1: Capital slippage	-1.8%	-1,497	- 2,126
Scenario 2: Continued tourism growth	0.8%	873	5,353
Scenario 3: Decline in visitor arrivals	-3.4%	-4,262	-2,944

## 6 Revenue

### 6.1 Total Revenue

Total Crown revenue (including ODA) is estimated to reach \$223.9 million in 2017/18, representing an increase of \$8.3 million on the \$214.9 million estimated to be received in 2016/17.

This revenue is comprised of:

- Taxation Revenue: \$118.4 million
- Domestically sourced Cook Islands Government (CIG) non-tax revenue: \$27.7 million. In the table below, revenue from fishing and motor vehicle dealers is captured under non-tax revenue (despite being described as indirect taxation later on in this chapter).
- Core Sector Support from New Zealand: \$7.8 million (plus a \$604,000 incentive payment, conditional on milestones being achieved).
- Official Development Assistance (ODA): \$69.4 million

Table 6.1 provides total revenue amounts (including ODA) as classified by the IMF Government Financial Statistics Manual 2001.

**Table 6.1 Total GFS Revenue 2016/17 to 2020/21 (\$000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Taxes	119,869	118,409	121,847	125,128	127,688
Core Sector Support	8,577	7,766	-	-	-
ODA Grants <sup>8</sup>	15,993	69,996 <sup>9</sup>	31,996	15,263	422
Other Revenue <sup>10</sup>	30,187	27,755	28,153	28,132	28,012
<b>Total Crown Revenue</b>	<b>174,626</b>	<b>223,926</b>	<b>181,996</b>	<b>168,523</b>	<b>156,122</b>

As illustrated in Figure 6.1, total Crown revenue in 2017/18 and the outer years consists mainly of general taxation, with a significant, but declining contribution from Official Development Assistance grants. One of the primary reasons for this is that most development partners do not commit to development assistance budgets more than two years into the future – we make no forecasts to account for continuing development assistance in the estimates presented above. The uncertainty around the future of the Cook Island’s eligibility for ODA also reduces the ability to forecast for this revenue.

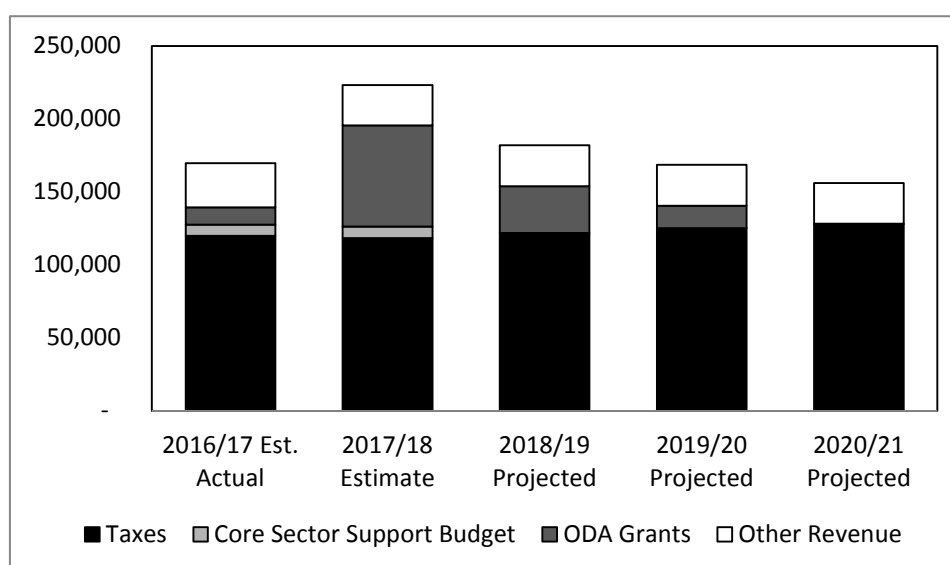
The remaining revenue is from sources such as the sales of goods and services, dividends from SOE’s, fines and interest on deposits held by Government.

<sup>8</sup> Excludes the Core Sector Support

<sup>9</sup> Includes Core Sector Support – Bonus Payment

<sup>10</sup> Includes Social contributions for employee liability

**Figure 6.1 Total Crown Revenue 2016/17 – 2020/21 ('000)**



For a more detailed breakdown of the non-tax revenue, see Schedule 7.

## 6.2 Revenue Initiatives from 2016/17

Changes in the estimates of underlying revenue are made up of two types, parameter adjustments and policy decisions. Parameter adjustments result from factors outside of the immediate control of the Government, whereas policy decisions reflect the direct impact of the Government's decisions. The Government has made the following policy decisions.

### Approval of the Tax Amnesty/ Tax Debt Forgiveness Package

The Government will grant a Tax Amnesty period from 1 August 2017 to the 31 December 2017 to address the large amount of tax debt owed by taxpayers. As of 30 June 2017, it is expected that collectible tax debts will total to \$22 million. This will decrease going forward with the introduction of the Tax Amnesty which will remove additional tax penalties.

The Tax Amnesty package is being proposed as a limited-time opportunity for taxpayers with outstanding debt. These taxpayers will have their additional taxes remitted provided that they contact the Revenue Management Division and make arrangements to clear their core tax within the amnesty period, or enter into an arrangement to pay their taxes to prevent incurring further additional taxes after the amnesty period has ended.

This will have an estimated decrease in revenue to be received for 2017/18 and 2018/19 as per the table below.

**Table 6.2 Tax Amnesty Package**

	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Tax Amnesty Package	-2,000,000	-1,000,000	-	-
<b>Total Revenue</b>	<b>-2,000,000</b>	<b>-1,000,000</b>	-	-

## Sale of Circulating Currency Cook Islands Coins

**Table 6.3 Total Revenue from Coins**

	2016/17	2017/18	2018/19	2019/20	2020/21
Previous Revenue Baselines	Est. Actual	Budget	Estimate	Projection	Projection
Numismatics	350	350	400	400	400
Circulating Currency – Coins	100	100	100	100	100
Sale of Circulating Currency Cook Islands Coins	809	762	762	762	762
<b>Total Revenue</b>	<b>1,259</b>	<b>1,212</b>	<b>1,262</b>	<b>1,262</b>	<b>1,262</b>
New Revenue Baselines					
Numismatics	-	350	400	400	400
Circulating Currency – Coins	-	862	862	862	862
<b>Total Revenue</b>	<b>-</b>	<b>1,212</b>	<b>1,262</b>	<b>1,262</b>	<b>1,262</b>

With the removal of the old Cook Islands coins from circulation to the public, MFEM will now only manage the process of distributing the new Cook Islands coins going forward. The table above illustrates the merging of the **Sale of Circulating Currency Cook Islands Coins** with the **Circulating Currency Coins** to form the new revenue baselines for 2017/18 and the outer years<sup>11</sup>.

## Fisheries catch

**Table 6.4 Fisheries Revenue**

	2016/17	2017/18	2018/19	2019/20	2020/21
	Est. Actual	Budget	Estimate	Projection	Projection
Fishing Licenses	13,489	11,505	11,505	11,505	11,505
US Fisheries Treaty	1,200	1,200	1,200	1,200	1,200
Fishing Fines	200	-	-	-	-
<b>Total Revenue</b>	<b>14,889</b>	<b>12,705</b>	<b>12,705</b>	<b>12,705</b>	<b>12,705</b>

Fishing revenue is estimated to be \$12.7 million for the 2017/18 financial year, representing an increase of \$2.5 million on the \$10.2 million previously expected in 2017/18, largely due to an increase in purse seining.

A part of this is due to an increase in fishing days associated with the US Treaty Bilateral which is expected to increase fishing licenses by \$1.8 million in the 2017/18 financial year. In addition, long-line fishing revenue is expected to total up to \$4.0 million, representing an increase of \$1.6 million from the \$2.4 million normally collected.

For the 2016/17 financial, actuals to May are \$14.9 million representing a large increase from the \$8.7 million estimated during the 2016/17 Half Year Economic and Fiscal Update

### 6.2.1 Previous revenue decisions

A number of other changes in the revenue estimates are due to decisions taken previously. These changes are included in the parameter adjustments for this Budget as outlined below:

<sup>11</sup> Note that the estimates provided in Table 6.3 do not include the initial increase to revenue estimates of \$0.014 million for Circulating currency coins.

## Five per cent indexation of the levies on tobacco, alcohol, and sweetened drinks

**Table 6.5 Indexation of Tobacco, Alcohol and Sweetened Drink Levies**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Indexation of Tobacco, Alcohol and Sweetened drink levies	386	595	595	814	814
<b>Total Revenue</b>	<b>386</b>	<b>595</b>	<b>595</b>	<b>814</b>	<b>814</b>

As announced at the time of the 2013 Tax Review, the annual indexation of all tobacco, alcohol and sweetened drinks will increase at a rate of five per cent a year to reduce the affordability of these products overtime. The rate of five per cent was selected so that the excise on these products would grow at a rate higher than annual average inflation (which is around two to three per cent).

The five per cent indexation was applied on all tobacco, alcohol and sweetened drink products during the second half of 2016. Another review to factor in the expected increase to the indexation on these products is currently taking place and is expected to be finalized prior to the end of the 2016/17 financial year in time to be implemented by 1 July 2017

## Personal Income tax cuts from 1 January 2018

**Table 6.6 Personal Income Tax**

	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Personal income tax cut	-300	-600	-600	-600
<b>Total change in revenue</b>	<b>-300</b>	<b>-600</b>	<b>-600</b>	<b>-600</b>

As part of the 2013 Tax Review, personal income tax rates were significantly reduced. Despite delays in implementing these changes, the Government will decrease the low income tax bracket rate from 17.5 per cent to 17.0 per cent and decrease the upper income bracket from 27.5 to 27.0 per cent commencing 1 January 2018. Originally approved to take effect from 1 January 2017, the Government will reaffirm its commitment to a one per cent tax rate cut to personal income tax rates as part of the Tax Amnesty package.

Each half-percentage point reduction in income tax amounts to around \$0.3 million in reduced revenue in the 2017/18 financial year and a further \$0.6 million in the outer years. These estimates are already contained in the income tax forecasts.

**Table 6.7 Changes to Revenue Estimates from 2016/17 Budget (\$'000)**

Reconciliation of Operating Revenue	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Tax parameter adjustments</b>	<b>2,367</b>	<b>-927</b>	<b>484</b>	<b>2,164</b>	<b>4,723</b>
VAT	738	-126	591	1,254	2,737
Income tax	615	-27	178	473	973
Company tax	842	-682	-545	-281	-35
Import levies	-778	-455	-258	143	161
Withholding tax	1,063	-	-	-	-
Departure tax	-113	363	518	575	887
<b>ROBOC adjustments</b>	<b>6,243</b>	<b>2,095</b>	<b>2,237</b>	<b>2,216</b>	<b>2,216</b>
Financial Services Levy	-41	-31	-31	-31	-31
FSC Return of Excess	-	-160	-160	-160	-160
Immigration fees	133	-	-	-	-
Fishing Licenses	6,151	2,505	2,505	2,505	2,505
Research Fees	-	2	2	2	2
BCI Dividends	-	-160	-	-	-
Drivers Licenses	-	-10	-10	-10	-10
Interest on balances	-	-145	-145	-145	-145
Interest on loans and subsidiaries	-	57	39	18	18
International Shipping Licenses	-	-5	-5	-5	-5
Liquor Licensing	-	30	30	30	30
Circulating Currency – Coins	-	776	776	776	776
Sales of Circulating Currency coins	-	-762	-762	-762	-762
<b>Trading Revenue Adjustments</b>	<b>-</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
Audit Office	-	-52	-52	-52	-52
MFAI	-	8	8	8	8
MFEM	-	100	100	100	100
MMR	-	10	10	10	10
Police	-	16	16	16	16
Culture	-	-65	-65	-65	-65
Manihiki Island	-	3	3	3	3
<b>Total Revenue Changes</b>	<b>8,610</b>	<b>1,188</b>	<b>2,741</b>	<b>4,400</b>	<b>6,959</b>

## 6.3 Taxes

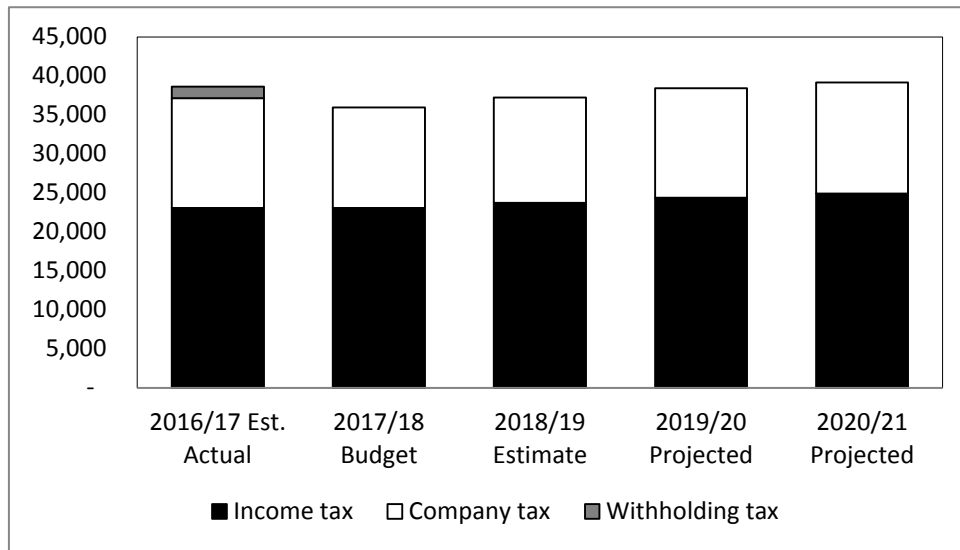
Taxes are classified either as direct or indirect taxation. Direct taxation reflects taxes which are imposed directly on the individual, household, property or business, for example, income taxation. Indirect taxes are normally imposed through an indirect method, usually through a transaction, for example, the value added tax (VAT).

### 6.3.1 Direct Taxation

**Table 6.8 Total Direct Taxation 2016/17 to 2020/21 (\$'000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Income tax	23,064	23,057	23,714	24,393	24,893
Company tax	14,058	12,900	13,528	14,002	14,248
Withholding tax	1,515	-	-	-	-
<b>Total Direct Taxation</b>	<b>38,637</b>	<b>35,957</b>	<b>37,242</b>	<b>38,395</b>	<b>39,141</b>

**Figure 6.1 Total Direct Taxation 2017/18 Budget**



Direct taxation, which includes company tax, income tax and withholding tax, is expected to have grown by 6.5 per cent in 2016/17 compared to estimates provided in the HYEPU for 2016/17. Growth in company tax was mainly due to higher activity in the economy, particularly around the large increase in visitor arrivals in 2016/17.

Going forward, direct taxation is expected to decrease by 6.9 per cent in 2017/18. The main driver of the decline in direct taxation from 2016/17 is withholding tax, which was stronger than expected in 2016/17 but is not estimated in the outer years due to the high volatility. Despite this, it is expected that some amount will be collected and as a consequence, presents a potential increase in direct tax revenue. Company tax is also expected to decline due to the tax amnesty.

It is expected that the Automated Exchange of Tax Information will increase the efficiency of tax collection going forward. This has not been incorporated into the forecasts.

Income tax is expected to total \$23.1 million in 2017/18 representing a slight decrease of \$8,000 from 2016/17 but is expected to recover in 2018/19 by \$600,000. Income tax is not expected to increase in line with growth in the economy due to the tax amnesty and income tax changes which are expected to detract a total of \$1.05 million in 2017/18 and \$1.0 million in 2018/19 from income tax revenue. From 2018/19, growth in income tax is expected to be relatively moderate as it closely mirrors the projected activity in the real economy taking into effect planned income tax cuts and public sector salary increases.

Company tax is expected to total \$12.9 million in 2017/18 representing a slight decrease of \$1.2 million from the \$14.1 million provisioned for the 2016/17 financial year. With the approval of the Tax Amnesty, company tax has been adjusted downwards by \$500,000 in 2017/18 and a further \$200,000 in 2018/19.

## 6.3.2 Indirect taxation

**Table 6.9 Total Indirect Taxation 2016/17 to 2020/21 (\$'000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
VAT	58,179	58,745	60,402	62,090	63,573
Departure tax	9,561	10,159	10,624	11,041	11,353
Import levies	13,492	13,548	13,579	13,602	13,620
Motor Vehicle Registration	542	875	875	875	875
Motor Vehicle Dealers <sup>12</sup>	2	5	5	5	5
<b>Fisheries Revenue</b>	<b>14,889</b>	<b>12,705</b>	<b>12,705</b>	<b>12,705</b>	<b>12,705</b>
Fisheries - US Treaties	1,200	1,200	1,200	1,200	1,200
Fisheries - Catch Revenue	-	-	-	-	-
Fishing Licenses	13,489	11,505	11,505	11,505	11,505
Fishing Fines	200	-	-	-	-
<b>Total Indirect Taxation</b>	<b>96,665</b>	<b>96,037</b>	<b>98,191</b>	<b>100,318</b>	<b>102,132</b>

Indirect taxation (which includes VAT, departure tax, import levies, motor vehicle registration, and motor vehicle dealers and fisheries revenue) is expected to increase by 2.9 per cent in 2017/18.

Despite the downward adjustment for the Tax Amnesty that is factored into the estimates for 2017/18, VAT is expected to reach \$58.7 million in 2017/18, a \$600,000 increase on the \$58.1 million estimated outcome for 2016/17.

Departure Tax is estimated to be \$10.2 million in 2017/18, representing an increase of \$600,000 on the estimated \$9.7 million collection for 2016/17 due to higher estimated visitor arrivals and the annual increase in departure taxes of 2 per cent.

Import and excise-equivalent duties are estimated to increase in 2017/18 by \$600,000 on the \$13.5 million estimated outcome for 2016/17.

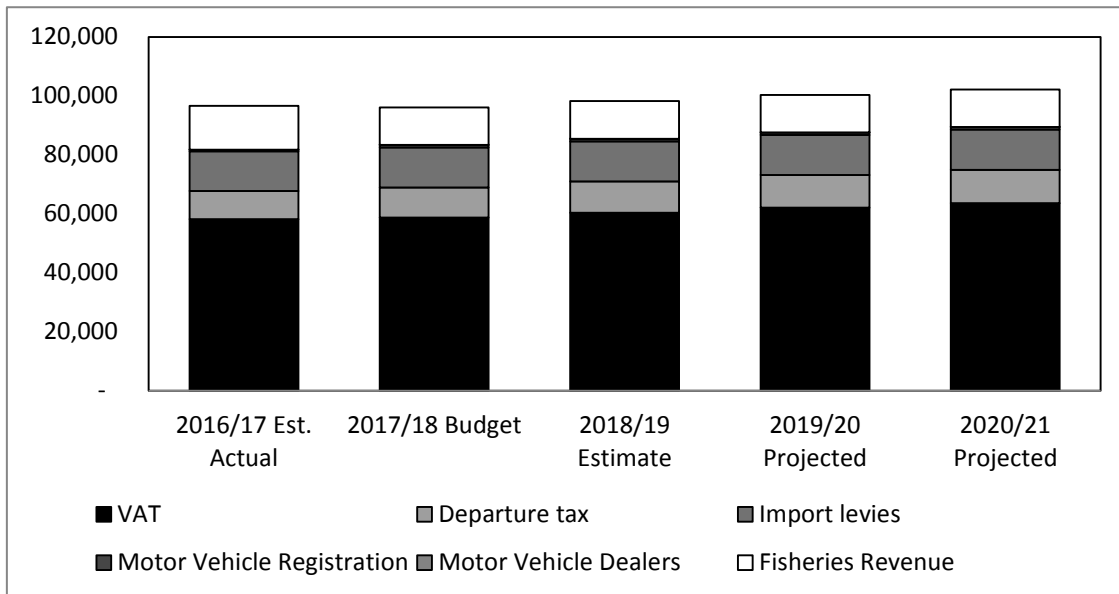
Motor Vehicle Registration is estimated at a conservative \$900,000 million in 2017/18 representing no change on the estimated outcome for 2016/17. The revenue from Motor Vehicle Dealers is estimated to remain constant over the years representing no change from the amount estimated for 2016/17.

Fisheries Revenue is estimated to total \$14.9 million in 2016/17, representing an initial increase of \$6.2 million from the \$8.7 million provisional actuals for 2016/17. Fisheries revenue is composed of the Fisheries US Treaties, Fishing Licenses, Fishing Fines, and Catch Revenue, all of which are estimated to be constant after 2017/18 due to the difficulty in forecasting fishing revenue in the outer years.

<sup>12</sup> These amounts, while listed here as indirect taxes, are not included in the 'Taxation' amount in the GFS Statement, nor in the front of this chapter, as those amounts only represent 'core' taxes.



**Figure 6.2 Total Indirect Taxation 2016/17 to 2020/21**



### 6.3.3 Social Contributions

**Table 6.10 Social Contributions 2016/17 to 2020/21 (\$'000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Employer Liabilities	-	75	75	75	75
<b>Total Revenue</b>	-	<b>75</b>	<b>75</b>	<b>75</b>	<b>75</b>

Social contributions are receipts from either employers (on behalf of their employees) or from employees (directly) that secures entitlement to social benefits for the contributors, their dependents, or their survivors, in the case of workplace liability. The contributions may be compulsory or voluntary. The revenue classified under this category is the Employers Liability Insurance.

Employer liability is estimated to be \$80,000 million in 2017/18, being almost unchanged from provisional actuals for 2016/17.

### 6.3.4 Grants

**Table 6.11 Grants 2016/17 to 2020/21 (\$'000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Current grants from foreign governments	8,334 <sup>13</sup>	36,424 <sup>14</sup>	15,148	14,872	111
Capital grants from foreign governments	7,659	41,338	16,847	391	311
<b>Total</b>	<b>15,993</b>	<b>77,763</b>	<b>31,995</b>	<b>15,263</b>	<b>422</b>

Grants are transfers received by other governments or international organisations, otherwise known as Official Development Assistance (ODA). Full details on ODA are contained in the Official Development Assistance chapter of this Budget Book.

<sup>13</sup> 2016/17 excludes the total spend of core sector support

<sup>14</sup> Includes the core sector support

### 6.3.5 Interest

**Table 6.32 Total Interest 2016/17 to 2020/21 (\$'000)**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Est. Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Projection</b>	<b>Projection</b>
Interest on Government Deposits	1,885	1,740	1,740	1,740	1,740
Interest on loans to subsidiaries	702	733	715	694	694
<b>Total Revenue</b>	<b>2,587</b>	<b>2,473</b>	<b>2,455</b>	<b>2,434</b>	<b>2,434</b>

Total interest revenue is estimated to reach \$2.5 million in 2017/18, representing a slight decrease of \$100,000 on the \$2.6 million provisional actual for 2016/17.

### 6.3.6 Dividends

**Table 6.43 Total Dividends 2016/17 to 2020/21 (\$'000)**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Est. Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Projection</b>	<b>Projection</b>
Bluesky	1,150	1,150	1,150	1,150	1,150
Banana Court	10	10	10	10	10
Bank of the Cook Islands	418	248	614	614	614
Te Aponga Uira	319	319	319	319	319
SOE Extraordinary Dividend	60	60	60	60	60
<b>Total</b>	<b>1,957</b>	<b>1,787</b>	<b>2,153</b>	<b>2,153</b>	<b>2,153</b>

Total dividends to the Crown are estimated to reach \$1.8 million in 2017/18. This represents a decline on the estimated 2016/17 actuals, mainly due to a reduction in the dividends from the Bank of the Cook Islands.

The Ports Authority has indicated that it will not be able to provide the Crown with a dividend in the medium term due to earnings being dedicated towards repayment of the ADB loan which funded the upgrade of the Avatiu International Harbour.

The Airport Authority has also indicated that there are no dividends anticipated due to loan commitments and other expenses.

The Bank of the Cook Islands (BCI) Dividend is estimated to decline in the immediate term due to temporary factors, from \$418,000 in 2016/17 to \$248,000 in 2017/18. Thereafter, it is expected to move back toward a level of \$614,000 in 2018/19.

The government's shareholding in Bluesky's Cook Islands operations (representing 40 per cent ownership) is expected to provide a consistent dividend of \$1.2 million over the outer years

### 6.3.7 Administrative Fees

**Table 6.54 Administrative Fees 2016/17 to 2020/21 (\$'000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Financial Services Levy	253	262	262	262	262
FSC Return of Excess	-	-	-	-	-
FSC Vested Assets	-	-	-	-	-
Immigration Fees	720	587	587	587	587
IMO Subscriptions – Maritime Cook Islands	66	66	66	66	66
Border Management System	120	120	120	120	-
Drivers Licenses	80	70	70	70	70
Permits	24	24	24	24	24
Tattslotto Grants	120	120	120	120	120
Censorship Fees	10	10	10	10	10
Research Fees	1	1	1	1	1
Shipping Registration	268	268	268	268	268
International Shipping Licenses	15	10	10	10	10
Liquor Licenses	30	60	60	60	60
Upper Airspace Management	746	746	746	746	746
Total Trading Revenue	6,161	6,174	6,174	6,174	6,174
<b>Total</b>	<b>8,614</b>	<b>8,518</b>	<b>8,518</b>	<b>8,518</b>	<b>8,398</b>

A number of administrative fees are collected by agencies of government. These include regulatory charges which are returned to the crown and trading revenue which is retained by agencies. Total administrative fees are estimated to be \$8.5 million in 2017/18 and are made up of:

- Financial Services Levy Fees - \$260,000 in revenue is estimated to be received in 2017/18 representing a decrease of \$30,000 on the \$290,000 provisional actual for 2016/17.
- The FSC return of excess estimate has been revised down to zero for 2017/18 and the outer years.
- Immigration fees - \$590,000 in revenue is estimated to be received in 2017/18, being almost unchanged from HYEPU estimates for 2016/17. For the 2016/17 financial year, actuals collected to date for Immigration fees total up to \$720,000 representing a \$130,000 increase due to the efforts of strengthening current immigration systems which resulted in an increase in the collection of outstanding fees. This is considered a one-off increase in the collection of immigration fees.
- Border Management System - \$120,000 in revenue is estimated to be received in 2017/18. There are no changes in the assumptions to current revenue estimates as provided in the 2016/17 financial year.
- Driver's License - \$70,000 in revenue is estimated to be received in 2017/18 representing a slight decrease of \$10,000 on the \$80,000 provisional actual for 2016/17. With the new requirements to obtain a motorcycle license, this has had a negative impact on tourists obtaining motorcycle licenses. Overseas visitors are expected to pay \$90 to obtain a motorcycle license valid for a period of 1 month.
- Permits - \$20,000 in revenue is estimated to be received in 2017/18 representing no change to the 2016/17 estimates. Although revenue is expected to remain constant over the outer years, the importation of ammunition and firearms has decreased due to policies implemented in 2014 for all firearm users to go through a licensing course. Dog permits have also decreased, resulting from non-registration.
- Tattslotto Grants - \$120,000 million in revenue is estimated to be received in 2017/18 representing no change to the 2016/17 estimates.

- Censorship Fees - \$10,000 in revenue is estimated to be received in 2017/18. Total fees are anticipated to remain unchanged in the outer years. However of the \$10,000 estimated for the 2016/17 budget year, only \$2,000 in actuals was collected through the year to April.
- Research fees are estimated to increase by one additional permit. This was due to the slight increase in stakeholder interest in conducting official research over the first half of the 2016/17 financial year. Research fees are issued by the Office of the Prime Minister to individuals who wish to conduct any official research on the Cook Islands.
- Shipping Registration - \$270,000 in revenue is estimated to be received in 2017/18. However, of the \$270,000 estimated budget for 2016/17 year, only \$50,000 in actuals for 2016/17 have been collected as at April 2017.
- International Shipping License - \$10,000 is estimated to be received in 2017/18 representing a slight decrease in revenue estimates compared to the 2016/17 budget year. This is due to the removal of the MV Tiare Moana from service. The Ministry of Transport now only provides International Shipping Licenses to 2 ships servicing the Cook Islands.
- Liquor License - \$60,000 million in revenue is estimated to be received in 2017/18 representing an increase on the 2016/17 estimated actuals. For the 2017/18 financial year, the Ministry of Transport expects to charge and collect fees associated with certificates; including renewal of these certificates obtained by General Managers.
- Upper Air Space Management - \$750,000 in revenue is estimated to be received in 2017/18 representing no change to the 2016/17 estimates.
- Ministry Trading Revenue - \$6.17 million in revenue is estimated to be received in 2017/18 representing an increase by \$10,000 on the \$6.16 million provisional actuals for 2016/17. Trading Revenue provides a means of recovery for operational costs incurred in delivering services. The changes in Trading Revenue estimates are as follows:
  - Audit – Decreased trading revenue by \$50,000 due to the outsourcing of services previously provided to Te Aponga Uira and the Airport Authority, therefore, Audit will no longer collect fees from these entities.
  - MFAI – Increased trading revenue by \$8,000 to coincide with the increase in apostille fees from \$25 to \$35.
  - MFEM – Increased trading revenue by \$100,000 due to an increase in flights, which increases revenue generated by Cook Islands Customs and is offset by increased personnel costs of border staff. The increase also coincides with changes to the Border Protection Regulations Act.
  - Marine Resources – Increased trading revenue by \$10,000 due to an increase in sales of ice sold to local fishermen. The increase in sales is offset by charges associated with electricity fees.
  - Police – Increased trading revenue by a total of \$16,000 due to an increase in various fees:
    - Fees charged to customers undergoing practical and theory tests when applying for a first time driver’s license,
    - Fees for acquiring police reports,
    - Increase in fees for firearms licenses,
    - Fees for the Te Kukupa boat fare and penalty fees; such as fines associated with the helmet law.
  - Culture – Decreased trading revenue by \$70,000 due to a decrease in sales of DVD’s of cultural performances held.

- Manihiki Island – Increased trading revenue by \$3,000 due to an increase in fees associated with a rise in petrol and fuel prices of \$4,000 and an initial decrease of \$1,000 due to a drop in vegetable sales.

### 6.3.8 Incidental Sales by Nonmarket Establishments

**Table 6.65 Incidental Sales by Nonmarket Establishments 2016/17 to 2020/21 (\$'000)**

New Revenue Baselines	2016/17	2017/18	2018/19	2019/20	2020/21
	Est. Actual	Budget	Estimate	Projection	Projection
Numismatics	350	350	400	400	400
Circulating Currency – Coins	862	862	862	861	861
Increase in sales of Circulating Currency – Coins	-	14	14	14	14
<b>Total Revenue</b>	<b>1,212</b>	<b>1,226</b>	<b>1,276</b>	<b>1,276</b>	<b>1,276</b>

In order to maintain the level of Cook Islands coins in circulation, higher amounts need to be produced each year and distributed. As the face value of the coins is greater than the cost to produce, there is some revenue to the Crown. This is augmented by the sale of commemorative coins. The total amount of coin-related revenue is shown in the table above with increases to revenue estimates from 2017/18 to 2020/21 due to expected increase in sales of the new Cook Islands currency coins by \$14,000.

### 6.3.9 Fines, Penalties and Forfeits

**Table 6.76 Fines, Penalties and forfeits 2016/17 to 2020/21 (\$'000)**

	2016/17	2017/18	2018/19	2019/20	2020/21
	Est. Actual	Budget	Estimate	Projection	Projection
Court Services	50	50	50	50	50
Instant Fines	20	20	20	20	20
Fishing Fines	200	-	-	-	-
<b>Total</b>	<b>270</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>70</b>

Court services fines and instant fines are not expected to change for 2017/18 and the outer years, at \$50,000 and \$20,000 respectively.

For the 2016/17 financial, actuals to May for fishing fines total \$200,000 due to two foreign fishing vessels breaching the Cook Islands fishing guidelines and procedures; resulting in both vessels paying fines of up to \$100,000 each. Going forward fishing fines are estimated to be zero due to expected compliance to these fishing guidelines and procedures.

### 6.3.10 Miscellaneous and Unidentified Revenue

**Table 6.87 Miscellaneous and Unidentified Revenue 2016/17 to 2020/21 (\$'000)**

	2016/17	2017/18	2018/19	2019/20	2020/21
	Est. Actual	Budget	Estimate	Projection	Projection
Foreign Investment – BTIB	26	26	26	26	26
<b>Total Revenue</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>26</b>

Foreign Investment Fees are not expected to change for 2017/18 and the outer years, at a total of \$26,000 respectively.

## 7 Expenditure

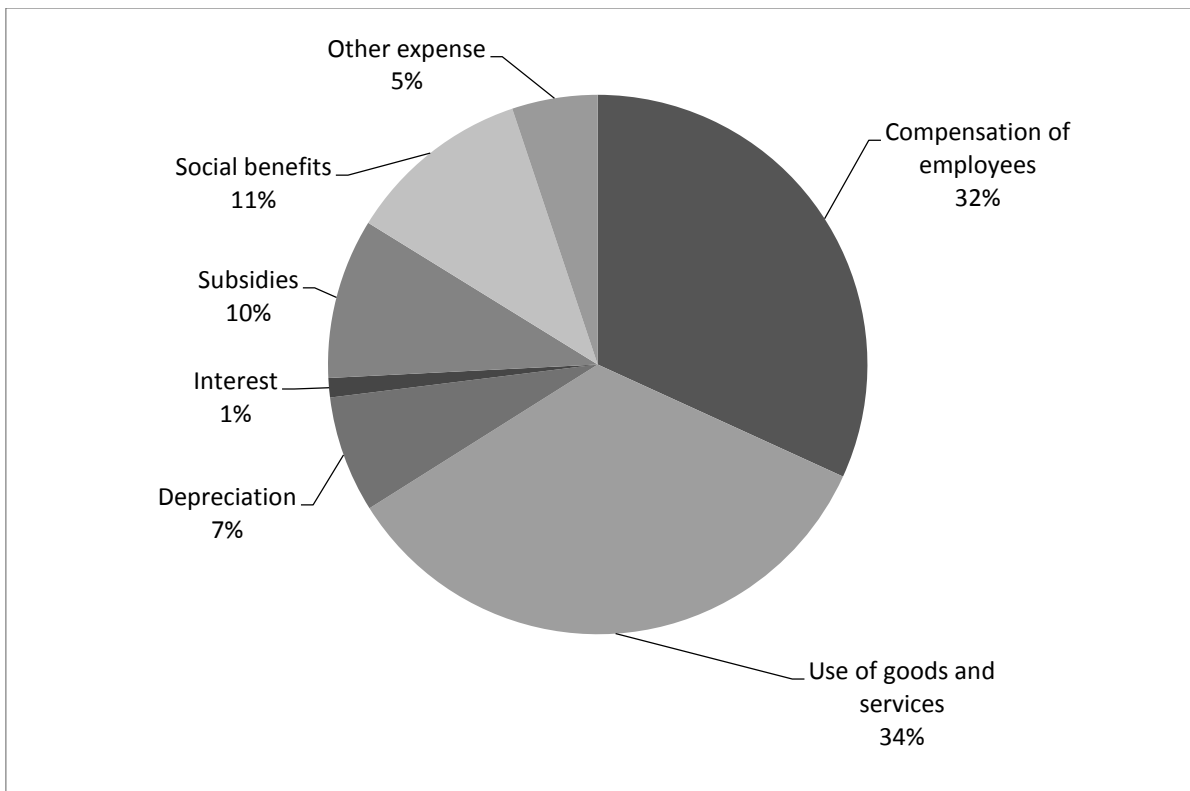
### 7.1 Total Expenditure

Total operating expenditure is estimated to come in at \$177.8 million for 2017/18. After excluding the expenditure of ODA funds of \$28.1 million, Crown operating expenditure is anticipated to be \$149.7 million in 2017/18, an increase of \$14.4 million. Expenditure beyond 2017/18 is expected to stabilize.

**Table 7.1 Total GFS Expenditure 2016/17 to 2020/21 (\$000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Compensation of employees	52,384	56,571	55,285	55,501	55,501
Use of goods and services	37,966	60,871	42,380	41,968	25,706
Depreciation	9,644	12,423	12,529	12,529	12,529
Interest	1,710	2,063	2,058	2,022	2,022
Subsidies	14,928	17,068	15,718	15,718	15,718
Grants	-	-	-	-	-
Social benefits	17,903	19,674	19,206	19,370	19,370
Other expense	9,153	9,123	8,363	7,311	6,371
<b>Gross Expenditure</b>	<b>143,687</b>	<b>177,793</b>	<b>155,539</b>	<b>154,419</b>	<b>137,217</b>
Less Current ODA	8,334	28,054	15,149	14,872	111
<b>Underlying Expenditure</b>	<b>135,353</b>	<b>149,740</b>	<b>140,390</b>	<b>139,546</b>	<b>137,106</b>

**Figure 7.1 Total GFS Expenditure 2017/18 (Transactions affecting Net worth)**



Operating expenditure refers to expenditure on the delivery of government's core outputs by the public service. Operating expenditure is predominately made up of use of goods and services (34 per cent), compensation of employees (32 per cent), social benefits (11 per cent), subsidies (10 per cent), and depreciation (7 per cent).

## Compensation to Employees

Expenditure on compensation of employees is estimated to be \$56.6 million in 2017/18, a \$4.2 million increase from the estimated 2016/17 level of \$52.4 million.

## Use of Goods and Services

An estimated \$60.9 million is estimated to be spent on the use of goods and services in the 2017/18 year, which represents an increase of \$22.9 million from the estimated outcome for 2016/17. This is predominately driven by aid program spending.

## Consumption of Fixed Capital

Total depreciation for 2017/18 is estimated to be \$12.4 million. The increase from the estimated level of \$9.6 million in 2016/17 is driven by transfers of aid-funded assets onto Fixed Asset Registers (FARs), such as the renewable energy assets.

## Debt Servicing Payments

Debt interest contributions to the Loan Reserve Fund (LRF) are estimated to be \$2.1million in 2017/18, an increase from the \$1.7 million in 2016/17 due to the undertaking of new loans in 2017/18. As the current stock of debt is expected to decline over the forward years, the level of interest expense on the current debt stock also declines.

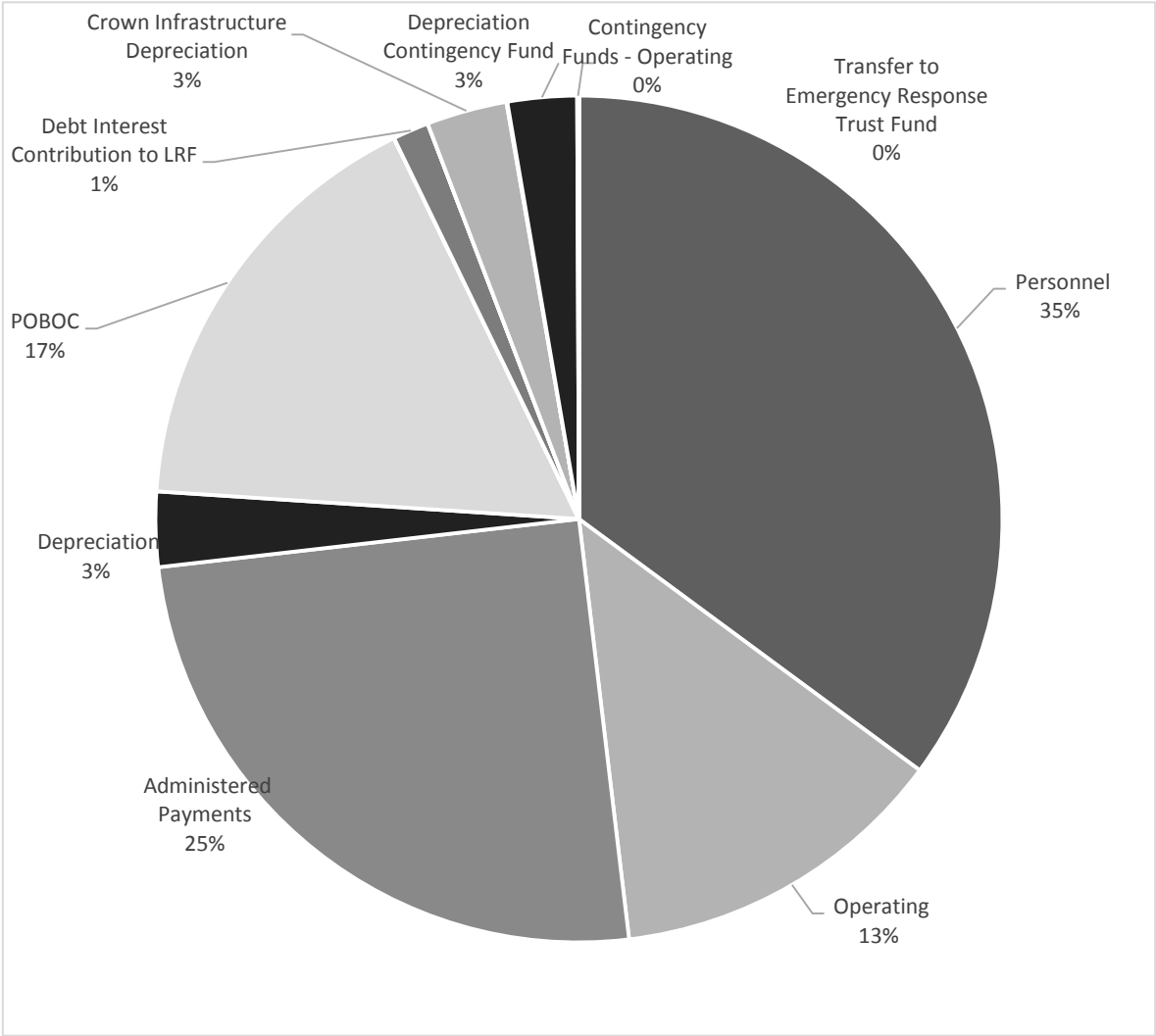
Readers should refer to the Debt chapter for more information; it also includes the estimated movements in the LRF over the next four years.

Total expenditure as presented in previous budgets is shown in Table 7.2

**Table 7.2 Total Operating Expenditure 2016/17 to 2020/21 (\$000)**

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Operating Expenditure</b>					
Ministry Outputs	102,617	113,847	105,583	104,611	102,171
<i>Personnel</i>	48,621	52,534	51,556	51,772	51,773
<i>Operating</i>	19,767	19,464	16,464	16,477	16,477
<i>Administered Payments</i>	30,209	37,565	33,281	32,079	29,639
<i>Depreciation</i>	4,020	4,284	4,282	4,282	4,282
POBOC	24,178	25,120	23,931	24,094	24,094
Debt Interest Contribution to LRF	1,710	2,063	2,058	2,022	2,022
Asset Management (CIIC)	-	-	-	-	-
Crown Infrastructure Depreciation	3,682	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	604	50	50	50	50
Depreciation Contingency Fund	2,362	3,957	4,066	4,066	4,066
<i>Chinese Equipment</i>	663	663	663	663	663
<i>Rarotonga Water Network</i>	299	694	803	803	803
<i>Northern Pa Enua Renewable Energy System</i>	400	400	400	400	400
<i>Southern Pa Enua Renewable Energy System (excl. Aitutaki)</i>	-	1,200	1,200	1,200	1,200
<i>Other Assets</i>	1,000	1,000	1,000	1,000	1,000
Contingency Funds - Operating	200	100	100	100	100
<b>Total Operating Expenses</b>	<b>135,353</b>	<b>149,740</b>	<b>140,390</b>	<b>139,546</b>	<b>137,106</b>

**Figure 7.2 Total Operating Expenditure 2017/18 (Transactions affecting Net worth)**





## 7.2 Changes to Expenditure from the 2016/17 Budget

Since the 2016/17 Budget, there has been a change to the estimated level of expenditure due to technical adjustments, reclassification in the treatment of some payments, variations in parameters as well as government decisions.

The following table shows the change attributable to each category, with the largest impacts coming from government decision making.

**Table 7.3 Expenditure changes since the 2016/17 Budget**

Expenditure Changes	2016/17	2017/18	2018/19	2019/20
<b>Operating Expenditure as at 2016/17 HYEPU</b>	<b>134,548</b>	<b>137,173</b>	<b>129,217</b>	<b>129,085</b>
Expenditure Decisions by Government	805	11,292	9,895	9,860
Technical adjustments	-	266	266	266
Reclassifications of expenditure	-	642	642	-
Parameter changes	-	367	370	334
<b>Operating Expenditure as at 2017/18 Budget</b>	<b>135,353</b>	<b>149,740</b>	<b>140,390</b>	<b>139,545</b>

## 7.3 New Expenditure Initiatives

The Government has approved new operating expenditure totaling \$11.3 million in 2017/18, and \$9.9 million in both 2018/19 and 2019/20. A summary of the new initiatives is provided in the table below, grouped with the Budget Policy Statement goal to which they relate.

**Table 7.4 Summary of New Initiatives in Operating Expenditure 2017/18 to 2020/21 (\$000)**

Summary	2017/18	2018/19	2019/20	2020/21	Total
Improve Welfare	1,529	1,529	1,529	1,529	<b>6,116</b>
Expanding Economic Opportunities	50	-	-	-	<b>50</b>
Resilient Infrastructure and Information Communications	35	-	-	-	<b>35</b>
Improve Health	186	124	124	124	<b>558</b>
Governance	9,492	8,242	8,207	5,767	<b>31,708</b>
<b>Total Expenditure from Decisions</b>	<b>11,292</b>	<b>9,895</b>	<b>9,860</b>	<b>7,420</b>	<b>38,467</b>

Note: These initiatives provide funding in operating expenditures only. Further expenditure is outlined below and in Capital and ODA sections.

### 7.3.1 NSDP Goal 1: Improve Welfare and Reduce Inequity and Economic Hardship

**Table 7.5 Total Operating Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)**

Description	2017/18	2018/19	2019/20	2020/21	Total
Disability Child Benefit Extension	8	8	8	8	32
Increase to Child Benefits	1,387	1,387	1,387	1,387	5548
Teacher Aide for Disability/Inclusive Education	134	134	134	134	536
<b>Improve welfare, reduce inequity and economic hardship</b>	<b>1,529</b>	<b>1,529</b>	<b>1,529</b>	<b>1,529</b>	<b>6,116</b>

#### INTAFF – Disability Child Benefit Extension

This POBOC is generated to provide Government assistance to children with a severe disability between the age of 12 and 15 years. Children eligible for this payment have very serious conditions which require constant care and monitoring. The current welfare system declares that infirmed payments are not accessible until a child turns 16. At the same time, they are no longer eligible for the Child Benefit which ceases at the age of 12. The change will allow eligible children to continue to receive the Child Benefit until the age of 16 when they are entitled to infirmed payments.

Measure	2017/18	2018/19	2019/20	2020/21
Disability Child Benefit Extension	8,000	8,000	8,000	8,000
<b>Total cost</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>

#### INTAFF – Increase to Child Benefits

To support parental responsibilities in upholding the maintenance and education of all Cook Islander children under the age of 12, the government is increasing the Child Benefit from \$66 to \$100 per month. The increase in the Child Benefit will assist parents in coping with cost of living increases.

Measure	2017/18	2018/19	2019/20	2020/21
Increase to Child Benefits	1,387,200	1,387,200	1,387,200	1,387,200
<b>Total cost</b>	<b>1,387,200</b>	<b>1,387,200</b>	<b>1,387,200</b>	<b>1,387,200</b>

#### Education – Teacher Aide for Disability/Inclusive Education

The Inclusive Education policy 2011 focuses on the rights of all children to have a successful education. At present, teacher aides are casual employees of the Ministry of Education and do not receive remuneration during the holiday period. This has been a vital challenge to the Ministry of Education who find that many teacher aides do not return to the role following the holiday period. In appropriating for teacher aides for disability/inclusive education, the Government is ensuring that current teacher aides are being retained to support special needs.

Description	2017/18	2018/19	2019/20	2020/21
Teacher Aide for Disability/Inclusive Education	133,560	133,560	133,560	133,560
<b>Total cost</b>	<b>133,560</b>	<b>133,560</b>	<b>133,560</b>	<b>133,560</b>

### 7.3.2 NSDP Goal 2: Expand economic opportunities, improve economic resilience and productive employment to ensure decent work for all

**Table 7.6 Total Operating Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)**

Description	2017/18	2018/19	2019/20	2020/21	Total
Vanilla Project	50	-	-	-	50
<b>Expand economic opportunities</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>

#### Agriculture – Support for Vanilla Growers

The Government introduced the Support for Vanilla Growers in the 2015/16 Budget to aid growers in producing high quality vanilla. This program is being extended by one year, due to delays in commencement. To ensure completion of the Vanilla project, costs associated with extending the term of a vanilla consultant will be funded by the Cook Islands Government to assist and provide technical support to farmers involved in this project. It is anticipated that income generation will begin in the next two to three years.

Measure	2017/18	2018/19	2019/20	2020/21
Vanilla Project	50,000	-	-	-
<b>Total cost</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Capital spending under this NSDP Goal

The following capital projects also relate to expanding economic opportunities, improving economic resilience and productive employment to ensure decent work for all. For more details, see the Capital section of Budget Book 1.

Agency	Measure	2017/18	2018/19	2019/20	2020/21
Justice	Online Business Registry	200,000	-	-	-
Agriculture	Sheds for vanilla project	100,000	-	-	-
	<b>Total Capital</b>	<b>300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 7.3.3 NSDP Goal 5: Build resilient infrastructure and ICT to improve our standard of living

**Table 7.7 Total Operating Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)**

Description	2017/18	2018/19	2019/20	2020/21	Total
Undersea fibreoptic cable	35	-	-	-	35
<b>Build resilient infrastructure and ICT</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35</b>

#### OPM – Manatua Submarine Cable

This is to fund the procurement of services to inform the planning for the regional Manatua Submarine Cable.

Measure	2017/18	2018/19	2019/20	2020/21
Manatua Submarine Cable	35,000	-	-	-
<b>Total cost</b>	<b>35,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Capital spending under this NSDP Goal

The following capital projects also relate to build resilient infrastructure and ICT to improve our standard of living.

Agency	Measure	2017/18	2018/19	2019/20	2020/21
ICI	Atiu Airport Runway Stabilization	427,419	-	-	-
ICI	Avatiu Valley Stream Embankment	36,000	-	-	-
ICI	Bridges & Drainage	1,810,365	870,000	750,000	-
ICI	Pa Enea Airport Terminal Upgrade Programme - Pukapuka	121,500	13,500	-	-
ICI	Pa Enea Cyclone Centre Programme - Palmerston	390,311	-	-	-
ICI	Pa Enea Cyclone Centre Programme - Rakahanga (incl design & specs for pa enua cyclone centres)	550,000	-	-	-
ICI	Pa Enea Road Improvement Programme - Atiu	242,000	-	-	-
ICI	Pa Enea Road Improvement Programme - Mangaia	495,336	-	-	-
ICI	Rarotonga Road Improvement Programme	2,000,000	2,000,000	2,000,000	2,000,000
ICI	Road Network Maintenance	630,000	630,000	630,000	630,000
OPM	Government IT network	40,000	40,000	40,000	40,000
OPM	Manatua Submarine Cable (loan component)	10,869,565	11,029,412	-	-
<b>Total Capital</b>		<b>17,612,496</b>	<b>14,582,912</b>	<b>3,420,000</b>	<b>2,670,000</b>

## 7.3.4 NSDP Goal 7: Improve health and promote healthy lifestyles

Table 7.8 Total Operating Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)

Description	2017/18	2018/19	2019/20	2020/21	Total
Localisation of Surgeon Salary	51	51	51	51	204
Certificate in Dental Therapy	85	73	73	73	304
Ministers Meeting	50	-	-	-	50
<b>Improve health and promote healthy lifestyles</b>	<b>186</b>	<b>124</b>	<b>124</b>	<b>124</b>	<b>558</b>

### Health – Localisation of Surgeon Salary

Donor funding for this position has ceased. To ensure that the Ministry of Health retains its highly skilled Surgeon, and is equipped to meet the needs of the people of the Cook Islands, the Government will now fully fund this position.

Measure	2017/18	2018/19	2019/20	2020/21
Localisation of Surgeon Salary	51,000	51,000	51,000	51,000
<b>Total cost</b>	<b>51,000</b>	<b>51,000</b>	<b>51,000</b>	<b>51,000</b>

### Health – Certificate in Dental Therapy

The Ministry of Health currently faces an urgent dental health shortage. A dental workforce analysis undertaken in 2014 emphasized the need to train staff to serve on the islands of Mangaia, Manihiki, Rakahanga, Penrhyn, Mitiaro and Palmerston, as they have no resident dental personnel. Moreover, at the time Rarotonga was facing an aging cohort of dental therapists managing all schools, four of which were over the age of 60 years and one nearing 60 years of age.

In order to provide quality oral health care to our people in the Pa Enea and Rarotonga, funds are being made available to the Ministry of Health to train a sufficient number of appropriate dental personnel to meet the needs of the Ministry and our community.

Measure	2017/18	2018/19	2019/20	2020/21
Personnel	60,000	60,000	60,000	60,000
Operating	25,000	13,000	13,000	13,000
<b>Total cost</b>	<b>85,000</b>	<b>73,000</b>	<b>73,000</b>	<b>73,000</b>

### Health – Ministers Meeting

To develop a consensus view of Health in the Pacific and set future directions in the effort to build Healthy islands, the Cook Islands will host the 12<sup>th</sup> Pacific Health Minister’s Meeting from 28 to 30 August 2017.

Measure	2017/18	2018/19	2019/20	2020/21
Ministers Meeting costs	50,000	-	-	-
<b>Total cost</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Capital spending under this NSDP Goal

The following capital projects also relate to improving health and promoting healthy lifestyles.

Agency	Measure	2017/18	2018/19	2019/20	2020/21
Health	Ambulance	150,000	-	-	-
Health	Funds to be prioritised by Health for Technical Equipment	275,000	275,000	275,000	275,000
Health	Hospital Incinerator	250,000	-	-	-
Health	Medical Service Bed Panels	309,500	-	-	-
	<b>Total Capital</b>	<b>984,500</b>	<b>275,000</b>	<b>275,000</b>	<b>275,000</b>

### 7.3.5 NSDP Goal 16: Promote a peaceful and just society and practise good governance with transparency and accountability

**Table 7.9 Total Operating Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)**

<b>Description</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>Total</b>
Minimum Wage and Salary Adjustments	2,268	2,268	2,268	2,268	<b>9,072</b>
Performance Management Adjustments	407	638	863	863	<b>2,771</b>
GSF Adjustments	65	65	65	65	<b>260</b>
Employment Liability Insurance	124	124	124	124	<b>496</b>
Social Impact Fund (Cook Islands Government Contribution)	600	600	340	-	<b>1,540</b>
Debt and Return Collection Officers	90	90	90	90	<b>360</b>
Procurement Officer	35	35	35	35	<b>140</b>
Asset Management Officer	45	45	45	45	<b>180</b>
Wellington rent for High Commissioner	46	-	-	-	<b>46</b>
Marae Moana	60	60	60	60	<b>240</b>
Customs System	20	20	20	20	<b>80</b>
Payglobal Fee	12	12	12	12	<b>48</b>
AEOI system	29	29	29	29	<b>116</b>
PFTAC	25	25	25	25	<b>100</b>
Teammate Software	10	10	10	10	<b>40</b>
Economic Statistician	100	100	100	100	<b>400</b>
Litigation Officer	100	100	100	100	<b>400</b>
Economic Policy Advisor	100	100	100	100	<b>400</b>
Laboratory Technician	25	25	25	25	<b>100</b>
EMCI Officer	35	35	35	35	<b>140</b>
Senior Tax Auditor	80	80	80	80	<b>320</b>
Tax Amnesty Refund	500	-	-	-	<b>500</b>
Western and Central Pacific Fisheries Commission	50	-	-	-	<b>50</b>
Tax Amnesty Changes to system	100	-	-	-	<b>100</b>
CICC Mission Training Centre Construction	600	-	-	-	<b>600</b>
Public Sector strengthening	600	600	600	-	<b>1,800</b>
Land fund	1,500	1,500	1,500	-	<b>4,500</b>
School Security	150	150	150	150	<b>600</b>
Recruitment Public Service leaders	20	-	-	-	<b>20</b>
Oxygen plant fee	30	30	30	30	<b>120</b>
Standards and Poors	15	15	15	15	<b>60</b>
Special Projects unit	420	420	420	420	<b>1,680</b>
Membership Subscriptions	29	29	29	29	<b>116</b>
MP Social Responsibility Fund	48	48	48	48	<b>192</b>
QR Responsibility Fund	8	8	8	8	<b>32</b>
Special Select Committee	10	10	10	10	<b>40</b>
Civil List Personnel	36	36	36	36	<b>144</b>
UNESCO Board	15	-	-	-	<b>15</b>
Te Kopapa Reo Maori Board	15	15	15	15	<b>60</b>
Salary Adjustment Administered Fund	150	-	-	-	<b>150</b>
Crown Infrastructure Depreciation	921	921	921	921	<b>3,684</b>
<b>Good governance</b>	<b>9,492</b>	<b>8,242</b>	<b>8,207</b>	<b>5,767</b>	<b>31,708</b>

## Minimum Wage and Salary Adjustment

The Government has recently approved an increase in the legal minimum wage from \$6.25 to \$7.00 per hour as of 1 July 2017. The Minimum Wage and Salary Adjustment provides funds for all Government employees that are currently earning less than \$7.00 per hour to receive a salary increase to that amount.

In addition, a new salary band system will be implemented which establishes fixed increments within each salary band. Salaries of all banded employees will move upwards to meet the new salary increments.

Agency	2017/18 (000)	2018/19 (000)	2019/20 (000)	2020/21 (000)	Total
Ministry of Agriculture	51	51	51	51	204
Audit	29	29	29	29	116
Crown Law	3	3	3	3	12
Cultural Development	40	40	40	40	160
Business Trade Investment Board	21	21	21	21	84
Ministry of Education	467	467	467	467	1868
National Environment Services	36	36	36	36	144
MFEM	117	117	117	117	468
Financial Services Development Authority	2	2	2	2	8
MFAI	23	23	23	23	92
Head of State	0.426	0.426	0.426	0.426	1.704
Ministry of Health	451	451	451	451	1804
ICI	86	86	86	86	344
Internal Affairs	34	34	34	34	136
Ministry of Justice	118	118	118	118	472
Marine Resources	54	54	54	54	216
Ombudsman	5	5	5	5	20
Parliamentary Services	10	10	10	10	40
Pearl Authority	7	7	7	7	28
Police	146	146	146	146	584
OPM	67	67	67	67	268
PSC	4	4	4	4	16
Tourism	29	29	29	29	116
Ministry of Transport	31	31	31	31	124
Seabed Minerals Authority	5	5	5	5	20
Aitutaki	46	46	46	46	184
Atiu	67	67	67	67	268
Penrhyn	32	32	32	32	128
Pukapuka	30	30	30	30	120
Palmerston	6	6	6	6	24
Rakahanga	30	30	30	30	120
Mitiaro	38	38	38	38	152
Mauke	40	40	40	40	160
Mangaia	51	51	51	51	204
Nassau	13	13	13	13	52
Manihiki	39	39	39	39	156
Civil List	0.311	0.311	0.311	0.311	1.244
House of Ariki	2	2	2	2	8
Leader of the Opposition	5	5	5	5	20
Min.Brown Support Office	7	7	7	7	28
Min.Glassie Support Office	4	4	4	4	16
Min.Heather Support Office	3	3	3	3	12
Min.Nicholas Support Office	8	8	8	8	32
Min.Turepu Support Office	5	5	5	5	20
PM Support office	5	5	5	5	20
<b>Total Minimum Wage and Salary Adjustment</b>	<b>2,268</b>	<b>2,268</b>	<b>2,268</b>	<b>2,268</b>	<b>9072</b>

## Performance Management Adjustment

The salary band increments will be implemented with a provision for performance management. The Heads of Ministries will now have the opportunity to provide performance increments to staff who have achieved a high standard of performance in accordance with OPSC's performance management framework. The performance increment provided to agencies will commence at 1 per cent of the previous year's personnel baseline in 2017/18 and slowly increase to 2 per cent in 2019/20.

Agency	2017/18 (000)	2018/19 (000)	2019/20 (000)	2020/21 (000)	Total
Ministry of Agriculture	9	14	19	19	60
Audit	9	14	19	19	60
Crown Law	5	7	10	10	33
Cultural Development	6	9	12	12	40
Business Trade Investment Board	4	7	9	9	28
Ministry of Education	110	172	233	233	749
National Environment Services	8	13	17	17	55
MFEM	28	44	60	60	193
Financial Services Development Authority	2	4	5	5	16
MFAI	12	18	24	24	79
Head of State	2	2	3	3	11
Ministry of Health	83	131	177	177	569
ICI	17	27	36	36	117
Internal Affairs	10	15	20	20	65
Ministry of Justice	14	23	32	32	101
Marine Resources	11	17	24	24	76
Ombudsman	2	3	4	4	14
Parliamentary Services	5	7	10	10	32
Pearl Authority	2	3	4	4	14
Police	29	46	62	62	200
OPM	11	17	23	23	75
PSC	4	6	8	8	26
Tourism	17	26	35	35	113
Ministry of Transport	5	8	11	11	35
Seabed Minerals Authority	2	3	4	4	12
<b>Total Performance Adjustment</b>	<b>407</b>	<b>638</b>	<b>863</b>	<b>863</b>	<b>2,770</b>

## GSF Adjustment

The New Zealand Government Superannuation fund employer's contribution has increased from 14 to 15 per cent. The proposed increase is effective as of 1 July 2017 and the Cook Islands Government public servants on this scheme will be entitled to the increase.

Measure	2017/18	2018/19	2019/20	2020/21
GSF Adjustment	65,000	65,000	65,000	65,000
<b>Total cost</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>

## Employers Liability Insurance

Employers Liability Insurance is intended to provide a fund for compensation with respect to workplace related accidents or illness under section 28 (1) of the Employers Liability Act. Any worker who is injured from an accident arising out of and/or in the course of the employment may be eligible to receive compensation in accordance to the Workers Compensation Ordinance. Ministries contribution to this scheme is made available.



Measure	2017/18	2018/19	2019/20	2020/21
Employment Liability Insurance	124,000	124,000	124,000	124,000
<b>Total cost</b>	<b>124,000</b>	<b>124,000</b>	<b>124,000</b>	<b>124,000</b>

### INTAFF - Social Impact Fund (Cook Islands Contribution)

The Ministry of Internal Affairs currently manages the Social Impact Fund which previously had been a joint programme with the New Zealand Government. The Social Impact Fund was created to assist non-government organisation's deliver priority services for women, youth, children and people with disabilities.

The Cook Island Government now takes on the responsibility for this fund.

Measure	2017/18	2018/19	2019/20	2020/21
SIF Cook Island Government Contribution	600,000	600,000	340,000	-
<b>Total cost</b>	<b>600,000</b>	<b>600,000</b>	<b>340,000</b>	<b>-</b>

### MFEM – Debt and Return Collection officers

The Ministry of Finance and Economic Management is provided with funds to recruit a further two Debt and Return Collection officers to assist the Revenue Management Division of MFEM implement the tax amnesty package granted by government. Once the tax amnesty has ceased, the officers will assist and manage the large number of debt cases which require a more proactive approach of communicating with tax payers.

Measure	2017/18	2018/19	2019/20	2020/21
Debt and Return Collection Officers	90,000	90,000	90,000	90,000
<b>Total cost</b>	<b>90,000</b>	<b>90,000</b>	<b>90,000</b>	<b>90,000</b>

### MFEM – Procurement Officer

Centralized procurement provides the opportunity to both improve quality and provide savings. In order to improve central capability in procurement and implement both E-Government Procurement and Centralized Procurement objectives, funds are made available to recruit a procurement officer to carry out this role.

Measure	2017/18	2018/19	2019/20	2020/21
Procurement Officer	35,000	35,000	35,000	35,000
<b>Total cost</b>	<b>35,000</b>	<b>35,000</b>	<b>35,000</b>	<b>35,000</b>

### CIIC – Asset Management Officer

The Cook Islands Government invested in an asset management system in 2014 to better manage the upkeep all of governments assets including buildings and infrastructure. An amount of \$45,000 has been appropriated to the Cook Islands Investment Corporation to recruit an Asset Management Officer to update and manage the system inputs and to implement more efficient and effective management of all government assets and public infrastructure.

Measure	2017/18	2018/19	2019/20	2020/21
Asset Management Officer	45,000	45,000	45,000	45,000
<b>Total cost</b>	<b>45,000</b>	<b>45,000</b>	<b>45,000</b>	<b>45,000</b>

### MFAI – Wellington rent for High Commissioner

Due to current renovations to the Cook Islands High Commission building in Wellington, the Government has provided funds to cover associated rental costs for the temporary building accommodating the employees of the Cook Islands High Commission.

Measure	2017/18	2018/19	2019/20	2020/21
Wellington rent for High Commissioner	46,000	-	-	-
<b>Total cost</b>	<b>46,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### OPM – Marae Moana

The Government is appropriating \$60,000 to the Office of the Prime Minister to assist with establishing a coordination office function to implement the Marae Moana legislation once this is passed through parliament.

Measure	2017/18	2018/19	2019/20	2020/21
Marae Moana	60,000	60,000	60,000	60,000
<b>Total cost</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>	<b>60,000</b>

### MFEM – Customs System

The Customs automated system (CUSMOD) incurs an annual fixed maintenance fee to ensure continuous maintenance and update of the processing system. Maintenance costs will increase as of 2018 due to the introduction of GST charges, therefore extra funds are being made available to the Revenue Management Division of the Ministry of Finance and Economic Management to accommodate this change.

Measure	2017/18	2018/19	2019/20	2020/21
Customs System	20,250	20,250	20,250	20,250
<b>Total cost</b>	<b>20,250</b>	<b>20,250</b>	<b>20,250</b>	<b>20,250</b>

### MFEM – Payglobal Fee

Annual fees for the Government's central payroll system are reviewed annually. Extra funds of \$12,000 are made available to cover an increase in rates and number of staff being paid through the system. These fees ensure continuous access to the software and automatic access to product updates for the next 12 months. Regular communication about new products, updates and services will also be provided.

Measure	2017/18	2018/19	2019/20	2020/21
Payglobal Fee	12,000	12,000	12,000	12,000
<b>Total cost</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>	<b>12,000</b>

### MFEM – Automatic Exchange of Tax Information System (AEOI)

The Automatic Exchange of Tax Information System will provide an IT solution for financial institutions to report to the Revenue Management Division. This system will ensure that sufficient information from tax payers is collected and can be shared under the new international automatic exchange of tax information requirements to come into effect in 2018. Funds are made available to cover costs of the international data transmission from one jurisdiction to another at \$4,000 per annum. In anticipation, \$25,000 per annum is to fund the operational portion as implementation of the system begins.

Measure	2017/18	2018/19	2019/20	2020/21
AEOI	29,000	29,000	29,000	29,000
<b>Total cost</b>	<b>29,000</b>	<b>29,000</b>	<b>29,000</b>	<b>29,000</b>

### MFEM – Pacific Financial Technical Assistance Centre (PFTAC)

PFTAC provides technical assistance and training in five core areas: public financial management (PFM), revenue administration, macroeconomic management, financial sector supervision, and macroeconomic statistics. Services provided by IMF-PFTAC now incur a cost through a yearly membership fee.

Measure	2017/18	2018/19	2019/20	2020/21
PFTAC	25,000	25,000	25,000	25,000
<b>Total cost</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>

### **Audit –Teammate Software**

Additional software licenses for the Teammate Software have been purchased for the growing number of users currently working in the Audit office. To retain technical capacity and efficiency of the audit office's Teammate Software, an additional \$10,000 is made available to cover the yearly user license fee.

<b>Measure</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Teammate Software	10,000	10,000	10,000	10,000
<b>Total cost</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

### **MFEM – Economic Statistician**

In order to strengthen the Cook Islands national accounts, to provide economic advice during the compilation process, and collect greater details on the impact of tourism on the Cook Islands economy, funding has been provided to the Statistics Office to recruit an Economic Statistician to carry out these functions.

<b>Measure</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Economic Statistician Personnel	100,000	100,000	100,000	100,000
<b>Total cost</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>

### **Crown Law – Litigation Officer**

To improve the quality of legal advice provided by the Crown Law office, a qualified and experienced senior litigation officer position is required. The funding available to Crown Law will assist in filling this role. This will allow such a candidate to provide supervision capacity to Crown Law's intermediate and junior lawyers, whilst also providing the technical expertise needed to provide legal advice on complex legal issues which are increasing as the country develops its infrastructure and economy.

<b>Measure</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Litigation officer	100,000	100,000	100,000	100,000
<b>Total cost</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>

### **MFEM – Economic Policy Advisor**

Funds will be accessible for the Ministry of Finance and Economic Management (MFEM) to recruit a candidate capable of taking on the Economic Policy Advisory role. This is a specialized role, currently solely managed by one individual who assists MFEM in providing quality advice to Cabinet and other government agencies.

<b>Measure</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Economic Policy Advisor	100,000	100,000	100,000	100,000
<b>Total cost</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>

### **Marine Resources – Laboratory Technician**

In order to manage the expanding role of the Laboratory requirements, extra funds are made available to the Ministry of Marine Resources to employ an additional Laboratory Technician who will assist with the monitoring of water quality.

<b>Measure</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Laboratory Technician	25,000	25,000	25,000	25,000
<b>Total cost</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>

### **OPM – Emergency Management Cook Islands (EMCI) Officer**

To ensure Disaster Risk Management procedures are put in place to reduce, mitigate, prepare and recover to combat the impacts of climate change and natural disasters, funds are being made available to the

Emergency Management Cook Islands office to recruit a project officer to perform these functions.

Measure	2017/18	2018/19	2019/20	2020/21
EMCI Officer	35,045	35,045	35,045	35,045
<b>Total cost</b>	<b>35,045</b>	<b>35,045</b>	<b>35,045</b>	<b>35,045</b>

### MFEM – Senior Tax Auditor

A review was recently undertaken by the IMF on the Revenue Management Division of MFEM. Due to anecdotal evidence, the review suggested the need to strengthen audit in the area of hotel room sales to overseas wholesalers. Funds are being made available for a qualified and skilled senior tax auditor to perform these tasks.

Measure	2017/18	2018/19	2019/20	2020/21
Senior Tax Auditor	80,000	80,000	80,000	80,000
<b>Total cost</b>	<b>80,000</b>	<b>80,000</b>	<b>80,000</b>	<b>80,000</b>

### MFEM - Tax Amnesty Refund

As a part of the Tax Amnesty package granted by the Government, all taxpayers that paid any additional taxes between 1 January 2017 and 31 July 2017 will have those additional taxes returned to them if they make contact with the Revenue Management Division of MFEM.

Measure	2017/18	2018/19	2019/20	2020/21
Tax Amnesty Refund	500,000	-	-	-
<b>Total cost</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Marine Resources – Western and Central Pacific Fisheries Commission (WCPFC)

The Cook Islands is hosting the Thirteenth Regular Session of the Western and Central Pacific Fisheries Commission Scientific Committee Meeting (WCPFC) from the 9<sup>th</sup> to 17<sup>th</sup> August 2017. The Government is appropriating \$50,000 as a POBOC for hosting costs.

Measure	2017/18	2018/19	2019/20	2020/21
WCPFC	50,000	-	-	-
<b>Total cost</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### MFEM – Tax Amnesty Changes to system

A system change is required for the implementation of the tax amnesty in 2017/18. This will be a one-off cost of \$100,000.

Measure	2017/18	2018/19	2019/20	2020/21
Tax Amnesty System change	100,000	-	-	-
<b>Total cost</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### MFEM – CICC Mission Training Centre Construction

This POBOC will provide the CICC Mission Training Center \$600,000 as a contribution towards the completion of this building. This amount is reflected in the summary table of the POBOC section.

Measure	2017/18	2018/19	2019/20	2020/21
CICC Mission Training Centre	600,000	-	-	-
<b>Total cost</b>	<b>600,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

## OPM – Public Sector Strengthening

A capacity assessment of the Ministry of Justice and Infrastructure Cook Islands was undertaken to analyse problems that have hindered the Ministries' performance over the last few years. This involved analysing key areas of policy and legislative mandates, leadership and management, organisational culture and the capability of staff, the agency and systems, including finance and data management.

Funds are made available for the strengthening of the Ministry of Justice, and Infrastructure Cook Islands for the next 3 years.

Measure	2017/18	2018/19	2019/20	2020/21
Public Sector strengthening	600,000	600,000	600,000	-
<b>Total cost</b>	<b>600,000</b>	<b>600,000</b>	<b>600,000</b>	-

## CIIC – Land Fund

Government are undertaking major capital projects on Rarotonga and the Pa Enea. This fund is to assist Government to warrant the necessary private land off the land owners. This will also assist CIIC to carry out land and rent reviews for all land leased by the Government and help with any sessions of the Land Court that need to be held in the Pa Enea regarding these capital investments.

Measure	2017/18	2018/19	2019/20	2020/21
Land fund	1,500,000	1,500,000	1,500,000	-
<b>Total cost</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>1,500,000</b>	-

## CIIC – School Security

To strengthen preventative measures and to maintain the community's confidence in school security and safety measures following the arson attack on Tereora College in 2016 and other schools, the Government is appropriating additional funds to engage full time security services, which will include both technology and personnel functions.

Measure	2017/18	2018/19	2019/20	2020/21
School Security	150,000	150,000	150,000	150,000
<b>Total cost</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>

## OPSC – Recruitment of Public Service Leaders

The Office of the Public Service Commission has been appropriated \$20,000 to cover associated costs that accompany the recruitment process of public service leaders as their contracts end in June 2017. The upcoming process is intended to change considerably in 2017/18. Heads of Ministries on a first term contract have the ability to roll over their positions, compared to those on second term contracts who will be required to go through the application process.

Measure	2017/18	2018/19	2019/20	2020/21
Recruitment of Public Service Leaders	20,000	-	-	-
<b>Total cost</b>	<b>20,000</b>	-	-	-

## Health – Oxygen Plant fee

\$30,000 has been made available to the Ministry of Health for the acquisition of a service contract for the oxygen plant purchased and installed in August 2016. At the time the oxygen plant was purchased, there was no contract in place to obtain annual general services to the plant which is expected to commence this 2017 year.

Measure	2017/18	2018/19	2019/20	2020/21
Oxygen Plant fee	30,000	30,000	30,000	30,000
<b>Total cost</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>

### MFEM – Standards and Poors

Standard and Poors is a provider of independent credit ratings that the Cook Islands Government has been utilizing to measure the creditworthiness of its debts. To continue using this service, extra funds have been made available to cater for an increase in its annual fee as a result of exchange rate changes.

Measure	2017/18	2018/19	2019/20	2020/21
Standards and Poors	15,000	15,000	15,000	15,000
<b>Total cost</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>

### CIIC – Special Projects Unit

This unit was developed to oversee project management on specific key programs such as the Tereora College Project, the Nikao School rebuild and the Vaikapuangi Project. Due to the success of this unit to date, it represents a more focused and professional approach to the management of public infrastructure projects in the future. Funds are provided for the continuity of this unit.

Measure	2017/18	2018/19	2019/20	2020/21
Special Projects Unit	420,000	420,000	420,000	420,000
<b>Total cost</b>	<b>420,000</b>	<b>420,000</b>	<b>420,000</b>	<b>420,000</b>

### MFAI - Membership Subscriptions

The Ministry of Foreign Affairs and Immigration manages nearly all government subscriptions.

The Cook Islands became a member of the World Intellectual Property Organization (WIPO) in October 2016. It also became a member of the Stockholm, Basel and Waigani conventions. These international treaties were designed to reduce the movements of hazardous waste between nations, specifically preventing the transfer of hazardous waste from developed to less developed countries, and also minimizing its generation. The Stockholm Convention is specifically related to persistent organic pollutants, whilst the Basel Convention is specific to the control of transboundary movements of hazardous wastes and their disposal. The Waigani Convention enables forum island countries to ban the importation of hazardous and radioactive wastes.

In addition to this, it is a contracting obligation under the International Civil Aviation Organization (ICAO) requirements for the Cook Islands to provide Aeronautical Information which must be published for all aviation users entering our air-space.

To strengthen capacity of smaller island states, funds have been made available for a contribution to the Pacific Islands Forum Secretariat (PIFS) for the work of the Smaller Islands States (SIS) unit.

The total government subscriptions cost in the table below is reflected in the POBOC section of this chapter.

Measure	2017/18	2018/19	2019/20	2020/21
World Intellectual Property Organisation	4,000	4,000	4,000	4,000
Stockholm Convention	5,044	5,044	5,044	5,044
Basel Convention	710	710	710	710
Waigani Convention	3,208	3,208	3,208	3,208
AIP	6,000	6,000	6,000	6,000
Pacific Islands Forum Smaller Islands States Programme	10,000	10,000	10,000	10,000
<b>Total cost</b>	<b>28,962</b>	<b>28,962</b>	<b>28,962</b>	<b>28,962</b>

### OPM – Member of Parliament Social Responsibility Fund

The current Social Responsibility Fund allows member of parliaments to cater for community responsibilities within their constituency. This is being increased from \$8,000 to \$10,000 per member.

Measure	2017/18	2018/19	2019/20	2020/21
MP Social Responsibility Fund	48,000	48,000	48,000	48,000
<b>Total cost</b>	<b>48,000</b>	<b>48,000</b>	<b>48,000</b>	<b>48,000</b>

### Head of State – Queens Representative Social Responsibility Fund

This administered payment fund is provided to cater for the responsibilities of the Queens Representative where he is required to be present in his official capacity.

Measure	2017/18	2018/19	2019/20	2020/21
QR Social Responsibility Fund	8,000	8,000	8,000	8,000
<b>Total cost</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>

### Parliament – Special Select Committee

Parliamentary Select Committees have been appointed by parliament to review bills before they are tabled in parliament. These committees range from the Family Law Bill Committee, Special Select Committee, Te Mato Vai Committee, Public Accounts Committee and the Standing Committee. Assistance is being provided to support the continuation of these committees through Parliamentary Services.

Measure	2017/18	2018/19	2019/20	2020/21
Special Select Committee	10,000	10,000	10,000	10,000
<b>Total cost</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

### Parliament – Civil List Personnel

As legislated, each Member of Parliament is entitled to a housing allowance. Due to increases in housing rents on Rarotonga, support of \$36,000 is provided to cover the shortfall of the current housing allowance. This amount is reflected in the Civil list breakdown table under Parliamentary Entitlements and House of Ariki of the POBOC section.

Measure	2017/18	2018/19	2019/20	2020/21
Civil List Personnel	36,000	36,000	36,000	36,000
<b>Total cost</b>	<b>36,000</b>	<b>36,000</b>	<b>36,000</b>	<b>36,000</b>

### Education – UNESCO Board

UNESCO contributes to the development of the Cook Islands through the provision of programs where NGO's and CSO's receive money through participation. The Cook Islands is a candidate for the UNESCO Executive Board for which elections will take place in November 2017. Membership on the UNESCO board is crucial in that it would allow us to develop networks and increase awareness of opportunities for both resourcing and capacity building. The Government will fund this one-off payment to the Ministry of Education.

Measure	2017/18	2018/19	2019/20	2020/21
UNESCO Board	15,000	-	-	-
<b>Total cost</b>	<b>15,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Culture – Te Kopapa Reo Maori Board

The Cook Islands Maori language and traditional knowledge was passed down from generation to generation. With modernity and westernization, this tradition is under threat, there is a need for policy structures in place. In addition, few institutions currently support the preservation and growth of the Cook Islands Maori language and its history. Assistance is provided to the Ministry of Cultural Development to uphold board fees for the Te Kopapa Maori Committee to carry out these functions.

Measure	2017/18	2018/19	2019/20	2020/21
Te Kopapa Reo Maori Board	15,000	15,000	15,000	15,000
<b>Total cost</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>

## MFEM - Salary Adjustment Administered Fund

This fund is set aside for any excess salary adjustments that were not included in ministry appropriations including new appointments to the public service.

Measure	2017/18	2018/19	2019/20	2020/21
Salary Adjustment Administered Fund	150,000	-	-	-
<b>Total cost</b>	<b>150,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

## MFEM – Crown Infrastructure Depreciation

As a result of capital project appropriations increasing in current and future years, infrastructure depreciation also increases in parallel to these capital projects.

Measure	2017/18	2018/19	2019/20	2020/21
Crown Infrastructure Depreciation	920,500	920,500	920,500	920,500
<b>Total cost</b>	<b>920,500</b>	<b>920,500</b>	<b>920,500</b>	<b>920,500</b>

## Capital spending under this NSDP Goal

The following capital projects also relate to promoting a peaceful and just society for all and practicing good governance with transparency and accountability.

Agency	Measure	2017/18	2018/19	2019/20	2020/21
CIIC	Vaikapuangi Government Building – design	450,000	-	-	-
INTAFF	Vaka Maintenance Capital Projects	50,000	50,000	50,000	50,000
MFEM	AEOI IT System	500,000	-	-	-
MFEM	Banking Payments System	635,000	-	-	-
MFEM	FMIS	419,839	320,825	259,336	-
MFEM	Pa Enea Small Capital Fund	110,000	110,000	110,000	110,000
	<b>Total Capital</b>	<b>2,164,839</b>	<b>480,825</b>	<b>419,336</b>	<b>160,000</b>



### 7.3.6 Capital Projects relating to other NSDP Goals

The following capital projects relate to NSDP Goals that have not been previously identified above. More detail can be found in the Capital Chapter.

Agency	Measure	2017/18	2018/19	2019/20	2020/21
CIIC	Apii Nikao	300,000	-	-	-
CIIC	Arenikau Water Storage tank	315,000	-	-	-
CIIC	Orongo Development Master Plan	250,000	250,000	250,000	-
CIIC	Tereora College Redevelopment Stage 1	1,462,000	-	-	-
Education	Funds to be prioritised by Education	360,000	110,000	110,000	110,000
ICI	Tamarua Water Project	250,000	-	-	-
ICI	Mitiaro Water Upgrade	247,000	-	-	-
ICI	Omoka Harbour Upgrade	250,000	-	-	-
ICI	Tip Truck	100,000	-	-	-
ICI	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	150,000	-	-	-
ICI	Water Network Maintenance	500,000	500,000	500,000	500,000
ICI	Establishing new water galleries	467,655	381,430	-	-
MFEM	Capital Distribution Fund (CFC)	400,000	350,000	300,000	250,000
MFEM	Te Mato Vai – Rarotonga Water Upgrade	13,000,000	11,276,792	7,063,036	-
MFEM	Water & Sanitation Programme (WASP)	2,080,846	10,289,691	7,000,000	7,000,000
OPM	Aitutaki Renewable Energy Project	2,800,000	-	-	-
OPM	Atiu Power Upgrade	660,000	-	-	-
OPM	Renewable Energy Management Project	250,000	250,000	250,000	-
<b>Total Capital</b>		<b>23,842,501</b>	<b>23,407,913</b>	<b>15,473,036</b>	<b>7,860,000</b>

## 7.4 Technical Adjustments

**Table 7.10 Total Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)**

Description	2017/18	2018/19	2019/20	2020/21	Total
Depreciation Adjustments to Agency Appropriation	246	246	246	246	984
Other Technical Adjustments	20	20	20	20	80
<b>Technical Adjustments</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>266</b>	<b>1,064</b>

### Depreciation Adjustments to Agency Appropriations

Adjustments to the depreciation estimates are being made to account for corrections made to several agency appropriations as well as to reflect the movement of assets onto the fixed asset register.

Measure	2017/18	2018/19	2019/20	2020/21
Pearl	3,525	3,525	3,525	3,525
Tourism	10,000	10,000	10,000	10,000
Health	232,026	232,026	232,026	232,026
<b>Total cost</b>	<b>245,551</b>	<b>245,551</b>	<b>245,551</b>	<b>245,551</b>

### Other Technical Adjustments

A number of small adjustments have been made and are reflected in this amount. These are associated with fluctuations in trading revenue and previous year under-estimates.

Measure	2017/18	2018/19	2019/20	2020/21
Other technical adjustments	20,000	20,000	20,000	20,000
<b>Total cost</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>

## 7.4.1 Reclassification of Expenditure

**Table 7.11 Total Expenditure 2017/18 to 2020/21 (excludes ODA) (\$000)**

Description	2017/18	2018/19	2019/20	2020/21	Total
Restructure of Parliament Civil List Appropriation	-	-	-	-	-
Aitutaki Power Supply merge with CIIC	-	-	-	-	-
Land rent review – movement from capital to operating	642	642	-	-	1,284
<b>Reclassification of Expenditure</b>	<b>642</b>	<b>642</b>	-	-	<b>1,284</b>

### Parliamentary Services – Restructure of Parliament Civil List Appropriation

There has been a further initiative to separate the Civil List POBOC to distinguish between funding appropriated for the travel and allowances of the Queens Representative and Members of Parliament for 2017/18 and the outer years. During the restructure of the Civil List POBOC in the previous budget process, funding was consolidated to cater for the travel commitments of the QR and all Members of Parliament. This further restructure is expected to provide greater transparency and is budget neutral.

Measure	2017/18	2018/19	2019/20	2020/21
QR and MP's Travel and Allowance	-150	-150	-150	-150
Separation Civil List – MP Travel	41	41	41	41
Separation Civil List – QR Travel	109	109	109	109
<b>Total cost</b>	-	-	-	-

### Cook Islands Investment Corporation – Aitutaki Power Supply (APS) merge with CIIC

The Cook Islands Investment Corporation is introducing a new financial reporting and management process for APS so that it is no longer treated in the same way as a Government ministry or department. Under this arrangement, APS will still be required to comply with the MFEM Act and normal audit requirements that the Corporation itself is subject to. The CIIC Board has been viewed as the most practical way to manage the Corporation's process and implement responsibilities going forward.

Measure	2017/18	2018/19	2019/20	2020/21
Remove from Pa Enea and merge with CIIC	-310,390	-310,390	-310,390	-310,390
Remove from Pa Enea and merge with CIIC	310,390	310,390	310,390	310,390
<b>Total cost</b>	-	-	-	-

### Cook Islands Investment Corporation – Land Rent movement from Capital to Operating

For audit purposes, the Land Rent review funds that were previously appropriated under the capital schedule have now been moved into the operational budget as this relates to operational expenses rather than purchasing of actual capital items. This has now been corrected for the remainder of this fund.

Measure	2017/18	2018/19	2019/20	2020/21
Include land rent review into operating	642,000	642,000	-	-
<b>Total cost</b>	<b>642,000</b>	<b>642,000</b>	-	-

## 7.5 Administered Payments

There has been a significant change in the structure of payments since the 2015/16 Budget, with a new category, Administered Payments, being introduced. Many payments which were previously categorized as POBOCs are now Administered Payments, with only core POBOCs remaining in that category.

Administered Payments reflect the case where the Crown has provided funding to an agency for a specific purpose, and the remit comfortably falls under the outputs of the agency.

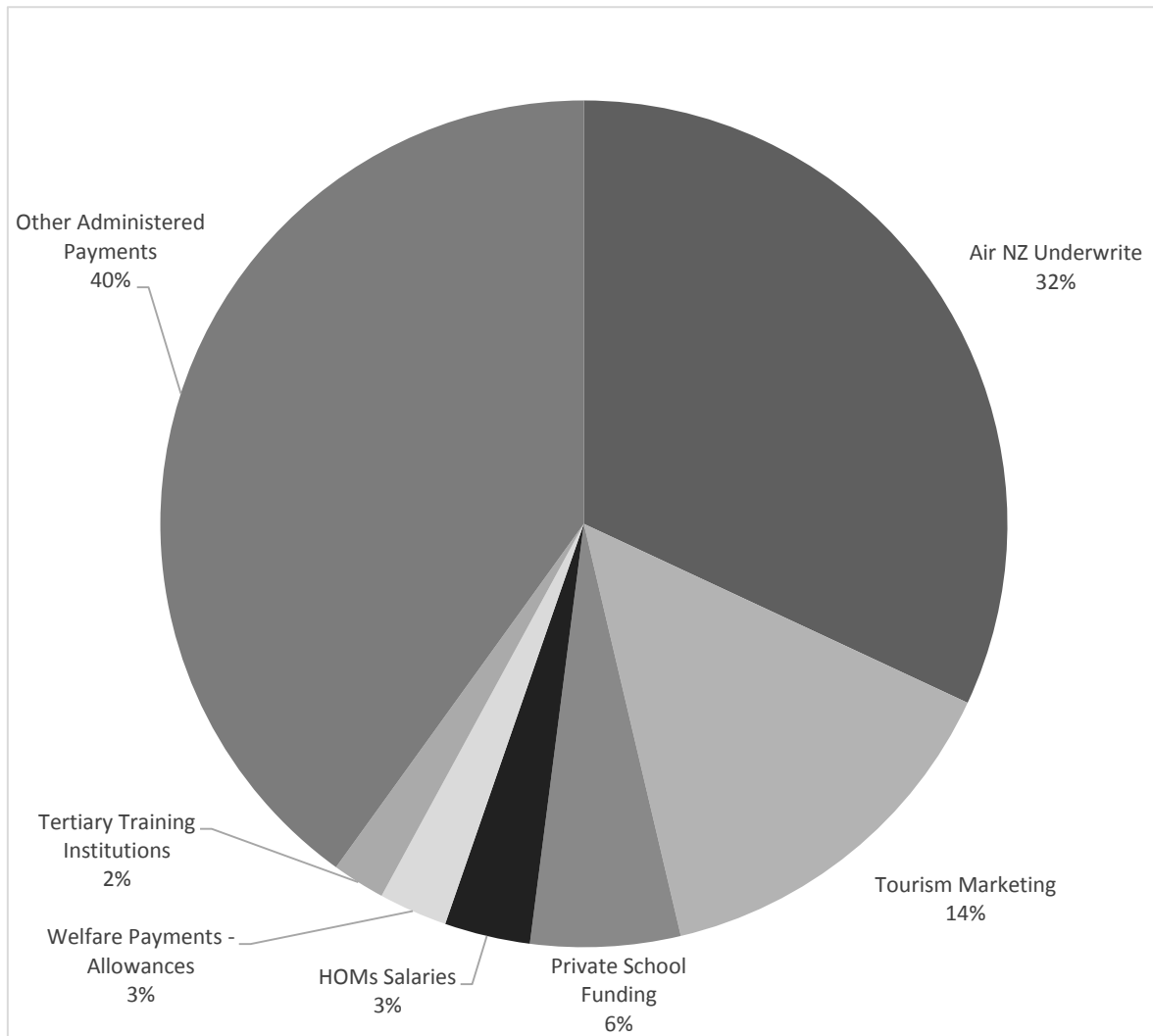
Administered Payments reflect a significant proportion of overall government spending. Some of the key Administered Payments can be seen in the table below

**Table 7.12 Administered Payment Summary 2016/17 – 2020/21 (\$000)**

<b>Administered Payments</b>	<b>2016/17 Est. Actual</b>	<b>2017/18 Budget</b>	<b>2018/19 Estimate</b>	<b>2019/20 Projection</b>	<b>2020/21 Projection</b>
Air NZ Underwrite	9,500	12,000	12,000	12,000	12,000
Tourism Marketing	5,500	5,400	3,100	2,950	2,950
Private School Funding	2,147	2,147	2,007	2,007	2,007
HOMs Salaries	1,229	1,230	1,230	1,230	1,230
Water Utility - Rarotonga	100	1,400	1,400	1,400	1,400
Welfare Payments - Allowances	983	983	983	984	984
Tertiary Training Institutions	760	760	760	760	760
Other Administered Payments	9,990	13,645	11,800	10,748	8,308
<b>Total Administered Payments</b>	<b>30,209</b>	<b>37,565</b>	<b>33,280</b>	<b>32,079</b>	<b>29,639</b>

For a detailed listing of Administered Payments refer to Schedule 8a.

**Figure 7.3 Administered Summary for 2017/18**



Based on the figure above, it is evident that the underwrite of long haul services and tourism marketing equate to a large portion of the total Administered Payment appropriation for 2017/18. More detail on some of the key Administered Payments is provided below.

### 7.5.1 Subsidies

#### Air New Zealand Underwrite of Los Angeles and Sydney Aircrafts

This supports two non-commercial long haul services operated by Air New Zealand from Los Angeles to Rarotonga and from Sydney to Rarotonga. The 2017/18 Budget estimates the underwrite to be \$12 million.

Administered Payment	2017/18	2018/19	2019/20	2020/21
Air New Zealand Underwrite	12,000,000	12,000,000	12,000,000	12,000,000
<b>Total Cost</b>	<b>12,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>

## 7.5.2 Use of Goods and Services

### Marketing – Tourism Growth Strategy

The purpose of the Tourism Growth Strategy is to focus marketing efforts on supporting the relationships the Cook Islands has with our airline partners, including the underwritten flights. This funding supports the Cook Islands Tourism Corporation in their efforts to promote the Cook Islands on the international stage.

<b>Administered Payment</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Tourism Marketing	5,400,000	3,100,000	2,950,000	2,950,000
<b>Total Cost</b>	<b>5,400,000</b>	<b>3,100,000</b>	<b>2,950,000</b>	<b>2,950,000</b>

### Private School Funding

To support the education sector in the Cook Islands, the government provides subsidies to private education providers. This funding allows the high standards in Cook Islands education to be maintained or improved. Their presence relieves some pressure on the public education sector.

<b>Administered Payment</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Private School Funding	2,147,027	2,007,027	2,007,027	2,007,027
<b>Total Cost</b>	<b>2,147,027</b>	<b>2,007,027</b>	<b>2,007,027</b>	<b>2,007,027</b>

### Tertiary Training Institutions

The Cook Islands Tertiary Training Institute (CITTI) maintains accreditation with both the New Zealand Qualifications Authority and London City and Guilds. This gives the institute access to a wide range of vocational qualifications relevant to the labour market and to the development of enterprise in the Cook Islands. Current programmes include food and beverage, culinary arts, hair and beauty, drain laying, automotive engineering, carpentry and electrical. The CITTI also provides an opportunity to develop personal interest and offers a range of non-accredited community courses that support livelihoods for example cooking for market, screen-printing.

CITTI also manages an apprenticeship programme which supports local employers to train young people across the trades and hospitality industries and provides access to formal qualifications through work release.

<b>Administered Payment</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Tertiary Training Institutions	759,855	759,855	759,855	759,855
<b>Total Cost</b>	<b>759,855</b>	<b>759,855</b>	<b>759,855</b>	<b>759,855</b>

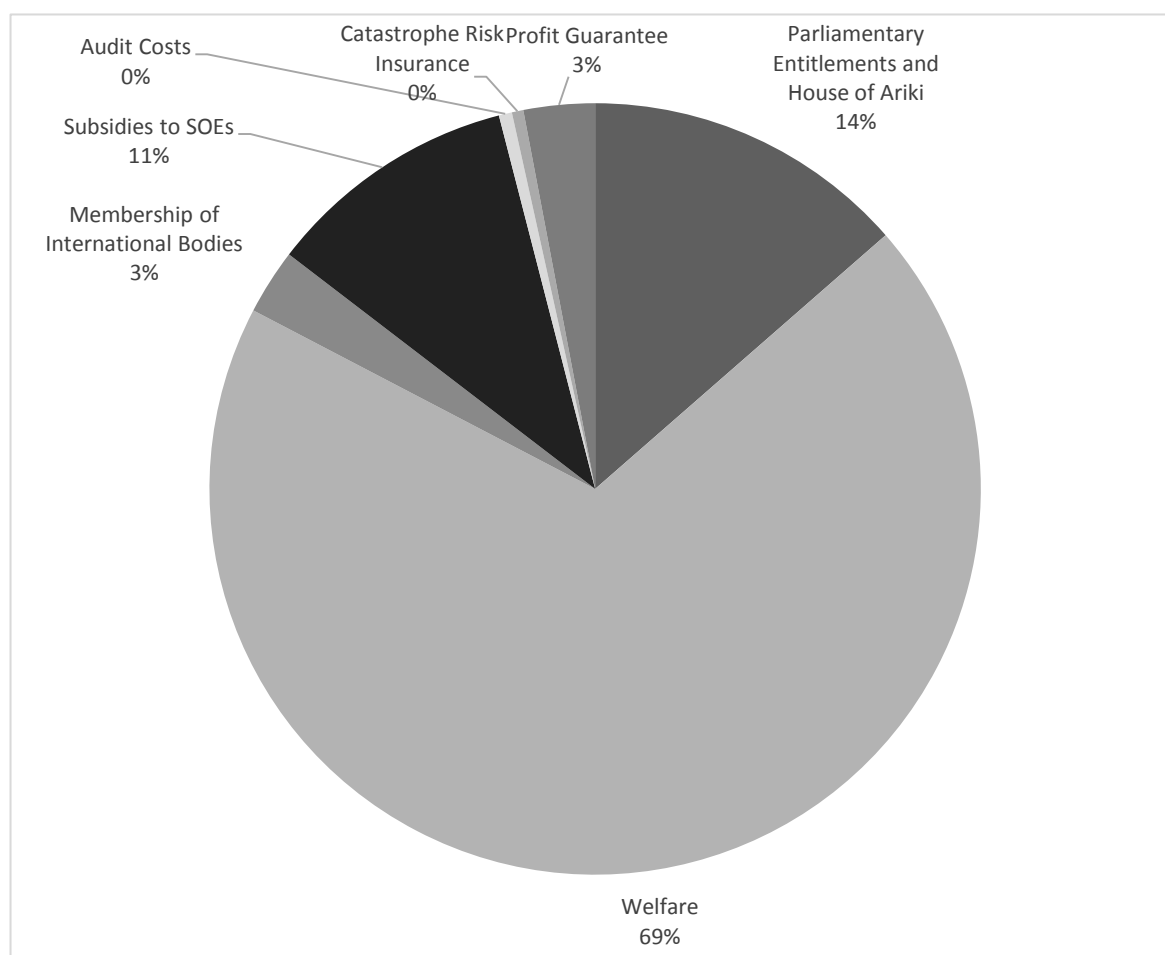
## 7.6 Payments on Behalf of the Crown (POBOC)

A breakdown of the key areas of POBOC expenditure can be seen below.

**Table 7.13 POBOC Summary 2016/17 – 2020/21 (\$000)**

POBOCS	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Parliamentary Entitlements and House of Ariki	3,101	2,810	2,810	2,810	2,810
Welfare	15,800	17,354	17,515	17,678	17,678
Membership of International Bodies	660	689 <sup>15</sup>	689	689	689
Subsidies to SOEs	2,658	2,658	2,658	2,658	2,658
Audit costs	138	138	138	138	138
Catastrophe Risk Insurance	121	121	121	121	121
Profit Guarantee	1,500	750	-	-	-
Other POBOCs	200	600 <sup>16</sup>	-	-	-
<b>Total POBOCS</b>	<b>24,178</b>	<b>25,120</b>	<b>23,931</b>	<b>24,095</b>	<b>24,095</b>

**Figure 7.4 POBOC Summary for 2017/18**



Based on the Figure above, it is evident Welfare is the dominant factor in the level of POBOCs. More detail on each of the POBOCs with significant value is provided below.

<sup>15</sup> Includes additional costs requested for membership subscriptions.

<sup>16</sup> CIIC Training Centre Grant POBOC

## 7.6.1 Parliamentary Entitlements and House of Ariki

### Civil List

Note that these figures include the new appropriation for the shortfall in the MP housing allowance.

<b>POBOC</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Civil List Personnel	2,011,461	2,011,461	2,011,461	2,011,461
Parliamentary Sitting	120,000	120,000	120,000	120,000
Constituency Visits	170,200	170,200	170,200	170,200
QR Travel and Allowance	109,000	109,000	109,000	109,000
MP Travel and Allowance	41,000	41,000	41,000	41,000
<b>Total Cost</b>	<b>2,451,661</b>	<b>2,451,661</b>	<b>2,451,661</b>	<b>2,451,661</b>

### Parliamentary Superannuation

The Civil List Legislation governs the funding for Parliament and the Executive branch of government. This funding allows the government to go about day to day business, including holding sittings, and representing the Cook Islands domestically and abroad.

<b>POBOC</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Parliamentary Superannuation	180,000	180,000	180,000	180,000
<b>Total Cost</b>	<b>180,000</b>	<b>180,000</b>	<b>180,000</b>	<b>180,000</b>

### House of Ariki

As the paramount chiefs of the Cook Islands, the House of Ariki holds an important place in society. This POBOC allows funding for general operations and events to be held, as well as a stipend to recognize the contribution to society made by the Ariki.

<b>POBOC</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
House of Ariki	178,337	178,337	178,337	178,337
<b>Total Cost</b>	<b>178,337</b>	<b>178,337</b>	<b>178,337</b>	<b>178,337</b>

## 7.6.2 Subsidies to SOEs

### Subsidies to State-owned Enterprises (SOEs)

In order to provide equitable basic services for all Cook Islanders, the government provides a subsidy to SOEs involved in the provision of these services to cover the non-commercially viable aspects of their business, which is considered a social responsibility

<b>POBOC</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Bank of the Cook Islands	120,000	120,000	120,000	120,000
Airport Authority	2,047,997	2,047,997	2,047,997	2,047,997
Ports Authority	110,099	110,099	110,099	110,099
Te Aponga Uira	380,000	380,000	380,000	380,000
<b>Total Cost</b>	<b>2,658,096</b>	<b>2,658,096</b>	<b>2,658,096</b>	<b>2,658,096</b>

## Apex - Profit Guarantee

The Apex Profit Guarantee POBOC is a court ordered payment for a profit guarantee to Apex Agencies Limited in accordance with the terms of the TOA settlement agreement that requires Government to, amongst other things, guarantee making up the balance if TOA's profit falls below \$1.2 million per annum. The payment comes to an end in December 2017.

POBOC	2017/18	2018/19	2019/20	2020/21
Apex – Profit Guarantee	750,000	-	-	-
<b>Total Cost</b>	<b>750,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 7.6.3 Social Assistance - Welfare POBOC

**Table 7.14 Welfare POBOC**

	2017/18	2018/19	2019/20	2020/21
Welfare Payments POBOC <sup>17</sup>	17,353,517	17,514,562	17,678,341	17,678,341
Welfare Payments Administered Payments	982,893	983,393	983,918	983,918
<b>Total</b>	<b>18,336,410</b>	<b>18,497,955</b>	<b>18,622,259</b>	<b>18,622,259</b>

These pensions and allowances support and protect the most vulnerable members of our society through the provision of legislated welfare benefits. The split between POBOC and Administered Payments is to recognize ongoing payments, such as pensions and the Destitute and Infirm Payment (DIP), and one-off or short-term payments such as funeral allowances and Christmas bonuses.

The payments are aimed at assisting the disadvantaged, the elderly, disabled and young families to meet the cost of basic needs such as food, shelter and clothing. Without this support, there would be greater levels of poverty in the Cook Islands.

**Table 7.15 Welfare Benefits Types**

	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
1 Old Age Pension	12,281,286	12,455,538	12,779,459	12,779,459
2 Child Benefit	4,036,831	4,023,624	3,863,482	3,863,482
3 Newborn Allowance	200,000	200,000	200,000	200,000
4 Destitute and Infirm Persons Payment	528,000	528,000	528,000	528,000
5 Government-funded Paid Maternity Leave	150,000	150,000	150,000	150,000
6 Caregiver's Allowance	356,400	356,400	356,400	356,400
7 Carer Order Payment	10,400	10,400	10,400	10,400
8 Christmas Bonus	277,293	277,793	278,318	278,318
9 Funeral Allowance	170,000	170,000	170,000	170,000
10 Power Subsidy	79,200	79,200	79,200	79,200
11 Special Assistance	100,000	100,000	100,000	100,000
12 Bank of Cook Islands Transaction Fees	147,000	147,000	147,000	147,000
<b>Total</b>	<b>18,336,410</b>	<b>18,497,955</b>	<b>18,622,259</b>	<b>18,622,259</b>

<sup>17</sup> Includes new initiative costs for the Disability Child Benefit Extension and the Increased to Child Benefits.



**Table 7.106 Details on Welfare Payments**

<b>Legislated Welfare Payments</b>	<b>Payment Rate</b>	<b>Beneficiaries 2016/17 Estimate</b>	<b>Beneficiaries 2017/18 Budget</b>	<b>Assumptions</b>
Child Benefit (monthly)	100	3,352	3,451	The number of eligible children up to age 12 is expected to slightly increase contrary to previous predictions. The rate for the child benefit shall increase from \$66 per month to \$100
New Born Allowance*	1,000	200	200	The number of births is expected to remain stable.
Old Age Pension - 60 to 69 years of age (monthly)	500	1,047	1,065	The number of pensioners in this age group is increasing slightly based on actuals.
Old Age Pension - 70 years of age and over (monthly)	660	740	747	The number of pensioners in this age group is expected to increase slightly.
Destitute and Infirm Persons Payment (monthly)	200	212	220	A slight increase in the number of people receiving these payments based on current trends.
<b>Non-legislated Welfare Payments</b>				
Caregiver's Allowance (monthly)	165	114	160	The number of people that will qualify for caregiver's allowance is likely to increase due to aging population and incidence of NCDs.
Christmas Bonus*	50	5,475	5,536	A slight increase in the total number of beneficiaries expected to receive payment in December 2017.
Funeral Allowance*	2,400	70	70	The number of old age beneficiaries expected to receive funeral assistance is expected to remain stable.
Power Subsidy (quarterly)	66	330	300	Estimated number of old age beneficiaries expected to receive power subsidy is expected to fall with the shift to Renewable Energy in the Northern Group.
<b>Other Payments</b>				
Government-funded Paid Maternity Leave**	1,680	80	80	The number of births by working women in the private sector is expected to remain stable.

**Note:** some payments are not made on a monthly basis.

\*The New Born Allowance, Christmas Bonus and Funeral Assistance are paid on each occurrence. The Funeral Allowance is now paid at two rates: \$2,400 is paid to Cook Islands welfare and pension recipients, and \$1,200 is paid to eligible Cook Islanders receiving the NZ Superannuation.

## **7.7 Welfare Payments**

### **7.7.1 Legislated Entitlements**

The Welfare Act 1989 provides for three types of welfare payments:

- Child Benefit, including a lump sum payment at birth, known as the New Born Allowance;
- Old Age Pension; and
- Destitute and Infirm Persons Relief.

The Employment Relations Act 2012 provides for the Government Funded Paid Maternity Leave payment.

#### **Child Benefit**

The Child Benefit is provided to parents, or guardians, of eligible children under the age of 12. The rate of the payment will increase on 1 July 2017 from \$66 to \$100 per month and is paid in two monthly installments on the 1st and the 16th of each month. This payment was raised from \$40 to \$50 per month in 2002 and to \$60 in 2003. On 1 March 2014, it was increased by 10% to \$66 as part of the tax reform package.

#### **New Born Allowance**

The Newborn Allowance is provided as a lump sum payment to mothers on the birth of a child in the Cook Islands. The rate of the payment is \$1,000. This was raised from \$200 to \$300 in 2004 and to the current rate in November 2010. Applications for payment must be made within six months of the birth of the child.

#### **Old Age Pension**

The Old Age Pension is a taxable payment provided to eligible Cook Islanders from the age of 60.

For those aged between 60 and 69, the rate of payment is \$500 a month. For those aged 70 and over, the rate of payment increased from \$650 a month to \$660 a month on 1 July 2016. Payments are paid in two monthly installments on the 1<sup>st</sup> and the 16<sup>th</sup> of each month.

#### **Destitute and Infirm Payment**

The Destitute and Infirm Payment is a working age payment provided to Cook Islanders that are unable to permanently support themselves by their own means or labour and includes persons with dependents where such dependents are unable, through infirmity or age, to support themselves by their own means and labour.

Eligibility for payment is determined by a committee appointed by the Minister of Internal Affairs and continued eligibility is reviewed every three months in the first year of payment.

On 1 March 2014, the rate was increased by 10% to \$165 as part of the 2013 tax reform package. It is paid in two monthly installments on the 1st and the 16th of each month. In the 2016/17 Budget the rate was lifted to \$200, from 1 July 2016.

#### **Government Funded Paid Maternity Leave payment**

The Government Funded Paid Maternity Leave Payment is a payment to assist private sector employers in meeting paid maternity leave obligations for working women who give birth. The rate is set at the minimum wage based on 40 hours per week for six weeks and was set in 2012 at \$250 per week. From 1 July 2017 the minimum wage will increase from \$6.25 to \$7.00. This increase will raise the maternity leave payment to \$280 per week for six weeks.

The payment is paid in one lump sum to employers of eligible women who are then expected to pass on the payment, in accordance with usual income payment arrangements. The payment is subject to income tax.

This payment is not made to women in the Public Service as Government already provides six weeks maternity leave to employees through agency appropriations.

## **7.7.2 Non-legislated Welfare Payments**

In addition to payments made under the Welfare Act and the Employment Relations Act, the Government has provided executive authority for the payment of five additional welfare payments or allowances:

- Caregiver's allowance
- Christmas bonus
- Funeral allowance
- Power subsidy, and
- Special assistance

### **Caregiver's Allowance**

The Caregiver's Allowance is provided to people that are required to provide substantial day to day care to elderly Cook Islands pensioners or people with permanent disabilities who have high care needs and do not have the capacity to access such care. The rate of payment was increased by 10 per cent from \$150 per month to \$165 per month as part of the tax reform package. It is paid in two monthly instalments on the 1st and the 16th of each month.

### **Christmas Bonus**

A Christmas Bonus of \$50 is a bonus payment expected to be paid out to all eligible beneficiaries in December as a contribution from the Government to assist with costs at that time of the year.

### **Funeral Allowance**

A funeral allowance is provided to families on the death of a person receiving a welfare payment. The rate for the Old Age Pension is \$2,400. A new rate was introduced in 2015/16 for eligible Cook Islanders who receive the NZ Superannuation but reside in the Cook Islands of \$1,200.

### **Power Subsidy**

A power subsidy may be provided, subject to an income test, for beneficiaries of the aged, destitute or infirm relief payment. People receiving an overseas old age pension are not entitled to this benefit regardless of their total income. The rate of subsidy was increased by 10 per cent from \$60 per quarter to \$66 per quarter as part of the tax reform package. The subsidy is provided directly to Te Aponga Uira to offset the power bills of eligible Rarotonga based beneficiaries and directly to individuals for eligible beneficiaries on the outer islands.

### **Special Assistance**

Special assistance may be provided on a case by case basis and subject to an income and asset test to very elderly beneficiaries and people with severe disabilities to improve accessibility and mobility.

### **Bank of Cook Islands Transactions**

Welfare benefits are paid directly into approved Bank of Cook Islands accounts at a transaction charge of \$1 per transaction. It is estimated that in general each beneficiary account will be paid twice per month

## 8 Cook Islands Government Capital Expenditure Budget 2017/18

### 8.1 Summary

The Cook Islands Government Capital Expenditure (CAPEX) appropriated in 2017/18 amounts to \$44.9 million, supporting numerous projects across the Cook Islands. This includes the \$10.9 million loan component of the Manatua Submarine Cable.

The Capital Plan is intended to inform the Cook Islands community of the progress made towards achieving the goals set out in 2016/17, as well as providing an outline of the new initiatives to be embarked on over the period of 2017/18 to 2020/21. It is Government's intention that those capital programmes committed to in the 2016/17 financial year will remain the focus in 2017/18, with resources dedicated to completing these projects in this financial year and a select few, into the next or beyond.

The priority investment areas reflected in the 2017/18 Capital Plan remain largely unchanged with \$30 million committed to existing programmes and approximately \$4 million towards new initiatives, excluding the Manatua Submarine Cable. These programmes continue to be guided by our vision and aspirations "To enjoy the highest quality of life consistent with the aspirations of our people, and in harmony with our culture and environment" - Te Kaveinga Nui, National Sustainability Development Plan 2016 – 2020.

In 2016/17, the Capital Plan highlighted a number of priority areas to be implemented or progressed further, with a four-year expenditure outlook. This included major renewals and upgrades in the water, energy and transport sectors. These efforts will be continued in 2017/18, with further developments in the areas of sanitation and education.

Total capital from government in 2016/17 was \$36.7 million. Of this, \$26.7 million or 73 per cent was expended. Spending was \$10 million lower than budgeted due to the deferral of some projects, including:

- Te Mato Vai – Rarotonga Water Upgrade (incl. China loan) to accommodate ongoing related land matters and project planning for Stage 2 -\$6.5 million;
- deferment of the construction of the central government facility, Vaikapuangi Project, to 2017/18 - 1.9 million;
- Atiu Airport Upgrade to allow for aggregate crushing to service this and other related projects in Atiu purposely scheduled simultaneously to realise efficiencies in services and costs -\$0.5 million;

The Cook Islands government contribution for the 2017/18 financial year is funded by previous years' underspending, cash reserves, and loans the Crown has sole discretion over.

## 8.2 Office of the Prime Minister

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Atiu	Atiu Power Upgrade	660,000	-	-	-
Aitutaki	Aitutaki Renewable Energy Project	2,800,000	-	-	-
National	Government IT Network	40,000	40,000	40,000	40,000
National	Renewable Management Project Management and Support	250,000	250,000	250,000	-
National	Manatua Submarine Cable (loan component)	10,869,565	11,029,412	-	-
<b>Total</b>		<b>14,619,565</b>	<b>11,319,412</b>	<b>290,000</b>	<b>40,000</b>

### Atiu Power Upgrade – Phase 2

The Government is providing \$660,000 in capital funding in 2017/18 to continue the Atiu Power Upgrade initiative to enable reliable distributed power supply through an expansion of distribution lines and decommissioning of the old system.

This project is being delivered in three phases. Phase 1, which commenced in 2011/12, is largely completed with the construction of the power house and new generators to reduce the island's vulnerability to power loss.

Phase 2, funded under this initiative, will enable the procurement of equipment and materials for the supply of low voltage materials, streetlights and metering stations and the installation of these systems. This phase will also support the decommissioning activities associated with the removal of the old overhead cables and power poles and removal from the Island. This phase will also assist with the completion of Phase 1 installations.

Phase 3 is the installation of the new Renewable Energy solar station set to be completed in 2017 and is being funded under the Southern Group Renewable Energy Project funded by the Japan Pacific Environment Community (PEC) Fund.

### Aitutaki Renewable Energy Project – Phase 1

The Government is providing \$2.8 million in capital funding in 2017/18 to extend the national renewable energy plans to the island of Aitutaki with the potential of reducing the island's diesel consumption by 245,000 liters a year and support at least 24 per cent of energy consumption from renewable energy sources.

It is estimated that the gross cost of this initiative will be \$3.5 million; however, this will be partially offset from savings arising from the Southern Group Renewable Energy Project funded by the Japan Pacific Environment Community (PEC) Fund. Procurement is expected to be completed in 2017/18 with construction set for completion in 2018/19.

This initiative will be delivered in three phases. Phase 1 will deliver installation of renewable generation with basic enablers including installation of 750kWp of solar photovoltaic panels, solar curtailment control system, a small back up 240kW diesel generator and a 500kW Battery Energy Storage System. Phase 2 will deliver installation of enabling technologies that will provide a support system for high renewable penetration and further renewable generation. Phase 3 will deliver installation of large energy storage technologies for storing energy for prolonged periods of time and further renewable generation.

This initiative supports the Government's target of achieving 100 per cent conversion to renewable energy sources by 2020. The Northern Group islands achieved conversion to renewable energy in 2015 with

support from the New Zealand Government. The Southern Group islands (excluding Aitutaki) are due for completion in 2017.

### **Government IT Network**

The Government is continuing to provide \$40,000 in capital funding in 2017/18 and each year over the forward estimates for ongoing implementation and maintenance of the centralized Government Information Technology network.

The Government IT network centralises the ICT systems across government agencies, including a number of Island Governments in the Pa Enua. This has enabled rationalization of ICT costs, development of specialist centralized support services and improved the Government's disaster risk management capacity in securing Government information.

### **Renewable Energy Management Project**

The Government is providing \$250,000 in capital funding in 2017/18 to continue support for the project management costs associated with the implementation of the Renewable Energy Programme.

This initiative will ensure continued oversight of the installation of the Southern Group Renewable Energy Project, monitoring of the Northern Group Renewable Energy Project and the power upgrades for Mitiaro, Mauke and Mangaia. This initiative is expected to continue until 2020 as the Renewable Energy Project approaches the target of 100 per cent conversion to renewable energy by 2020.

### **Manatua Submarine Cable (loan component)**

The Government is providing up to \$10.9 million in capital funding in 2017/18, through loan financing with the Asian Development Bank, to support the Cook Islands Government's costs towards the Manatua Submarine Cable project. New Zealand Aid will also provide funding towards this project.

This initiative will support the Government's priority for improved connectivity and represents a significant enabler for economic growth, social development and keeping Cook Islanders in touch with their families and the world abroad. This initiative will also ensure faster, more reliable and affordable broadband connections.

The Polynesian Connectivity Project has been developed in partnership with the Governments of Samoa, French Polynesia and Niue and will enable the procurement and installation of the Manatua Submarine Cable. Manatua's main trunk will directly connect Samoa and French Polynesia with branching units linking Niue, Rarotonga and Aitutaki. This will provide the Cook Islands with two way connectivity through both Samoa and French Polynesia.

It is estimated that the gross cost of this initiative will be \$35 million; however, this will be partially offset with grant funding of \$15 million from the New Zealand Government. There are expected to be opportunities for equity share arrangements which may further minimize the loan financing under this project. These opportunities are yet to be confirmed. Procurement is expected to be completed in 2017 with construction set for completion in 2019.

## 8.3 Cook Islands Investment Corporation

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	300,000	-	-	-
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	250,000	250,000	250,000	-
Rarotonga	Tereora College Redevelopment Stage 1	1,462,000	-	-	-
Rarotonga	Vaikapuangi Government Building - design	450,000	-	-	-
Rarotonga	Vaikapuangi Government Building - construction	-	-	5,000,000	5,000,000
Aitutaki	Arenikau Water Storage tank	315,000	-	-	-
		<b>2,777,000</b>	<b>250,000</b>	<b>5,250,000</b>	<b>5,000,000</b>

### Apii Nikao Rebuild

The new Apii Nikao school buildings are expected to be completed before the start of the 2018 school year. The project is funded and implemented by the Government of the People's Republic of China.

The rebuild project comprises of three classroom blocks covering approximately 5,200m<sup>2</sup>. The buildings will feature flexible learning spaces which include large learning areas for each grade and break-out spaces for individual or smaller group learning.

These flexible spaces support innovative learning principles promoted in New Zealand schools. Apii Nikao introduced the innovative learning system when Nikao Maori and Avatea schools merged in early 2015. Water tanks, solar panels for power generation, and a pillared-concrete fencing system will be installed to make the school more resilient to climate change and to reduce its carbon footprint.

The PRC Government assigned three companies to the project. China Urban Construction Design & Research Institute Co. Ltd was appointed early 2016 to work on the designs and specifications. The designs were finalised in March 2017 following several exchanges with the Cook Islands Investment Corporation. In November 2016 China Railway Fifth Survey and Design Institute Group Co. Ltd was appointed as the Construction Supervisor. Their primary role is to ensure that project designs, specifications and quality standards are being achieved.

The China Civil Engineering Construction Corporation was awarded the construction contract in April 2017. Mobilisation of their management and staff started soon after to allow work to start without further delay. Construction commenced in May 2017.

Additional civil works associated with the rebuild project will be implemented by the Cook Islands Government. This includes access road and drainage improvements.

### Orongo Development Project

Activity on the Orongo Development Project through the 2016/17 year has been limited. Changes in circumstances in Aitutaki required a review of the project priorities which were clarified towards the end of that financial year.

It is therefore expected that progress on implementing the agreed project activities will see the funds fully expended during the 2017/18 financial year. This will include the commissioning of the public toilet facility, channel dredging, and the development of the marina area in front of Aitutaki Fishing club.

### **Tereora College Redevelopment Project – Stage 1**

Stage 1 of Tereora College Redevelopment commenced in October 2016. The construction contract, which was awarded to Landholdings Ltd, is well underway with the two buildings on target for completion in December 2017.

Redevelopment of Tereora College responds to demands for modern and flexible infrastructure that will support innovative learning. The redevelopment plan comprises of three stages; Stage 1 is the Technologies, Student Research and Administration Centres, Stage 2 is the Academic Centre and Stage 3 is the Performing Arts Centre.

Stage 1 is funded by New Zealand with significant input by the Cook Islands. Stages 2 and 3 currently remain unfunded. It is hoped that the redevelopment project will be completed over the next 10 to 15 years.

Demolition and civil works associated with Stage 1 are funded by the Cook Islands Government. In 2016/17 five buildings and the BCI hardcourts were demolished to make way for the new buildings. In 2017/18 the last building will be demolished, the new access road to the school will be constructed together with additional paving and parking. Request for Tenders for this work will be issued in July/August 2017.

### **Vaikapuangi Project**

Consolidating the majority of government facilities on Rarotonga to a central, publicly owned and modern, purpose built facility still remains a priority of Government. The goal of this project is to demonstrate value for money by rationalising use of our assets, improving resilience and working conditions, removing accessibility barriers and enhancing delivery of public services.

This project will be implemented in stages over a period of financial years subject to completion of scoping study commencing in 2016/17. It should be noted that this is a deviation from original plans that would see construction start this year, however it was decided to extend the project into a whole of government approach based on the optimum utilisation of available Crown Land for the construction of fit for purpose government offices and related facilities. It is envisaged that the approach will address the current issue of storage and archiving will also be addressed through the construction of a purpose-built facility in Vaikapuangi.



## 8.4 Infrastructure Cook Islands

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Atiu	Atiu Runway Stabilisation	427,419	-	-	-
Atiu	Atiu Road Improvement Programme	242,000	-	-	-
Rarotonga	Avatiu Valley Stream embankment	36,000	-	-	-
Rarotonga	Bridges & Drainage	1,810,365	870,000	750,000	-
Mitiaro	Manea Games Upgrade	-	-	-	100,000
Mangaia	Mangaia Road Improvement Programme	495,336	-	-	-
Mitiaro	Mitiaro Water Upgrade	247,000	-	-	-
Nassau	Nassau Cyclone Centre	-	500,000	-	-
Penrhyn	Omoka Harbour Upgrade	250,000	-	-	-
Palmerston	Palmerston Cyclone Center	390,311	-	-	-
Penrhyn	Penrhyn Cyclone Centers (Omoka & Tetautua)	-	1,000,000	-	-
Pukapuka	Pukapuka Airport terminal buildings upgrade	121,500	13,500	-	-
Rakahanga	Rakahanga Cyclone Centre	550,000	-	-	-
Rarotonga	Rarotonga Road Improvement Programme	2,000,000	2,000,000	2,000,000	2,000,000
Rarotonga	Road Network Maintenance	630,000	630,000	630,000	630,000
Mangaia	Tamarua Water Project	250,000	-	-	-
Rarotonga	Tip Truck	100,000	-	-	-
Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	150,000	-	-	-
Rarotonga	Water Network Maintenance	500,000	500,000	500,000	500,000
Aitutaki	Establishing new Water Galleries	467,655	381,340	-	-
<b>Total</b>		<b>8,667,586</b>	<b>5,894,840</b>	<b>3,880,000</b>	<b>3,230,000</b>

### Establishing new Water Galleries for Aitutaki

Due to some delays in the development of new water galleries for the island of Aitutaki, funds will be shifted and the development of new water galleries, as well as the redevelopment of existing water gallery assets, will commence in 2017/18 and phased out to 2018/19. This will now be managed by ICI.

### Atiu Runway Stabilisation

The island has unrealized potential in terms of tourism services, providing the opportunity for further economic gains through the operation of increased flights and larger aircrafts servicing Atiu. This project will enable this growth by providing an airport runway that meets required standards for the safe air transportation of passengers and cargo to and from Atiu. It will also enable increased outward carriage of Atiu trade products.

The scope of works includes the lengthening and widening of the airport to meet aviation operation and safety requirements, upgrading the runway pavement and surface, and secure fencing to control and restrict access to and within the airfield.

## **Bridges & Drainage**

Rarotonga has approximately 76 bridges within its transport network. Historically these assets have not been suitably maintained. This, coupled with increased use and vehicle loads on this infrastructure, has resulted in a deterioration of these assets, structural capacity in particular has become a major concern. As these structures are critical to maintaining and improving the road network for the population and tourists alike, government has committed funding to undertake the required structural inspections, repairs and improvements to these assets.

As part of this work critical drainage assets are also being inspected and prioritised for repair or replacement. The requirement for new drainage infrastructure is being assessed and will be facilitated under this CAPEX where possible.

During this financial year Infrastructure Cook Islands will continue assessing the remaining bridges and drainage structures around Rarotonga to confirm remedial and repair works to be undertaken within this CAPEX. However priority has been given to the critical Empire Bridge which will be undertaken during the 2017/18 financial year with further bridge replacement works in the following years.

## **Mitiaro Water Upgrade**

Water supply and storage on the island of Mitiaro requires significant rehabilitation. The primary water supply source is via groundwater and is used for non-potable purposes, while harvested rainwater is used for potable purposes.

Currently, the underground Vai Uti cave is the sole supply of groundwater. Water is pumped to an elevated reservoir tank and gravity-fed to the wider Mitiaro community. There are several issues with the water supply system including high salinity, water wastage through leakage, highly corroded reservoir tank and platform stand and issues with the catchment and storage of rainwater tanks.

The objective of the Mitiaro Water Upgrade is to address current problems and plan for a long-term efficient water supply system. Procurement for the replacement of the reservoir tank and platform stand was undertaken during 2016/17. In 2017/18, further work will be undertaken on improving or replacing existing water infrastructure to the required levels of service, including options to improve water supply resilience through identification of alternative sources.

## **Pa Enea Cyclone Centre Programme**

The Government recognises the need to improve the resilience of our Pa Enea against the effects of climate change and the resulting increase in frequency and severity of cyclones. The Government has committed to constructing a purpose built cyclone shelter for Rakahanga Island in 2017/18.

Two additional cyclone shelters in Penrhyn are being funded through the 2017/18 Budget. These shelters will be constructed in the 2018/19 financial year.

These projects will be delivered in conjunction with government agencies and the respective island administrations to ensure the delivery of a multi-purpose structure to service the needs of our Pa Enea communities.

A cyclone centre is also being provided for the island of Palmerston and will be funded by Japan. Further information is provided in the ODA chapter.

## **Pa Enea Road Improvement Programme – Atiu & Mangaia**

This road improvement programme aims to improve the land transport network of roads, both sealed and unsealed, on the islands of Atiu and subsequently, Mangaia. The sealed roads have now come to the end of their service life and require rehabilitation and improvement. Government is committed to upgrading

the roads on these islands. The project will involve rehabilitation of pavements, including new granular pavement construction, drainage improvements to protect the pavement integrity over the long term and a new chip seal surface.

This project will be delivered in conjunction with other road improvement works around the Pa Enea in the form of a systematic approach, recognizing that heavy duty and technology-specific road sealing machinery will be shared across the projects during 2017/18 and in future years.

### **Rarotonga Road Improvement Programme**

The Government is continuing its significant investment in the road infrastructure of Rarotonga through the annual roll out of the Rarotonga Road Improvement Programme. Sections along the main ring roads, Ara Tapu and Ara Metua, will be improved to provide for a quality, safe and reliable land transport network.

The improvements will be undertaken to upgrade road standards which will realise economic returns in decreased road maintenance costs, decreased costs in vehicle maintenance across the community and improved safety to road users. Additional improvements such as pedestrian facilities, road safety improvements and provision for safe cycle use will improve the amenity value as well as providing for a true multi modal transportation system. Works programmed for the 2017/18 budget year will be to improve the Ara Tapu network from Pokino Road into Arorangi.

### **Tamarua Water Project**

History has shown that Mangaia is prone to water shortages during prolonged drought conditions. Over the years this has varied from 3 to 7 months without good rainfall. Mangaia has three main villages, Oneroa, Ivirua and Tamarua, which rely on stream surface water and rainwater for water supply.

The village of Oneroa has an additional water supply source via groundwater and is adequate for water supply all year round. The village of Ivirua has recently completed installing a similar set-up to Oneroa, having an additional water source via groundwater, pumping from cave water and springs. Tamarua has intermittent water supply from its nearby stream and the rainwater tanks are affected when there is long periods without rainfall, often resulting in water rationing or cartage from the other villages.

In 2016, a stream within Tamarua was identified as a potential site to supply sufficient water for the village of Tamarua. The project involves the construction of a new water intake, installation of water pipes and pumps, including associated water infrastructure to supply to the village of Tamarua.

### **Tukao Passage Widening project**

Government is committed to working with the Manihiki island community to improve access into and out of the lagoon. Initial scoping and design works has identified Tukao passage as a feasible site to improve lagoon access. The site has potential for low environmental impact as the bulk of the works comprise coral head removal from in and around the passage. The Tukao Passage works will improve and increase safe access to and from the Manihiki lagoon for barges, canoes and fishing boats.

### **Water Network maintenance**

Maintenance of our water network and intake is an ongoing responsibility for government to ensure that clean water is delivered into the homes of our people. This funding is utilised to undertake intake maintenance work on 12 intakes around Rarotonga to regularly clean the filtration and remove debris usually after heavy rains. The programme also covers efforts to minimise water wastage around the islands by attending to leaking pipes and broken mains at any time of the day and night.

## 8.5 Ministry of Finance and Economic Management

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
National	Banking payments system	635,000	-	-	-
Rarotonga	FMIS purchase and implementation	419,839	320,825	259,336	-
Rarotonga	AEOI IT System	500,000	-	-	-
Rarotonga	Te Mato Vai - Rarotonga Water Upgrade (incl China loan)	13,000,000	11,276,792	7,063,036	-
Rarotonga	Water & Associated Services Programme (WASP)	2,080,846	10,289,691	7,000,000	7,000,000
	<b>Total</b>	<b>16,635,685</b>	<b>21,887,308</b>	<b>14,322,372</b>	<b>7,000,000</b>

### Financial Management Information System (FMIS)

This capital item was proposed in 2015/16 and started with ODA funding to procure an FMIS system for implementation across government. The project has been discussed with International Aid organisations and Government since 2010.

It is intended that the FMIS system will be a centralised database system readily accessible by ministries and agencies across government to better manage and monitor finances and meet financial reporting requirements.

This system gives greater transparency and accountability in Public Financial Management guided by established business rules, compliant with audit requirements. Public Sector specialist applications provide better information management for improved decision making and allows greater efficiencies gained through the utilisation of expert staff and finance professionals to oversee and improve practice.

The concept of investing in a single FMIS system for the government has originated from a number of studies that have been done in recent years. FMIS is projected to be at the contract award stage in September 2017.

### Te Mato Vai – Rarotonga Water Upgrade

The Cook Islands Government embarked on a multimillion dollar upgrade of the water supply system on Rarotonga, with the goal of “delivering potable water, reliably, to all properties connected to the existing water supply network”, originally by 2015. In order to achieve its target, the Cook Islands Government formed “Te Mato Vai” – the Cook Islands Water Partnership with the Governments of the People’s Republic of China and New Zealand. Funding for the Water Supply Upgrade has been provided through a combination of Cook Islands Government funds, a Chinese Government loan and grant assistance from the New Zealand Government.

The project is divided into two stages – Stage 1 being the replacement of the ring main; Stage 2 being the refurbishment of intakes and provision of storage, filtration and trunk mains.

To date, the ring main pipeline construction works, carried out by the China Civil Engineering Construction Corporation (CCECC) has been completed, initiating the 12 months defect liability period. Any defects in the construction works discovered during this period will be remedied by CCECC.

Between August and December 2016, a number of meetings were held with landowners of the 10 water intakes identified for Stage 2, seeking cooperation and consent for access by contractors to perform site surveys and complete final designs. Subject to the agreement of landowners, implementation of Stage 2 is expected to start in 2017/18 and be completed in two years.

## Mei Te Vai Ki Te Vai/ Water & Associated Services Programme (WASP)

In January 2017, the Cook Islands Government launched the Mei Te Vai Ki Te Vai project to improve the water quality of the lagoons in Rarotonga and Aitutaki. The Project Steering Group, led by the Ministry of Finance and Economic Management, includes a number of key government agencies that together provide unified governance and policy direction.

The project includes an environmental monitoring and investigation program for the Muri and Avana lagoon area, early measures to address the sea-water quality issues in the shorter term, the design of permanent infrastructure for improved wastewater management in the long-term and the establishment of a Crown-owned water and wastewater authority.

The Government is committed to working with the community to understand the relevant issues, identify and evaluate alternatives and implement solutions.

## 8.6 Ministry of Health

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
National	Fund to be Prioritized by Health for Technical Equipment	275,000	275,000	275,000	275,000
Rarotonga	Medical Service Bed End Panels	309,500	-	-	-
Rarotonga	Ambulance	150,000	-	-	-
Rarotonga	Hospital Incinerator	250,000	-	-	-
	<b>Total</b>	<b>984,500</b>	<b>275,000</b>	<b>275,000</b>	<b>275,000</b>

### Funds to be prioritised by Health for Technical Equipment

There are various medical instruments and equipment used every day that aid in routine health check-ups. These are all essential for the provision of quality health services within a healthcare facility. In a nutshell, medical professionals cannot perform effectively without the right medical equipment. Medical equipment is prone to normal “wear and tear” and the budget of \$275,000 per annum ensures the Ministry’s capacity to purchase necessary medical equipment for hospitals and health centres in Rarotonga and the Pa Enuu.

### Medical Service Bed End Panels

These funds will cover the costs of implementing the final phase of the package purchase that has been offered to the Ministry of Health that includes the purchase and installation of beds, medical service bed end panels including gas lines and a wireless patient call system. These are required to complete the set up and meet the minimum standard requirement of a ward in any hospital. These installations are required for medical, maternity, surgical ward and paediatric ward of the Rarotonga Hospital.

### Ambulance for Rarotonga Hospital

The purchase of the second ambulance aims to benefit the Cook Island population, as well as to compliment the ambulance fleet at the hospital. Current ambulance provision comprises of one brand new ambulance (funded by MFAT-NZ through the partnership funding with the Cook Islands Ministry of Health in 2015) and two second-hand and aged ambulances (one operational as the second one has been used as spare parts).

### Incinerator for Rarotonga Hospital

The effective management of clinical waste and proper disposal of all medical waste is important for the health and safety of the community and the environment. The \$250,000 appropriation will be used to replace the old incinerator. This will improve the management and treatment of healthcare waste and ensure that MOH maintain best-practice options for disposal, improve personnel skills and competency in managing healthcare waste, healthcare waste separation and infection control practices; promote the advantages of sustainable segregation and storage techniques for the different waste streams and an understanding of the health and safety risks resulting from the mismanagement of healthcare goods; provide an established segregation audit of healthcare waste; and provide a disposal system that reduces the potential hazard posed by healthcare waste while endeavouring to protect the environment.

## 8.7 Ministry of Agriculture

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Rarotonga	Vanilla Shade Houses	100,000	-	-	-
		<b>100,000</b>	-	-	-

### Vanilla Shade Houses

This component of the project focuses on “Investing in Vanilla Production for Rarotonga and selected Pa Enea, for Economic Growth and sustainable livelihood” by constructing six new shade house structures and plantings for identified sites around Rarotonga and the Southern Pa Enea.

## 8.8 Ministry of Education

Island	Project/Programme	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
National	Fund to be prioritized by Education	360,000	110,000	110,000	110,000
		<b>360,000</b>	<b>110,000</b>	<b>110,000</b>	<b>110,000</b>

### Funds to be prioritized by Education

The Ministry of Education receives an annual appropriation of \$110,000 for capital expenditure across all schools. This funding meets the requirements of replacement plans for computers, photocopiers, other multi-media items, desks, chairs and other classroom furniture. An additional \$250,000 has been made available from the New Zealand Aid higher modality fund, originally appropriated for 2015/16. This has been transferred to 2017/18 and incorporated into the government appropriation.

## 9 Tax Expenditure

A key element of fiscal transparency is the analysis and management of tax expenditures. Tax expenditure in broad terms, is a tax provision that deviates from a benchmark tax system.

Tax expenditures may take a number of forms: exclusions, exemptions, allowance, deductions, credits, preferential tax rates, or tax deferrals. Tax holidays and tax free zones are tax expenditures subject to specific time periods or geographical areas.

To identify what a tax expenditure is, a normative or a benchmark tax structure must be established. In the case of the Cook Islands, the benchmark tax structure is the existing tax regime as governed by the following Acts:

- Income Tax Act 1997;
- Value Added Tax Act 1997;
- Customs Revenue and Border Protection Act 2012; and
- Customs Tariff Act 2012.

### 9.1 Import Levies

1. Concession on fuel to the outer islands.

Fuel to all outer islands is free of levy except Aitutaki where the rate is 15 cents per litre on petrol and 5 cents per litre on diesel. These concessions are estimated to cost around \$600,000 in 2017/18.

The rate for Rarotonga is 28 cents per litre on petrol and 22 cents per litre on diesel.

2. Concessions for returning Cook Islanders.

All levies are waived for returning Cook Islanders who have been away for more than three years and are returning to live in the Cook Islands for the next two years.

The estimated cost to revenue of the concession provided in 2017/18 is estimated to be \$450,000.

3. Concessions for non-Cook Islanders.

All levies are waived for non-Cook Islanders who have been away for more than three years and are arriving to live in the Cook Islands for the next three years.

The estimated cost to revenue of the concession provided in 2017/18 is estimated to be \$60,000.

4. Levy free jet fuel.

There is no levy payable on jet fuel and aviation kerosene supplied to jet propelled aircraft.

### 9.2 Income Tax

5. Deductions allowed in respect of donations to charitable organisations.

Charitable donations are deductible from taxable incomes at the marginal rate of one's income. The minimum donation is \$200 and the maximum donation is \$5,000 per annum.

The estimated cost to revenue of this deduction provided is estimated to be \$250,000 based on past rebate claims and deductions made.

6. Income of Queen's Representative.

The income of the Queen's Representative is exempt.

The cost of this exemption is estimated to be \$30,000 per year.

7. Pensions arising from disability or from services provided in respect of any war.

All 'war pensions' and allowances paid to persons who served in a war or were injured during any service in the armed forces of any nation are exempt of income tax.

8. Income from approved superannuation funds.

Incomes derived by either the New Zealand Government Superannuation Fund or by a superannuation fund approved by the Collector are exempt from tax.

9. Income derived by charitable organisations.  
All income derived by charitable organisations is exempt of tax. There are an estimated 30 to 40 charitable organizations in any given year.
10. Income derived by promoters of amateur sports.  
All income derived in the promotion of amateur sport is exempt of tax.
11. Income derived under a government approved supplementary scheme.
12. Incomes derived by teachers and other employees approved by government under a supplementary scheme are exempt of tax. This applies only to the supplementary income received, not the income paid by the Cook Islands government.
13. Income derived by consular and diplomatic personnel.  
Income derived by consular and diplomatic personnel as is exempted under the Diplomatic Privileges and Immunities Act 1968.  
It is estimated that this concession costs around \$100,000 a year, but this is offset somewhat by the reciprocal treatment of Cook Islands diplomatic staff based in New Zealand being exempt from New Zealand taxation.
14. Income derived from a foreign source in the context of international foreign aid.  
Income derived in the context of foreign aid, paid by a non-resident to a non-resident employer is exempt of tax.
15. 95 per cent of incomes derived upon retirement.  
Where an individual retires from employment, only 5 per cent of the retirement payment shall be subject to tax.

### **9.3 Value Added Tax**

16. Consistent with the VAT application globally, financial services provided by domestic trading banks are exempt of VAT.
17. Attendance dues paid to private schools are exempt of VAT.
18. Goods imported by non-profit and religious organisations, schools and for disaster relief are exempt of VAT upon importation.  
The estimated cost of providing this exemption in 2017/18 is estimated to be \$100,000 based on exemptions given in 2016/17.
19. Goods imported by the Queen Representative and New Zealand High Commission are exempt of VAT upon importation.  
The estimated cost to revenue of the concession provided in 2017/18 is estimated to be \$20,000.



## 10 Crown Debt and Net Worth

### 10.1 The Loan Repayment Fund (LRF)

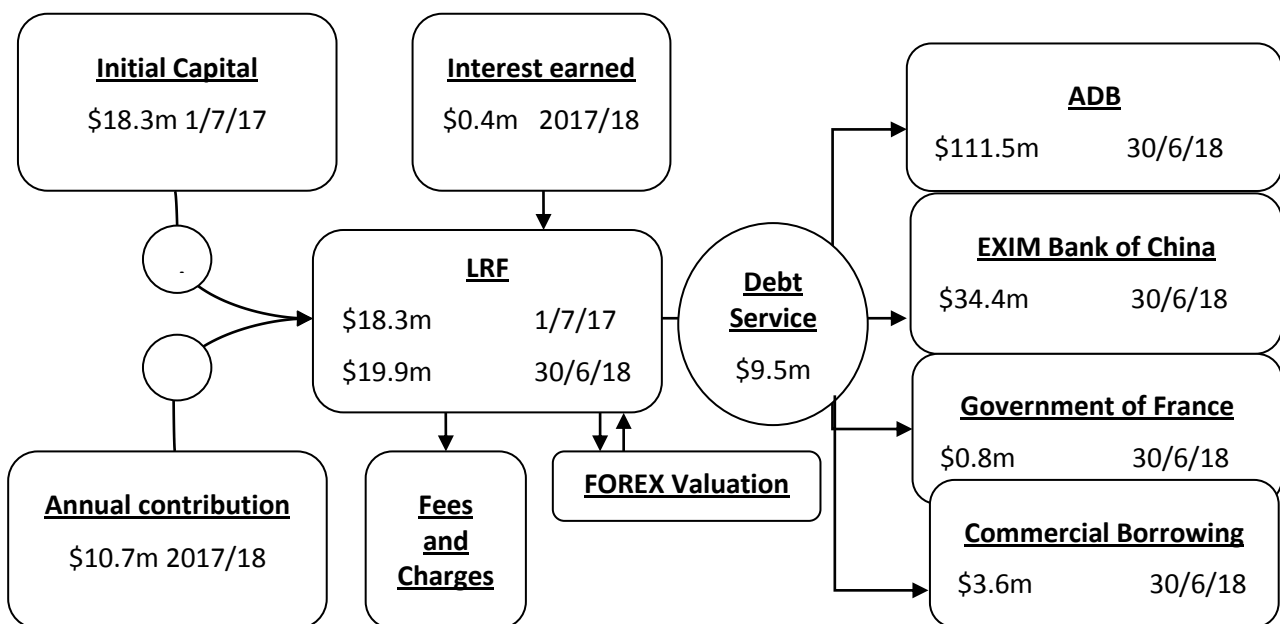
In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund Act (LRF Act) 2014 formally creating a Loan Repayment Fund (LRF). The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilized for anything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

Since its enactment, the LRF has become the official means by which the Cook Islands Government (Crown) manages its debt portfolio.

In the 2017/18 Budget, the appropriations shown in Schedule 4 represent the transfer of funds into the LRF, satisfying Section 32 of the MFEM Act (showing the appropriation for borrowing expenses and debt repayment). Under the LRF Act, these payments can only be used for debt servicing obligations, and hence, the funds held in the LRF can only be used to settle debt obligations, as per Section 61 of the MFEM Act (they do not require a Budget appropriation, as they have already been appropriated for in previous periods).

The figure below explains these movements in a diagram form.

**Figure 10.1 Loan Repayment Fund movements 2017/18<sup>18</sup>**



The LRF currently has sufficient funds to fully cover all debts owed by or on behalf of SOEs to official lenders, with the notable exception of loans relating to the redevelopment of Avatiu Port, which is being managed by the Ports Authority. These SOEs include the Te Aponga Uira, and Telecom Cook Islands Limited (Bluesky). The Bank of the Cook Islands (BCI) is a financial institution, and is considered separately due to the specialised nature.

<sup>18</sup> Note that these numbers do not include any provision for the DRM Loan to be drawn down.

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

**Table 10.1 Loan Reserve Fund Statement (NZD '000)<sup>19</sup>**

	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Opening LRF balance</b>	<b>17,255</b>	<b>18,339</b>	<b>19,929</b>	<b>19,633</b>	<b>19,313</b>
Contribution to LRF principle	6,893	8,619	8,608	8,211	8,211
Contribution to LRF interest	1,710	2,063	2,058	2,022	2,022
Transfer in	8,603	10,682	10,666	10,233	10,233
Interest earned (avg 2%)	345	367	399	392	385
<b>Total transfer in</b>	<b>8,948</b>	<b>11,049</b>	<b>11,065</b>	<b>10,625</b>	<b>10,618</b>
Repayment of SOE debt					
Principal	732	732	732	747	747
Interest	159	149	138	130	119
<b>Total repayment from LRF</b>	<b>892</b>	<b>881</b>	<b>870</b>	<b>877</b>	<b>866</b>
Repayment of other debt					
Principal	4,272	5,636	7,394	7,170	8,995
Interest	2,641	2,881	3,078	2,881	2,667
<b>Total repayment other debt</b>	<b>6,913</b>	<b>8,517</b>	<b>10,472</b>	<b>10,051</b>	<b>11,662</b>
Other service fees *	60	60	60	60	60
<b>LRF stock balance</b>	<b>18,339</b>	<b>19,929</b>	<b>19,591</b>	<b>19,228</b>	<b>17,257</b>

The table above illustrates the movements in the LRF in the next five years and includes provisions related to two loans, pending at the time of writing, for the provision of an undersea cable for broadband, and the upgrade of equipment for Rarotonga Airport. The figures do not include any provisions related to the Disaster Recovery Mechanism (DRM) loan from the ADB, which is only triggered in the event of a catastrophe. The transfers into the LRF will increase from \$8.603 million in 2016/17 to \$10.682 million in 2017/18 due largely to the grace periods on existing loans finishing, and some recent new loans. This transfer is divided into two components: a debt interest obligation (\$2.063 million) and a debt principal repayment (\$8.619 million); these are the estimated required payments into the LRF and are complimented by retained interest revenue of \$0.367 million.

The LRF payments are smoothed in order to reduce the volatility to the Crown's cash reserves from new debt obligations and exchange rate shocks. Therefore, the payments made into the LRF will not match the debt servicing profile. For example, despite the debt servicing profile peaking at \$12.6 million in 2020/21, the cost to the Crown peaks at only \$10.7 million (excluding interest revenue) in 2017/18 due to the smoothing effect of LRF contributions.

The payments into the LRF will fall in a stepped manner as the current loan stock is repaid. Equally, payments into the LRF will rise as new loans are committed and drawn down.

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

<sup>19</sup> Note that this table differs from the other LRF balances in this chapter due to the exclusion of the NZ\$13.95 million DRM Loan. This is included as a contingent liability in other parts of the chapter.

## 10.2 Gross Debt owed by the Crown

Total gross debt owed by the Crown as at 30 June 2018 is now estimated to be \$150.2 million<sup>20</sup>, a variance of \$21.6 million from the 2016/17 HYEPU. Table 10.2 shows the movement was primarily due to the taking on of new debt, partially offset by some favorable exchange rate movements.

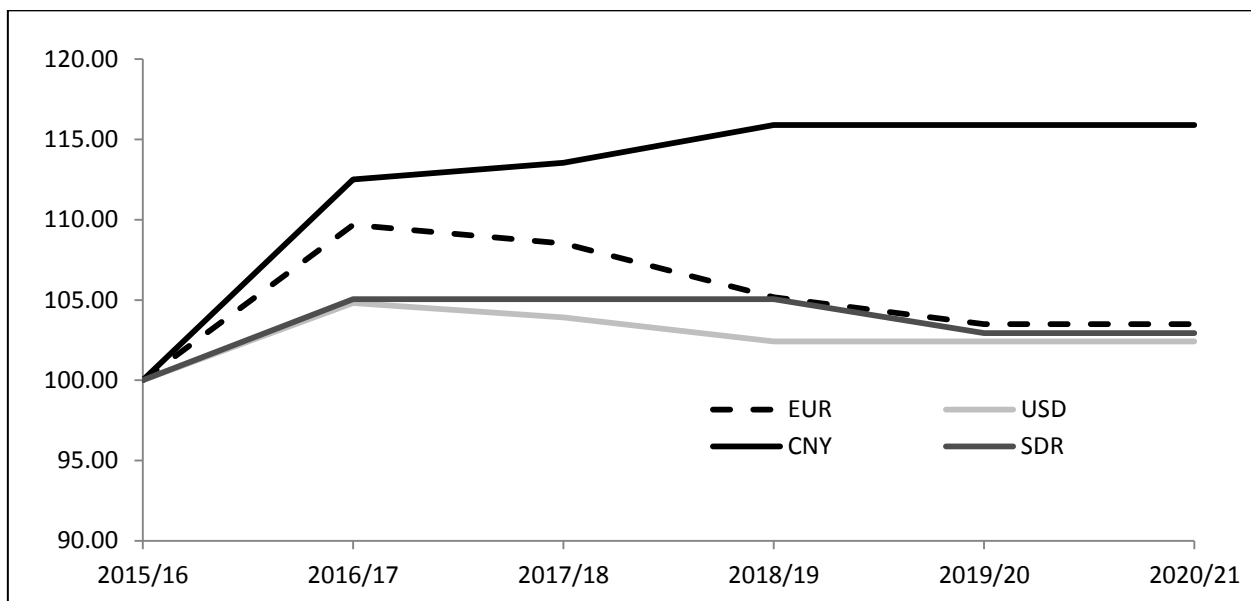
**Table 10.2 Reconciliation on 2016/17 Loan Movement**

<b>Movement Reconciliation</b>	<b>\$ Million</b>
Initial estimated gross debt for 30 June 2017 (2016/17 HYEPU)	128.6
Additional borrowing (NZD equivalent)	
Submarine Cable loan	21.7
Rarotonga Airport equipment	4.0
Movement during the period	
Unrealised exchange (gain)/loss	-4.2
<b>Estimated gross debt for year ending 30 June 2018</b>	<b>150.2</b>

The exchange rates assumptions for the 2017/18 Budget have been recommended by Bancorp.

Estimated changes in major exchange rates against the New Zealand Dollar (NZD) are reflected in the figure below.

**Figure 10.2 Estimated Changes in Major Exchange Rates (indices – 2015/16 = 100)**



The cause of this favourable movement in exchange rates (in terms of outstanding debt) was predominately due to changes in the exchange rate against the Chinese Yuan (CNY) and the Special Drawing Right (SDR) in the period since the 2016/17 HYEPU. The SDR is a basket of currencies composed of the Chinese Renminbi, the US dollar, euro, Japanese yen and pound sterling. Whilst the exchange rate against the euro shows significant movement, borrowings in euro are small.

In the 2014/15 year, the Crown converted both US dollar (USD) loans held with the Asian Development Bank (ADB) to NZD, leaving all outstanding debt with the ADB in either SDR or NZD. The new loan for the Manatua Submarine Cable is the only debt explicitly denominated in USD. The movement in the NZD exchange rate against the USD is still closely monitored, as all SDR loans held with the ADB are repaid in a

<sup>20</sup> All debt amounts assume full drawdown of the contingent DRM loan

USD equivalent.

Table 10.3 shows the movement between exchange rates recommended by Bancorp at the time of the 2017/18 Budget, compared with those used in the 2016/17 HYEFU.

**Table 10.3 Exchange Rate Assumptions – 2017/18 and 2018/19**

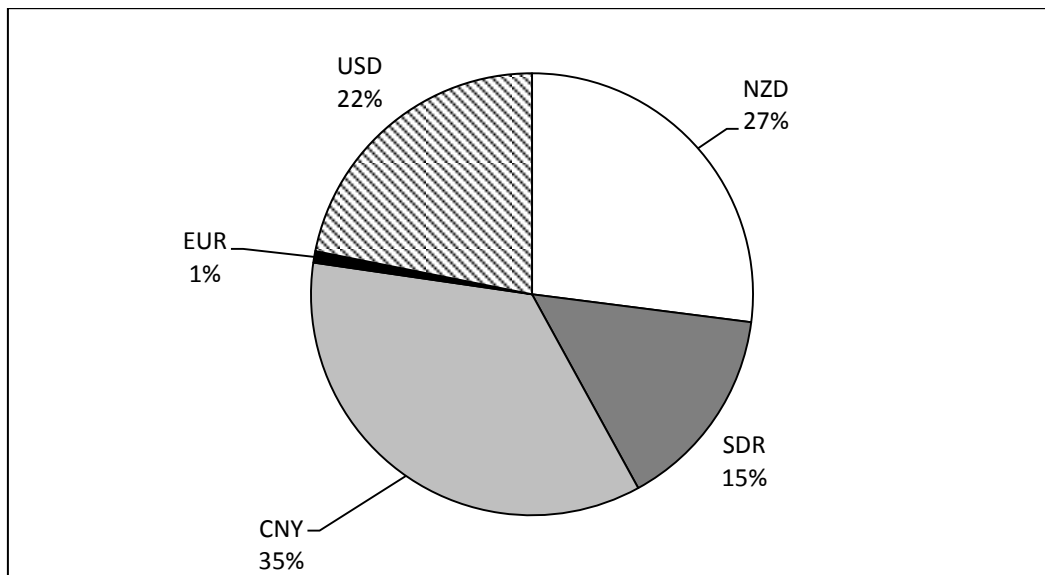
Currency	2017/18		2018/19	
	2016/17 HYEFU	2017/18 Budget	2016/17 HYEFU	2017/18 Budget
EUR	0.6000	0.6500	0.6000	0.6300
USD	0.6600	0.6900	0.6600	0.6800
CNY	4.5000	4.8500	4.5000	4.9500
SDR	0.4800	0.5000	0.4600	0.5000

The NZD appreciated against all major currencies in which the Crown’s debt is denominated.

### 10.2.1 Debt held directly by the Crown

Directly held Crown debt (that is, debt not held by or on behalf of State-Owned Enterprises (SOEs), or in the DRM Loan) is mainly denominated in foreign currencies, with 27 per cent of debt in local currency. Of the remaining 73 per cent denominated in foreign currencies, CNY is at 35 per cent, followed by the USD at 22 per cent (for the Manatua Cable), SDR at 15 per cent, and euro (EUR) at 1 per cent.

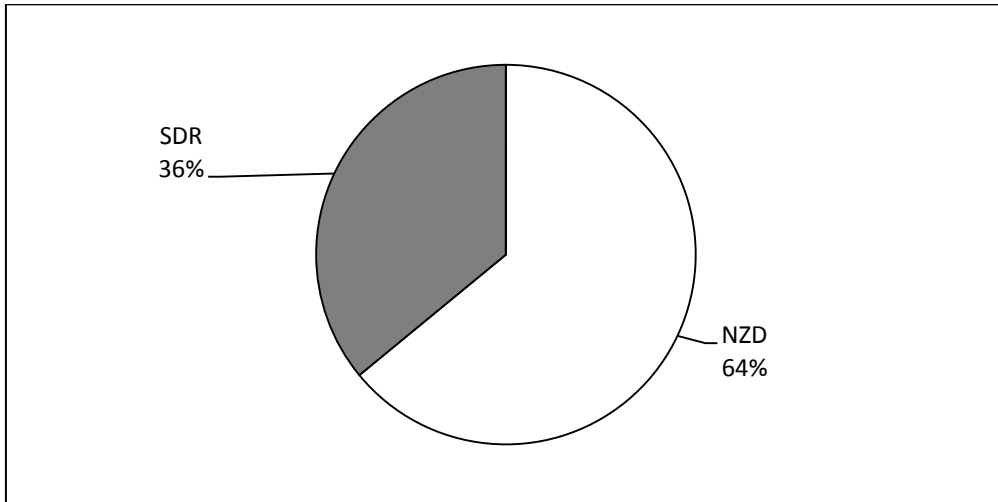
**Figure 10.3 Projected Composition of Direct Crown Debt as at 30 June 2018 by Currency**



## 10.2.2 Contingent & SOE debt

Debt held by, or on behalf of SOEs, as well as the DRM loan from the ADB, is mainly denominated in New Zealand dollars (NZD), with 64 per cent of the total. The remaining 36 per cent is held wholly in SDR.

**Figure 10.4 Projected Composition of Contingent Crown Debt as at 30 June 2018 by Currency**

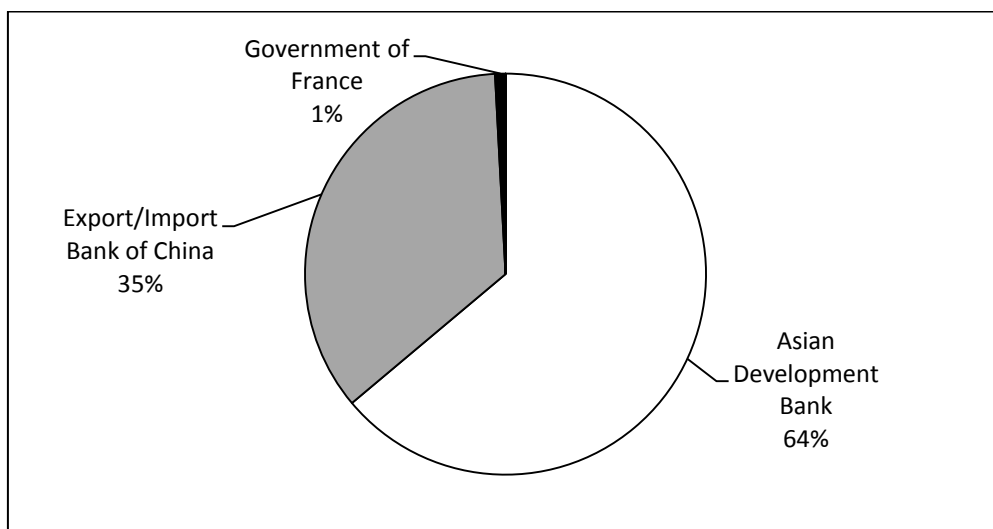


## 10.3 Gross Debt by Lenders

### 10.3.1 Debt held directly by the Crown

The gross direct Crown debt by lender is estimated as:

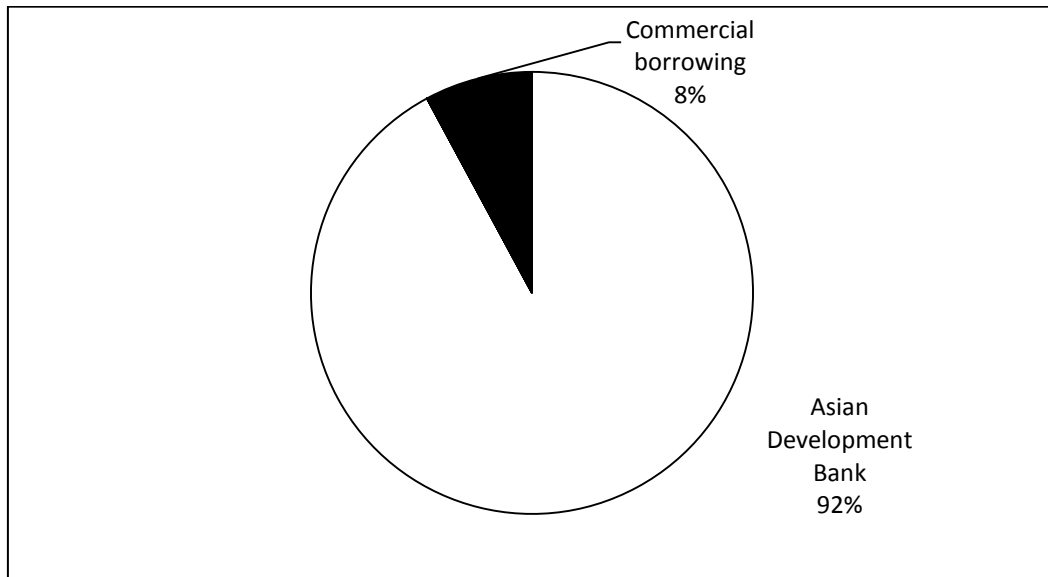
**Figure 10.5 Gross Direct Crown Debt Estimates by Lender**



As illustrated in Figure 10.5, the Crown has direct borrowings from two major lenders: the ADB (64 per cent), the Export Import Bank of China (EXIM Bank) (35 per cent), with smaller amounts from the Government of France (1 per cent).

### 10.3.2 Contingent & SOE debt

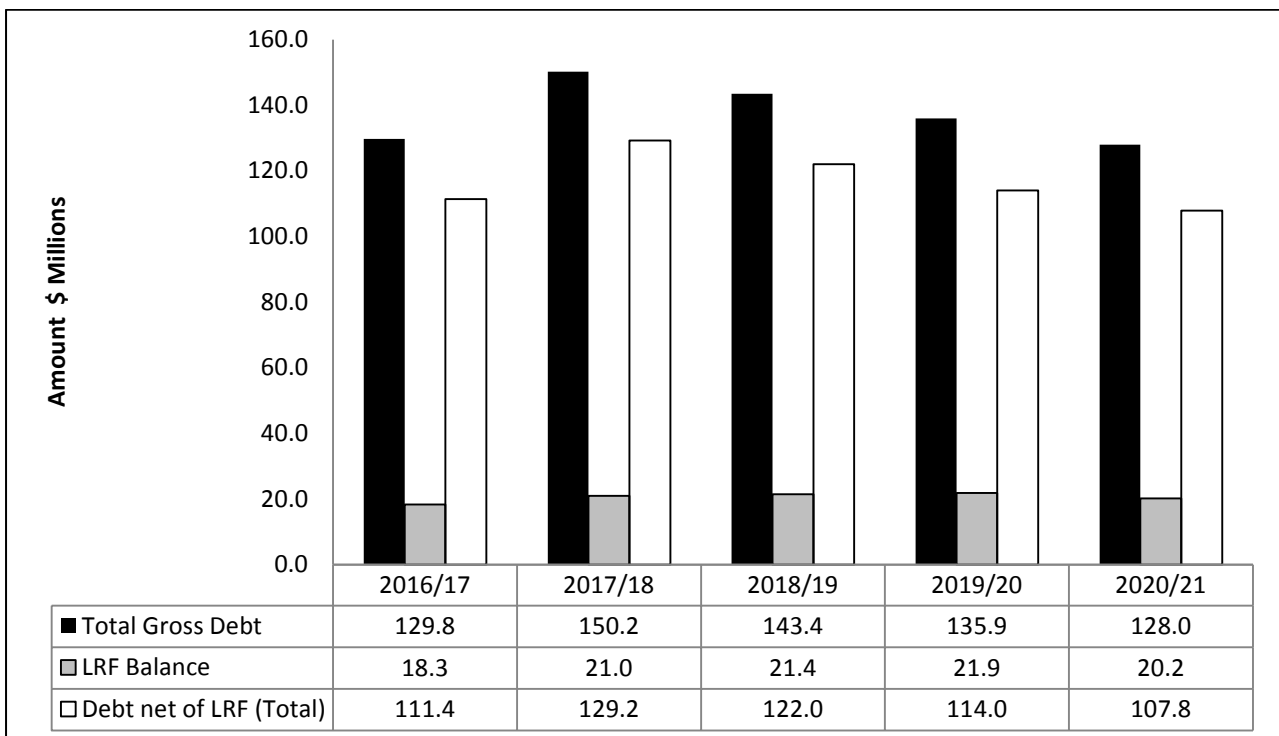
Figure 10.6 Gross Contingent Crown Debt Estimates by Lender



For debt held by SOEs, and contingent debt, this is overwhelmingly dominated by the ADB (92 per cent), with only the Rarotonga Airport equipment loan (8 per cent) coming from commercial sources. Crown Debt burden

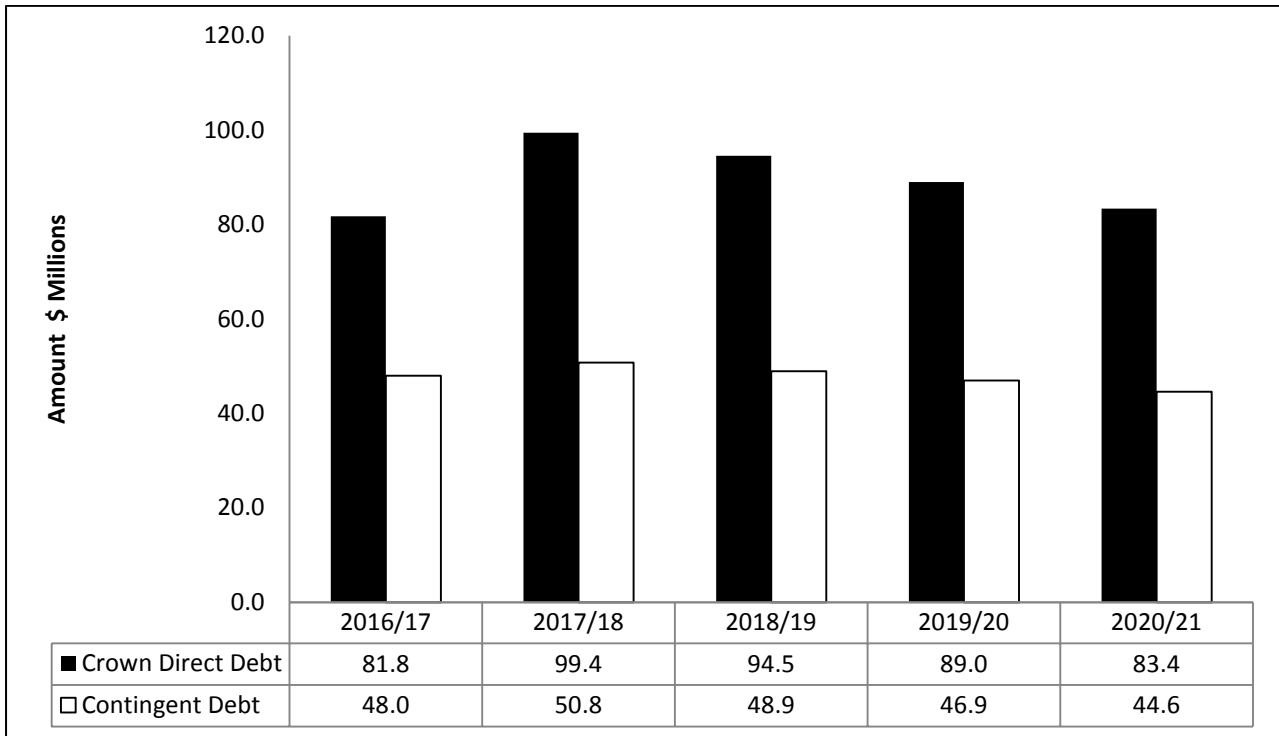
Total gross (direct Crown and contingent) debt gradually reduces in the outer years on the assumption that principal is repaid and the Government does not undertake new loans. The LRF follows a similar path, as the grace periods on almost all loans would have expired.

Figure 10.7 Cook Islands overall debt burden



As can be seen in the Figure below, around two-thirds of the debt is directly attributable to the Crown, with the remaining third relating to SOE and contingent debt.

**Figure 10.8 Breakdown of Total Gross Debt**

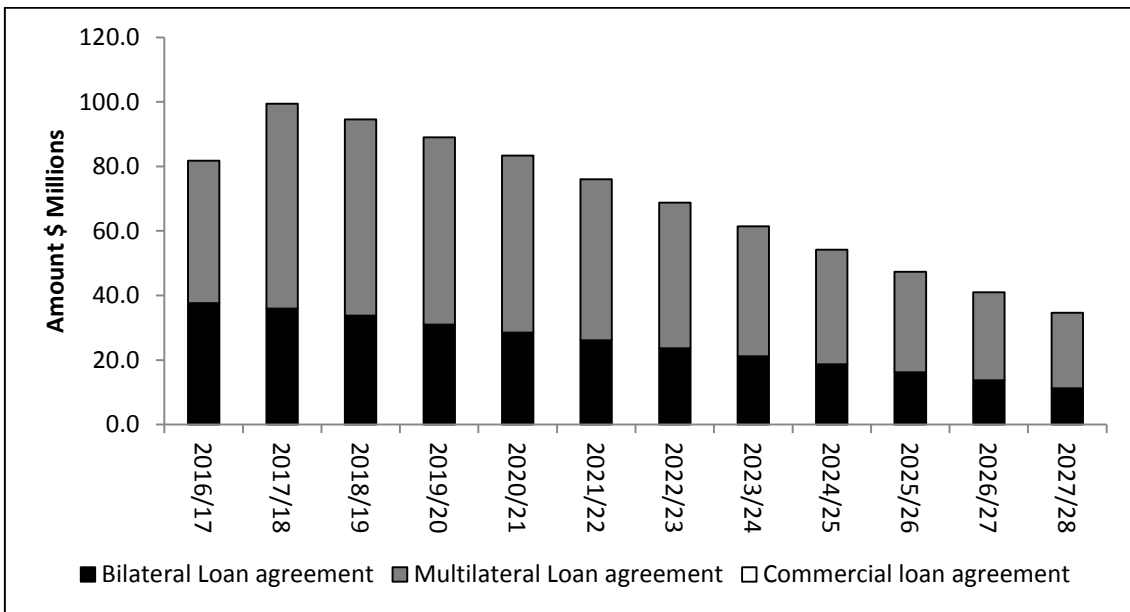


## 10.4 Status of Government Loans

The figure below summarises the debt profile of existing loan agreements over the next 10 years, as divided between multilateral lenders (only the ADB) and bilateral lenders (predominantly China’s EXIM Bank).

The impact of major projects such as the Southern Renewable Energy Project can be seen in the peak in 2017/18, with debt declining thereafter. The figures presented include estimated movements in exchange rates, as per the Bancorp forecasts.

**Figure 10.9 Sources of Outstanding Direct Crown Debt Next 10 Years**



**Figure 10.10 Sources of Outstanding Contingent Crown Debt Next 10 Years**

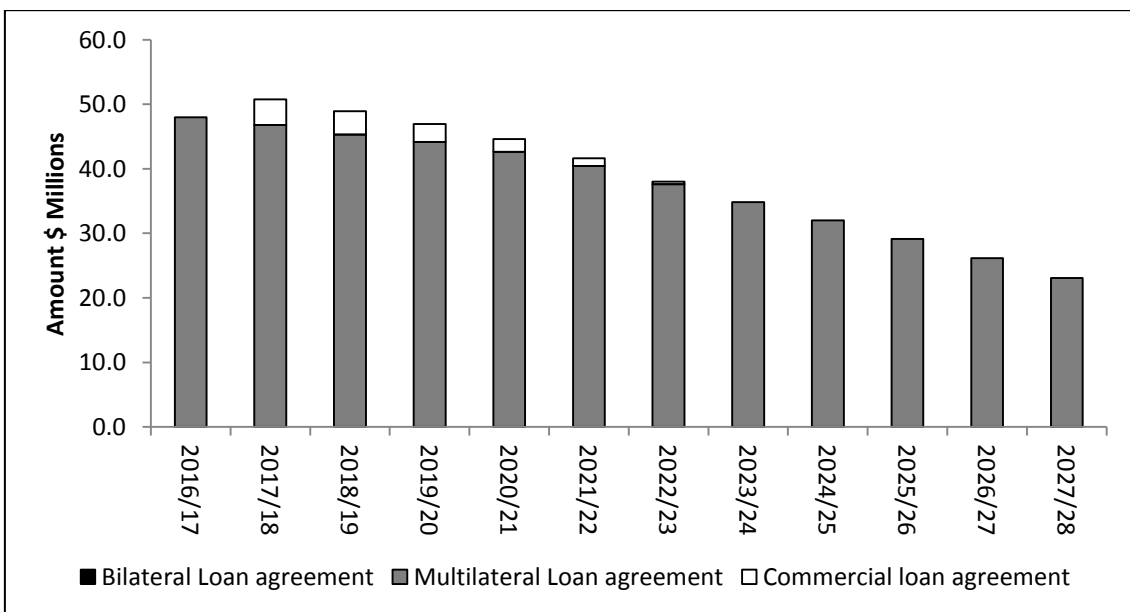




Table 10.11 shows the estimated balance of each loan as at 30 June 2018. This table assumes the full draw down of the \$13.95 million loan from the ADB for Disaster Risk Management, which is committed and signed, but will only be drawn down in the event of a natural disaster. As this loan (and some others) is not fully drawn down, the quarterly financial reporting may not match the Budget estimates, because all figures presented here are an estimate of the amount of the loan to be repaid in future periods.

**Table 10.4 Status of Government loans, estimated at 30 June 2018**

<b>Loans drawn down</b>	<b>Date loan taken</b>	<b>Original loan amount (000)</b>	<b>Current balance (NZD,000)</b>	<b>Expected date of repayment</b>
ADB 461 (SF) Multi Project	November, 1980	USD 1,000*	369	August, 2020
ADB 567 (SF) CIDB Project	July, 1982	USD 1,500*	387	April, 2022
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	1,681	August, 2027
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	4,130	August, 2030
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	1,050	December, 2031
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	363	June, 2032
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	413	August, 2034
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	2,521	August, 2034
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	2,153	September, 2035
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	4,894	September, 2036
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	833	January, 2038
Restructured French Loans	January, 1999	Euro 5,413	833	September, 2018
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	2,110	June, 2033
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,408	June, 2045
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	10,737	August, 2028
ADB 2472 (OCR) Avatiu Port Development Project*	September, 2009	NZD 10,309	9,380	November, 2033
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	8,850	November, 2040
ADB 2565 OCR Economic Recovery Support Program 1*	January, 2010	NZD 11,053	7,536	October, 2024
ADB 2739 (OCR) Amendment Avatiu Port project*	December, 2011	NZD 5,290	5,184	November, 2035
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	24,330	December, 2032
ADB 2946 OCR Economic Recovery Support Program 2	December, 2012	NZD 11,053	6,344	October, 2027
ADB 3913 Renewable Energy Project	December, 2014	NZD 12,980	12,980	June, 2036
ADB - Loan for Undersea Broadband Cable	Pending	USD 15,000	21,739	2031
Commercial - Loan for Rarotonga Airport Equipment	Pending	NZD 4,000	4,000	2022
ADB - Disaster Risk Management		USD 10,000	13,950	*Contingent
<b>Total loans commitment</b>			<b>150,174</b>	

\*Note these loans have been converted to NZD

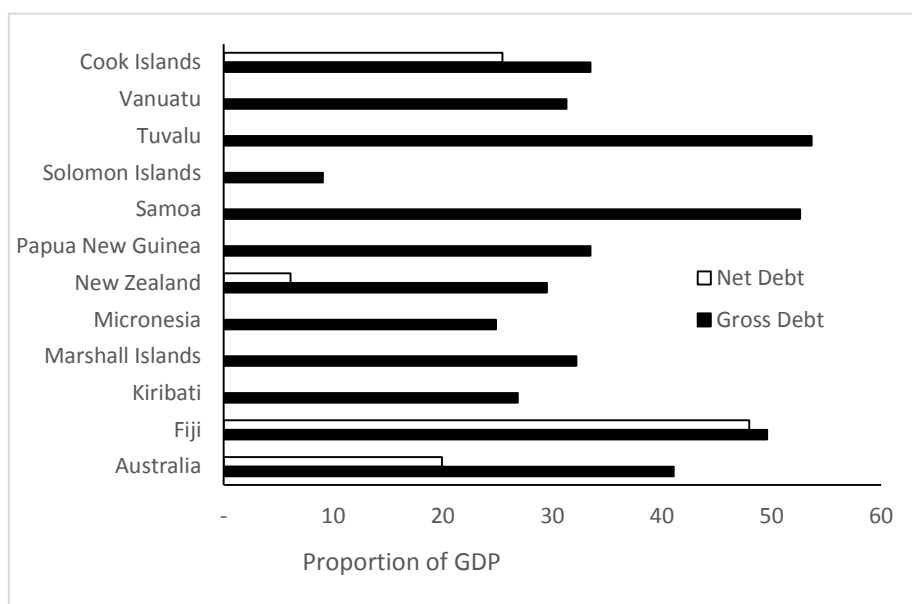
## 10.5 Net Debt

The internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (this means like for like, for example cash). Under this definition the Cook Islands net debt position would be only \$109.4 million or 24 per cent of GDP in 2017/18.

Gross Debt + Currency on Issue = (\$150.2 million) + (\$4.1 million)	= (\$154.3 million)
Less Financial Assets (Cash reserves and Loan Repayment Fund)	= (\$44.9 million)
Net Debt	= (\$109.4 million)

International comparisons of net debt are made on the basis of the international definition of net debt. On this basis, the Crown's debt profile sits in the upper-mid-range of Pacific nations, including Australia and New Zealand.

**Figure 10.11 Regional Comparison of public debt profiles<sup>21</sup>**



However for the purpose of prudent fiscal management, the Crown excludes cash reserves and currency issued from the net debt definition. For the purposes of this Chapter, the Crown's 'Net Debt' is equivalent to total gross debt net of the LRF (the difference between the total gross debt and funds held in the LRF). This is closer to the internationally accepted definition of net debt.

Net debt under this more conservative definition is estimated to be \$111.4 million (25.8 per cent of GDP) by the end of June 2017, broadly in line with expectations at the 2016/17 HYEFU.

<sup>21</sup> The data for Australia (obtained from the IMF) is federal government only, and the levels of debt for all levels of government would be higher than presented.

**Table 10.5 Current Borrowing Statement (\$m)**

<b>Current Statement</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Gross Crown Debt, start of FY	129.8	150.2	143.4	135.9	128.0
<i>Direct Crown Debt</i>	<i>81.8</i>	<i>99.4</i>	<i>94.5</i>	<i>89.0</i>	<i>83.4</i>
<i>SOE debt</i>	<i>34.0</i>	<i>36.8</i>	<i>35.0</i>	<i>33.0</i>	<i>30.6</i>
<i>Contingent (Disaster) debt</i>	<i>14.0</i>	<i>14.0</i>	<i>14.0</i>	<i>14.0</i>	<i>14.0</i>
... net of loan reserves, start of FY	111.4	129.2	122.0	114.0	107.8
... net of loan reserves, as percentage of GDP	25.7%	28.8%	26.5%	24.2%	22.4%
Loan Repayment Reserves Held, start of FY	18.3	21.0	21.4	21.9	20.2
Gross Debt Servicing	7.8	9.4	11.6	11.2	13.4
<i>Direct Crown Debt</i>	<i>5.7</i>	<i>6.5</i>	<i>7.9</i>	<i>7.5</i>	<i>9.2</i>
<i>SOE debt</i>	<i>2.1</i>	<i>2.9</i>	<i>3.4</i>	<i>3.3</i>	<i>3.3</i>
<i>Contingent (Disaster) debt</i>	<i>0.0</i>	<i>0.0</i>	<i>0.3</i>	<i>0.3</i>	<i>0.9</i>
Net Debt Servicing	4.9	6.5	8.6	8.2	10.4
... as percentage of Total Revenue	5.2%	6.7%	6.8%	6.4%	6.7%

## 10.6 Debt Headroom

As the Crown is currently in the late stages of negotiating (or has recently signed) additional loans to fund an Instrument Landing System (ILS) for Rarotonga Airport (through the Airport Authority) and a fibre-optic submarine cable (Manatua Submarine Cable), it is important to consider the impact that these loans will have on the Crown's capacity to service additional borrowing.

These loans, if drawn in the 2017/18 year as assumed (with the submarine cable loan drawn down across two years), would increase net debt to \$129.4 million (gross debt of \$150.2 million) by 30 June 2018, leaving approximately \$4 million of room before the more conservative MFEM target of 30 per cent net debt to GDP. With regard to the Crown's prudential 35 percent threshold this leaves headroom of \$26.5 million.

However, this analysis assumes full draw down of the DRM loan, which would occur only if a disaster occurs, and is the reason for the five percentage point gap between the MFEM target and the Crown's prudential threshold. As well as this, this analysis assumes that loans currently held by SOEs are unable to be serviced by those entities.

## 10.7 Crown Debt Sensitivity Analysis

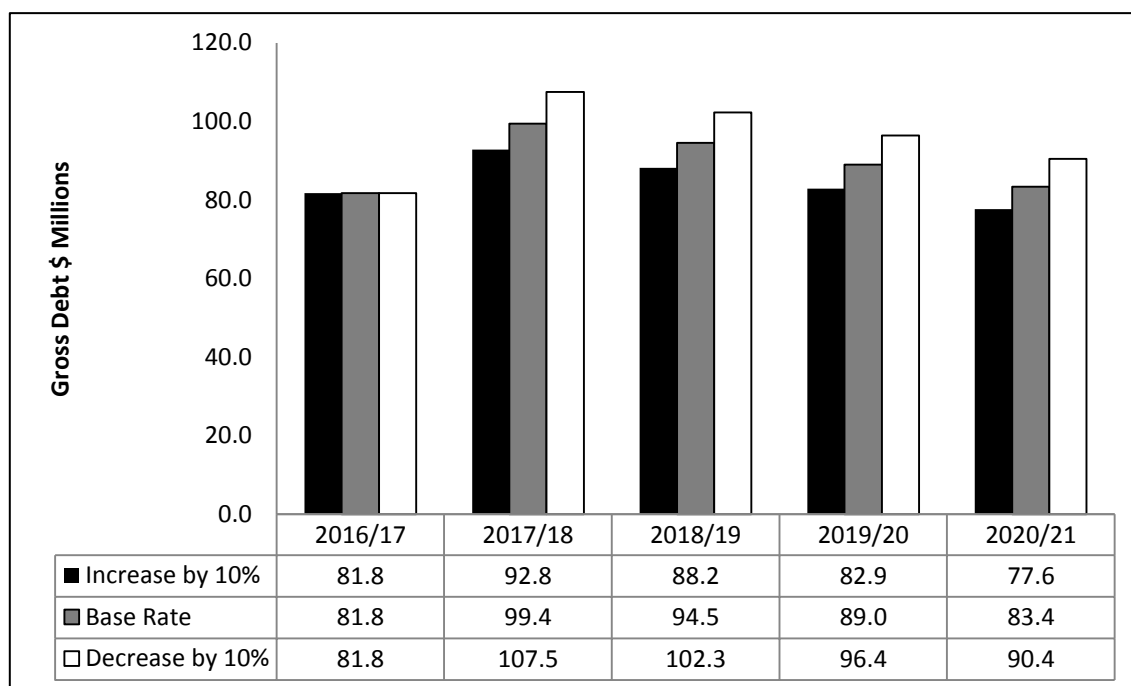
**Table 10.6 Base rate used in 2016/17 for budget assumption with +/- 10 per cent**

Foreign Exchange Currency	-10%	Budget assumption rate	+10%
RMB	4.3650	4.8500	5.3350
USD	0.6210	0.6900	0.7590
SDR	0.4500	0.5000	0.5500
EUR	0.5850	0.6500	0.7150

One of the ongoing risks to the Crown's debt liability is the value of the NZD against the currencies in which the Crown's loans are denominated. The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation in the NZD to determine the impact on the gross borrowings and the debt servicing cost.

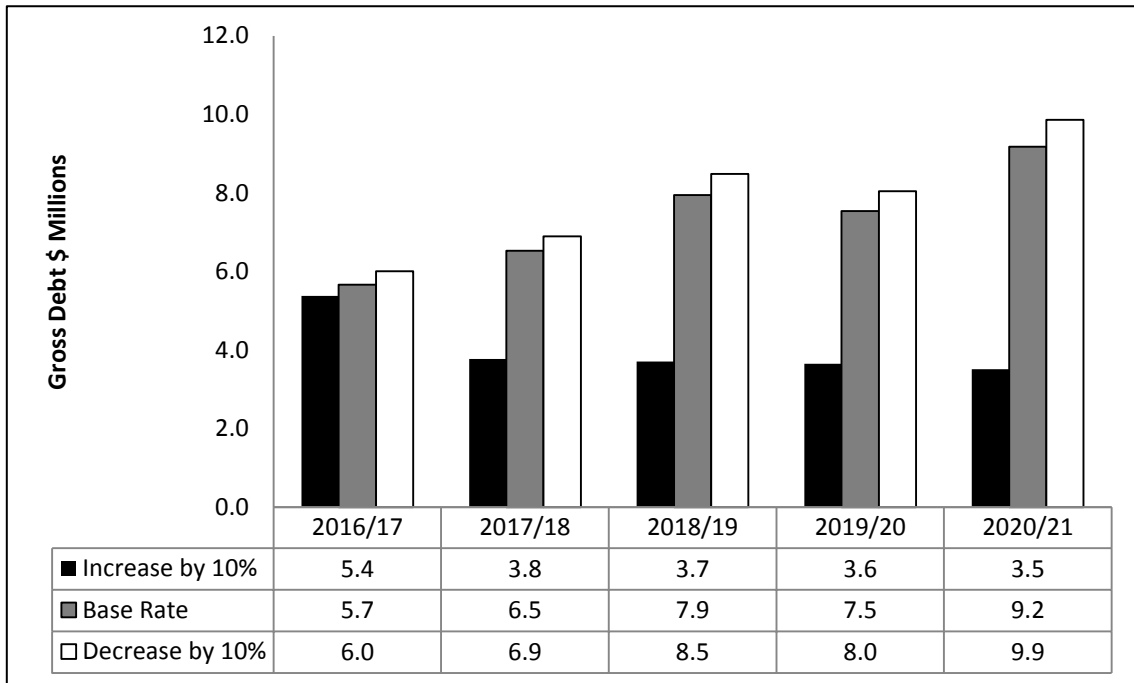
### 10.7.1 Direct Crown Debt

**Figure 10.12 Sensitivity of Direct Crown Gross Debt to NZD movements, start of FY**



If the NZD exchange rate was to depreciate by 10 per cent against foreign currencies, direct Crown debt as at the end of the June 2018 year would increase by an estimated \$8.1 million.

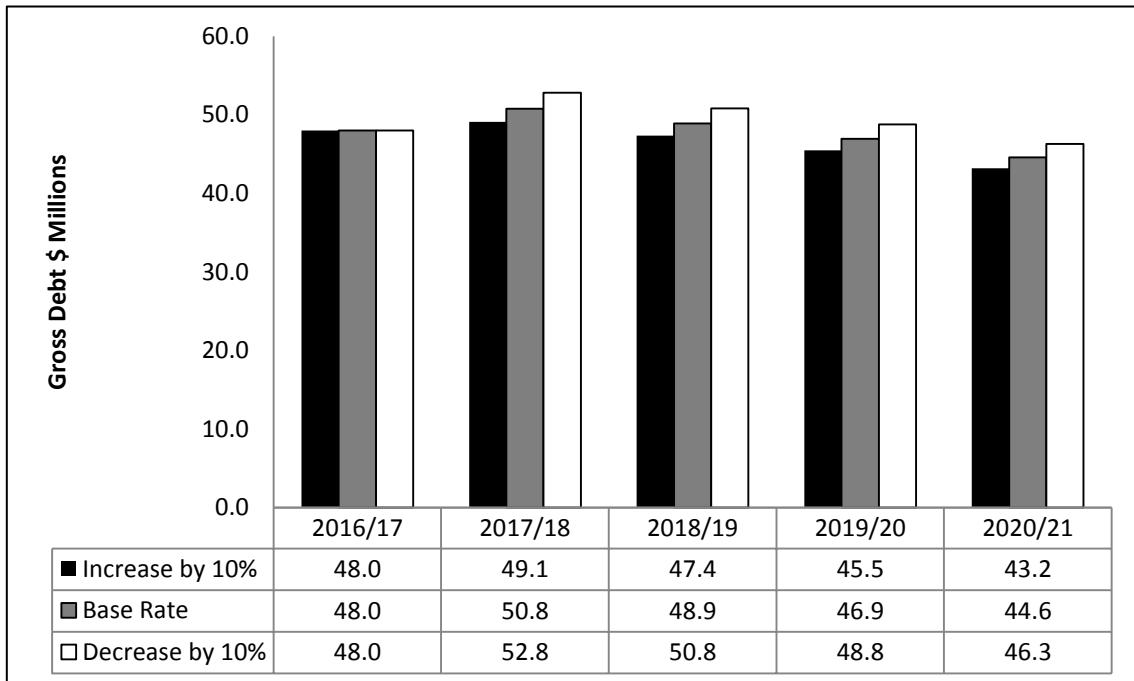
**Figure 10.13 Sensitivity of Direct Crown Debt Servicing Costs to NZD movements, start of FY**



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$0.4 million.

### 10.7.1 SOE & Contingent Debt

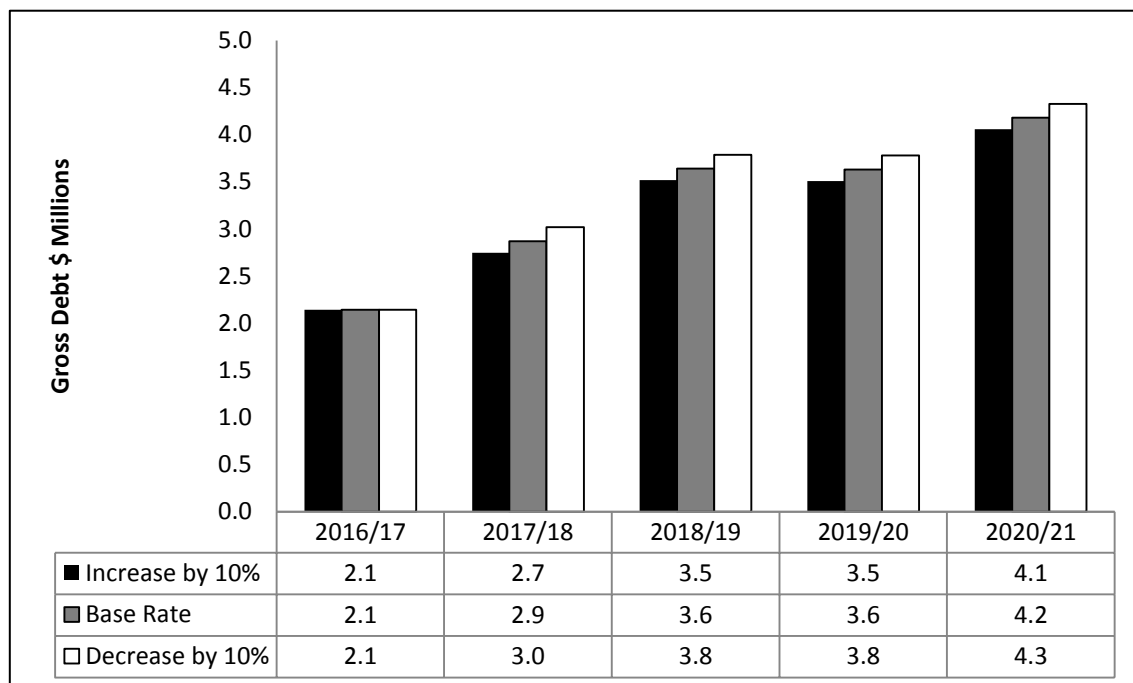
**Figure 10.14 Sensitivity of Contingent Crown Gross Debt to NZD movements, start of FY**



If the NZD exchange rate was to depreciate by 10 per cent against foreign currencies, SOE and

contingent Crown debt as at the end of the June 2018 year would increase by an estimated \$2.0 million.

**Figure 10.15 Sensitivity of Contingent Crown Debt Servicing Costs to NZD movements, start of FY**



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$0.1 million.

Over recent years, the accumulation of interest earnings held within the LRF has allowed for a small exchange rate buffer. At the 2016/17 HYEPU, this buffer was around \$5 million. With recent appreciation in the value of the NZD versus major currencies, this buffer has increased to around \$7 million.

## 10.8 Long term debt projections and fiscal risks

Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014.

The LRF Act requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of Government lending policy, including the amortisation schedule, the impact on debt service burden of the government over the life of the loan, and an assessment of the sustainability of aggregate government debt. Reports should be made in advance of loan agreements being finalised.

### 10.8.1 Debt projections

The following projections are designed to present an estimate of the range of potential evolution of the debt position of the Cook Islands Government over the next 20 years. These do not model any specific projects, but can be considered as an indicative guide.

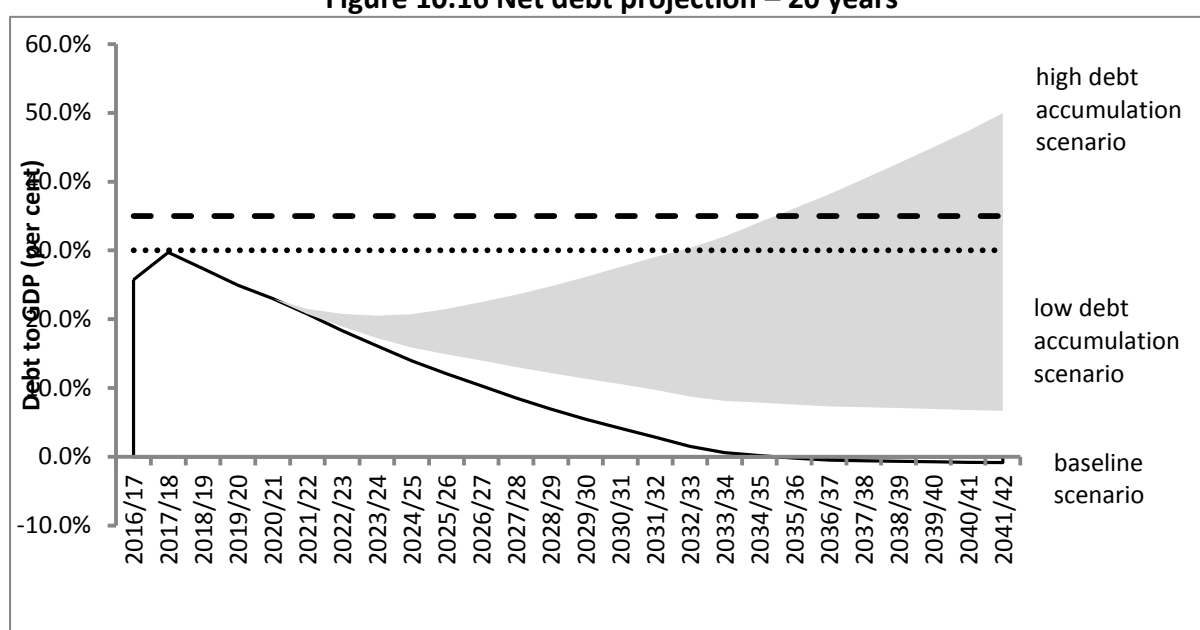
These scenarios assume that the contingent loan (DRM loan) from the ADB is fully drawn down

across the forward estimate years (2017/18 to 2020/21). The DRM facility provides a disaster assistance loan to assist reconstruction efforts in the aftermath of a catastrophic weather event. This is not a liability on the Crown until such an event occurs, but does represent a contingent liability. All projection scenarios include the drawdown of this loan but, for the purposes of assessing debt sustainability, this should be considered to sit between the benchmarks of 30 and 35 per cent net debt to GDP (as this is the purpose of both the contingent loan, and the five per cent 'cushion').

The loans held by SOEs (as distinct from those held on behalf of SOEs, where the SOEs have discharged their debts to the Crown) also represent a contingent liability to the Crown, and are considered as such throughout the projection scenarios.

In addition to cataloguing the known investment programmes and associated borrowings, it is also important to estimate what the likely evolution of the debt profile is over time. The figure below estimates three debt accumulation scenarios.

**Figure 10.16 Net debt projection – 20 years**



The baseline scenario is the evolution of the current debt over time. The estimates are those outlined in the current debt agreements, with the repayment schedules already mapped out over the next 20 to 30 years. This includes the contingent DRM loan.

Both the high and low debt accumulation scenarios assume that operational spending remains within prudent forecasts, producing modest operational surpluses. If this were not to be the case, the debt projections would be higher in both cases. Both scenarios also assume current loan terms of fifteen years, with a three year grace period in each case.

The high debt accumulation scenario assumes that the growth of capital investment continues at a pace that will be five percentage points faster than that of Nominal GDP. As this is significantly lower than the increase in planned capital investment in recent years, there remains an element of conservatism in this outlook as well. However, this scenario is designed to represent one which the level of the Crown’s infrastructure investment in the Cook Islands is continually growing. This also assumes that ninety per cent of net capital investment (that is, capital investment less depreciation) is funded by debt, at interest rates of 2.5% per annum. Under this scenario, as can be seen in the figure above, debt increases rapidly over the projection period, with the MFEM prudential target of



30 per cent net debt to GDP being breached around 2032, and the 35 per cent 'hard limit' being breached around 2035.

The low debt accumulation scenario assumes that the Crown's capital investment is limited to (in broad terms) maintaining the existing level of capital stock. This means that total capital investment is assumed to grow in line with long term depreciation (considered to be five per cent for these purposes) and price growth of manufactures<sup>22</sup>. This shows a much lower rate of debt accumulation, which does not threaten the benchmark debt to GDP ratios.

In all modelled scenarios, it is assumed that replacement costs for the Northern and Southern Renewable Energy Projects are provisioned for through the tax base or by user charges. A similar assumption is made for the Rarotonga Water Network. The replacement costs for such systems are therefore neutral on the modeling presented here. Similarly, any costs incurred related to sanitation in Muri are assumed to be met through sources other than debt, and are not included here.

## 10.9 Conclusion

Both of the low debt and high debt scenarios suggest that some key planned infrastructure projects can be accommodated within current debt limits, but there is a need to remain prudent about future borrowing, and prioritise amongst competing capital projects.

Fundamentally, expectations of expanding operational budgets cannot coexist with the recent high levels of capital spending. At some point in the future, either capital or operational spending will need to be scaled back to match revenue growth.

Importantly, neither the low debt nor high debt scenarios assume expansion in operational spending in excess of revenue growth. As the population of the Cook Islands ages, and public expectations about social safety nets change, this assumption may no longer be valid, which would increase pressure on the debt sustainability through the financing of operational needs by debt.

Notably, projects such as the Tereora College rebuild are not factored into these estimates. This project is assumed to be financed largely by donors. Other, more aspirational projects are also not factored into these estimates, such as the renewable energy project for Rarotonga. Loan financing either of these projects would significantly degrade the Crown's ability to stay within its debt limits.

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<sup>22</sup> From IMF databases

## 10.10 Other State Owned Enterprise Debt

The Airport Authority is currently in the process of undertaking an additional loan from the commercial sector to fund an upgrade of the Instrument Landing System at Rarotonga International Airport.

The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The Covenant will be measured annually in arrears.

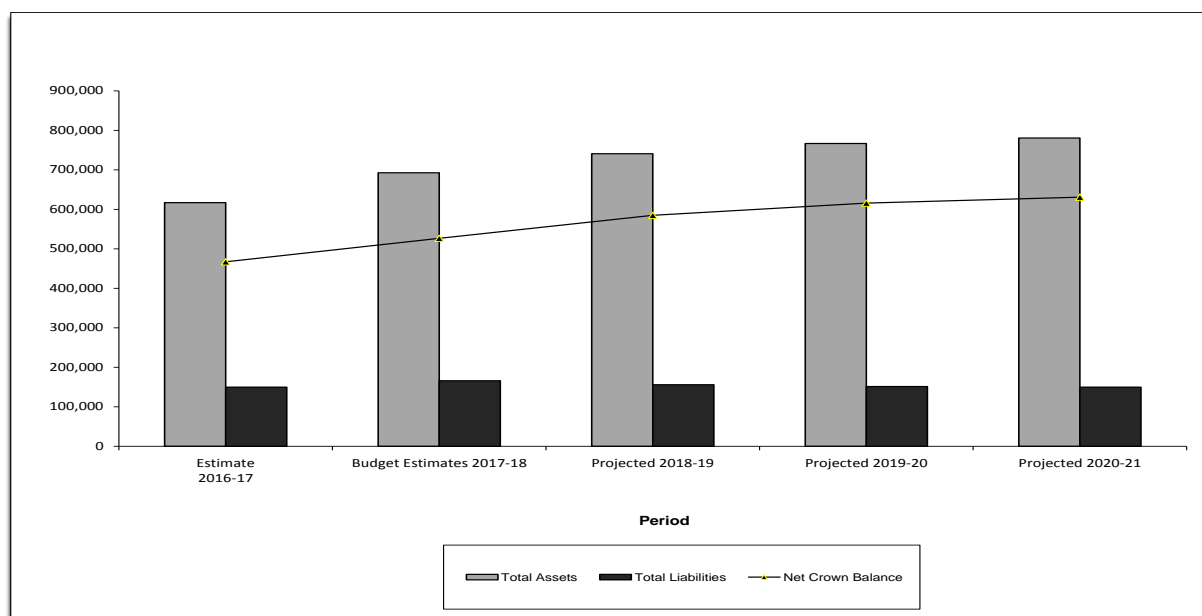
The Airport Authority has also indicated it is considering further borrowings to finance new investments in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply.

Since the enactment of the LRF Act, all new 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.

## 10.11 Net Worth

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

**Chart 10.17 Net Worth 2016/17 to 2020/21 (\$'000)**



The estimated net worth of the Crown at June 2018 has increased from the 2016/17 Budget Estimates of \$467.10 million to \$526.46 million. This is a net movement of \$59.36 million. This was a result of increases in the forecasted physical assets against decreases in the Crown's total liabilities.

The Crown's net worth will increase in the outer years from 2017/18 as long as there is an estimated operating surplus. Another major contributor to the forecast upward trend is the decrease in

borrowings, decrease in tax receivables and an injection to the Crown's asset from aid donor funding.

## 11 CIIC and State Owned Enterprises

### 11.1 CIIC

The Cook Islands Investment Corporation is a statutory corporation wholly owned by the Government of the Cook Islands. Its functions are:

- to administer and manage Crown assets and shareholding interests;
- to control and manage the undertakings of statutory corporations; and
- to negotiate and facilitate the disposal of assets and any property or undertaking of a statutory corporation.

The principal objectives of the Corporation are:

- the efficient, profitable and professional management of assets and statutory corporations;
- to recognise Government's social responsibility in the performance of its functions; and
- not to compete or be engaged in trading activities unless private enterprise is unable or unwilling to do so.

CIIC manages the assets and liabilities of the Cook Islands Government Property Corporation (CIGPC) including land leases, Crown Land and government buildings including schools, hospitals, offices and houses. CIIC also has oversight of the performances of State Owned Enterprises (SOEs) including the four larger SOEs namely; Airport Authority, Bank of the Cook Islands (BCI), Ports Authority and Te Aponga Uira o Tumutevarovaro (TAU). CIIC is guided by its CIIC Act 1998 and the CIGPC Act 1969.

#### 11.1.1 Developments and Investment

##### Corporate Development Programme and Director Training

Following on from the Corporation's 2016 to 2018 Strategic Plan, consultations are taking place with the State Owned Enterprises (SOEs) and a wider group of stakeholders on the draft Corporate Development Programme (CDP). Primary components of the CDP include:

1. SOE Policy and Legislation – Establishing and enabling holistic performance
2. Board Governance – Recruitment and Development
3. Executive Management – Recruitment, tenure and development
4. Oversight & Performance Management – formalising the relationship between SOE's, CIIC and stakeholders, Planning and reporting templates, target setting etc.

This policy document lays the foundation for legislative reform for SOE's specifically in reference to governance arrangements, to enhance oversight, transparency and performance. It is expected that this programme will be submitted for Cabinet consideration early in 2017/18.

In addition, training of Board Directors of CIIC and the SOEs commenced in late 2016 through the New Zealand Institute of Directors. This training is on-going and will be implemented progressively in order to improve the oversight role of Boards. The training programme is intended to provide clarity on the role of Boards and to provide directors with the tools to effectively carry out their oversight role in the performance of the SOEs including CIIC.

##### Tereora College Reconstruction

The 50th Anniversary gift by the government of New Zealand of Stage 1 of the Tereora College reconstruction project is on target to be completed in December 2017. A local company, Landholdings Ltd won the contract for the project and commenced construction in December 2016.

## Vaikapuangi Centralized Government Offices Project

The Vaikapuangi project has been extended to embrace a whole of government approach for the centralization of government services in Rarotonga. A study is being undertaken in 2017/18 towards this end, which will assess the social and economic impacts of the various options for a whole of government facility. Though this means that the implementation of the project could be delayed, it will ensure that this investment represents the best possible value for money and that the level of public services will improve over the long term.

### Construction of Apii Nikao

The construction of a new Apii Nikao commenced in May 2017 with funding provided by the People's Republic of China, under contract to a Chinese company. The construction is scheduled for completion in January 2018. This project is managed by CIIC's Special Projects Unit (SPU).

### Outstanding Land Rent Reviews

Progress has been made in the Corporation's efforts to progressively undertake long outstanding land rent reviews with the High Court handing down decisions on the two major outstanding reviews for leased land which accommodates Tereora College and 23 land leases in Aitutaki on which schools, the hospital and other government services are housed. The Corporation is continuing its efforts to address all outstanding land rent reviews over the next three years.

## 11.2 Airport Authority

The Airport Authority manages the airports on the islands of Aitutaki and Rarotonga. Its functions are to establish, improve, maintain, operate and manage airports, services and facilities in connection with the operations of any airport or the operation of aircraft engaged in civil aviation.

### 11.2.1 Developments and investments

Developments for the 2017/18 financial year include further runway strengthening work, upgrading the runway approach lighting system at Rarotonga from TVASIS (Tee Visual Approach Slope Indicator System) to PAPI (Precision Approach Path Indicator system), upgrading transformers, electrical switch gears and other electrical systems, constructing a paved apron for ground servicing equipment, and acquiring a new Instrument Landing System for Rarotonga.

Planning for a new cargo and engineering facility for Air New Zealand and the acquisition of land for the constructing of a runway end safety area.

### 11.2.2 Social contributions costs and Dividends

The Airport Authority considers the following as community service obligations and social contributions costs:

#### Social contributions costs

	Budget 2017/18
The Provision of Fire Service to the Rarotonga Community	67,323
The provision of a rent free VIP lounge to government	48,246
<b>Net contribution to government</b>	<b>115,569</b>

### **11.2.3 Dividend**

Due to limitations on the Cook Islands' lending capacity, the Airport Authority has scaled back on its capital expenditure program. A new strategy is being employed to build reserves and fund as much capital expenditures as possible from cash flows. Having said this and given the good growth in traffic over the last year and the resulting stronger financial performance, it is possible that the Authority will be able to pay a dividend in the coming year. The current policy calculates a dividend based on 35% of Net Profit after Tax (NPAT).

## **11.3 Bank of the Cook Islands (BCI)**

The Bank of the Cook Islands Holding Corporation (the Corporation) was established under the Bank of the Cook Islands Act 2003 to assume all rights and obligations of the Cook Islands Development Bank (CIDB) and the Post Office Savings Bank. Section 4 of the Act sets out the functions of the Corporation, as follows:

- To establish the Bank of the Cook Islands Ltd in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To establish CIDB Former Loans Limited in accordance with the Act and exercise the Corporation's right and powers and to perform its obligations and duties thereto (now dissolved).
- To establish Development Finance Limited in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To manage any assets vested in the Corporation.
- To undertake any other matters prescribed in the Act.

The Bank of the Cook Islands Limited (BCI) was registered under the Companies Act 1970-71 in March 2004 with the objective of providing banking services throughout the Cook Islands. BCI is fully licensed as required by the Banking Act 2011 and operates in compliance with the requirements of the Financial Supervisory Commission Act 2003 and the Financial Transaction Reporting Act 2004.

The Crown's investment in BCI has steadily increased from \$13.3 million as at 30 June 2011, to \$16.8 million at 30 June 2016.

### **11.3.1 Developments and investments**

The resources required to achieve the performance targets of BCI are internally generated. Allowance has been included for provision to the Crown of social obligation costs in relation to BCI's delivery of banking services to communities outside Rarotonga. Also in accordance with shareholder expectations and capital expenditure plans, BCI has implemented a constant dividend payout ratio based on a fixed per cent of net profit after tax achieved in each financial year.

BCI's medium and long term fixed asset investment program includes maintenance and upgrading of core operating assets, and investment in new products and services, while ensuring a sustainable financial structure. Consideration is given to the risks from short and medium term changes to the forecast operating environment including economic conditions, competition, changing customer behaviour and expectations, and technological developments.

**Table 11.1 Social contributions costs and Dividends**

	2015/16	2016/17 Estimate	2017/18 Budget
Dividend	349,356	248,000	248,000
Social Obligation of providing banking services*	113,559	120,000	120,000
<b>Net contribution to government</b>	<b>235,797</b>	<b>128,000</b>	<b>128,000</b>

\* Note the CIG funds the social obligation of BCI

## 11.4 Ports Authority

The Cook Islands Ports Authority (CIPA) is a Crown owned statutory corporation established in 1995. The principal objectives of the Authority are to promote, encourage and operate a commercially viable and efficient business in the country's supply chain and develop growth opportunities from its asset base which include Crown land and buildings, wharves, port facilities, tug boats, barges, plant and equipment, storage sheds and open storage space.

CIPA is the sole sea port services provider maintaining and operating the Port of Avatiu, the alternative Cruise Ship Tender landing in Arorangi, and the Port of Arutanga in Aitutaki. CIPA serves the cross-border supply chain needs of most of the Cook Island's trade goods.

### 11.4.1 Social contributions costs and Dividends

The CIPA continues to accommodate the Government's community service obligations (CSO's). The following table estimates the costs incurred by CIPA for Rarotonga and Aitutaki in the provision of CSO's.

**Table 11.2 Community Service Obligations**

	2015/16	2016/17 Estimate	2017/18 Budget
<b>Rarotonga</b>			
Recurring	47,323	55,000	55,000
Approved Waived Port Charges (Includes 50 Year Celebrations)	40,962	5,000	5,000
<b>Aitutaki</b>			
Approved waived Charges	2,080	3,000	3,000
<b>Total Community Service Obligation Cost</b>	<b>90,365</b>	<b>63,000</b>	<b>63,000</b>

### 11.4.2 Dividends

The Ports Authority is endeavouring to pay dividends to shareholders within the constraints imposed by the significant scale of loans taken out to provide facilities to enable modern international ships to call at Rarotonga, and the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.

As a result of these financial pressures no dividend is envisaged in the medium term.

**Table 11.3 Cook Islands Ports Authority operating summary**

	2016/17	2017/18 Budget	2018/19
Revenue	3,434,803	3,521,310	3,565,758
Expenses	3,646,049	3,789,289	3,833,716
<b>Operating loss before foreign exchange</b>	<b>(211,246)</b>	<b>(267,979)</b>	<b>(267,958)</b>

## **11.5 Te Aponga Uira**

The primary function of Te Aponga Uira (TAU) is the provision of electricity to the people of Rarotonga in a reliable, safe and economical manner. The generation of electricity is predominantly diesel based but with the announcement of the national renewable energy target, TAU's investment plans have been adjusted to increase the contribution of renewable energy to reach that target. As a result, there will be a transition from the diesel based system to a renewable based system. This may include a transformation of the business model of TAU.

Subject to formal government approval process, it is likely that the monitoring and provision of technical support services for the Pa Enea electricity generation, including renewable energy installations will progressively become the responsibility of TAU. Budgetary provisions will be made if/when TAU assumes responsibility.

### **11.5.1 Developments and investments**

There will be ongoing investments in both the infrastructure associated with achieving the national renewable energy (RE) target and the general infrastructure.

It is estimated that a further \$88 million is required, over the next 5 to 6 years, for the Renewable Energy and associated infrastructure investment to achieve 70 per cent of the Renewable Energy target. This investment involves battery storage systems, wind and PV generation systems and associated support infrastructure, including enabling technologies and control & communication systems. The size of this investment requires a mix of funding including donor, private sector and TAU.

Whilst \$24.1 million has been secured from GEF, GCF and PEC for 5MW/13MWh in battery storage systems and 1.4MW in PV panels, TAU will need to spend \$7.3 million, within the next two years to fund the support infrastructure which is required at the same time as the storage systems.

TAU also needs to continue investing in its general infrastructure and will progressively do so over the course of the next few years. In the course of the next 12 months at least \$4.2 million will need to be spent on replacing a 3.5km section of aged 11kV cable, installation of three new sectionalisers as part of its plan to replace manually operated switchgear, the construction of a replacement office building, the installation of a new firefighting system and the completion of its new IT system. TAU expects to meet the required \$11.5 million out of its cash reserve.

### **11.5.2 Social contribution costs and Dividend**

TAU's social obligations include the provision and maintenance of street/amenity lights and uneconomic network extensions the cost of which is summarized in the table below.

#### **Dividends**

TAU has consistently met the dividend requirements of the Shareholder over the years. However, given the above investment requirements, TAU will focus on building its reserve to prevent the need for borrowing. It expects to proceed with a dividend payment of \$319,190 for the 2017/18 financial year and going forward.



**Table 11.4 Social contributions costs and Dividends**

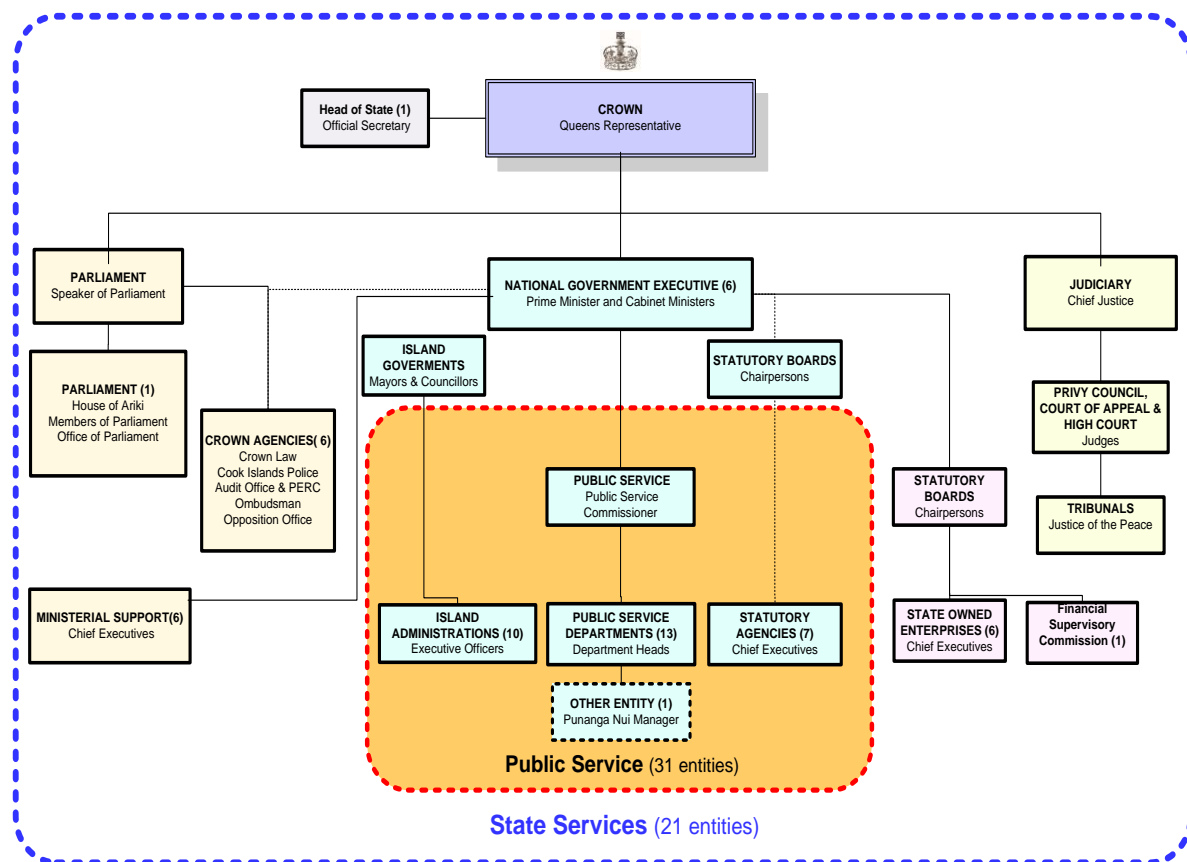
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Dividend	\$319,190	\$319,190	\$319,190
Uneconomic Power Lines	\$150,000	\$100,000	\$100,000
Other social responsibility costs – street and amenity lighting – new lights and maintenance including operational costs.	\$380,000	\$380,000	\$380,000
<b>Total Contribution to Government</b>	<b>\$849,190</b>	<b>\$799,190</b>	<b>\$799,190</b>

## 12 Public Sector Staffing

The Cook Islands is a constitutional monarchy within the Realm of New Zealand, with Her Majesty Queen Elizabeth II as Head of State. The Cook Islands Constitution Act 1964 established the Westminster system of government in the Cook Islands and provides for various constitutional posts which include: the Queens Representative; Speaker of Parliament, Cabinet (six Ministers of the Crown), Chief Justice and Justices of the Peace, Members of Parliament, House of Ariki, Ombudsman, Public Expenditure Review Committee and the Public Service Commissioner.

The Public Service Act 2009 identifies 13 Public Service Departments under the authority of the Public Service Commissioner and recognises all other agencies as State Services. The Public Service Amendment Act 2016 requires all agencies to provide an Annual Report to the Public Service Commissioner. Therefore as at 30 June 2017, all agencies will be furnishing Annual Reports to the Commissioner for summation in an Annual Report to Parliament for the period ended 30 June 2017

**Figure 12.1 Cook Islands Public Sector Structure**



**Table 12.1 Public Sector Agencies**

Public Service (13)	Island Governments (10)	Crown Agencies (7)
Ministry of Agriculture	Aitutaki	1. Head of State
Ministry of Cultural Development	Atiu	2. Office of the Ombudsman
Ministry of Education	Mangaia	3. Cook Islands Audit Office
Ministry of Foreign Affairs and Immigration	Manihiki	4. Cook Islands Police
Ministry of Finance and Economic Management	Mauke	5. Crown Law Office
Ministry of Health	Mitiaro	6. Parliamentary Services
Ministry of Justice	Palmerston	7. Opposition Office
Ministry of Internal Affairs	Penrhyn	Ministerial Support Offices (6)
Infrastructure Cook Islands	Pukapuka/Nassau	
Ministry of Marine Resources	Rakahanga	State Owned Enterprises (5)
Ministry of Transport	Statutory Agencies (8)	1. Bank of the Cook Islands
Office of the Prime Minister	Business Trade and Investment	2. Cook Islands Airport Authority
Office of the Public Service Commissioner	Pearl Authority	3. Cook Islands Ports Authority
	Seabed Minerals Authority	4. Te Aponga Uira o Tumutevarovaro
	Tourism Corporation	5. Cook Islands Investment Corporation
Other (1)	Financial Services	Financial Supervisory Commission
Punanga Nui	Development Authority	
	National Environment Service	
	Natural Heritage	

## 12.1 Public Sector Employee Numbers

**Table 12.2 Employee Summary by Groupings**

By Agency and Gender	Female	Male	Total
Public Service	618	397	1015
Crown/Statutory Agencies	112	127	239
Island Administrations	79	275	354
Island Councils	7	57	64
Parliament	14	33	47
Ministerial & Opposition Support Offices	14	15	29
Others		2	2
State Owned Enterprises	114	177	291
<b>Total</b>	<b>958</b>	<b>1083</b>	<b>2041</b>

Source: HRMIS (except FSC and SOEs who provide their agency numbers ), 26 April 2017

Overall there has been a 6% reduction in the total number of employees from the same time last year with an overall reduction of 129 employees, a large majority (99) took up the government's voluntary retirement policy. The 9% change in female employment figures is significant. In actual figures there are 98 fewer women employed than in 2016. The Ministry of Education alone accounts for 40 of these women. Male employment figures have not changed significantly with only 3% less males employed than at the same time last year. The Ministry of Health showed noticeable changes in numbers of employees recording 10 fewer than at the same time last year.

The breakdown of employees by gender across agencies is shown in the table below.

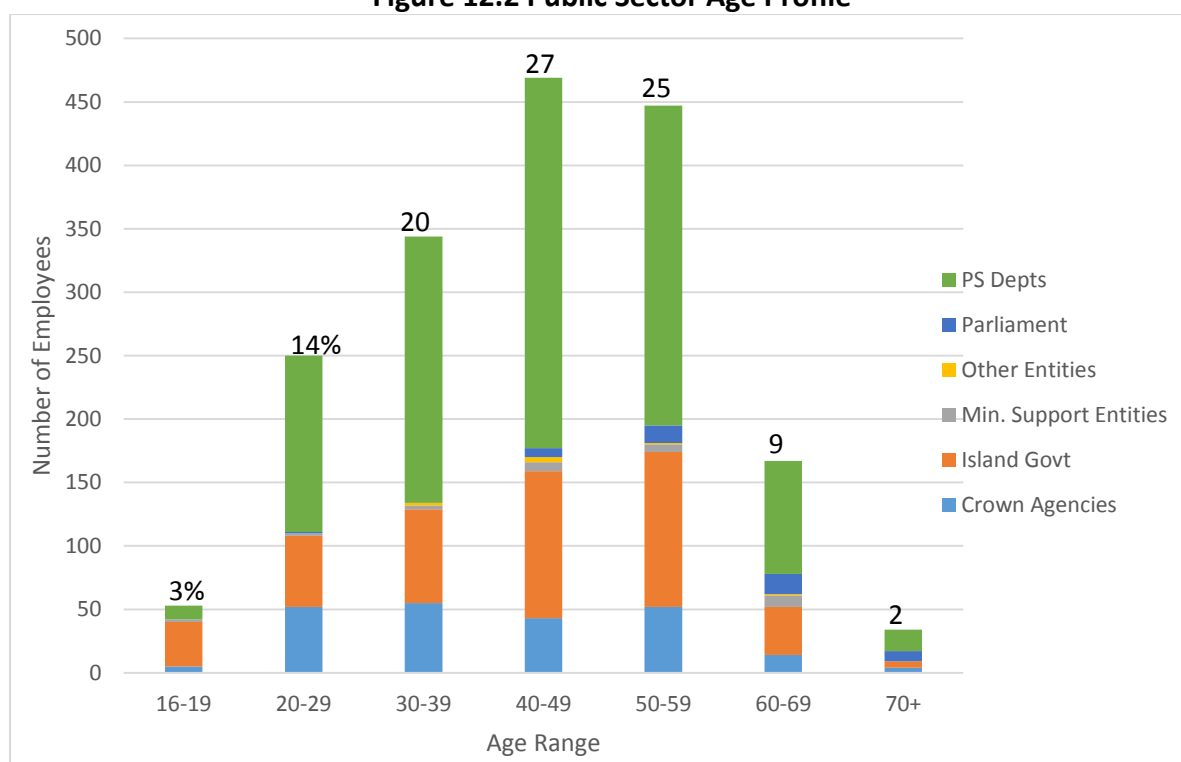
**Table 12.3 Employees by Agency and Gender**

<b>Agency names</b>	<b>Female</b>	<b>Male</b>	<b>Total</b>
<b>Public Service</b>	<b>618</b>	<b>397</b>	<b>1015</b>
Infrastructure Cook Islands	5	48	53
Ministry of Agriculture	7	22	29
Ministry of Cultural Development	14	6	20
Ministry of Education	237	74	311
Ministry of Finance and Economic Management	48	36	84
Ministry of Foreign Affairs and Immigration	16	6	22
Ministry of Health	192	90	282
Ministry of Internal Affairs	20	14	34
Ministry of Justice	36	35	71
Ministry of Marine Resources	14	28	42
Ministry of Transport	4	13	17
Office of the Prime Minister	20	23	43
Office of the Public Service Commissioner	5	2	7
<b>Island Administrations</b>	<b>79</b>	<b>275</b>	<b>354</b>
Aitutaki Island Administration	7	43	50
Atiu Island Administration	7	36	43
Mangaia Island Administration	2	40	42
Manihiki Island Administration	7	32	39
Mauke Island Administration	6	26	32
Mitiaro Island Administration	10	24	34
Nassau Island Administration	5	6	11
Palmerston Island Administration	3	6	9
Penrhyn Island Administration	4	20	24
Pukapuka Island Administration	23	26	49
Rakahanga Island Administration	5	16	21
<b>Island Councils</b>	<b>7</b>	<b>57</b>	<b>64</b>
Aitutaki Island Government	-	6	6
Atiu Island Government	-	8	8
Mangaia Island Government	2	8	10
Manihiki Island Government	1	3	4
Mauke Island Government	1	7	8
Mitiaro Island government	1	2	3
Nassau Island Government	-	2	2
Palmerston Island Government	2	4	6
Penrhyn Island Government	-	5	5
Pukapuka Island Government	-	8	8
Rakahanga Island Government	-	4	4
<b>Ministerial &amp; Opposition Support Offices</b>	<b>14</b>	<b>15</b>	<b>29</b>
Min Brown Support Office	3	2	5
Min Glassie Support Office	2	1	3
Min Heather Support Office	2	2	4
Min Nicholas Support Office	2	4	6
Min Turepu Support Office	1	1	2
Prime Minister Support Office	2	3	5
Leader of the Opposition Office	2	2	4
<b>Parliament</b>	<b>14</b>	<b>33</b>	<b>47</b>
Queens Representative	-	1	1
Speaker of Parliament	1		1
Members of Parliament	4	20	24
House of Ariki - Members and Clerk	7	10	17
Public Expenditure Review Committee Chair	-	1	1
Support Staff	2	1	3
<b>Crown/Statutory Agencies</b>	<b>112</b>	<b>127</b>	<b>239</b>
Business Trade Investment	8	4	12
Cook Islands Audit Office	11	6	17
Cook Islands Parliamentary Services	7	6	13

Agency names	Female	Male	Total
Cook Islands Pearl Authority	3	1	4
Cook Islands Police Department	35	74	109
Cook Islands Seabed Mineral Authority	1	1	2
Cook Islands Tourism Corporation	16	7	23
Crown Law Office	7	1	8
Financial Service Development Authority	1	2	3
Financial Supervisory Commission	9	5	14
Head of State	1	3	4
National Environment Services	9	15	24
Natural Heritage	-	1	1
Office of the Ombudsman	4	1	5
<b>Others</b>	-	<b>2</b>	<b>2</b>
Punanga Nui Market	-	2	2
<b>State Owned Enterprises</b>	<b>114</b>	<b>177</b>	<b>291</b>
Cook Islands Investment Corporation	10	21	31
Bank of the Cook Islands	55	18	73
Te Aponga Uira	14	33	47
Cook Islands Airport Authority	31	87	118
Cook Islands Ports Authority	4	18	22
<b>Grand Total</b>	<b>958</b>	<b>1083</b>	<b>2041</b>

## 12.2 Public Sector Age Profile

Figure 12.2 Public Sector Age Profile



Not stated includes: SOEs and FSC

The Figure above shows the age distribution of employees in the Public Sector. In terms of age distribution, the majority (72%) of public sector employees being in the age range between 30 and 59. Island Administrations generally having a higher number of employees/appointees in the older age profile. There is a slight increase in numbers of 20-29 year old employees. Significantly there is a 2% reduction of employees in the 60-69 year age group.

The remuneration data displayed below shows that around 71% of employees earn less than

\$40,000 per year, with the largest cohort of public service and crown agency employees receiving salaries in the \$20,000 to \$30,000 range. For Island Administrations, where part-time work is more commonly used and Island Councillors receive sitting allowances through payroll, the most prevalent range is \$11,000-16,000.

Almost 3% of public service employees earn over \$60,000 compared to 9% of Crown Agency employees earning over the same threshold.

## 12.3 Public Sector Remuneration Profile

**Table 12.4 Salary Ranges**

	Public Service	Crown Agencies	Island Govt.	Island Council	Ministerial Support Offices	Others	Parl	SOE	Total
<=11,405	11		10	44			15		80
11,406 - 15,999	125	41	273	14	6	1	4		464
16,000 - 19,999	154	27	33	1	5				220
20,000 - 29,999	356	65	25	5	5		1		457
30,000 - 39,999	227	45	2		2	1			277
40,000 - 49,999	71	21	10		5		1		108
50,000 - 59,999	35	6	1		4		17		63
60,000 - 69,999	11	3			1				15
70,000 - 79,999	9	7							16
80,000 - 89,999	7	3					6		16
90,000 - 99,999	4	3			1		2		10
100,000+	5	4					1		10
Not Stated		14						291	305
<b>Grand Total</b>	<b>1015</b>	<b>239</b>	<b>354</b>	<b>64</b>	<b>29</b>	<b>2</b>	<b>47</b>	<b>291</b>	<b>2041</b>

Source: HRMIS

## 12.4 Public Sector Strengthening – Our Journey to Excellence

The Cook Islands Government Public Sector Strategy 2016-2025 has three key areas of focus: people, structures and systems to achieve the government’s vision for a Public Service of Excellence.

The Strategy recognises the need for innovative transformation specific to the Cook Islands context to ensure the public service can deliver and support achievement of our national sustainable development plan goals. The Strategy complements public sector strengthening mechanisms over three key phases:

Phase 1 – Preparing for change (anticipated to be delivered between 2016 and 2018)

Phase 2 – Implementing change (for the period 2018 to 2025)

Phase 3 – Sustaining change (from 2025 onwards).

Phase 1 achievements to date have included the:

- Establishment of a Human Resource Management (HRM) framework with
  - 25 HRM policies for recruitment, retention and the release of public servants
  - A performance management system linked to remuneration and training
  - A revised Pay Structure to reflect job evaluations, pay increments and career pathways
  - Trained job evaluators and an HR taskforce to support effective implementation of policies

- Targeted Public Service-wide training
  - Over 700 public servants have completed the Public Service induction programme
  - 23 senior public servants have completed a post graduate certificate in public administration
  - 60 employees have completed Certificates in Business (First Line Management)
- Enhancement of Systems
  - All agencies (except CIIC, FSC and SOEs) are paid through a centralised platform (HRMIS)
  - Over 30 agencies (1,200 public servants) are connected to a centralised ICT network
  - Taxpayer returns can be submitted online

## STRATEGIC FRAMEWORK

### Our Vision: Public Service of Excellence

Mission: To deliver quality public goods and services through effective leadership and governance

PRIORITY AREAS	OUR GOALS	OUR EXCELLENCE PRINCIPLES		
People Structures Systems	Progressive and high performing employees Relevant and fit for purpose public sector Responsive service delivery	Collaboration Accountability Respect Empathy	Grow people Raise standards Open innovation Whole of government	Leadership Excellence Action Development



## STRATEGIC FRAMEWORK

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## **13 National Sustainable Development Plan 2016-2020 (NSDP)**



**Our vision. Our goals. Our responsibility.**

*To enjoy the highest quality of life consistent with the aspirations of our people in harmony with our culture and environment'*

### **13.1 Background to the NSDP**

Our Te Kaveinga Nui journey started in 2007 after widespread consultation across the Cook Islands. The first National Sustainable Development Plan (NSDP) 2007-2011 defined our common goals and identified pathways towards achieving them. The NSDP 2011-2015 built upon the progress made over the previous five years, through strengthened partnership and collaboration. The NSDP 2016-2020 is the third iteration that articulates the Cook Islands' development goals, reflecting the priorities of our people across each sector. These 16 development goals guided decision makers in setting the budget priorities for the 2017-18 Budget Policy Statement.

### **13.2 Purpose of the NSDP**

The purpose of the NSDP is to set national goals, the expected results and effective strategies to guide policy decisions over the medium term in order to realize the 2020 Development Outcomes that aim to deliver on Te Kaveinga Nui National Vision. The NSDP goals demonstrate an approach that brings together social, economic and environmental priorities underpinned by good governance, culture and effective partnerships.

### **13.3 The Weave; Our Goals. Our Responsibility.**

The weave was developed to reflect the interrelated nature of the goals. We cannot achieve a goal in isolation. Partnership and collaboration are critical to the successful achievement of each goal; we cannot hope to have a resilient economy (Goal 2) without economic equity (Goal 1), a sustainable population (Goal 15) and good governance (Goal 16).

It is important to recognize that these goals are our shared responsibility, and government, private sector, NGOs and Cook Islands residents all play an important role in achieving them. These are "Our Goals. Our Responsibility".

### **13.4 Measuring our progress; A Scorecard for development**

The NSDP has since evolved over time to improve the outcome based indicators and strengthen the monitoring and evaluation framework that enables us to effectively measure our progress. Each year the Office of the Prime Minister will publish an Indicator Report which is presented to Parliament and the general public. This annual report will detail the status of each goal; where we are 'on track', 'of concern', and 'off track'.









Figure 13.1 The Cook Islands 16 development goals as identified in our National Sustainable Development Plan 2016 - 2020



*NSDP Icon*

*NSDP Goal*

*Symbol and Values*

 <p>WELFARE AND EQUITY</p>	<p>Goal 1: Improve welfare, reduce inequity and economic hardship</p>	<p>Helping hands represent our ability to help those in need, to provide support to each other. We are a family committed to protect and care for each other during times of hardship, ensuring no one is left behind.</p>
 <p>ECONOMY AND EMPLOYMENT</p>	<p>Goal 2: Expand economic opportunities, improve economic resilience and productive employment to ensure decent work for all</p>	<p>The Cook Islands scalloped \$1 dollar coin represents the growth, stability, health and resilience of our economy.</p>
 <p>WASTE MANAGEMENT</p>	<p>Goal 3: Promote sustainable practices and effectively manage solid and hazardous waste</p>	<p>An internationally recognized symbol for recycling, this modified version represents responsible sustainable waste management practices, and reflects our respect and custodianship of the land and sea.</p>
 <p>WATER AND SANITATION</p>	<p>Goal 4: Sustainable management of water and sanitation</p>	<p>Water is life. This icon symbolizes the quality, availability and safety of our water and environment which affects the health and quality of life of our people.</p>
 <p>INFRASTRUCTURE AND ICT</p>	<p>Goal 5: Build resilient infrastructure and ICT to improve our standard of living</p>	<p>The cell tower represents connectivity. We will use innovative approaches to strengthen our resilience by improving network infrastructure and ICT development.</p>
 <p>TRANSPORT AND ENERGY</p>	<p>Goal 6: Improve access to affordable, reliable, sustainable, modern energy and transport</p>	<p>The sun and road represents our journey towards sustainable development. It also reflects the importance of investing in renewable energy sources and improving connectivity between islands.</p>
 <p>HEALTH</p>	<p>Goal 7: Improve health and promote healthy lifestyles</p>	<p>This icon represents the general health of our people, and our struggle to make and maintain healthy life choices.</p>
 <p>EDUCATION</p>	<p>Goal 8: Inclusive and equitable quality education and promote life-long learning opportunities</p>	<p>Education is a human right. This icon represents education for all, irrespective of age, gender, disability or location. Improving educational outcomes is the key to achieving sustainable outcomes across all sectors.</p>



Goal 9: Accelerate gender equality, empower all women and girls, and advance the rights of youth, the elderly and disabled

An internationally recognized gender icon, this is our chosen symbol for gender. It also recognizes the most vulnerable people living in our community on which we draw upon our family and Christian values.



Goal 10: Achieve food security and improved nutrition, and increase sustainable agriculture

The coconut tree is also known as the tree of life; providing water, food, shelter, medicine and nearly everything a person needs to survive. This icon represents the agriculture industry and our food security.



Goal 11: Promote sustainable land use, management of terrestrial ecosystems, and protect biodiversity

This icon combines land, sea and animal life images. It recognizes our unique biodiversity. This symbolizes our respect for the land, sea, and all living things, which requires our protection and custodianship.



Goal 12: Sustainable management of oceans, lagoons and marine resources

Ocean blue background with the fish and waves symbolize life in the ocean. This icon represents our respect for the ocean, lagoons and marine life.



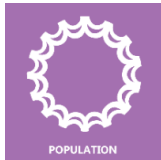
Goal 13: Strengthen resilience to combat the impacts of climate change and natural disasters

This design depicts the eye of the storm, a symbol for all natural disasters; storms, cyclones, drought that threaten our survival and way of life. We must look to the future and take appropriate actions now to strengthen our resilience to climate change and natural disasters.



Goal 14: Preserve our heritage and history, protect our traditional knowledge, and develop our language, creative and cultural endeavours

Symbols of our heritage, we are reminded that our unique Cook Islands way of life, traditions, practices, language, knowledge, needs to be protected, promoted, developed, and preserved.



Goal 15: Ensure a sustainable population, engaged in development for Cook Islanders by Cook Islanders

This icon represents unity. The Cook Islands became self-governing in 1965. We must ensure all Cook Islanders lead the development of our nation



Goal 16: Promote a peaceful and just society and practice good governance with transparency and accountability

The paata, used traditionally to carry a High Chief or someone of great importance, is also a symbol for raising something of great importance above all else. Here we raise good governance, justice, and safety of our community above all ideals.

## 14 Pa Enea

This chapter outlines central Government spending in the Pa Enea. It aims to provide clarity on financing appropriated to the Pa Enea Island Governments, including the funding which is directed through the budgets of other agencies and development partners.

The key economic development in the Pa Enea since 2015/16 was the successful operation of the Northern Renewable Energy installations and the commencement of the Southern Renewable Energy installations. The renewable energy project will remain a significant investment from the central government in 2017/18, with the aim of completing the Southern Group, excluding Aitutaki, and commencing in Aitutaki.

### 14.1 The Pa Enea Funding Model

The Pa Enea Funding Model aims to determine the appropriate level of cash funding to each of the Outer Islands Governments. The system was first introduced in the 2012/13 Budget to ensure a fairer and more transparent allocation of financial resources across the Pa Enea and ensure broadly similar levels of basic service delivery. The remoteness and small populations in the Pa Enea challenges the capacity of Government to deliver public services, and it is important that each island is adequately funded to address their unique challenges.

The Funding Model determines the minimum level of funding required to provide a basic level of public services through the Island Government. Additional funds are also allocated to the Island Governments for local economic development efforts (such as agriculture or fisheries). This funding forms the Island Government's cash appropriation (net appropriation not including depreciation), with trading revenue forming an additional source of revenue that the Island Government can use for local development. Other sources of public services and infrastructure on each island, such as capital projects or Agency spending, are handled through the regular Budget process.

The Funding Model may suggest a different level of funding compared to the current allocation (either higher or lower). Assuming no change in the total funding to the Outer Islands, each island administration will only have its operational funding adjusted toward the suggested allocation by a maximum of three per cent (3%) in a given Budget year, although the recent changes have been closer to one per cent. This ensures that increases and, more importantly, decreases suggested through the Model are iterative, rather than a stepped 'jump'.

The table below summarises the major cost factors used in the Funding Model. These cost factors were determined based on relevance and reliability. The Funding Model does not include depreciation (as this is a non-cash item and is not appropriated to agencies or Island Governments), capital spending (which goes through the Infrastructure Committee process), or Agency spending (which is determined within the individual budgets of those Agencies).

**Table 14.1 Cost factors of the 2017 Pa Enea Funding Model**

<b>Factor/Output</b>	<b>Parameter</b>	<b>Basis for costing</b>
<u>Administration</u>	Population as per the Census	3 staff per island, plus 1 additional administrative staff per 250 residents, up to an additional 3.
<u>Councils</u>	The number and wages of councillors, Ui Ariki and Aronga Mana as per the <i>Outer Islands Local Government Act 2012/13</i>	Base salary, plus top-up payment based on island tier as determined by OPM
<u>Infrastructure</u>		
Water	Population as per the Census	\$250 per person
Road maintenance		
<i>Sealed</i>	Kilometres of road	\$6500 per km of road
<i>Unsealed</i>	Kilometres of road	\$6500 per km of road
Maintenance (of machinery and vehicles)	Schedule of Regular Capital Needs	3-7% of asset replacement value, as determined by the Infrastructure Committee
Airstrip	Length of runway	\$70,000 per km of runway
Waste Management	Population as per the Census	\$110 per person
Literage (unloading of boats)	Island Administrations to cost recover	nil
Beautification	Per km of road	\$1,300 per km of road
Building maintenance	Funding and services provided through the Cook Islands Investment Corporation	nil
<u>Energy (electricity generation)</u>	Estimation of generation cost	A cost of 90-95 cents per kWh
(excl. Aitutaki)	<i>minus</i> estimated trading revenue from appropriate usage charges	A charge of 60 cents per kWh to local users
	Separately averaged per person usage across of the Northern Group and the Southern Group	Average consumption in the Northern Group (incl. Palmerston) Average consumption in the Southern Group (excl Aitutaki)
<u>Other costs<sup>1</sup></u>	Varies by island	Operational costs for inter-motu ferries (\$3000 for Manihiki, \$6000 for Penrhyn)

A major change to the Funding Model in 2015 was the inclusion of a ‘Schedule of Regular Capital Needs’. This schedule is a series of rules that outline what the regular ongoing needs were for all islands in relation to major capital items (items valued more than \$3,000). It takes a small but significant step towards formalising the relationship between the central and island governments in the provision of critical services. In particular, it outlines what Island Governments are expected to keep in working order, and what the central Government will prioritise to replace/provide through the capital budget. For operational budgets, the schedule also provides the basis for determining maintenance needs so they can be adequately covered by the Funding Model.

The Funding Model also includes a 10 per cent modifier on operating expenses to account for the remoteness of the Northern Group and Palmerston. This was estimated on the average cost of landed diesel on island as a proportion of total operating costs (not including personnel). This number is halved to 5 per cent for energy operating costs as all the Northern Group have access to renewable energy systems; this dramatically reduces the need for importing diesel and oils, and shifts the burden of costs to the capital replacement budget (which is borne by the central Budget).

## 14.2 2017/18 Pa Enea Funding Model Results

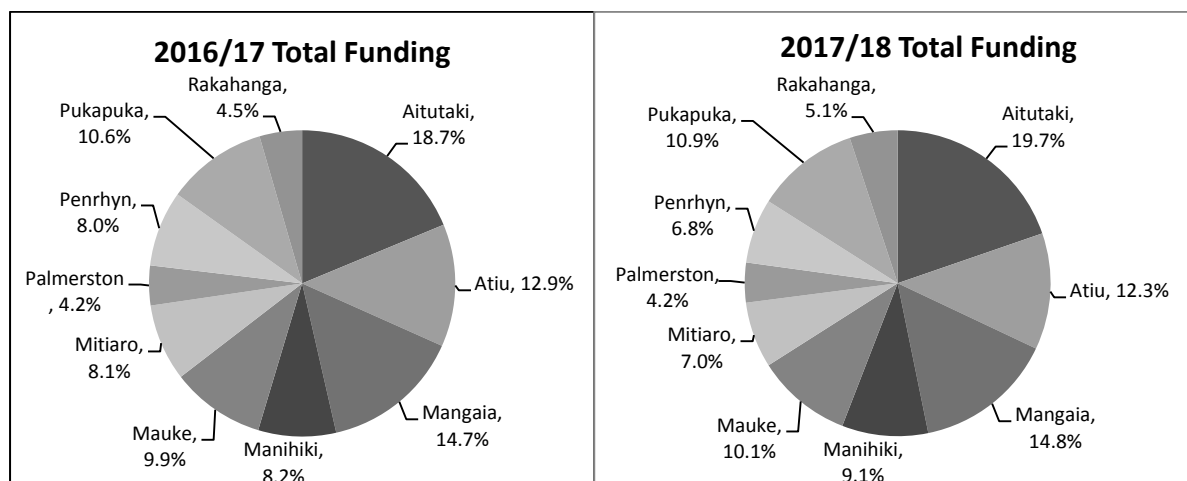
In the 2017/18 formulation, \$5.3 million is estimated as basic service needs for the whole Pa Enea, with an additional \$1.8 million in local development funding to be utilised by Island Governments.

These figures exclude the trading revenue generated by the Island Governments outside of estimated energy revenues and the increase in the minimum wage and employment liability insurance.

Approximately 64 per cent of the total funding given to the Island Governments goes to the Southern Group (excluding Palmerston) and 36 per cent goes to the Northern Group and Palmerston. As background, 75 per cent of the population of the Pa Enea live in the Southern Group excluding Palmerston. The mild preference of the Funding Model to give proportionally more funding to the remote and less populous islands is due to the fixed cost parameters (such as administration and asset maintenance) that are independent of population, and the premium given to shipping costs to the more remote islands.

A summary of the Funding Model results are provided below:

**Figure 14.1 Allocation of total funding across Island Governments**



**Table 14.2 Pa Enea Funding Model Results for 2017/18 (\$000)**

	2016-17 Budget Cash Funding	Current percentage of total Cash Funding	Formula Results			2017-18 Cash Funding
			Minimum Cash Funding	Target percentage of total Cash Funding	Adjustment towards target	
Aitutaki	1,384,501	19.7%	1,303,181	18.6%	-13,845	1,370,656
Atiu	863,609	12.3%	895,920	12.8%	11,900	875,509
Mangaia	1,036,741	14.8%	1,104,329	15.7%	14,286	1,051,027
Manihiki	639,447	9.1%	567,939	8.1%	-6,394	633,053
Mauke	708,979	10.1%	697,359	9.9%	-7,090	701,889
Mitiaro	489,440	7.0%	557,305	7.9%	6,744	496,185
Palmerston	295,702	4.2%	294,729	4.2%	-973	294,729
Penrhyn	479,289	6.8%	571,734	8.1%	6,604	485,893
Pukapuka	766,999	10.9%	708,669	10.1%	-7,670	759,329
Rakahanga	356,310	5.1%	319,853	4.6%	-3,563	352,747
<b>Total</b>	<b>7,021,017</b>	<b>-</b>	<b>7,021,017</b>	<b>100.0%</b>	<b>-</b>	<b>7,021,017</b>

For the complete appropriation of each Island Government, refer to Schedule 1 of the Appropriation Bill or the relevant section of Budget Book 2.

### **14.3 Other agency support targeting the Pa Enea**

The funding provided for the Pa Enea is not only limited to that distributed according to the changes made by the Pa Enea Funding Model. In addition to Island Government appropriations, Rarotongan-based agencies and development partners also mobilise significant resources to assist communities in the Pa Enea. Much of this assistance is crucial for the well-being of local communities as Island Governments would struggle to deliver a complete range of public services on their own. This is especially true in the case of major capital works and heavy machinery.

Assistance to the Pa Enea is not a mandated requirement for financial reporting, so survey methods are necessary to determine estimated levels of support. The table below summarises the estimated assistance given by each agency to the Pa Enea. Some agencies were not able to respond in time to be included. It is likely the figures presented are underestimates, as only those resources wholly dedicated to the Pa Enea or delivered on-island were included.



**Table 14.3 Estimated Agency Expenditure in the Pa Enea (\$000)**

	Operational	2017-18 Budget Estimate		Capital
		Personnel	Trading Revenue	
Ministry of Health	631	1,318	10	7
Ministry of Education	281	4,100	-	80
Infrastructure Cook Islands	-	-	-	3,592
Official Development Assistance <sup>1</sup>	-	-	-	16,000
Cook Island Police Service	40	358	3	-
Internal Affairs	11	36	-	-
Cook Island Investment Corporation	-	-	-	565
Ports Authority	172	141	-	-
Airport Authority	163	181	-	-
National Environment Service	10	187	5	10
Office of the Prime Minister	-	140	-	-
SRIC	-	-	-	2,493
Renewable Energy program	-	-	-	3,050
Ministry of Finance	500	-	-	110
<b>Total</b>	<b>1,537</b>	<b>5,143</b>	<b>8</b>	<b>25,900</b>

	Operational	2017-18 Budget Estimate		Capital
		Personnel	Trading Revenue	
Social Welfare	5,694	-	-	-
Scholarships / Other Education	210	-	-	-
Island Government Capacity Building	507	-	-	-
Tekaaroa School	-	213	-	3
<b>Total</b>	<b>6,411</b>	<b>213</b>	<b>-</b>	<b>3</b>

<sup>1</sup> Official Development Assistance (ODA) is delivered through numerous agencies, both local and foreign. Some ODA may be captured in agency efforts and vice-versa, this line indicates the ODA that was unaccounted for in agency spending.

Note: This table is not an exhaustive list of agency support, and should be taken as estimates only.

### 14.3.1 Ministry of Health

The Ministry of Health allocates personnel funding for health positions held in the Pa Enea. These positions can include nurses, doctors and dentists. The Ministry of Health contributes to the operational costs of the hospitals and health centres in the Pa Enea. Non Communicable Disease promotional activities that include or are held in the Pa Enea are covered through the \$195,000 provided by Government for the NCD initiative. In addition to this, patients who are required to be referred from the Pa Enea to Rarotonga and on to New Zealand for health issues are covered through a referral programme that is administered by the Ministry of Health at the cost of \$740,000. All costs are funded by the Cook Islands Government, and are not included above.

Addition to this, the Ministry of Health estimate operating expenditure of \$631,000 with \$1,318,000 allocated to personnel.

### 14.3.2 Ministry of Education

Outside of social welfare payments, the Ministry of Education is the single largest contributor to operational funding in the Pa Enea. For 2017/18, the Ministry anticipates personnel costs of \$4.1 million with an additional \$300,000 for ongoing operational expenditure at a school level. These costs include text books, stationery, property, teacher salaries and other expenses.

An additional \$500,000 is spent on initiatives such as professional development for Pa Enea teachers on island, advisory support and inclusive education. The additional funding provided in 2016/17 for an advisor with a focus on the northern Pa Enea continues in the new financial year. A specific life skills budget also provides opportunity for island specific community driven education programmes

(\$7,260)

The Ministry is also responsible for scholarship and support payments for students from the Pa Enea studying in Rarotonga (\$210,000), and funding Teakaoroa School in Aitutaki (in addition to all schools except that on Palmerston).

The Ministry also anticipates spending approximately \$80,000 on small capital items, in addition to its regular capital purchases. All Pa Enea schools are included in replacement plans for ICT including printers and copiers as well as school furniture.

### 14.3.3 Infrastructure Cook Islands (ICI)

ICI has been appropriated \$3.6 million for capital projects in the Pa Enea during 2017/18. This investment will mainly be dedicated towards infrastructure such as the Airport Runway Stabilisation in Atiu, road construction in Mangaia, cyclone shelters in the Northern Group and Harbor and Water Upgrades. Further information is provided in the Capital Chapter.

**Table 14.4 Estimated ICI capital projects in the Pa Enea**

Island	PROJECT/PROGRAMME	2017/18	2018/19	2019/20
		Budget Estimate	Projection	Projection
Atiu	Atiu Airport Runway Stabilisation	427	-	-
Atiu	Atiu Road Improvement Programme	242	-	-
Nassau	Nassau Cyclone Centre	-	500	-
Palmerston	Palmerston Cyclone Centre	391	-	-
Mangaia	Mangaia Road Improvement Programme	495	-	-
Mitiaro	Mitiaro Water Upgrade	247	-	-
Penrhyn	Omoka Harbour Upgrade	250	-	-
Pukapuka	Airport Terminal building upgrade	122	13	-
Rakahanga	Rakahanga Cyclone Centre	550	-	-
Mangaia	Tamarua Water Project	250	-	-
Penrhyn	Penrhyn Cyclone Centre	-	1,000	-
Manihiki	Tukao Passage Widening	150	-	-
Aitutaki	Establishing water galleries	467	381	-
<b>CIG funded Infrastructure Cook Islands</b>		<b>3,592</b>	<b>1,894</b>	<b>-</b>

### 14.3.4 Official Development Assistance (ODA)

ODA is an important element of Government spending. For 2017/18, efforts have been made to the estimate the ODA component of agency spending under the banner of the executing agency. Total ODA is estimated at \$77.7 million for 2017/18, a considerable portion of which will be invested into Pa Enea development. Chapter 15 has more detail on specific ODA projects, with Chapter 8 outlining all capital spending.

Following on from the previous year, the roll out of Southern Renewable Energy Program is estimated at \$12 million for 2017/18 with a further \$18 million spread over the two forward years. Additional funding of approximately \$4 million is also provided to build resilience in the Pa Enea including through the following projects; cleaning up Manihiki lagoon, Strengthening Resilience of Island Communities, construction of a cyclone centre in Palmerston, and the continuation of the northern water projects. It is estimated that \$16 million will be spent in 2017/18, representing 21% of the ODA allocation for 2017/18.

### 14.3.5 Cook Islands Police Service

Police estimates operating expenditure of \$400,000 in the Pa Enea during 2017/18, with \$358,000 allocated to personnel. The main expense is the salaries of the officers stationed on each island in

the Pa Enea.

### 14.3.6 Ministry of Internal Affairs

Total welfare payments to the Pa Enea in 2017/18 are estimated to be \$5.7 million. Full details of the breakdown between the various islands and categories can be found below. The amounts presented do not include the welfare benefits received by beneficiaries on Palmerston, as their welfare benefits are paid into accounts held in the Rarotonga branch of the Bank of the Cook Islands.

Addition to this, the Ministry of Internal Affairs estimate operating expenditure of \$11,000 with \$36,000 allocated to personnel.

**Table 14.5 Estimated Social Welfare Payments in the Pa Enea for 2017/18 (\$000)**

	Aitutaki	Mangaia	Atiu	Mauke	Mitiaro	Pukapuka	Penrhyn	Manihiki	Rakahanga	Total
Old Age Pension 60+	720	354	252	180	138	102	30	102	42	1,920
Old Age Pension 70+	879	356	253	182	110	158	71	55	48	2,115
Child Benefit	346	73	68	29	34	126	52	41	17	786
Newborn Allowance	32	3	3	1	-	17	2	4	-	62
Destitute Benefit	7	-	10	7	-	2	2	2	-	31
Infirm Benefit	79	29	26	17	10	17	5	7	5	194
Maternity Leave	20	-	-	-	-	-	-	2	-	21
Caregivers	30	20	10	14	20	32	16	4	10	154
Christmas Bonus	36	11	10	5	5	11	5	4	2	87
Funeral Allowance	29	20	7	-	5	2	2	2	2	70
Power Subsidy	14	146	13	16	8	11	3	4	3	219
Special Assistance	-	-	5	-	5	10	-	-	15	35
	<b>2,191</b>	<b>1,011</b>	<b>657</b>	<b>456</b>	<b>334</b>	<b>512</b>	<b>189</b>	<b>228</b>	<b>143</b>	<b>5,694</b>

### 14.3.7 Cook Islands Investment Corporation (CIIC)

CIIC anticipates capital spending of around \$565,000 in the Pa Enea during 2017/18. In addition, \$1.5 million has been appropriated to CIIC to fund the purchase of land by Government, some of which will be spent in the Pa Enea. This investment will comprise of land acquisitions for the Southern Renewable Energy project, funding for national rent reviews and water storage.

**Table 14.6 Estimated CIIC capital projects in the Pa Enea**

Island	PROJECT/PROGRAMME	2016/17	2017/18	2018/19
		Estimate	Budget Estimate	Estimate
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	250	250	250
Aitutaki	Arenikau Water Storage tank	0	315	0
<b>CIIC funded Cook Islands Investment Corporation</b>		<b>250</b>	<b>565</b>	<b>250</b>

### 14.3.8 The Ports and Airport Authorities

The Ports Authority manage assets on Aitutaki, to a value of \$172,000 in operation expenses and \$141,000 in personnel.

In addition, the total cost estimate for Aitutaki Airport for 2017/18 is \$861,408 which includes personnel cost of \$181,029, depreciation cost of \$517,133 and repair and maintenance of \$163,246.

### **14.3.9 National Environment Service (NES)**

NES estimates expenditure of \$187,000 on environment officers in the Pa Enea including Suwarrow during 2017/18, with an operational expenditure of \$10,000 and trading revenue of \$5,000.

### **14.3.10 Office of the Prime Minister (OPM)**

OPM is provided resources to assist with development in the Pa Enea, including capacity building in the area of governance (\$140,000 in personnel), delivery of the Pa Enea renewable energy projects with support for the Southern Group installations (\$2.8 million in capital expenditure for Aitutaki and \$660,000 in capital expenditure for Atiu) and monitoring of other installations that are operational in both the Northern and Southern Groups (\$250,000 in capital expenditure).

Additional to this would be the general support provided to the Pa Enea by OPM through the Manatua Submarine Cable project (loan component) that will be implemented at \$10.9 million. The benefits received from the Manatua Submarine Cable will have a great impact in regards to better connectivity, more reliable and affordable broadband connections on Rarotonga and the Pa Enea. Similar to this, with the majority of the Pa Enea on the centralized ICT system \$40,000 has been provided to OPM to ensure the implementation and maintenance of the network including the Pa Enea.

Also delivered through OPM is the Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC-CC) program, with an estimated expenditure of \$2.5 million for 2017/18. Most of this funding has been directed towards strengthening the water supply sector especially in acquiring and repairing residential and community water tanks, the provisioning of a small grants facility and implementing actions to support coastal protection, health, tourism, Meteorological Early Warning Systems, marine and agriculture in training, policy development and resourcing.

### **14.3.11 The Ministry of Finance and Economic Management (MFEM)**

MFEM manages the small capital fund \$110,000 for the Island Governments to make funding requests, although this funding is accounted for in each islands' appropriation. MFEM also has two finance officers dedicated to the financial reporting of each island. \$500,000 is also available for shipping subsidy to the Pa Enea.

### 14.3.12 Total Agency Spends in the Pa Enea

**Table 14.7 Estimated agency spending in the Pa Enea by island for 2017/18**

Island	2017/18 Budget Estimate						Agency total ('000)
	Operational ('000)	Personnel ('000)	Trading Revenue ('000)	Capital ('000)	ODA ('000)	Social Welfare ('000)	
Aitutaki	177	2,202	12	14,732	30	2,192	19,344
Atiu	234	516	500	1,343	70	657	2,821
Mangaia	288	732	150	752	4	1,011	2,787
Manihiki	42	364	100	155	16	228	806
Mauke	39	444	100	5	7	451	945
Mitiaro	25	270	100	254	8	334	891
Palmerston	26	54	50	390	-	-	470
Penrhyn	21	330	50	255	11	189	806
Pukapuka/Nassau	71	682	100	132	11	489	1,384
Rakahanga	25	285	50	554	11	143	1,019
Suvarrow	10	102	5	-	-	-	117
<b>General support</b>	<b>3,988</b>	<b>535</b>	<b>-</b>	<b>675</b>	<b>16,000</b>	<b>-</b>	<b>21,198</b>
<b>Total Pa Enea</b>	<b>4,946</b>	<b>6,515</b>	<b>18</b>	<b>19,248</b>	<b>16,168</b>	<b>5,694</b>	<b>52,589</b>

As shown in Table 14.7, a total of \$52.6 million is estimated to be spent in the Pa Enea during 2017/18 by central government agencies and development partners. Excluding social welfare payments, agencies have estimated that they will spend \$46.9 million.

The combination of the resources budgeted for Island Governments and other Government agencies is presented in Table 14.8 below.

**Table 14.8 Total Central Government Spending in the Pa Enea (\$000)**

Island	Fiscal transfer from Central Government	Government Agency expenditure	Welfare transfers	Total current public spending
Aitutaki	1,582	5,512	2,192	9,286
Atiu	1,107	1,959	657	3,723
Mangaia	1,317	1,531	1,011	3,859
Manihiki	764	470	228	1,462
Mauke	920	366	451	1,737
Mitiaro	607	496	334	1,437
Palmerston	345	411	-	756
Penrhyn	604	581	189	1,374
Pukapuka/Nassau	961	783	489	2,233
Rakahanga	420	662	143	1,225
Suvarrow	-	117	-	117
<b>General support</b>	<b>-</b>	<b>21,198</b>	<b>-</b>	<b>21,198</b>
<b>Total Pa Enea</b>	<b>8,627</b>	<b>46,894</b>	<b>5,694</b>	<b>61,215</b>

**Note:** The welfare benefit payments received by beneficiaries in Palmerston is not reflected in this table as these are paid to beneficiaries accounts at the BCI branch in Rarotonga. Also note that trading revenue is not shown here as that revenue is generated on-island, and hence not transferred from the central budget.

Overall, Table 14.8 shows that direct funding to Island Governments makes up a relatively small proportion of the total \$52.6 million budget allocated to the Pa Enea, and that Government Agencies are actually the main vehicle for supporting Pa Enea communities (through a combination of operational, personnel, ODA, and capital spending).

The level of investment by the Government in the Pa Enea is significant by any measure, representing the importance of the Pa Enea to the Cook Islands Government.

## **14.4 The Economics of the Pa Enea**

The islands of the Cook Islands are spread across 1.8 million square kilometres of ocean, making the economic integration of the Pa Enea with Rarotonga and global markets a challenge. This requires novel solutions, substantial levels of subsidisation, or both. By Pacific standards, Rarotonga is a small and remote market, with the islands of the Pa Enea being even smaller and even more remote. Over the past 40 years, the economic prospects of the Pa Enea have been further eroded by continued depopulation.

This does not mean that economic development is impossible – it simply means that the Pa Enea face development challenges that need to be acknowledged, and are separate from those faced in Rarotonga. There are examples of successful businesses and initiatives in the Pa Enea that have significantly benefitted their local communities, as well as activities that have capitalised on the booming tourist growth in Rarotonga (such as parrotfish from Palmerston and on-travel to Aitutaki).

The general challenges of transport, poor local infrastructure and poor access to labour, are almost universal, but this section attempts to summarise any recent economic developments unique to each particular island. Reliable data makes full analysis difficult, but highlights the need for economic reporting in the Pa Enea as a general issue.

### **14.4.1 Aitutaki**

Aitutaki is the only outer island with a sizeable tourism sector outside of Rarotonga. Visitor arrivals totalled close to 3,900 in 2016, a 12.4 per cent increase over 2015. This increase was in line with the increase in total tourist arrivals to the Cook Islands over the same period, suggesting that Aitutaki is continuing to capture a share of the tourist market in Rarotonga. The 2017 arrivals are off to a healthy start with March quarter arrivals up 10.8 per cent over the previous period. Tourism continues to be the main driver of economic growth on the Island and the main reason for Aitutaki's relative prosperity compared to the rest of the Pa Enea.

Government initiatives to encourage local development include the provision of support to the Aitutaki Growers Association (AGA). The AGA, which operates the island market (unlike the Punanga Nui market in Rarotonga, which is operated by Government), is expected to receive support via a revolving fund facility to bulk purchase fertilizers and seedling mixes. The AGA then on-sells agricultural inputs to the local farmers so that they are able to effectively engage in opportunities to supply the growing local market.

Aitutaki has not yet fully recovered from the 2013 drought, and water management remains a key issue. With the completion of the Vaimaru gallery, the Government understands the need to provide secure access to safe drinking water for all citizens. The development of additional gallery's will enable more secure water supply to water stressed areas. Funds have been provided to ICI for the establishment of water galleries in 2017/18.

In February 2017, Aitutaki also received \$160,000 from Japan to repair ten large community water tanks and to build two purpose built water catchment structures. This will contribute to improving potable water supply to residents and commercial properties.

The Aitutaki Road Sealing Programme is expected to be completed by the end of 2016/17. This is expected to have a positive impact on businesses, individuals and the tourism industry in Aitutaki.

### **14.4.2 Atiu**

Tourism is a small but potentially transformative industry for Atiu, however Atiu falls a distant second to Aitutaki in terms of total arrivals. In 2016, total arrivals were 2,358 compared to a total of 2,098 in 2015. Annual visitor arrivals have generally ranged in the low 2,000's since 2008.

The deteriorating condition of the airport runway has been a longstanding issue, with the closure of the airport in 2013/14 due to unsafe conditions narrowly averted with emergency repairs. A stabilization program that commenced in 2015/16 is still continuing, the island government has started the production of aggregates to support airport improvement works and in readiness for the tar sealing of the island roads.

The dominant industry in Atiu is still local agriculture, comprising mainly of taro.

Atiu's current electricity distribution system is in need of an upgrade. The power distribution project will improve the reliability of the electricity and increase the resilience of the system against adverse weather and climate change.

### **14.4.3 Mangaia**

Local economic development activities are mainly based around the local production and sales of cooked food, vegetables and taro. A number of small scale home gardening projects have also been approved for the island and are expected to contribute to the weekly sales at the island's local market by the end of the year. There is potential for agriculture to expand, with increased interest in growing pineapple and vanilla for export. Anecdotal reports indicate that a number of local farming ventures are being developed on Mangaia to supply Rarotonga with fruits, vegetables and root crops.

The island has also benefited from development partner assistance via coolers and an ice making machine for the local fishing club. While fishing catch fluctuates between months, most of the catch never reaches storage facilities as it is sold on the wharf or presold to waiting customers. There are plans for the local fishing club and school to teach school children about fishing from an early age.

The island previously received \$800,000 to undertake structural improvements to the harbour, and improve island community resilience to climate change risks. The construction of the concrete harbour landing is in progress and the harbour shed is near completion.

A new quarry site at Karanga Nui has become operational to support the island wide road tar sealing program. The island government is also using aggregate from the new quarry to maintain the main coastal roads to an acceptable standard.

The geographical uniqueness of Mangaia relative to the rest of the Pa Enua suggests that there is potential to improve tourism development activities. The completion of 4-star villa accommodation could encourage new arrivals to the island, with flow on benefits for employment and other potential tourism services. The total arrivals (including locals) to Mangaia in 2014 were recorded at 1,608 with continuous increases in arrival numbers to 1,819 visitors to Mangaia in 2016. The bulk of these visitors were Government workers and consultants.

Mangaia would benefit from a greater level of local investment and more constant reporting of economic data (such as tourism arrivals or agricultural output). This would contribute to the effectiveness of the locally driven Mangaia Development Plan. The recent commissioning of the water reticulation system in Ivirua village is expected to improve supply of the village which was affected by a mild drought last year. The SRIC-CC program delivered 84 small water tanks to Tamarua and Ivirua villages, improving Mangaia's drought and natural disaster resilience.

### **14.4.4 Manihiki**

The Pearl industry continued to be the leading local economic development industry for the island,

although fishing for local consumption is also a major activity. There are a number of government and development partner initiatives in the pearl industry, but it is unclear how long these programs will take to give significant returns. A summary of the pearl industry can be found in the economic chapter of the Budget. At present the Island Government is working with a Rarotongan company to undertake a program aimed at cleaning the island's lagoon from past farming wastes that have caused and contributed to recent unsuitable conditions for pearl production on the island.

Water security remains a challenge for Manihiki and water conservation is required to ensure supply, particularly given the El Nino predictions for less rainfall for the North in coming years. The recent completion of two water shed buildings and the repairs of four large water tanks under the SRIC-CC program will help Manihiki meeting water security issues. Two heavy machinery buildings have also been completed for the villages of Tauhunu and Tukao.

Like other islands in the Northern Group, the renewable energy project has added significantly to the reliability and sustainability of Manihiki's power production.

#### **14.4.5 Mauke**

Despite the availability of ground water supply for irrigation purposes, the 2013 drought affected the production of vegetables earmarked for the Rarotongan market. In an effort to promote local economic development in the agriculture sector, the island is gearing to receive a cooler to store local vegetables for the Rarotonga market. This should take advantage of the available spaces on flights departing from the island. The draft agricultural plan for the island holds some promise for future development, but faces significant hurdles in terms of governance, labour, financing and local management expertise.

The recently constructed harbour at Taunganui is expected to further improve cargo handling and shipping services on the island. This will in turn ensure safe, efficient and reliable transportation of goods and people, thereby fostering economic growth and prosperity for the people of Mauke.

#### **14.4.6 Mitiaro**

Recent plans to export Maire Lei to Hawaii have ended due to a lack of sustainability. This is unfortunate as it could have had a large positive impact on the economy of Mitiaro. Further work will be required to expand the opportunities in this area, including expanding the supply to Rarotonga.

Mitiaro's Renewable Energy Program is currently in its implementation phase and construction is expected to be complete in October of this year in time for the 2017 Manea Games. The upgrade of sport facilities and accommodation venues in preparation to host the Manea Games is progressing. These facilities should provide benefits to the island after the completion of the games through social and economic programs such as youth sports.

Plans to install a new large water tank and the extension of the reticulation of the existing water network to areas outside of the village boundaries are in the implementation stage and expected to have been completed by the end of 2017. Additionally, fifty four small water tanks are expected to soon arrive on Mitiaro, allowing all occupied residences to have water tanks.

#### **14.4.7 Palmerston**

The recently completed renewable energy system will provide additional security for Palmerston's parrot fish export program. Opportunities exist for local fishermen to form collective bargaining groups with consumers in Rarotonga. There are concerns with the sustainability of the parrotfish and robust management is required to ensure its viability into the future.

Government has allocated funds for the construction of a new cyclone centre, which will provide secure shelter for residents during adverse weather conditions. The allocated funds also contain a



provision for a capital shelter, workshop, and administration building. The centre is planned for completion in 2017/18.

Yacht arrivals numbers were just below 70 in 2016. Two passenger cruise ships visited the island over the same period. Formalising Palmerston as a port of entry may help boost arrival numbers, but issues around safe moorings, local capacity to host large numbers of people, and loss of local arts and crafts, present barriers for further income generation from this activity. Niche tourism also presents some opportunities.

#### **14.4.8 Penrhyn**

Diving and harvesting natural pearls or pipi on Penrhyn has been a key source of local income, often involving whole family units. There are two overseas buyers involved in the industry and working directly with the community. The economic returns from harvesting pipi have resulted in a decline in the production of woven handicrafts. There is concern over current harvesting practices and the future sustainability of the pipi may be under threat. In response, the council have placed a temporary ban on pipi harvesting which will be lifted as soon as the population improves.

Fishing is generally reserved for family consumption, with little excess for sale or export to Rarotonga. While shellfish like paua or clams present opportunities for the islanders, the harvesting of it is locally regulated to ensure sustainability, thus restricting revenue from this resource to specific times of the year. There are concerns around the seashell food population based on indications of an increase in coral bleaching which affects clam populations.

The government is cognisant of the need to provide safe and secure transportation of people and goods in the Pa Enea. Funds are appropriated for the strengthening of the Omoka harbours pilings. Two heavy machinery buildings have been constructed on Omoka and Tetautua during 2016/17. There are also plans to construct two cyclone centres during 2018/19. Eight large community water tanks and two water catchment buildings will be repaired under German government funding. This project is expected to commence towards the end of 2017.

#### **14.4.9 Pukapuka and Nassau**

A combination of inadequate maintenance and a lack of scheduled air services resulted in the Pukapuka runway being rendered unsafe in 2013. The government has since spent \$375,000 to transport machinery, labour and materials to Pukapuka to get the airport upgraded and safe.

Economic activity is low with food production for local consumption being the mainstay.

Pukapuka is on the way to completing the construction of three community water catchment buildings and repairs to six large community concrete stave tanks, complements of the SRI-CC program. A heavy machinery shelter is also under construction to house heavy machineries received from the PRC. Additionally, Nassau's two 45,000 litre concrete tanks will be repaired under the GIZ program funded by the European Union.

#### **14.4.10 Rakahanga**

The island's five village communities recently received one outboard motor each, which together with the recent shipment of freezers, should assist in fishing activities. After some pilot activities, the island is continuing dried fish production to generate extra revenue for the island's residents. However the island has reported a drop in fish catches in 2016/17 as compared to recent years. The Island has also recently benefited from a development partner funded program designed to repair boats on Rakahanga and Manihiki.

The island is also be repairing five of its 45,000L community water tanks under the SRIC-CC program. This will contribute to improving water supply in times of low rainfall, a particular challenge for Rakahanga.

## 15 Official Development Assistance (ODA) Budget 2017/18

The Cook Islands ODA chapter highlights Government's planned expenditure programmes whilst taking into account ODA estimates that have been committed through existing funding agreements and arrangements. The ODA chapter should be read in conjunction with the capital chapter as ODA funded infrastructure projects are not detailed here.

The actual estimated spend for ODA in 2016/17 was \$24 million of the \$69 million estimated at Budget 2016/17, a conversion rate of around 35 per cent. This is predominantly driven by the re-phasing of large infrastructure projects such as Te Mato Vai, Mei Te Vai Ki Te Vai, Apii Nikao and the Renewable Energy Project to the forward years.

The ODA estimates for 2017/18 are significantly higher than in previous years. It is mostly comprised of the Cook Islands Core Sector Support due to end on June 2018, which is estimated at \$13 million, and the following infrastructure projects:

1. Water and Sanitation (Te Mato Vai) (TMV) and Mei Te Vai Ki Te Vai (MTVKTV) estimated to be funded through grants at the value of \$10 million.
2. Tereora College and Apii Nikao with a combined estimate of \$17 million.
3. Manatua Submarine cable project estimated at \$10 million.
4. Renewable Energy in the Southern Group Islands at \$12 million.

These projects, together with the Core Sector Support, have an estimated cost of \$62 million and make up 79% of the ODA investments for the 2017/18 fiscal year. MFEM is undertaking an ambitious development agenda in the coming financial year with the continuation of infrastructure implementation and assessing the implications of ODA graduation.

The Cook Islands Government also contributes to ODA funded projects through its Capital budget contribution, human resources, operational budgets and taxation exemptions which have not been highlighted in past Budgets. For the financial year 2016/17 alone, an estimated \$1 million in foregone taxation revenue was provided for project implementation, where taxation duties were exempted as part of project delivery. This has been provided through ODA exemption on imported materials for projects as well as exemptions on value added tax for purchases of goods and services.

The above investments highlight the Government's continued commitment to its National Sustainable Development Plan (NSDP) 2016-2020 'Te Kaveinga Nui', with a majority of ODA directed towards, but not limited to:

- Goal 4 - Sustainable management of Water and Sanitation,
- Goal 5 - Building resilient infrastructure and ICT to improve our standard of living and
- Goal 6 - Improving access to affordable, reliable, sustainable, modern energy and transport.

Achieving the remaining NSDP Goals will be a bi-product of these investments.

### ODA Graduation

In 2017 it is expected that the Organisation for Economic Co-operation and Development (OECD's) Development Advisory Committee (DAC) will determine if the Cook Islands will graduate to a high-income country status by reviewing its Gross National Income (GNI) for the last 3 years against the benchmark set by the World Bank. Under the DAC rules, once the Cook Islands has "graduated" to high-income status, aid provided to it by external donors will no longer be accorded the status of "Official Development Assistance". A decision regarding the Cook Islands' eligibility will be made in the latter half of 2017.

The Government, noting the pivotal and integral role ODA has in country development, has established a working group and commissioned technical assistance to address the validity of the Cook Islands' ODA graduation. A technical team was engaged to produce a work paper which has been presented to the OECD. The paper highlight concerns for using Gross Domestic Product (GDP) as a proxy for GNI. The outcome of the June meeting will provide the Cook Islands with a clearer indication on whether it will graduate in December 2017.

The Development Partners meeting which was scheduled for October 2017 has been deferred until a way forward has been identified to address ODA graduation. In the interim, the Cook Islands will continue working through appropriate diplomatic channels to maintain its current relationships with its developments partners

A summary of significant ODA programmes and projects are provided below with more details provided towards the end of this chapter.

### **Cook Islands Core Sector Support**

The Core Sector Support Grant Funding Arrangement (GFA) which replaces the Performance Based Budget Support, was signed in November 2016 and is valued at \$20.1 million inclusive of funding allocated through the previous PBBS. The goal of the support is to enhance the Cook Islands self-sufficiency by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. It is also designed to assist the Cook Islands enhance economic self-reliance into the future. The arrangement is a trial of performance based budget support funding modality. The GFA goal aligns with our (recently-signed) Joint Commitment for Development (JCFD) objectives of improving economic growth, strengthening human capacity, and enhancing overall economic self-sufficiency.

Funding is allocated over the 2016/17 and 2017/18 fiscal year. The Activity will provide:

- i. predictable funding for health and education to ensure the quality of core services delivered to New Zealand citizens;
- ii. predictable funding to the tourism sector to maintain and safeguard economic growth; and
- iii. funding for specialist technical assistance and/or to procure specific outputs relating to the implementation of the Cook Islands Public Sector Strategy and broader Public Sector strengthening and reform.

### **Improved Planning Tools - Cook Islands National Te Tarai Vaka (TTV) Activity Management System**

This project aims to strengthen institutional mechanisms and capacity to enable increased use of local systems by development partners.

The Cook Islands Government has in place, since 2015, an Activity Management System (AMS) to strengthen governance and management of aid effectiveness at all levels. The key driving factor for prioritising the establishment of this single, streamlined AMS was the Cook Islands bid to obtain National Implementing Entity (NIE) accreditation status to the UN Adaptation Fund for climate change. The Adaptation Fund requires countries to have robust systems for activity management with high standards for environmental and social safeguards, and proven effectiveness. Thus, a series of new policies, guidelines and templates labeled "Te Tarai Vaka" (TTV) were officially adopted by CIG through cabinet endorsement in September 2015. This has resulted in the Cook Islands successfully being accredited as a National Implementing Agency for the Adaptation Fund in July 2016.

The Government, through MFEM, is in the process of simplifying TTV processes and aligning it with other mechanisms within the machinery of government. This work involves the identification of gaps in the endorsed TTV, and defining the appropriate course of corrective action.

Upskilling of the main users of TTV through practical training is required, with specific focus on the key stages in a project. This will be aimed at familiarizing the key users of TTV with the proposed new changes, thus better equipping them for their respective roles.

The development of user friendly visual material, such as brochures and fact sheets, is a priority as it will strengthen the focus of TTV towards ownership of development results. It is anticipated this work will be ongoing and completed in the next financial year.

### **Green Climate Fund-Seeking National Implementing Entity Status**

The Cook Islands, specifically the Development Coordination Division (DCD), is seeking accreditation to the Green Climate Fund. A proposal was submitted in May 2017 following the successful accreditation of the Ministry of Finance and Economic Management (MFEM) to the Adaptation Funds in June 2016. The accreditation will allow the Cook Islands Government direct access to climate change funding. This will allow in-country management and delivery of climate change adaptation and mitigation priorities as aligned with our national strategies, with the use of GCF resources.

The Cook Islands have been successful in accessing readiness support from the Green Climate Fund for the strengthening of the National Designated Authority, however the funding for this support comes to an end in August 2017. MFEM, in partnership with the Office of the Prime Minister (OPM), have submitted a second readiness support proposal to address three main outcomes;

- to continue to strengthen the National Designated Authority,
- to develop a Country Programme, and
- to support MFEM in gaining direct access to the fund.

More importantly, the Cook Islands have also been successful in accessing \$12 million from the Green Climate Fund to finance greater battery storage in Rarotonga, this is a great achievement and is the first funded project that the Cook Islands has been supported by the Green Climate Fund through the support of the Asian Development Bank (ADB).

## **15.1 Major Infrastructure Projects**

### **The combination of Te Mato Vai and Mei Te Vai Ki Te Vai**

Implementation continues on the largest infrastructure project in the Cook Islands. Institutional strengthening is a focus of the projects with the management and implementation structures of the Te Mato Vai (TMV) Water Partnership and a refocused Wastewater Project being combined. On 8 November 2016, Cabinet approved the proposed change to the Te Mato Vai (TMV) and the Wastewater Project governance structures under MFEM (led by GHD Ltd) and the temporary postponement of the former Sanitation Upgrade Programme (SUP). This enables effective and efficient project management, and reduction of administrative costs, resources and overall burden on Government agencies.

#### **Te Mato Vai**

The TMV project is the largest single infrastructure project in the Cook Islands since the construction of the international airport in Rarotonga in 1974. The project is divided into two stages – Stage 1, the replacement of the ring main; and Stage 2, refurbishment of intakes and provision of storage, filtration and trunk mains.

### **Mei Te Vai Ki Te Vai**

Addressing the sanitation issues in Muri-Avana is an immediate priority for the Cook Islands Government in protecting the environment and supporting the Tourism industry. Work is currently underway to assess the following key components;

- Preparation of a Wastewater Master Plan. This involves managing the development of a long term Master Plan for the safe collection, treatment and disposal of domestic and commercial wastewater on Rarotonga and Aitutaki. Preparation of an onsite effluent treatment policy, and de eutrophication and other mitigation intervention options report for Muri lagoon.
- Undertaking environmental data evaluation, investigation planning and procurement of investigation services. Establishing a firm scientific and environmental understanding of the current situation to ensure that the final technical options developed are robust and can be clearly justified.
- Undertaking key stakeholder consultation, planning and programme implementation. Establishing a clear direction in the programme that is accepted and understood by all stakeholders in Rarotonga and Aitutaki.
- Undertaking early mitigation studies. Identifying any early actions that can be taken to mitigate the deteriorating condition of Muri and Aitutaki lagoons.

### **Manatua Submarine Cable Project**

Improved Connectivity is a priority for Government, as it is a significant enabler for economic growth, social development and simply keeping our people in touch with their families and the world abroad. Budget 2017/18 will demonstrate the Government's commitment to making this a reality. The Government will be working on developing a telecommunications submarine cable to connect Rarotonga and Aitutaki to the rest of the world. This will ensure faster, more reliable and affordable broadband connections. We are appreciative of the financial support that will be provided by the New Zealand Government, to the tune of \$15 million. The balance of the cost will be met by the Government through borrowing and any further investment. Government is confident that this particular commitment of capital will be self-sustaining and will have positive outcomes for many years to come.

### **Tereora College Redevelopment**

The Tereora College redevelopment which commenced in October 2016 is estimated at a total cost of \$12 million and remains on track for completion by December 2017, before the commencement of the new school year in 2018. In terms of project delivery, this is an ideal example of successful project implementation. The Project Management Unit has minimized delays with project implementation. Reporting on key milestones to various stakeholders has been fruitful and timely as has the management of the Contractor. An estimated \$6.6 million is planned for 2017/18.

### **Apii Nikao Rebuild**

The Governments of the Cook Islands and the People's Republic of China signed an Implementation Agreement on China-aided Project of Apii Nikao in June 2016. Since then the People's Republic of China have agreed to gift the rebuild of the school to the Government of the Cook Islands. Relevant agencies of the Cook Islands Government have worked closely with the Government of the People's

Republic of China over the years on the design and implementation plan for the school.

This contractual agreement guides the development progress of the project and outlines unanimous decisions reached by the two parties. Significant progress has since been made. Reconstruction of Apii Nikao School began in May 2017 and is expected to be completed by February 2018 reaffirming China's commitment to development in the Cook Islands. The Apii Nikao School rebuild marks the last of the major construction projects funded by the People's Republic of China.

The assistance by China to the Cook Islands is a testament of the strength and health of the bilateral relationship between the two countries and China's commitment to developing our infrastructure sector and more importantly our education for now and the future. The two countries will celebrate 20 years of diplomatic friendship this year and Cook Islands looks forward to continuing the political and economic ties.

## 15.2 Cook Islands ODA Budget by Development Partner

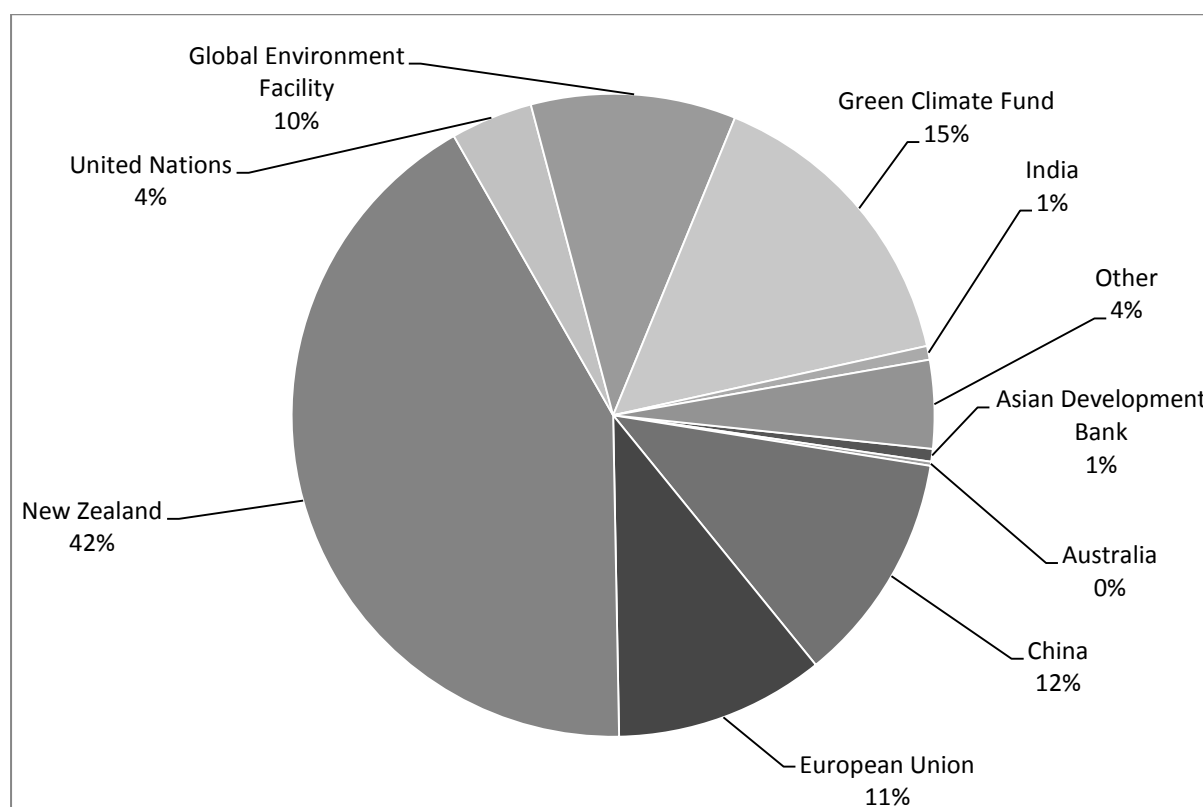
A list of our current Development partners and their estimated contributions of the forward years is provided in the table below. It should also be noted that forward year estimates are very premature as there are currently very few signed and endorsed agreements that go past the 2018/19 financial year. A further review of these numbers will occur through the analysis of the impact of ODA graduation.

**Table 15.1 Cook Islands ODA Budget by Development Partner 2016/17 - 2020/21 (\$)**

<b>Development Partner</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>Total (4yr Forecast)</b>
Asian Development Bank	1,632,431	652,174	152,672	-	-	804,846
Australia	111,074	226,591	11,074	11,074	11,074	259,813
China	5,551,180	11,620,000	2,800,000	-	-	14,420,000
China Zhuhai Municipality	-	114,000	-	-	-	114,000
EU-German Development Cooperation	210,000	594,880	500,000	-	-	1,094,880
European Union	12,703,727	8,272,013	1,221,386	2,578,729	-	12,072,128
European Union - OPAGAC	-	35,200	-	-	-	35,200
FAO	444,454	230,000	-	-	-	230,000
Federal Republic of Germany	14,400	15,000	15,000	15,000	-	45,000
Forum Fisheries Agency	355,030	368,536	346,981	-	-	715,517
GEF/UNEP/SPREP	64,469	115,000	-	-	-	115,000
Global Environment Facility	9,355,059	9,128,146	2,564,305	1,083,223	-	12,775,674
Green Climate Fund	150,769	869,565	9,160,305	9,160,305	-	19,190,176
India	615,385	260,486	303,030	303,030	-	866,547
Japan	1,000,646	2,307,718	425,000	425,000	300,000	3,457,718
Korea	307,692	289,855	-	-	-	289,855
MLF/UNEP	35,308	15,942	-	-	-	15,942
Multilateral Fund	19,286	15,714	-	-	-	15,714
New Zealand	33,193,766	40,272,576	12,288,773	-	-	52,561,349
Other	160,000	100,000	100,000	100,000	100,000	400,000
Secretariat of the Pacific Community	157,652	122,792	11,074	11,074	11,074	156,014
South Pacific Fisheries Cooperation on - Te Vaka Moana	-	33,800	-	-	-	33,800
UN Adaptation Fund	2,117,982	1,500,000	1,500,000	1,500,000	-	4,500,000
UN Environment Programme	76,831	183,641	-	-	-	183,641

(UNEP)						
UNDP	208,211	213,873	169,358	75,758	-	458,988
UNESCO	150,000	20,000	-	-	-	20,000
Western Pacific Council (US)	-	36,641	-	-	-	36,641
WHO	149,538	148,397	-	-	-	148,397
<b>Grand Total</b>	<b>68,784,890</b>	<b>77,762,540</b>	<b>31,568,958</b>	<b>15,263,193</b>	<b>422,148</b>	<b>125,016,839</b>

**Figure 15.1 Cook Islands ODA Budget by Development Partner 2017/18 - 2020/21 (\$)**



Further details on key activities are provided below, including the capital initiatives budget.

### 15.3 Ministry of Education

#### United Nations Educational Scientific Cultural Organisation (UNESCO) - Participation Programme

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	150,000	20,000	-	-	-

Every year, UNESCO provides the Cook Islands financial assistance through the Ministry of Education. The funds were allocated according to the following Participation Programmes:

- Cook Islands to attend the Pacific Festival in Guam. This has been fully expended with the National Commission, the Ministry of Education awaiting a completion report from the Ministry of Cultural Development, budget allocation \$27,447.82.
- Funding through the Ministry of Education for “women as instigators of “Imene tuki” as a project to record the Imene Tuki. This has commenced with work starting on the recording and mastering of the CD, budget allocation \$27,166.67.

- Activity for the project on the Maungaroa National Heritage Site is well underway. The publication has been changed from print to DVD. There are still some further supplies to be purchased for securing work at the site however the delivery of this project is on schedule, budget allocation \$27,447.82.
- The project on Sexual Health for Youth is underway with CIFWA planning a series of workshops in Term 2 for teachers and the community, budget allocation \$27,447.82.

## 15.4 Ministry of Finance and Economic Management

### E-Government TA Support

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	384,615	579,710	152,672	-	-

Government recognizes the potential of ICT and its ability in delivering Government services to its people. It improves Government processes, empowers and connects people to information and services and it promotes good governance. Government is grateful for the commitment from the ADB towards a TA support for e-Government. An output of this work will be in 2 streams:

1. A report consisting of a complete scoping of the current situation of ICT in Government with recommendations towards the necessary developments (infrastructure, hardware/software, organization structure, human resource, policies/legislations) for the implementation of e-Government with a piloted set of recommended services to demonstrate its capability.
2. Pilot implementation of the recommended services that includes the establishment of the necessary requirements (infrastructure, hardware/software, organization structure, human resource, policies/legislations).

### Improving Connectivity for the South Pacific

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	478,585	72,464	-	-	-

The ADB is providing technical and legal support to the Cook Islands in its preparation for the Manatua Submarine Cable. The ADB is currently in the process of appointing a focal point. Social and environmental impact assessments have been completed and the submarine cable is expected to be operational towards the end of 2018/19.

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

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	-	10,000,000	5,000,000	-	-

In April 2017 during the Pacific Telecommunications Association annual general meeting, hosted in Rarotonga. The Cook Islands Government and leaders from Niue, French Polynesia and Samoa entered into an agreement for the design, construction, operation and maintenance of the Manatua Submarine cable project. Such a regional approach provides a cost effective solution for the Cook Islands and Niue (connecting with spurs and branching units), and redundancy capacity for both Samoa and French Polynesia (already connected via separate trans-pacific cables).

The Government of the Cook Islands has requested the Asian Development Bank (ADB) to support



the project. An OCR Loan allocation of USD\$15 million is set aside to support this important project.

It is anticipated this project will improve internet connectivity in the Cook Islands by providing higher capacity and better quality broadband, increasing accessibility and improving affordability for Cook Islanders.

#### **India Grant Fund**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Recurrent	615,385	260,486	303,030	303,030	-

In Quarter 1, a total of 16 grass roots projects were approved in 2016/17 Round. The main focal area of the grant funding from the Government of India is to support, promote, and/or develop social, economic and/or cultural and development cultural, economic and social development and sustainability. An additional prerequisite was the alignment to Te Kaveinga Nui Framework National Sustainable Development Plan 2016-2020.

The 2016/17 round addresses a variety of grass root community areas such as agriculture and fisheries development, disability support, sports development, assistance to community halls and clinics, road safety and infrastructure.

A training session was held at the Ministry of Finance and Economic Management (MFEM) to promote understanding of the India Grant Fund activities and expectations in the Cook Islands and their engagement. Training was also provided on the disbursement of funds process and reporting requirements from recipient of funds. It was the first time such training had been conducted to ensure that the processes carried out is conducted in a fair, transparent and accountable manner.

The official handover ceremony of grant funding between the Government of India was represented by his Excellency, Vishvas Sapkal, High Commissioner of India and the Government of the Cook Islands, Prime Minister Honourable Henry Puna and Honourable Mark Brown, Minister of Finance.

Disbursements continue to be carried out for the 16 successful projects that were approved funding.

#### **Korea Grant for Medical Waste Incinerator**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Capital	307,692	289,855	-	-	-

The Republic of Korea Government has allocated Official Development Assistance (ODA) through the Korean Small Grants Programme to the Cook Islands for amounts up to USD200,000 annually. The annual application to this Grant was unsuccessful for the FY 2016/17 with no funds expected for the rest of the fiscal year.

Under the funding round for 2017/18, a proposal for a medical waste incinerator for the Rarotonga Hospital was submitted in February 2017 for consideration by the Korean Government.

#### **General Budget Support- European Development Fund**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Recurrent	2,207,000	770,000	669,657	2,105,400	-

Two submissions were made to the EU for Technical Assistance (TA) funded under the 10<sup>th</sup> EDF. The first TA proposal relates to interdisciplinary studies to be carried out on the Muri Lagoon area which commenced in early March 2017. The second TA is for feasibility studies to be conducted for a Centralised Laboratory on Rarotonga. Both programmes will continue over the next few months and are expected to be completed in the new financial year.

The 10th cycle of funding (EDF10) has now concluded with the focus moving to the 11th cycle (EDF11) of funding. EDF11 will continue with the incentivized budget support, allocating funding using national systems until the year 2020 with the Cook Islands priority remaining on improving the Sanitation Sector. A submission has been made to the EU for funding under the 11th EDF cycle. The focus of this submission is on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014 standards. The Action Document has been sent to Brussels for final consideration and approval.

There have been no spends for the Cook Islands under the Pacific Island Integration Technical Assistance Project (PITAP) for the quarter under the 10th EDF which is accessed from the regional indicative package - there is no specific country allocation. It is organized so that funds are expended on regional initiatives as the EU recognizes that National Indicative Packages are available to Member States for national specific priorities. With the completion of the 10<sup>th</sup> EDF round, the focus has now moved to the 11<sup>th</sup> EDF.

### Cook Islands Core Sector Support

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	10,474,500	12,827,349	-	-	-

The total Core Sector Support is distributed amongst four outputs spread of 2 years which are presented below. The estimate of \$12.8 million for 2017/18 (Year 2) reflects a rephasing of allocation under output 4 from 2016/17 (Year 1). This is largely a result of delay in project implementation.

#	Outputs to be produced	Total cost of Output	Year 1	Year 2
1	Health Services	2,500,000	1,250,000	1,250,000
2	Education Services	7,960,800	3,980,400	3,980,400
3	Tourism growth activities	5,000,000	2,500,000	2,500,000
4	Public Sector technical assistance	5,488,200	2,744,100	2,744,100
	<b>Maximum Funding Amount</b>	<b>20,949,000</b>	<b>10,474,500</b>	<b>10,474,500</b>

Outputs 1, 2 and 3 are treated as budget support, which means they are directly appropriated to the Ministry of Health, Ministry of Education and Cook Islands Tourism to fund core service activities in the respective agencies. Outputs are then measured for performance using indicators identified in the pre-approved results framework to ensure outcomes and goals are achieved. The goal of this particular ODA fund modality is to enhance economic self-sufficiency for the Cook Islands.

In addition, \$2.7 million of the annual CSS has been allocated for Public Sector technical assistance under output 4. Noting the timing in finalizing of the funding agreements which were signed in November 2016, the disbursement of funds for projects/programmes under Output 4 has gotten off to a slow start, hence the re-allocation of funds from 2016/17 to the 2017/18 financial year. The Governments of the Cook Islands and New Zealand have recently approved several projects under Output 4 including the implementation of a centralised Financial Management Information System (FMIS), Phase 4 of the Revenue management system – CUSMOD, Centralised Asset Management

Registry and an Audit House Keeping TA support. These projects will incur expenditure in the 2017/18 fiscal year.

Additional TA priorities have been identified through the NSDC process and it is envisaged that Output 4 will be fully committed by 30 June 2018.

#### **Revenue Management System Phase 4 – CUSMOD**

The Data Torque Revenue Management System (RMS) was originally implemented for the Cook Islands Ministry of Finance and Economic Management (MFEM) in 1997. In June 2010 MFEM successfully upgraded to the latest version, RMS7. Phases 1 & 2 covered the implementation of online filing of all tax types and were completed on the 7<sup>th</sup> August 2015 and 18<sup>th</sup> of March 2016 respectively. Phase 3 included the enhancement to income tax and automated taxpayer notifications and finally Phase 4 will look at the introduction of CUSMOD automatic portal, automated refund processing, debt and audit case management workflows, exception reporting and credit transfer enhancement. Phase 4 –CUSMOD is already in progress and schedule to be completed in the 2017/18 period.

#### **Financial Management Information Systems**

The Cook Islands Government (CIG) through the Ministry of Finance is interested in identifying and procuring a suitable integrated Financial Management Information system (FMIS) that will provide improved audit outcomes, increased transparency across Government and strengthened Public Sector financial management. The CIG currently uses a decentralised model of Government where Agency leaders assume responsibility for finances and financial reporting. There are 46 Government Agencies and each currently uses its own standalone accounting system, typically an off-the-shelf, SME solution with limited reporting functions, and poor transaction control and transparency.

It is envisaged that a centralised FMIS will address these issues and more. The concept of investing in a single FMIS system for the GIG has originated from a number of studies that have been done in recent years in regards to the Cook Islands. One of these studies focused on the Public Finance Management. FMIS is projected to be at the contract award stage by September 2017 and represents a significant portion Output 4.

#### **Audit House Keeping TA**

This priority is designed to provide on-the-ground technical assistance (TA) to address critical areas of need in the area of public financial management and help with agencies' financial procedures and accounts. The TA will review previous audit findings, prioritise the most critical ministries and agencies for immediate attention in partnership with MFEM and CIAO, and work with ministries and agencies to prepare properly for audit. The TA will also work with ministries and agencies to improve adherence to procedures and reduce information gaps for future audits. The project will be managed by MFEM in close collaboration with CIAO.

This assignment will also help develop capacity in agency staff to implement and maintain accurate government accounts and up to date financial procedures, records and accounts files. The improved capability that will give agencies and the CIAO the best possible audit outcomes in terms of quality and efficiency. It is envisaged that this TA will commence on the 1<sup>st</sup> of July 2017.

#### **Asset Management Registry TA**

This priority is focused on the discovery, identification and management of the Crown's fixed assets as an area of critical need in best maintenance practices and good public financial management. The assignment will include capability building to ensure the sustainable efficacy of the asset management system. The expected activities of this TA will be to: undertake a stock take of all

government assets, known or currently unknown, update the Government Asset Register system (AssetFinda), design, develop and deliver AssetFinda training to key government administrators, including the AMO that will build the capacity of surrogates across government in improving asset management and embed best practices.

The duration of the TA is envisioned to be 12 to 18 months. At the end of the assignment CIG will have an up-to-date asset baseline and be able to more accurately manage and budget for repairs, maintenance and programme the replacement of assets.

### **Transport – Civil Aviation Sector**

The Cook Islands Government through the Ministry of Transport (MOT) will continue in its efforts to improve our Civil Aviation Sector, through the implementation of recommendations made in the Cook Islands Corrective Action Plan. Technical assistance is scheduled to be provided commencing 1 July 2017 with the intention of addressing all the recommendations by June 2018.

### **China Grant Fund**

	<b>Total cost</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Recurrent expenses	19,385,000	4,965,000	11,620,000	2,800,000	-	-

The CIG hosted a Chinese delegation who conducted on-site inspections and a feasibility study for maintenance and repair works on the Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena (formerly Telecom Sports Arena). The team was led by Mr. Yuan Wei which comprised of structural, architectural, electrical, heat & ventilation/air conditioning, water and sanitation experts and engineers, all accompanied by an interpreter.

The outcome of the visit was the signing of the comprehensive list of contents for repairs and maintenance works on the three buildings between CIIC CEO Tutangata and team leader Wei.

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

The Letter of Exchange relating to the repairs and maintenance work on the Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena has been finalised and was signed between High Commissioner Teremoana Yala and Chinese Ambassador Wang Lutong on the 4<sup>th</sup> May 2017.

### **Apii Nikao Construction**

In October 2015 the Government of the People’s Republic of China (PRC) confirmed their commitment to the Apii Nikao rebuild. The start of construction was officially announced by His Excellency Ambassador Wang Lutong at the ground-breaking ceremony held on the 12<sup>th</sup> of May.

The PRC Government has assigned three companies to the project. China Urban Construction Design & Research Institute Co. Ltd was appointed early 2016 to finalise the designs and specifications. The designs, which is largely based on the original design prepared by the Cook Islands Investment Corporation (CIIC), was finalised in March 2017 following several exchanges with CIIC. In November 2016, China Railway Fifth Survey and Design Institute Group Co. Ltd was appointed as the Construction Supervisor. Their primary role is to ensure the project designs, specifications and

quality standards are being achieved.

China Civil Engineering Construction Corporation was awarded the construction contract in April 2017. Mobilisation of their management and staff started soon after to allow work to start without further delays. Excavation of the site for the building foundations commenced in May 2017. The reinforcing steel work for the foundation pads is scheduled to kick off in June 2017.

CIIC and the PRC companies are committed to ensuring the project is delivered in a timely manner and to the standards required. The new Apii Nikao school buildings is scheduled to be ready for handover before school begins in 2018.

PRF Grand Fund	Executing Agency	FY expected	Estimated Cost (NZD)
Confirmed projects by the Cook Islands Government			
Aprii Nikao rebuild	CIIC	2016/17	4,765,000
Aprii Nikao rebuild	CIIC	2017/18	10,220,000
Chinese public building upgrades	CIIC	2016/17	200,000
Chinese public building upgrades	CIIC	2017/18	1,400,000
Chinese public building upgrades	CIIC	2018/19	2,800,000
Outer Island heavy machinery stage 2	ICI	2017/18	3,400,000
Atiu Airport Upgrade	ICI	2018/19	3,900,000
<b>Total proposed projects</b>			<b>26,685,000</b>

### Aid Effectiveness

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	160,000	100,000	100,000	100,000	100,000

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used by the MFEM to support the implementation of the official development assistance policy. The programme currently contributes to several projects including the following: annual meeting of development partners, development of Te Tarai Vaka, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software and fostering of South-South cooperation such as peer learning activities between Small Island Developing States.

### Sanitation Upgrade Programme – Manihiki Lagoon Clean Up

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	315,266	120,000	-	-	-

Executing Agencies: MFEM, MMR and Manihiki Island Government

The Pacific Divers Ltd (PDL) were awarded the Tender Contract in December 2016. The clean-up activity was expected to commence in early February however, due to shipping delays of equipment the project commenced 27<sup>th</sup> March. The projects' completion date is now extended to 11<sup>th</sup> August 2017.

The project has recruited 7 divers and one operator from Manihiki and Rakahanga Island Government. Training was completed over the period 23-29 March and included PADI open water course, a skills review, PADI Advanced course, First Aid, Operator and Emergency Oxygen provider course and basic rescue skills lesson on "how to surface and egress an unconscious diver from the water."

Communication channels and working relationships are continuing between the Pacific Divers Ltd (Contractor), Manihiki Island Government (MIG), Ministry of Marine Resources (MMR) and Raymond Newnham, Project Manager (Ora Moana Ltd).

A notice was placed in the social/media as well as MFEM website to inform the public of work to be carried out. A second public notice has also been published to inform the wider community of a new listing of abandoned farms. Manihiki Island Government (MIG) continues to manage any complaints or issues that may arise with farmers. Their report on Output 1: Pit Site Establishment as per MOU between MFEM and MIG was submitted during the first quarter.

The total amount of debris removed up to the end of this reporting period is 2,381.5Kg, this is constituted of approximately 1670m of line and 220 floats.

A scuba diving expert, Cook Island Divers Ltd has been contracted to ensure the clean-up work is completed successfully without any harm or injury to the workers engaged in full accordance with the Cook Islands and New Zealand Government's Health and Safety (H&S) policies and legislation.

### United Nations Development Programme TRAC Funding

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	69,500	93,600	93,600	-	-

The United Nations Development Programme has offered assistance from a fund called Targeted Resource Allocation from the Core (TRAC) to the Cook Islands Government. This can be allocated to support outcomes identified by the Cook Islands and formalized in the United National Development Assistance Framework, including establishing a 'Delivering as One' position within MFEM. The UN Coordination Officer for Cook Islands is also supported from TRAC funding.

### Pacific Parliamentary Development Project - UNDP

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	76,923	76,336	75,758	75,758	-

The Pacific Parliamentary Development Project (PPDP) aims to increase women's political participation, increase Parliaments capacity to engage and respond to key development issues and mainstream gender across the project. This initiative is being funded by UNDP, with an indicated funding of USD50, 000 for 2017/2018 financial year as well as further support over three to four year duration. This project would be a partnership between Cook Islands Parliamentary Services, Ministry of Internal Affairs and UNDP, Pacific Centre. At least three in-country capability building workshops, targeted at parliamentarians, were held in October 2015 and May 2016. Stakeholder consultation meetings targeted at women and children for the Family Law Bill were also conducted in Rarotonga and the Pa Enua in early 2016. Technical assistance provided include the training of Parliamentary Service executive officers including Committees with UNDP support in the development of a 2-3 year project for parliament and women in politics which has been endorsed for funding under the Regional Parliamentary Programme.

### Te Mato Vai

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	7,500,000	4,700,000	2,690,000	-	-

The TMV project is the largest single infrastructure project in the Cook Islands since the construction

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

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

### **Stage 1**

The Stage 1 ring mains project was completed by the China Civil Engineering Construction Corporation (CCECC) in December 2016. It is now month 6 of a 12 month defects liability period. ICI are currently working with the Project Management Unit (PMU) to connect existing trunk mains to the new Stage 1 ring mains, and further cross connection work is planned for later this year.

### **Stage 2**

A preferred contractor for the Stage 2 works has been identified and a signed contract is anticipated by July 2017. The PMU is in the process of finalising land access to the intake upgrade site valleys to allow the contractor to commence the preliminary survey. It is envisaged that this work will commence in August 2017. Should this timetable be achieved many if not all of the detailed designs for intakes, pipelines, treatment works and reservoirs will be completed before the end of 2017, with the physical works scheduled to commence soon after.

The TMV construction is planned for completion in early 2020, and an operation and training phase will then take place. Local resources will be trained on the operation and maintenance of the new water supply system. TMV also includes the installation of water meters and likely implementation of a SCADA telemetry system to enable efficient water usage monitoring and management.

On 12 June 2017, CI government signed a GFA with New Zealand that provides CIG with \$8.7 million for the period June 2017 to June 2019 that will enable the effective, long-term management of reticulated water and wastewater systems for Rarotonga and Aitutaki. This includes the identification of a reticulated wastewater system and the completion of ready-for-market detailed design for the Muri/Avana area. It is the first phase of the CIG's long-term initiative to upgrade all wastewater infrastructure in Rarotonga and Aitutaki. It also includes support for further investigation and monitoring in parallel to design activities that will ensure the long term solution's success.

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

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

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

### Special TMV Select Committee

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

Committee meetings were held at Parliament Chamber on 24 & 27 October, and 3, 10 and 23 November to discuss the petition and to hear presentations from the petitioners, landowner representatives, staff from CIIC, MFEM, NES and the TMV Project Management Unit. A final report of the Select Committee is expected to be presented to Parliament during the next quarter.

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

### Mei Te Vai Ki Te Vai (MTVKTV)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	6,900,000	5,326,227	3,548,773	-	-

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

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

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

This review was commissioned and conducted in December 2015. The recommendations of this review were largely in accord with other reports and suggested that a reticulated collection, treatment and disposal system was the only effective way to completely remove domestic and commercial wastewater from the Muri lagoon environment. The report highlighted gaps in the on-site Sanitation Upgrade Programme which may be a contributor to the slow delivery of the programme. Cabinet accepted this report's findings and recommendation and directed MFEM to negotiate the redirection of funds with the development partners towards this end.

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

For the technical work stream, as a first step, Calibre identified that essential Project Preparatory Technical Assistance (PPTA) is required to be in a position to provide Cabinet with the additional



information it has previously requested. Work to be carried out will include site investigations, full assessment of collection, treatment disposal options, cost benefit analysis and consultation with relevant stakeholders. This work will require a multi-disciplinary technical assistance package of support. It may be provided by one or multiple consultancies. The EURO500,000 EU technical assistance will be used to complete some of these activities. The work may take up to eighteen months to complete. A specific task to be completed in the PPTA phase is the development of an On-site Effluent Treatment Plan for Rarotonga and Aitutaki. Once this plan is completed, it will be possible to resume with a revised SUP programme if this delivers an acceptable impact on achieving the long term goal of the protection of public health and the environment.

Calibre recommended that work on the institutional/organisational work stream be completed in parallel but separate to the technical work stream. This work was considered equally important to ensure that there is a viable and sustainable institutional framework in place beyond the life of the project (technical work stream).

The clear delineation of the work streams allows specific focus onto each one. The technical work can be continued under the guidance of an expanded TMV PSG/PMU, while the essential institutional/organisational work is driven independently by the Cook Islands Government.

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

On 24 January 2017, the Government signed a contract with GHD Ltd New Zealand to provide Project Management Services for a) The TMV Project, b) Wastewater and Associated Service Programme (WASP), and c) State Owned Enterprise Establishment. The contract end date is 31 January 2019.

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

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

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

The direction of the current onsite domestic system upgrade will be outlined in a detailed work plan

under development to determine where the on-site treatment can be installed with maximum effect. A temporary pause to the on-site wastewater treatment upgrade on Rarotonga is required while this plan is being completed.

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

To this effect, GHD undertook stakeholder group meetings with the Muri community on 14 February 2017, and with stakeholders in Aitutaki from 22-24 February 2017.

The New Zealand Prime Minister, Bill English announced in Rarotonga on 13 June 2017 that New Zealand has committed up to a further \$20 million in bilateral assistance for wastewater infrastructure improvements over the next three financial years.

## 15.5 Ministry of Health

### World Health Organisation Technical Cooperation Biennium Budget

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	149,538	148,397	-	-	-

Biannual funding to the Cook Islands is for Human resources development including fellowships aligned to the Clinical Workforce Development Plan.

Ongoing focus is also on activities towards non communicable diseases action plans, vaccine preventable diseases, mental health, violence and injuries, nutrition, promoting health through life-course, environmental health, health information systems, preparedness, surveillance and responses.

### Western Pacific Multi-country Integrated HIV/TB programme - UNDP

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	61,788	43,937	-	-	-

UNDP is the Principal Recipient for 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.

## 15.6 Ministry of Marine Resources

### Project Development Fund - US Fisheries Treaty

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	355,030	331,895	346,981	-	-

The US Multilateral Treaty for Fisheries includes an annual allocation under the economic assistance package of USD150,000 for Pacific Island party development projects in support of fisheries. The funds are held in trust by the Treaty secretariat at the Forum Fisheries Agency in Honiara and administered by the Ministry of Marine Resources.

### Multiyear (Fisheries) Policy Support - EU Partnership

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	593,220	708,980	551,729	473,329	-

This agreement for sustainable fisheries partnership includes an annual fisheries sector contribution of EURO350,000 by the European Commission under the 4 year protocol. The first tranche of the protocol was received by the CIG in December 2016. Bulk Funding for the 1<sup>st</sup> Quarter of the calendar year has been paid out to MMR to begin implementation of the Multiannual Programme Matrix.

## 15.7 National Environment Services

### Protecting biodiversity and enhancing ecosystem functions through “Ridge to Reef” approach in the Cook Islands

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	1,834,175	2,013,780	2,244,273	886,253	-

The ridge to reef project is funded by the Global Environment Fund, and administered by the United Nations Development Programme (UNDP) Samoa office on behalf of the Cook Islands. The National Environment Service is the key implementing partner of the project in collaboration with Ministry of Marine Resources, Ministry of Agriculture and the Cook Islands Tourism Corporation. The goals of this initiative include:

- Improving and developing biodiversity conservation and management
- Strengthening the resilience within the fisheries sector through capacity building
- Promoting agricultural livelihood programmes for Rarotonga and the Pa Enea
- Building local capacity within the Pa Enea through collaborative programmes with each partner
- Supporting and strengthening the GIS capacity of these partners to be better able to inform decision making processes
- Tourism initiatives for investment development to be supported through technical assistance

Key activities involving the Pa Enea were continued over the Quarter 1 period. Continuous training and capacity building is key in the implementation of this project. This includes consultations in conjunction with the Climate Change division conducted on the island of Atiu with the Atiu Island Council, Takutea Trust and the Mokoero Forest Reserve committee of landowners. In Rarotonga,

consultations also took place with the Titikaveka Growers Association (TGA) together with an SPC TA on ways that they can support the Ministry of Agriculture in delivering training for sustainable agriculture with an emphasis on Bio-Agriculture and organic certification.

A Communications Officer for Ministry of Marine Resources (MMR) and a Ra’ui Coordinator for National Environment Service (NES) were appointed and confirmed in Quarter 1.

MMR are continuing work on strengthening protected areas such as the locally managed areas within the Cook Islands Marine Park as well as approaches into land and resource use. They are also working in close partnership with the Pa Enea counterparts (namely Atiu, Mitiaro, Mauke and Mangaia) with regards to ensuring their offices are well equipped with the essential materials an office space.

The Ministry of Agriculture has appointed a representative from their office to work with the Ridge to Reef project team and has recently purchased equipment for the purpose of developing maps for the Pa Enea and Rarotonga on agricultural activities as well as pest and disease management.

Furthermore, Cook Islands Tourism Corporation (CITC) are continuing their support of the launch of the Cook Islands Sustainable Tourism Strategy. The strategy strengthens the commitment of the Tourism Industry to raising awareness on biodiversity conservation. They are currently preparing video footage pertaining to the Ridge to Reef message which targets mainly tourist operators and the general public.

Recently, the UNDP representatives visited Rarotonga, Cook Islands. The objectives of their mission to the Cook Islands for the Ridge to Reef project were to finalise the institutional audit for NES and to undertake a courtesy visit to NES regarding the Ridge to Reef, National Biodiversity Planning to Support CBD (NBSAP) and Nagoya Protocol on Access to Genetic Resources (ABS).

### **National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP)**

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	190,320	15,000	-	-	-

#### **Background/Purpose:**

To integrate the Cook Islands’ obligations under the Convention on Biological Diversity into its National Development and Sectoral Planning Frameworks through renewed and participative “biological planning” and strategizing process, in a manner that is in line with the global guidance contained in the Convention on Biological Diversity Strategic Plan for 2011-2020.

#### **Outcomes:**

1. A participative stocktaking exercise on Biodiversity Planning takes place and National Biodiversity Targets are developed in response to the global Aichi Targets.
2. The NBSAP is revised and updated and it fully integrates new aspects of the CBD strategic plan, such as mainstreaming and anchoring the implementation of the Plan into National Development Frameworks, valuing ecosystem services and promoting ecosystem-based adaptation and resilience and;
3. National frameworks for Resource Mobilization, Convention reporting and exchange mechanisms are strengthened.

The work is framed by the United National Convention for Biological Diversity and targets local communities and Island Councils and administrations as a key partner. It is expected to finish at the end of June 2017.

The NBSAP international consultant continues his work for the development of a revised NBSAP. A video promotion for the awareness of the Cook Islands Biodiversity is currently in progress and has been released to the public for the first quarter.

### **Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands**

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	786,255	807,340	-	-	-

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

The first direct payment from UNDP to Matheson Enterprises for Component 3 implementation was processed in December 2016. Part payment of the Component 3 in Quarter 1 of 2017 to Matheson Enterprises was also processed in February 2017. This will assist in resolving issues with the USD/local currency exchange rate variances. Expenditure for this quarter included reimbursement for the project coordinator salary since June 2016. There is one more year left for the implementation of this project.

### **Review and Update the National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (POPs) in the Cook Islands**

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	76,831	183,641	-	-	-

The GEF is a principal component of the financial mechanism of the Stockholm Convention and, as such, support activities to meet its objectives. The GEF programming for its replenishment highlights the strong commitment of the GEF to support countries to comply with the Stockholm Convention and to address issues related to the inclusion of 11 new POPs added to annexes of the convention at the 4th, 5th, and 6th session of the Conference of the Parties to the Stockholm Convention (COP). The Chemicals section of the GEF-5 Programming Document includes, under Objective 1, phase out POPs and reducing POPs releases, Outcome 1.5 the country capacity built to effectively phase out and reduce releases of POPs. One of the outcome targets is that 45 countries receive support for the NIP update.

The Implications for these Parties of the listed new chemicals include the need:

- To implement control measures for each chemical listed in annexes A or B (Articles 3 and 4);
- To develop and implement action plans for the unintentional produced chemicals listed in annex C (Art 5);
- To review and update the National Implementation Plan (Article 7);

- To include the new chemicals in the reporting (Article 15);
- To include the new chemicals in the programme for the effectiveness evaluation, to be indicated by the Stockholm Convention Secretariat (Article 16).

## 15.8 Infrastructure Cook Islands

### Regional Ridge to Reef Project Testing the Integration of Water, Land, Forest & Coastal Management

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	76,923	212,932	75,758	75,758	-

This regional programme supports 14 Pacific Small Island Developing States (PSIDS) to maintain and enhance ecosystem goods and services (provisioning, regulating, supporting and cultural) through integrated approaches to land, water, forest, biodiversity and coastal resource management that contribute to poverty reduction, sustainable livelihoods and climate resilience. It represents a global test case of the GEF in the implementation of a multi-focal area and multi-agency approach to the sustainable development of PSIDS. The programme also aims to address the recent high-level recognition and calls for results based approaches to the management of development assistance programmes and projects, and will provide support to participating countries in areas of coordination, capacity building, technical assistance, and monitoring and evaluation.

In light of critical water resource and sanitation issues facing PSIDS, this project aims to deliver support to the Muri lagoon through the development of improved sewage and sanitation management. This support will use integrated management approaches and the development of on-site pilot programmes to manage sewage and sanitation.

Infrastructure Cook Islands (ICI) have appointed a Project Manager for the Pacific Regional Ridge to Reef project. He attended the Capacity Building and Orientation workshop which was held in Fiji. The Inception Report is still to be provided and the first quarterly report is due 05<sup>th</sup> April 2017 to South Pacific Commission (SPC). A Steering Committee is also to be finalised in order to endorse decisions proposed by the Project Manager on this project.

## 15.9 Office of the Prime Minister (OPM)

### Green Climate Fund Readiness

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	150,769	869,565	-	-	-

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

The Green Climate Fund team has been working on two submissions to the Green Climate Fund, one to develop a country programme readiness proposal which will include national prioritised climate

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

MFEM have recently engaged a consultant to complete the online accreditation proposal to the GCF secretariat and board. The online accreditation is complete and MFEM now have a draft to review before submitting to the GCF. It is envisioned that the proposal will be submitted before the end of April 2017.

In hiring the national consultants, the Readiness Support has prompted the development of a second readiness application to the GCF. This is to develop a country programme which will consolidate national priority areas that address our national low-carbon development aspirations and strengthen the resilience of our communities and our economies. This second readiness application will seek to assist with the growth and progression of relevant national frameworks and their implementation. The Readiness support has also prompted the strengthening of our institutional processes and in doing so, it has bolstered national ownership, and it underscores the importance of Implementing Entities proposing partnerships that align with national priorities and vice versa.

The Cook Islands has submitted a second readiness proposal to the GCF secretariat at the value of USD600,000 over a period of two years to develop a country programme to consolidate key priorities to be funded through the GCF. The GCF readiness review committee has provided feedback to MFEM and the NDA to consider and incorporate into an updated readiness proposal for the next review meeting scheduled for May 2017.

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

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Recurrent	2,117,982	1,500,000	1,500,000	1,500,000	-

The SRIC programme has been progressing extremely well. For the quarter, a total of 58 projects have been reported, of these projects 18 are new, 40 are continuing and 5 have been completed as listed below:

- a) Atiu – Jams & Chutney Food Processing Project
- b) Atiu – Composting & Mulching Project
- c) Mangaia – Signage Boards for Cultural Heritage, Tourism Sites, Education and Community
- d) Penrhyn – Pitaka Project –Te Hare Natura Turtle Observatory
- e) Pukapuka – Taro Plantation Fencing

The SRIC team have participated in a total of 4 forums/workshops – Te Kai Maori, NCD Expo, National Parliamentary Workshop & National Women Business Forum.

The communications component of SRIC has been extremely active through Media and Print, specifically via the Cook Islands Radio, Cook Islands TV and the Cook Islands News Paper. SRIC's reach on social media has been huge this quarter compared to previous quarters. The summary to date of Social Media activity on Facebook is a reach of 65,546. The total likes are now currently 2,522 which is a great achievement.

Cook Islands News Paper has printed 6 news articles on SRIC and the project has appeared in the following international Print Media – Fiji Times, Samoan Observer and Radio New Zealand.

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

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Recurrent	415,385	231,884	244,275	121,212	-

The National Communications (NATCOM) climate change team have undertaken a coral bleaching assessment during 13 – 17 February 2017. This was to assess the warm temperatures currently facing the Cook Islands and whether there was thermal stress on corals. The assessment was to see the extent of the coral bleaching, on coral species, coral colony sizes and the areas affected.

The survey found that the lagoon, reef, fore reef and even to depths of 25m, were extensively bleached. Analysis showed that bleaching was above 80% and affected all colony sizes, even larger ones. This is discouraging to see as a recent reef community survey was done in Oct/Nov 2016 where reef recovery was on the rise and showed the fore reef average of hard coral cover was 27%.

After this bleaching event, hard coral cover is expected to fall. Footage from this assessment was put together to form a short 3 minute documentary of the coral bleaching. This short documentary was used to raise awareness for the community and was advertised through local media outlets such as CITV and social media, namely Facebook.

The NATCOM team presented a report to stakeholders at the Platform meeting on March 14 2017 and furthermore produced a short documentary which was shown on local television to raise awareness. The team will also be working with the Rutaki and Aroa Christian youth groups on 17 April 2017 to raise awareness and educate the youth on climate change.

The recruitment process for the greenhouse gas and mitigation was conducted and completed with the successful applicants appointed and due to commence in June/July 2017.

Presentation of the Third National Communication update was made to the stakeholders Platform meeting on March 14 2017 by coordinator Rima Moeka'a.

### **Renewable Energy (Southern Group)**

#### **European Union (via Asian Development Bank)**

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Capital	8,983,051	6,498,033	-	-	-



### Global Environment Facility (via Asian Development Bank)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	5,517,000	5,515,229	-	-	-

### Green Climate Fund (via Asian Development Bank)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	-	-	9,160,305	9,160,305	-

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

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

The focus now moves to the Southern Group.

The Renewable Energy Programme is in progress with the Cook Islands Renewable Energy Sector Project (COO46453-002) Phase 1 contract for Atiu, Mauke, Mitiaro, Mangaia, signed during this period with NETCON Limited of New Zealand. This is the major component of this project valued at \$7.7 million and EU1 million.

The tender for the Rarotonga Battery Energy Storage (BESS) was completed this quarter and a contract should be signed early next quarter. This Project will be funded under the GEF6 for about \$5.9 million.

An additional \$18.3 million Grant was agreed by the Green Climate Fund Board in December 2016 to implement 3 battery storage sites in Rarotonga. This grant is anticipated to be processed through the budget over two fiscal years, commencing in 2018/19 through to 2019/20.

### Northern Water Project (Phase 2)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	210,000	594,880	500,000	-	-

The EU35.5 million regional European Union (EU) programme *Adapting to Climate Change and Sustainable Energy* (ACSE) is funded out of the 10<sup>th</sup> European Development Fund (EDF 10).

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

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

Total cost of project is EU400,000. Initial funds from GIZ were received in May 2016 however, there were delays in the recruitment of an In-Country Coordinator. This position was finally filled and confirmed in October 2016.

A Project Management Committee has been set up with Terms of Reference in the process of being

endorsed.

The In-Country Coordinator (ICC) is currently visiting the Northern Group (specifically Penrhyn, Manihiki, Rakahanga and Pukapuka) together with the Pa Enua Director as well as the Water Security component team of the Office of the Prime Minister (OPM). The main purpose of the visit is to carry out on Island consultation as well as the implementation stage for some of the islands mentioned.

## 15.10 Cook Islands Red Cross Society

### Global Environment Facility – Small Grants Programme

	2016/17	2017/18	2018/19	2019/20	2020/21
Recurrent	535,000	331,981	0	0	0

The Cook Islands Global GEF Small Grants Programme (SGP) was established in 2005 and until 2015 was part of the SGP Samoa. As of late 2014, the Cook Islands Red Cross Society now serves as the SGP host institution with the GEF SGP Cook Islands now a separate programme. This year's country programme strategy aims Operation Phase 6 (OP6) is to "effectively support creation of global environmental benefits and the safeguarding of global environment through community and local solutions that complement and add value to national and global level action". Focus of support for community based organised activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programmes to address climate changes through community based support. OP6 budget funds are estimated at US\$250,000 with a remaining OP5 balance of US\$26,000. After a two year hiatus from sub regional issue beyond the control of the Cook Islands the following are community projects approved and/or in progress this period of have been completed for this period following endorsement by the GEF SGP Committee and approved by UNOPS.

Recipient	Project Title	Approved Grant type	Budget in FY2016/17	FY2016/17 Actual in NZ\$
Tapere Avatiu Central Committee	Avatiu Water Station	Project	9,000	10,970
Muri Environment Care	Muri Beach Erosion Assessment	Planning	3,250	4,613.63
Tamarua Oire Association Incorporated	Tamarua Village Packing Shed and Water Catchment	Planning	1,700	2,100
Aitutaki Conservation Trust	Enviroloo Project	Project	24,300	34,469
Te Ipukarea Society	Waste management improvement: Reduction of PoPs and Greenhouse emissions	Project	44,568	64,170
GEF SGP Project Management				111,000
<b>TOTAL</b>			<b>82,818</b>	<b>227,323</b>

## 15.11 Cook Islands Investment Corporation

### Tereora College Redevelopment (Phase 1)

	2016/17	2017/18	2018/19	2019/20	2020/21
Capital	5,750,000	6,600,000	1,050,000	-	-

Phase 1 of the Tereora College Redevelopment Project funded by the New Zealand Government was tendered in the July-September quarter. The contract was awarded to Landholdings Ltd in October 2016. Current progress of work includes the completion of the stahlton flooring system and first floor slabs installation, 95% of block work has also been completed for the Technologies Centre and

60% completion of the Student Research/Administration Building. The ground floor concrete slabs of both buildings are 95% complete where the remaining sections still in progress are the outdoor concrete areas. 5% of the structural steel roof framing has been installed for the Student Research/Administration building. Work expected to be completed over the coming two months include the installation of structural roof framing and roof cladding over both buildings and fitting of exterior windows and doors. The internal carpentry work will commence during this time also and continue into the last quarter of the year.

## 16 Schedules

### 16.1 Statement of Fiscal Responsibility (Operating)

#### Operating Statement (\$'000)

0	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Operating Revenue</b>					
Taxation Revenue	119,869	118,409	121,847	125,128	127,688
Other Crown Revenue	19,651	17,326	17,376	17,376	17,256
Trading Revenue	6,161	6,169	6,169	6,169	6,169
Interest on Loans to Subsidiaries	702	733	715	694	694
Dividends	1,787	1,787	2,153	2,153	2,153
Interest on Balances	1,885	1,740	1,740	1,740	1,740
Core Sector Support	8,577	7,766	0	0	0
<b>Total Operating Revenue (excluding Bonus)</b>	<b>158,633</b>	<b>153,930</b>	<b>150,000</b>	<b>153,260</b>	<b>155,700</b>
Performance Based Budget Support - Bonus Payment	0	604	0	0	0
Total Operating Revenue (including Bonus)	158,633	154,534	150,000	153,260	155,700
<b>Operating Expenditure</b>					
Ministry Outputs	102,617	113,847	105,583	104,611	102,171
Personnel	48,621	52,534	51,556	51,772	51,773
Operating	19,767	19,464	16,464	16,477	16,477
Administered Payments	30,209	37,565	33,281	32,079	29,639
Depreciation	4,020	4,284	4,282	4,282	4,282
POBOC	24,178	25,120	23,931	24,094	24,094
Airport Authority subsidy	0	0	0	0	0
Airport Authority Capital	0	0	0	0	0
Bank of the Cook Islands - social assistance subsidy	0	0	0	0	0
Concession Loan Fund - Top Ups	0	0	0	0	0
Cook Islands Primary Schools 50 year Saver	0	0	0	0	0
Public Sector Strengthening	0	0	0	0	0
Ports Authority - subsidy	0	0	0	0	0
Te Aponga Uira - social assistance subsidy	0	0	0	0	0
Debt Interest Contribution to LRF	1,710	2,063	2,058	2,022	2,022
Asset Management (CIIC)	0	0	0	0	0
Crown Infrastructure Depreciation	3,682	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	604	50	50	50	50
Depreciation Contingency Fund	2,362	3,957	4,066	4,066	4,066
Chinese Equipment	663	663	663	663	663
Rarotonga Water Network	299	694	803	803	803
Northern Pa Enua Renewable Energy System	400	400	400	400	400
Southern Pa Enua Renewable Energy System (excl. Aitutaki)	0	1,200	1,200	1,200	1,200
Other Assets	1,000	1,000	1,000	1,000	1,000
Contingency Funds - Operating	200	100	100	100	100
Contributions to CISWF	0	0	0	0	0
<b>Total Operating Expenses</b>	<b>135,353</b>	<b>149,740</b>	<b>140,390</b>	<b>139,546</b>	<b>137,106</b>
<b>Operating Surplus/(Shortfall) (excluding Bonus)</b>	<b>23,280</b>	<b>4,190</b>	<b>9,610</b>	<b>13,714</b>	<b>18,594</b>
<b>Operating Surplus/(Shortfall) (including Bonus)</b>	<b>23,280</b>	<b>4,794</b>	<b>9,610</b>	<b>13,714</b>	<b>18,594</b>

## 16.2 Statement of Fiscal Responsibility (Non-Operating)

### Financing and Applications Statement (\$'000)

	2016/17 Est. Actual	2017/18 Budget	2018/19 Estimate	2019/20 Projection	2020/21 Projection
<b>Reductions in Net Borrowings</b>					
Loan Disbursements	12,337	10,870	11,029	0	0
Contribution to Loan Reserve Fund	8,603	10,682	10,666	10,233	10,233
	<b>(3,734)</b>	<b>(188)</b>	<b>(363)</b>	<b>10,233</b>	<b>10,233</b>
<b>Capital Expenditures</b>					
Ministries and Outer Islands (Including CIIC Capital)	26,665	44,904	40,747	24,587	16,065
<i>Infrastructure Capital Investment in SOEs</i>	0	0	0	0	0
Airport Authority	0	0	0	0	0
Te Aponga Uir	0	0	0	0	0
Contingency Funds - Capital Expenditure	50	0	0	0	0
	<b>26,715</b>	<b>44,904</b>	<b>40,747</b>	<b>24,587</b>	<b>16,065</b>
<b>Foreign Aid</b>					
Receipts	(65,887)	(69,392)	(31,996)	(15,263)	(422)
Expenditure	65,887	69,392	31,996	15,263	422
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Committed Considerations</b>					
Transfer to Reserve Trust Fund	599	592	609	626	638
ADB Share Capital	0	0	0	0	0
Disaster Response Fund	604	50	50	50	50
	<b>1,203</b>	<b>642</b>	<b>659</b>	<b>676</b>	<b>688</b>
<b>Total Non-Operating balance</b>	<b>(24,184)</b>	<b>(45,359)</b>	<b>(41,042)</b>	<b>(35,496)</b>	<b>(26,987)</b>
<b>To be Funded by</b>					
Operating Surplus	23,280	4,190	9,610	13,714	18,594
Depreciation	10,065	12,845	12,950	12,950	12,950
<i>of which: R.E. Capital Replacement</i>	400	1,600	1,600	1,600	1,600
Unencumbered Cash Reserves	(2,243)	17,592	7,766	(1,451)	(14,840)
Contribution to Loan Reserve Fund	8,603	10,682	10,666	10,233	10,233
Economic Recovery Support Program	206	0	0	0	0
Transfer to Emergency Response Trust Fund	604	50	50	50	50
<b>Total Funding Items</b>	<b>40,914</b>	<b>45,359</b>	<b>41,042</b>	<b>35,496</b>	<b>26,987</b>
<b>Net Surplus/Shortfall</b>	<b>16,730</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Appropriation Bill 2017

16.3 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	882,138	134,643	0	22,182	1,038,962	90,535	948,427
Audit (PERCA)	936,350	68,180	0	26,678	1,031,208	60,700	970,508
Crown Law	601,549	144,100	0	5,983	751,632	0	751,632
Cultural Development	621,760	128,782	737,500	96,655	1,584,697	110,000	1,474,697
Business Trade and Investment Board	440,094	232,575	0	9,000	681,669	23,380	658,289
Education	11,842,082	3,232,101	4,101,882	412,364	19,588,429	0	19,588,429
Environment	849,690	148,724	182,241	30,381	1,211,036	35,000	1,176,036
Finance and Economic Management	3,425,445	662,189	14,367,678	128,530	18,583,842	603,500	17,980,342
Financial Services Development Authority	240,339	177,906	0	9,867	428,112	0	428,112
Foreign Affairs	1,266,905	598,151	10,000	77,726	1,952,782	28,000	1,924,782
Head Of State	168,038	34,080	23,000	15,057	240,175	0	240,175
Health	8,953,286	2,531,330	1,726,870	886,814	14,098,300	350,000	13,748,300
Infrastructure Cook Islands	1,814,113	303,351	745,000	241,596	3,104,060	295,626	2,808,434
Internal Affairs	1,040,000	121,085	2,585,893	17,264	3,764,241	6,000	3,758,241
<i>of which: Welfare Payments - Allowances</i>			982,893				
Justice	1,577,855	399,371	337,000	133,947	2,448,173	500,000	1,948,173
Marine Resources	1,204,964	358,125	350,000	95,000	2,008,089	28,000	1,980,089
Ombudsman	219,695	61,840	0	5,822	287,357	0	287,357
Parliamentary Services	487,567	71,192	62,000	24,579	645,338	0	645,338
Pearl Authority	217,600	234,688	0	28,303	480,591	0	480,591
Police	3,108,483	461,724	255,000	218,622	4,043,829	93,421	3,950,408
Prime Minister's Office	1,265,016	236,849	978,000	36,069	2,515,934	0	2,515,934
Public Service Commission	398,609	72,447	1,230,316	79,293	1,780,665	0	1,780,665
Tourism Corporation	1,744,118	2,756,016	5,400,000	31,500	9,931,634	352,000	9,579,634
Transport	537,571	135,964	56,000	39,047	768,582	36,000	732,582
Cook Islands Investment Corporation	941,950	3,298,194	4,417,000	371,189	9,028,333	2,455,943	6,572,390
Cook Islands Seabed Minerals Authority	179,021	111,940	0	7,200	298,161	0	298,161
Capital Funds Committee- Administered by MFEM	0	0	0	45,000	45,000	0	45,000
<b>Total Ministries, Crown &amp; Statutory Agencies</b>	<b>44,964,236</b>	<b>16,715,546</b>	<b>37,565,380</b>	<b>3,095,668</b>	<b>102,340,829</b>	<b>5,068,105</b>	<b>97,272,724</b>

## Appropriation Bill 2017

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
<b>Ministerial Support</b>							
Prime Minister	301,176	109,773	0	11,100	422,049	0	422,049
Deputy Prime Minister	134,894	85,372	0	11,503	231,769	0	231,769
Minister Mark Brown	202,666	81,613	0	6,802	291,081	0	291,081
Minister Kiriau Turepu	129,514	56,931	0	11,162	197,607	0	197,607
Minister Nandi Glassie	107,704	78,415	0	12,000	198,119	0	198,119
Minister Albert Nicholas	78,447	117,000	0	5,500	200,947	0	200,947
Leader Of Opposition	154,185	48,200	0	6,800	209,185	0	209,185
<b>Total Ministerial Support Offices</b>	<b>1,108,586</b>	<b>577,304</b>	<b>0</b>	<b>64,867</b>	<b>1,750,757</b>	<b>0</b>	<b>1,750,757</b>
<b>Outer Islands</b>							
Aitutaki	1,137,762	367,829	0	143,884	1,649,476	67,828	1,581,648
Aitutaki Power Supply	0	0	0	0	0	0	0
Atiu	785,426	407,041	0	138,561	1,331,029	224,318	1,106,711
Mangaia	861,498	552,165	0	204,700	1,618,363	301,000	1,317,363
Manihiki	638,449	150,438	0	92,199	881,086	117,500	763,586
Mauke	653,141	201,413	0	178,982	1,033,535	113,853	919,682
Mitiaro	541,364	69,446	0	55,200	666,009	58,899	607,110
Palmerston	257,571	65,528	0	42,000	365,099	20,599	344,500
Penrhyn	460,817	155,124	0	62,407	678,348	74,000	604,348
Pukapuka-Nassau	752,172	142,467	0	140,552	1,035,191	73,695	961,496
Rakahanga	372,496	59,373	0	37,829	469,698	49,336	420,362
Outer Islands Capital Fund-Administered by MFEM	0	0	0	27,500	27,500	0	27,500
<b>Total Outer Islands</b>	<b>6,460,697</b>	<b>2,170,824</b>	<b>0</b>	<b>1,123,813</b>	<b>9,755,334</b>	<b>1,101,028</b>	<b>8,654,306</b>
<b>Gross Total</b>	<b>52,533,519</b>	<b>19,463,674</b>	<b>37,565,380</b>	<b>4,284,348</b>	<b>113,846,920</b>	<b>6,169,133</b>	<b>107,677,787</b>

## 16.4 Schedule 1B – Agency Budget Appropriations<sup>23</sup>

Ministry	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Agriculture	882,138	134,643	22,182	1,038,962	90,535	948,427	0	0	100,000	1,138,962	1,048,427
Audit (PERCA)	936,350	68,180	26,678	1,031,208	60,700	970,508	0	138,100	0	1,169,308	1,108,608
Crown Law	601,549	144,100	5,983	751,632	0	751,632	0	0	0	751,632	751,632
Cultural Development	621,760	128,782	96,655	847,197	110,000	737,197	737,500	0	0	1,584,697	1,474,697
Business Trade and Investment Board	440,094	232,575	9,000	681,669	23,380	658,289	0	0	0	681,669	658,289
Education	11,842,082	3,232,101	412,364	15,486,547	0	15,486,547	4,101,882	0	360,000	19,948,429	19,948,429
Environment	849,690	148,724	30,381	1,028,795	35,000	993,795	182,241	0	0	1,211,036	1,176,036
Finance and Economic Management	3,425,445	662,189	128,530	4,216,164	603,500	3,612,664	14,367,678	1,650,694	16,635,685	36,870,221	36,266,721
Financial Services Development Authority	240,339	177,906	9,867	428,112	0	428,112	0	0	0	428,112	428,112
Foreign Affairs	1,266,905	598,151	77,726	1,942,782	28,000	1,914,782	10,000	689,128	0	2,641,910	2,613,910
Head Of State	168,038	34,080	15,057	217,175	0	217,175	23,000	0	0	240,175	240,175
Health	8,953,286	2,531,330	886,814	12,371,430	350,000	12,021,430	1,726,870	0	984,500	15,082,800	14,732,800
Infrastructure Cook Islands	1,814,113	303,351	241,596	2,359,060	295,626	2,063,434	745,000	0	8,667,586	11,771,646	11,476,020
Internal Affairs	1,040,000	121,085	17,264	1,178,348	6,000	1,172,348	2,585,893	17,353,517	50,000	21,167,758	21,161,758
<i>of which:</i>				<i>0</i>	<i>0</i>	<i>0</i>	<i>982,893</i>	<i>0</i>	<i>0</i>	<i>982,893</i>	<i>982,893</i>
<i>Welfare Payments - Allowances</i>											
Justice	1,577,855	399,371	133,947	2,111,173	500,000	1,611,173	337,000	0	200,000	2,648,173	2,148,173
Marine Resources	1,204,964	358,125	95,000	1,658,089	28,000	1,630,089	350,000	0	0	2,008,089	1,980,089
Ombudsman	219,695	61,840	5,822	287,357	0	287,357	0	0	0	287,357	287,357
Parliamentary	487,567	71,192	24,579	583,338	0	583,338	62,000	2,629,998	0	3,275,336	3,275,336

<sup>23</sup> This schedule is for Crown and Agency Budget Appropriation Funding purposes



Ministry	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Services											
Pearl Authority	217,600	234,688	28,303	480,591	0	480,591	0	0	0	480,591	480,591
Police	3,108,483	461,724	218,622	3,788,829	93,421	3,695,408	255,000	0	0	4,043,829	3,950,408
Prime Minister's Office	1,265,016	236,849	36,069	1,537,934	0	1,537,934	978,000	0	14,619,565	17,135,499	17,135,499
Public Service Commission	398,609	72,447	79,293	550,349	0	550,349	1,230,316	0	0	1,780,665	1,780,665
Tourism Corporation	1,744,118	2,756,016	31,500	4,531,634	352,000	4,179,634	5,400,000	0	0	9,931,634	9,579,634
Transport Cook Islands Investment Corporation	537,571	135,964	39,047	712,582	36,000	676,582	56,000	0	0	768,582	732,582
Cook Islands Seabed Minerals Authority	941,950	3,298,194	371,189	4,611,333	2,455,943	2,155,390	4,417,000	2,658,096	2,777,000	14,463,429	12,007,486
Cook Islands Capital Funds Committee-Administered by MFEM	179,021	111,940	7,200	298,161	0	298,161	0	0	0	298,161	298,161
<b>Total Ministries Ministerial Support</b>	<b>44,964,236</b>	<b>16,715,546</b>	<b>3,095,668</b>	<b>64,775,449</b>	<b>5,068,105</b>	<b>59,707,344</b>	<b>37,565,380</b>	<b>25,119,533</b>	<b>44,794,336</b>	<b>172,254,698</b>	<b>167,186,593</b>
Prime Minister	301,176	109,773	11,100	422,049	0	422,049	0	0	0	422,049	422,049
Deputy Prime Minister	134,894	85,372	11,503	231,769	0	231,769	0	0	0	231,769	231,769
Minister Mark Brown	202,666	81,613	6,802	291,081	0	291,081	0	0	0	291,081	291,081
Minister Kiriaua Turepu	129,514	56,931	11,162	197,607	0	197,607	0	0	0	197,607	197,607
Minister Nandi Glassie	107,704	78,415	12,000	198,119	0	198,119	0	0	0	198,119	198,119
Minister Albert Nicholas	78,447	117,000	5,500	200,947	0	200,947	0	0	0	200,947	200,947

Ministry	Personnel	Operating	Depreciation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
Leader Of Opposition	154,185	48,200	6,800	209,185	0	209,185	0	0	0	209,185	209,185
<b>Total Ministerial Support Offices</b>	<b>1,108,586</b>	<b>577,304</b>	<b>64,867</b>	<b>1,750,757</b>	<b>0</b>	<b>1,750,757</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,750,757</b>	<b>1,750,757</b>
<b>Outer Islands</b>											
Aitutaki	1,137,762	367,829	143,884	1,649,476	67,828	1,581,648	0	0	16,000	1,665,476	1,597,648
Aitutaki Power Supply	0	0	0	0	0	0	0	0	0	0	0
Atiu	785,426	407,041	138,561	1,331,029	224,318	1,106,711	0	0	12,000	1,343,029	1,118,711
Mangaia	861,498	552,165	204,700	1,618,363	301,000	1,317,363	0	0	12,000	1,630,363	1,329,363
Manihiki	638,449	150,438	92,199	881,086	117,500	763,586	0	0	10,000	891,086	773,586
Mauke	653,141	201,413	178,982	1,033,535	113,853	919,682	0	0	10,000	1,043,535	929,682
Mitiaro	541,364	69,446	55,200	666,009	58,899	607,110	0	0	8,000	674,009	615,110
Palmerston	257,571	65,528	42,000	365,099	20,599	344,500	0	0	10,000	375,099	354,500
Penrhyn	460,817	155,124	62,407	678,348	74,000	604,348	0	0	12,000	690,348	616,348
Pukapuka-Nassau	752,172	142,467	140,552	1,035,191	73,695	961,496	0	0	12,000	1,047,191	973,496
Rakahanga	372,496	59,373	37,829	469,698	49,336	420,362	0	0	8,000	477,698	428,362
Outer Islands Capital Fund-Administered by MFEM	0	0	27,500	27,500	0	27,500	0	0	0	27,500	27,500
<b>Total Outer Islands</b>	<b>6,460,697</b>	<b>2,170,824</b>	<b>1,123,813</b>	<b>9,755,334</b>	<b>1,101,028</b>	<b>8,654,306</b>	<b>0</b>	<b>0</b>	<b>110,000</b>	<b>9,865,334</b>	<b>8,764,306</b>
<b>Gross Total</b>	<b>52,533,519</b>	<b>19,463,674</b>	<b>4,284,348</b>	<b>76,281,540</b>	<b>6,169,133</b>	<b>70,112,407</b>	<b>37,565,380</b>	<b>25,119,533</b>	<b>44,904,336</b>	<b>183,870,789</b>	<b>177,701,657</b>

## 16.5 Schedule 2 – Payments on Behalf of the crown (POBOCs)

Administering Ministry	POBOC	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
<b>Compensation of Employees</b>				
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000	0
Audit	Transfer of PERC Salaries and Administration Costs	42,500	42,500	0
Parliamentary Services	Civil List - Personnel	1,974,607	2,011,461	36,854
Parliamentary Services	House of Ariki	176,341	178,337	1,996
<b>Compensation of Employees POBOCs</b>		<b>2,373,448</b>	<b>2,412,298</b>	<b>38,850</b>
<b>Use of Goods and Services</b>				
Audit	Audit Fees	95,600	95,600	0
Justice	General Elections, Petitions and By-Elections	0	0	0
Parliamentary Services	Civil List - Operating Expenses	0	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	0
Parliamentary Services	Parliamentary Sitting Expenses	120,000	120,000	0
Parliamentary Services	QR & MP Travel and Allowance (local and overseas)	150,000	0	(150,000)
Parliamentary Services	QR Travel and Allowances (local and overseas)	0	109,000	109,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	0	41,000	41,000
Prime Minister's Office	Local Government Election	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	0
<b>Use of Goods and Services POBOCs</b>		<b>599,261</b>	<b>599,261</b>	<b>0</b>
<b>Subsidies</b>				
Finance & Economic Management	Apex - Profit Guarantee	1,500,000	750,000	(750,000)
Finance & Economic Management	FSC - subsidy to meet depreciation expenses	0	0	0
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	0
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	0
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	0
<b>Subsidies POBOCs</b>		<b>4,158,096</b>	<b>3,408,096</b>	<b>(750,000)</b>
<b>Social Assistance</b>				
Internal Affairs	Welfare Payments	15,799,966	17,353,517	1,553,551
<b>Social Assistance POBOCs</b>		<b>15,799,966</b>	<b>17,353,517</b>	<b>1,553,551</b>
<b>Other Expense</b>				
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	0
Finance & Economic Management	CICC Mission Training Center Construction Grant	0	600,000	600,000
Foreign Affairs	International Subscriptions	596,705	625,667	
<b>Other Expenses POBOCs</b>		<b>717,399</b>	<b>1,346,361</b>	<b>0</b>
<b>Grand Total</b>		<b>23,648,170</b>	<b>25,119,533</b>	<b>842,401</b>

## 16.6 Schedule 3 – Cook Islands Capital Spending

	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Cook Islands Government Capital programs (see Schedule 6 for details)	36,663,124	44,904,336	8,241,212
<b>Total Capital spending</b>	<b>36,663,124</b>	<b>44,904,336</b>	<b>8,241,212</b>

## 16.7 Schedule 4 – Overseas Development Assistance

	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Operating or recurrent expenditure	16,082,833	28,053,720	11,970,886
Capital Project Expenditure	44,577,755	41,338,420	3,239,335
<b>Total Borrowing Expenses and Debt Repayment</b>	<b>60,660,588</b>	<b>69,392,140</b>	<b>8,731,552</b>

## 16.8 Schedule 5a – Other Expenses and Financing Transactions

Category of Expense	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Contingency Funds - Capital Expenditure	-	-	-
Contingency Funds - Operating	100,000	100,000	-
Crown Infrastructure Depreciation	3,682,397	4,602,897	920,500
Concession Loan Fund - Top Ups	-	-	-
Public Sector Strengthening	-	-	-
ADB Share Capital	-	-	-
Transfer to Emergency Response Trust Fund	603,858	50,000	553,858
Transfer to Reserve Trust Fund	548,172	592,044	43,872
Depreciation Contingency Fund	2,362,134	3,957,454	1,595,320
Contributions to CISWF	-	-	-
<b>Total Other Expenses</b>	<b>7,296,561</b>	<b>9,302,396</b>	<b>2,005,834</b>

## 16.9 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Contribution to LRF - Principal	6,893,059	8,618,817	1,725,758
Contribution to LRF - Interest	1,710,050	2,062,953	352,903
<b>Total Contribution to LRF</b>	<b>8,603,108</b>	<b>10,681,769</b>	<b>2,078,661</b>

## 16.10 Summary

Category of Payment	2016/17 Budget Estimate	2017/18 Budget Estimate	Variance
Schedule 1 - Ministry Outputs (Gross Operating)	101,408,738	113,846,920	12,438,182
Schedule 2 - POBOCs	23,648,170	25,119,533	1,471,363
Schedule 3 - CIG Capital Expenditure	36,663,124	44,904,336	8,241,212
Schedule 4 - Official Development Assistance	60,660,588	69,392,140	8,731,552
Schedule 5a - Other Expenses and Financing Transactions	7,296,561	9,302,396	2,005,834
Schedule 5b - Loan Reserve Fund Appropriations	8,603,108	10,681,769	2,078,661
<b>TOTAL APPROPRIATION</b>	<b>238,280,290</b>	<b>273,247,094</b>	<b>34,966,805</b>

## 16.11 Schedule 6 – Capital Schedule

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Est. Actual	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2017/18 - 2020/21
<b>Aitutaki Island Government</b>				<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Aitutaki	Aitutaki road sealing	CIG	0	0	0	0	0	0
	Aitutaki	Establishing new water galleries	CIG	0	0	0	0	0	0
<b>Aitutaki Power Supply</b>				<b>63,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Aitutaki	Streetlights for Aitutaki	CIG	63,000	0	0	0	0	0
<b>Ministry of Agriculture</b>				<b>0</b>	<b>100,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100,000</b>
	Rarotonga	Vanilla Shade House	CIG	0	100,000	0	0	0	100,000
<b>Cook Islands Investment Corporation</b>				<b>3,410,617</b>	<b>2,777,000</b>	<b>250,000</b>	<b>5,250,000</b>	<b>5,000,000</b>	<b>13,277,000</b>
	Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	CIG	558,286	300,000	0	0	0	300,000
	National	Provision for land rent reviews	CIG	642,000	0	0	0	0	0
	Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	CIG	29,047	250,000	250,000	250,000	0	750,000
	Pa Enea	Pa Enea Renewable Energy Projects-Land Acquisition	CIG	855,284	0	0	0	0	0
	Pukapuka	Government House	CIG	26,000	0	0	0	0	0
	Pukapuka	Pukapuka Hospital Reconstruction	CIG	500,000	0	0	0	0	0
	Rarotonga	Tereora College Redevelopment Stage 1	CIG	300,000	1,462,000	0	0	0	1,462,000
	Rarotonga	Vaikapuangi Government Building - design	CIG	0	450,000	0	0	0	450,000
	Rarotonga	Vaikapuangi Government Building - construction	CIG	0	0	0	5,000,000	5,000,000	10,000,000
	Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	CIG	500,000	0	0	0	0	0
		Arenikau Water Storage tank	CIG	0	315,000	0	0	0	315,000
<b>Education</b>				<b>448,000</b>	<b>360,000</b>	<b>110,000</b>	<b>110,000</b>	<b>110,000</b>	<b>690,000</b>

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2017/18					4-Year
				2016/17 Est. Actual	Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	2017/18 - 2020/21
	National	Fund to be Prioritised by Education	CIG	360,000	360,000	110,000	110,000	110,000	690,000
	National	ICT upgrades (computers & laptops)	CIG	88,000	0	0	0	0	0
<b>Health</b>				<b>802,500</b>	<b>984,500</b>	<b>275,000</b>	<b>275,000</b>	<b>275,000</b>	<b>1,809,500</b>
		Fund to be Prioritised by Health for							
	National	Technical Equipment	CIG	275,000	275,000	275,000	275,000	275,000	1,100,000
	Rarotonga	Ultrasound Machine	CIG	218,000	0	0	0	0	0
	Rarotonga	Medical Service Bed End Panels	CIG	309,500	309,500	0	0	0	309,500
	Rarotonga	Ambulance	CIG	0	150,000	0	0	0	150,000
	Rarotonga	Hospital Incinerator	CIG	0	250,000	0	0	0	250,000
<b>Infrastructure Cook Islands</b>				<b>7,113,756</b>	<b>8,667,586</b>	<b>5,894,840</b>	<b>3,880,000</b>	<b>3,230,000</b>	<b>21,672,426</b>
	Atiu	Atiu Runway Stabilization	CIG	334,741	427,419	0	0	0	427,419
	Atiu	Atiu Road Improvement Programme	CIG	100,000	242,000	0	0	0	242,000
	Rarotonga	Bridges & Drainage	CIG	690,042	1,810,365	870,000	750,000	0	3,430,365
	Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	CIG	100,000	0	0	0	0	0
	Various	Outboard Motor replacement program	CIG	70,000	0	0	0	0	0
	Nassau	Nassau Cyclone Centre	CIG	0	0	500,000	0	0	500,000
	Parlmeston	Palmerston Cyclone Center	CIG	9,689	390,311	0	0	0	390,311
	Rarotonga	Avatiu Valley Stream embankment	CIG	360,000	36,000	0	0	0	36,000
	Rarotonga	Rarotonga Road Improvement Programme	CIG	2,203,243	2,000,000	2,000,000	2,000,000	2,000,000	8,000,000
	Mangaia	Mangaia Road Improvement Programme	CIG	104,164	495,336	0	0	0	495,336
	Mangaia, Atiu, Mauke	HV Transport Trailer	CIG	180,000	0	0	0	0	0
	Mangaia	HIAB (includes man cage & fork)	CIG	150,000	0	0	0	0	0
	Mangaia	Central water project	CIG	125,000	0	0	0	0	0
	Manihiki	Manihiki Island Airport Terminal - construction	CIG	60,000	0	0	0	0	0
	Mauke	Medium Genset (42kVA)	CIG	20,000	0	0	0	0	0
	Mitiaro	Manea Games Upgrade	CIG	100,000	0	0	0	100,000	100,000
	Mitiaro	Mitiaro Water Upgrade	CIG	135,000	247,000	0	0	0	247,000
	Penrhyn	Slasher	CIG	4,000	0	0	0	0	0
	Penrhyn	Omoka Harbour Upgrade	CIG	0	250,000	0	0	0	250,000

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Est. Actual	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2017/18 - 2020/21
	Pukapuka	Pukapuka Airport terminal buildings upgrade	CIG	20,000	121,500	13,500	0	0	135,000
	Pukapuka	Yato Cargo Shed Upgrade	CIG	28,000	0	0	0	0	0
	Rakahanga	Large boat & outboard motor	CIG	140,000	0	0	0	0	0
	Rakahanga	Rakahanga Cyclone Centre	CIG	0	550,000	0	0	0	550,000
	Rarotonga	National Incinerator Feasibility Study	CIG	120,000	0	0	0	0	0
	Rarotonga	Project City Stage 3 - Retention fund	CIG	205,746	0	0	0	0	0
	Rarotonga	Road Network Maintenance	CIG	634,084	630,000	630,000	630,000	630,000	2,520,000
	Rarotonga	Rutaki Foreshore Rock Revetment	CIG	120,000	0	0	0	0	0
	Rarotonga	TMV Titikaveka backroad ringmain pipeline		127,000	0	0	0	0	0
	Rarotonga	Water Network Maintenance	CIG	500,000	500,000	500,000	500,000	500,000	2,000,000
	Aitutaki	Aitutaki road Improvement Programme	CIG	462,262	0	0	0	0	0
	Mangaia	Tamarua Water Project	CIG	0	250,000	0	0	0	250,000
	Rarotonga	Tip Truck	CIG	0	100,000	0	0	0	100,000
	Penrhyn	Penrhyn Cyclone Centres (Omoka & Tetautua)	CIG	0		1,000,000	0	0	1,000,000
	Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	CIG	0	150,000	0	0	0	150,000
	Aitutaki	Establishing new water galleries	CIG	10,785	467,655	381,340	0	0	848,995
<b>Internal Affairs</b>				<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>200,000</b>
	Rarotonga	Vaka Maintenance Capital Projects	CIG	50,000	50,000	50,000	50,000	50,000	200,000
<b>Marine Resources</b>				<b>0</b>	<b>0</b>	<b>500,000</b>	<b>0</b>	<b>0</b>	<b>500,000</b>
	Rarotonga	Central Laboratory	CIG	0	0	500,000	0	0	500,000
<b>Ministry of Finance and Economic Management</b>				<b>1,706,265</b>	<b>16,635,685</b>	<b>21,887,308</b>	<b>14,322,372</b>	<b>7,000,000</b>	<b>59,845,365</b>
	National	Banking payments system	CIG	0	635,000	0	0	0	635,000
	Rarotonga	FMIS purchase and implementation	CIG	0	419,839	320,825	259,336	0	1,000,000
	Rarotonga	AEOI IT System	CIG	0	500,000	0	0	0	500,000
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade (incl China loan)	CIG	544,107	13,000,000	11,276,792	7,063,036	0	31,339,828
	Rarotonga	Water & Sanitation Programme (WASP)	CIG	1,162,158	2,080,846	10,289,691	7,000,000	7,000,000	26,370,537



MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2017/18		2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2017/18 - 2020/21
				2016/17 Est. Actual	Budget Estimate				
<b>Ministry of Justice</b>				<b>0</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>200,000</b>
	National	Online business registry	CIG	0	200,000	0	0	0	200,000
<b>Office Of Prime Minister</b>				<b>12,647,317</b>	<b>14,619,565</b>	<b>11,319,412</b>	<b>290,000</b>	<b>40,000</b>	<b>26,268,977</b>
	Atiu	Atiu Power Distribution	CIG	395,000	660,000	0	0	0	660,000
	Atiu	Atiu water distribution mains	CIG	280,000	0	0	0	0	0
	Pa Enea	Renewable Energy - Capital works	CIG	11,784,000	0	0	0	0	0
	National	Government IT Network	CIG	49,863	40,000	40,000	40,000	40,000	160,000
	National	Computers and Printers	CIG	50,000	0	0	0	0	0
	Aitutaki	Aitutaki Renewable Energy Project	CIG	0	2,800,000	0	0	0	2,800,000
	National	Renewable Management Project Management and Support	CIG	88,454	250,000	250,000	250,000	0	750,000
	National	Manatua Polynesian Cable (loan component)	CIG	0	10,869,565	11,029,412	0	0	21,898,977
<b>MINISTRY TOTAL</b>				<b>26,241,455</b>	<b>44,394,336</b>	<b>40,286,560</b>	<b>24,177,372</b>	<b>15,705,000</b>	<b>123,963,268</b>
<b>Capital Funds Administered BY MFEM</b>				<b>423,778</b>	<b>510,000</b>	<b>460,000</b>	<b>410,000</b>	<b>360,000</b>	<b>1,740,000</b>
	National	Capital Distribution Fund		313,778	400,000	350,000	300,000	250,000	1,300,000
	Pa Enea	Outer Islands Small Capital Fund		110,000	110,000	110,000	110,000	110,000	440,000
		<i>Aitutaki</i>		<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>16,000</i>	<i>64,000</i>
		<i>Atiu</i>		<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>48,000</i>
		<i>Mangaia</i>		<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>12,000</i>	<i>48,000</i>
		<i>Manihiki</i>		<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>40,000</i>
		<i>Mauke</i>		<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>40,000</i>
		<i>Mitiaro</i>		<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>8,000</i>	<i>32,000</i>
		<i>Palmerston Penrhyn</i>		<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>40,000 48,000</i>

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17	2017/18	2018/19	2019/20	2020/21	4-Year
				Est. Actual	Budget Estimate	Projection	Projection	Projection	2017/18 - 2020/21
				12,000	12,000	12,000	12,000	12,000	
		<i>Pukapuka-Nassau</i>		12,000	12,000	12,000	12,000	12,000	<b>48,000</b>
		<i>Rakahanga</i>		8,000	8,000	8,000	8,000	8,000	<b>32,000</b>
<b>Grand Total</b>				<b>26,665,233</b>	<b>44,904,336</b>	<b>40,746,560</b>	<b>24,587,372</b>	<b>16,065,000</b>	<b>125,703,268</b>

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

	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
<b>Taxation Revenue</b>					
Value Added Tax (VAT)	58,179,282	58,744,909	60,402,021	62,090,480	63,573,293
Income tax	23,063,676	23,057,193	23,713,611	24,393,292	24,892,883
Company tax	14,058,194	12,899,678	13,528,181	14,002,195	14,248,365
Import levies	13,491,867	13,547,934	13,579,438	13,601,607	13,620,278
Withholding tax	1,515,000	0	0	0	0
Departure tax	9,561,398	10,159,179	10,624,089	11,040,729	11,353,048
<b>Total</b>	<b>119,869,418</b>	<b>118,408,893</b>	<b>121,847,341</b>	<b>125,128,303</b>	<b>127,687,867</b>
<b>Other Crown Revenue</b>					
Financial Services Levy	252,628	262,014	262,014	262,014	262,014
FSC Return of Excess	0	0	0	0	0
FSC Vested Assets	0	0	0	0	0
Immigration Fees	719,518	587,000	587,000	587,000	587,000
IMO Subscription - Maritime Cook Islands	66,000	66,000	66,000	66,000	66,000
Court Services	50,000	50,000	50,000	50,000	50,000
Instant Fines	20,000	20,000	20,000	20,000	20,000
Fishing Licences	13,489,078	11,505,000	11,505,000	11,505,000	11,505,000
Fisheries Catch Revenue	0	0	0	0	0
Fisheries - US Treaties (purse seing)	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Fishing Fines	200,000	0	0	0	0
Research Fee	1,000	1,020	1,020	1,020	1,020
Permits	24,000	24,000	24,000	24,000	24,000
<i>Dividends</i>	1,787,190	1,787,190	2,153,190	2,153,190	2,153,190
Banana Court - dividend	10,000	10,000	10,000	10,000	10,000
Bank of the Cook Islands - dividend	248,000	248,000	614,000	614,000	614,000
Ports Authority - dividend	0	0	0	0	0
Punganga Nui Market - dividend	0	0	0	0	0
Te Aponga Uira - dividend	319,190	319,190	319,190	319,190	319,190
Extraordinary SOE Dividend	60,000	60,000	60,000	60,000	60,000

	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Telecom Cook Islands (Bluesky) - dividend	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000
Numismatics	350,000	350,000	400,000	400,000	400,000
Border Management Fees	120,000	120,000	120,000	120,000	0
Drivers Licences	80,000	70,000	70,000	70,000	70,000
Motor Vehicle Registration	875,000	875,000	875,000	875,000	875,000
Interest on balances	1,885,000	1,740,000	1,740,000	1,740,000	1,740,000
Interest on loans to subsidiaries	702,211	733,000	715,000	694,000	694,000
Foreign Investment Fees	25,725	25,725	25,725	25,725	25,725
Upper Air Management Agreement	746,000	746,000	746,000	746,000	746,000
Shipping Registration	268,259	268,259	268,259	268,259	268,259
International Shipping Licence	15,000	10,000	10,000	10,000	10,000
Liquor Licencing	30,000	60,000	60,000	60,000	60,000
Tattslotto Grants	120,000	120,000	120,000	120,000	120,000
Censorship Fees	10,000	10,000	10,000	10,000	10,000
Circulating Currency - Coins	100,000	875,500	875,500	875,500	875,500
Sale of NZ coins	0	0	0	0	0
Sale of Circulating Currency Cook Islands Coins	809,200	0	0	0	0
Smelting of Old Coins	0	0	0	0	0
Employer Liabilities	75,000	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	5,000	5,000	5,000	5,000	5,000
Justice Unclaimed Rental Monies	0	0	0	0	0
Core Sector Support	8,576,820	7,766,400	0	0	0
Public Sector Strengthening-processes and systems MFEM	0	0	0	0	0
<b>Total Other</b>	<b>32,602,629</b>	<b>29,352,108</b>	<b>21,983,708</b>	<b>21,962,708</b>	<b>21,842,708</b>
<b>Total Crown Receipts - excluding Bonus Payment</b>	<b>152,472,046</b>	<b>147,761,001</b>	<b>143,831,049</b>	<b>147,091,011</b>	<b>149,530,575</b>
Performance Based Budget Support - Bonus Payment	0	604,000	0	0	0
<b>Total Crown Receipts - including Bonus Payment</b>	<b>152,472,046</b>	<b>148,365,001</b>	<b>143,831,049</b>	<b>147,091,011</b>	<b>149,530,575</b>

## 16.13 Schedule 8a – Administered Payments

Administering Ministry	Administered Payment	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
<b>Compensation of Employees</b>						
Cook Islands Investment Corporation	Infrastructure Committee	75,000	75,000	75,000	75,000	75,000
Cook Islands Investment Corporation	Joint Venture with Seabed Minerals Authority	130,000	130,000	130,000	130,000	130,000
Cook Islands Investment Corporation	Special Projects Units	0	420,000	420,000	420,000	420,000
National Environment Service	National Heritage Trust	82,241	82,241	82,241	82,241	82,241
Finance and Economic Management	Public Sector Strengthening-processes and systems MFEM	329,200	160,000	0	0	0
Finance and Economic Management	Tax Amnesty Refund	0	500,000	0	0	0
Finance and Economic Management	Salary Adjustment Administered Fund		150,000	0	0	0
Internal Affairs	Price Tribunal	30,000	30,000	30,000	30,000	30,000
Justice	Project to bring land records up to date	120,000	120,000	0	0	0
Justice	Judges Allowances	177,000	177,000	177,000	177,000	177,000
Public Service Commission	HOM's Salaries	1,228,716	1,230,316	1,230,316	1,230,316	1,230,316
Prime Minister's Office	Public Sector Strengthening	0	600,000	600,000	600,000	0
Cook Islands Investment Corporation	School Security	240,000	250,000	250,000	250,000	250,000
Transport	Director of Civil Aviation	56,000	56,000	56,000	56,000	56,000
	<b>Compensation of Employees Administered Payments</b>	<b>2,468,157</b>	<b>3,980,557</b>	<b>3,050,557</b>	<b>3,050,557</b>	<b>2,450,557</b>
<b>Use of Goods and Services</b>						
Marine Resources	WCPFC Conference	0	50,000	0	0	0
Cultural Development	Te Maeva Nui Constitution Celebrations	695,550	722,500	722,500	722,500	722,500
Cook Islands Investment Corporation	Provision for Land Rentals	0	1,500,000	1,500,000	1,500,000	0
Cook Islands Investment	Land Rent Reviews	0	642,000	642,000	0	0

Administering Ministry	Administered Payment	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Corporation						
Finance and Economic Management	HRMIS Tax Amnesty Change	0	100,000	0	0	0
Education	Tertiary Training Institutions	759,855	759,855	759,855	759,855	759,855
Finance and Economic Management	Audit of Crown Accounts	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	Border Management System Maintenance	135,000	135,000	135,000	135,000	135,000
Finance and Economic Management	National Superannuation Fund	255,450	242,678	242,678	242,678	242,678
Finance and Economic Management	Standard and Poors Subscription	40,000	55,000	55,000	55,000	55,000
Foreign Affairs	Cook Islands Student Association Support	5,000	5,000	5,000	5,000	5,000
Head Of State	Domestic Hosting Entertainment	15,000	15,000	15,000	15,000	15,000
Head Of State	QR Social Responsibility Fund	0	8,000	8,000	8,000	8,000
	Hosting of the 2017 Pacific Health Ministers' Meeting	0	50,000	0	0	0
Health	Pharmaceuticals	1,137,800	667,800	667,800	667,800	667,800
Infrastructure Cook Islands	Outer Islands Equipment Repairs of Unanticipated Breakdowns	241,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	Waste Management	545,000	545,000	545,000	545,000	545,000
Internal Affairs	Lease extension	72,000	72,000	72,000	72,000	72,000
Internal Affairs	Vaka Maintenance	400,000	400,000	400,000	400,000	400,000
	Pacific Legislatures for Population and Governance (PLPG)	52,000	52,000	52,000	52,000	52,000
Parliamentary Services	Special Select Committee	0	10,000	10,000	10,000	10,000
Cultural Development	Te Kopapa Reo Maori Board	0	15,000	15,000	15,000	15,000
Prime Minister's Office	Social Responsibility Fund	195,000	243,000	243,000	243,000	243,000
Prime Minister's Office	Undersea Fiberoptic Cable	0	35,000	0	0	0
Police	Search and Rescue	20,000	20,000	20,000	20,000	20,000
Police	Serious Crime Investigations	131,751	50,000	50,000	50,000	50,000
Police	Te Kukupa - Biannual Slipping	150,000	0	150,000	0	0
Police	Te Kukupa - Fuel Contribution	140,000	140,000	140,000	140,000	140,000
Police	Te Kukupa Refit	0	0	0	0	0
Police	Youth Program	45,000	45,000	45,000	45,000	45,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	5,500,000	5,400,000	3,100,000	2,950,000	2,950,000
Foreign Affairs	Returned Services Association	9,760	5,000	5,000	5,000	5,000

Administering Ministry	Administered Payment	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Prime Minister's Office	Cook Islands Marine Park	0	0	0	0	0
Prime Minister's Office	Community Support Fund	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	Te Maeva Nui transport (OPM)	0	0	0	0	0
Environment	E - Waste & Whitewear Collection	0	100,000	0	0	0
	<b>Use of Goods and Services Administered Payments</b>	<b>10,675,166</b>	<b>12,414,833</b>	<b>9,929,833</b>	<b>8,987,833</b>	<b>7,487,833</b>
	<b>Subsidies</b>					
Education	University of the South Pacific Contribution	285,000	285,000	285,000	285,000	285,000
Finance and Economic Management	Air New Zealand - Subsidies	9,500,000	12,000,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	500,000	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enuā	45,000	45,000	45,000	45,000	45,000
	<b>Subsidies Administered Payments</b>	<b>10,330,000</b>	<b>12,830,000</b>	<b>12,830,000</b>	<b>12,830,000</b>	<b>12,830,000</b>
	<b>Social Assistance</b>					
Education	Government Funded Scholarships	740,800	910,000	280,000	280,000	280,000
Health	Patient Referrals	550,000	550,000	550,000	550,000	550,000
Health	Nursing School	234,070	234,070	234,070	234,070	234,070
Health	NCD Fund	195,000	195,000	195,000	195,000	195,000
Health	Oxygen Plant	0	30,000	30,000	30,000	30,000
Internal Affairs	Welfare Payments - Allowances	982,418	982,893	983,393	983,918	983,918
Justice	Legal Aid	40,000	40,000	40,000	40,000	40,000
	<b>Social Assistance Administered Payments</b>	<b>2,742,288</b>	<b>2,941,963</b>	<b>2,312,463</b>	<b>2,312,988</b>	<b>2,312,988</b>
	<b>Other Expense</b>					
Cook Islands Investment Corporation	Establishment and implementation of a water utility for Rarotonga	100,000	1,400,000	1,400,000	1,400,000	1,400,000
Education	Private School Funding	2,147,027	2,147,027	2,007,027	2,007,027	2,007,027
Marine Resources	Fisheries Development Facility	200,000	200,000	200,000	200,000	200,000
Marine Resources	Fisheries Development Facility in the Pa Enuā	100,000	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	235,000	220,000	220,000	220,000	220,000
Internal Affairs	SIF - Cook Islands Government Contribution	591,000	881,000	881,000	621,000	281,000
Finance and Economic Management	2017 Baseline Funding for Conduct of the National Census	250,000	0	0	0	0
Finance and Economic Management	Conduct of a Labour Force Survey	0	100,000	0	0	0
Finance and Economic Management	Production of new currency, transportation and sale of old coins	370,000	350,000	350,000	350,000	350,000

Administering Ministry	Administered Payment	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
	Other Expenses Administered Payments	3,993,027	5,398,027	5,158,027	4,898,027	4,558,027
<b>Grand Total</b>		<b>30,208,638</b>	<b>37,565,380</b>	<b>33,280,880</b>	<b>32,079,405</b>	<b>29,639,405</b>

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

Administering Ministry	POBOC	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
<b>Compensation of Employees</b>						
Finance and Economic Management	Parliamentary Superannuation	180,000	180,000	180,000	180,000	180,000
		42,500	42,500	42,500	42,500	42,500
Audit (PERCA)	Transfer of PERC Salaries and Administration Costs					
Parliamentary Services	Civil List - Personnel	1,974,607	2,011,461	2,011,461	2,011,461	2,011,461
Parliamentary Services	House of Arika	176,341	178,337	178,337	178,337	178,337
	<b>Compensation of Employees POBOCs</b>	<b>2,373,448</b>	<b>2,412,298</b>	<b>2,412,298</b>	<b>2,412,298</b>	<b>2,412,298</b>
<b>Use of Goods and Services</b>						
Audit (PERCA)	Audit Fees	95,600	95,600	95,600	95,600	95,600
			0	0	0	0
Justice	General Elections, Petitions and By-Elections	0				
Parliamentary Services	Civil List - Operating Expenses	0	0	0	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	120,000	120,000	120,000	120,000	120,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	480,000	41,000	41,000	41,000	41,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	0	109,000	109,000	109,000	109,000
Prime Minister's Office	Local Government Election	0	0	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	63,461	63,461	63,461
	<b>Use of Goods and Services POBOCs</b>	<b>929,261</b>	<b>599,261</b>	<b>599,261</b>	<b>599,261</b>	<b>599,261</b>



Administering Ministry	POBOC	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
<b>Subsidies</b>						
Finance and Economic Management	Apex - Profit Guarantee	1,500,000	750,000	0	0	0
Finance and Economic Management	FSC - subsidy to meet depreciation expenses	0	0	0	0	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	120,000	120,000	120,000
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	380,000	380,000	380,000
	<b>Subsidies POBOCs</b>	<b>4,158,096</b>	<b>3,408,096</b>	<b>2,658,096</b>	<b>2,658,096</b>	<b>2,658,096</b>
<b>Social Assistance</b>						
Internal Affairs	Welfare Payments	15,799,966	17,353,517	17,514,562	17,678,341	17,678,341
	<b>Social Assistance POBOCs</b>	<b>15,799,966</b>	<b>17,353,517</b>	<b>17,514,562</b>	<b>17,678,341</b>	<b>17,678,341</b>
<b>Other Expense</b>						
Finance and Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	120,694	120,694	120,694
		200,000		0	0	0
Finance and Economic Management	CICC Mission Training Center Construction Grant		600,000			
Foreign Affairs	International Subscriptions	596,705	625,667	625,667	625,667	625,667
	<b>Other Expenses POBOCs</b>	<b>917,399</b>	<b>1,346,361</b>	<b>746,361</b>	<b>746,361</b>	<b>746,361</b>
<b>Grand Total</b>		<b>24,178,170</b>	<b>25,119,533</b>	<b>23,930,578</b>	<b>24,094,357</b>	<b>24,094,357</b>

## 16.15 Schedule 9a – Debt Servicing Schedule (\$'000)

Creditor	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Asian Development Bank (ADB)					
Principal	3,694	4,518	4,574	4,652	-
Interest	2,103	2,015	1,894	1,778	-
<b>Total Debt Servicing to ADB</b>	<b>5,797</b>	<b>6,533</b>	<b>6,468</b>	<b>6,430</b>	-
People's Republic of China (China)					
Principal	903	895	2,466	2,466	-
Interest	721	697	657	608	-
<b>Total Debt Servicing to China</b>	<b>1,625</b>	<b>1,592</b>	<b>3,123</b>	<b>3,074</b>	-
France					
Principal	549	555	286	-	-
Interest	9	5	1	-	-
<b>Total Debt Servicing to France</b>	<b>559</b>	<b>561</b>	<b>288</b>	-	-
<b>Gross Debt Servicing</b>	<b>7,980</b>	<b>8,685</b>	<b>9,879</b>	<b>9,504</b>	-
Interest revenue on Loan Reserve Fund	345	367	399	392	385
<b>Net Debt Servicing</b>	<b>7,635</b>	<b>8,318</b>	<b>9,480</b>	<b>9,112</b>	<b>385</b>

### 16.16 Schedule 9b – Loan Reserve Fund (LRF) Schedule (\$'000)

Transaction	2016/17 Estimate	2017/18 Budget Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Opening Balance in LRF	17,255	18,339	19,929	19,591	19,228
<i>Transfer into LRF by Government</i>	<i>8,603</i>	<i>10,682</i>	<i>10,666</i>	<i>10,233</i>	<i>10,233</i>
Contribution to LRF - Principal	6,893	8,619	8,608	8,211	8,211
Contribution to LRF - Interest	1,710	2,063	2,058	2,022	2,022
Interest earned by LRF	345	367	399	392	385
<b>Total inflows</b>	<b>8,948</b>	<b>11,049</b>	<b>11,065</b>	<b>10,625</b>	<b>10,618</b>
Total Principal Paid out of LRF	5,005	6,368	8,126	7,918	9,742
Total Interest Paid out of LRF	2,800	3,030	3,216	3,010	2,786
Service Fees	60	60	60	60	60
<b>Total outflows</b>	<b>7,865</b>	<b>9,458</b>	<b>11,403</b>	<b>10,988</b>	<b>12,589</b>
<b>Closing balance of LRF</b>	<b>18,339</b>	<b>19,929</b>	<b>19,591</b>	<b>19,228</b>	<b>17,257</b>

## 16.17 Schedule 10 – Official Development Assistance Schedule

Agency	Programs/Projects by Agency	Development Partner	Estimated Spend to 30 June 2017	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21
<b>Projects funded directly in New Zealand dollars</b>							
MFEM	Cook Islands Core Sector Support	New Zealand	8,382,485	7,766,400	0	0	0
MFEM	Performance Based Budget Support Incentive Payment	New Zealand	0	604,000	0	0	0
MFEM	Cook Islands Core Sector Support	New Zealand	0	5,060,949	0	0	0
CIIC	Apii Nikao Construction	China	0	10,220,000	0	0	0
CIIC	Tereora Reconstruction Phase One	New Zealand	4,250,000	6,600,000	1,050,000	0	0
CIIC	Chinese Building Repairs	China	0	1,400,000	2,800,000	0	0
COC	Agribusiness and agricultural value chain investment support	FAO	0	0	0	0	0
ICI	Regional Ridge to Reef Project - Testing the Integration of Water, Land, Forest & Coastal Management	Global Environment Facility	76,923	212,932	75,758	75,758	0
ICI	RSA Cemetery PDCT Project	New Zealand	45,000	0	0		0
INTAFF	Disability Inclusive Development Social Impact Fund (NGO and community initiatives Scheme)	Australia	85,218	0	0	0	0
INTAFF	Gender Empowerment Pacific Integration Technical Assistance Programme (PITAP)	New Zealand	97,317	95,000	0	0	0
INTAFF				215,517			
MFAI		European Union	0	0	0	0	0
MFEM	Public Sector Reform TA Support	Asian Development Bank	0	0	0	0	0
MFEM	E-Government TA Support	Asian Development Bank	119,887	579,710	152,672	0	0
MFEM	NIE Accreditation Process	European Union	0	0	0	0	0
MFEM	India Grant Fund	India	703,900	260,486	303,030	303,030	0
MFEM	Korean Grant - Medical Incinerator	Korea	0	289,855	0	0	0
MFEM	Pacific Parliamentary Development Project	UNDP	0	76,336	75,758	75,758	0
MFEM	Grassroots Grant Fund	Japan	0	300,000	300,000	300,000	300,000

Agency	Programs/Projects by Agency	Development Partner	Estimated Spend to 30 June 2017	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21
MFEM	Non Project Grant Aid - Palmerston Cyclone Centre	Japan	0	1,335,113	0	0	0
MFEM	JICA Training and Development	Japan	124,993	125,000	125,000	125,000	0
MFEM	Germany Small Grants	Germany	14,400	15,000	15,000	15,000	0
MFEM	General Budget Support	European Union	120,000	770,000	669,657	2,105,400	0
MFEM	Online Registry	New Zealand	0	0	0	0	0
MFEM	Improving Connectivity for the South Pacific	Asian Development Bank	413,388	72,464	0	0	0
OPM	Manatua Polynesian Cable Project	New Zealand	0	10,000,000	5,000,000	0	0
MFEM	Aid Effectiveness	Other	80,000	100,000	100,000	100,000	100,000
MFEM	Pacific Maritime Safety project	New Zealand	270,000	0	0	0	0
MFEM	Sanitation Upgrade Program-Manihiki Lagoon Clean Up	New Zealand	250,035	120,000	0	0	0
MFEM	Te Mato Vai	New Zealand	2,310,000	4,700,000	2,690,000	0	0
MFEM	Mei Te Vai Ki Te Vai (MTVKTV)	New Zealand	444,239	4,899,427	3,975,573	0	0
MFEM	TRAC Funds	UNDP	0	93,600	93,600	0	0
MFEM	Household Income Expenditure Survey	Secretariat of the Pacific Community	53,388	111,718	0	0	0
MMR	Sustainable Fisheries Partnership Agreement	European Union	325,321	708,980	551,729	473,329	0
MMR	Fisheries Support Grant	China	0	114,000	0	0	0
MMR	Project Development Fund - US Fisheries Treaty	Forum Fisheries Agency	200,000	331,895	346,981	0	0
MMR	Pago Pago CIFFO Operations	Forum Fisheries Agency	0	36,641	0	0	0
		Western Pacific Council (US)	0	36,641	0	0	0
		South Pacific Fisheries Cooperation – Te Vaka Moana	0	33,800	0	0	0
		European Union - OPAGAC	0	35,200	0	0	0
MOA	Technical Assistance for Muri Lagoon & Central Lab	European Union	491,002	0	0	0	0
MOA	Crop Enhancement Technical Cooperation	FAO	0	0	0	0	0
MOA	Improved production processing and marketing of agricultural produce	FAO	0	230,000	0	0	0
MOE	Bio control of Invasive weeds	New Zealand	0	0	0	0	0
MOC	Participation Program	UNESCO	109,510	20,000	0	0	0

Agency	Programs/Projects by Agency	Development Partner	Estimated Spend to 30 June 2017	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21
MOC	National Auditorium Indoor and Outdoor Sound Equipment	China	0	0	0	0	11,074
MOH	SPC Small Grants	Secretariat of the Pacific Community	0	11,074	11,074	11,074	11,074
MOH	Strengthening Specialised Clinical Services in the Pacific (SSCSIP)	Australia	0	11,074	11,074	11,074	0
MOH	WHO Biennium Budget Support	WHO	211,264	148,397	0	0	0
MOH	Western Pacific Multi-country Integrated HIV/TB programme - UNDP	UNDP	44,979	43,937	0	0	0
NES	Trauma Training	Australia	0	0	0	0	0
NES	Ridge to Reef	Global Environment Facility	113,908	2,013,780	2,244,273	886,253	0
NES	Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	Global Environment Facility	50,597	807,340	0	0	0
NES	HCFC Phase-out Management Plan for PIC Countries through Regional Approach Stage 1 Second tranche Review and Update the National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (POPs) in the Cook Islands	MLF/UNEP	0	15,942	0	0	0
NES	Pacific POPs Release Project	UN Environment Programme (UNEP)	0	183,641	0	0	0
NES	Development of Minamata Convention Mercury Initial Assessment in Pacific	GEF/UNEP/SPREP	0	27,899	0	0	0
NES	National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP)	GEF/UNEP/SPREP	0	87,101	0	0	0
NES	Monitoring of Ozone Depletion Substance	Global Environment Facility	63,010	15,000	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Multilateral Fund	0	15,714	0	0	0
OPM	Renewable Energy Grant (Southern Group)	European Union	2,485,018	6,498,033	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Global Environment Facility	548,631	5,942,029	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Green Climate Fund	0	0	9,160,305	9,160,305	0
OPM	Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	Global Environment Facility	45,675	231,884	244,275	121,212	0
OPM	SPC EU GCCA PSIS Projects	European Union	0	0	0	0	0

Agency	Programs/Projects by Agency	Development Partner	Estimated Spend to 30 June 2017	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21
OPM	ACP-EU Building Resilience and Safety in the Pacific	European Union	0	295,000	0	0	0
OPM	Green Climate Fund Readiness	Green Climate Fund	82,354	869,565	0	0	0
OPM	PEC Fund - PV Mini Grids	Japan	132,981	547,605	0	0	0
OPM	Strengthening Resilience of Island Communities	UN Adaptation Fund EU-German Development Cooperation	1,411,755	1,500,000	1,500,000	1,500,000	0
OPM REDCRO	Northern Water Project Phase 2	Global Environment Facility	15,297	594,880	500000	0	0
SS	GEF Small Grants Programme		203,019	331,981	0	0	0
<b>Total NZD Funding</b>			<b>24,375,494</b>	<b>77,762,540</b>	<b>31,995,759</b>	<b>15,263,193</b>	<b>422,148</b>

## 16.18 Schedule 11 – Comparative Analysis of Ministry Appropriations

Ministry	2016/17 Budget Estimate			2017/18 Budget Estimate		
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation
Agriculture	975,477	90,535	884,942	1,038,962	90,535	948,427
Audit (PERCA)	1,032,298	112,700	919,598	1,031,208	60,700	970,508
Crown Law	643,137	0	643,137	751,632	0	751,632
Cultural Development	1,588,538	175,000	1,413,538	1,584,697	110,000	1,474,697
Business Trade and Investment Board	655,060	23,380	631,680	681,669	23,380	658,289
Education	18,857,622	0	18,857,622	19,588,429	0	19,588,429
Environment	1,064,029	35,000	1,029,029	1,211,036	35,000	1,176,036
Finance and Economic Management	15,065,136	503,500	14,561,636	18,583,842	603,500	17,980,342
Financial Services Development Authority	422,973	0	422,973	428,112	0	428,112
Foreign Affairs	1,867,473	20,000	1,847,473	1,952,782	28,000	1,924,782
Head Of State	229,305	0	229,305	240,175	0	240,175
Health	13,095,295	350,000	12,745,295	14,098,300	350,000	13,748,300
Infrastructure Cook Islands	3,038,617	295,626	2,742,991	3,104,060	295,626	2,808,434
Internal Affairs	3,433,375	6,000	3,427,375	3,764,241	6,000	3,758,241
Justice	2,296,779	500,000	1,796,779	2,448,173	500,000	1,948,173



	2016/17 Budget Estimate			2017/18 Budget Estimate		
Marine Resources	1,853,958	18,000	1,835,958	2,008,089	28,000	1,980,089
Ombudsman	280,044	0	280,044	287,357	0	287,357
Parliamentary Services	620,447	0	620,447	645,338	0	645,338
Pearl Authority	467,959	0	467,959	480,591	0	480,591
Police	4,075,775	84,360	3,991,415	4,043,829	93,421	3,950,408
Prime Minister's Office	1,725,556	0	1,725,556	2,515,934	0	2,515,934
Public Service Commission	1,757,897	0	1,757,897	1,780,665	0	1,780,665
Tourism Corporation	9,930,546	352,000	9,578,546	9,931,634	352,000	9,579,634
Transport	757,838	36,000	721,838	768,582	36,000	732,582
Cook Islands Investment Corporation	2,760,000	555,000	2,205,000	9,028,333	2,455,943	6,572,390
Cook Islands Seabed Minerals Authority	291,140	0	291,140	298,161	0	298,161
Capital Funds Committee- Administered by MFEM	45,000	0	45,000	45,000	0	45,000
<b>Total Ministries</b>	<b>88,831,272</b>	<b>3,157,101</b>	<b>85,674,171</b>	<b>102,340,829</b>	<b>5,068,105</b>	<b>97,272,724</b>

#### Ministerial Support

Prime Minister	415,382	0	415,382	422,049	0	422,049
Deputy Prime Minister	227,875	0	227,875	231,769	0	231,769
Minister Mark Brown	284,870	0	284,870	291,081	0	291,081
Minister Kiriau Turepu	192,000	0	192,000	197,607	0	197,607

	2016/17 Budget Estimate			2017/18 Budget Estimate		
Minister Nandi Glassie	193,000	0	193,000	198,119	0	198,119
Minister Albert Nicholas	192,000	0	192,000	200,947	0	200,947
Leader Of Opposition	203,000	0	203,000	209,185	0	209,185
<b>Total Ministerial Support Offices</b>	<b>1,708,127</b>	<b>0</b>	<b>1,708,127</b>	<b>1,750,757</b>	<b>0</b>	<b>1,750,757</b>
<b>Outer Islands</b>						
Aitutaki	1,619,586	67,828	1,551,758	1,649,476	67,828	1,581,648
Aitutaki Power Supply	0	1,900,943	(1,900,943)	0	0	0
Atiu	1,226,488	224,318	1,002,170	1,331,029	224,318	1,106,711
Mangaia	1,542,441	301,000	1,241,441	1,618,363	301,000	1,317,363
Manihiki	846,146	114,500	731,646	881,086	117,500	763,586
Mauke	996,813	108,853	887,960	1,033,535	113,853	919,682
Mitiaro	603,539	58,899	544,640	666,009	58,899	607,110
Palmerston	358,301	20,599	337,702	365,099	20,599	344,500
Penrhyn	615,600	83,904	531,696	678,348	74,000	604,348
Pukapuka-Nassau	981,246	73,695	907,551	1,035,191	73,695	961,496
Rakahanga	443,475	49,336	394,139	469,698	49,336	420,362
Outer Islands Capital Fund-Administered by MFEM	27,500	0	27,500	27,500	0	27,500
<b>Total Outer Islands</b>	<b>9,261,135</b>	<b>3,003,875</b>	<b>6,257,260</b>	<b>9,755,334</b>	<b>1,101,028</b>	<b>8,654,306</b>
<b>Gross Total</b>	<b>99,800,534</b>	<b>6,160,976</b>	<b>93,639,558</b>	<b>113,846,920</b>	<b>6,169,133</b>	<b>107,677,787</b>

## 16.19 Schedule 12 – Output Analysis

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Agriculture</b>	<b>975,479</b>	<b>1,038,964</b>	<b>994,078</b>	<b>998,954</b>	<b>998,954</b>
Crop Research & Development	375,287	375,887	325,887	325,887	325,887
Bio-Security Management	324,175	325,698	325,698	325,698	325,698
Livestock Development	69,000	69,000	69,000	69,000	69,000
Policy & Projects	92,555	92,555	92,555	92,555	92,555
Corporate Services	114,462	175,824	180,938	185,814	185,814
<b>Audit (PERCA)</b>	<b>1,170,398</b>	<b>1,169,308</b>	<b>1,174,229</b>	<b>1,179,131</b>	<b>1,179,131</b>
Consolidated Financial Statements of Government	162,052	160,052	160,052	160,052	160,052
Ministries, Outer Island Administration, SOEs and Other Crown Agencies	606,812	579,677	579,677	579,677	579,677
Special Reviews and Investigation and Performance Audits	368,969	358,969	358,969	358,969	358,969
Corporate Services	32,565	70,610	75,531	80,433	80,433
<b>Cook Islands Investment Corporation</b>	<b>5,593,096</b>	<b>11,337,640</b>	<b>11,337,640</b>	<b>10,695,640</b>	<b>9,195,640</b>
Effective Asset Management	2,295,000	4,877,000	4,877,000	4,235,000	2,735,000
Effective Management of public assets by SOEs	3,028,096	6,190,640	6,190,640	6,190,640	6,190,640
Corporate Services	270,000	270,000	270,000	270,000	270,000
<b>Crown Law</b>	<b>643,137</b>	<b>751,632</b>	<b>754,147</b>	<b>756,777</b>	<b>756,777</b>
Legal Advisory	282,541	281,541	281,542	281,542	281,542
Litigation	211,905	311,905	311,905	311,905	311,905
Legislative Drafting	148,691	158,186	160,700	163,330	163,330
<b>Cultural Development</b>	<b>1,561,588</b>	<b>1,584,697</b>	<b>1,587,175</b>	<b>1,590,437</b>	<b>1,590,437</b>
Cultural Identity	1,047,797	1,008,747	1,007,748	1,007,748	1,007,748

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
Cultural Heritage	282,920	297,920	297,920	297,920	297,920
Cultural Governancy	230,871	278,030	281,507	284,769	284,769
<b>Business Trade and Investment Board</b>	<b>655,060</b>	<b>681,669</b>	<b>684,054</b>	<b>686,357</b>	<b>686,357</b>
Business Support	152,502	153,017	153,017	153,017	153,017
Maximising Trade Opportunities	102,018	102,018	102,018	102,018	102,018
Foreign Direct Investment (FDI) Participation	111,018	111,018	111,018	111,018	111,018
Regulation & Compliance	78,804	78,804	78,804	78,804	78,804
Finance & Administration Support	210,718	236,812	239,197	241,500	241,500
<b>Education</b>	<b>18,857,622</b>	<b>19,588,429</b>	<b>15,564,115</b>	<b>15,629,973</b>	<b>15,629,973</b>
Taku Ipukarea Kia Rangatira	1,080,556	1,095,986	385,986	385,986	385,986
Learning and Teaching	2,704,300	2,911,143	1,586,163	1,586,163	1,586,163
Learning and the Community	1,113,864	1,248,171	553,171	553,171	553,171
Infrastructure and Support	13,958,902	13,743,736	12,387,316	12,392,316	12,392,316
Corporate Services	-	589,393	651,479	712,337	712,337
<b>Environment</b>	<b>1,114,029</b>	<b>1,211,036</b>	<b>1,115,586</b>	<b>1,120,029</b>	<b>1,120,029</b>
Advisory & Compliance	404,024	439,381	339,381	339,381	339,381
Island Futures	270,350	305,164	305,164	305,164	305,164
Corporate Services	439,655	466,491	471,041	475,484	475,484
<b>Finance and Economic Management</b>	<b>17,065,830</b>	<b>20,234,536</b>	<b>17,890,534</b>	<b>17,906,254</b>	<b>17,906,254</b>
Fiscal Advice	12,860,222	15,049,439	13,389,439	13,389,439	13,389,439
Fiscal and Economic Management	1,341,617	1,361,260	1,361,260	1,361,260	1,361,260
Taxation	1,765,137	2,591,797	1,991,797	1,991,797	1,991,797
Statistics	533,583	484,644	384,644	384,644	384,644
Development Coordination	298,865	332,752	332,752	332,752	332,752

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
Corporate Services	266,406	414,644	430,642	446,362	446,362
<b>Foreign Affairs</b>	<b>2,522,639</b>	<b>2,641,910</b>	<b>2,602,171</b>	<b>2,608,561</b>	<b>2,608,561</b>
Pacific and Regional Affairs and Trade	433,028	433,030	433,030	433,030	433,030
International Affairs Including Protocol and Diplomatic services	471,364	474,956	428,956	428,956	428,956
United Nations and International Treaties	349,223	349,743	349,743	349,743	349,743
Immigration Services	329,925	330,411	330,411	330,411	330,411
Corporate Services	939,099	1,053,770	1,060,031	1,066,421	1,066,421
<b>Head Of State</b>	<b>246,235</b>	<b>240,175</b>	<b>241,007</b>	<b>241,885</b>	<b>241,885</b>
Administrative Support	246,235	240,175	241,007	241,885	241,885
<b>Health</b>	<b>13,565,295</b>	<b>14,098,300</b>	<b>13,324,500</b>	<b>13,370,813</b>	<b>13,370,813</b>
Community Health Services	2,551,823	2,331,823	2,331,823	2,331,823	2,331,823
Hospital Health Services	10,271,107	10,422,069	9,698,269	9,744,582	9,744,582
Funding & Planning	742,365	1,344,408	1,294,408	1,294,408	1,294,408
<b>Infrastructure Cook Islands</b>	<b>3,038,617</b>	<b>3,104,060</b>	<b>3,113,886</b>	<b>3,123,391</b>	<b>3,123,391</b>
Corporate Services	410,538	534,183	544,009	553,514	553,514
Regulatory Services	196,583	203,013	203,013	203,013	203,013
Planning & Design	453,508	457,449	457,449	457,449	457,449
Civil Works	757,315	711,657	711,657	711,657	711,657
WATSAN	1,220,673	1,197,758	1,197,758	1,197,758	1,197,758
<b>Internal Affairs</b>	<b>19,233,342</b>	<b>21,117,759</b>	<b>21,284,660</b>	<b>21,194,276</b>	<b>20,854,276</b>
Welfare Division	17,076,539	18,630,565	18,792,110	18,956,414	18,956,414
Social Policy Division	884,159	1,175,761	1,175,761	915,761	575,761
Labour & Consumer Division	253,964	262,464	262,464	262,464	262,464

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
Civil Division	124,667	125,007	125,007	125,007	125,007
Corporate Services Division	894,013	923,962	929,318	934,630	934,630
<b>Justice</b>	<b>2,296,779</b>	<b>2,448,173</b>	<b>2,334,646</b>	<b>2,342,914</b>	<b>2,342,914</b>
Court & Tribunal Services	789,108	790,258	723,842	723,842	723,842
Land Administration	362,108	365,697	310,281	310,281	310,281
Registry Services	214,410	217,060	216,643	216,643	216,643
Prison Services	509,108	510,920	509,503	509,503	509,503
Probation Services	213,411	216,398	215,980	215,980	215,980
Corporate & ICT Services	208,635	347,841	358,398	366,666	366,666
<b>Marine Resources</b>	<b>1,853,958</b>	<b>2,008,089</b>	<b>1,964,457</b>	<b>1,970,632</b>	<b>1,970,632</b>
Offshore Fisheries	308,182	303,177	303,177	303,177	303,177
Pearl Industry Support	266,183	335,326	335,326	335,326	335,326
Inshore Fisheries and Aquaculture	761,262	774,526	774,526	774,526	774,526
Policy and Legal Services	122,004	116,044	116,044	116,044	116,044
Corporate Services	396,327	479,016	435,384	441,559	441,559
<b>Ombudsman</b>	<b>280,044</b>	<b>287,356</b>	<b>288,490</b>	<b>289,637</b>	<b>289,637</b>
Investigations	83,131	82,131	82,131	82,131	82,131
Special Reviews	69,470	69,470	69,470	69,470	69,470
Corporate Services	44,899	51,460	52,594	53,741	53,741
Education and Advocacy	42,147	42,148	42,148	42,148	42,148
Regional and International Relations	40,397	42,147	42,147	42,147	42,147
<b>Parliamentary Services</b>	<b>3,541,595</b>	<b>3,275,336</b>	<b>3,277,843</b>	<b>3,280,401</b>	<b>3,280,401</b>
Services to Parliament (Civil list, Legislative Service PLPG & HOA & Koutu Nui)	3,266,418	2,985,268	2,985,268	2,985,268	2,985,268
Finance and Corporate Services	275,177	290,068	292,575	295,133	295,133
Services to House of Ariki	-	-	-	-	-

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Pearl Authority</b>	<b>467,959</b>	<b>480,591</b>	<b>481,827</b>	<b>482,878</b>	<b>482,878</b>
Marketing	105,000	177,235	177,235	177,235	177,235
Industry Development	135,790	63,822	63,822	63,822	63,822
Management & Support Services	227,169	239,534	240,770	241,821	241,821
<b>Police</b>	<b>4,075,775</b>	<b>4,043,829</b>	<b>4,210,640</b>	<b>4,076,913</b>	<b>4,076,913</b>
Crime Prevention & Policing operations	2,996,189	3,071,840	3,084,952	3,097,645	3,097,645
Maritime Policing	792,464	669,448	821,801	674,080	674,080
Enabling & Support Services	287,122	302,542	303,887	305,188	305,188
<b>Prime Minister's Office</b>	<b>1,725,556</b>	<b>2,515,934</b>	<b>2,487,385</b>	<b>2,493,507</b>	<b>1,893,507</b>
Cabinet Services & Government Representative	420,708	469,671	469,671	469,671	469,671
Central Policy & Planning Office	202,123	807,936	803,896	803,896	203,896
Island Governance	222,646	239,312	239,312	239,312	239,312
National Information, Communications & Technology Office	259,853	301,887	266,887	266,887	266,887
Renewable Energy Development Division	179,543	116,539	116,540	116,540	116,540
Emergency Management Cook Islands	103,646	139,837	139,837	139,837	139,837
Climate Change Cook Islands	138,082	146,649	144,649	144,649	144,649
Marae Moana	198,955	294,103	306,594	312,716	312,716
<b>Public Service Commission</b>	<b>1,757,897</b>	<b>1,780,665</b>	<b>1,762,682</b>	<b>1,764,773</b>	<b>1,764,773</b>
Policy and Planning	249,701	258,318	260,335	262,426	262,426
Human Resource Management	1,508,196	1,522,347	1,502,347	1,502,347	1,502,347
<b>Tourism Corporation</b>	<b>9,930,546</b>	<b>9,931,634</b>	<b>7,640,536</b>	<b>7,499,662</b>	<b>7,499,662</b>
Destination Sales & Marketing	8,780,947	8,692,007	6,392,007	6,242,007	6,242,007
Destination Development	395,329	384,711	384,711	384,711	384,711
Corporate Services	754,270	854,916	863,818	872,944	872,944

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Transport</b>	<b>757,838</b>	<b>768,582</b>	<b>771,550</b>	<b>774,368</b>	<b>774,368</b>
Civil Aviation	176,414	150,194	150,194	150,194	150,194
Maritime Transport	109,926	110,270	110,270	110,270	110,270
Meteorological Service	337,019	337,019	337,019	337,019	337,019
Finance & Administration	134,479	171,099	174,067	176,885	176,885
<b>Financial Services Development Authority</b>	<b>422,973</b>	<b>428,112</b>	<b>429,315</b>	<b>430,571</b>	<b>430,571</b>
Develop Cook islands financial Service Industry	422,973	428,112	429,315	430,571	430,571
<b>Cook Islands Seabed Minerals Authority</b>	<b>291,140</b>	<b>298,161</b>	<b>299,105</b>	<b>300,049</b>	<b>300,049</b>
Effective Seabed Minerals sector	229,429	229,429	229,429	229,429	229,429
Stakeholder Engagement	20,000	20,000	20,000	20,000	20,000
Corporate Services	41,711	48,732	49,676	50,620	50,620
<b>OUTER ISLANDS</b>					
<b>Aitutaki</b>	<b>1,619,586</b>	<b>1,649,476</b>	<b>1,635,678</b>	<b>1,622,017</b>	<b>1,622,152</b>
Island Council	83,297	83,577	83,577	83,577	83,577
Finance & Administration	228,911	271,732	271,871	272,008	272,143
Infrastructure	1,032,121	1,018,910	1,004,972	994,560	994,560
Agriculture	93,549	93,549	93,549	93,549	93,549
Women, Youth, Sport, Culture	55,154	55,154	55,154	55,154	55,154
Waste Facility	126,554	126,554	126,554	123,168	123,168
<b>Atiu</b>	<b>1,226,488</b>	<b>1,331,032</b>	<b>1,346,005</b>	<b>1,356,859</b>	<b>1,347,958</b>
Agriculture	123,276	131,036	131,036	131,036	131,036
Infrastructure	439,261	448,123	464,256	476,566	476,566
Energy	372,355	372,355	372,355	372,355	372,355
Corporate	198,418	286,339	285,180	283,723	274,822



<b>Ministry</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Island Council	93,178	93,179	93,178	93,179	93,179
<b>Mangaia</b>	<b>1,542,441</b>	<b>1,618,363</b>	<b>1,616,973</b>	<b>1,615,224</b>	<b>1,619,666</b>
Agriculture	152,532	152,929	152,929	152,929	152,929
Tourism & Community Development	49,793	50,646	50,646	50,646	50,646
Infrastructure Amenities	461,193	461,682	461,682	461,682	461,682
Public Utilities	616,149	616,341	616,341	616,341	616,341
Finance & Administration	189,080	263,072	261,681	259,932	264,374
Island Council	73,694	73,694	73,694	73,694	73,694
<b>Manihiki</b>	<b>846,142</b>	<b>881,086</b>	<b>874,820</b>	<b>868,616</b>	<b>868,679</b>
Gender, Youth & Sports	11,906	11,906	11,906	11,906	11,906
Infrastructure	348,064	344,866	341,699	338,565	338,565
Energy	209,268	206,071	202,906	199,773	199,773
Finance and Administration	157,993	199,329	199,395	199,458	199,521
Island Council	78,500	78,501	78,502	78,502	78,502
Agriculture	40,412	40,413	40,413	40,413	40,413
<b>Mauke</b>	<b>996,812</b>	<b>1,033,535</b>	<b>1,033,256</b>	<b>1,037,787</b>	<b>1,037,787</b>
Infrastructure	383,260	393,677	393,677	393,677	393,677
Energy	248,949	248,226	245,388	245,388	245,388
Water	77,307	81,307	81,307	81,307	81,307
Finance & Administration	133,477	165,319	167,878	172,409	172,409
Corporate Services	74,735	74,321	74,321	74,321	74,321
Gender & Development	13,555	13,555	13,555	13,555	13,555
Island Council	65,530	57,130	57,130	57,130	57,130
<b>Mitiamo</b>	<b>603,539</b>	<b>666,009</b>	<b>674,498</b>	<b>680,648</b>	<b>682,746</b>
Island Administration	127,473	183,622	185,621	187,854	189,952

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
Island Council	48,897	49,173	49,623	49,623	49,623
Social & Economic Growth	12,677	12,749	12,865	12,865	12,865
Infrastructure	275,133	280,052	284,603	288,092	288,092
Energy	96,974	97,874	98,923	99,352	99,352
Agriculture	42,384	42,539	42,862	42,862	42,862
<b>Palmerston</b>	<b>358,301</b>	<b>365,099</b>	<b>366,072</b>	<b>366,072</b>	<b>366,072</b>
Island Administration	101,598	104,396	105,369	105,369	105,369
Agriculture	13,203	13,203	13,203	13,203	13,203
Education	111,932	113,932	113,932	113,932	113,932
Energy	39,951	20,611	20,611	20,611	20,611
Infrastructure	52,865	74,205	74,205	74,205	74,205
Island Council	38,752	38,752	38,752	38,752	38,752
<b>Penrhyn</b>	<b>615,600</b>	<b>678,348</b>	<b>686,660</b>	<b>692,592</b>	<b>694,735</b>
Island Support Services/Council	123,500	176,262	186,620	185,721	187,864
Community & Protocol	62,000	62,000	62,000	62,000	62,000
Infrastructure & Climate Change	430,100	390,086	388,040	394,871	394,871
Economic Development	0	50,000	50,000	50,000	50,000
<b>Pukapuka and Nassau</b>	<b>981,246</b>	<b>1,035,191</b>	<b>1,027,673</b>	<b>1,025,189</b>	<b>1,025,265</b>
Administration	155,302	216,587	217,319	216,737	216,814
Agriculture	49,117	49,709	49,709	49,709	49,709
Energy	111,294	111,012	109,589	108,454	108,673
Infrastructure	528,563	520,913	514,086	513,318	513,098
Island Council	105,964	105,964	105,964	105,964	105,964
Women, Culture, Youth & Sport	31,006	31,006	31,006	31,006	31,006
<b>Rakahanga</b>	<b>454,251</b>	<b>469,697</b>	<b>466,207</b>	<b>462,749</b>	<b>462,785</b>
Agriculture	28,457	28,215	27,975	27,738	27,738

Ministry	2016/17	2017/18	2018/19	2019/20	2020/21
Marine	95,132	83,639	82,931	82,230	82,230
Beautification	58,680	58,141	57,609	57,081	57,081
Infrastructure	88,712	88,095	87,485	86,881	86,881
Energy	41,137	40,895	40,656	40,419	40,419
Island Administration	86,227	115,259	114,547	113,842	113,878
Island Council	55,907	55,453	55,004	54,558	54,558
<b>MINISTERIAL SUPPORT</b>	<b>1,708,127</b>	<b>1,750,757</b>	<b>1,747,757</b>	<b>1,747,757</b>	<b>1,747,757</b>
Prime Minister	415,382	422,049	422,049	422,049	422,049
Deputy Prime Minister	227,875	231,769	231,769	231,769	231,769
Minister Mark Brown	284,870	291,081	289,081	289,081	289,081
Minister Kiriau Turepu	192,000	197,607	197,607	197,607	197,607
Minister Nandi Glassie	193,000	198,119	198,119	198,119	198,119
Minister Albert Nicholas	192,000	200,947	199,947	199,947	199,947
Leader of the Opposition	203,000	209,185	209,185	209,185	209,185
<b>OTHER FUNDING - ADMINISTERED BY MFEM</b>	-	-	-	-	-
Capital distribution fund - depreciation only					
Outer Islands small capital fund - depreciation only					
<b>TOTAL APPROPRIATIONS</b>	<b>124,596,962</b>	<b>138,545,170</b>	<b>129,091,856</b>	<b>128,284,291</b>	<b>125,844,384</b>

## 17 Financial Statements

### 17.1 Statement of Financial Performance

For the year ending 30 June

	Estimate 2016-17	Budget Estimates 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
<b>Revenue</b>					
Taxation revenues	119,869	118,409	121,847	125,128	127,688
<u>Other revenue</u>					
Revenue on behalf of the Crown	28,228	25,696	17,375	17,375	17,255
Sale of goods and services	6,161	6,169	6,169	6,169	6,169
Interest	2,587	2,473	2,455	2,434	2,434
Dividends	1,787	1,787	2,153	2,154	2,153
<b>Total Revenue</b>	<b>158,633</b>	<b>154,534</b>	<b>149,999</b>	<b>153,260</b>	<b>155,699</b>
<b>Expenditure</b>					
Appropriations to agencies	102,617	113,847	105,582	104,610	102,170
Payments on behalf of Crown	24,178	25,120	23,931	24,094	24,094
Debt-servicing interest	1,710	2,063	2,058	2,022	2,022
Infrastructure depreciation	3,682	4,603	4,603	4,603	4,603
Depreciation contingency fund-renewable energy	400	1,600	1,600	1,600	1,600
Other expenditure	2,767	3,111	2,617	2,617	2,617
<b>Total Expenditure</b>	<b>135,354</b>	<b>150,344</b>	<b>140,390</b>	<b>139,546</b>	<b>137,105</b>
<b>NET OPERATING SURPLUS / (DEFICIT)</b>	<b>23,280</b>	<b>4,190</b>	<b>9,610</b>	<b>13,714</b>	<b>18,593</b>

## 17.2 Statement of Financial Position

As at 30 June

	Estimate 2016-17	Budget Estimates 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
<b>Assets</b>					
Cash and equivalents	46,427	23,838	9,595	5,720	13,597
Loan reserves	18,338	19,929	19,591	19,228	17,257
Renewable Energy reserves	0	1,600	3,200	4,800	6,400
Trust accounts	8,519	8,569	8,619	8,669	8,719
Inventory	4,395	4,395	5,495	6,595	7,695
Tax receivables	22,500	14,060	14,360	14,960	16,442
Debtors and other receivables	10,699	10,699	10,699	10,699	10,699
Advances to SOEs	26,206	28,236	28,236	28,236	28,236
Investment in SOEs	146,733	146,733	146,733	146,733	146,733
Plant, property, and equipment	333,026	434,478	494,270	521,171	524,707
<b>Total Assets</b>	<b>616,843</b>	<b>692,537</b>	<b>740,798</b>	<b>766,811</b>	<b>780,485</b>
<b>Liabilities</b>					
Creditors and other payables	26,283	21,612	17,265	16,159	16,109
Trust liabilities	7,653	8,251	9,027	13,057	19,600
Borrowings	115,809	136,224	129,494	121,967	114,049
<b>Total Liabilities</b>	<b>149,745</b>	<b>166,087</b>	<b>155,786</b>	<b>151,183</b>	<b>149,758</b>
<b>Net Crown Balance</b>	<b>467,098</b>	<b>526,450</b>	<b>585,012</b>	<b>615,628</b>	<b>630,727</b>

## 17.3 Statement of Cashflows

For the year ending 30 June

	Estimate 2016-17	Budget Estimates 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
<b>Cashflows from Operating Activities</b>					
<u>Cash provided from:</u>					
Taxation and levies	119,869	118,409	121,847	125,128	127,688
Collection of tax arrears	-6,038	0	-300	-600	-1,482
Sale of goods and services	6,161	6,169	6,169	6,169	6,169
Interest	2,587	2,473	2,455	2,434	2,434
Dividends	1,787	1,787	2,153	2,154	2,153
Other income	28,228	25,696	17,375	17,375	17,255
	<u>152,595</u>	<u>154,534</u>	<u>149,699</u>	<u>152,660</u>	<u>154,217</u>
<u>Cash applied to:</u>					
Appropriations to agencies (less depn)	98,595	109,563	101,300	100,328	97,888
Payments on behalf of Crown	24,178	25,120	23,931	24,094	24,094
Debt-servicing interest	1,710	2,063	2,058	2,022	2,022
Building maintenance	0	0	0	0	0
Other expenditure	4,819	7,782	6,964	3,723	2,667
	<u>129,302</u>	<u>144,528</u>	<u>134,252</u>	<u>130,167</u>	<u>126,672</u>
<b>Net Operating Activity Cashflows</b>	<b>23,292</b>	<b>10,006</b>	<b>15,447</b>	<b>22,493</b>	<b>27,545</b>
<b>Cashflows from Investing Activities</b>					
<u>Cash provided from:</u>					
Subsidiary loan repayments	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Cash applied to:</u>					
Capital expenditure	23,852	44,904	40,747	24,587	16,065
Advances to Subsidiaries	0	0	0	0	0
	<u>23,852</u>	<u>44,904</u>	<u>40,747</u>	<u>24,587</u>	<u>16,065</u>
<b>Net Investing Activity Cashflows</b>	<b>-23,852</b>	<b>-44,904</b>	<b>-40,747</b>	<b>-24,587</b>	<b>-16,065</b>
<b>Cashflows from Financing Activities</b>					
<u>Cash provided from:</u>					
Loans drawn down	12,337	10,870	11,029	0	0
Cash drawn from loan reserves	7,865	9,458	11,403	10,988	12,589
	<u>20,202</u>	<u>20,328</u>	<u>22,432</u>	<u>10,988</u>	<u>12,589</u>
<u>Cash applied to:</u>					
Loan repayments	5,005	6,368	8,126	7,918	9,742
Loan reserves	0	0	0	0	0
Other reserves	752	1,650	3,250	4,850	6,450
	<u>5,757</u>	<u>8,018</u>	<u>11,376</u>	<u>12,768</u>	<u>16,192</u>
<b>Net Financing Activity Cashflows</b>	<b>14,445</b>	<b>12,309</b>	<b>11,056</b>	<b>-1,780</b>	<b>-3,603</b>
Net cash movements	13,886	-22,589	-14,244	-3,874	7,877
Add: Opening Cash and Equivalents	32,542	46,427	23,838	9,595	5,720
<b>Closing Cash and Equivalents</b>	<b>46,427</b>	<b>23,838</b>	<b>9,595</b>	<b>5,720</b>	<b>13,597</b>

## 17.4 Statement of Borrowings

For the year ending 30 June

	Estimate 2016-17	Budget Estimates 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
<b>Total Gross Borrowings</b>	<b>115,809</b>	<b>136,224</b>	<b>129,494</b>	<b>121,967</b>	<b>114,049</b>
<b>Assets Held Against Borrowings:</b>					
Advances to subsidiaries	26,206	28,236	28,236	28,236	28,236
Loan reserves	18,338	19,929	19,591	19,228	17,257
<b>Total Assets Held Against Borrowings</b>	<b>44,544</b>	<b>48,165</b>	<b>47,827</b>	<b>47,464</b>	<b>45,493</b>
<b>Net Borrowings of the Government</b>	<b>71,265</b>	<b>88,059</b>	<b>81,667</b>	<b>74,504</b>	<b>68,556</b>

## 17.5 Revenue Levied on Behalf of the Crown

For the year ending 30 June

	Estimate 2016-17	Budget Estimates 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
<b>Taxation</b>					
Income tax	23,064	23,057	23,714	24,393	24,893
Company tax	14,058	12,900	13,528	14,002	14,248
Import levies	13,492	13,548	13,579	13,602	13,620
Departure tax	9,561	10,159	10,624	11,041	11,353
VAT	58,179	58,745	60,402	62,090	63,573
Withholding tax	1,515	0	0	0	0
<b>Total Taxation</b>	<b>119,869</b>	<b>118,409</b>	<b>121,847</b>	<b>125,128</b>	<b>127,688</b>
<b>Other Crown Revenue</b>					
Financial Services Levy	253	262	262	262	262
FSC Return of Excess	0	0	0	0	0
FSC Vested Assets	0	0	0	0	0
Immigration Fees	720	587	587	587	587
IMO Subscription - Maritime Cook Islands	66	66	66	66	66
Court Services	50	50	50	50	50
Instant Fines	20	20	20	20	20
Fishing Licences	13,489	11,505	11,505	11,505	11,505
Fisheries Catch Revenue	0	0	0	0	0
Fisheries - US Treaties (purse seing)	1,200	1,200	1,200	1,200	1,200
Fishing Fines	200	0	0	0	0
Research Fee	1	1	1	1	1
Permits	24	24	24	24	24
Dividends	1,787	1,787	2,153	2,153	2,153
Banana Court - dividend	10	10	10	10	10
Bank of the Cook Islands - dividend	248	248	614	614	614
Ports Authority - dividend	0	0	0	0	0
Punganga Nui Market - dividend	0	0	0	0	0
Te Aponga Uira - dividend	319	319	319	319	319
Extraordinary SOE Dividend	60	60	60	60	60
Telecom Cook Islands (Bluesky) - dividend	1,150	1,150	1,150	1,150	1,150
Numismatics	350	350	400	400	400
Border Management Fees	120	120	120	120	0
Drivers Licences	80	70	70	70	70
Motor Vehicle Registration	875	875	875	875	875
Interest on balances	1,885	1,740	1,740	1,740	1,740
Interest on loans to subsidiaries	702	733	715	694	694
Foreign Investment Fees	26	26	26	26	26
Upper Air Management Agreement	746	746	746	746	746
Shipping Registration	268	268	268	268	268
International Shipping Licence	15	10	10	10	10
Liquor Licencing	30	60	60	60	60
Tattsлото Grants	120	120	120	120	120
Censorship Fees	10	10	10	10	10
Circulating Currency - Coins	100	876	876	876	876
Sale of NZ coins	0	0	0	0	0
Sale of Circulating Currency Cook Islands					
Coins	809	0	0	0	0
Smelting of Old Coins	0	0	0	0	0
Employer Liabilities	75	75	75	75	75
Motor Vehicle Dealers	5	5	5	5	5
Justice Unclaimed Rental Monies	0	0	0	0	0
Performance Based Budget Support - Core					
Funding	8,577	7,766	0	0	0
Public Sector Strengthening-processes and systems MFEM					
<b>Total Other</b>	<b>32,603</b>	<b>29,352</b>	<b>21,984</b>	<b>21,963</b>	<b>21,843</b>
<b>Total Revenue Levied on Behalf of Crown</b>	<b>152,472</b>	<b>147,761</b>	<b>143,831</b>	<b>147,091</b>	<b>149,531</b>
<b>Performance Based budget Support – Bonus Payment</b>	-	<b>604</b>	-	-	-
<b>Total Revenue Levied on Behalf of Crown Including onus payment</b>	<b>152,472</b>	<b>148,365</b>	<b>143,831</b>	<b>147,091</b>	<b>149,531</b>



## 17.6 Statement of Fiscal Risks

As at 30 June

<b>Quantifiable Contingent Liabilities</b>	<b>(‘100)</b>
Guarantees and indemnities	500
Uncalled capital	1,734
Legal proceedings and disputes	4,356
<b>Total Quantifiable Contingent Liabilities</b>	<b>6,590</b>

### 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 \$0.5million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability.

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

### Uncalled Capital

The Government also holds \$1.6 million in the Asian Development Bank - Cook Islands Government Property Corporation. This takes the form of 88 uncalled shares with a par value of USD 13,500 each.

### Legal Proceedings and Disputes

Total quantifiable risk to the Crown under legal proceedings and disputes is \$4.4 million.

### 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.

## 18 Statement of Accounting Policies

There have been no changes since the Half Year Economic and Fiscal Update 2014/15. There are no major changes to accounting policies anticipated in the foreseeable future.

### 18.1 Basis of Preparation

#### 18.1.1 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

A schedule of the entities included in these financial statements is detailed on page 64.

#### 18.1.2 Statement of Compliance

These financial statements in Chapter 17 have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

#### 18.1.3 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.

## 18.2 Significant Accounting Policies

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

#### Recent Standards

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

<b><u>STANDARDS</u></b>	<b><u>EFFECTIVE DATE</u></b>
IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013
IPSAS 29 Financial Instruments: Presentation	1/01/2011
IPSAS 30 Financial Instruments: Disclosure	1/01/2013

These new standards have been issued but are not yet effective for the consolidated Crown accounts as the preparation of the 30 June 2013 accounts are currently in progress – the 30 June 2012 consolidated accounts were completed and audited on 29 April 2015. The Crown will have to

consider these new standards in future years. Crown has not yet determined the effect of these new standards.

### 18.2.1 Basis of Consolidation

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

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

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

### 18.2.2 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.

### 18.2.3 Revenue

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

Revenue Levied through the Crown's Sovereign Power

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

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

## **18.2.4 Revenue Earned Through Operations**

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

### *Fines*

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

### *Investment Income*

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

### *Gains*

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

### *Dividends*

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

### *Aid Revenue*

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

## **18.2.5 Expenses**

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

### *Welfare Benefits*

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

### *Grants and Subsidies*

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

### *Losses*

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

### *Foreign Currencies*

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

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

### *Aid Expenses*

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

### *Depreciation*

Each part of an item of plant, property, and equipment with a cost that is significant in relation to

the total cost of the item shall be depreciated separately.

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

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

## 18.2.6 Non-Current Assets

### *Plant, Property, and Equipment*

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

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

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

### *Disposals*

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

### *Additions*

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

### *Work in Progress*

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

### *Infrastructure Assets*

Infrastructure assets are recorded at cost less accumulated depreciation.

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

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

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

IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment. The Crown has changed the accounting policy from the cost to revaluation model for the following classes of assets:

- Power network
- Harbours & ports
- Airports

These assets are now carried at re-valued amounts which are the fair value at revaluation date less subsequent depreciation and impairment losses.

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

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

#### *Intangible Assets*

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

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

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

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

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

Software, databases: 3 - 5 years

#### *Cash and Cash Equivalents*

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

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

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

### *Inventories*

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

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

### *Investments*

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

### *Banking portfolio investments*

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

### *Provision for doubtful debts*

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

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

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

### *Aid Assets*

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

## **18.2.7 Liabilities**

### *Borrowings*

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

### *Pension Liabilities*

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

### *Employee Entitlements*

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

### *Other Liabilities*

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

### *Aid Liabilities*

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

## **18.2.8 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 for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

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

## **18.2.9 Leases**

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

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

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

## **18.2.10 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.

## **18.2.11 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.