The Cook Islands

2013/2014
BUDGET POLICY STATEMENT
AND
2012/2013
HALF YEAR ECONOMIC AND FISCAL UPDATE

Government of the Cook Islands

19 December 2012

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COOK ISLANDS GOVERNMENT
2013/14 BUDGET POLICY STATEMENT
AND
2012/13 HALF YEAR ECONOMIC AND FISCAL UPDATE
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19 December 2012

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2013/14 Budget Policy Statement and the 2012/13 Half Year Economic and Fiscal Update.

To enable the Ministry of Finance and Economic Management to prepare this Budget Policy Statement and Half Year Economic and Fiscal Update, I have ensured that the Financial Secretary has been advised of all Government decisions and other circumstances as at December 2012 of which I was aware and had material economic and fiscal implications.

The 2013/14 Budget Policy Statement and the 2012/13 Half Year Economic and Fiscal Update have been produced in accordance with the *Ministry of Finance and Economic Management Act 1995/96.*

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

Honourable Mark Brown

Minister of Finance

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19 December 2012

STATEMENT OF RESPONSIBILITY

This Budget Policy Statement (BPS) 2013/14 and Half Year Economic and Fiscal Update 2012/13 is prepared in accordance with Section 11 and 16 of the *Ministry of Finance and Economic Management Act 1995/96.* Section 11 of the Act states that the Minister of Finance shall no later than the 31st day of March cause to be published a Budget Policy Statement. Section 16 further states that the Minister shall no earlier than the 1st day of December, nor, later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Ministry.

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

The integrity of the disclosures and consistency with the requirements of the *Ministry of Finance and Economic Management Act 1995/96* are warranted in relation to the financial statements included within this Budget Policy Statement 2013/14 and Half Year Economic and Fiscal Update 2012/13.

The update incorporates the fiscal and economic implications both of Government decisions and circumstances as at December 2012 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the *Ministry of Finance and Economic Management Act 1995/96*.

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

Kia Manuia.

Richard Neves

Financial Secretary

PREFACE

The Ministry of Finance and Economic Management has published through this document both the 2013/14 Budget Policy Statement (BPS) with the 2012/13 Half Year Economic and Fiscal Update (HYEFU).

Budget Policy Statement

Section 11 of the *Ministry of Finance and Economic Management Act 1995/96* requires the Minister of Finance to publish a Budget Policy Statement (BPS) no later than 31 March in each year to come into action on 1 July of that same year. Cabinet has directed that the 2013/14 BPS will be published on the 19 December 2012 to enable better aligned planning by government departments and development partners in the 2013/14 Budget going forward.

The BPS states Government's policy intent for the 2013/14 fiscal year going forward including the Government's fiscal policy, its broad strategic priorities for the 2013/14 fiscal year, and any specific outputs and other expenditure that the Government anticipates to be included in the 2013/14 Budget.

Half Year Economic and Fiscal Update

Section 16 of the *Ministry of Finance and Economic Management Act 1995/96* also requires the Minister of Finance to publish a Half Year Economic and Fiscal Update (HYEFU) no earlier than 1 December and no later than 31 December in each year.

The 2012/13 HYEFU provides an update of the economic and fiscal forecasts made at the time of the 2012/13 Budget and provides analysis of the changes in key economic variables and their impact on the fiscal status of Government.

Given the publishing of the BPS on 19 December 2012, the HYEFU will also be published on 19 December 2012 as one document so that the reader is provided with both the Government's priorities and the context with which these priorities and policy intentions are set.

2013/14 BUDGET POLICY STATEMENT

1.1 INTRODUCTION

At the time of assuming office, this Government stood on a cliff looking down and looking up. We knew that we had to fix our economic foundation, get the arithmetic right and set the path for the turnaround of our economy and our nation. We resolved to grasp the difficult issues of the day. Many are complex matters and the decisions which are required to solve them are not always easy. As a government we have learnt that it is very difficult to overcome some of these issues while pleasing everybody at the same time. The ripples of the global economic downturn have necessitated that past Budgets focus on economic development and initiatives for national economic recovery in an economically uncertain world.

In just two years of office, this Government can point to many tangible achievements on its strategic policy agenda aimed at benefiting our people and growing the economy. These achievements set our nation well on the way towards the realisation of our national goals as articulated in the National Sustainable Development Plan (NSDP 2011-2015).

Tourism continues to maintain its status as the key driver of our economy. To provide certainty to the sector the Government has invested significantly in ensuring our continued connectivity with our key tourism markets in Australia, North America, the United Kingdom and continental Europe by underwriting airline routes to Sydney and Los Angeles. In addition, Government has compelled airlines to incorporate the departure tax into the purchase price of the airline tickets, a key initiative towards improving the visitor experience without compromising our revenue base.

Furthermore, the development of the Destination Development Strategy has seen the commencement of projects in Rarotonga and in our other islands to continually improve our competitive advantage in tourism. Our annual return from our marine resources has increased from $1.5 million to $3.0 million in two years and we have established the Seabed Mineral Authority to manage our developments in this area. The cost of banking continues to be a major issue for business. We have now conducted banking review to identify options for improvements in the banking sector which will provide an environment to lower the cost banking services for our people.

The Government has embarked with vigour on infrastructure investments that will contribute to not only economic growth but also address social and environmental issues. Key achievements in the infrastructure sector include:

- the completion of the Avatiu Harbour Upgrade and Arorangi Jetty;
- commencement of the Rarotonga Roading Programme aligned to the Project City initiative by completing the roadworks from the Rarotonga Airport to the Nikao Golf Club;
- land reclamation to expand the Punanga Nui Market foreshore area;

- a first ever multinational agreement on the implementation of Te Mato Vai (Water Partnership) between the Cook Islands, New Zealand and the People's Republic of China, to improve water supply in Rarotonga; and
- the Ministry of Education building was completed and will shortly have grid tied photovoltaic energy generation installed on its roof.

Implementation of infrastructure development has also been extended to our other islands. These include the completion of Mauke Water; the Northern Islands Waters Project; the upgrade of the Mitiaro and Mauke harbours; the completion of the new Pukapuka cyclone shelter and upgrade of the Manihiki cyclone Shelter.

Transforming our energy consumption towards renewable services is crucial towards our ambitious but achievable target of 50 per cent renewables by 2015 and 100 per cent by 2020. The recruitment of an Energy Commissioner with Statutory powers will ensure a more coordinated approach to developments in this sector. The Energy Commissioner will oversee the implementation of work towards achieving our renewable energy targets.

Scoping for transformation to renewable energy for Rakahanga, Manihiki, and Pukapuka has been completed and tendering for these projects is in progress, construction is expected to commence in 2013. New power systems that are compatible with renewable systems have also been installed in Mangaia and Manihiki, while Atiu has a new power station with four new state of the art generators. We have also introduced a 5per cent reduction on the electricity tariff from 1 December 2012 for those who pay invoices on time.

In the area of social development, the curriculum of our schools has been expanded to include programme targeting specific learners such as the Dual Pathways and Alternative Pathways. The merging of the Ministry of Education and the Department of National Human Resources Development in 2012 will streamline learning. Progress towards the 'Learning for Life' vision of the Cook Islands will be supported by the recently passed *Education Act 2012*.

The Rarotonga Hospital has undergone extensive renovations including the purchase of a state of the art x-ray machine valued at $0.5 million. Furthermore, we have completed the construction of the long overdue Palmerston island clinic.

We have delivered on our election promise of increasing the baby bonus to $1,000 per newborn child as well as progressively increasing the pension to those people in our community who are over 70 years of age.

The new *Employment Relations Act 2012* legislation has been enacted after extensive consultation and guarantees maternity leave for all working mothers and better protection for both workers and employees.

We have established Ui Ariki Day to recognise and celebrate the contributions of our traditional leaders to our development.

To build the resilience of our islands and communities, we have developed the Joint Action Plan for disaster risk management (DRM) and Climate Change Adaptation (CCA). To begin implementation of this plan, we have succeed in securing over $8 million in the medium term for actions targeting DRM and CCA across our islands.

In the area of ecological sustainability; we are implementing an integrated water resource management programme to match our efforts in improving water infrastructure, catchment and storage.

The WATSAN programme has had great buy-in from our people in the target area of Muri and in 2012 will have completed 100 new septic system installations.

We have announced one of the largest marine parks in the world and a shark sanctuary. We are currently conducting activities in partnership with our traditional leaders, environmental NGO's and communities to put in place the necessary structures to add value to the sustainable management of our marine resources.

We have progressed on our efforts towards ensuring good governance. Our Public Expenditure Financial Accountability Assessment (PEFA) in May 2011 resulted in the formulation of our Public Financial Management (PFM) Roadmap outlining specific actions to improve weaknesses in our financial management systems. Addressing these weaknesses is currently under implementation and as a result our Government is becoming a leader in transparency of public financial management. Since taking office we have increased our efforts in providing information on the state of the nation's finances, we aiming to lead the Pacific in this regard.

We conducted a Functional Review of the Public Service and implemented some recommendations, such as the streamlining of the education sector and the merging of Financial Services Commission and Financial Intelligence Unit. The review has also prompted the formulation of legislation, policies and processes for empowering island governments to take charge of the development of their respective islands, which is ready for endorsement and application. In the past two years, we have also established six new diplomatic ties with countries that could support our development efforts.

We have undertaken an ambitious legislative reform agenda. Many of our outstanding key legislation are finally being addressed after many years of inaction. These include new legislations relating to employment relations; education andpolice services. Since assuming office, we have enacted or amended thirty one pieces of legislation.

These are only some of our achievements which have arisen during our current tenure, there have been many more. The highlight of 2012 has been our successful hosting of the Pacific Islands Leaders Forum. This was a collective effort between Government, the private sector, our communities and our development partners and an excellent example of how we can all work together to achieve great outcomes. This collective effort will be essential for effectively progressing on our achievements and will guarantee success to come.

This Budget Policy Statement is set out in the following order:

1. medium term fiscal policy;
2. 2013/2014 for the Budget key strategic priorities; and
3. intentions for the 2013/2014 Budget.

1.2 MEDIUM TERM FISCAL POLICY

The *Ministry of Finance and Economic Management Act 1995/96* ("the Act") requires Government to state or reaffirm its long-term objectives for fiscal policy in the annual Budget Policy Statement.

Part III Section 23(2) of the Act sets out the long term fiscal principles to ensure a positive macroeconomic environment for the Cook Islands. These principles as set out in the Act are as follows:

- 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 provide a buffer against factors which may impact adversely on net worth in the future.
- Managing prudently the fiscal risks facing the Crown.
- Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

Government must pursue its policy objectives within the financial context established by these principles which are quantified in fiscal responsibility ratios (FRR). The FRR are regularly reviewed and establish the parameters for the Budget, with a continued focus on the level of expenditure on Crown debt. These are outlined clearly in the 2012/13 Half Year Economic and Fiscal Update (HYEFU).

1.3 BROAD STRATEGIC PRIORITIES

We are in a crucial point in our term of Government; emboldened by our achievements we will continue to responsibly move our nation towards the goals set out in our NSDP.

The broad strategic priority areas for Budget 2013/2014 build on our achievements to date and recognise the vital importance of maximising existing revenues by modernising all aspects of current expenditure. These strategic priority areas emphasise economic growth that will restore our public finances to a solid and sustainable basis and are reflective of the goals of the NSDP 2011-2015. These are as follows:

1. put in place measures that will expand our economic base;
2. continue our investments in infrastructure;
3. progress our goal of energy security;
4. strengthen the link between our social development and economic growth;
5. ensure that our communities are resilient;
6. foster environmental integrity;
7. doing business differently in the public service; and
8. grow the confidence of economic actors through ensuring law and order.

These priority areas emphasise Government's approach of budgeting for results by linking strategic planning to the execution of the budget. It also indicates a Government that is truthful about our current reality and yet committed to improving the positioning the Cook Islands for the long haul.

1.4 GOVERNMENT INTENTIONS FOR 2013/2014 BUDGET

1. Expanding our economic base

Government influences the economy in various ways. Firstly, by improving its own productivity it can contribute directly to economic growth. Secondly, by ensuring the overall regulatory and legal frameworks can allow for continued productivity improvements in the private sector.

The Government wishes to continue an environment which is conducive for existing businesses to grow and for new businesses to start and thrive. Creating a favourable environment for business will continue to be our objective in the 2013/2014 fiscal year. The focus in 2013/2014 will be to:

- enact and amend legislation for Captive Insurance, International Companies, Development Investment, Copyright, and Traditional Knowledge;
- streamline processes related to business licensing and other areas of service (such as customs, immigration, police and justice) provided by the public sector to the business community;
- reform our tax systems to better distribute the burden of taxation;
- continue to support our key industry, tourism, while exploring and effecting sustainable options to increase our returns from our other productive sectors such as financial services, marine resources, agriculture and cultural and creative industries;
- outsource to the private sector services and functions that can be better delivered by the private sector; and
- promote public private partnerships in areas where appropriate.

2. Investing in infrastructure

Good infrastructure serves as the backbone for economic growth and social development. The priorities in infrastructure must be linked to the generation of real economic growth and sustainable livelihood concerns. The focus in 2013/2014 will be to:

- continue with the implementation of the water, sanitation and waste management programme through Te Mato Vai , the continued rollout of sanitation upgrades and progressing on the waste management strategy;

- upgrading transport related infrastructure;
- develop asset management systems and processes to ensure efficient and effective control of our national assets; and
- improve planning and coordination in the infrastructure sector to better deliver on expected results.

3. Progressing energy security

Since 2011, we have laid the foundations required for the successful implementation of programme to progress our aspirations towards our target for achieving 50 per cent renewable energy utilisation by 2015 and 100 per cent by 2020. The focus in 2013/2014 will be to:

- step up efforts in implementing our energy efficiency programme focusing on domestic, public and commercial sectors;
- roll out the implementation of our renewable energy programme in the northern islands and selected southern islands; and
- continue our efforts to source funding for achieving our national target for renewable energy.

4. Linking social development with economic growth

Our people are the most important investment for sustainable development. Hence, their productivity is vital to economic growth and we will continue to invest in our people's health, education and social wellbeing.

The focus in 2013/2014 will be to:

- look towards reducing incidences of non-communicable diseases through education and public awareness, including the promotion of a tobacco free Cook Islands, reducing the consumption of alcohol and encouraging adoption of more healthy lifestyles;
- target skills development and training in the trades, agriculture, marine, hospitality, health and education sectors; provide customised training to meet specific group needs, for example, youth at risk; encourage the provision of in-country training; utilise e-learning to improve access to training; and promote employer based training programme such as apprenticeships and internships; and
- promote positive social behaviour by increasing social inclusion of at risk groups, encouraging participation in society and the economy and reducing propensity of injury from violence, accidents and other undesirable behaviours.

5. Ensuring resilient communities

Our islands are highly vulnerable to natural disasters which can result in devastating setbacks for our country's hard won development progress. The effects of climate change remain an eminent threat and as such we must continue to progress our efforts to ensure that we can adapt to these threats and reduce our exposure to disaster risks.

The focus in 2013/2014 will be to:

- see the roll out of the Strengthening Resilience of Islands and Communities to Climate Change (SRIC-CC) programme with the focus on improving early warning systems; water management; coastal protection; and building adaptive capacity in the productive sectors of tourism, agriculture and marine resources; and
- improve the coordination of our efforts and ensuring alignment of building resilience across all sectors.

6. Fostering environmental integrity

Our economy and livelihoods are very much reliant on a healthy environment and ecosystems. Our development efforts need to take into account the principle of ecological sustainability.

The focus in 2013/2014 will be to:

- continue strengthening of the link between our efforts in sanitation, waste and water to environmental integrity; and
- strengthen our environmental, institutional and regulatory processes to ensure that these reflect best practices.

7. Doing business differently in the public service

We have made significant progress to ensuring good governance in the public sector with a particular emphasis on transparency and accountability. This Government recognises that if we continue to do the same things in the same way, we cannot expect different results. Of necessity, our reality demands a redefining of our strategy for better managing the public service to provide 'better bang for buck' and support economic growth. The focus in 2013/2014 will be to:

- consolidate and modernise administrative support functions such as finance; human resource management; information communication technology; asset management and procurement.
- improve public service performance by implementing a 'one rule for all' performance management system; strengthen performance audits and improve the mechanisms for coordination across the public sector;

- continue on improving public service capabilities and accountability through reviewing systems and processes and refocusing the public service to better deliver on results; and
- put in place better mechanisms to provide appropriate support and engagement between Cabinet and the machinery of government.

8. Ensuring law and order

Deficiencies in law and order have devastating consequences on society and undermine confidence in the economy and economic growth and hence measures must be put in place to address negative influences, while working on potential for financial returns that relate to law and order and the economy.

The focus for implementation in 2013/2014 will be to:

- develop and implement a rehabilitation programme targeting young offenders as the biggest cohort of thefts and burglary against tourists, businesses and the general public;
- ensure smarter enforcement of our laws in relation to transport offences, receivers of offences and non-compliance towards penalties including tax penalties;
- review our judicial system with greater emphasis on restorative justice; smarter use of police, immigration and other relevant agencies of intelligence; reducing crime; and fostering greater awareness in the judicial system and its processes; and
- review the current land system with a focus on the security of tenure and the ability for businesses to lease land.

1.5 CONCLUSION

In keeping with our commitment for dialogue with the community, as part of our budget and policy processes, we have consulted widely in the development of the 2013/2014 Budget Policy Statement. How this Government will execute the 2013/2014 Budget is clear and we will continue to utilise public finances with prudence and providence.

Budget 2013/2014 will build on the measures enunciated in the last two budgets and makes a quantum leap once again in confronting the challenges of achieving economic growth.
With the cooperation and collaboration of our private sector, communities, and development partners, this Government will move boldly forward to open up spaces in the economy, ignite growth and progress our journey towards economic growth and sustainable development.

2 ECONOMIC UPDATE

2.1 INTRODUCTION

Since the contraction of the global financial environment in 2008/09, the Cook Islands economy has enjoyed two years of moderate growth to 2010/11.

Continued growth is expected for the remainder of 2012/13 before easing in 2013/14. However the growth of the Cook Islands economy remains highly vulnerable to the global climate – any contractions in major tourism markets could lead to negative growth in tourist spending.

The performance of the Cook Islands tourism industry, measured by the growth in tourist arrivals, continues to perform very well. Arrivals from New Zealand grew by 7.9 per cent over 2011/12 and are 11.8 per cent higher this financial year through to November than in 2011/12.

The emerging Australian market continues to grow, increasing 21.4 per cent in 2011/12. Arrivals so far this financial year to November are a touch above comparable figures from 2011/12.

Total visitor numbers are expected to exceed the forecasts made at the 2012/13 budget. Total visitors to the Cook Islands in 2011/12 were 116,075, in 2012/13 this is expected to reach 127,400 an increase of 9.7 percent. Constraints in accommodation capacity for some accommodation types in Rarotonga are now emerging in the peak season of July through to September. Growth in visitor numbers could be constrained if capacity does not expand to meet forecast demand. The growth forecasts assume that growth will occur outside of these peak periods.

Tourism visitor forecasts have been revised to take into account actual data to October 2012.

Price rises measured through the Consumer Price Index (CPI) remain at 2012/13 Budget levels. Actual CPI growth to June 2012 was 1.9 per cent and is expected to be around 3 per cent over the forecast horizon. This represents the long run average CPI for the Cook Islands economy. The estimates in the revisions to the CPI have been reflected in the growth rates for nominal projections on GDP, trade, and banking and finance.

2.2 GROSS DOMESTIC PRODUCT (GDP)

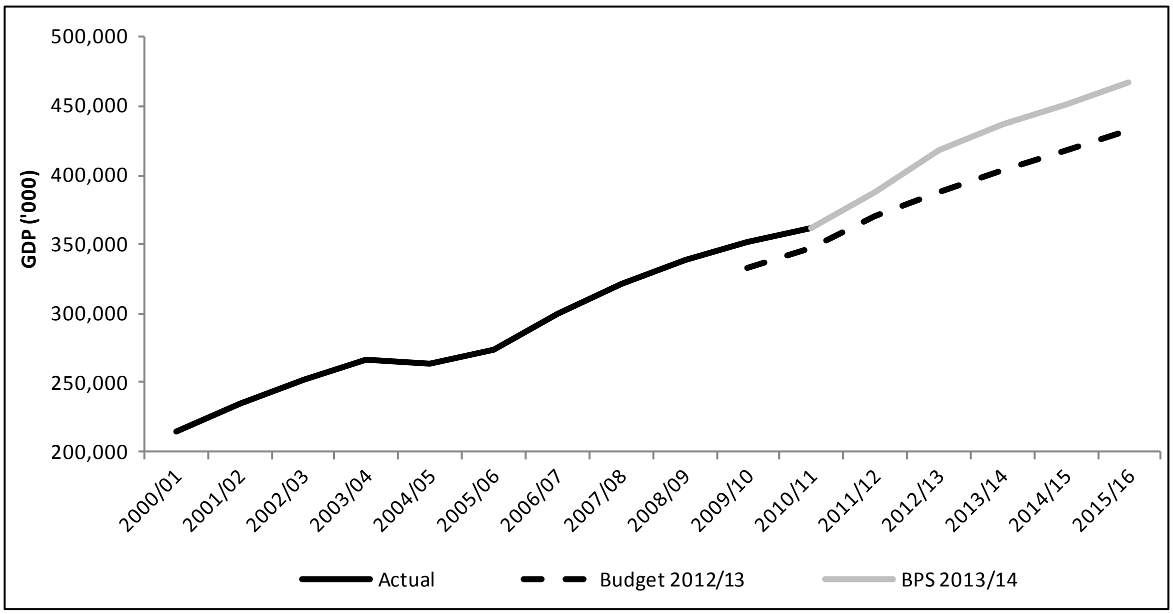
Following the GDP report in the 2012/13 Budget, the global climate continues to indicate moderate growth since the financial downturn in 2008/09. Given the Cook Islands reliance on the tourism industry, a further global downturn may impact the major tourist markets of New Zealand and Australia who supply 88 per cent of visitors to the country.

Another downside risk to the Cook Islands GDP forecasts is whether more labour is enticed to New Zealand and Australia. Such a scenario could further exacerbate the declining resident population of the Cook Islands.

Cook Islands' GDP is recorded in nominal and real terms where nominal GDP is calculated based on actual expenditure. For tourism, expenditure forecasts are based on expected growth in visitor arrivals, estimates of average length of stay, and estimates of average daily spend per visitor. Government expenditures and export receipts account for 25 per cent of GDP. This is deflated by the Consumer Price Index (CPI) resulting in a real GDP figure.

The most recent actual GDP is for calendar year 2011 and was $366.7 million. The statistics office reports GDP on a calendar year basis, this update reports and forecast GDP on a financial year basis from 2012/13 through to 2014/15.

Chart 2.1 Nominal GDP at current prices, $'000



Nominal GDP for 2012/13 and the forecast horizon have been revised from the estimate in the 2012/13 Budget published in June 2012.

At the 2012/13 Budget, nominal GDP for 2010/11 was estimated to be $347.6 million. In this update, actual nominal GDP for the 2010/11 period is reported at $361.4 million reflecting higher than projected growth within the economy.

Challenges continue to emerge in the economy.

The on-going decline in the resident population outlined in the 2011 Census demonstrates the reliance on a decreasing number of residents to maintain the Crown's revenue base (in the form of VAT and Income taxes). The continued movement of young Cook Islanders for opportunities in Australia and New Zealand will continue to place pressure on the labour market and the economy.

The Ministry of Finance and Economic Management in conjunction with the Tourism Corporation have undertaken two quarterly surveys to date with the intention to improve overall understanding of tourist spending patterns during the year.

Any downturn in economic growth in tourist home economies likely flow through to the Cook Islands economy. Whilst tourism numbers may grow strongly, constrained economic conditions at home will most likely manifest itself in a lower per capita spend by tourists. Recent VAT collections appear to confirm anecdotal evidence of these spending patterns.

The Ministry of Finance and Economic Management has:

- Estimated nominal GDP growth for 2011/12 and 2012/13 on the basis of the historical relationship between VAT growth and GDP growth; and
- Forecast 2013/14 and future years on a tourism based model that has been used in the more recent economic forecasting updates.

The 2012/13 Budget estimated that nominal GDP growth in 2010/11 would be around 4½ per cent, however, more moderate growth of 2.9 per cent was recorded. Current forecasts expect that growth will increase to 7.2 per cent in 2011/12 and 7.9 per cent in 2012/13 before returning to 4.4 percent in 2013/14 and reverting to the long-run growth rate of 3½ per cent per annum by the end of the forecast horizon.

Exports will continue to provide a small (1 per cent) contribution to nominal GDP, immaterially affecting the scale of GDP growth should there be any increases in exports over the forecast horizon.

Crown expenditures are projected to be similar to those appropriations that were agreed to in previous years.

After growing 0.8 per cent in 2010/11, Real GDP growth is estimated to rise to 5.3 per cent in 2011/12 and 4.9 per cent in 2012/13.

Table 2.1 Summary of Economic Indicators

Economic Indicators	2010/11 *Actual*	2011/12 *Proj*	2012/13 *Proj*	2013/14 *Proj*	2014/15 *Proj*
Economic Activity					
Nominal GDP ($'000)	361,400	387,500	418,100	436,300	451,600
Percentage change (YOY)	2.9	7.2	7.9	4.4	3.5
Real GDP (at Constant 2006 Prices, $'000)	271,500	285,900	299,900	304,000	305,600
Percentage change (YOY)	0.8	5.3	4.9	1.4	0.5
Inflation					
Consumer Price Index (base Dec. 2006 = 100)	120.7	122.9	126.6	130.4	134.3
Percentage change (YOY)	2.1	1.9	3.0	3.0	3.0
Construction/Capital Investment					
Commercial Building Approvals ($'000)	1,900	3,000	3,100	3,200	3,300
Residential Building Approvals ($'000)	9,500	5,900	6,200	6,400	6,600
Public Works ($'000) includes Dev Partners	NA	50,650	38,106	55,796	35,026
Productive Sector Indicators					
Visitor Arrivals	108,400	116,100	127,400	132,300	134,600
Percentage change (YOY)	9.5	7.1	9.7	3.8	1.7
Estimated Visitor Expenditures ($'000)	174,300	192,300	214,900	228,800	238,500
Pearl Exports ($'000)	640	500	500	500	500
Fish Exports ($'000)	3,110	2,560	2,690	2,830	2,970
External Sector					
Merchandise Trade Balance ($'000)	(130,300)	(131,400)	(137,600)	(143,200)	(148,200)
Services Trade Balance ($'000)	256,200	279,500	306,400	324,000	337,000
Exchange Rate (USD/NZD Average for September 2012)	0.787	0.802	0.817	0.817	0.817
Financial Sector (at end of financial year)					
Net Government Credit Position ($'000)	NA	NA	89,000	84,600	80,100
Private and Public Enterprise Deposits ($'000)	192,000	205,800	222,100	231,800	239,900
Private and Public Enterprise Loans ($'000)	281,900	302,200	326,100	340,300	352,200

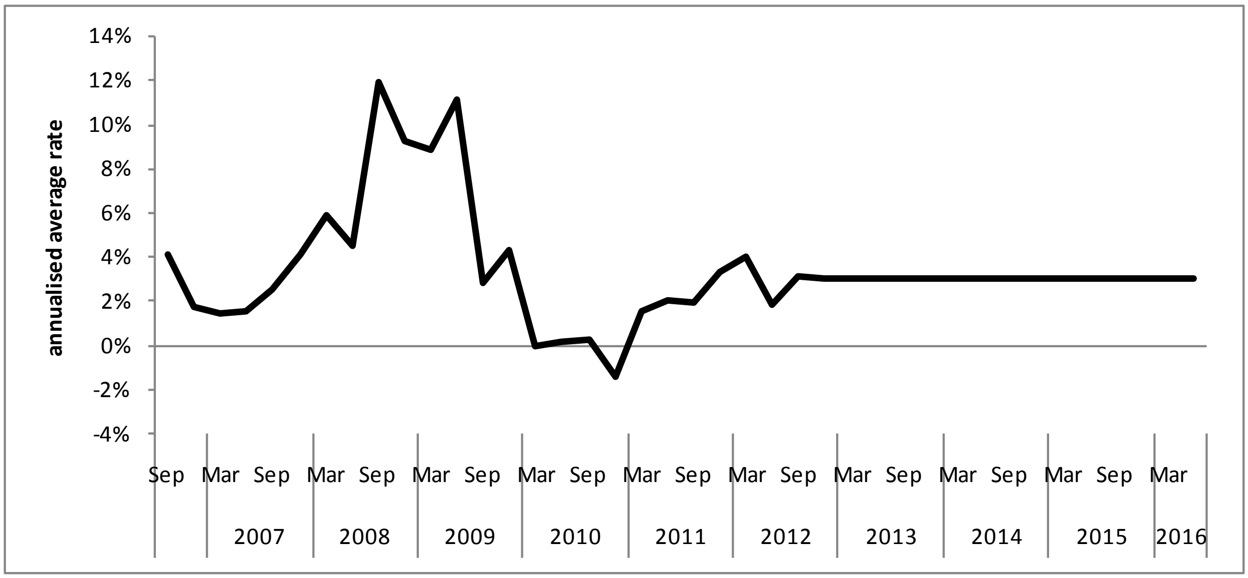
2.3 CONSUMER PRICE INDEX (CPI)

The Consumer Price Index (CPI) is a measure of inflation in the Cook Islands and is published on a quarterly basis.

The CPI for the September 2012 quarter indicated annual inflation of 3.2 per cent. This was driven predominantly by the increase in import levies applied to tobacco and alcohol effective from 1 August 2012.

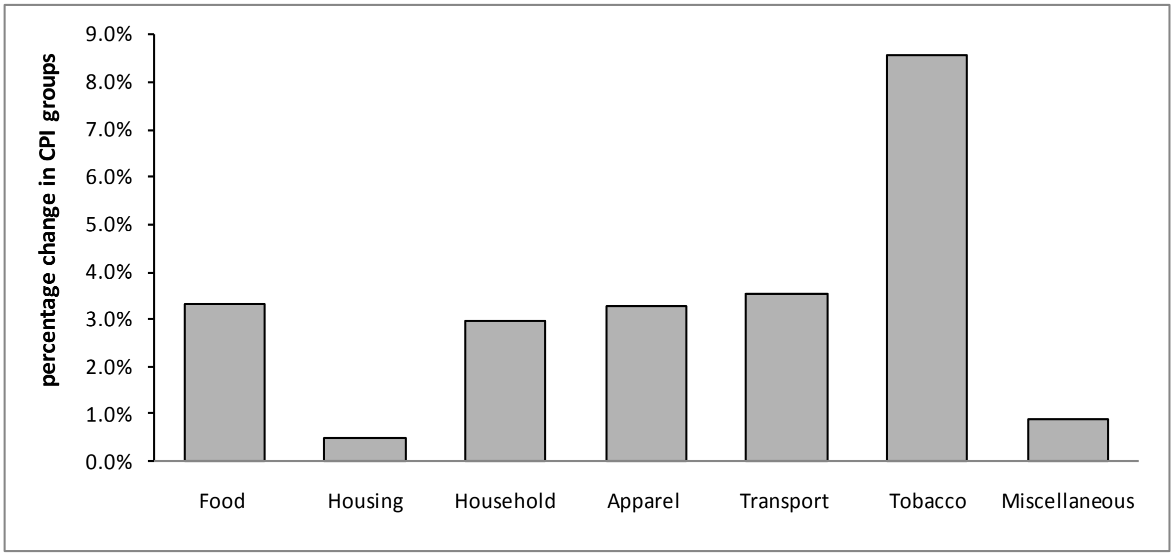
Although import levies were also applied on sweetened drinks, the impact on food prices was not substantial in comparison to that of tobacco and alcohol.

Chart 2.2 Consumer Price Index (CPI) moving average, 2006 - 2016, ($'000)



As Chart 2.2 demonstrates, the CPI is assumed to settle at around 3 per cent across the forecasting horizon. This long run average assumption is based on the forecast of New Zealand CPI at 2 ½ per cent, (as it is the largest trading partner of the Cook Islands) with an additional component for local supply circumstances.

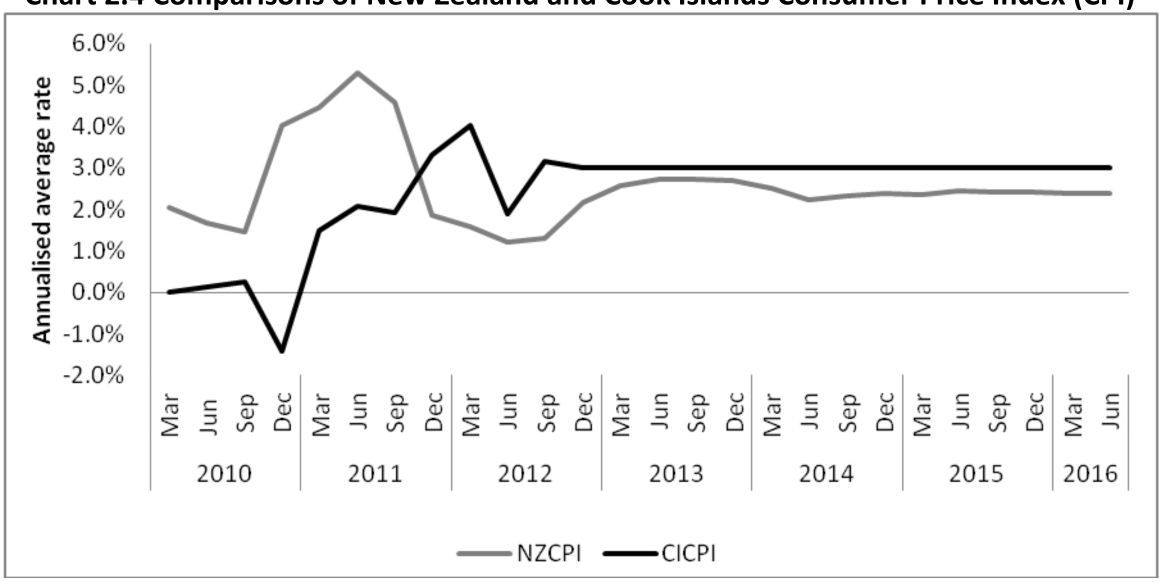
Chart 2.3 Annual percentage change in CPI groups, September quarter 2012



Overall, the movement in inflation in September is attributed predominantly to an:

- 8.6 per cent increase in the price of tobacco and alcohol;
- 3.5 per cent increase in the price of transport primarily driven by the price of international travel; and
- average 3.2 per cent increase in the price of food, household operations and clothing.

Chart 2.4 Comparisons of New Zealand and Cook Islands Consumer Price Index (CPI)



As shown in Chart 2.4, the Cook Islands Consumer Price Index (CI CPI) has since December 2010 followed the New Zealand Consumer Price Index (NZ CPI) with a lag of around six months.

2.4 TOURISM

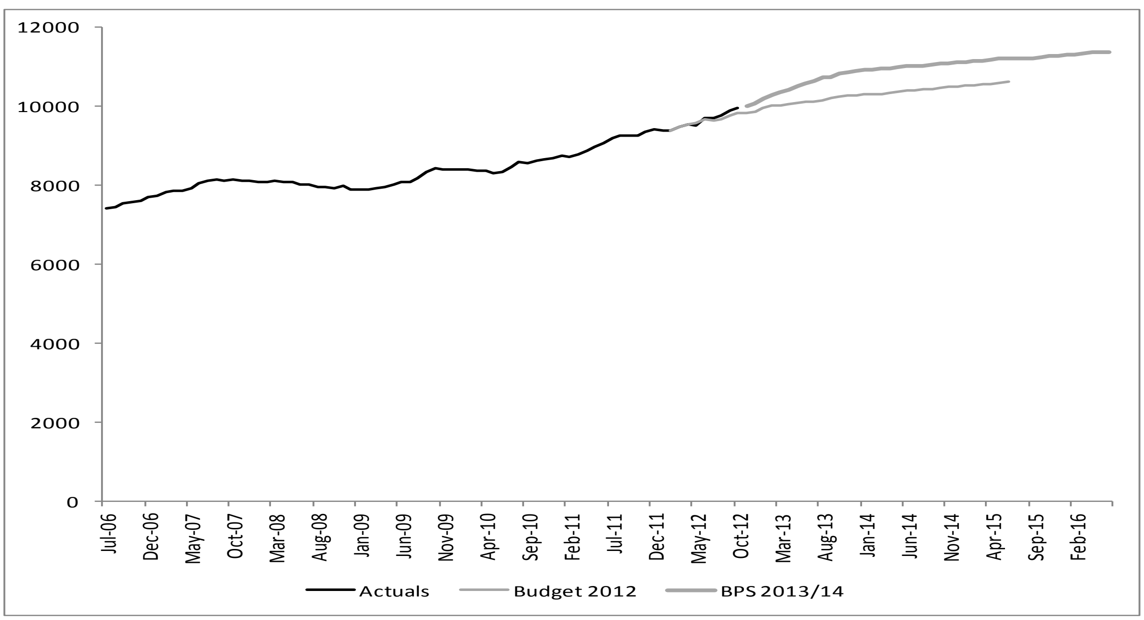
The Cook Islands economy is predominantly driven by the tourism sector. Tourism is estimated to contribute (directly and indirectly) around 70 per cent of total economic activity. The Cook Islands Government has continued to provide support to the sector, ensuring that the benefits from this sector are distributed to the wider economy.

The Ministry of Finance and Economic Management, in conjunction with the Tourism Corporation, have completed two quarters of visitor surveys to test the assumptions made at the time of the 2012/13 Budget. The current parameter assumptions are that the average visitor stays in the Cook Islands 7.4 days and spends an estimated $227 per day (increasing by 2.5 per cent per annum regardless of source market).

New Zealand continues to be the leading tourist market in the Cook Islands accounting for 73 per cent of total visitor arrivals, distantly followed by Australia (15 per cent), Europe (6 per cent) and North America (4 per cent).

Visitors to the Cook Islands in the four months to November 2012 total 60,046. This represents a 7.9 per cent increase on the total visitors to the Cook Islands from July to November 2011.

Chart 2.5 Total visitor arrivals (12 month moving average) 2006-2016



As at the time of the 2012/13 Budget, tourist increases were forecast to be driven by continued growth in the number of visitors from New Zealand, Australia, Europe, and the hosting of 43rd Pacific Islands Leaders Forum.

Visitor arrivals are expected to continue growing at 9.7 per cent in 2012/13, 3.8 per cent in 2013/14 and 1.7 per cent in the outer years.

Actual visitor arrivals in 2011/12 surpassed 2012/13 Budget forecasts by 7 per cent.

Table 2.2 Actual and forecast total tourism numbers by quarter 2009/10 to 2013/14

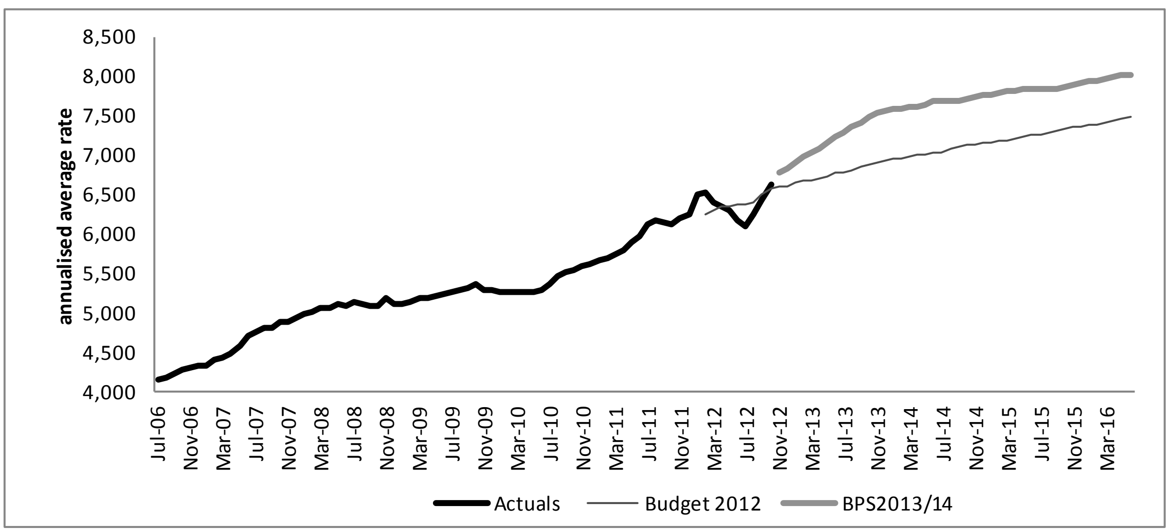
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2009/10	31,071	25,586	18,446	24,992	100,095
2010/11	33,886	26,928	19,460	28,470	108,744
2011/12	36,208	28,743	20,476	30,896	116,323
2012/13	38,543	31,100	23,500	34,400	127,600
2013/14	39,700	33,300	24,000	35,300	132,300

2.5 MAJOR MARKETS

2.5.1 New Zealand

New Zealand continues to be the Cook Islands leading market for visitors, reporting annual growth of 7.9 per cent for 2011/12, which is higher than the 6.8 per cent forecast at 2012/13 Budget. Between July 2012 and November 2012, New Zealand arrivals are 5% higher than predicted at the 2012/13 Budget. However competition from the extra capacity (50,000 seats) from Auckland to Honolulu will place pressure on such growth continuing from the New Zealand market.

Chart 2.6 New Zealand visitor arrivals (12 month moving average) 2006-2016



Growth in visitor numbers from the New Zealand market going forward have been revised upwards to 6.4 per cent in 2012/13, 2.8 per cent in 2013/14 and 3.0 per cent in the outer years.

Table 2.3 Actual and forecast New Zealand tourism numbers by quarter 2009/10 2013/14

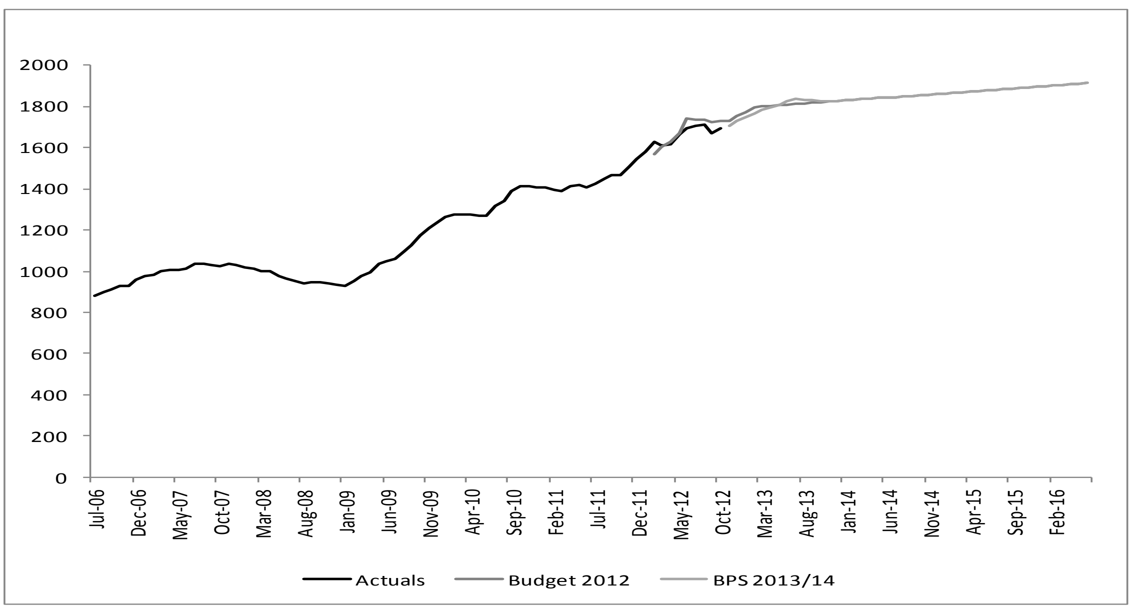
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2009/10	21,425	14,768	9,403	17,882	63,478
2010/11	24,068	16,134	10,850	20,693	71,745
2011/12	26,122	17,361	11,543	22,359	77,385
2012/13	28,282	19,900	13,600	25,300	87,100
2013/14	30,100	21,800	14,100	26,200	92,200

2.5.2 Australia

In 2011/12, growth in the Australian market was a significant 21.4 per cent, reflecting the influence at a full year of the direct underwritten long haul Sydney Rarotonga flights. The Australian market continues to be a growing market for Cook Islands, accounting for 18 per cent of total visitors in 2011/12. Australians well exceed the market share of European visitors, which have been declining in number since 2000/01.

In the first four months of 2012/13, 7,636 Australian visitors arrived in the Cook Islands accounting for 15.3 per cent of total to date. This is slightly below forecast by 0.9 per cent, however, it is expected that total visitors in this market will continue to increase. Australian visitors are expected to increase from 20,525 in 2011/12 to 21,700 in 2012/13.

Chart 2.7 Australia visitor arrivals (moving average), 2006-2016



Growth in visitor numbers from the Australian market going forward have been revised to 6 per cent in 2012/13, 1.6 per cent in 2012/13 and 1.9 per cent over the forecast horizon.

Table 2.4 Actual and forecast Australian tourism numbers by quarter 2009/10 to 2013/14

	Qtr 1	Qtr2	Qtr 3	Qtr 4	Total
2009/10	3,604	5,221	3,102	3,288	15,215
2010/11	5,022	5,429	2,899	3,550	16,900
2011/12	5,718	6,325	3,644	4,838	20,525
2012/13	5,815	6,400	4,200	5,300	21,700
2013/14	5,600	6,800	4,300	5,400	22,100

2.5.3 Europe

The European market continues to fall from the record high levels of 25,228 achieved in 2000/01. In 2011/12, the annual decline in visitors from this market reached 10 per cent, driven predominantly by a declining UK market. Continued economic turbulence in Europe, airline access issues, and a wider range of options for travel for tourists is placing pressure on this part of the market.

Chart 2.8a Europe visitor arrivals (moving average) 2006-2016

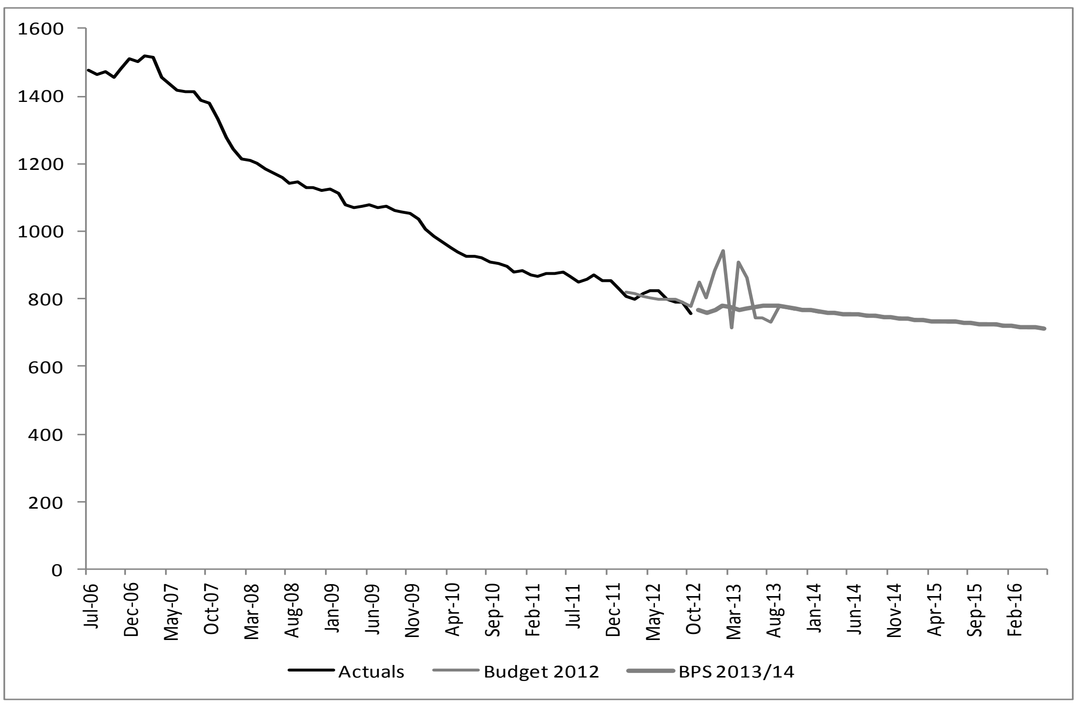
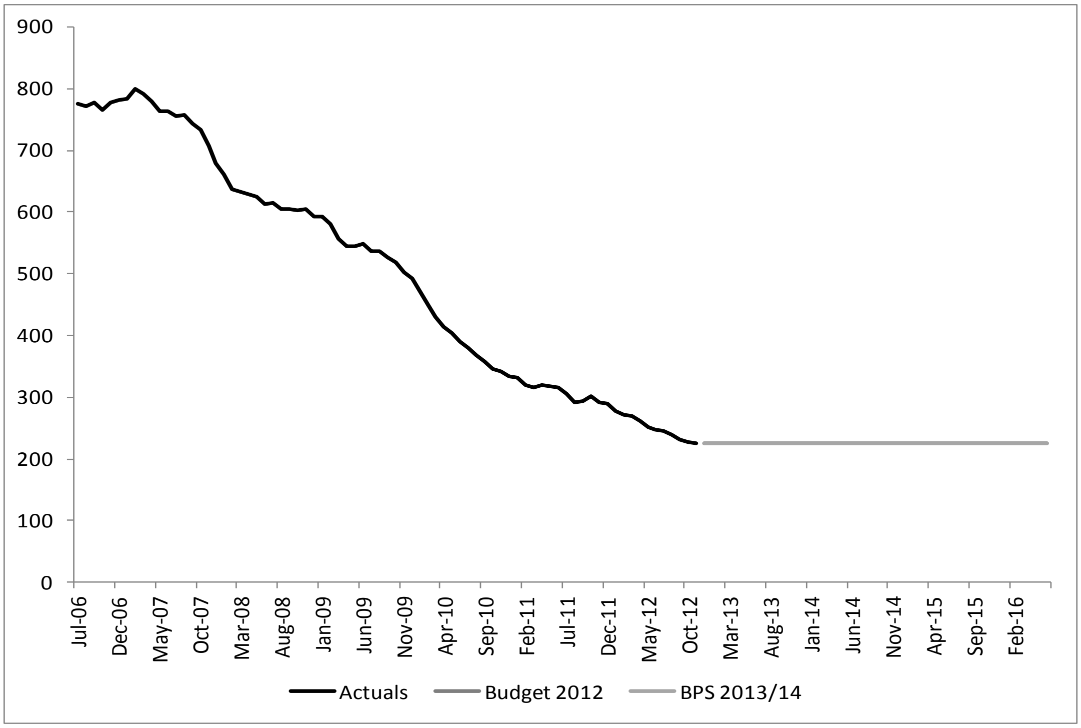


Chart 2.8b United Kingdom (UK) visitor arrivals (moving average) 2006-2016



A further decline is expected from this market in 2012/13 with the outer years expected to remain relatively static.

Table 2.5 Actual and forecast European (including UK) tourism numbers by quarter 2009/10 to 2013/14

	Qtr 1	Qtr2	Qtr3	Qtr 4	Total
2009/10	2,642	2,998	3,571	1,908	11,119
2010/11	2,451	2,617	3,414	2,077	10,559
2011/12	2,210	2,567	2,951	1,746	9,474
2012/13	1,983	2,400	3,200	1,800	9,300
2013/14	2,000	2,300	3,100	1,700	9,100

2.5.4 North America

As reported at the time of the 2012/13 Budget little growth is expected in the forecast horizon. A total of 6,408 visitors came from the north American market in 2011/12, an annual decline of 4 per cent.

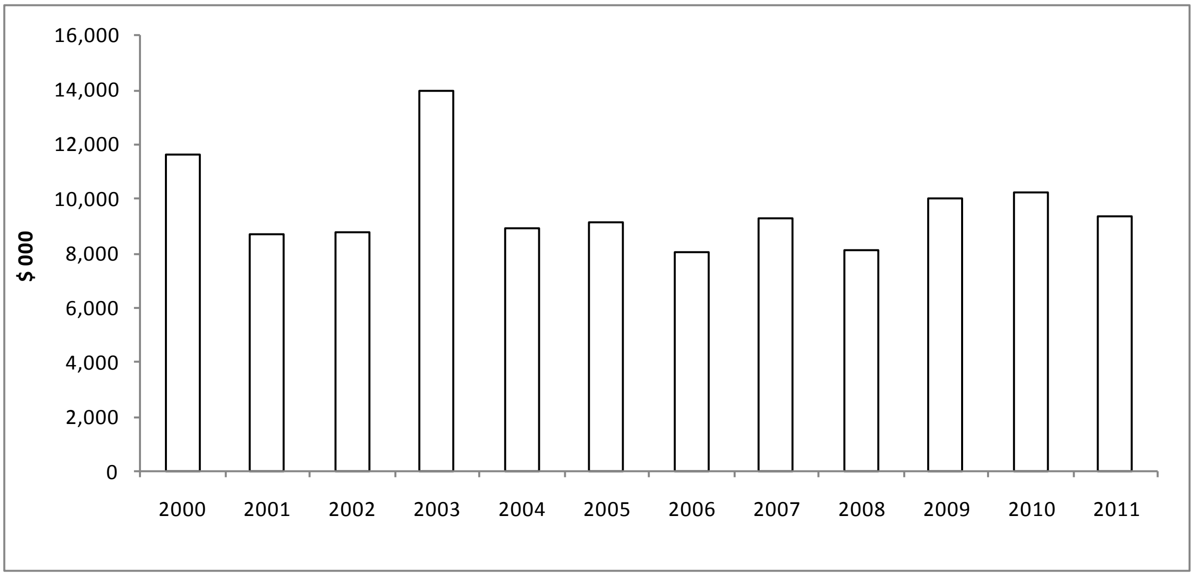
Between July and November 2012, 2,316 North American visitors have arrived in the Cook Islands, 3.5 per cent below forecasts. Given the growth experienced in this market over the previous 12 months, no further growth is expected over the forecast horizon.

2.6 MARINE RESOURCES

The main components of the marine sector in the Cook Islands are the tuna and albacore fisheries, and harvesting of black pearls. Over the past year however, the tuna and albacore fisheries have emerged as the leading activity in this sector.

The value of the marine sector in 2011 in nominal terms was $9.3[1] million, a 9.0 per cent fall from 2010.

Chart 2.9 Marine Sector contribution to GDP 2000/01 to 2011/12, ($'000)



In 2011/12 the total value of marine exports was $3.1 million, 18 per cent less than exports of the sector in 2010/11. Exports for the sector in 2011/12 were expected to reach $3.9 million however due to lower than anticipated pearl and fish exports, total exports from the sector fell short by $0.8 million.

Going forward, exports in the marine sector are expected to grow at 4 per cent, driven mainly by expected increases in fisheries exports.

2.6.1 Fishing

The Cook Islands fishing industry is currently serviced by two separate fleets located in the north and the south of the Cook Islands. There are currently 49 vessels licensed to fish in the Cook Islands Exclusive Economic Zone (EEZ), of which 43 are licensed to fish in the North, 3 in the south and three that fish in both zones.

[1] At 2012/13 Budget the marine sector grew by 6 per cent in 2010 contributing $8.0 million to GDP. The Office of Statistics has revised the historical series for the marine sector up to $10.0 million in 2010.

The northern fishery lands the majority of its catch in Pago Pago with the remaining stock dispersed to smaller markets in Japan, Thailand and Brazil while the southern fishery focus its activity on expanding the domestic market on Rarotonga and exporting to markets such Japan, China and New Zealand.

The estimates of raised catch from longline and purse seine fishery vessels totalled 9,900 metric tonnes in 2011, and valued $45.0 million, these consisted of,

- albacore tuna as the dominant catch species worth $19.0 million;
- yellowfin tuna worth $14.0 million; and
- big eye tuna to the value of $7.0 million.

The domestic longline fishery catches from vessels based out of Rarotonga totalled 106.5 metric tonnes and is valued at $1.5 million on the local market.

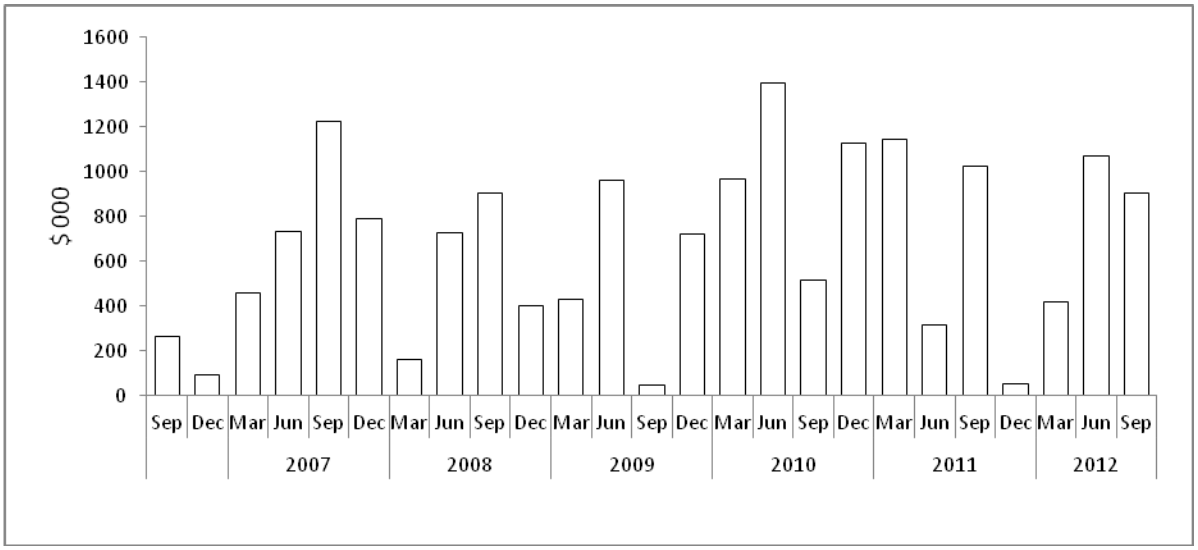
Fresh fish exports from Rarotonga in 2011/12 totalled $2.6 million. The decline of 17 per cent in value was in part due to the strength of the New Zealand dollar.

The bulk of fish exported out of the country is absorbed by the Japanese market followed by China and New Zealand. It is expected that airfreight export of fresh fish from Rarotonga will increase going forward with a new export market in Australia developing.

In terms of tonnage in 2012 there has been significant export of fresh, frozen fish and semi-super frozen (minus 35 degree Celsius) out of Rarotonga.

The Ministry of Marine Resources expects growth in 2012/13 to increase as fleets are encouraged to unload, process and export catch out of Rarotonga as per the licensing incentive scheme and bilateral agreements between Government and large fishing companies. Positively, access to potential markets for the Cook Islands fishery are expected to be opened up.

Chart 2.10 Fish Exports 2006/07 to 2012/13, ($'000)



Forecasts for fisheries exports remain positive given the trend to date. Going forward it is expected that exports will grow at 5 per cent per annum, in line with returns from the Ministry of Marine Resources rebate scheme and the increased number of vessels offloading catch in Rarotonga for processing.

2.6.2 Pearl

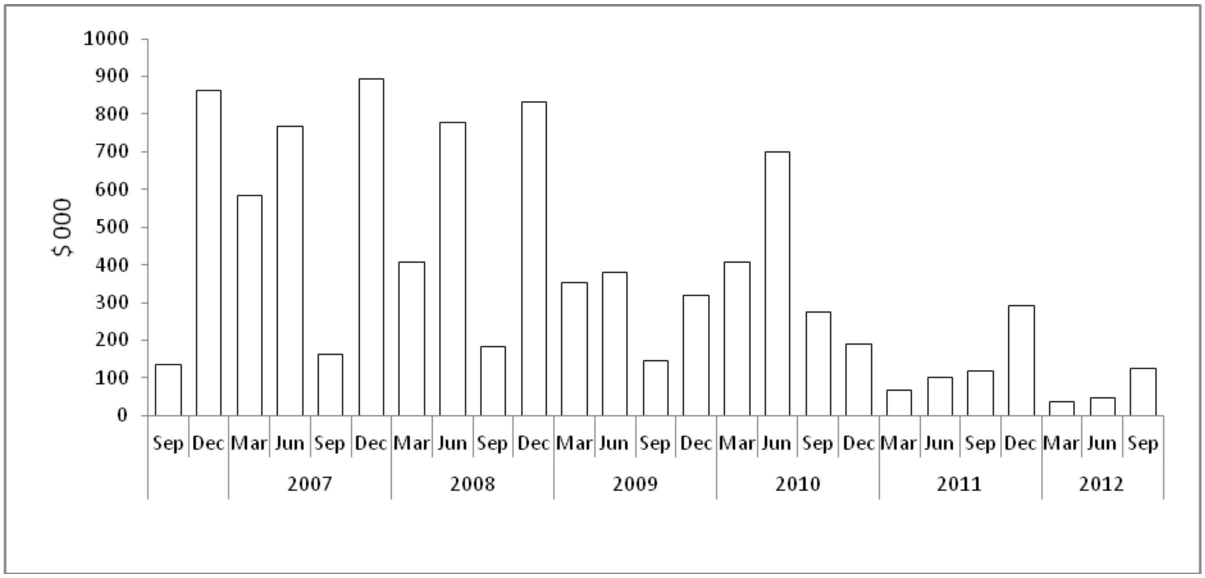
The performance of the Cook Islands pearl industry is assessed on the export trends of the industry over time. Cook Islands pearls are sold on the domestic and international markets; it is difficult to quantify the size of the domestic market.

At the time of the Budget 2012/13, it was expected that 2011/12 exports of pearls would reach 2010/11 levels, however actual export of pearls declined 22 per cent to $0.5 million, the lowest export figure since the industry began.

The decline in international market prices since 2009 (current prices are the the lowest on record) is a major disincentive for farmers to increase production, with many adopting a cautious approach in light of current market uncertainties. The prolonged “dark period” in the Manihiki lagoon during 2011/12, due to adverse climatic conditions, also affected production and farmer confidence in the industry.

Going forward, the state of the lagoon will affect production already on hold and market prices will drive the trade/export of pearls going forward. It is expected that export levels in 2012/13 will not increase significantly.

Chart 2.11 Pearl Exports 2006/07 to 2012/13, ($'000)



2.7 AGRICULTURE

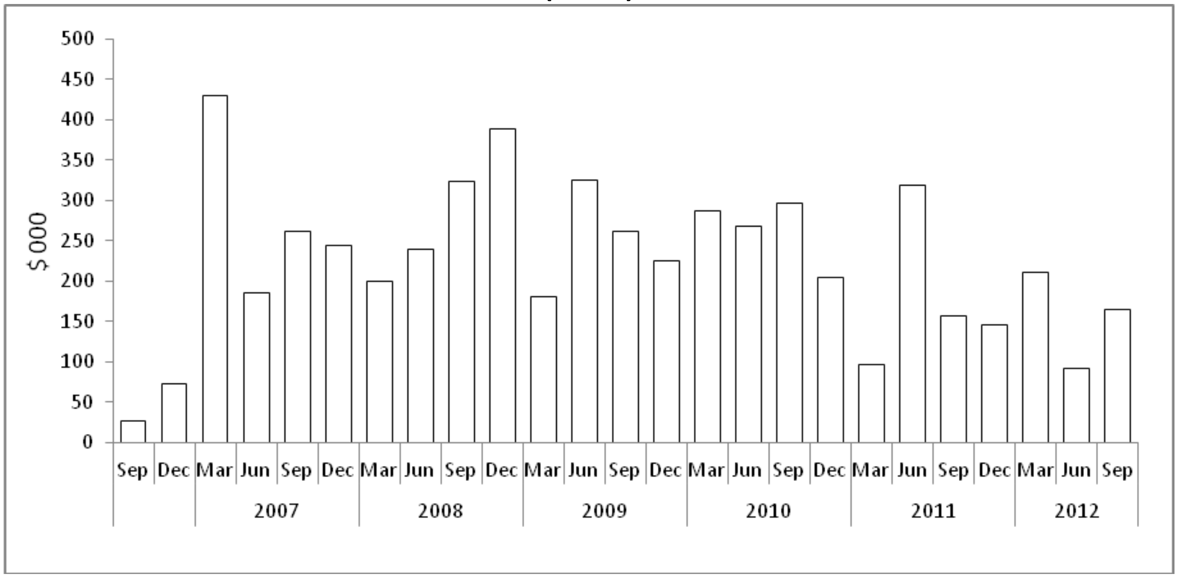
Agriculture remains a largely informal sector in the Cook Islands economy, and therefore, the total contribution to the economy is difficult to quantify. The latest GDP estimate indicates that the agriculture sector accounted for approximately 2 per cent of GDP, equating to around $8.4 million in 2011 (previously $8.8 million[2] in 2010). The supply and demand for produce is predominantly based in Rarotonga.

The climate and fertility of the Cook Islands land mass has considerable scope for import crop substitution. However, limitations surrounding local enterprise, labour shortages, water supply and high costs of transportation to get produce to market (Rarotonga and international markets), are major constraints in the industry.

International markets offer attractive export opportunities for crops that could grow domestically, but anecdotal evidence suggests that most production (outside of noni) is consumed by the domestic market.

[2] At 2012/13 Budget Agriculture contribution to GDP in 2009 was published as $9.3 million then declined to $9.1 million in 2010. Statistics have revised the historical series down to $8.8 million.

Chart 2.12 Agriculture Exports 2006/07 to 2012/13, ($'000)



Export of agricultural produce since 2009 continued to be minimal, and often declining, in volume terms. Total estimated exports for the September 2012 quarter were $0.2 million, 6.0 per cent above exports for the same period in the previous year. Noting these volumes of export mainly reflect Noni (93 per cent of total exports) exported to Japan and maire (7 per cent of total exports) directed at a growing Hawaiian market.

Going forward this decline in the export of agricultural produce is expected to continue. The Ministry of Agriculture (MoA) is working collaboratively with farmers to increase production in highly demanded goods.

Growing production initiatives in this sector include the long term investment in the high price vanilla crop, expected to impact the market in two years. The Cook Islands Delicious Cactai (dragon fruit), branded recently at a Pacific islands agriculture forum, and the newly introduced Cook Islands gold pineapples are expected to enter the domestic market by 2013.

2.7.1 Domestic Market

Fresh fruit and vegetables continue to be the main agricultural produce traded on the domestic market.

The growth in the tourism industry over the past few years has increased the demand for fresh produce with surplus demand being met through imported produce from overseas markets.

The Cook Islands has a relatively fertile land mass and there is considerable scope for producing crops for import replacement. The MoA is determined to focus on assisting local growers/farmers in increasing production for the domestic market. A lack of effort in increasing domestic supply will continue to deepen the reliance on imported produce and limit the spread of economic returns to the agriculture industry.

Unless the private sector re-orientates itself to fill the gap of import substitution, projections are that growth in imported produce will increase in line with growth in the economy and tourist arrivals.

2.8 EXPORTS AND IMPORTS

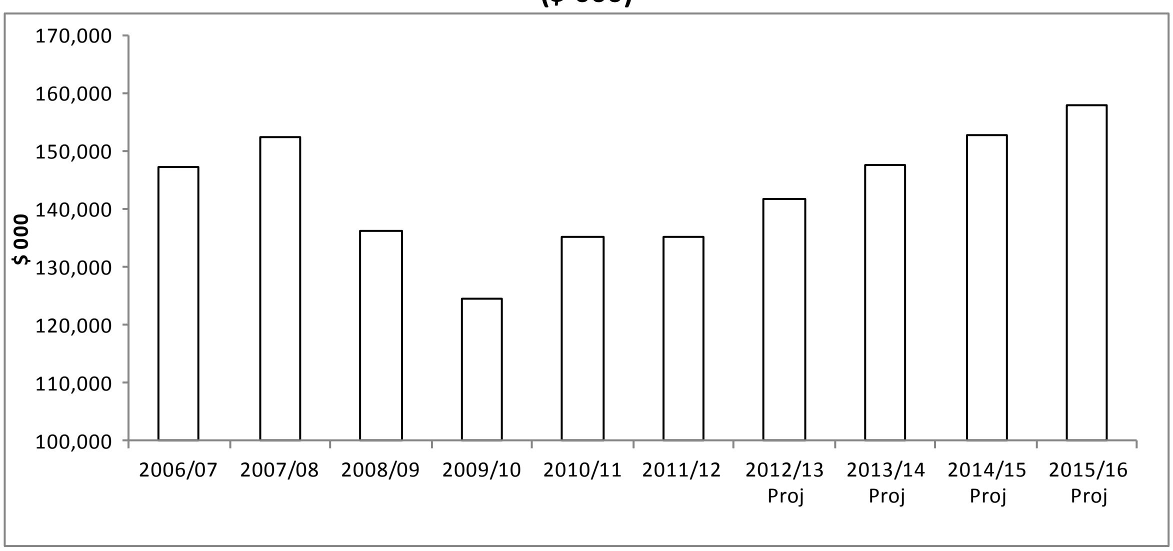
2.8.1 Imports

The Cook Islands heavy reliance on imported products to meet increasing local demand results in the import leakage of 58 per cent. This means that for every $1 spent in the Cook Islands $0.58 leaks out of the economy to pay for imported goods.

Total imports in to the Cook Islands in 2011/12 were estimated to reach $149.9 million at the 2012/13 Budget, 0.2 per cent lower than 2010/11. Import volumes during this period were made up of food and live animals (23.8 per cent), minerals and fuel (18.6 per cent), and machines, transport and equipment (17.8 per cent).

Projections for imports for 2012/13 are anticipated to be in line with nominal GDP. The demand for imported produce is expected to increase to accommodate the needs of increased visitor arrivals.

Chart 2.13 Value of total imports 2006/07 to 2015/16, ($'000)

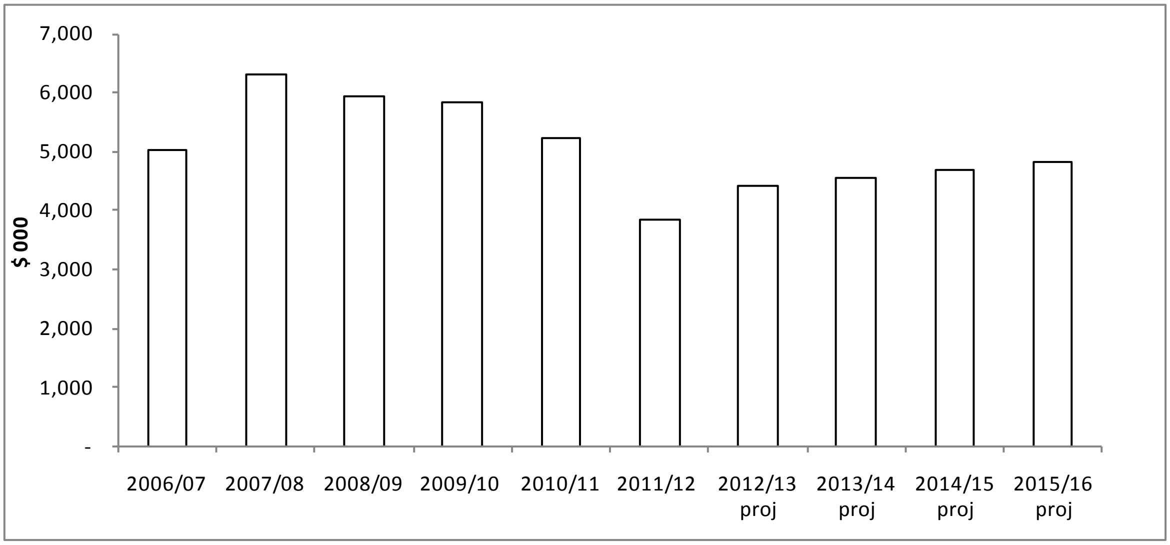


New Zealand continues to be the leading supplier of imports in to the Cook Islands.

2.8.2 Exports

Total exports in 2011/12 were $3.9 million predominantly driven by the export of marine produce (fresh and live fish accounting for 67 per cent of total exports and pearl and mother of pearl shells 13 per cent). On an annual basis, total exports have significantly fallen by 26.0 per cent over 2010/11.

Chart 2.14 Total exports 2006/07 to 2015/16, ($'000)



Exports were assumed to contract slightly by 0.1 per cent in 2011/12, however, actual data indicates a more significant contraction of 26.0 per cent. Going forward, total exports are expected to increase by 15.0 per cent in 2012/13 and return to 3.0 per cent per annum in the long run.

Forecast for the main exports out of the Cook Islands note that fresh and live fish exports will grow by 5 per cent per annum across the forecast horizon, reaching a value of $3.1 million by 2015/16. Pearl and mother of pearl exports are assumed to remain static for the forecast three years.

2.8.3 Balance of Trade (BOT)

The actual trade balance for 2011/12 has been reported to be smaller than the estimated deficit of $149.9 million at the time of the 2012/13 Budget. A negative trade balance of $137.6 million is estimated for 2012/13, which is expected to grow in line with nominal GDP.

Chart 2.15 Balance of Trade 2006/07 to 2015/16, ($'000)

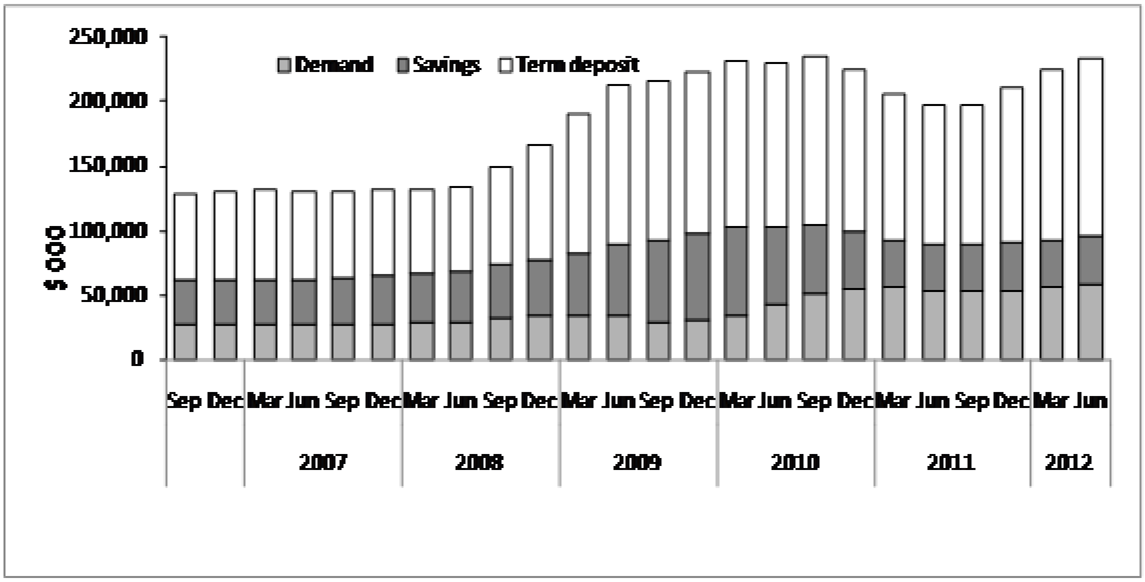
2.9 BANKING AND FINANCE

Net foreign assets (NFA) in the Cook Islands banking sector continued to grow in 2011/12. NFA are gross foreign assets less foreign liabilities of Cook Islands financial institutions. In 2011/12, NFA increased by $77.2million

2.9.1 Deposits

Overall deposits at 30 June 2012 were $228.9 million (an increase of 19.3 per cent on the deposit base of $192.0 million at 30 June 2011) demonstrating strong saving patterns during 2011/12. Term deposits account for 56.7 per cent of the total deposit base, with demand deposits and savings accounting for 25.9 per cent and 17.4 per cent respectively.

Chart 2.16 Deposits 2006 to 2012 four quarter moving average, ($'000)



Moving forward, the growth in deposits is expected to grow in line with nominal GDP.

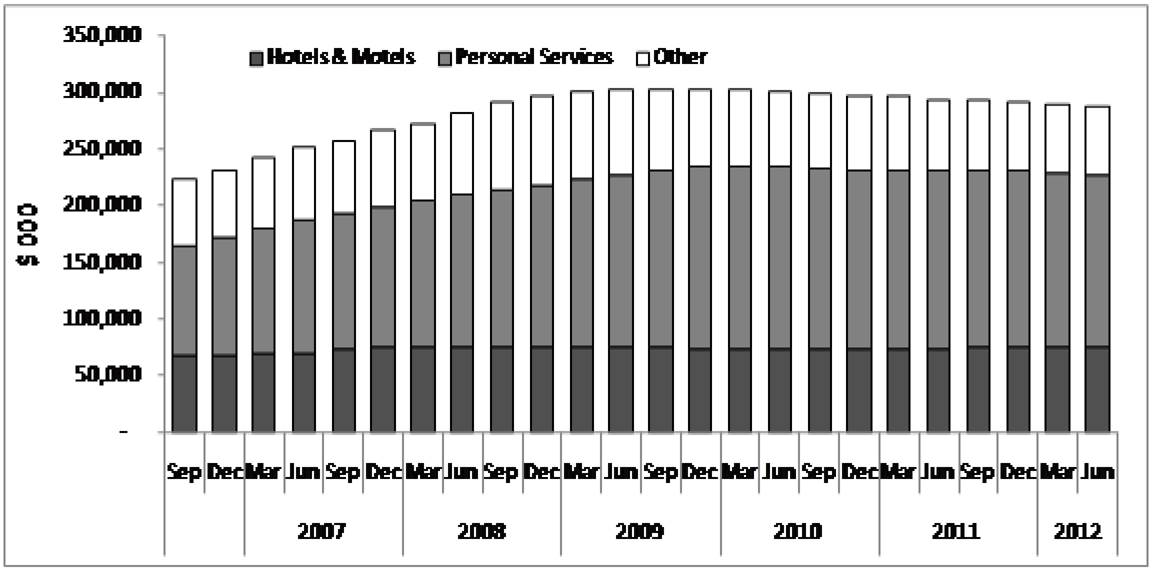
2.9.2 Loans

The overall value of loans remained constant during 2011/12, reflective of no immediate easing in the credit provided by banks, and possibly a continued effort towards debt reduction by households and businesses.

No significant change in total loans has been recorded in the past three years with average loans totalling approximately $290 million. In the June quarter 2012 total loans owing in the local economy were $280.4 million which is slightly below the three year average.

Going forward, it is not expected that there be any significant change over the short to medium term. Given the trends in loans, growth in lending is expected to be slower than nominal GDP, as current global economic climate continue to negatively impact the confidence levels within the economy .

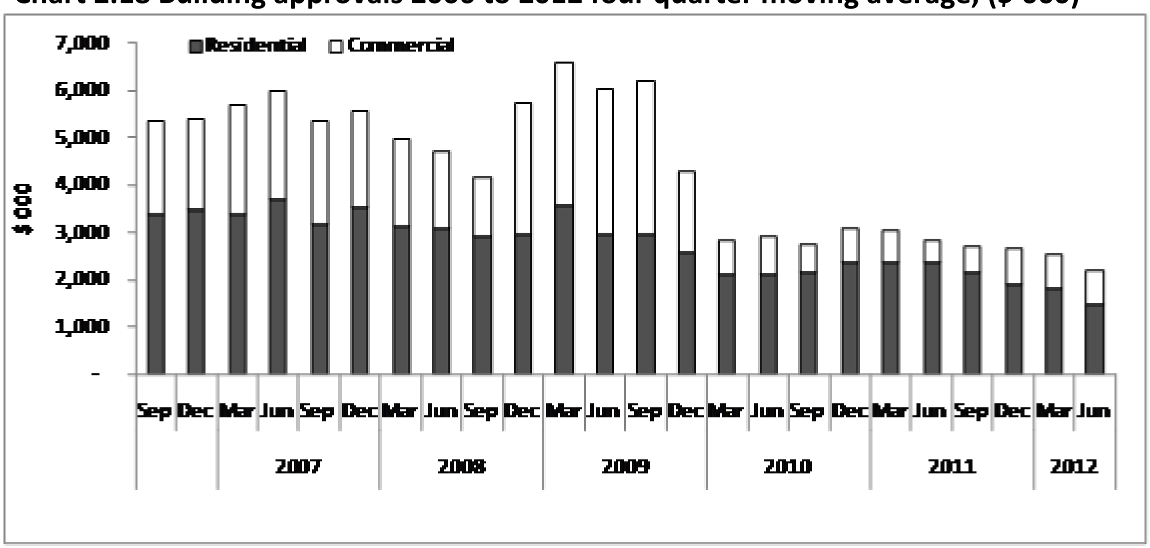
Chart 2.17 Loans 2006 to 2012 four quarter moving average, ($'000)



2.9.3 Housing and Construction

The construction industry continues to indicate a subdued level of investor confidence within the sector, reflective of lower levels of new development. New housing approvals were the lowest in recent years in the June quarter 2012 with total investments being $0.7million. This level of investment in the housing construction industry positively correlates with the debt (loans) levels in the economy.

Chart 2.18 Building approvals 2006 to 2012 four quarter moving average, ($'000)



2.9.4 Financial Services Industry

The financial services industry is the second largest contributor to the Cook Islands economy growth. Trusts continue to be the most popular entity registered by foreign clients, with clients from the United States making up the largest market share. Efforts to diversify client markets continue with a focus on Asia, in particular China, but trustee companies have been slow to shift their marketing resources to this market as demand from the US continues to be high. A number of new products will be supplied in the Cook Islands to increase growth in this sector, they include:

- The recent creation of Foundations are an alternative entity to trusts, and more easily understood in Civil Law countries. The availability of this entity in the Cook Islands will allow growth from new client markets while preserving the trust business from existing sources.
- The Captive Insurance Act is expected to be enacted in December 2012 to create a new product attractive to corporations in New Zealand, Australia, Asia and other private clients worldwide.

Additionally, during 2013, the Government will aim to revamp the International Companies Act and introduce a Mutual Funds Act and Segregated Companies Act.

The regulatory arm of the industry estimates 2 per cent annual growth in the number of new international companies, limited liability companies, and trusts registrations, which are reflected in the level of fees to be collected in 2012/13 onwards. Fees are generally denominated in USD, which means that income is subject to exchange rate fluctuations.

3 FISCAL UPDATE

3.1 OVERVIEW

The purpose of the Fiscal Update is to provide necessary revisions to the fiscal forecasts that underpinned the 2012/13 Budget published in June 2012. In updating the fiscal forecasts the following factors have been considered:

- updated economic forecasts which have impact on forecasted government revenues;
- year to date assessment of revenues and expenditure patterns against original Budget Estimates 2012/13 and;
- re-evaluation of debt stocks based on updated exchange rate movements and new loans.

Updated economic forecasts which have a direct impact on forecasted government revenues

Projected revenue has been revised up compared to 2012/13 Budget due to more favourable forecasts in nominal GDP growth, resulting from greater tourism growth. Tourism is expected to continue to grow, driven by growth in the New Zealand market and the Australian market. Nominal GDP is forecast to grow by 7.9 per cent in 2012/13, and 4.4 per cent in 2013/14. Growth is then expected to revert back to a long run trend of around 3.5 per cent per annum from 2014/15.

Year to Date Assessment of revenues and expenditure patterns

At the time of the 2012/13 Budget (June 2012), the net operating surplus for 2012/13 was estimated to be $0.1 million. After reviewing six months of actual revenue receipts, revenue has been revised upwards by $0.5 million in 2012/13 primarily reflecting receipts from value added tax collected to date, and smaller movements in other revenues.

The Pacific Island Leaders Forum in August 2012 attracted more visitors contributing to higher overall economic activity. The growth in revenue is predominantly driven by higher than forecast economic growth from the tourism industry with visitor arrivals increasing from the time of the budget. Reflecting a 9.8 per cent in growth in 2012/13 and a more moderate growth of 3.9 per cent over 2013/14. It is anticipated that 6000 additional visitors will enter the Cook Islands in 2012/13 and estimates will be monitored and updated in the next budget.

Overall operating expenditure is expected to reduce by $0.3 million. In particular $0.6 million savings been identified in the Airline Subsidy for the current financial year whilst also taking into account $0.07 million being committed to topping up the Contingency Fund to cover emergencies and unexpected crown obligations in the near future.

The growth in revenue has followed through into 2013/14 and outer years and contributes to a positive net effect on the underlying operating balance of $1 million for 2012/13. These items are discussed in more detail in sections below.

This presents a positive outlook for the Government's fiscal stance over the coming months and is reflected in higher forecasted growth in revenues going forward. There are fluctuations within other revenues however overall other revenues are generally on track and will be reviewed in detail before the start of the 2013/14 budget process.

Re-evaluation of debt stocks based on updated exchange rate movements

As published in the September Quarterly Report, the New Zealand dollar continues to appreciate against Special Drawing Rights (SDR) rates (34 per cent from December2011 to September 2012). This is a significant movement given that 37 per cent of Crown Debt is denominated in SDR which also explains the unrealised foreign exchange gain for the period.

Total Crown debt is mainly denominated in SDR (37 per cent) followed by the United States dollar (USD) (34 per cent).

Total Crown debt denominated in accounts for 9 per cent of total debt. This has been achieved through negotiations with the ADB to convert new loans into the local currency to minimise exposure to global exchange rate movements. Other loans which are currently in the process of converting to NZD includes the Ports Authority loan currently valued at USD $8.6 million.

The Government continues to adopt a prudent fiscal stance due to the vulnerability which would arise in the event that one or both of our major trading partners (New Zealand and Australia) are impacted by a continued global instability.

To control the impacts of fiscal policy 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:

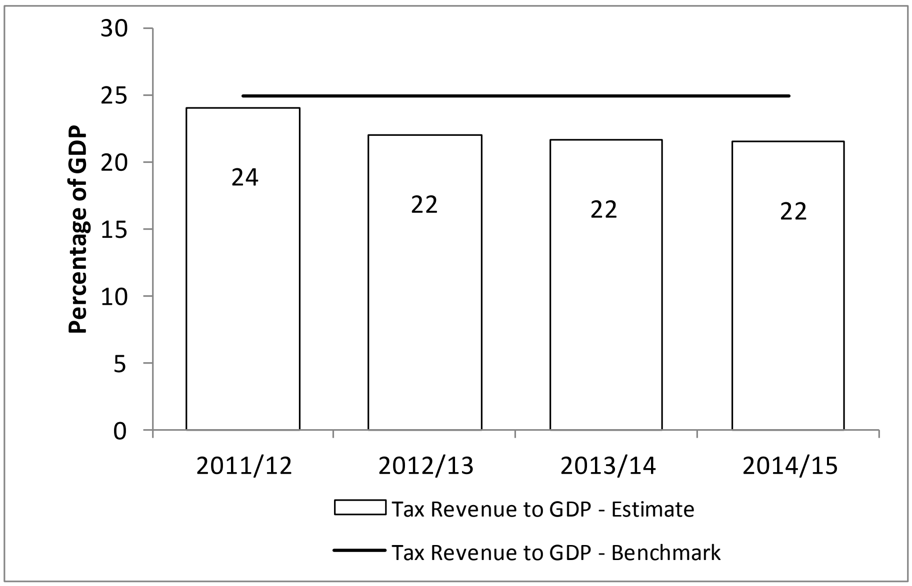
- ensuring that unless Crown debt is at prudent levels, operating expenses will be less than operating revenues (Government will run an operating surplus);
- achieving and maintaining levels of Crown net worth that provide a buffer against factors which may impact adversely on net worth in the future;
- managing prudently 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 quantifies these principles through the Fiscal Responsibility Ratios (FRR) as reported in the 2012/13 Budget. The performance of each of the FRR's are discussed below, discussing the benchmarks of these ratios and performance in 2012/13 and expectations for 2013/14 based on revised forecasts.

Tax Revenue to GDP

This ratio sets the revenue boundary and ensures government limits the diversion of resources away from the private sector. The benchmark government agrees to work within is maintaining collections to within 25 per cent of GDP. The expected performance against this benchmark is illustrated in Chart 3.1.1 below. This indicates that based on current estimates, Government has maintained its tax regime within appropriate limits and this is expected to continue over the medium term.

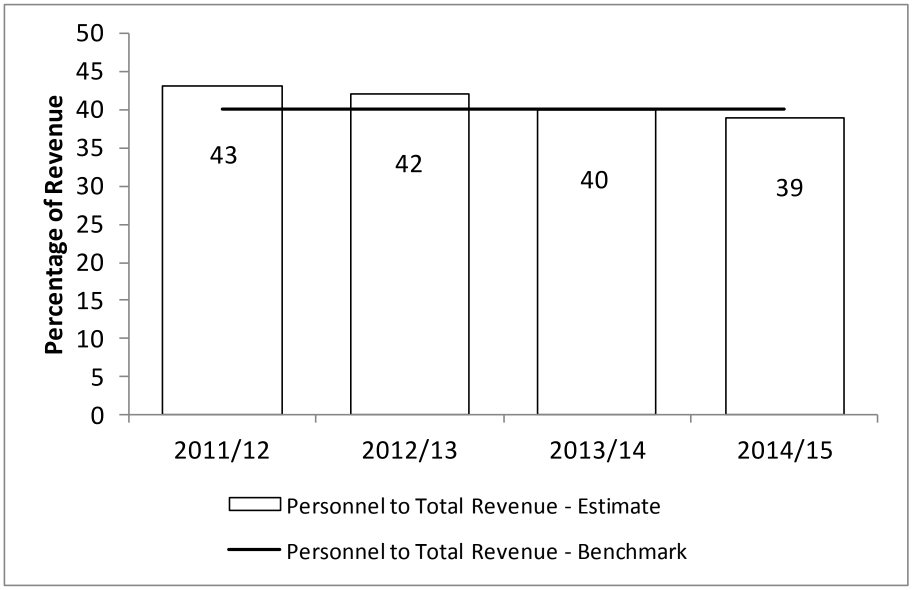
Chart 3.1.1
Tax Revenue to GDP 2011/12 to 2014/15 Personnel to GDP



Personnel Expenditure to Revenue

This ratio is aimed at controlling the expansion in the size of the public service as the largest expenditure item of Government. The benchmark government agrees to work within is maintaining expenditure on personnel within 40 per cent of total revenues. As illustrated in Chart 3.1.2 in 2011/12 government is expected to bring the overall ratio down to 40 per cent in 2013/14 over the medium term it is expected to come within the benchmark on the basis that the economy and revenue continues to expand as forecasted.

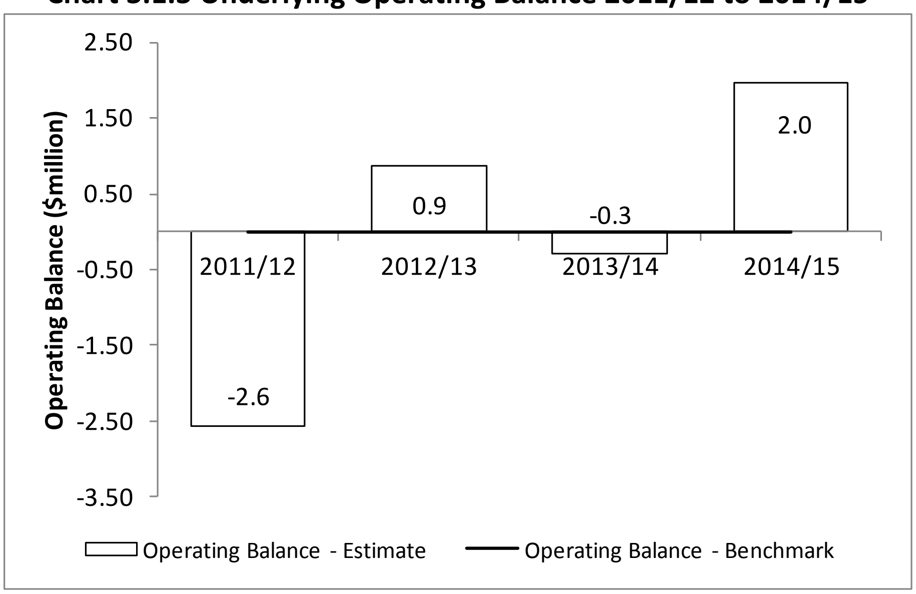
Chart 3.1.2 Personnel Expenditure to Revenue 2011/12 to 2014/15



Underlying Net Operating Balance

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. Government has set a benchmark of running a operating surplus in each Budget. As illustrated below, Government is estimated to maintain within this benchmark over the short and medium term.

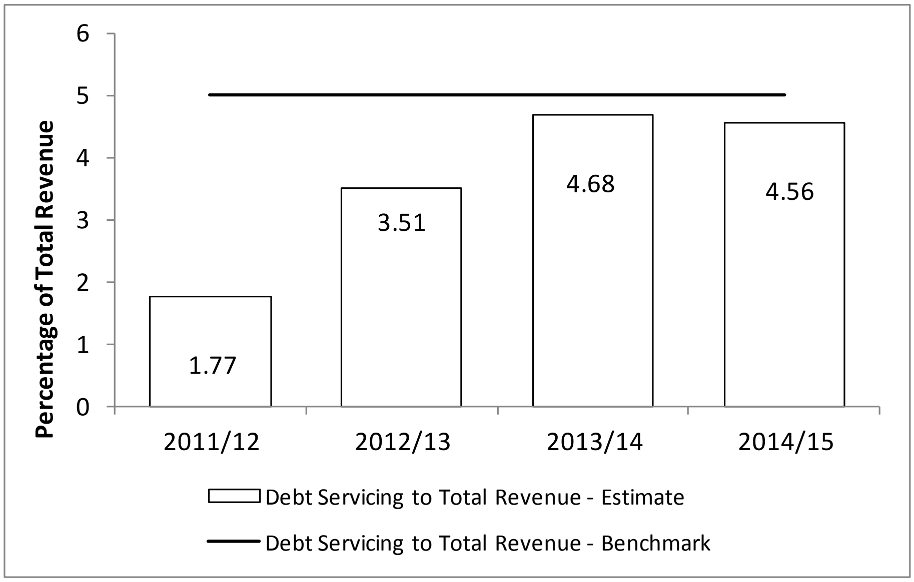
Chart 3.1.3 Underlying Operating Balance 2011/12 to 2014/15



Net 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, principle, and is now net of drawdown's of loan reserves to more accurately reflect the ability of Government to service its debt obligations. The benchmark set is to maintain within five per cent of revenue. With this amendment to the ratio the level of debt servicing against benchmarks within the short to medium term is maintained within the benchmark as shown in Chart 3.1.4.

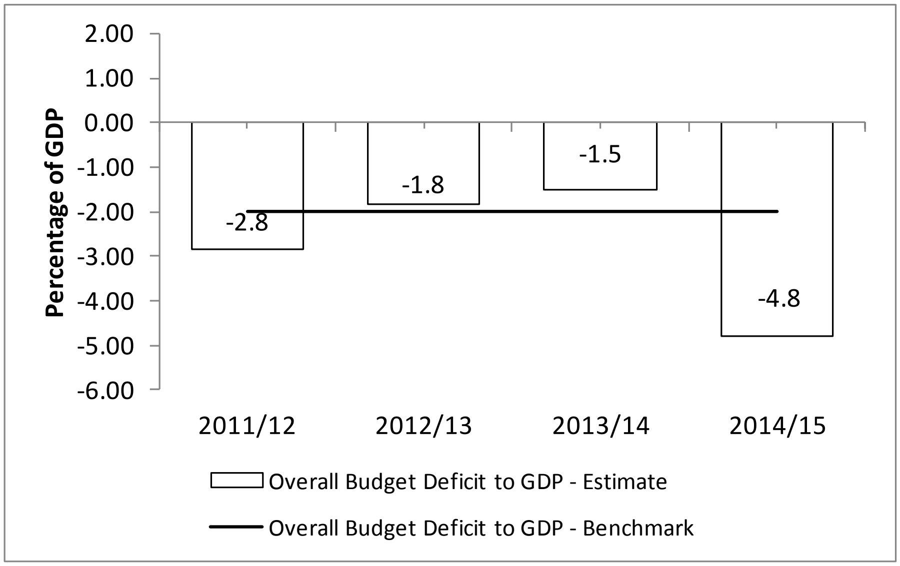
Chart 3.1.4 Debt Servicing to Revenue 2011/12 to 2014/15



Budget Overall Balance to GDP

Budget Overall Deficit is the operating balance less non-operating expenditure (purchase of assets and repayment of liabilities). Where the budget overall balance is in deficit, it must be serviced through lending or payment through reserve funds. The benchmark is set to be maintained within -/+2 per cent 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. Chart 3.1.5 illustrates that Government expects to maintain within the benchmark limits over the short to medium term.

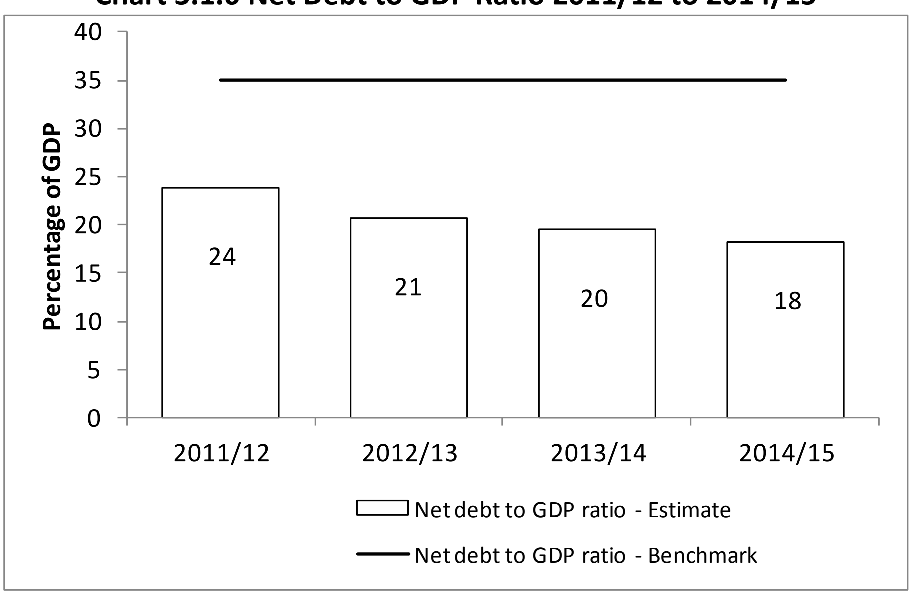
Chart 3.1.5 Budget Overall Balance to GDP 2011/12 to 2014/15



Net Debt to GDP

Net debt 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 benchmark agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of $132 million estimated in 2011/12. Chart 3.1.6 illustrates that Government is well within the benchmark over the short and medium term. The significant reduction since the time of the 2011/12 Budget is due to a revaluation of debt based on favourable exchange movements.

Chart 3.1.6 Net Debt to GDP Ratio 2011/12 to 2014/15



Summary of Medium Term Fiscal Policy

The Government will undertake the following fiscal strategies to ensure the FRR are achieved whilst providing some room for further policy initiatives.

- Running a modest budget surplus which will be passed through to cash reserves, while still providing for additional Budget spending in the short to medium term. New budget initiatives will be supplemented by identifying initiatives that can be funded through efficiencies gained in other areas of government operations.
- Actively engage with donor partners to align development assistance to this policy statement and our longer term priorities outlined in our National Sustainable Development Plan 2011-2015; and
- Continue to put a portion of total tax receipts into the reserve trust fund building a buffer to protect the net worth of the Crown.

Table 3.2 Fiscal Indicators Update

	FY11/12 Budget	FY12/13 Estimate	FY13/14 Proj	FY14/15 Proj
Statement of Financial Performance				
Taxation Underlying Revenue ($m)	88.9	92.0	94.4	97.1
Social Contributions ($m)	0.1	0.1	0.1	0.1
Other Underlying Revenue ($m)	19.8	19.0	20.8	21.3
Total Operating Underlying Revenue ($m)	**108.7**	**111.1**	**115.3**	**118.5**
Total Underlying Underlying Revenue Percentage of GDP	29.4	26.6	26.4	26.2
Tax Underlying Revenue Percentage of GDP ($m)	24.0	22.0	21.6	21.5
Personnel ($m)	**46.9**	**46.7**	**46.1**	**46.1**
Percentage of Total Underlying Revenue	43.2	42.0	39.9	38.9
Provision for New Policy ($m)	**-**	**-**	**-**	**0.6**
Total Operating Underlying Expenditure ($m)	**111.3**	**113.3**	**115.6**	**116.5**
Percentage of GDP	30.1	27.1	26.5	25.8
Percentage of Operating Underlying Revenue	102.4	102.0	100.2	98.3
Reappropriation of Previous Years Funds for Capital ($m)	-	3.1	-	-
Underlying Operating Balance ($m)	**(2.6)**	**0.9**	**(0.3)**	**2.0**
Percentage of GDP	(0.7)	0.2	(0.1)	0.4
Non Operating Balance ($m)	(8.0)	(8.5)	(6.2)	(23.6)
Underlying Overall Surplus/(Deficit) ($m)	**(10.5)**	**(7.7)**	**(6.5)**	**(21.6)**
Percentage of GDP	2.8	1.8	1.5	4.8
Statement of Financial Position ($m)				
Assets ($m)	374.1	380.4	388.7	420.7
Liabilities ($m)	90.9	107.9	113.1	141.4
Crown Balance ($m)	283.1	272.5	275.6	279.3
Percentage of GDP	76.6	65.2	63.2	61.8
Statement of Borrowings ($m)				
Gross Debt end of FY ($m)	107.3	104.6	102.0	98.3
Percentage of GDP	29	25	23	22
Net Crown Debt, end of FY ($m)	88.3	86.6	85.2	82.5
Percentage of GDP	23.9	20.7	19.5	18.3
Loan Repayment Reserves Held ($m)	19.1	18.0	16.9	15.8
Development Partner Support ($m)				
Grants ($m)	44.9	47.7	43.9	26.3
Percentage of GDP	12.2	11.4	10.1	5.8
Net Debt Servicing1 ($m)	1.9	3.9	5.4	5.4
Percentage of Total Underlying Revenue	1.8	3.5	4.7	4.6
Memo item: Nominal GDP ($m)	369.8	418.1	436.3	451.6

[1] *Note change in formula since the Budget Estimates 2011/12. Net Debt Servicing is now net of draw downs of loan reserves used to service SOE debt payments.*

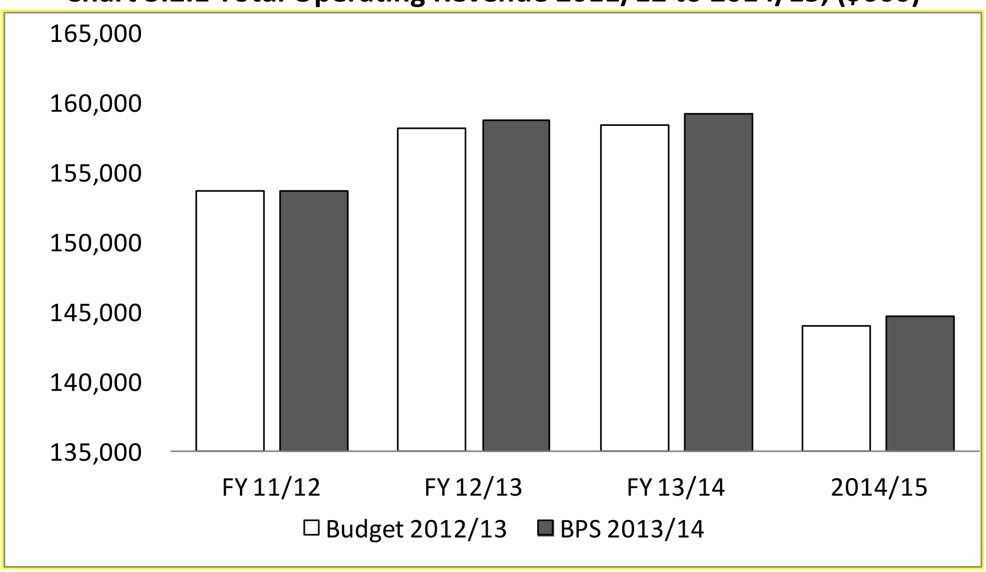
3.2 GOVERNMENT FINANCIAL STATISTICS (GFS) OPERATING STATEMENT

The 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.

3.2.1 GFS Operating Revenue

Operating revenues are made up of taxation receipts (58 per cent), Grants/ODA (30 per cent) and other revenues, which include ministry trading revenues, interest and dividend receipts (12 per cent). These revenue streams are used to finance the ongoing operational expenditure of government, with surpluses used for investing activities (where apparent).

Chart 3.2.1 Total Operating Revenue 2011/12 to 2014/15, ($000)



At the time of the 2013/13 Budget published in June, operating revenues in 2012/13 were estimated to total $131.4 million in June 2012, of which $92.9 million was expected to be collected in taxes over the financial year.

Since the 2012/13 Budget movements in taxation revenues have been realised and resulted in an upward revision of operating revenues by $0.5 million to $158.7 million, due to higher than anticipated visitor numbers.

Movement in total taxation revenues indicates a $0.1 million increase since budget 2012/13, reflected by an increase of $0.7 million in VAT and reduction of $0.6 million in company tax. Movements in other revenues including grants also indicates a total increase of $0.4 million, reflected by a one-off increase in dividend and minor positive adjustments of $0.2 million to:

- Motor vehicles
- Upper airspace
- Drivers license
- International Shipping License

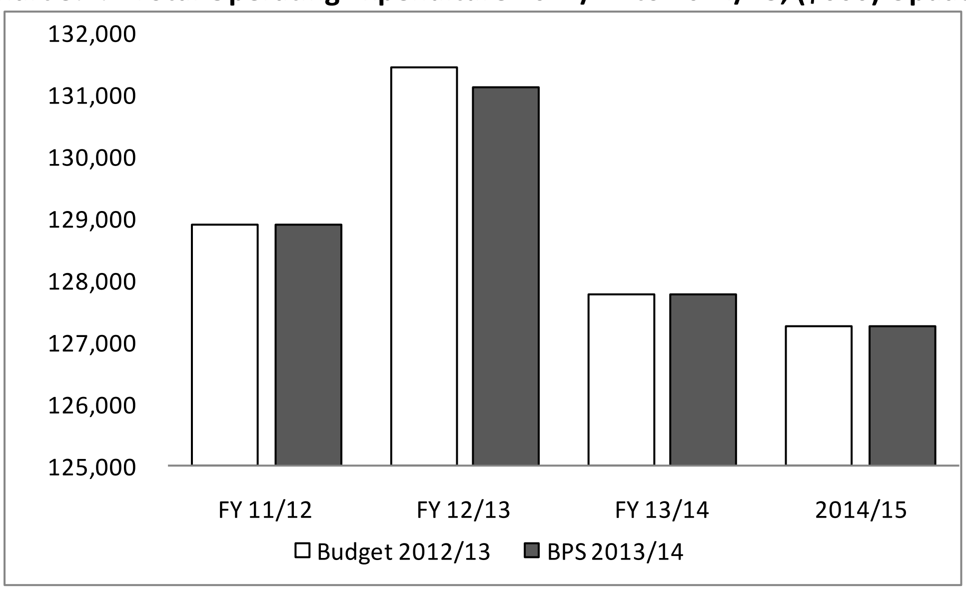
As well as an increase in Grants (ODA) $0.2 million provided towards the Pacific Leaders Forum.

The increases in taxation revenues as well as other revenues are predominantly impacted by the increase in forecasted visitor numbers.

3.2.2 GFS Operating Expenditure

Operating expenditure is made up of Compensation of Employees (36 per cent), Use of Goods and services (33 per cent), Subsidies (12 per cent), Social Benefits (11 per cent), and Depreciation (5 per cent) and other expenses, which include interest expense (3 per cent).

Chart 3.2.2 Total Operating Expenditure 2011/12 to 2014/15, ($000) Update



Operating expenditures at the time of the 2013/12 Budget were estimated at $131.4 million in June 2012, these have been revised downwards slightly to reflect a reduction of $0.6 million in the underwrite of the two long haul access services from Rarotonga to Sydney and Los Angeles. This is offset by a slight increase to the POBOC for the Pacific Island Leader’s forum due to increased Official Donor Assistance with this event and a moderate increase to the Crown’s Contingency Fund.

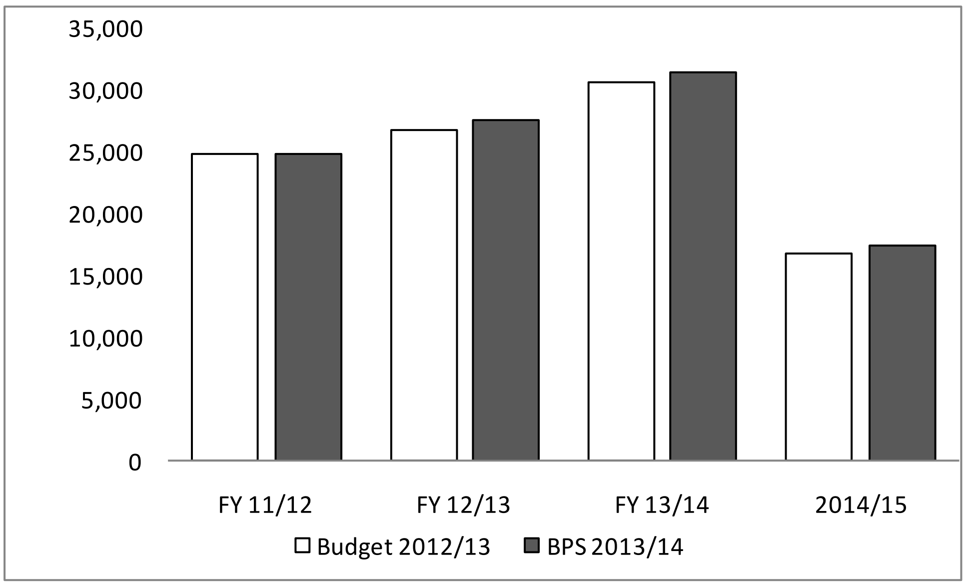
Actual year to date expenditure has been maintained within 2012/13 Budget Estimates, the movements in operating expenditure represents an overall saving of 2.4 per cent from time of the 2012/13 budget. Expenditure is expected to remain within budget limitations by year end based on current commitments.

3.2.3 GFS Net Operating Balance

The GFS operating balance is the balance of operating revenues minus operating expenditure as prescribed by the MFEM Act. Given the analysis provided in sections 3.2.1 and 3.2.2, the net underlying operating balance in 2012/13 has been revised to a surplus of $1 million.

Going forward, the upward revision to nominal GDP growth (as discussed in section *2.1.1 Nominal GDP*) lifts the level of operating surplus to $1 million in 2012/13 , an operating deficit of -$0.3 million in 2013/14 and a $2 million surplus in 2014/15 respectively prior to the provisioning of funds for policy initiatives. Government therefore anticipates that the budget surpluses will come in as demonstrated in the below chart 3.2.3 Net Operating Surpluses 2011/12 to 2014/15.

Chart 3.2.3 Net Operating Balance 2011/12 to 2014/15, ($000) Update



Changes to the GFS operating balance and the underlying operating balance since the time of the 2012/13 Budget are shown below in Table 3.2.1, Table 3.2.2 and Table 3.2.3 respectively.

Table 3.2.1 Changes to GFS Operating Balanced Forecasts since 2012/13 Budget Estimates ($000) update

	2012/13	2013/14	2014/15
Net Operating Balance - 2012/13 Budget	26,762	30,533	16,664
Change to Operating Revenues	553	908	826
Change to Operating Expenses	-319	0	0
Net Operating Balance as at 2012/13 BPS	27,634	31,441	17,490

Note: The table above summarises total movements in operating revenues and operating expenditure since the time of the Budget 2012/13 in the GFS format published in June.

Table 3.2.2 Reconciliation of GFS Operating Balance and the Underlying Net Operation Balance 2011/12 to 2014/15 ($000)

Statement of Government Operations	2011/12 Supp Budget	2012/13 Budget Estimates	2013/14 Forecasts	2014/15 Forecasts
NET GFS OPERATING BALANCE	**24,774**	**27,634**	**31,441**	**17,490**
Remove ODA Revenue	44,932	47,707	43,879	26,251
Include CISNOC repayment olympic games	0	93	0	0
Underlying Revenue	**108,749**	**111,153**	**115,349**	**118,488**
Remove ODA Recurrent Expenditure	17,591	17,732	12,155	10,736
Remove CISNOC repayment olympic games	0	-93	0	0
Underlying Expenditure	**111,316**	**113,308**	**115,632**	**116,513**
Underlying Budget Balance	-2,567	-2,155	-283	1,975
Re-appropriated Capex Expenditure from previous years	0	3,125	0	0
FINAL UNDERLYING NET OPERATING BUDGET BALANCE	**-2,567**	**970**	**-283**	**1,975**

The above table provides an updated reconciliation on the net operating balance between the GFS framework standard and the previous budget framework format, recognising the two different budget measures.

Table 3.2.3 Reporting of the Underlying Net Operation Balance 2011/12 to 2014/15 ($000)

Statement of Government Operations	2011/12	2012/13	2013/14	2014/15
Net Underlying Operating balance Budget 2012/13	**-2,567**	**98**	**-1,191**	**1,149**
Revenue				
Parameter Changes		**344**	***908***	***826***
Decisions		**209**	**0**	**0**
ODA - Pacific Leaders Forum		209	0	0
Total Revenue Changes		**553**	**908**	**826**
Expenditure				
Parameter Changes		**-600**	**0**	**0**
Air New Zealand - Underwrite subsidy		-600	0	0
Decisions		**281**	**0**	**0**
Contingency - State Funeral Cost		72	0	0
POBOC - Pacific Leaders Forum		209	0	0
Total Expenditure Changes		**-319**	**0**	**0**
FINAL UNDERLYING NET OPERATING BUDGET BALANCE	**-2,567**	**970**	**-283**	**1,975**

The 2012/13 underlying operating balance takes into account the removal of ODA revenue, and expenditure.

The underlying operating balance has increased from $0.1 million to $1 million for 2012/13. This has been achieved through a reduction in the Air New Zealand – underwrite subsidy of $0.6 million, an increase of $0.1 million in taxation revenue and $0.2 million in other revenues, offset by the replenishment of the contingency fund. The increase in revenue for the outer years is predominately due to the improved economic circumstances.

It should be noted that the 2013/14 net underlying operating balance has improved from a deficit of $1 million to $0.3 million.

3.3 CROWN DEBT AND NET WORTH

3.3.1 Gross Debt owed by the Crown

Total gross debt borrowing at the end of the September 2012 quarter was $77.1 million, a reduction of $16.6 million from the June 2012 estimates. The cause of this reduction is summarised below in table 3.3.1;

Table 3.3.1 – Reconciliation on 2012/13 Loan Movement

Movement Reconciliation	$ million	$ million
Gross debt as at 30/06/2012		93.6
Movement during the period		
Principle repayment	-0.4	
Timing in loan drawdown	-7.3	
Unrealised exchange (gain)/loss	-8.9	
Total movement during the period		-16.6
Gross debt as at 30/09/2012		77.1

The timing movement of $7.3 million relates to the second tranche of the Asian Development Bank (ADB) Economic Recovery Support Programme (ERSP) factored into the debt profile at budget time. At the time of this publication, this loan has yet to be drawn down but is anticipated to be utilized towards the second half of this fiscal year 2012/13.

The exchange rate used for this write up reflects the monthly average for the period of September 2012. Past changes in major exchange rates against the New Zealand dollar (NZD) are reflected in Chart 3.3.1.

Chart 3.3.1 - Changes in Major Exchange Rates

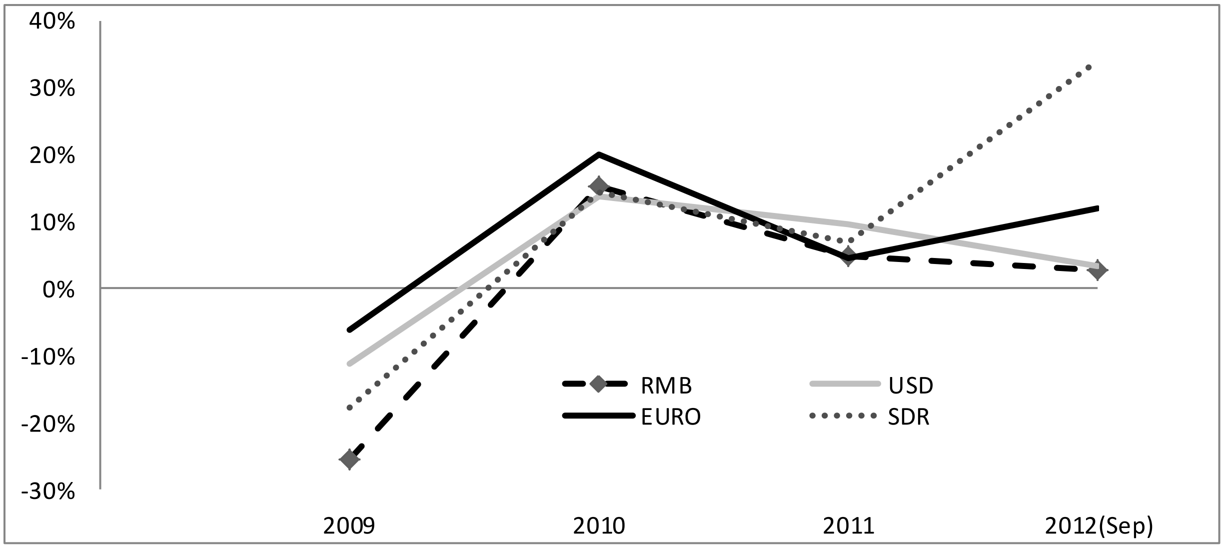


Chart 3.3.1 illustrated the steady appreciation of the New Zealand dollar from 2009 to 2012.

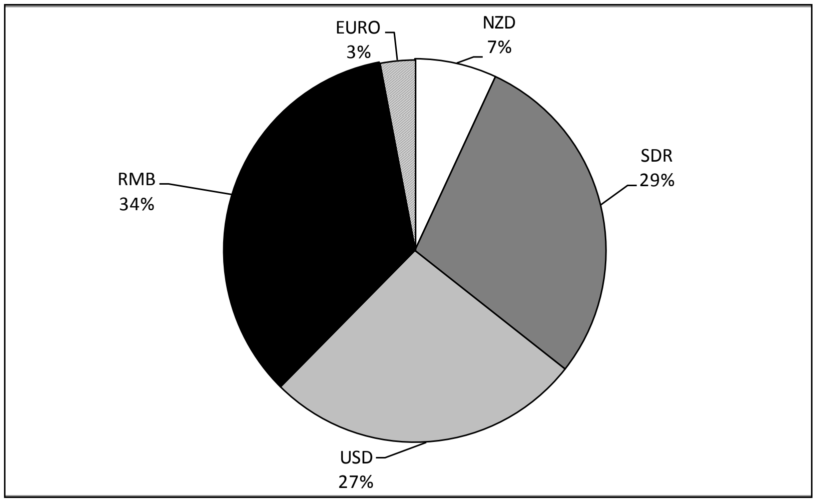
The assumption on the future value of the New Zealand dollar assumes that the trend movement as outlined in the above chart will remain constant into the outer years.

Table 3.3.2 – Average Exchange Rates Used

Foreign Exchange Currency	30 Sep 2012 Average	31 Dec 2011 Average	Changes
EUR	0.6357	0.5685	12per cent
USD	0.8174	0.7912	3per cent
CNY	5.1693	5.0285	3per cent
XDR	0.6502	0.4855	34per cent

As at the September quarter, the New Zealand dollar appreciated against the Special Drawing Right (SDR) rates by 34 per cent from December 2011 to September 2012. This is a significant movement given that 37 per cent of Crown Debt is denominated in SDR which also explains the unrealised foreign exchange gain for the period.

Chart 3.3.2 – Composition of Crown Debt as at 30 September 2012 by Currency



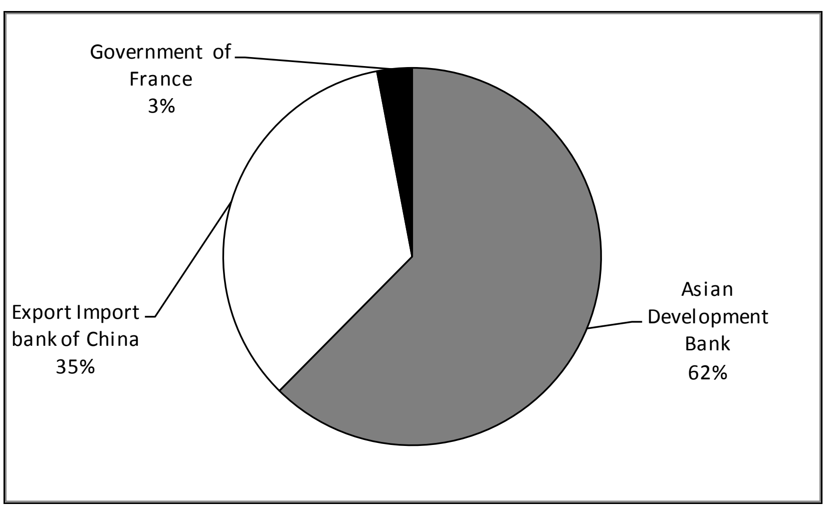
Total Crown debt as reported is mainly denominated in SDR (37 per cent) followed by the United States dollar (USD) at 34 per cent.

The chart also shows that 9 per cent of total debt is denominated in New Zealand dollars, this has been achieved through negotiations with the ADB to convert new loans into the local currency to minimise exposure to global exchange rate movement. Other loans which are currently in the process of converting to NZD includes the Ports Authority loan of USD $8.6 million.

Gross Debt by Lenders

The estimated gross debt by lenders owed to the Crown as at 30 September 2012 is outlined in Chart 3.3.3.

Chart 3.3.3 - Gross Debt Estimates by Lenders as at 30 September 2012



The share of gross debt from the Export Import bank of China has increase by 19 per cent from the time of the 2012/13 budget, due to the Government committing the Crown to a new borrowing from the People's Republic of China of $22.8 million (Yuan $118.0 million) to upgrade the Rarotonga water ring main. This loan is expected to be drawn down in the second half of this fiscal year.

The second tranche of the ADB Economic Recovery Support Programme loan (ERSP) will shortly be finalised. This loan will be utilised to finance major roadwork development project for the main road from Nikao to Avarua including the water supply upgrade project on Rarotonga (Project City). This loan is also estimated to be drawn down in the second half of this fiscal year.

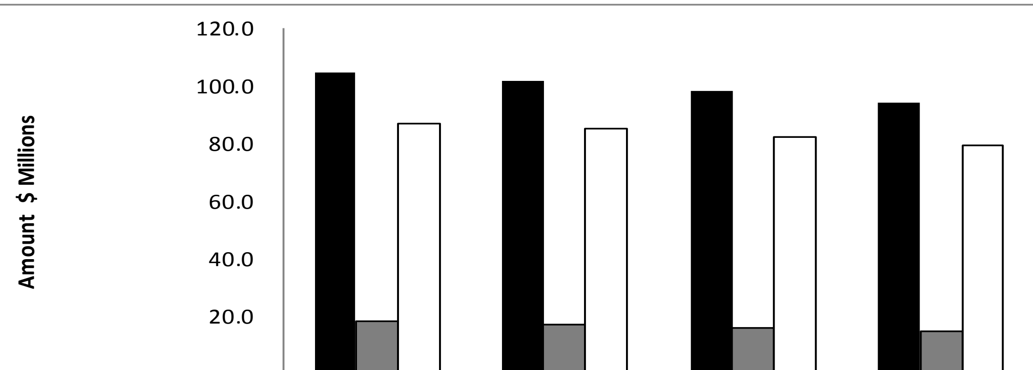
A further breakdown of each loan is provided in Table 3.3.3 outlining the original amount borrowed and the expected repayment date for each loan.

Crown Debt burden

The Crown debt burden forecast for the next four years is relatively stable and manageable given the current status of the New Zealand dollar against the major currencies used on the loan.

As it stands, total gross debt gradually reduces in the outer years. The same indication is reflected on the Loan Reserve fund as it continues to reduce as the loans borrowed by the Crown on behalf of State Owned Enterprises (SOEs) are repaid.

Chart 3.3.4 - Cook Islands overall debt burden



	2012/13	2013/14	2014/15	2015/16
Gross Debt	104.6	102.0	98.3	94.1
Loan Reserve	18.0	16.9	15.8	14.6
Net Debt Outstanding	86.6	85.2	82.5	79.4

It should be noted from Table 3.3.2 below that the amount estimated to be covered by the loan reserve fund for 2012/13 fiscal year is $12.8 million. The loan reserve trust fund currently has an estimated balance of $17.8 million, resulting in a net balance of $5.0 million. At the time of the 2012/13 budget the net balance was $2.8 million, this favourable variance is the result of the appreciation in the NZD against major exchange rates described earlier. In the event that the NZD weakened against major exchange rates, this net balance will be used as a buffer to cover for movements in the outer years.

Table 3.3.3 - Status of Government loans as at 30 June 2013

Loans drawn down	Date loan taken	Original loan amount (000)	Current balance (000) (NZD)	Expected date of repayment	Amount covered by loan reserve
New Zealand Govt Super Fund	November, 1980	NZD 5,849	-	June, 2013	-
Restructured French Loans	January, 1999	EUR 5,413	3,122	September, 2018	3,122
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	13,379	August, 2028	-
ADB 461 (SF) Multi Project	November, 1980	SDR 1,000	610	August, 2020	-
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,067	1,785	August, 2027	1,785
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 939	1,030	December, 2031	1,030
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 291	354	June, 2032	354
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,836	2,298	August, 2034	-
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,538	1,901	September, 2035	1,901
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	4,198	September, 2036	-
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 475	703	January, 2038	-
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	2,029	June, 2033	-
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,105	June, 2045	-
ADB 2565 OCR Economic Recovery Support Program 1	January, 2010	USD 10,000	11,724	October, 2024	-
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	USD 8,630	10,558	November, 2033	-
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 8,346	6,958	November, 2040	-
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	USD 4,700	5,750	November, 2035	-
ADB 567 (SF) CIDB Project	July, 1982	SDR 1,500	536	April, 2022	536
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 336	377	August, 2034	-
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,541	4,117	August, 2030	4,117
Total loans drawn down			**74,534**		**12,846**
Loans yet to be drawn down					
ADB 2565 OCR Economic Recovery Support Program 2	December, 2012	NZD 7,250	7,250	December, 2028	-
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	22,827	December, 2032	-
Total loans yet to be drawn down			**30,077**		**-**

Chart 3.3.5 - Current Bilateral and Multilateral Estimate Loans Outstanding Next 10 Years

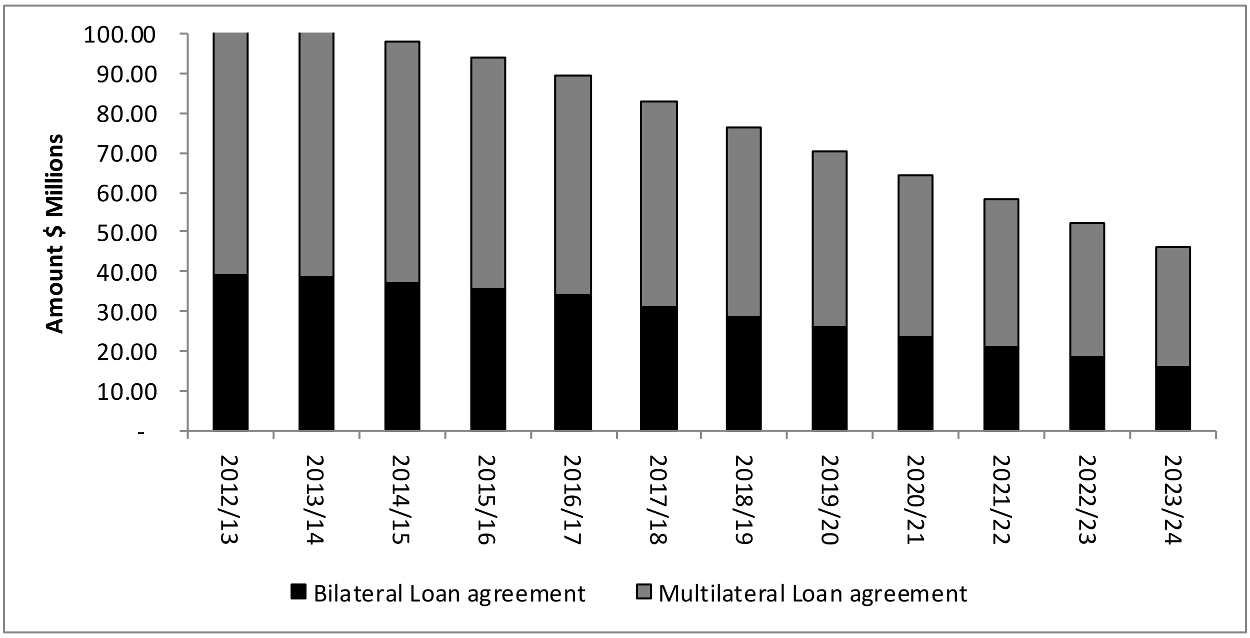


Chart 3.3.5 shows the bilateral and multilateral amount of borrowings the Crown has on its book for the next 10 years from 2012/13 to 2023/24. The bulk of the debts are committed from multilateral agreements with the ADB, 62 per cent compared to 80 per cent in the time of the 2012/13 budget. This shift is caused by Government taking up new borrowing from the People's Republic of China of $22.8 million, a bilateral partner.

The Crown debt burden forecast for the next 10 years is expected to again increase with the probability that further loan funds will be sought from the European Investment Bank (EIB) to finance public works associated with sanitation of around $10 million.

3.3.2 Crown Loan Reserves

The Crown Loan Reserve Trust Fund was established in 2001 to enable Government to access to concessional loans and provide these on to State Owned Enterprises (SOEs).

The payment terms with the external lenders which included a grace period of (normally five years) was not extended on to SOEs. SOEs have paid the full debt servicing cost from the initial drawdown of the loan.

In 2001 these funds were put aside into a debt reserve.

The overall objective of the trust fund is to build the total amount to a stage where it fully covers the outstanding amount owed to lenders from the SOE's.

As at the time of this publication, the objective was met with all SOE loans with Government being fully covered. These SOEs include the Bank of the Cook Islands, Te Aponga Uira, and Cook Islands Telecommunication.

The new loan approved for the Cook Islands Port Authority will be treated as a loan to Government from the ADB. The Cook Islands Port Authority is expected to repay and honour the same loan repayment schedule and terms agreed between the ADB and Government.

It is anticipated that the principle objective of the Loan Reserve trust fund will be extended beyond the SOE's to incorporate all Crown debt. The Government is currently investigating options to legislate the Loan Reserve Trust Fund and formalise the current debt management approach.

Table – 3.3.4 Debt reserve transactions

Debt Reserve Working	Transfer In	Transfer Out	Balance	SOEs Debt
Budgets 2005-2006			17,018	
2006-07 transfer to reserve	1,529	-	18,547	22,390
2007-08 transfer to reserve	1,287	-	19,834	23,497
2008-09 transfer to reserve	1,100	-	20,934	21,018
2009-10 transfer to reserve	1,100	-	22,034	18,465
2010-11 loan repayment	-	1,529	20,505	17,365
2011-12 loan repayment	-	1,429	19,076	16,177
2012-13 loan repayment	-	1,105	17,971	12,846
2013-14 loan repayment	-	1,105	16,866	11,741
2014-15 loan repayment	-	1,105	15,762	10,636
2015-16 loan repayment	-	1,127	14,634	9,509

3.3.3 Net Debt

Net debt is the difference between the gross debt and monies held in the Crown Loan Reserve. Net debt is estimated to be $86.6 million (22.3 per cent of GDP) as at 30 June 2013, the large decline since the 2011/12 budget is predominantly due to the favourable exchange rate change.

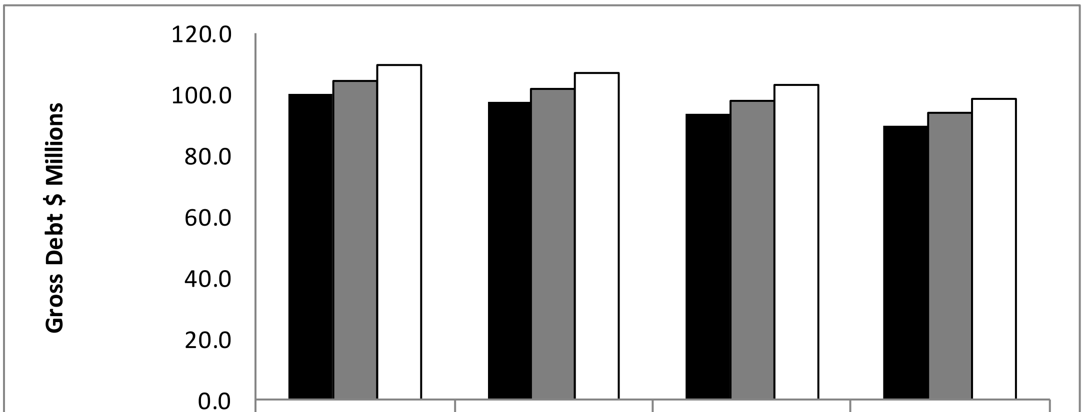
Table 3.3.5 – Estimated net debt to 2015/16

Current Statement	2012/13 Proj	2013/14 Proj	2014/15 Proj	2015/16 Proj
Statement of Borrowings	$m	$m	$m	$m
Net Crown Debt, End of FY	86.6	85.2	82.5	79.4
as percentage of GDP	20.7%	19.5%	18.3%	17.0%
Loan Repayment Reserves Held	18.0	16.9	15.8	14.6
Gross Debt Servicing	4.1	5.7	5.8	6.1
Net Debt Servicing	3.9	5.4	5.4	5.6
as percentage of Total Revenue	3.7%	4.9%	4.7%	4.9%

3.3.4 Crown Debt Sensitivity Analysis

The sensitivity analysis demonstrates the impact of a five per cent appreciation or depreciation in the New Zealand dollar is prepared to determine the impact on the gross borrowings and the debt servicing cost.

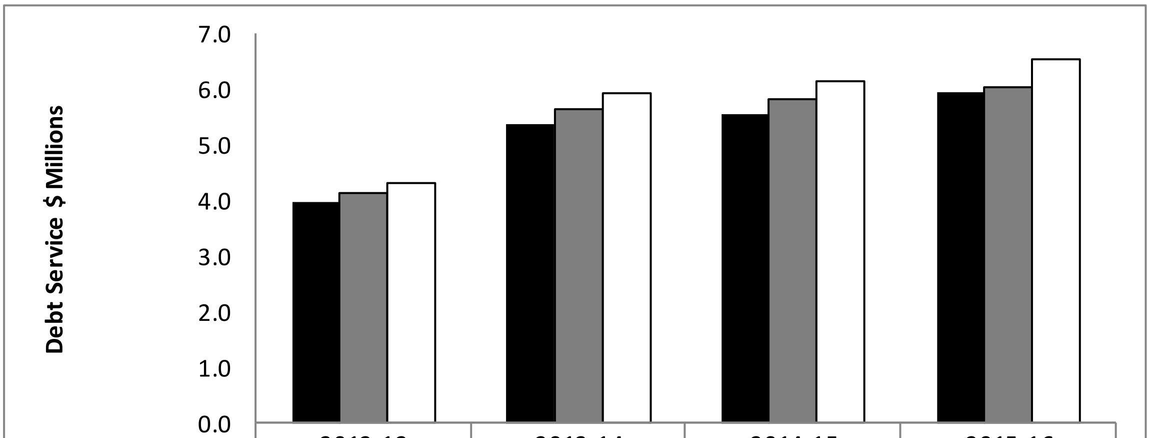
Chart 3.3.6 – Sensitivity of Total Crown Gross Debt



	2012-13	2013-14	2014-15	2015-16
Increase by 5%	100.0	97.5	93.9	89.9
Base Rate	104.6	102.0	98.3	94.1
Decrease by 5%	109.7	107.0	103.1	98.7

Any decision to commit to further bowings should be assessed carefully due to the sensitivity of the New Zealand dollar. A continued depreciation of the New Zealand dollar beyond the five per cent scale reduces the opportunity for further borrowings and increasing debt servicing costs.

Chart 3.3.7 - Sensitivity of Debts Servicing Costs



	2012-13	2013-14	2014-15	2015-16
Increase by 5%	4.0	5.4	5.6	6.0
Base Rate	4.1	5.7	5.8	6.1
Decrease by 5%	4.3	5.9	6.1	6.5

The impact of the five per cent increase or decrease on debt servicing cost is relatively consistent to the impact on gross debts.

3.3.5 Future Borrowings and Fiscal Responsibility Ratios relating to Debt

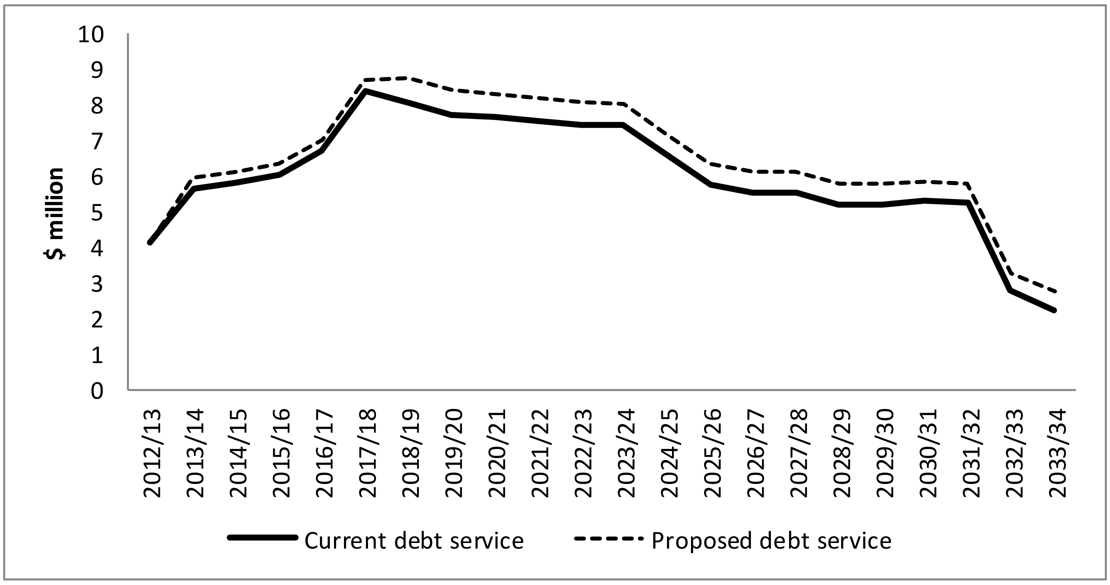
Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995/96. The fiscal responsibility ratios will prudently assist Government to manage the growth of its future borrowing plan.

The current net borrowing level is at 20.7 per cent and 19.5 per cent of GDP for 2012/13 and 2013/14 fiscal year respectively, which is within the fiscal responsibility ratio threshold of 35 per cent.

Government is anticipating taking on further borrowing from the European Investment Bank (EIB) to finance the improvement of waste and sanitation project. This is estimated at approximately $10 million dollars.

Charts 3.3.8 and 3.3.9 shows the current debt and debt service level with indicative shift to show the impact if Government is taking on the proposed loan from EIB. This loan has been forecasted on general terms of 25 years inclusive 5 years grace period at 3 per cent interest per annum.

Chart 3.3.8 Debt Service Cost Analysis for 20 Years Vision



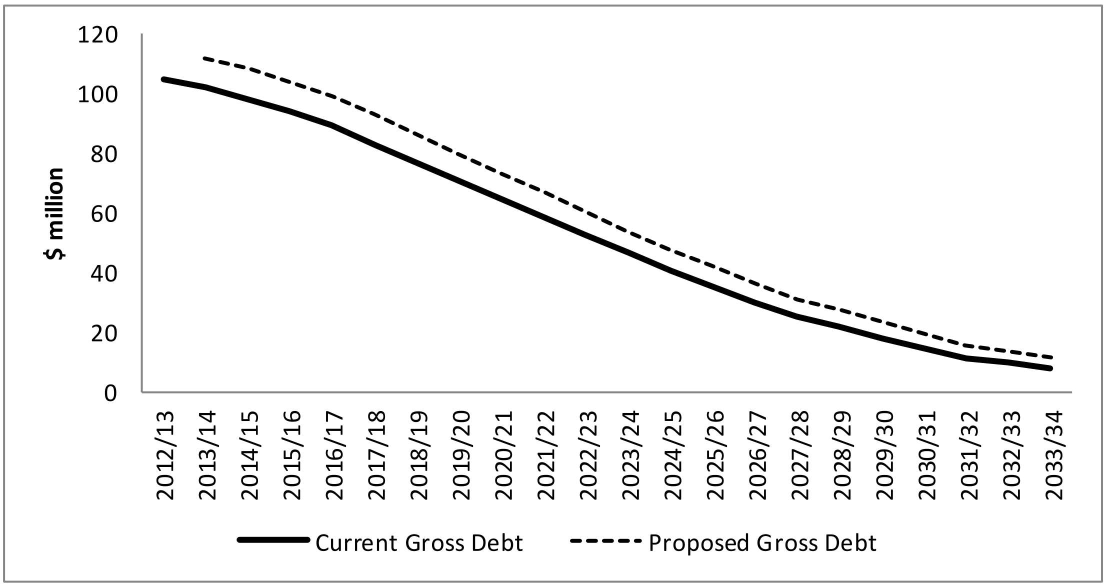
Debt Service to Total Revenue

This ratio controls the servicing of debt. 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. Debt servicing includes interest and principal payments.

The benchmark for debt servicing to the total revenue ratio is not to exceed 5 per cent of the Crown total revenue. This ratio is currently at 3.7 per cent at the time of this publication, although below the benchmark, it needs to be tracked closely when new loans are considered. Two measures are provided in this regard, they are the debt servicing costs of gross and net debt.

In the event Government decided to take on the new loan, the debt servicing cost will increase as shown in chart 3.3.9.

Chart 3.3.9 Total Gross Debt Analyses for 20 Years Vision



Debt Outstanding

Chart 3.3.9 forecasted the current level of gross debts outstanding the Crown has on its books. If the Crown decided to take on the new loan, the level of gross debts will shift upwards but remain manageable (21.8 per cent) within the carrying capacity of 35 per cent benchmark as the total gross debt outstanding reduces in the outer years. However net debt servicing as a percentage of total revenue will exceed the current benchmark of 5 per cent from 2013/14 fiscal year onward as shown by table 3.3.6 below.

Table 3.3.6 – Estimated net debt to 2015/16

Proposed future Statement	**2012/13 Proj**	**2013/14 Proj**	**2014/15 Proj**	**2015/16 Proj**
Statement of Borrowings	$m	$m	$m	$m
Net Crown Debt, End of FY	86.6	95.2	92.5	89.4
as percentage of GDP	20.7%	21.8%	20.5%	19.1%
Loan Repayment Reserves Held	18.0	16.9	15.8	14.6
Gross Debt Servicing	4.1	6.0	6.1	6.4
Net Debt Servicing	3.9	5.7	5.7	5.9
as percentage of Total Revenue	3.7%	5.4%	5.3%	5.5%

3.3.6 Other State Owned Enterprise Debt

The analysis provided in this chapter excludes debt held by the Airport Authority.

In its financial report for 2010/11 The Airport Authority reported that it had recently financed its loan with a new provider. The terms of the loan was for $8.1 million taken over a five year term with current interest rate at 5.54 per cent with a drawn amount of $7.3million.

The loan is repayable by monthly instalments of $0.07 million which is inclusive of interest and is based on a 15 year amortisation term with balloon payment at the end of term.

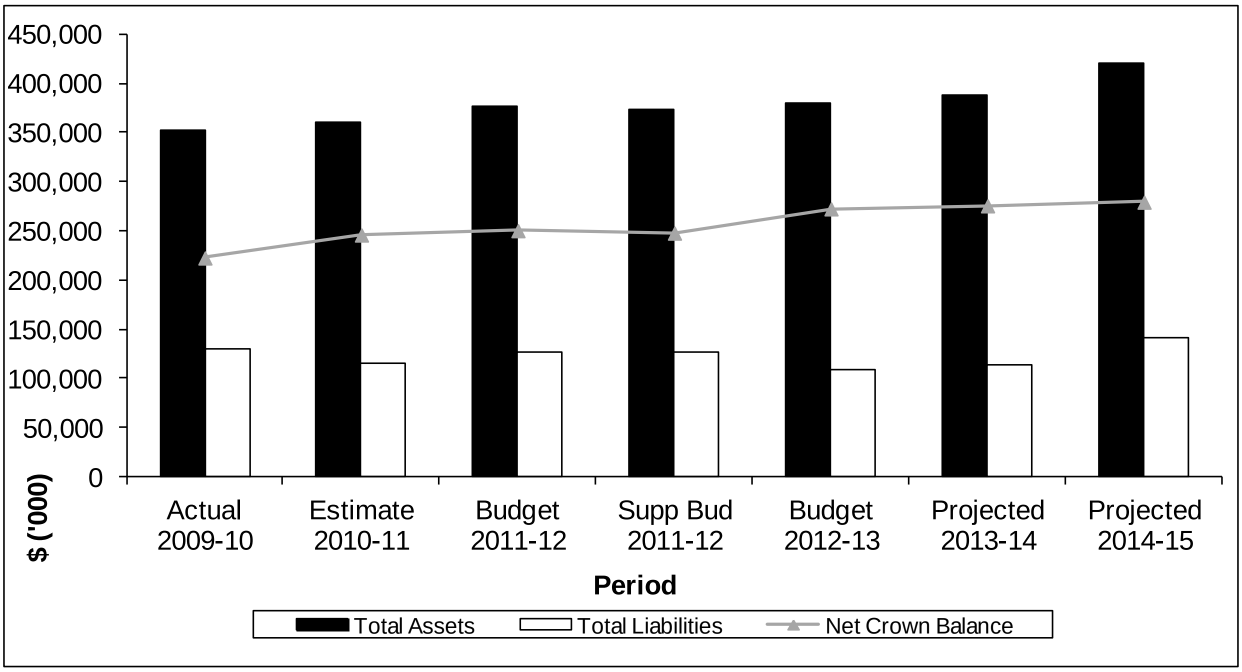
The loan is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The Covenant will be measured annually in arrears. The Airport Authority is considering additional borrowing of $23 million for further airport upgrades of Rarotonga International airport.

Te Aponga Uira have also indicated they are considering new borrowings to finance new investments in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply.

3.4 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 3.4.1 - Net Worth 2009/10 to 2014/15, ($000)



The estimated net worth of the Crown at June 2013 has increased from the 2012/13 Budget of $247.8 million to $272.5 million. This is a net movement of $24.7 million. Factors contributing to the difference are:

- decreases in the forecasted deficit by $0.016 million,
- decreases in borrowings of $16.6 million caused by decreases in principal repayment, timing of loan draw downs and unrealised foreign exchange gains (more details in the borrowings/debt section), and
- other minor adjustments and restatements.

The Crown's net worth will continue to increase in the outer years as long as there is an estimated operating surplus. Also a major contributor to the forecast upward trend is the injection to the Crown's asset from aid donor funding. It is estimated that an annual average of 10 percent of donor funding is capital asset.

3.5 OVERSEAS DEVELOPMENT ASSITANCE (ODA) FLOWS

Total ODA contribution from development partners was estimated at $47.5 million in the Budget 2012/13. Since July there have been some minor adjustments with development partners committing additional funds. These are;

- $786,535 (€500,000) Secretariat of the Pacific Community (SPC) and EU climate change adaptation funds;
- $193,295 (USD158,000) UNESCO funds for the Partnerships programme;
- $209,000 support for hosting the Pacific Forum leaders meeting;
- $142,000 Pacific Forum Secretariat Small Islands States development fund; and
- $209,000 was donated on behalf of the New Zealand Government to assist with the hosting of the Pacific Leaders Forum, specifically to cover cost to charter a plane to transport Leaders to Aitutaki for the Leaders meeting.

The three year harmonised Forward Aid Programme (FAP) with New Zealand and Australia has been finalised for the 2012/15 cycle. Priorities remain consistent with the Joint Commitments for Development strategy signed between the countries. The focus for the next three years remains in the areas of economic growth, human development and good governance.

The Forum leaders meeting in August 2012 provided an opportunity to discuss development opportunities and important new initiatives were announced by various countries. The Cook Islands entered into a $60 million water partnership (Te Mato Vai) with China and New Zealand to deliver quality water access to every household in Rarotonga. The arrangement is a significant step in coordinating partners to deliver large projects that would otherwise be too big for one partner.

Australia has also committed $407 million (AUD 320 million) regionally to the Pacific Gender Equality Initiative with the Ministry of Internal Affairs partnering in developing a programme of activity for the Cook Islands. The programme will be based on the recently launched national Gender policy and implementation plan.

The Government continues to build strong partnerships with our local stakeholders and development partners with the annual roundtable meeting scheduled for February 2013. The meeting allows government to present their priorities to our partners and enables new initiatives to feed into the national budget process. Outcomes in water and renewable energy from the 2012 meeting have progressed well this year with the signing of the water partnership and the commitment of $10.5 million from New Zealand to the renewable energy sector over the next three years.

Climate change financing opportunities continue to grow and processes can be complex in accessing these funds. Government is continuing to advocate the use of local systems to deliver these programmes. To support this approach, ongoing improvements are being made to the Governments public financial management, procurement and activity management systems.

Maintaining gains in public sector performance will improve coordination of development assistance and bring greater alignment of development partners to achieve the Governments aspirations set out in the National Sustainable Development Plan.

3.6 SPECIFIC FINANCIAL RISKS

The total quantifiable contingent liabilities are estimated at $23.7 million in 2012/13. This is made up of the following:

Guarantees and Indemnities

- The 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 CIG has agreed to guarantee up to $0.5 million as security for loans associated with the Pearl Production Credit Scheme. The full guarantee has been included as a contingent liability. There has been no change since the time of the 2012/13 Budget Estimates.

Uncalled Capital

- The Government also holds $1.4 million in the Asian Development Bank - Cook Islands Government Property Corporation. This takes the form of 88 uncalled shares with a par value of US$13,500 each.

Legal Proceedings and Disputes

- Total quantifiable risk to the Crown under legal proceedings and disputes is $21.8 million.
- $14.5 million relates to contingency in recognition of the lawsuit filed against the government regarding its shipping policy in October 2002. However it is not anticipated that any payment will be made on this claim, and $7.3million in relation to smaller legal claims against government departments. This has been revised upwards since the time of the 2012/13 Budget Estimates to include an updated list of smaller legal claims against government departments to date.

3.7 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 growth in the economy adjusted for one off considerations.

GDP is updated to the 2011 calendar year while all other data is updated to the September 2012 quarter. Growth in the Cook Islands over the medium term are based on the updated data recorded to date.

Reflecting adjustments to CPI, Nominal GDP is expected to grow by

- 7.2 per cent in 2011/12
- 7.9 per cent in 2012/13
- 4.4 per cent in 2013/14
- 3.5 per cent in 2014/15

The assumptions made that underpin the economic growth is that movements in nominal GDP is based on movements in Tourism Expenditure, Government Expenditure and Export Receipts.

Tourism expenditure is based on

- Average Stay of 7.4 days
- Average spend NZD 227.00 per day

Government expenditure is based on the operating Estimates for 2012/13, Appropriation for 2013/14 and existing government policy to grow as follows

- 8.2 per cent in 2011/12
- 1.8 per cent in 2012/13
- 2.1 per cent in 2013/14
- 0.8 per cent in 2014/15

Growth in prices measured through movements in the Consumer Price Index is expected to be higher than that estimated at the time of the Budget 2012 and outlined as follows:

- 1.9 per cent in 2011/12
- 3.0 per cent in 2012/13
- 3.0 per cent in 2013/14
- 3.0 per cent in 2014/15

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

The level of borrowings is based on average exchange rates in December 2012.

3.8 STATEMENT OF ACCOUNTING POLICIES

There have been no changes since the Budget Policy Statement 2011/12. There are no major changes to accounting policies anticipated in the foreseeable future.

Basis of Preparation

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 23.

Statement of Compliance

These financial statements 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).

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.

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:

	STANDARDS	EFFECTIVE DATE
A.	IPSAS 25 Employee Benefits	1/01/2011
B.	IPSAS 26 Impairment of Cash Generating Assets	1/04/2009

C.	IPSAS 27 Agriculture	1/04/2011
D.	IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013
E.	IPSAS 29 Financial Instruments: Presentation	1/01/2011
F.	IPSAS 30 Financial Instruments: Disclosure	1/01/2013
G.	IPSAS 31 Intangible Assets	1/04/2011

These new standards have been issued but are not yet effective for the consolidated Crown accounts as the preparation of the 30 June 2010 accounts are currently in progress – the 30 June 2009 consolidated accounts were completed and audited on 24 May 2012. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

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.

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.

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.

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.

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

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.

Intangible Assets (continued)

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 of 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.

Provision for doubtful debts (continued)

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.

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.

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.

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.

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.

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.

Financial Statements
As at 30 November 2013

The forecasted financial estimates of the Crown are set out on the following pages.

(1) Statement of Financial Performance

(2) Statement of Financial Position

(3) Statement of Cashflows

(4) Statement of Borrowings

(5) Summary of Revenue Levied on Behalf of the Crown

(6) Statement of Financial Risks

Schedule 11

4.1 Statement of Financial Performance
For the years ending 30 November

	Actual 2009/10 ('000)	Actual 2010/11 ('000)	Budget 2011/12 ('000)	Supp Bud 2011/12 ('000)	Budget 2012/13 ('000)	Projected 2013/14 ('000)	Projected 2014/15 ('000)
Revenue							
Taxation revenues	85,587	86,052	87,001	89,555	92,042	93,450	97,150
Other revenue							
Revenue on behalf of the Crown	7,859	8,286	8,429	8,528	9,635	11,493	11,830
Sale of goods and services	5,413	5,155	5,193	5,193	5,209	5,209	5,234
Interest	2,065	2,652	2,437	2,422	2,027	2,027	2,027
Dividends	2,510	3,213	3,051	3,051	2,240	2,170	2,247
Total Revenue	***103,434***	***105,358***	***106,111***	***108,749***	***111,153***	***114,349***	***118,488***
Expenditure							
Appropriations to agencies	63,615	64,095	63,859	63,989	61,498	61,760	61,996
Payments on behalf of Crown	23,115	30,274	35,093	40,213	42,791	42,615	42,558
Debt-servicing interest	947	879	1,023	969	993	938	839
Building maintenance	1,957	1,800	1,300	1,300	1,800	1,800	1,800
Infrastructure depreciation	2,397	2,950	2,469	2,469	3,478	5,074	6,935
Other expenditure	10,712	2,841	2,335	2,375	3,143	3,445	2,385
Total Expenditure	***102,743***	***102,839***	***106,079***	***111,315***	***113,703***	***115,632***	***116,513***
NET OPERATING SURPLUS / (DEFICIT)	***691***	***2,519***	***32***	***-2,566***	***-2,550***	***-1,283***	***1,975***

Schedule 12

4.2 Statement of Financial Position
As at 30 November

	Actual 2009/10 ('000)	Estimate 2010/11 ('000)	Budget 2011/12 ('000)	Supp Bud 2011/12 ('000)	Budget 2012/13 ('000)	Projected 2013/14 ('000)	Projected 2014/15 ('000)
Assets							
Cash and equivalents	38,225	41,052	40,895	39,254	36,182	35,761	41,262
Loan reserves	22,034	20,505	19,076	19,076	17,839	16,602	15,365
Trust accounts	5,716	6,146	6,781	6,796	7,270	7,762	8,274
Inventory	1,509	1,509	1,509	1,509	1,509	1,509	1,509
Tax receivables	21,361	26,324	26,324	25,008	23,757	22,570	21,441
Debtors and other receivables	4,181	4,181	4,181	4,181	4,181	4,181	4,181
Advances to SOEs	21,483	21,196	27,205	27,492	27,492	27,405	27,218
Investment in SOEs	146,733	146,733	146,733	146,733	146,733	146,733	146,733
Plant, property, and equipment	90,962	92,985	103,870	104,023	115,441	126,150	154,715
Total Assets	***352,204***	***360,631***	***376,574***	***374,071***	***380,405***	***388,673***	***420,698***
Liabilities							
Creditors and other payables	13,683	13,683	13,683	13,683	13,683	13,683	13,683
Trust liabilities	5,239	5,239	5,239	5,239	5,239	5,239	5,239
Borrowings	110,747	95,836	107,349	107,349	88,981	94,178	122,495
Total Liabilities	***129,669***	***114,758***	***126,271***	***126,271***	***107,903***	***113,100***	***141,417***
Net Crown Balance	***222,535***	***245,873***	***250,303***	***247,800***	***272,502***	***275,573***	***279,281***

Schedule 13

4.3 Statement of Cashflows
For the years ending 30 November

	Actual 2009/10 ('000)	Estimate 2010/11 ('000)	Budget 2011/12 ('000)	Supp Bud 2011/12 ('000)	Budget 2012/13 ('000)	Projected 2013/14 ('000)	Projected 2014/15 ('000)
Cashflows from Operating Activities							
Cash provided from:							
Taxation and levies	85,587	86,052	87,001	89,555	92,042	93,450	97,150
Collection of tax arrears	0	0	0	1,316	1,250	1,188	1,128
Sale of goods and services	5,413	5,155	5,193	5,193	5,209	5,209	5,234
Interest	2,065	2,652	2,437	2,422	2,027	2,027	2,027
Dividends	2,510	3,213	3,051	3,051	2,240	2,170	2,247
Other income	7,859	8,286	8,429	8,528	9,635	11,493	11,830
	103,434	*105,358*	*106,111*	*110,065*	*112,403*	*115,537*	*119,616*
Cash applied to:							
Appropriations to agencies (less depn)	60,704	60,903	60,575	60,705	58,013	57,935	58,031
Payments on behalf of Crown	23,115	30,274	35,093	40,213	42,791	42,615	42,558
Debt-servicing interest	947	879	1,023	969	993	938	839
Building maintenance	1,957	1,800	1,300	1,300	1,800	1,800	1,800
Other expenditure	10,712	2,841	2,335	2,375	3,143	3,445	2,385
	97,435	*96,697*	*100,326*	*105,562*	*106,740*	*106,733*	*105,613*
Net Operating Activity Cashflows	***5,999***	***8,661***	***5,785***	***4,503***	***5,663***	***8,804***	***14,003***
Cashflows from Investing Activities							
Cash provided from:							
Subsidiary loan repayments	143	287	287	0	0	87	187
	143	*287*	*287*	*0*	*0*	*87*	*187*
Cash applied to:							
Capital expenditure	20,072	4,709	12,239	12,297	13,632	15,220	36,840
Advances to Subsidiaries	20,523	0	6,296	6,296	0	0	0
	40,595	*4,709*	*18,535*	*18,593*	*13,632*	*15,220*	*36,840*
Net Investing Activity Cashflows	***-40,452***	***-4,422***	***-18,248***	***-18,593***	***-13,632***	***-15,133***	***-36,653***
Cashflows from Financing Activities							
Cash provided from:							
Loans drawn down	38,724	0	14,334	14,334	7,550	9,500	32,000
Cash drawn from loan reserves	0	1,529	1,429	1,429	1,237	1,237	1,237
	38,724	*1,529*	*15,763*	*15,763*	*8,787*	*10,737*	*33,237*
Cash applied to:							
Loan repayments	3,227	2,511	2,821	2,821	3,416	4,337	4,574
Loan reserves	1,100	0	0	0	0	0	0
Other reserves	448	430	635	650	474	492	512
	4,775	*2,941*	*3,456*	*3,471*	*3,890*	*4,829*	*5,086*
Net Financing Activity Cashflows	***33,949***	***-1,412***	***12,307***	***12,292***	***4,897***	***5,908***	***28,151***
Net cash movements	-504	2,827	-156	-1,798	-3,072	-421	5,501
Add: Opening Cash and Equivalents	38,729	38,225	41,052	41,052	39,254	36,182	35,761
Closing Cash and Equivalents	***38,225***	***41,052***	***40,895***	***39,254***	***36,182***	***35,761***	***41,262***

Schedule 14

4.4 Statement of Borrowings
As at 30 November

	Actual 2009/10 ('000)	Estimate 2010/11 ('000)	Budget 2011/12 ('000)	Supp Bud 2011/12 ('000)	Budget 2012/13 ('000)	Projected 2013/14 ('000)	Projected 2014/15 ('000)
Total Gross Borrowings	***110,747***	***95,836***	***107,349***	***107,349***	***88,981***	***94,178***	***122,495***
Assets Held Against Borrowings:							
Advances to subsidiaries	21,483	21,196	27,205	27,492	27,492	27,405	27,218
Loan reserves	22,034	20,505	19,076	19,076	17,839	16,602	15,365
Total Assets Held Against Borrowings	***43,517***	***41,701***	***46,281***	***46,568***	***45,331***	***44,007***	***42,583***
Net Borrowings of the Government	***67,230***	***54,135***	***61,068***	***60,781***	***43,650***	***50,171***	***79,912***

Schedule 15

4.5 Revenue Levied on Behalf of the Crown

For the years ending 30 November

	Actual 2009/10 ('000)	Estimate 2010/11 ('000)	Budget 2011/12 ('000)	Supp Bud 2011/12 ('000)	Budget 2012/13 ('000)	Projected 2013/14 ('000)	Projected 2014/15 ('000)
Taxation							
Income tax	26,400	25,155	25,926	26,572	26,826	27,079	28,027
Company tax	9,895	9,942	9,245	10,308	10,376	10,904	11,285
Import levies	10,183	11,066	11,381	12,030	13,038	13,607	14,083
VAT	35,229	34,979	36,400	37,010	37,350	37,309	39,203
Withholding tax	0	0	1,000	586	900	1,000	1,000
Other	3,880	4,910	3,049	3,049	3,552	3,551	3,552
Total Revenue Levied on Behalf of the Crown	***85,587***	***86,052***	***87,001***	***89,555***	***92,042***	***93,450***	***97,150***

Schedule 16

4.6 Statement of Fiscal Risks
As at 30 November 2013

	('000)
Quantifiable Contingent Liabilities	
Guarantees and indemnities	500
Uncalled capital	1,443
Legal proceedings and disputes	21,776
Total Quantifiable Contingent Liabilities	***23,719***

Guarantees and indemnities relate to the following:
Government has entered into a programme under the New Zealand Aid Programme focused on Pearl Sector Support run through the Cook Islands Pearl Authority. Through the programme 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.

Legal proceedings and disputes relate to current cases against the Crown.