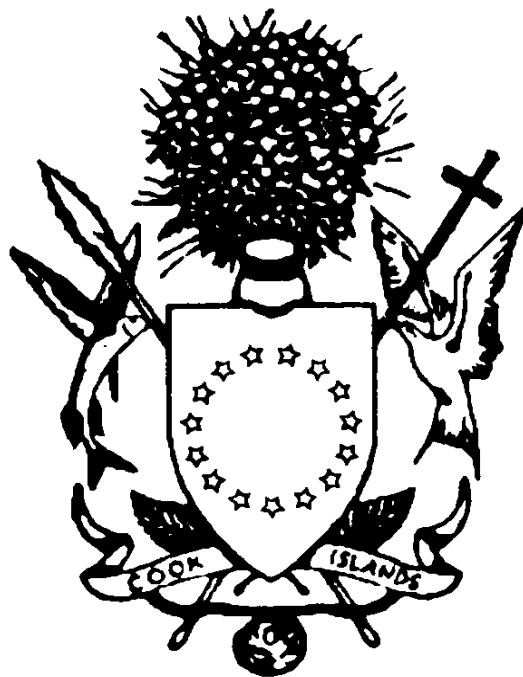

THE COOK ISLANDS

**Pre-election Economic and Fiscal Update
2017/18**



Government of the Cook Islands

25 April 2018

www.mfem.gov.ck

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25 April 2018

STATEMENT OF RESPONSIBILITY

Pursuant to section 17 of the *Ministry of Finance and Economic Management Act 1995-96*, I hereby make available a Pre-election Economic and Fiscal Update. The information in this document is based primarily on the latest data since the publication of the Budget Policy Statement 2018/19 and Half-year Economic and Fiscal Update 2017/18 in December 2017.

I have made available to the Financial Secretary all relevant information regarding policies of the Government that could materially affect this economic and fiscal update.

The economic and fiscal information included in this update is based on the best professional judgement that we have at this period of time. I accept the overall responsibility for the integrity of the Pre-election Economic and Fiscal Update and its compliance with the *Ministry of Finance and Economic Management Act 1995-96*.

Kia Manuia,

A handwritten signature in black ink, appearing to read 'Mark Brown', with a long horizontal flourish extending to the right.

Honourable Mark Brown

Minister of Finance



MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT

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25 April 2018

STATEMENT OF RESPONSIBILITY

Section 17 of the *Ministry of Finance and Economic Management Act 1995-96* requires that the Minister of Finance publish a report containing an economic and fiscal update within fourteen days of the appointment of a polling date in relation to a general election.

The purpose of the Pre-election Economic and Fiscal Update is to provide up to date information on the state of the economy and the financial position of Government. The information provided in the update takes in to account as much as possible all Government decisions and other circumstances that may have a material effect on economic and fiscal conditions.

I have received the assurance of the Minister of Finance that he has disclosed all relevant information regarding Government policies that could materially affect the update.

The Pre-election Economic and Fiscal Update primarily reflects significant factors that have changed since the publication of the Budget Policy Statement 2018/19 and Half-year Economic and Fiscal Update 2017/18 in December 2017.

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

Kia Manuia

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

Garth Henderson

Financial Secretary

2 Summary of the Fiscal and Economic Update

2.1 Overview

The Ministry of Finance and Economic Management (MFEM) has developed this Pre-election Economic and Fiscal Update (PEFU) as the legal document to be released prior to the established election date on 14 June 2018. The purpose of providing this update is to make available to the general public information on the current state of the economy and Government's associated fiscal and economic position. As required by the MFEM Act 1995-96, part 2, section 17, the PEFU must be published no later than 14 days of the appointment of the polling day in relation to any general election of members of Parliament pursuant to the *Electoral Act 1966*.

The Ministry of Finance and Economic Development has released publications prior to this report: they are the 2017/18 Budget Estimates and the 2017/18 Half-year Economic Fiscal Update (HYEFU), which is the latest update before this PEFU. The 2017/18 HYEFU provided an update of the economic and fiscal forecasts made at the time of the 2017/18 Budget and analysis of the changes in key economic variables and the impact on the fiscal status of Government. The medium term priorities of government for the 2018/19 fiscal year were contained in the 2017/18 HYEFU with the intention to provide readers with Government's priorities and the context within which these priorities and policy objectives are set.

The estimates contained in this Pre-election Budget Update reflect current Government policy, including expenditure decisions taken since the 2017/18 HYEFU, year to date assessments of revenue patterns made against original budget, and updated economic forecasts and their associated impact on forecasted revenue. These are reported in order to provide an accurate picture of the current financial position of the country before the election on 14 June 2018. For transparency reasons, the PEFU clearly shows the estimates of particular items and provides an analysis of changes since the 2017/18 HYEFU. Where information has remain unchanged from that published in the 2017/18 HYEFU, it has not been reproduced in this update.

The Fiscal and Economic views below will provide a more detailed analysis of the Cook Islands financial position.

2.1.1 Fiscal Setting Overview

Estimated Underlying Budget Balance 2017/18

The 2017/18 Budget was initially developed under tight fiscal circumstances. At that stage, it was projected that the 2017/18 Budget would have an underlying operating surplus of \$4.2 million. The estimate of the underlying operating balance at the time of the 2017/18 Half Year Economic and Fiscal Update (HYEFU) increased from \$4.2 million to \$7.0 million. The current 2017/18 net operating position has improved further, and is now projected to be \$13.5 million due to upward revisions in revenue estimates.

The HYEFU published in December disclosed an extremely high fiscal deficit for the Cook Islands, breaching the fiscal responsibility ratio set for fiscal balance to GDP, which had already been breached at the time of the 2017/18 Budget. However revenue coming in higher than forecasted and a downward revision in the capital spend to 30 June 2018, has significantly increased the fiscal balance for 2017/18.

Estimated Underlying Budget Balance 2017/18 to 2018/19

Although the operating and fiscal balance has increased, the development of the 2018/19 Budget will need to be undertaken with a view to maintaining a strong fiscal setting. As social obligations and compensation to employees increase (which will have a continuing effect), capital consumption causes a short term impact on the fiscal balance. If appropriations for these capital projects more closely matched actual delivery, the fiscal position estimated at the time of the 2017/18 Budget and HYEPU would have been more in line with the fiscal responsibility ratios. Steady economic growth in recent years has contributed to the capacity to take on some additional operating and capital expenses, despite this, there must still be a commitment to responsible fiscal management.

Future policy objectives will need to be pursued within the established principles in the fiscal responsibility ratios (FRRs). The FRRs establish the long term parameters for fiscal management and ongoing budget development, with a focus on the level of expenditure on Crown debt. As published at the time of the 2017/18 HYEPU, a medium-term fiscal strategy and medium-term expenditure framework is required to outline the key expenditure priorities and their funding sources to provide a clear path for economic and fiscal management of the Cook Islands.

2.1.2 Economic Setting Overview

A range of changes have been made to the economic forecasts since the last public update in the 2017-18 Half-Year Economic and Fiscal Update in December 2017. Since this time, revisions have been undertaken to gross domestic product (GDP) figures to exclude a range of fishing activities. This has resulted in a downward revision of GDP estimates back to 2012/13. As such, nominal GDP in 2016/17, which was previously estimated at \$422 million, is now estimated to have been \$416 million.

These revisions have had little impact on historical growth rates, however, growth in 2016/17 has been revised upwards, once the effect of high fisheries exports is removed from 2015/16.

Since the last public update, tourism arrivals have grown at a faster rate than forecast, with arrivals now expected to grow by 4.6 per cent in 2017/18. This results in an estimated tourist spend of approximately \$340 million based on an estimated stay of 8 days. Further investigation needs to be undertaken to increase the understanding of tourist arrivals, spending and length of stays.

Economic growth prospects for the Cook Islands remain positive, with high levels of public and private construction expected to stimulate the economy at the same time as tourism arrival numbers continue to grow. There is a risk that high levels of investment may over-stimulate the economy by placing pressure on the construction and housing industry, at the same time as high tourist arrivals place added pressure on retail and trade, restaurants and accommodation.

Nominal GDP growth is estimated at 1.5 per cent for 2017/18. These forecasts are based on lower actual government spend on capital projects than previously anticipated, at the same time, imports of goods and services for these now delayed government capital projects have increased, worsening the trade balance. Growth is expected to increase going forward as construction commences, and the importation of machineries decreases.

Inflation as measured by the Cook Islands Consumer Price Index was negative in 2016/17, showing deflation of 0.1 per cent. This has started increasing throughout 2017/18, largely due to increases in oil prices which is impacting on the domestic fuel prices.

3 Government Financial Statistics Operating Statement

The Government Financial Statistics (GFS) Operating Statement reflects the financial performance of Government and discusses general trends and revisions of forecasts for operating revenues, operating expenditures and the resultant operating balance. The GFS operating statement encompasses all funds managed at the general government level including the Loan Repayment Fund.

Table 3.1 GFS Operating Statement

Statement of Government Operations	2016/17 Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
REVENUE	192,673	219,905	184,365	168,405	159,672
Taxes	125,398	134,106	127,799	130,466	136,613
Social contributions	-	75	75	75	75
Grants	33,775	53,917	31,996	15,263	422
<i>Current</i>	13,591	9,032	5,989	5,712	122
<i>Capital</i>	20,184	44,886	26,007	9,551	300
Other revenue	33,500	31,806	24,496	22,601	22,562
EXPENSE	138,254	167,423	145,531	145,051	137,019
Compensation of employees	51,145	58,126	56,395	56,611	56,011
Use of goods and services	35,364	43,706	33,070	32,657	25,567
Depreciation	9,988	12,772	12,878	12,878	12,878
Interest	1,710	2,063	2,060	2,022	2,020
Subsidies	14,928	17,068	15,718	15,718	15,718
Grants	-	-	-	-	-
Social benefits	17,903	19,674	19,206	19,370	19,370
Other expense	7,216	14,014	6,204	5,794	5,454
NET OPERATING BALANCE	54,419	52,481	38,835	23,354	22,653
<i>Plus</i> NON CASH APPROPRIATIONS					
Depreciation	9,988	12,772	12,878	12,878	12,878
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	64,407	65,254	51,712	36,232	35,531
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	33,625	71,153	70,580	42,472	16,365
Gross transactions in Non-Financial Assets	43,612	83,925	83,457	55,349	29,243
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	(9,988)	(12,772)	(12,878)	(12,878)	(12,878)
NET (BORROWING)/LENDING	30,782	(5,899)	(18,868)	(6,240)	19,166
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	28,740	(1,297)	(16,433)	(9,790)	6,626
Domestic Transactions	28,740	(1,297)	(16,433)	(9,790)	6,626
Foreign Transactions	-	-	-	-	-
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	4,297	(2,217)	(6,840)	(313)	8,865
Domestic Transactions	-	-	-	-	-
Foreign Transactions	4,297	(2,217)	(6,840)	(313)	8,865
NET CASH FINANCING TRANSACTIONS	33,037	(3,514)	(23,273)	(10,104)	15,491
<i>Statistical discrepancy with financial statements</i>	2,255	2,385	(4,405)	(3,864)	(3,675)

3.1 GFS Net Operating Balance

The GFS net operating balance is the balance of operating revenues less operating expenditure by the Government and its development partners. The GFS net operating balance in 2017/18 is estimated to be \$52.5 million.

Going forward, changes in expenditure and revenue estimates are predicted to result in a \$38.8 million operating balance in 2018/19, \$23.4 million in 2019/20, and \$22.7 million in 2020/21.

3.2 GFS Operating Revenue

Operating revenues are made up of taxation receipts (64 per cent in 2016/17), grants from other governments (18 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (18 per cent). These revenue streams are used to finance the on-going operational expenditure of government, with surpluses used for investing in activities such as infrastructure development projects (where apparent).

At the time of the 2017/18 HYEPU published in December 2017, GFS Operating revenues in 2017/18 were estimated at \$232.7 million, of which \$123.6 million was expected to be collected in taxes.

Since December 2017, total movements in operating revenue have resulted in an upward revision of operating revenues by \$14.4 million to \$173.8 million, predominately due to increased tax revenue forecasts.

3.3 GFS Operating Expenditure

Operating expenditure is made up of compensation of employees (35 per cent in 2017/18), use of goods and services (26 per cent), social benefits (12 per cent), subsidies (10 per cent), depreciation (8 per cent), and other expenses including interest expenses (8 per cent).

Since the time of the HYEPU published in December 2017, total movements in operating expenditure have resulted in an upward revision of operating expenditure by \$7.8 million to \$160.2 million in 2017/18, due to policy decisions. This increase is primarily in compensation of employees.

3.4 GFS Non-Operating Items

Cash Transactions in Non-Financial Assets outlines the transactions relating to capital, the details of which are outlined further in the capital chapter. This spending includes public works, purchase of plant and equipment and investments in Information Communication Technology (ICT). Large purchases of non-financial assets, mainly in infrastructure (renewable energy, Te Mato Vai, and others) continue in 2017/18 and 2018/19. Total purchases of non-financial assets (excluding depreciation) is budgeted at \$83.9 million in 2017/18. This reflects both Cook Island Government- funded capital spending and ODA capital spending.

The Net Borrowing/Lending Requirement outlines whether there is sufficient cash from current revenue to cover the costs of ongoing operations of Government and capital. The net borrowing requirement is the addition of the cash operating transactions and the cash transactions in non-financial assets – a positive number indicates a surplus which can be accumulated to reserves, a deficit requires borrowings or depletion of reserves. Consistent with the large capital works currently underway, the net borrowing requirement is \$5.8 million in 2017/18. This requirement is serviced by a combination of cash and debt financing, with net cash transactions contributing \$1.2 million and net debt finance (new loans minus repayments) contributing \$2.2 million. There is also a small statistical discrepancy which arises out of timing differences between assets and liabilities.

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

Most of the statistical discrepancy shown in the GFS Operating Statement relates to timing issues between when projects are executed and when their funding is received into the Crown account.

3.5 Classification of Functions of Government (COFOG)

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

The COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level. Table 3.2 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA.

Table 3.2 Classification of Functions of Cook Island Government 2017/18 PEFU¹

Function of Government	2016/17 Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Cook Islands Government (CIG) Expenditure					
General public services	35,158,752	44,592,482	40,786,728	45,785,511	43,424,268
Executive and legislative organs, financial and fiscal affairs, external affairs	30,516,716	36,720,860	33,518,068	38,554,963	37,695,720
General services	1,743,168	5,384,360	4,784,360	4,784,360	3,284,360
R&D General public services	82,241	82,241	82,241	82,241	82,241
General public services	1,106,577	342,067	341,650	341,650	341,650
Public debt transactions	1,710,050	2,062,953	2,060,410	2,022,297	2,020,297
Public order and safety	6,686,047	5,927,101	5,970,246	5,836,519	5,836,519
Police services	4,818,115	4,043,829	4,210,640	4,076,913	4,076,913
Law courts	1,145,414	1,155,955	1,034,123	1,034,123	1,034,123
Prisons	722,518	727,317	725,483	725,483	725,483
Economic affairs	39,023,593	58,860,541	55,369,113	46,679,685	38,096,571
General economic, commercial, and labour affairs	9,231,926	12,015,766	24,424,968	20,259,557	11,926,224
Agriculture, forestry, fishing, and hunting	2,585,277	9,582,694	2,650,933	2,649,995	2,649,995
Fuel and energy	2,892,479	10,762,047	3,812,469	1,452,890	1,203,109
Mining, manufacturing, and construction	398,562	801,701	2,249,429	249,429	249,429
Transport	4,631,948	3,929,983	2,847,964	2,834,464	2,834,464
Communication	-	35,000	-	-	-
Tourism	18,749,523	21,127,364	18,827,364	18,677,364	18,677,364
R&D Economic affairs n.e.c.	303,779	375,887	325,887	325,887	325,887
Economic affairs n.e.c.	230,099	230,099	230,099	230,099	230,099
Environmental protection	3,310,540	2,341,095	12,463,798	9,170,721	9,170,721
Waste management	176,554	226,554	126,554	123,168	123,168
Waste water management	2,382,831	1,262,746	11,487,449	8,197,758	8,197,758
Environmental protection n.e.c.	751,155	851,794	849,794	849,794	849,794
Housing and community amenities	7,605,297	7,780,886	7,843,618	7,299,462	6,249,241
Community development	151,035	250,000	250,000	250,000	-
Water supply	1,785,035	1,713,479	1,832,647	1,331,307	581,307
Housing and community amenities n.e.c.	5,669,227	5,817,407	5,760,971	5,718,155	5,667,934

¹ Discrepancies from the 2017/18 PEFU are due to the changes described in the Fiscal Update, and some technical adjustments to the classification

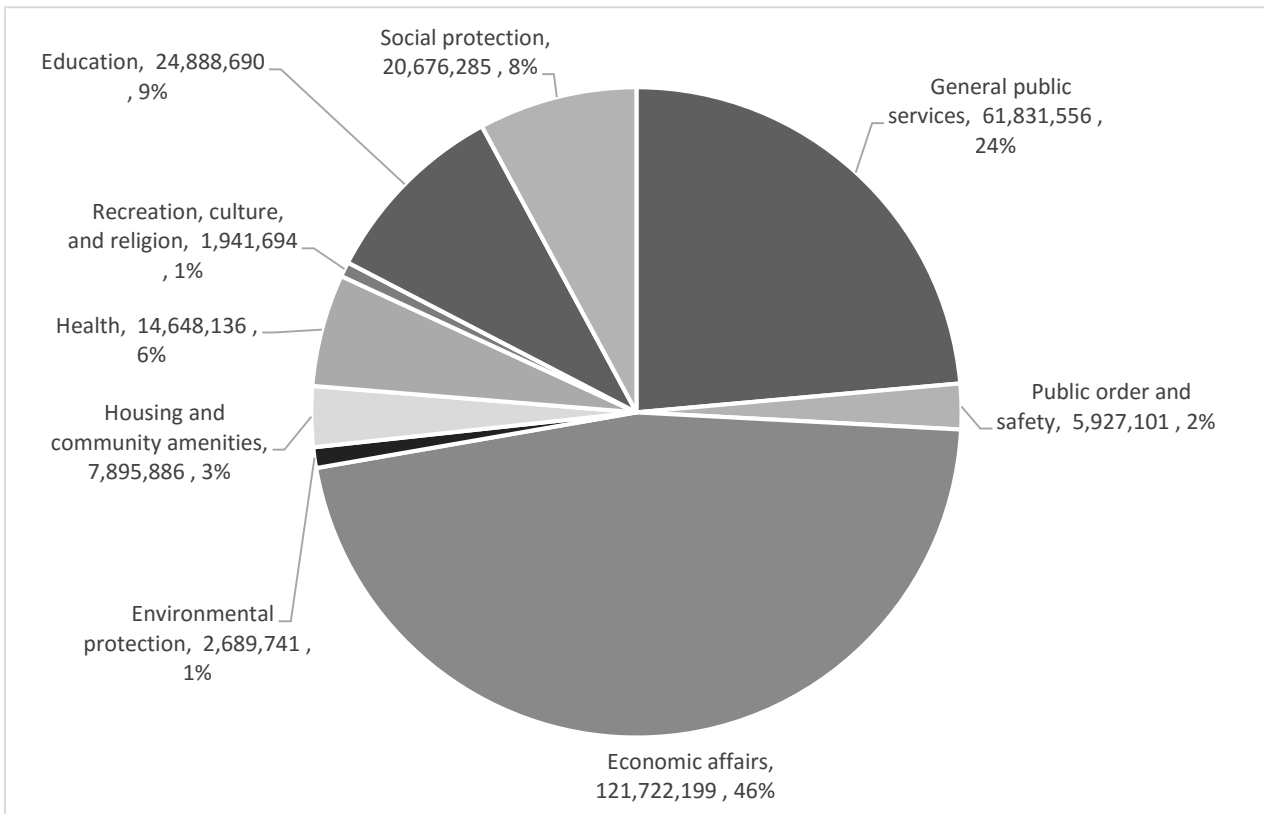
Function of Government	2016/17 Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Health	13,692,745	14,303,269	12,101,022	12,147,335	12,147,335
Medical products, appliances, and equipment	2,350,437	2,318,247	1,522,800	1,522,800	1,522,800
Hospital services	8,590,237	9,591,199	8,267,399	8,313,712	8,313,712
Public health services	2,557,071	2,115,823	2,115,823	2,115,823	2,115,823
Health n.e.c.	195,000	278,000	195,000	195,000	195,000
Recreation, culture, and religion	1,980,930	1,941,694	1,905,241	1,908,503	2,008,503
Recreational and sporting services	490,545	341,129	318,066	318,066	418,066
Cultural services	1,490,385	1,600,565	1,587,175	1,590,437	1,590,437
Education	19,979,839	24,868,690	16,919,117	16,342,975	16,342,975
Pre-primary and primary education	86,685	300,000	-	-	-
Secondary education	297,982	3,115,959	642,000	-	-
Tertiary education	2,024,725	2,193,925	1,563,925	1,563,925	1,563,925
Education not definable by level	13,526,174	14,502,436	12,352,316	12,357,316	12,357,316
Education n.e.c.	4,044,274	4,756,370	2,360,876	2,421,734	2,421,734
Social protection	18,078,597	20,444,826	20,121,262	20,025,566	19,685,566
Sickness and disability	366,800	366,800	366,800	366,800	366,800
Old age	12,109,659	12,281,285	12,455,538	12,632,459	12,632,459
Family and children	3,809,725	5,192,125	5,179,417	5,166,800	5,166,800
Housing	79,200	79,200	79,200	79,200	79,200
Social exclusion n.e.c.	13,555	13,555	13,555	13,555	13,555
Social protection n.e.c.	1,699,658	2,511,861	2,026,752	1,766,752	1,426,752
Total CIG Expenditure	145,516,341	181,060,583	173,480,146	165,196,277	152,961,700
Official Development Assistance (ODA) Expenditure*					
General public services	10,760,937	17,239,075	1,790,066	2,856,474	111,074
Executive and legislative organs, financial and fiscal affairs, external affairs	9,577,757	15,675,871	1,472,035	2,538,444	111,074
Foreign economic aid	980,161	1,231,223	318,030	318,030	-
General public services	203,019	331,981	-	-	-
Economic affairs	22,414,354	62,861,658	30,118,861	12,319,887	300,000
General economic, commercial, and labour affairs	-	300,000	300,000	300,000	300,000
Agriculture, forestry, fishing, and hunting	909,229	3,689,378	3,142,983	1,359,582	-
Fuel and energy	4,660,739	15,652,232	10,660,305	10,660,305	-
Mining, manufacturing, and construction	16,430,998	33,147,585	11,015,573	-	-

Function of Government	2016/17 Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Communication	413,388	10,072,464	5,000,000	-	-
Environmental protection	326,958	348,646	75,758	75,758	-
Waste management	250,035	120,000	-	-	-
Pollution abatement	-	15,714	-	-	-
Protection of biodiversity and landscape	76,923	212,932	75,758	75,758	-
Housing and community amenities	45,000	115,000	-	-	-
Housing development	-	87,101	-	-	-
Community development	45,000	-	-	-	-
Housing and community amenities n.e.c.	-	27,899	-	-	-
Health	44,979	344,866	11,074	11,074	11,074
Medical products, appliances, and equipment	-	289,855	-	-	-
Outpatient services	-	-	-	-	-
Hospital services	44,979	55,011	11,074	11,074	11,074
Education	109,510	20,000	-	-	-
Education not definable by level	109,510	20,000	-	-	-
Social protection	85,218	231,459	-	-	-
Sickness and disability	85,218	-	-	-	-
Social protection n.e.c.	-	231,459	-	-	-
Total ODA Expenditure	33,786,956	81,160,705	31,995,759	15,263,193	422,148
TOTAL PUBLIC EXPENDITURE	179,303,298	262,221,288	205,475,905	180,459,470	153,383,848

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

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

Figure 3.1 Classification of Functions of Cook Island Government 2017/18 PEFU



Economic affairs is by far the largest area of total public expenditure at 46 per cent of the total spending, driven by tourism spending through the Cook Islands Government appropriation, and energy and Te Mato Vai infrastructure in the ODA spend.

General public services is next, at around 24 per cent of total public spending, with the Cook Islands Government administration costs being the main driver.

Education is the third largest area of spending at 9 per cent, driven mainly by the Cook Islands Government's own expenditures, but also the construction activity by the Chinese and New Zealand Governments at Apii Nikao and Tereora, respectively.

Other major areas of spending are housing and community amenities (which includes general community infrastructure) at 3 per cent, social protection (social welfare) at 8 per cent, Health at 6 per cent and environment and recreation, culture and religion at 1 per cent.

4 Fiscal Update

Table 4.1 Fiscal Indicators Summary

	2016/17 Actual	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projecti on	2019/20 Projecti on	2020/21 Projecti on
Statement of Financial Performance						
Taxation Revenue (\$m)	125.4	123.6	134.1	127.8	130.5	136.6
Social Contributions (\$m)	0.0	0.1	0.1	0.1	0.1	0.1
Other Revenue (\$m)	41.2	35.6	39.6	24.5	22.6	22.6
Total Operating Revenue (\$m)	166.6	159.4	173.8	152.4	153.1	159.3
Total Operating Revenue Percentage of GDP	40.0	35.6	41.1	35.5	34.7	35.0
Tax Revenue Percentage of GDP	30.1	27.6	31.7	29.8	29.5	30.1
Total Cyclical Revenue (\$m)	32.5	26.2	31.7	22.7	20.4	19.9
Total Cyclical Revenue Percentage of GDP	7.8	5.9	7.5	5.3	4.6	4.4
Total Structural Revenue (\$m)	134.2	133.1	142.0	129.7	132.8	139.3
Total Structural Revenue Percentage of GDP	32.2	29.8	33.6	30.2	30.1	30.7
Personnel (\$m)	51.6	59.4	59.4	57.0	57.2	56.6
Percentage of Total Revenue	31.0	37.3	34.2	37.4	37.4	35.6
Percentage of Structural Revenue	38.5	44.6	41.8	44.0	43.1	40.6
Total Operating Expenditure (\$m)	131.7	152.4	160.2	140.4	139.5	137.1
Percentage of GDP	31.7	34.1	37.9	32.7	31.6	30.2
Percentage of Operating Revenue	79.1	95.6	92.2	92.1	91.1	86.1
Cash Operating Expenditure*	120.8	138.9	147.1	127.1	126.4	124.0
Operating Balance (\$m)	34.9	7.0	13.5	12.0	13.6	22.1
Percentage of GDP	8.4	1.6	3.2	2.8	3.1	4.9
Capital Expenditure	13.4	60.3	26.3	44.6	32.9	16.1
Depreciation	10.4	12.8	12.8	13.0	13.0	13.0
Non-Operating Balance (\$m)	-22.7	-49.4	-29.1	-41.3	-35.6	-27.1
Fiscal Balance surplus/deficit (\$m) *	31.8	-40.4	0.1	-19.6	-6.4	19.0
Percentage of GDP	7.6	-9.04	0.0	-4.6	-1.4	4.2
Statement of Financial Position (\$m)						
Assets (\$m)	283.7	647.2	647.2	303.7	313.2	321.6
Liabilities (\$m)	128.8	136.1	159.4	170.7	162.5	152.9
Crown Balance (\$m)	154.9	511.1	487.7	133.0	150.7	168.7
Percentage of GDP	37.2	114.3	115.4	31.0	34.1	37.1
Cash & Equivalents (\$m)	79.8	33.9	78.5	65.9	64.5	71.1
Cash & Equivalents (months coverage)	7.9	3.4	6.4	6.2	6.1	6.9
Statement of Borrowings (\$m)						
Gross Debt end of FY (\$m)	94.2	143.5	122.6	136.1	127.9	118.3
Excluding Contingency Loan	94.2	129.6	109.1	122.6	114.4	104.8
Percentage of GDP	22.6	32.1	29.0	31.7	29.0	26.0
Net Crown Debt, end of FY (\$m)	75.3	125.4	102.1	115.4	107.5	99.1
Percentage of GDP	18.1	28.0	24.2	26.9	24.4	21.8
Loan Repayment Reserves Held (\$m)	18.9	18.1	20.5	20.7	20.4	19.3
Net Debt Servicing (\$m)	8.4	7.7	10.3	10.4	9.9	9.9
Percentage of Total Revenue	5.0	5.8	5.9	6.8	6.5	6.2
Percentage of Structural Revenue	6.2	6.8	7.3	8.0	7.5	7.1
Development Partner Support (\$m)						
Grants (\$m)	25.4	60.7	53.9	32.0	15.3	0.4
Percentage of GDP	6.1	13.6	12.8	7.4	3.5	0.1
Memo item: Nominal GDP (\$m)	416.2	447.3	422.5	429.5	441.6	454.4

4.1 Overview

The pre-election update is developed to provide an informed Fiscal Update on revisions made to the fiscal forecasts as at the time of the 2017/18 HYEPU published in December 2017. In updating the fiscal forecasts, the following factors have been considered:

- year-to-date assessment of revenues and expenditure patterns against original Budget estimates for the 2017/18 fiscal year;
- updated economic forecasts and their associated impact on forecasted government revenues; and
- re-evaluation of debt stock and debt servicing based on updated exchange rate movements and new loans.

4.1.1 Year to date assessment of revenues and expenditure patterns

Since the publication of the 2017/18 HYEPU in December, revisions have been made to the forecast after reviewing actuals to date. Total operating revenue received to date has come in higher than estimated which has caused revenue to be revised upwards. Total revenue for 2017/18 PEPU is estimated to increase by \$14.3 million since the HYEPU, totalling \$173.8 million. Compared to the 2017/18 Budget it was estimated that total revenue received will be \$153.9 million and changes have been made to reflect a \$19.9 million increase to the total revenue estimate for the 2017/18 year.

Expenditure has also increased slightly compared to 2017/18 HYEPU by \$7.8 million, bringing total operating expenditure to \$160.2 million. This increase is allowed under the unauthorised expenditure provision of the constitution, including any carry forward approved. At the time of the 2017/18 budget total operating expenditure was estimated to be \$149.7 million. This estimate has been revised up by \$10.5 million, bringing total expenditure to the estimated \$160.2 million.

Capital expenditure has also been revised to provide a more realistic estimate for the 2017/18 PEPU. Capital expenditure has been revised downward significantly to \$26.3million since the HYEPU estimate of \$60.2 million. No carry forwards for projects from 2017/18 to 2018/19 financial year have been adjusted in this update as this will be done in the 2018/19 Budget.

These data revisions have improved the fiscal surplus balance to \$0.1 million. Due to the major underspend in Capital Projects, cash reserves have accumulated to \$88.5 million. Though cash reserves are looking healthy, it is essential to understand that majority of this cash is committed to capital projects in 2017/18. The unspent capital is discussed in the Capital chapter.

The following table shows the movements from the 2017/18 HYEPU to the 2017/18 PEPU.

**Table 4. 2 Reconciliation of Operating Statement between 2017/18 HYEPU and 2017/18 PEPU
(\$'000)**

Statement of Government Operations	2017/18	2018/19	2019/20	2020/21
Operating balance as at 2017/18 HYEPU	6,983	9,596	12,072	17,070
Revenue				
<i>Revenue Parameter Changes</i>	10,473	2,382	1,514	5,063
<i>Adjustments to:</i>				
Value Added Tax (VAT)	650	-413	-877	-495
Income tax	1,559	-155	-341	1,753
Import levies	1,829	375	0	-457
Company tax	5,001	346	387	1,282
Departure tax	119	229	244	880
Withholding tax	1,315	2,000	2,100	2,100
<i>Other Revenue Changes</i>	3,925	-	-	-
Other revenue	3,925	-	-	-
Trading Revenue	-	-	-	-
Dividend	-	-	-	-
Core Sector support	-	-	-	-
Total Revenue Changes to 2017/18 PEPU	14,398	2,382	1,514	5,063
Expenditure				
<i>Expenditure Decisions by Government</i>	1,062	-	-	-
<i>Decisions by BPS Goal</i>				
<i>Technical adjustments</i>	-	-	-	-
<i>Reclassifications of expenditure</i>	-	-	-	-
<i>Parameter changes</i>	6,781	-	-10	-12
Total Expenditure Changes to 2017/18 PEPU	7,843	-	-10	-12
OPERATING BALANCE as at 2017/18 PEPU	13,538	11,978	13,596	22,145
Capital Expenditure	26,267	44,573	32,921	16,065
Depreciation	12,845	12,950	12,950	12,950
FISCAL BALANCE – 2017/18 PEPU	115	-19,645	-6,375	19,030
<i>plus New Zealand GFA Bonus Payment</i>				
FISCAL BALANCE (incl. bonus payment) - 2017/18 PEPU	115	-19,645	-6,375	19,030

4.1.2 Changes to Revenue

Overall changes to revenue since the publication of the 2017/18 HYEPU have seen an increase in revenue from \$159.4 million to \$173.8 million, representing an increase of \$14.4 million for 2017/18. These estimates are inclusive of the bonus payments that Government receives through the Grant Funding Arrangement (GFA) with New Zealand for Performance Based Budget Support, which total \$0.6 million. However, this bonus payment has been revised down to \$0.1 million for 2017/18. Also included in these revenue adjustments are movements in taxation and other revenue which have been increased to reflect year to date actuals.

For the 2017/18 financial year, tax revenue is estimated to be \$10.5 million higher than previously forecast. This is predominantly due to the substantial increase in revenue estimates for company tax which have increased by \$5.0 million for 2017/18, followed by increases to estimates for import levies and income tax of \$1.8 million and \$1.6 million, respectively, due to an increase in economic activity.

Furthermore, at the time of the 2017/18 HYEPU, total withholding taxes received amounted to \$0.5 million. This has since been adjusted upwards to reflect year to date actuals totalling \$1.8 million. In previous updates, the withholding tax component was not forecast due to its volatility with receipts from this tax recognised when they are received. However, with the consistency of revenues that have been collected over the last 3 years, forecasts for this type of tax have been provided in the 2017/18 PEPU.

Fisheries revenue has increased by \$3.6 million for 2017/18. This is primarily due to the sale of additional days for catch revenue to the US under the Fisheries Treaty. It is important to note that this fisheries revenue is only a one-off adjustment for 2017/18 and has not been factored into the outer year estimates.

Other adjustments to revenue include an increase to the 2017/18 estimates for instant fines and driver's license fees of \$100,000 and \$180,000, respectively to reflect the increases in revenues received through road safety campaigns that have been conducted as well as issuing of drivers licenses.

Further adjustments to revenue estimates were made to IMO subscriptions and Interest on balances which totals \$0.2 million and \$1.8 million, respectively to reflect year to date actuals which have come in higher than anticipated for the 2017/18 financial year.

Offsetting these increases in revenue estimates is revenue that has not yet been received for dividends for 2017/18 as this is expected to be paid in a lump sum towards the end of the financial year. At the time of the 2017/18 HYEPU, total dividends to the Crown was estimated at \$1.7 million.

4.1.3 Changes to Expenditure

There have been substantial changes in expenditure since the 2017/18 Half Year Economic and Fiscal Update (HYEPU) published in December 2017. Changes are primarily the result of additional expenditure decisions made by Government, with this expenditure not appropriated under the Appropriation Act 2017.

Article 70 (3) (b) of the *Cook Islands Constitution Act 1964* allows for an additional one and one-half percent (1.5 per cent) of the total amount appropriated under the *Appropriation Act 2017* to be expended in excess of the amount appropriated under the *Appropriation Act 2017*.

In order to utilize the 1.5 per cent allowance, approval is required from the Executive Council, comprising the Queens Representative and members of Cabinet. The involvement and functions of the Executive Council is referred to in sections 22 to 25 of the *Cook Islands Constitution Act 1964*.

At the 2017/18 HYEFU, \$2.1 million in additional expenditure was approved through the Executive Council for a number of Government priorities. The Fiscal Update section of the 2017/18 HYEFU provides information regarding this expenditure.

Further expenditure approved since the 2017/18 HYEFU amounting to \$1.6 million is detailed below:

- \$340,000 was approved in order to fulfil Government's obligation to the People's Republic of China as established in an Agreement signed between both parties in October 2017. Funds are to assist with a component of Stage 1 of the China Building Repair project, which is the acquisition and preparation of land to accommodate the Chinese construction team, store building materials and also support renovation works starting with the Bluesky Sports Arena.
- \$400,000 was approved for the provision of administrative funds for Pharmaceuticals (\$200,000) and Patient Referrals (\$200,000). Medicines and medical consumables use in the Cook Islands is demand-driven, therefore additional funds were required to enable better health outcomes and to prevent shortage of important medical supplies for the remainder of the 2017/18 financial year. Expenditure on Patient Referrals has been higher than anticipated. The Patient Referral POBOC was fully expended by December 2017. There had been an increase in the number of overseas stretcher cases, and due to a new policy implemented by Air New Zealand, a medical escort is required to travel with a cardiology patient.
- \$275,000 was approved to assist with settlement of the Punanga Nui Sealing Project. The area that had been sealed is parallel to the main road, and is used very often by many vendors selling their produce from Monday right through to Saturday. This area is also the main point of entrance that most consumers use. This project has helped minimise the impact of dust in this area, which means that vendors can provide clean and fresh produce to its customers. Tourism is our main source of economic growth in the Cook Islands, the Punanga Nui market is a tourist attraction, and therefore funds should be injected into this project.
- \$100,000 was approved to top up the Contingency Fund. Government provided assistance of \$50,000 from this Fund to support our neighbouring countries Tonga and Samoa recover from the damage created by Cyclone Gita in early February 2017. The top up to the Contingency Fund is to ensure there is sufficient funding to cover unforeseen costs that could arise towards the end of the 2017/18 financial year.
- \$23,000 was approved to cover a shortfall in the Civil List Personnel POBOC to allow Parliament to carry out its functions for the remainder of the 2017/18 financial year. Member of Parliaments are entitled to 3 months' severance pay when they are replaced for various reasons. Part 2, Section 8 of the Civil List Act 2005/14 confirms this entitlement that Members of Parliament are entitled to.
- \$107,000 was approved to top up the Member of Parliament (MP) travel and allowances POBOC to account for MP travel that have not been budgeted for, and to clear outstanding debt this 2017/18 financial year. \$30,000 is for the attendance of the Minister of Health, the Honourable Nandi Glassie to the WHO conference in Geneva. \$23,000 is for the attendance of Minister of Internal Affairs, the

Honourable Albert Nicholas to the ILO Conference in June 2018 and \$54,000 is to settle outstanding credit card payments due to travel already been taken by MP during the 2017/18 financial year.

- \$354,000 for litigation costs details of which are withheld on the grounds in sections 18(a) and 8(2)(i) of the Official Information Act (OIA) 2008.
- Minister of Agriculture, the Honourable Kiriau Turepu attended the 34th FAO regional conference for Asia and the Pacific, on the 9th and 13th of April 2018, in Fiji. \$2,377 was approved to reimburse Minister Turepu's Support Office operating budget, for travel costs that were not covered by FAO. As a result of this drawdown from the Minister's Support Office operating budget, a decision was sought through executive council to reimburse costs that were expended from the operating budget.
- \$15,004 was approved to be added to the civil list POBOC to meet travel costs to enable the Honourable Mark Brown to attend the 21st Forum Economic Ministers Meeting (FEMM) in Palau from 25 to 27 April 2018. Remaining funds will be used to meet any unexpected travel costs that will arise in the remainder of the 2017/18 financial year.

At the 2017/18 HYEPU, expenditure amounting to \$15.9 million was carried forward from 2016/17 into 2017/18.

Since the HYEPU, additional expenditure amounting to \$0.2 million was carried forward from 2016/17 to 2017/18, as follows:

- \$31,965 carried forward for funds to be prioritized by the Ministry of Health for technical equipment.
- \$60,186.32 was carried forward for the Administered Fund relating to the 2017 baseline funding for conduct of the National Census.
- \$122,711 was carried forward for the Atiu Power Upgrade. The tender for this project was approved in October 2017, therefore causing delay in implementation.
- \$14,752 was carried forward for computers and printers.

4.1.4 Changes to Other Expenditures

Amendments to the Tax Amnesty criteria were approved with the intention that this will further improve the financial position of taxpayers through a one-off remission of all taxes outstanding before 1 January 2010, without having to rely on taxpayer applications. A provisional amount of \$6.8 million for doubtful debt has been applied to show the written off tax debts. Due to the writing off of these debts, this has been accounted as an expense.

4.2 Fiscal Responsibility Ratios

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

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

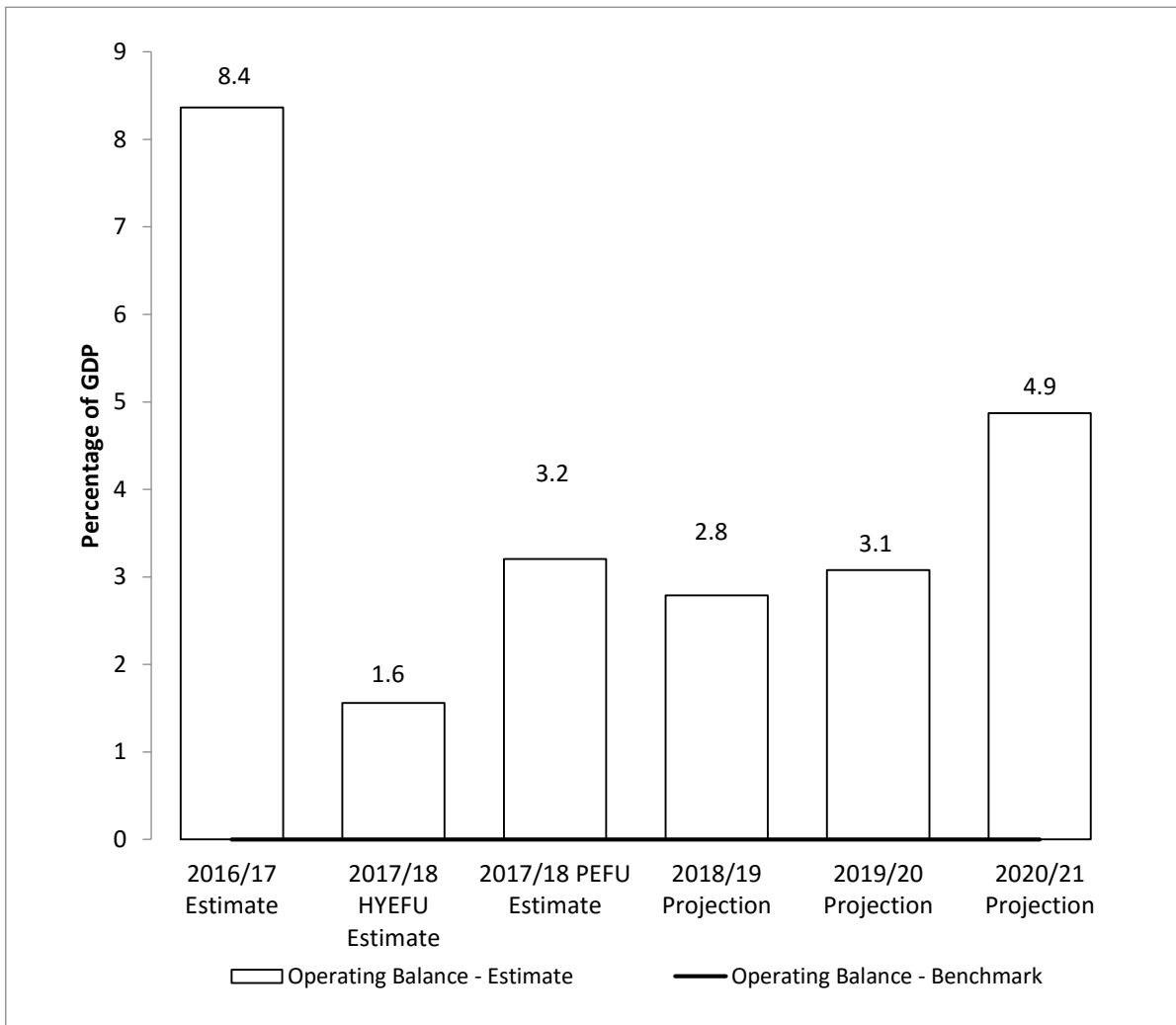
The Ministry of Finance and Economic Management (MFEM) quantifies these principles through the Fiscal Responsibility Ratios (FRR) as reported in the 2017/18 Budget. The current, and expected, performance of each of the FRRs are discussed below.

4.2.1 Net Operating Balance

The net operating balance provides an indication as to whether the Government is able to afford the operational expenditures required to perform the functions of government from its own revenue streams. The Government has set a benchmark of running an operating surplus in each Budget. As illustrated below, it is anticipated that Government has an operating surplus of \$13.5 million for 2017/18 PEFU, which is equivalent to 3.2 per cent of Gross Domestic Product (GDP).

Going forward, changes in expenditure and revenue estimates are predicted to result in an operating surplus of 2.8 per cent of GDP in 2018/19, followed by surpluses of 3.1 per cent in 2019/20 and 4.9 per cent in 2020/21.

Figure 4.1 Operating Balance 2016/17 to 2020/21

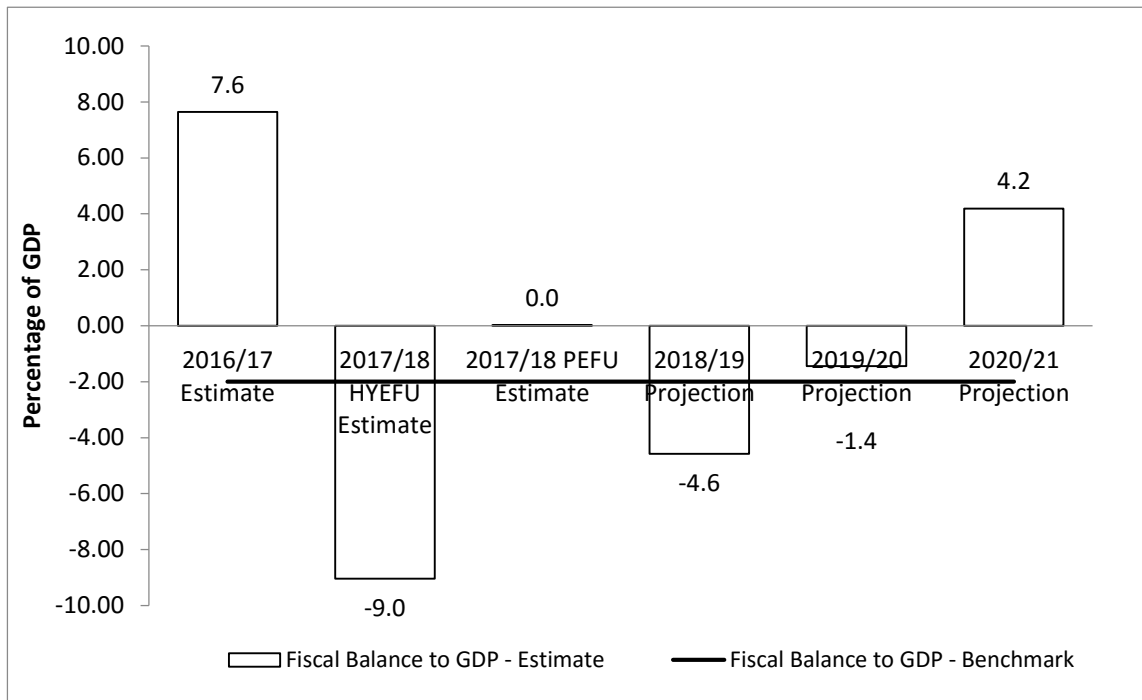


4.2.2 Fiscal Balance to GDP

The Fiscal Balance takes into account both the operating and the non-operating balances. The fiscal balance is the operating balance less net capital expenditure (excluding depreciation). Where the fiscal balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The benchmark is set to be maintained within +/- 2 per cent of GDP to ensure that government does not sign up to any debt quickly, and ensures that debt is managed and taken on within sustainable levels.

As Figure 4.2 below illustrates, the Government had been expected to breach the fiscal ratio at the time of the 2017/18 HYEUFU. With the recent adjustments, the fiscal balance to GDP for 2017/18 has improved bringing the fiscal percentage to GDP within the agreed threshold at 0 per cent. The improvements in 2017/18 are largely the result of lower than budgeted capital spend, and higher than anticipated revenue. With only minor adjustments made to the forward years, the fiscal balance has remained stable, causing a continuing breach in 2018/19. This is mainly due to large scale infrastructure projects which are financed by a combination of concessional lending and using cash reserves. The large fiscal deficits are only expected over the short-term due to the nature of the projects in question. If projects are completed as scheduled, the fiscal position is expected to improve going forward. It must be noted that the carry forward of unspent funds from 2017/18 for some key infrastructure projects have not been factored into the estimates below.

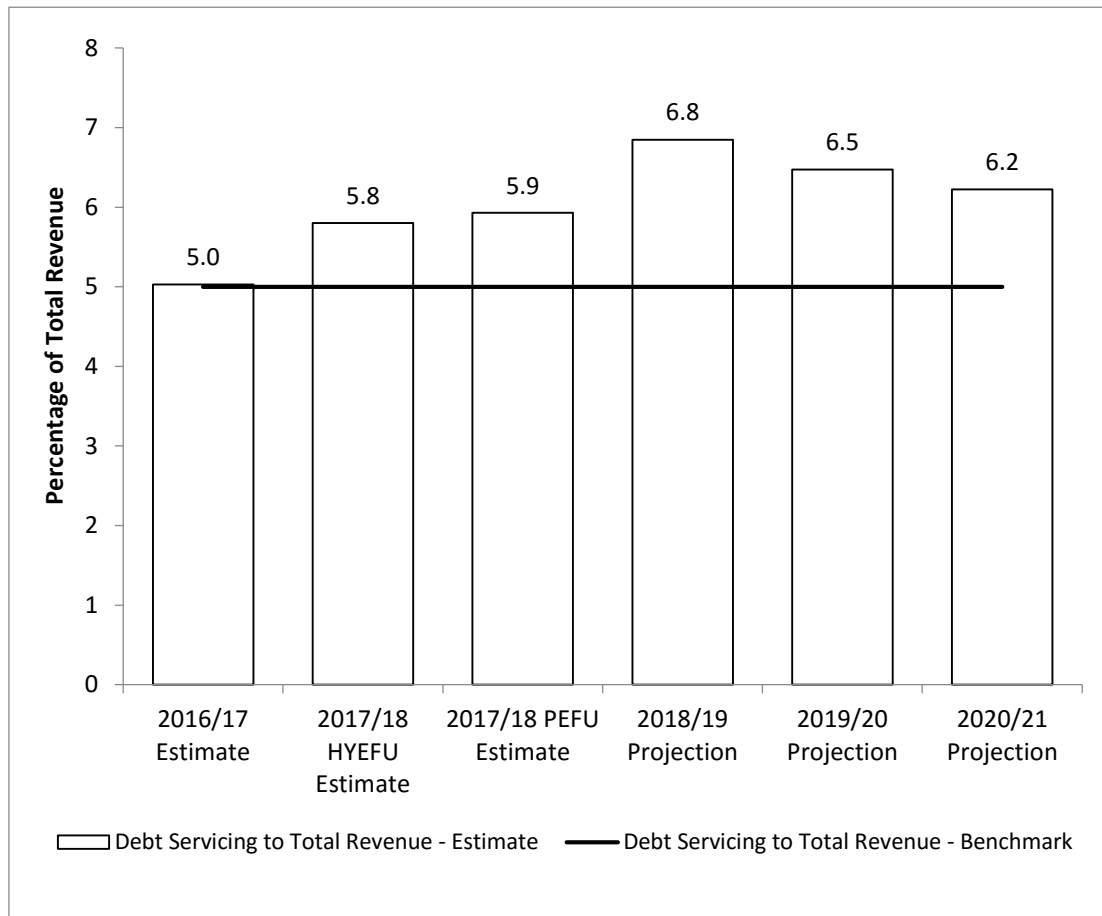
Figure 4.2 Fiscal Balance to GDP 2016/17 to 2020/21



4.2.3 Debt Servicing to Revenue

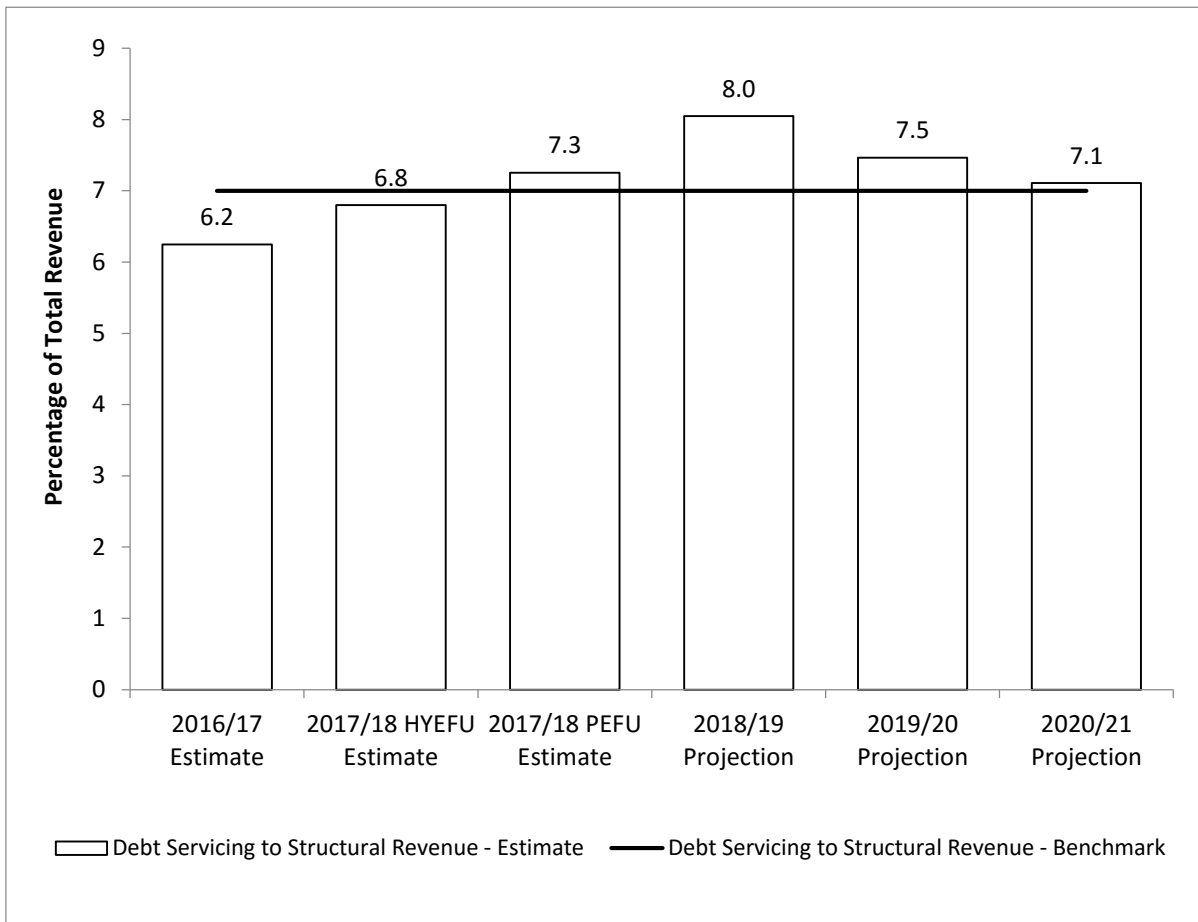
Debt servicing to total revenue measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principal. Figure 4.3 shows the debt servicing payment going out of the Loan Repayment Fund (LRF), minus any interest earnings of the LRF (rather than the amount paid into the LRF in the specified year). The ratio of debt servicing to revenue is 5 per cent. As shown in Figure 4.3, debt servicing to revenue has increased steadily since 2016/17 as a result of favorable exchange rate movements in that year and an increase in revenues. However, the figures show a decrease in the debt servicing to revenue in the forward years.

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



It is useful to compare debt servicing with structural revenue to form an opinion of Government’s ability to meet debt obligations in the longer term. Structural revenue is estimated to be locally sourced (non-grant) revenue, excluding withholding tax, revenues from seabed mining and fishing revenue. When considering debt servicing to structural revenue we must adjust the benchmark level upwards to 7 per cent, as structural revenue is, by definition, smaller than total revenue. As shown in Figure 4.4, revised figures in the 2017/18 PEFU show that in that year, debt servicing will be slightly higher than the benchmark amount as a result of increased structural revenues. However, debt servicing increases dramatically from 2018/19 due to the revisions in drawdown of loans to ensure enough funds have been stored to cover repayments.

Figure 4.4 Debt Servicing to Structural Revenue

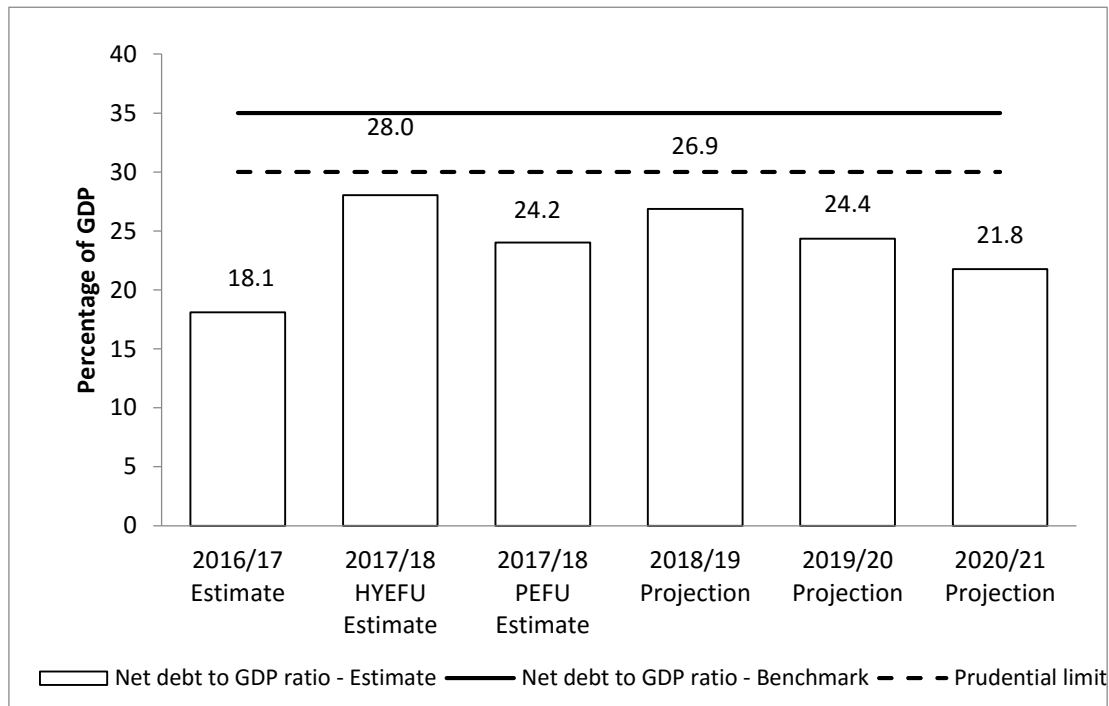


4.2.4 Net Debt to GDP

Net debt (taken here to be gross debt obligations, net of the funds in the LRF) to GDP measures the level of debt relative to national income, and is intended to control the overall level of debt taken on by Government including State-owned Enterprises (SOEs). The limit agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent net borrowings of approximately \$151.6 million based on the 2017/18 PEFU. The Government is well within the net debt benchmark over the short and medium term.

Shown in Figure 4.1, there is also a 30 per cent debt target that the Government is committed to staying below (this would be equivalent to approximately \$130 million). This ensures that there is at least 5 per cent of GDP available in debt financing should there ever be a major economic or natural disaster before the Government breaches the voluntary debt limit.

Figure 4.1 Net Debt to GDP Ratio 2016/17 to 2020/21



As shown in Figure 4., net debt to GDP in 2017/18 and 2018/19 ratios are sitting just below the 30 per cent mark at 24 per cent to GDP for PEFU. This slight change is the result of the delay in draw down of the Manatua Submarine Cable loan, amongst others.

These ratios should not be viewed in isolation. Any proposal to take on additional borrowing should be looked at in the context of the whole of the Government Budget, the Crown’s ability to pay annual debt servicing and international best practice. The latter aspect includes prudential requirements set by the Crown’s lenders.

The extended benchmark to five per cent debt servicing to revenue level has been questioned as to whether it is too low. The net debt servicing to total revenue ratio controls the servicing of debt, which includes interest and principal payments. It primarily ensures that there are sufficient means to service debt from the operating revenue. Together with the tax revenue envelope, this ratio measures how much debt servicing is crowding out other components of government spending. The Asian Development Bank (ADB) undertook an independent assessment in 2013 which concluded that a 10 per cent ratio of debt servicing to revenue would be a more sensible ratio to use rather than the extra 5 per cent. This was suggested on the basis that the 10 per cent would be consistent with the debt to GDP ratio.

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

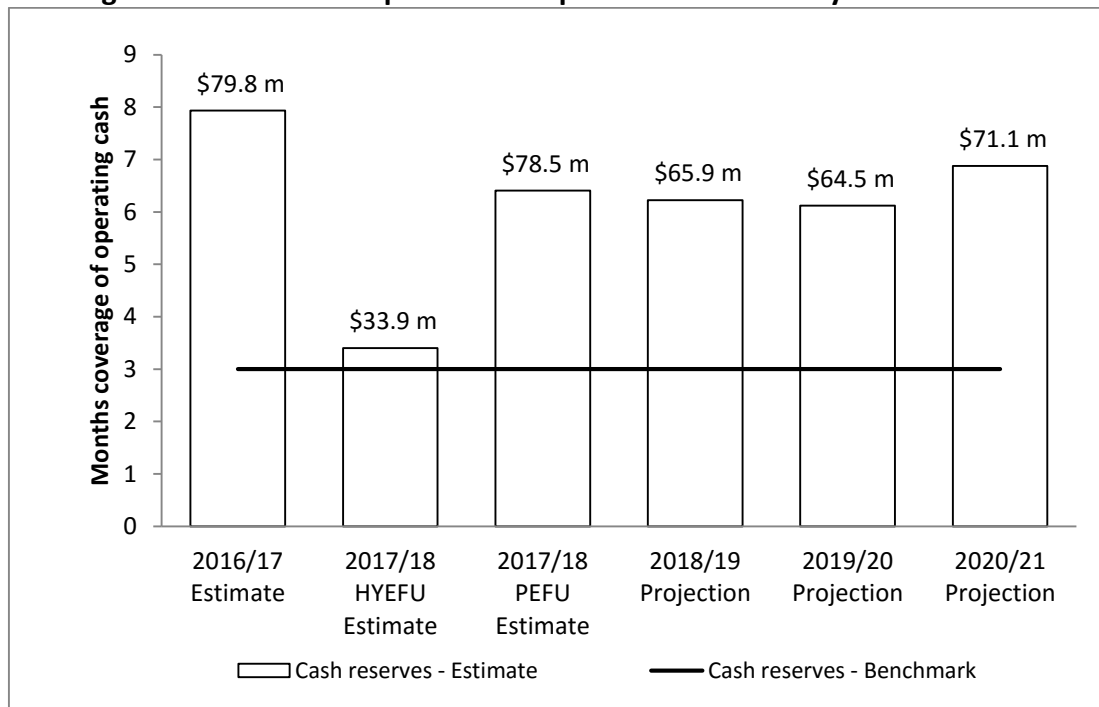
The LRF Act 2014 requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of Government lending policy, including the amortisation schedule, the impact on debt service burden of the Government over the life of the loan, and an assessment of the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

4.2.5 Cash reserves

Similar to the Cook Islands Constitution where 3 months of spending is permitted if a budget is not passed in the new financial year, the ratio for the cash reserves was also set for 3 months. This will ensure that the Government will have cash available to act as a buffer in the case of a liquidity shortage or in the case of a large cyclone and collection of revenue is put on hold. A prudent level of cash reserves is considered to be 3 months of operating expenditure, which is shown in Figure 4.6.

In 2017/18, there is a substantial increase in cash reserves compared to the HYEFU. With tax estimates revised upwards and significant one off revenue payments, this has impacted the cash reserves. Revisions have been made to the capital schedule to determine expenditure to 30 June 2018, which resulted in a decrease of capital spending. Various reasons have caused delays in major projects therefore increasing the amount of cash unspent added on top of the revenues generated. The forward years' cash reserves are not adjusted to reflect any new initiatives for 2018/19 and any carry forwards required for capital projects committed in this financial year.

Figure 4.5 Months of Operational Expenditure covered by Cash Reserves

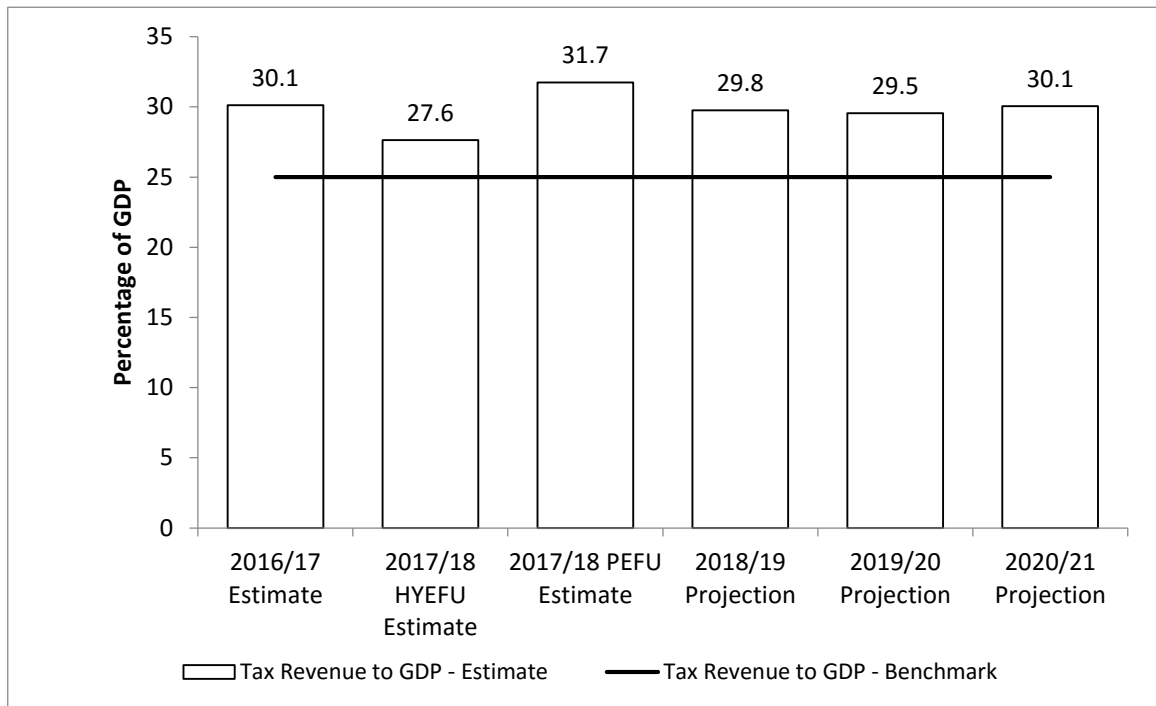


4.2.6 Tax Revenue to GDP

This ratio establishes boundaries on the collection of revenue and ensures Government limits the diversion of resources away from the private sector. The benchmark that current and previous Governments have agreed to work within is to maintain collections to within 25 per cent of GDP. The expected performance against this benchmark is illustrated in Figure 4. 6.

Current forecasts estimate that the Government will exceed the benchmark in 2017/18 (31.7 per cent) and will maintain this going forward.

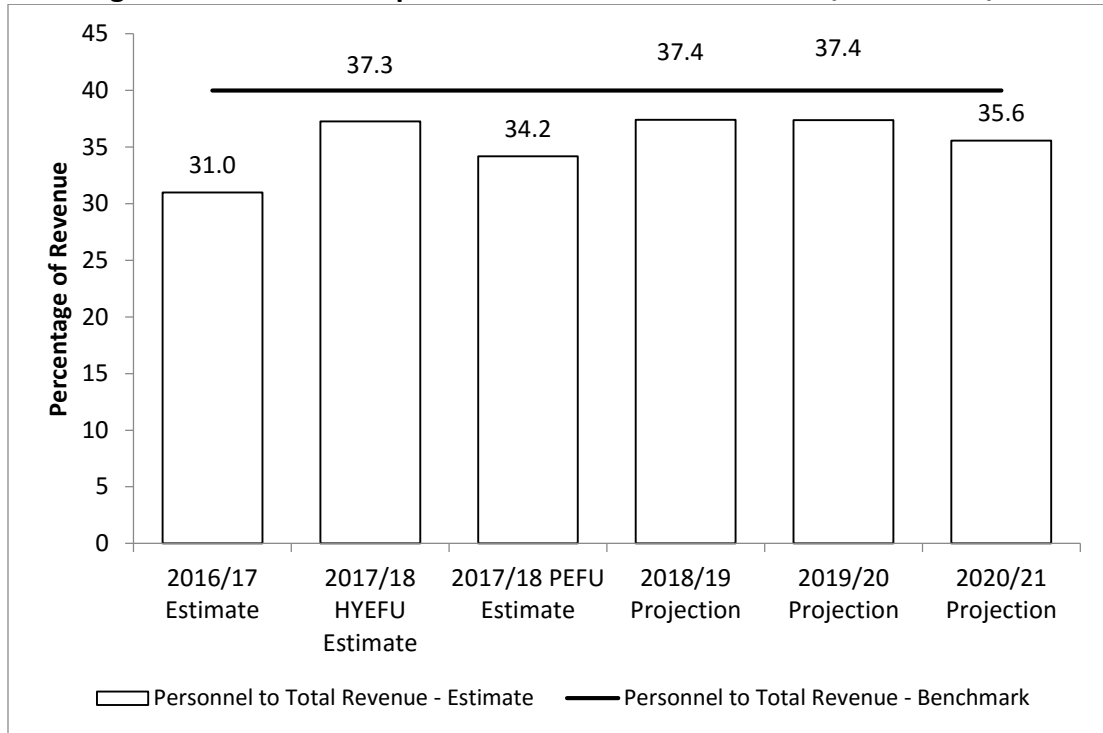
Figure 4. 6 Tax Revenue to GDP 2016/17 to 2020/21



4.2.7 Personnel Expenditure to Revenue

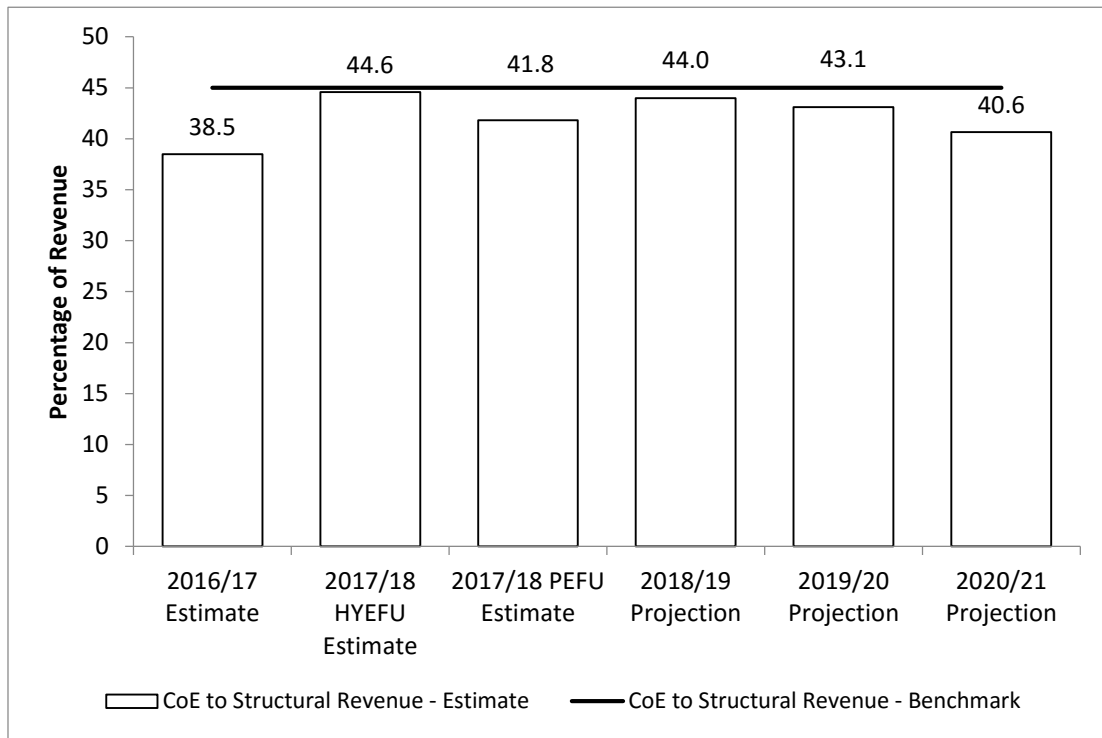
This ratio is aimed at controlling the expansion in the size of the public sector. The benchmark that Governments have agreed to work within is maintaining the expenditure on personnel within 40 per cent of total revenue. As is illustrated in Figure 4.7, currently this target is being achieved. Total personnel expenditure has not changed since the HYEPU, however due to the changes in revenue this has adjusted the percentage ratios.

Figure 4.7 Personnel Expenditure to Total Revenue 2016/17 to 2020/21



However, as personnel spending is a structural spending component, and some of the revenue included in the ratio for Figure 4.7 is not structural in nature, it is useful to consider the ratio shown in Figure 4.8 as well. This ratio compares total 'Compensation of Employees' (a Government Financial Statistics measure of personnel expenditure, which includes personnel funded through Administered Payments and POBOCs) with structural revenue to indicate the level of personnel spending as a proportion of structural revenue.

Figure 4.8 Compensation of Employees to Structural Revenue - Estimate 2016/17 to 2020/21



Part of the ongoing public financial management improvements will be to identify a more suitable ratio than the current Personnel-to-Revenue measure, and Figure 4.8 offers a different perspective on the challenge of maintaining fiscal sustainability, with a benchmark ratio of 45 per cent used as an indicator. As shown above, due to the revised forecast in revenue, this has resulted in this spending to fall within the 45 per cent benchmark in 2017/18. This will be maintained over the forward estimates.

5 Assumptions underlying the fiscal projections

Various assumptions are made to allow forecasting to be undertaken of the government's fiscal performance and position in the forward years.

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

GDP data has been updated to the September quarter 2017, and trade data has been updated to the March quarter 2018. The data sets used were those available as at 24 April 2017.

Nominal GDP is expected to grow by:

- 4.3 per cent in 2016/17 (provisional actual)
- 1.5 per cent in 2017/18
- 1.7 per cent in 2018/19
- 2.8 per cent in 2019/20
- 2.9 per cent in 2020/21

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

Tourism expenditure is the largest single component of the forecasts, and is based on average stays of 8.5 days for New Zealand arrivals, 9 for Australia, 8.2 for USA, 10.1 for Canada, 8.8 for Europe (including the UK), 6.7 for Asia, 7.9 for French Polynesia and 10.2 for other – an overall average of around 8.6 days depending on the composition of total arrivals in any given month. This data is based on the Customs and Immigration database of arrivals and departures, which uses the passport numbers of visitors to determine how long an individual passport holder is in the country.

Average visitor spend is assumed to be NZD 243.28 per day, which is estimated from quarterly visitor surveys and a Consumer Price Index (CPI) indexation of a basket of tourist services.

Public consumption is the second largest single item and is estimated based on the personnel and operating appropriation for both Government and aid spending. Public investment is also a significant component of the model, and is estimated based on capital plans (including ODA investment), for which a realisation (or completion) rate is applied to capital projects to allow for project slippage from one year to the next, and issues of capacity. This is based around the total capital projects over the period, smoothed to follow an estimated profile based on historical realization rates around 40%.

Government consumption expenditure is based on the Operating Actuals until 2016/17 and Operating Estimates for the forwards as outlined in the Appropriation for 2017/18, and is expected to grow as follows:

- 0.3 per cent in 2017/18
- -0.9 per cent in 2018/19
- -0.15 per cent in 2019/20

- 1.8 per cent in 2020/21

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

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

Domestic (private) consumption is estimated based on consumption patterns as observed through the VAT series, along with expected inflation and population changes. The methodology derives a “consumption per head per day” metric and scales back to the full population. Domestic consumption now contributes relatively less to the economy, with gross fixed investment outstripping it in terms of contributions.

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

- -0.13 per cent in 2016/17 (actual)
- 1.4 per cent in 2017/18
- 1.5 per cent in 2018/19
- 1.1 per cent in 2019/20
- 1.3 per cent in 2020/21

6 Economic Update

6.1 Introduction

Unprecedented tourism arrivals, together with high public and private capital investment has spurred strong growth in the Cook Islands economy in recent years. The sheer beauty of the Cook Islands, which is comprised of 15 islands over 1.8 million square kilometres of the Pacific Ocean helped it to attract 155,200 tourists in 2016/17, a figure that is expected to climb in 2017/18. The geography of the Cook Islands has also had a negative impact on the ability of the outer islands to develop to similar standards as that seen on Rarotonga. Distances between Rarotonga and the outer islands, particularly the northern group, reduces the opportunities for economic development in these islands which now rely heavily on government employment and subsistence farming, with some islands working towards small tourism, agriculture and pearl industries. The Cook Islands Government provides high levels of support to the outer islands to ensure that a reasonable standard of living is achieved for all residents.

Strong growth in the Cook Islands economy appears to have raised the standard of living and quality of life for the average Cook Islander. This improvement may result in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list in early 2019. Work is currently being undertaken by the Statistics Office to develop comprehensive Balance of Payments data which will be used to determine the Cook Islands' Gross National Income in 2015, 2016 and 2017. This data will be used by the OECD to determine whether the Cook Islands has reached the level of economic development required to graduate to 'high income status'.

While high tourist arrivals are fuelling growth at present, and are expected to continue to do so over the coming two years, the heavy reliance on the tourism sector makes the Cook Islands vulnerable to shocks in external markets and natural disasters. If an economic downturn in one of the major tourism markets such as New Zealand, or a natural disaster in Rarotonga were to occur, the Cook Islands would be at risk of losing up to 67 per cent of its current tourism base. This would impact on both economic growth and government revenues, decreasing the government's ability to create fiscal stimulus.

Growth in tourism has spurred growth in other sectors of the economy, particularly in the construction industry. Building approvals have seen significant growth indicating that the construction sector will likely record strong returns in 2017/18 and 2018/19. The high building approvals are coming from both the residential and commercial sectors, with strong growth taking place in commercial tourism building approvals. The government is also in the process of implementing an ambitious capital plan which is expected to have a positive impact on the economy through employment of local staff and contractors over the medium term, with some projects such as water sanitation expected to continue into the long-term. Growth in tourism and construction whilst encouraging growth in the national accounts, both increase imports which can detract from some of the positive growth estimated. This is expected to occur over the forward estimates, with increases in the value of imports of machines, transport and equipment.

The Asian Development Bank (ADB) Outlook 2018 provides a positive outlook on the Cook Islands, anticipating growth of 3.5 per cent in 2017/18 before decreasing slightly from 2018/19 due to 'the completion of infrastructure projects'. However, it is unlikely that these infrastructure projects will be complete by this time. The ADB has stated that policy and infrastructure development that is sensitive to the impact of tourism on the environment and local sociocultural frameworks is required to ensure the

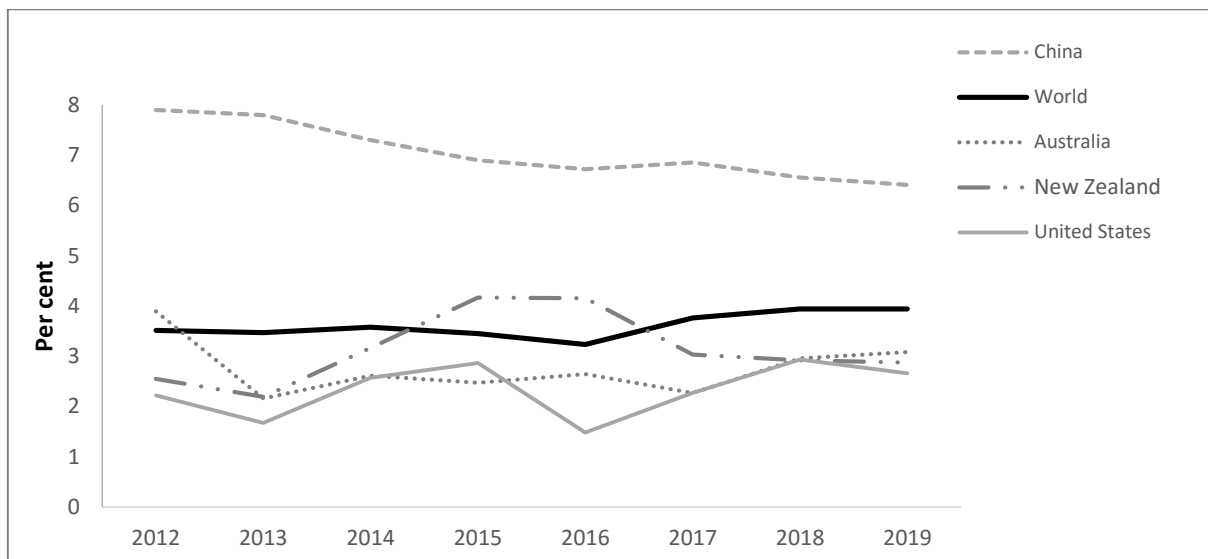
sustainability of tourism. The ADB also suggests that the Cook Islands look at targeting higher end tourist arrivals.

6.2 The Global Economy

The Cook Islands economy must be seen in the context of the global economy due to its open nature and heavy reliance on the export of goods and services. The International Monetary Fund (IMF) increased its global growth estimate for 2017 to 3.8 per cent in its April 2018 World Economic Outlook, up from 3.6 per cent in the October 2017 outlook, the fastest growth since 2011 (see Figure 6.1). This strong result was due to increased investment spending in advanced economies and an end to declining investment in some commodity-exporting emerging market and developing economies.

Looking forward, the IMF expects global growth to rise marginally to 3.9 per cent in 2018 and 2019 on the back of supportive financial conditions and a sizeable fiscal expansion in the United States over the forward period.

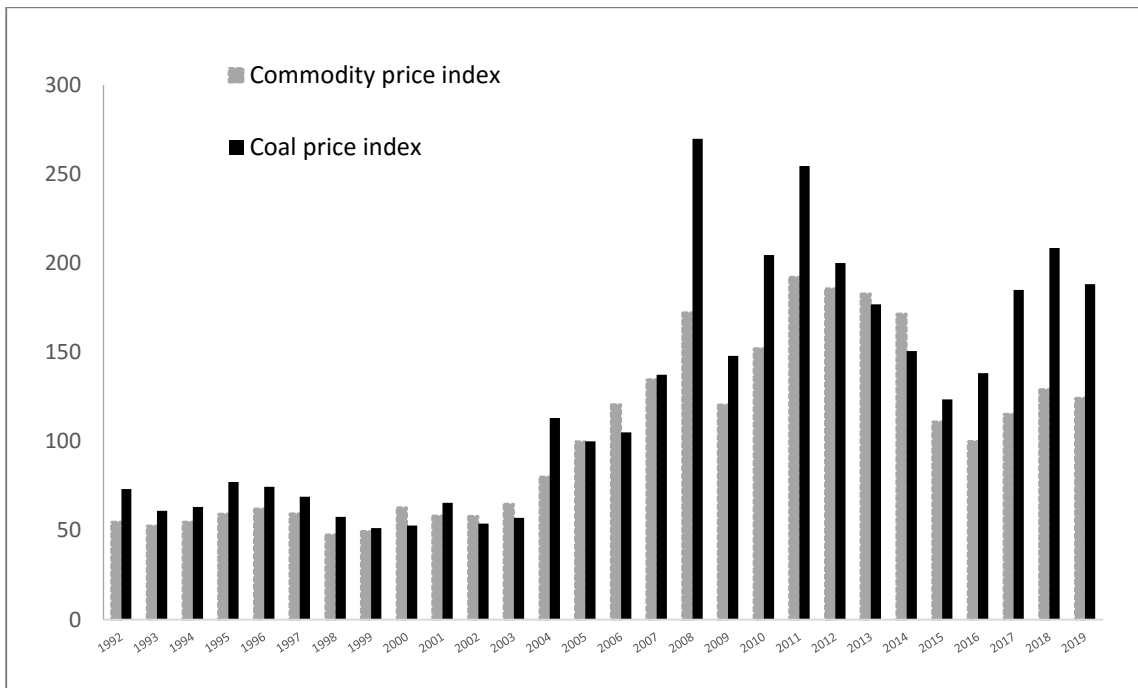
Figure 6.1: IMF GDP growth estimates, selected countries



Advanced economies are projected to grow at 2.5 per cent in 2018, 0.2 percentage points higher than in 2017, and 2.2 percent in 2019. This forecast is substantially higher than the October 2017 outlook (0.5 and 0.4 percentage points higher for 2018 and 2019, respectively). Positive revisions reflect stronger prospects for the euro area and Japan and especially the projected domestic and spill over effects of expansionary fiscal policy in the United States.

The IMF expects growth in emerging market and developing economies to increase further—from 4.8 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019. Although the high growth rate primarily reflects continued strong economic performance in emerging Asia, the projected pickup in growth reflects improved prospects for commodity exporters after three years of very weak economic activity. The IMF’s Primary Commodity Price Index rose 16.9 percent between August 2017 and February 2018, increase driven primarily by rising oil and natural gas prices (see Figure 6.2). Metals and agricultural commodity prices also rose, although less rapidly than energy prices.

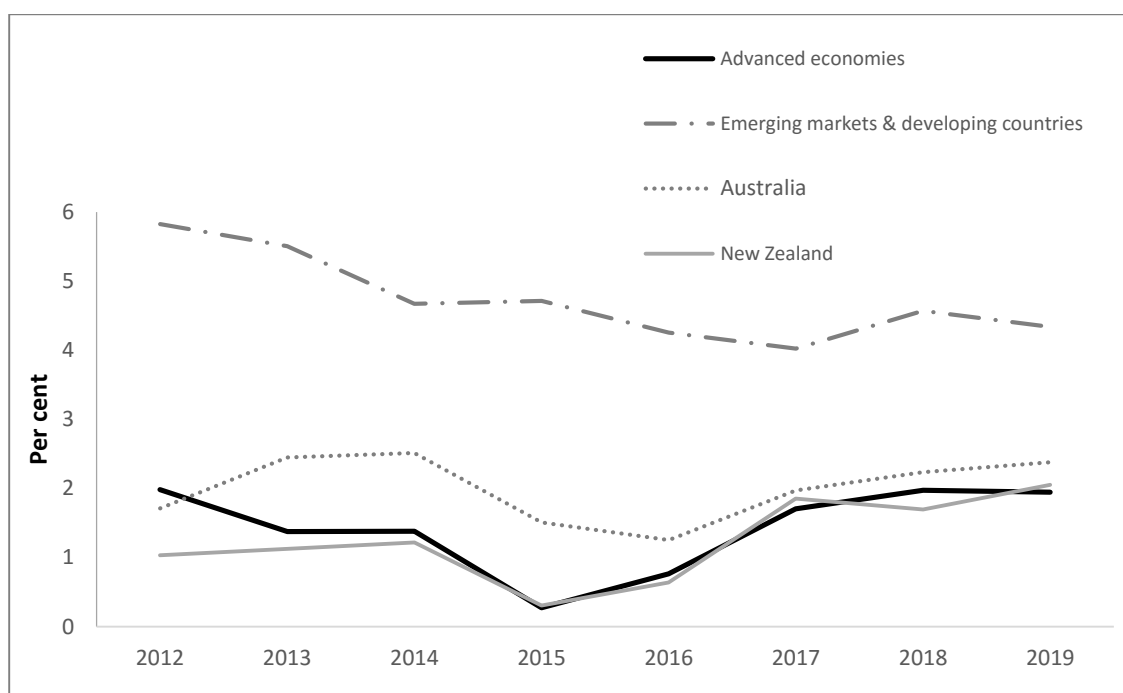
Figure 6.2: IMF commodity and coal price indices



China's GDP growth is expected to reach 6.9 per cent in 2017 with India attaining 6.7 per cent. Growth in China and India last year was supported by resurgent net exports and strong private consumption, respectively, while investment growth slowed. China's growth is expected to moderate to 6.6 per cent and 6.4 per cent in 2018 and 2019, but still well above the emerging market and developing economy average, as credit growth and fiscal stimulus diminish. The IMF expects a stronger performance from India, with growth rising in 2017 to 7.4 per cent and 7.8 per cent in 2018 and 2019, lifted by strong private consumption as well as fading transitory effects of the currency exchange initiative and implementation of the national goods and services tax.

Growth in the global economy is expected to have a positive impact on the Cook Islands' economy through increased tourism, although it does pose a risk of increased inflation. The IMF expects headline inflation to pick up over the near term due to stronger demand putting upward pressure on commodity prices and the strengthening global outlook narrowing output gaps. Headline inflation rates in advanced economies are projected to rise to about 2 per cent in 2018 and 2019 (0.3 percentage point higher for 2018 than in the October 2017 outlook) from 1.7 per cent in 2017 (see Figure 6.3). Core inflation (excluding fuel and food prices) is also expected to increase as wage dynamics reflect tighter labour markets.

Figure 6.3: IMF inflation estimates, selected groupings and countries



The IMF states that risks to the growth forecasts over the near term are balanced, with the possibility of stronger growth than forecast balancing out unfavourable contingencies. Over the medium term, the IMF expects the likelihood of negative shifts in the forecast to rise. The key risks are a tightening of monetary policy which would stress highly indebted countries, businesses and households, and an escalating cycle of trade restrictions.

The IMF has upgraded its original forecasts for growth for two of the Cook Islands' three key markets namely, Australia and the United States. The forecasts for New Zealand have been downgraded.

In the United States, the IMF expects GDP growth to rise from 2.3 percent in 2017 to 2.9 percent in 2018, before moderating slightly to 2.7 percent in 2019 (0.6 and 0.8 percentage points stronger than projected in the October 2017 outlook for 2018 and 2019). The upward revision reflects stronger than expected activity in 2017, firmer external demand, the expected macroeconomic impact of the December 2017 tax reform (especially the lower corporate tax rates) and higher public spending following the February 2018 bipartisan budget agreement.

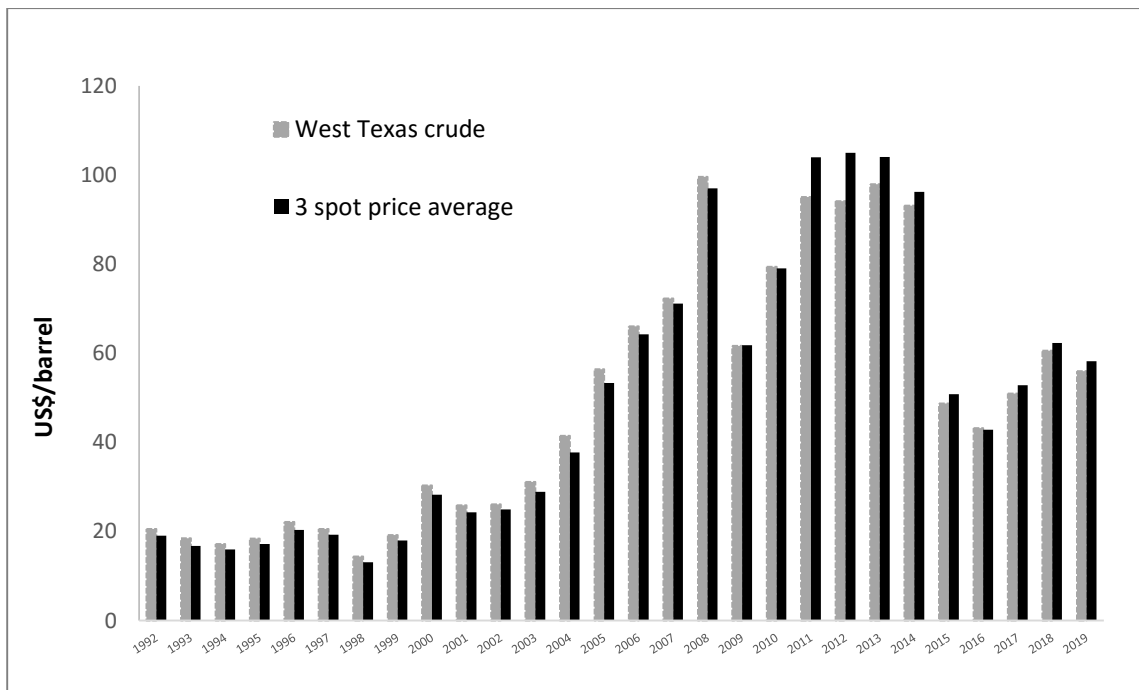
Australia's expected growth was upgraded from 2.2 per cent to 2.3 per cent in 2017, rising to 3.0 per cent and 3.1 per cent in 2018 and 2019 (0.8 and 0.2 percentage points stronger than projected in the October 2017 outlook for 2018 and 2019). The stronger than expected result is due to stronger commodity prices, especially for thermal coal. The coal price index—an average of Australian and South African prices—increased by more than 8 per cent from August 2017 to February 2018.

New Zealand's expected growth was downgraded from 3.6 per cent to 3.0 per cent in 2017, compared to 4.2 per cent in 2016. The estimates for the forward period are 2.9 per cent for 2018 and 2019 (0.6 and 0.1 percentage points less than projected in the October 2017 outlook). In its February 2018 Monetary Policy Statement, the Reserve Bank of New Zealand attributes the slowing in GDP growth in 2017 to weaker growth in consumption and residential investment.

Any negative shocks to the New Zealand and Australian housing markets could have serious negative impacts on both economies, predominantly due to the high level of dependence between each nation's banks.

Oil prices increased to more than \$65 a barrel in January 2018, the highest level since 2015, following unplanned outages on the US Gulf Coast and in Libya, the North Sea, and Venezuela, an extension to the end of 2018 of the Organization of the Petroleum Exporting Countries agreement on production targets, and stronger global economic growth. Prices moderated to \$63 a barrel in February 2018, 27 per cent above their August 2017 level.

Figure 6.5: IMF oil price estimates



Oil prices are expected to average about \$62 a barrel in 2018 (up from \$53 in 2017 and well above the projection of \$50 a barrel in the October 2017 outlook), as shown in Figure 6.5. As supply recovers, oil prices are expected to decline to \$58 a barrel in 2019, and further to about \$54 a barrel in 2023.

6.3 Economic Indicators

Historical economic growth estimates have changed since HYEPU, impacting on the base that the economy will grow from. Gross Domestic Product has been revised to exclude fish that have been caught by foreign boats in foreign waters. Nominal GDP estimates for 2016/17 have subsequently decreased from \$422 million to \$416 million. The revisions have also had an impact on real GDP estimates, although these are smaller in magnitude.

Tourism has grown consistently since 2015, with 11 per cent growth in 2015/16 and 14.9 per cent growth in 2016/17, it is expected that tourism will continue to grow albeit at lower rates. Tourism arrivals have been revised upwards due actual arrivals since October coming in slightly above that forecast. However, increases in fuel prices may have a negative impact on the tourism industry going forward through higher airfares.

Following these developments and global economic growth, nominal gross domestic product is estimated to have grown at 4.2 per cent in 2016/17, significantly higher than the 1.7 per cent estimated at the HYEUFU. The growth rate is lower in 2017/18 as a result of delayed capital projects and the high value imports of goods and services coming into the country. Growth is expected to pick up again from 2018/19 as capital projects get underway and the importation of high value machinery decreases.

The GDP deflator is estimated to have been 0.5 per cent in 2016/17 indicating increasing prices across the economy. Real GDP is estimated to have grown by 3.7 per cent in 2016/17, higher than the estimate of 3.2 per cent at HYEUFU.

Table 6.1 Summary of Economic Indicators

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
	<i>Est</i>	<i>Est</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>	<i>Proj</i>
Economic Activity						
Nominal GDP (\$'000)	416,231	422,525	429,529	441,612	454,430	462,736
<i>Percentage change (YOY)</i>	<i>4.3</i>	<i>1.5</i>	<i>1.7</i>	<i>2.8</i>	<i>2.9</i>	<i>1.8</i>
Real GDP (at Constant 2006 Prices, \$'000)	336,078	342,588	348,571	360,430	368,880	370,925
<i>Percentage change (YOY)</i>	<i>3.7</i>	<i>1.9</i>	<i>1.7</i>	<i>3.4</i>	<i>2.3</i>	<i>0.6</i>
Inflation						
<i>Percentage change (YOY)</i>	<i>-0.1</i>	<i>1.4</i>	<i>1.5</i>	<i>1.1</i>	<i>1.3</i>	<i>1.4</i>
Construction/Capital Investment						
Commercial Building Approvals (\$'000)	24,476	9,476	9,476	9,476	9,476	9,476
Residential Building Approvals (\$'000)	11,864	12,042	12,222	12,405	12,591	12,779
Public Works (\$'000) (includes Dev Partners)	33,625	71,153	70,580	42,472	16,365	-
Productive Sector Indicators						
Visitor Arrivals	155,230	162,395	168,570	171,818	173,600	176,669
<i>Percentage change (YOY)</i>	<i>14.9</i>	<i>4.6</i>	<i>3.8</i>	<i>1.9</i>	<i>1.0</i>	<i>1.8</i>
Estimated Visitor Expenditures (\$'000)	322,199	340,066	362,026	373,135	382,091	394,307
Pearl Exports (\$'000)	170	170	170	170	170	170
Fish Exports (\$'000)	6,413	6,563	6,563	6,563	6,563	6,563
External Sector						
Merchandise Trade Balance (\$'000)	(157,762)	(167,710)	(163,022)	(160,803)	(161,245)	(162,799)
Services Trade Balance (\$'000)	322,199	340,066	362,026	373,135	382,091	394,307
Exchange Rate (USD/NZD Average)	0.7000	0.7185	0.7200	0.7200	0.7200	0.7200

6.4 Gross Domestic Product

The Cook Islands has experienced positive growth since 2013/14. Revisions have recently been made to the estimates of gross domestic product (GDP). Until recently, fish caught by foreign boats in foreign waters have been included in Cook Islands trade, balance of payments and gross domestic product estimates. The removal of these figures for statistical reasons has resulted in downward revisions of historical GDP estimates. Further work is being undertaken by the Statistics Office to refine these estimates, including by undertaking a re-basing exercise using the 2016 Household Income and Expenditure Survey.

Revised estimates show that nominal GDP was around \$12 million lower than previously estimated in each year. These amendments have resulted in nominal growth in 2016/17 being revised upwards from 1.7 per cent in the HYEFU to 4.3 per cent, with nominal GDP estimated to be \$416 million.

Nominal growth is expected to remain positive in the coming years, albeit at lower levels. While high levels of construction are expected to contribute to economic growth, the resulting increase in the value of machinery imports and the import of services will likely offset the growth in construction.

Revisions to the treatment of fisheries exports have resulted in real growth being revised upwards to 3.7 per cent from 3.2 per cent at HYEFU, due to the lower level of economic activity than previously estimated. Going forward, the estimates for real GDP growth in 2017/18 have also been revised upwards to 1.9 per cent, growth is expected to remain at a similar level in 2018/19.

Table 6.2 GDP growth revisions

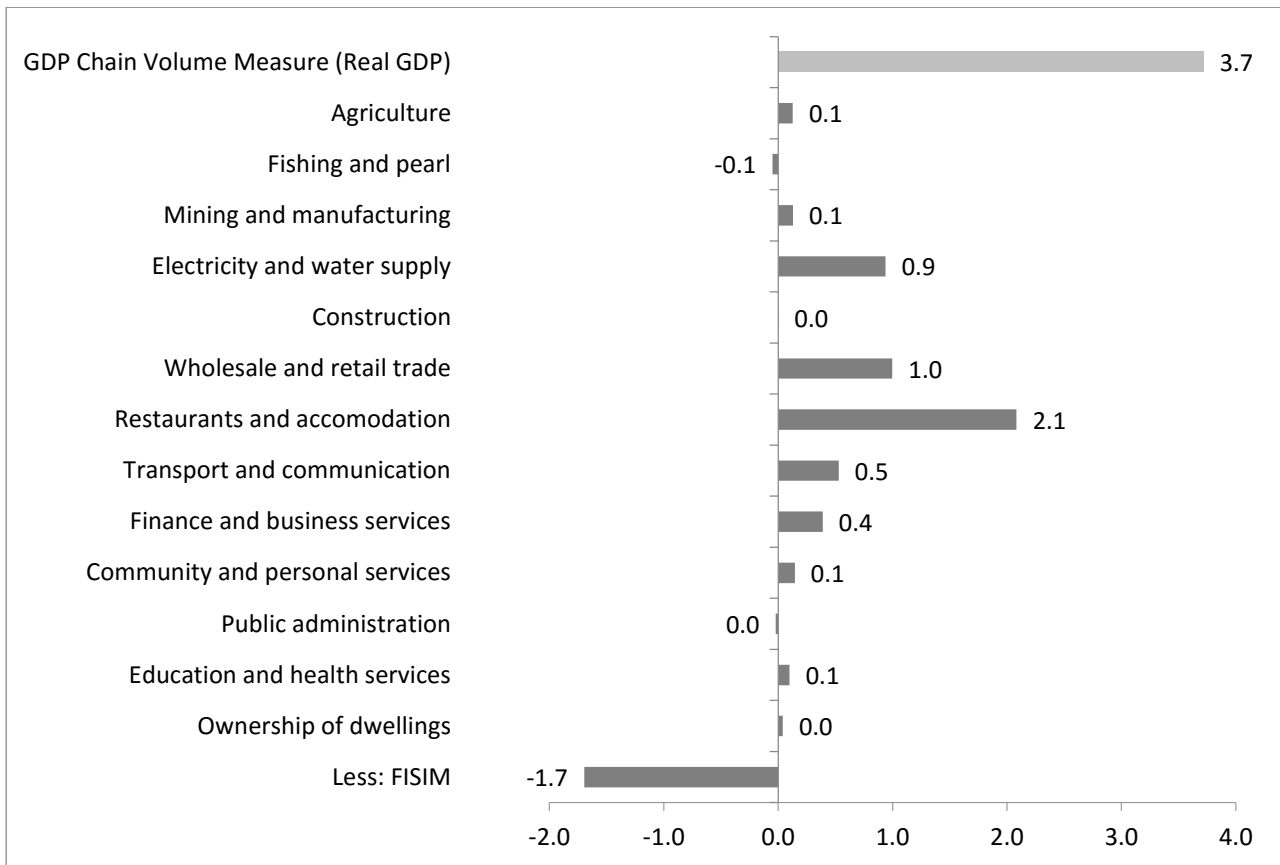
	2016/17		2017/18		2018/19	
	HYEFU	PEFU	HYEFU	PEFU	HYEFU	PEFU
Nominal GDP growth (per cent)	1.7	4.3	2.6	1.5	1.9	1.7
Real GDP growth (per cent)	3.2	3.7	1.6	1.9	0.5	1.7
Implicit GDP deflator (percentage change)	-1.5	0.5	1.0	-0.4	1.3	-0.1

Table 6.2 compares the growth rates estimated in the 2017/18 HYEFU with the current PEFU estimates for each respective year.

In 2016/17, high tourist arrivals drove strong growth in the economy. The tertiary (services) sector is by far the strongest sector in the Cook Islands contributing 4.3 percentage points to economic growth. The strongest contributions were from restaurants and accommodation (2.1 percentage points), wholesale and retail trade (1 percentage point), transport and communication (0.5 percentage points) and finance and business (0.4 percentage points). The secondary sector, which includes construction, electricity and manufacturing, contributed 1.1 percentage points to growth, while the primary sector, agriculture and fishing, contributed 0.1 percentage points.

During this period, restaurants and accommodation grew by 8.9 per cent to \$82 million, transport and communication grew by 3.5 per cent to \$51 million and wholesale and retail trade grew by 5.4 per cent to \$64 million.

Figure 6.6: Contribution to 2016/2017 real growth (percentage point)



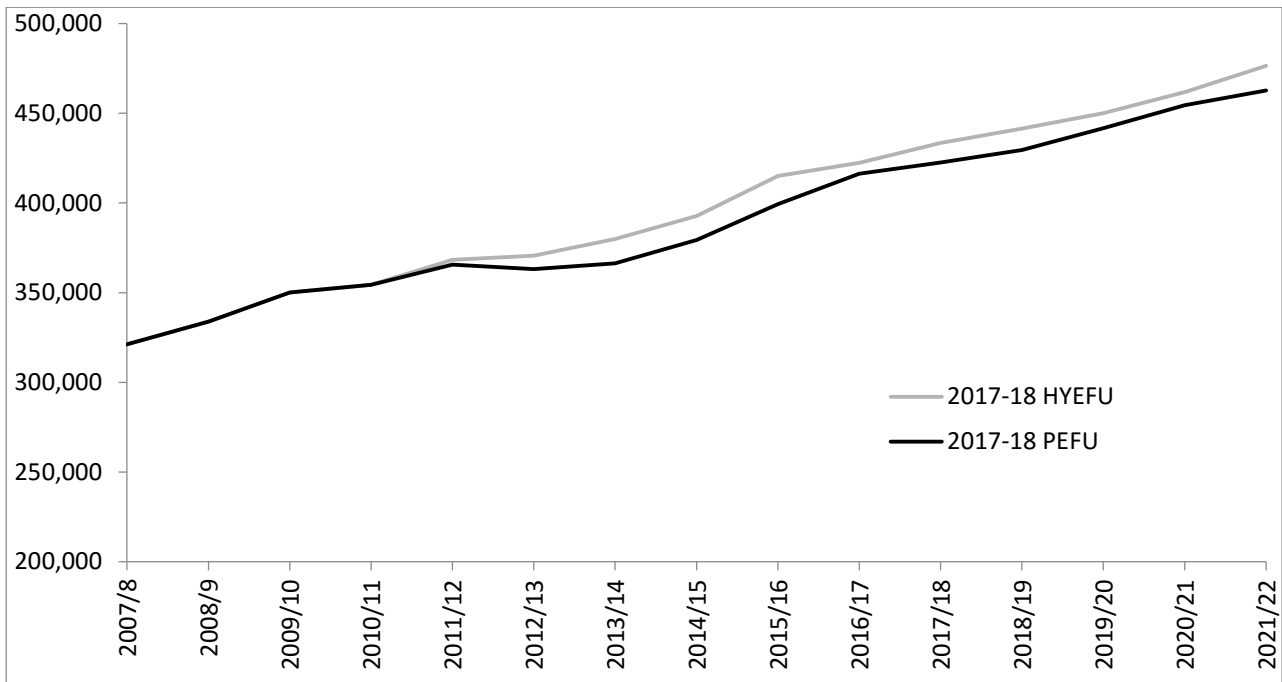
When assessing the economy using GDP by expenditure, it is estimated that the export of goods and services contributed 3.6 percentage points to nominal growth in 2016/17. This is expected to decrease to around 1.5 percentage points in 2017/18 and 2018/19 based on lower growth in tourism arrivals.

Consumption was estimated to contribute 1.9 percentage points to growth. This was comprised of 1.2 percentage points from public consumption and 0.7 percentage points from private consumption. As with exports, consumption is estimated to contribute less to economic growth in 2017/18 and 2018/19, dropping to around 0.7 percentage points.

Gross fixed investment (public and private) is estimated to have contributed 0.8 percentage points in 2016/17. Due to the delay in a number of public capital projects, this is expected to decrease to 0.3 percentage points in 2017/18.

Increases in imports and imported components of capital expenditure were higher than historical levels and is estimated to have detracted 2.1 percentage points from nominal growth in 2016/17. In 2017/18 imported components of capital expenditure are expected remain high, this, together with high imports of food items and increased fuel prices, are expected to detract around 0.8 percentage points from nominal growth, this is expected to increase in the forward years.

Figure 6.7 Nominal GDP growth 2007/08 to 2021/22

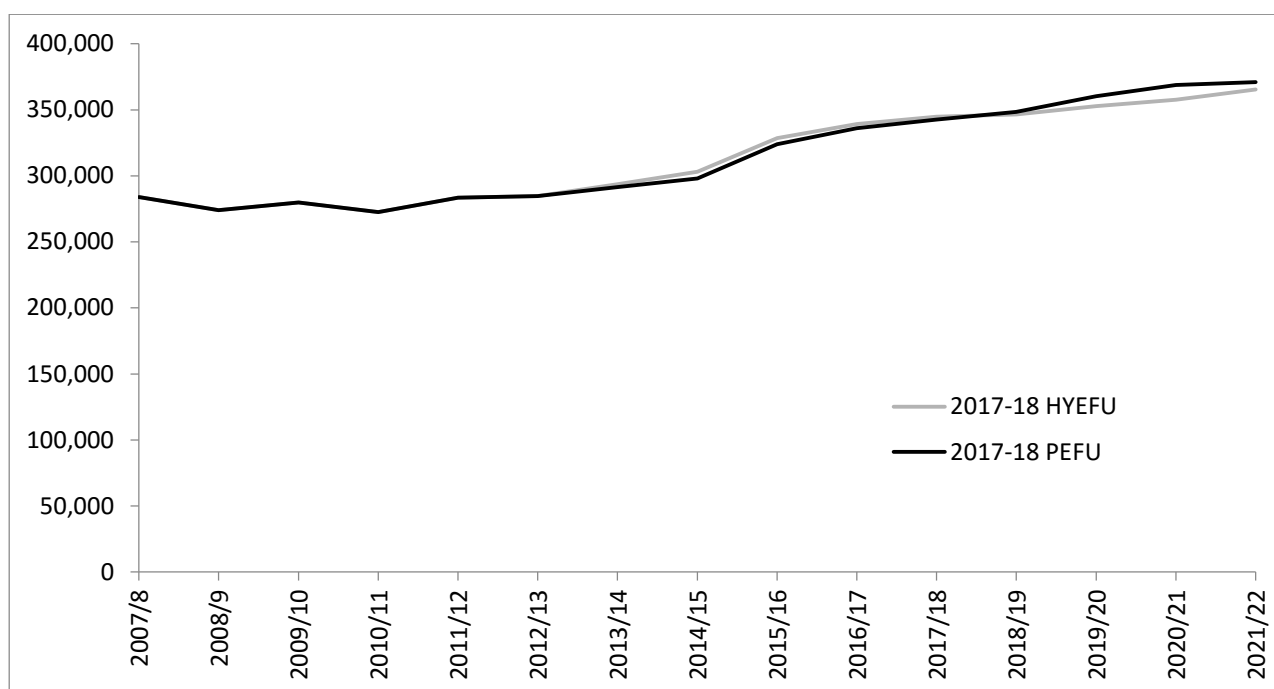


As can be seen in Figure 6.7, the removal of fisheries exports has had a significant impact on nominal GDP back to 2011/12. As a result, nominal GDP is expected to remain below levels estimated at HYEPU over the forward estimates. Despite the removal of the fisheries exports, it is clear that the Cook Islands still experienced strong levels of nominal economic growth between 2013/14 and 2016/17.

The removal of fisheries has not had the same effect on real GDP with only minor downward revisions made back to 2014/15, as can be seen in Figure 6.8. Upward revisions to estimated real growth rates see the 2018/19 estimates for real GDP overtaking the previous HYEPU estimates.

Real growth of 1.9 percent is expected in 2017/18 due to continued growth in tourism and investment (public and private). In 2018/19 it is expected that real GDP will continue at similar levels of around 1.7 per cent.

Figure 6.8 Real GDP 2007/08 to 2021/22



There are a number of positive and negative risks to the above predictions. The following are positive risks:

- Higher economic growth in key tourism markets than currently expected, increasing arrivals;
- Investment in private construction continues which decreases capacity constraints in the tourism industry;
- Growth in tourism could be sustained at higher levels than anticipated due to increases in accommodation capacity which is not currently factored into the forecasts.

On the downside a number of risks are evident:

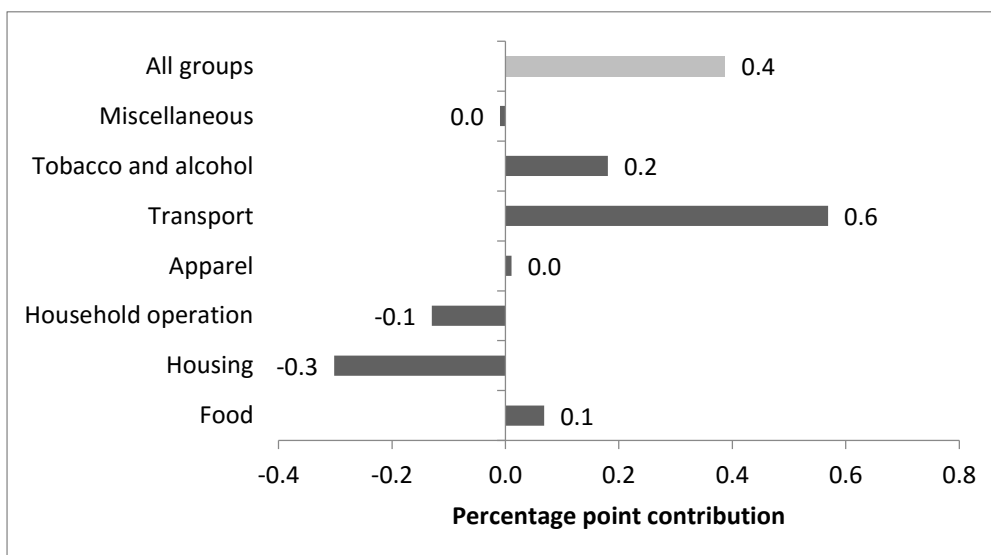
- Economic growth could stall in Australia or New Zealand, which would impact upon tourism arrivals and economic growth;
- Increased competition from other tourism destinations such as Hawaii and Samoa could negatively impact tourism arrivals;
- Inflation and oil prices could increase at higher rates than expected, impacting upon tourism numbers (through high travel costs), import values and domestic consumption;
- Further delays could be seen in the capital plan, pushing back wage earnings and improvements to infrastructure;
- The CIG's ambitious capital plan could crowd out private investment in capital, pushing down construction and limiting capacity growth.

6.5 Consumer Price Index

Inflation in the Cook Islands is measured by the Consumer Price Index (CPI), which is reported on a quarterly basis. Over the last ten years, inflation has been fairly steady, averaging 2.7 per cent annually (1.8 per cent if oil spikes in 2008/09 are removed). Recently, inflation has slowed and reversed. This reverse resulted in deflation through 2016/17. Actuals for 2016/17 showed that the inflation rate for the year was -0.13 per cent, following a large drop in prices during the December quarter. Prices improved throughout the remaining quarters, however not by enough to generate a positive inflation figure in 2016/17.

Inflation regained strength in the March Quarter 2018 largely due to growth in fuel prices. This resulted in year average inflation to March of 0.4 per cent. As can be seen in Figure 6.9, the March quarter year average inflation was largely driven by increased prices in the transport sector which contributed 0.6 percentage points, largely as a result of increases in oil prices. Mild growth was also seen in tobacco and alcohol contributing 0.2 percentage points, and food (0.1 percentage point). The figure clearly shows the deflationary effect of housing prices on CPI, detracting 0.3 percentage points.

**Figure 6.9 Contribution to March quarter 2018 year average inflation
(Percentage point contribution)**

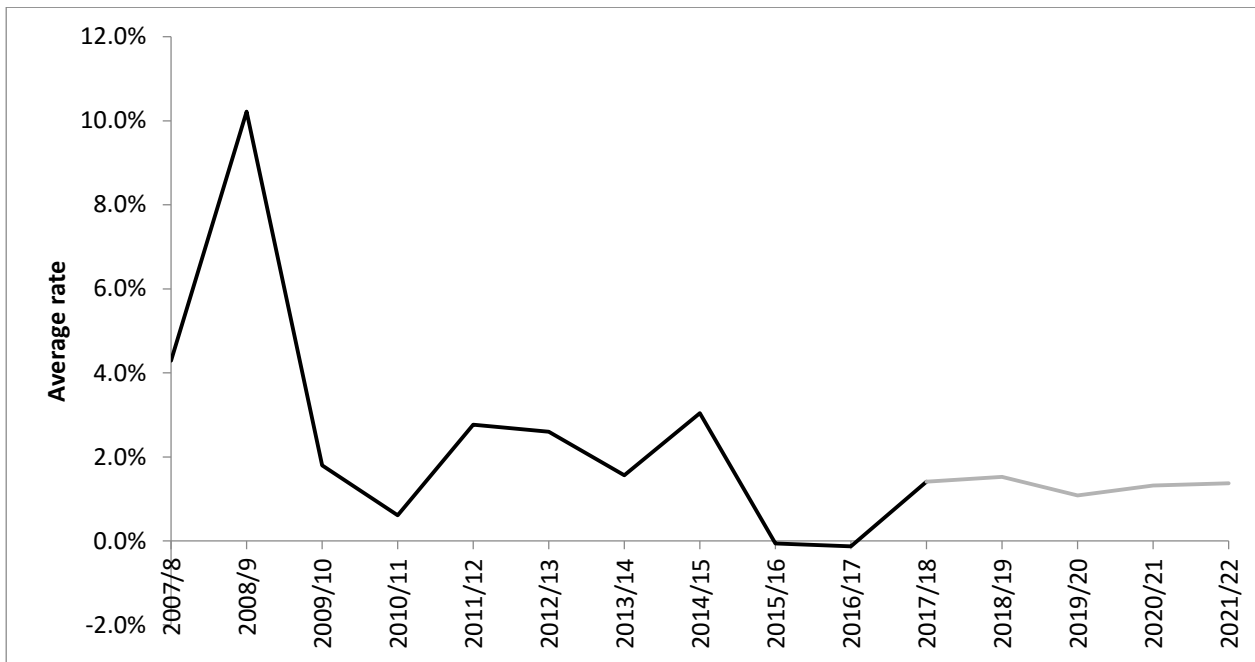


Globally, oil prices are expected to remain at a higher level, averaging around \$62 a barrel in 2018. This will likely ensure that fuel prices in the Cook Islands remain at the levels seen in the March Quarter, it is also expected that higher oil prices will flow through to other sectors of the economy, generating inflation across the board.

As a result of these factors, CPI is expected to be 1.4 per cent over 2017/18. This is expected to continue in 2018/19 before decreasing slightly over the medium-term, as shown in Figure 6.10.

CPI is due to be re-based in 2018 based on the release of the Household Income and Expenditure Survey. In addition, further in-depth analysis is required of the CPI as it currently indicates deflation in housing at a time when demand is largely outstripping supply.

Figure 6.10 Consumer Price Index, year average, 2007/08 – 2021/22



6.6 Tourism

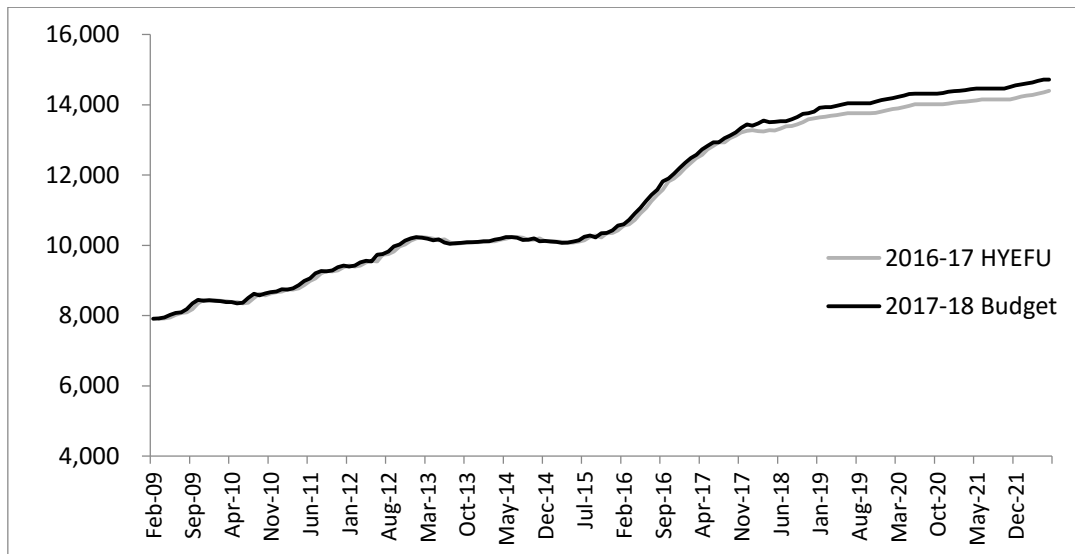
Strong growth in tourist arrivals in 2016/17 and the 2017 calendar year has so far continued into 2018. Tourist arrival numbers are continuing to reach record levels, with 162,395 tourists expected to arrive in 2017/18. Tourism continues to be the key driver of economic growth in the Cook Islands.

Tourism growth in 2017/18 is expected to be 4.6 per cent, slower than the 11 per cent in 2015/16 and 14.9 per cent in 2016/17. The lower growth rates are largely due to lower growth from the New Zealand market, which is expected to decrease from 16.9 per cent in 2016/17 to 3.6 per cent in 2017/18.

Strong growth is still being seen in the Australian and North American markets, albeit from a lower base than the New Zealand market. Growth in these markets is crucial for improving the diversification of the tourism industry in the Cook Islands which is currently overly reliant on the New Zealand market.

To March 2018, month on month growth from 2016/17 has averaged 6.7 per cent, with decreases in tourist numbers seen in July and January. Growth is expected to level out in the forward years with growth in tourist arrivals decreasing to 1 per cent in 2020/21.

Figure 6.11 Total monthly visitor arrivals (12 month moving average) 2008-2021



As can be seen in Figure 6.11, the forecast arrival numbers have increased since HYEFU based on higher than anticipated arrivals between October 2017 and March 2018.

It is possible that the impact of capacity limitations in the tourism sector are being seen through lower than anticipated arrivals in July 2017. Accurate data on tourism capacity in the Cook Islands is not currently available, particularly due to the recent growth in private holiday rentals. The economic forecasting in this chapter is based on an assumed tourist capacity of 16,469 per month, based on the highest number of tourists that the country has seen (July 2016). Despite expectations that the highest arrivals per month figure of 16,469 would be breached in 2017/18, this did not occur, rather arrivals increased in other months of the year, effectively spacing the increase in tourist arrivals throughout the year.

Limited accommodation and infrastructure impact upon the ability of the Cook Islands to carry high tourist numbers. They also impact upon the tourism industry’s ability to target high value tourists. Recent growth in building approvals for tourist accommodation will increase accommodation capacity, however, the increase in holiday home accommodation does not address the current shortage in high quality accommodation, thus failing to diversify the market in that respect. Furthermore, the growth in holiday houses places greater pressure on the long-term housing market in Rarotonga, which can in turn have negative implications on resident population numbers.

If tourist arrivals continued to grow at the rates recently seen without improvements to infrastructure and accommodation capacity, possible risks include increased costs to the tourism industry, decreased visitor satisfaction, and the increased dissatisfaction of local residents.

Environmental issues in the Rarotonga lagoon are a cause for concern. Muri lagoon has been the main focus of the tourism industry, however an algae outbreak occurred in the latter part of 2016. Work is currently being undertaken to determine the cause of the outbreak, however it is expected that high density tourism accommodation in the area may have been a contributing factor. To address this, Government is undertaking significant work within the Mei Ti Vai Ki Te Vai project to improve wastewater sanitation.

Table 6.3 Estimated total tourism numbers by quarter 2015/16 to 2020/21

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2015/16	39,084	33,813	24,261	37,978	135,136
2016/17	45,770	38,464	28,661	42,300	155,200
2017/18	48,000	42,400	29,900	42,100	162,400
2018/19	49,400	44,300	31,500	43,400	168,600
2019/20	49,400	45,300	32,600	44,500	171,800
2020/21	49,400	45,900	33,200	45,100	173,600

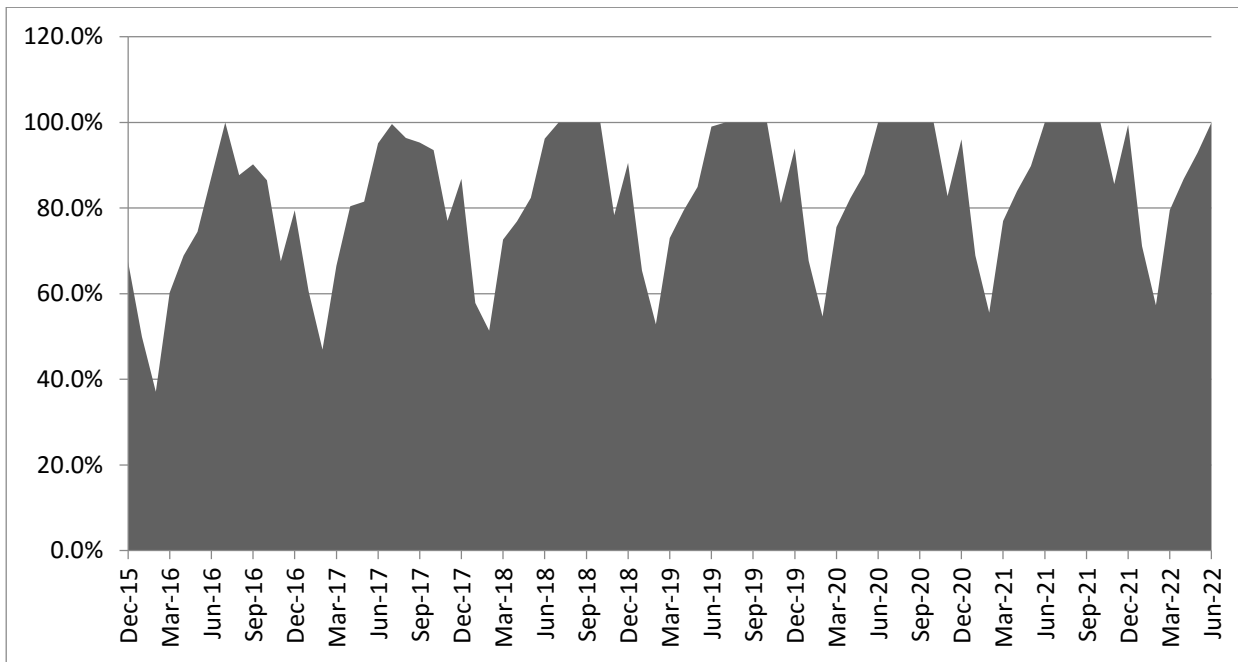
The September quarter (Qtr 1) attracts the highest number of tourist arrivals to the Cook Islands as seen in Table 6.3. Every month of this quarter is expected to reach maximum capacity from 2018/19 going forward. Reaching the capacity limit in the first quarter is expected to have a flow on effect to other quarters going forward by encouraging tourists to travel to the Cook Islands during other periods, due to ease of access to accommodation, decreased costs, for example.

Figure 6.12 highlights the capacity limitations being experienced in the Cook Islands. Capacity is no longer expected to be reached in 2017/18, due to the lower than anticipated arrivals in July. Maximum capacity is however expected to be reached four times during 2018/19. This is expected to increase over time.

The Cook Islands Tourism Corporation is currently focusing on increasing the diversification of tourist arrivals, with the intention of increasing the value of tourists arriving in the Cook Islands, and encouraging tourist arrivals during Quarter 3, what has traditionally been known as the low season. This strategy would serve to decrease the strong reliance on the New Zealand market by increasing arrivals from Northern America.

In the meantime, further investment in infrastructure, including tourist accommodation, will be required to accommodate increasing tourist numbers in the future. There are signs that the industry has gained confidence in attracting more visitors in the form of investment in room stock, however more will need to be done for the country to capitalize on the expected higher arrivals numbers.

Figure 6.12 Tourism capacity utilisation by month – 2015 to 2022

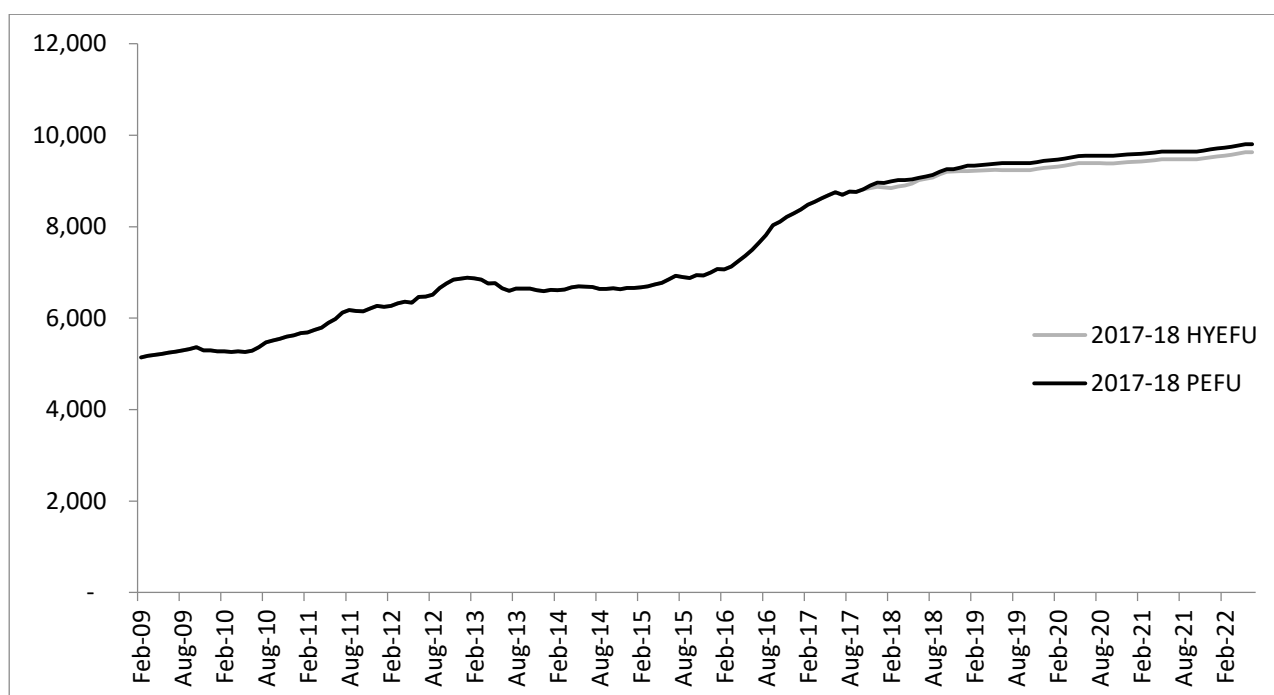


6.6.1 New Zealand

Growth forecasts for the New Zealand market remain largely unchanged, with growth expected to be 3.6 per cent during 2017/18, a large decrease from the growth of 16.9 per cent in 2016/17. Despite the slower growth rates, New Zealand tourists are still expected to make up approximately 67 per cent of total visitor arrivals in 2017/18, significantly higher than the second highest contributor, Australia, at 16 per cent.

The Cook Islands is receiving an increasingly larger share of New Zealand tourists to Oceania (excluding Australia) with the Cook Islands receiving 24.8 per cent of all New Zealand visitors in 2016, second only to Fiji. However, there is a risk of increased competition from other Pacific islands that could negatively impact tourist numbers.

Figure 6.13 New Zealand monthly visitor arrivals (12 month moving average) 2009-2022



As can be seen in Table 6.4, growth is expected to continue in the New Zealand market, albeit at slowing rates. Growth of 3.6 per cent in 2017/18 is expected to slowly fall to 0.9 per cent by 2020/21.

Table 6.4 Estimated New Zealand tourism numbers by quarter 2015/16 to 2020/21

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2015/16	28,084	21,089	13,627	27,112	89,912
2016/17	34,563	24,188	16,657	29,664	105,100
2017/18	34,591	26,700	17,313	30,278	108,900
2018/19	36,200	27,800	18,000	30,800	112,700
2019/20	36,100	28,300	18,700	31,500	114,600
2020/21	36,100	28,700	19,000	31,900	115,700

6.6.2 Australia

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

After experiencing a 9.1 per cent decrease in arrivals in 2014/15, Australian visitor numbers recovered to achieve an increase of 13.4 per cent in 2015/16. Growth continued in 2016/17, albeit at a lower rate of 5.1 per cent. As can be seen in Figure 6.14, forecasts of monthly visitor arrivals have been revised upwards since the 2017/18 HYEUFU due to strong growth in arrivals from Australia since October. As a result, growth is expected to reach 6.7 per cent in 2017/18.

Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, from 3.9 per cent in 2016/17 to 4.0 per cent in 2017/18 and 4.2 per cent in 2018/19. Growing tourist departures in

Australia give an indication that tourist arrivals from Australia may increase in the years to come. Looking forward, growth in Australian arrival numbers is expected to slow to around 3 per cent from 2018/19. The Tourism Visitor Survey indicates that Australian tourists spend more in the Cook Islands than arrivals from most other countries, and are more likely than New Zealand tourists to travel to Aitutaki. Thus growth in the Australian market would help to increase the diversification of arrival by location, as well as increasing the number of 'high-value tourists'.

Figure 6.14 Australia monthly visitor arrivals (12 month moving average) 2009-2022

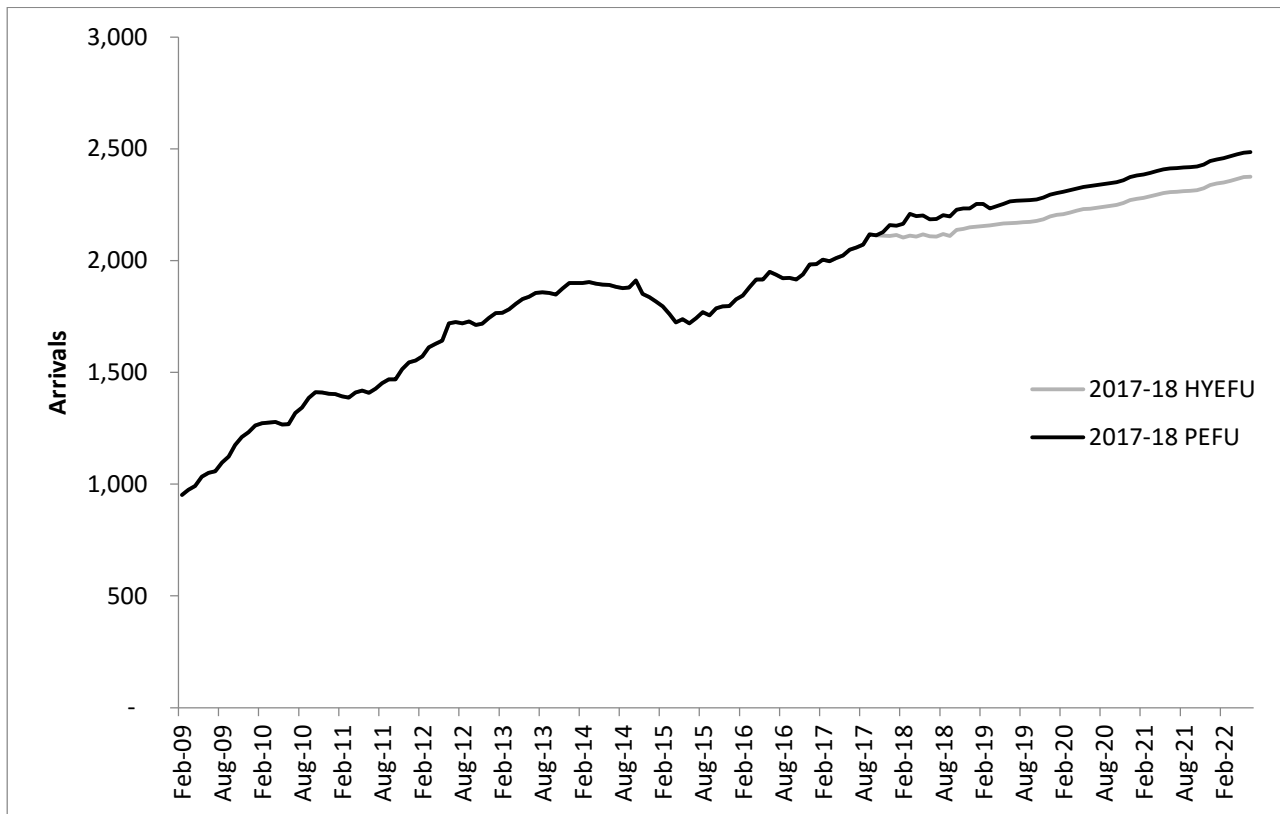


Table 6.5 Estimated Australian tourism numbers by quarter 2015/16 to 2020/21

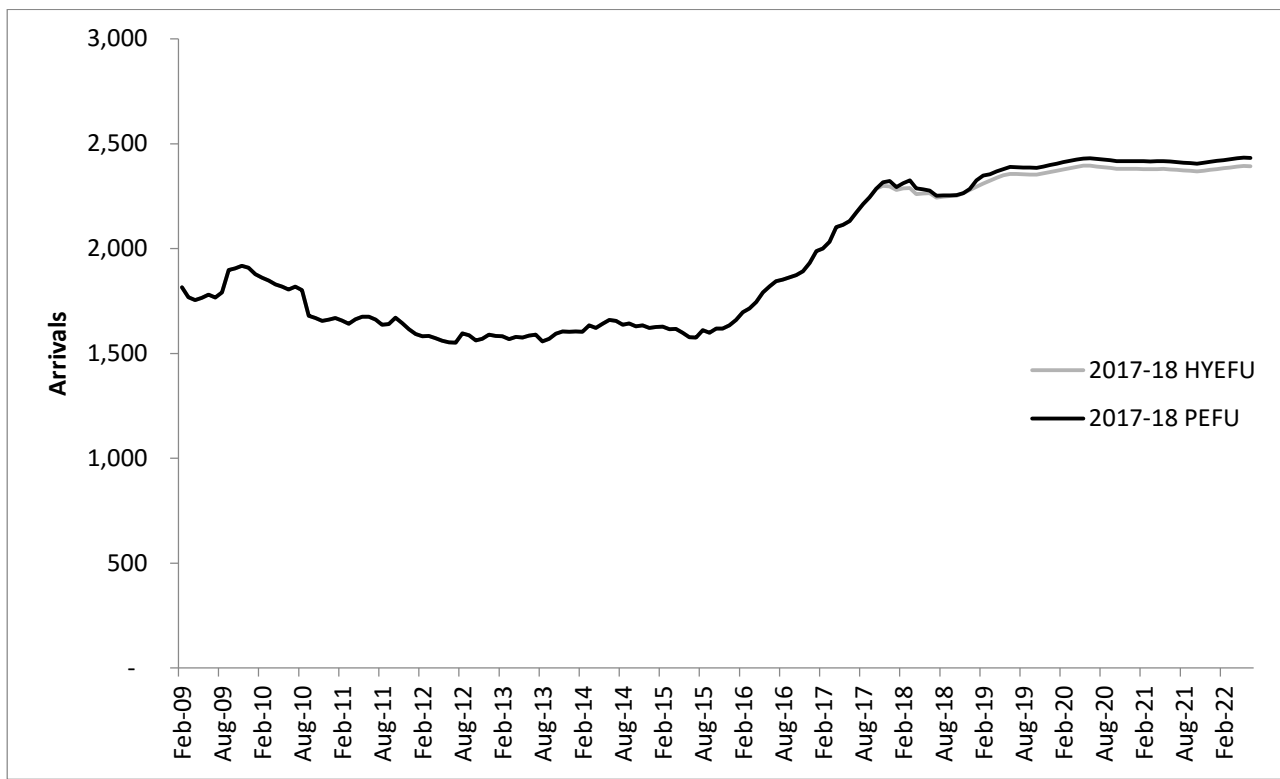
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2015/16	6,363	7,043	4,299	5,684	23,389
2016/17	6,051	7,762	4,473	6,292	24,578
2017/18	6,881	8,300	5,074	5,997	26,200
2018/19	7,000	8,700	5,100	6,400	27,200
2019/20	7,100	9,000	5,300	6,600	28,000
2020/21	7,200	9,300	5,500	6,800	28,900

6.6.3 Other markets

Tourist arrivals from other markets have been strong since 2015/16, this is expected to continue into 2017/18 and over the forward estimates.

As can be seen in Figure 6.15, while arrival numbers have come in slightly higher since October for other markets, minimal revisions have been made to arrival forecasts.

Figure 6.15 Other major markets monthly arrivals (12 month moving average) 2009-2022



Growth has been strongest in the North American market. Arrivals from the United States grew 21.3 per cent on average over 2015/16 and 2016/17. Growth is expected to drop in 2017/18, however it is still estimated to be 8.7 per cent. Despite this, it must be noted that the high growth is from a low base, with tourist arrivals estimated to reach 8,085 in 2017/18. If achieved, this will be the highest arrival number from the United States of America. Anecdotal evidence suggests that the increase in arrivals is in part due to the additional capacity provided by the larger Boeing 777-200 aircraft on the underwritten route between Rarotonga and Los Angeles.

As with the United States, there has been very strong growth in Canadian visitors in the past two years. Growth in 2016/17 totalled 29.2 per cent, up from growth of 9.9 per cent in 2015/16. This growth is expected to continue in 2017/18 with growth of 16.3 per cent estimated, totalling 3,098 arrivals.

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

Visitor numbers from Europe grew by 6.8 per cent in 2015/16 and 11.8 per cent in 2016/17. Arrivals to March indicate that total arrivals from Europe will reach approximately 11,600 in 2017/18, growth of 4.2 per cent.

Table 6.6 Estimated tourism arrivals for other markets by quarter 2015/16 to 2020/21

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2015/16	4,637	5,681	6,335	5,182	21,835
2016/17	5,156	6,514	7,531	6,379	25,580
2017/18	6,505	7,500	7,562	5,805	27,300
2018/19	6,200	7,800	8,400	6,200	28,700
2019/20	6,200	8,000	8,600	6,400	29,200
2020/21	6,100	7,900	8,600	6,400	29,000

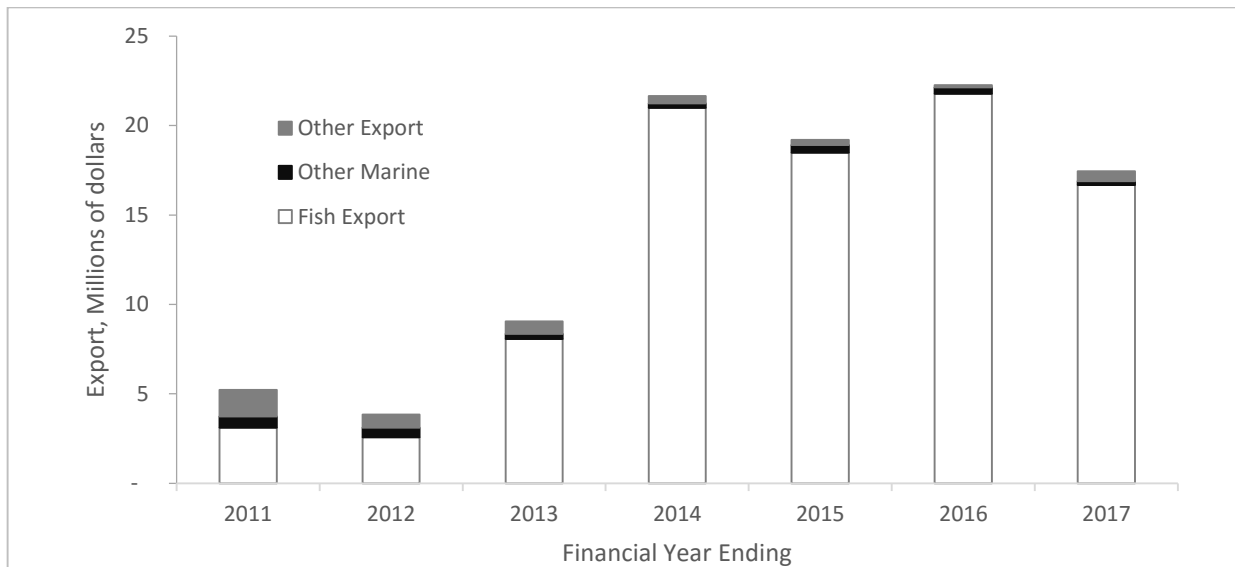
6.7 Marine Resources

6.7.1 Exports and Revenues

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

In 2016/17, fish accounted for \$16.5 million of the total marine exports of \$16.7 million. Other marine exports included \$169,000 of black pearls and \$42,000 worth of mother of pearl shell products (Figure 6.16).

Figure 6.16 Marine exports 2010/11 to 2016/17, (\$m)



The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. Revenue from fisheries activities in 2016/17 totalled \$18.5 million.

In December 2016, new longline regulations for the Quota Management System (QMS) were enacted. Under the QMS, a total allowable catch of 9,750 metric tonnes (mt) of Albacore tuna and 3,500 mt of Bigeye tuna per calendar year has been set. The quota system was implemented in January 2017, with revenue returns in the 2016/17 financial year of approximately \$3 million per year received, exceeding previous licensing arrangements which returned around \$2.4 million per year.

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands has been assigned a total of 1,250 fishing days for the 2018 calendar year by the Western and Central Pacific Fisheries Commission (WCPFC).

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

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

Funds provided under the SFPA Protocol are also collected by Government as an aid contribution to the provision of Government fisheries sectoral policies. These funds have been used to improve monitoring, encourage and develop local fishermen, and recruit marine specialized professionals.

The EU vessels have not fished the extent of the tonnage which the partnership allows for, and only 17 fishing days were observed in 2017. The preliminary SFPA catch estimate for 2017 is 700 mt. Despite this, the full amount of policy support contribution, license fees and access fees have been received.

For the 2017 calendar year, the average price per fishing day was between \$11,500 and \$13,500, depending on exchange rates which affect the US Treaty and the SFPA.

Fisheries revenue for 2017/2018 was projected at \$12.7 million:

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

Between the 2017/18 fiscal period of July-October the fisheries revenue of approximately \$2.1 million has been received.

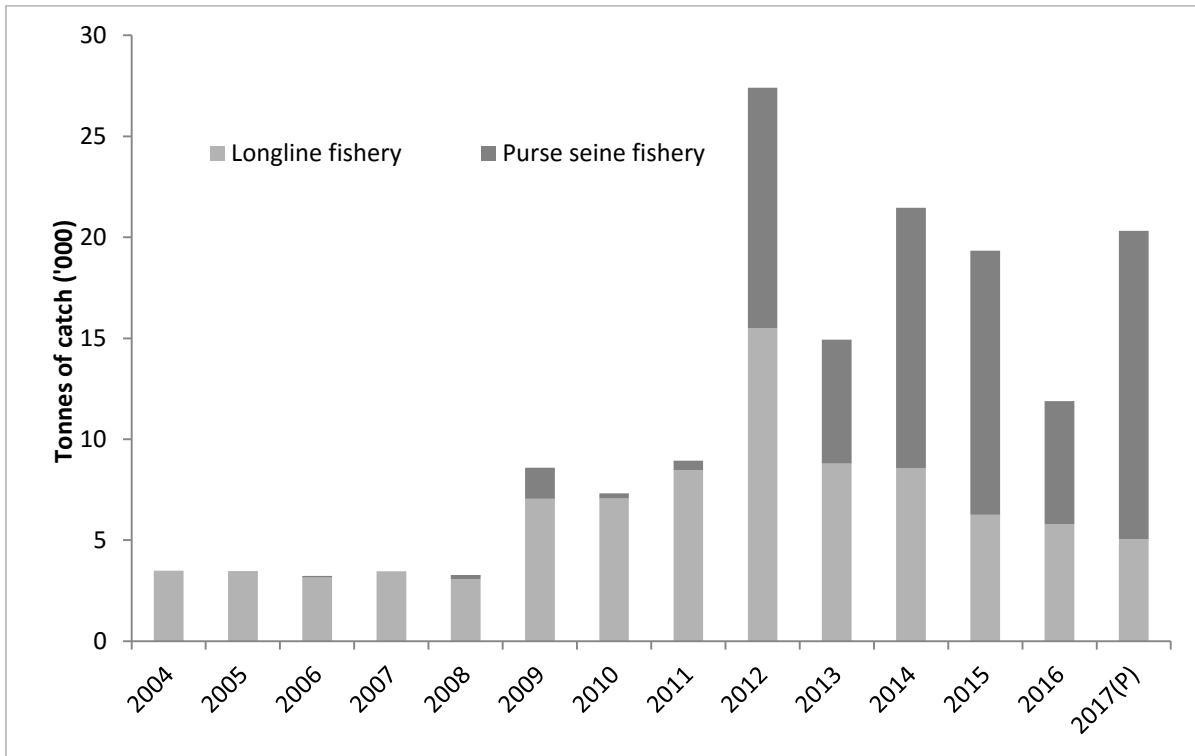
6.7.2 Fishing Activities

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

The longline albacore fishery catch is generally unloaded or transhipped in Apia, Samoa or Pago Pago, American Samoa. However, in 2017, transshipment activities were carried out in Pukapuka, and were supervised by Cook Islands Fisheries Officers.

The longline catch peaked at 15,500 mt in 2012 during exploratory fishing for Bigeye tuna. This has declined to 5,795 mt in 2016 as the fishery has reverted back to its regulated albacore catches. Over the same period, purse seining has become the dominant fishery in the Cook Islands, rapidly expanding from 476 mt in 2010 to a peak of 13,080 mt in 2015 (Figure 6.17). The purse seine catch in 2016 was 6,089 mt, and the preliminary 2017 catch estimate is 15,267 mt.

Figure 6.17 Fishery Catch in the Cook Islands Exclusive Economic Zone



The Cook Islands also supports a small local fishery of artisanal (small-scale) and game charter operators. In 2015, 142 mt of fish was caught by local fishers, increasing to 163 mt in 2016.

Albacore and Yellowfin tuna together accounted for around 80 per cent of species caught by longline in 2016, with a decrease in Yellowfin in 2016 compared to 2015 (Table 6.7). With the increase in purse seining, Skipjack was the most caught species overall in 2016.

Table 6.7 Fishery Catches in the Cook Islands EEZ by Species (mt)

	2015			2016			2017(P)		
	Longline	Purse Seine	Local	Longline	Purse Seine	Local	Longline	Purse Seine	Local
Albacore	4,008	0	2	4,224	0	1	2,966	0	1
Bigeye	623	110	0	537	86	0	226	339	0
Yellowfin	1,629	599	71	1,094	416	77	812	1,679	46
Skipjack	134	18,238	12	123	4,874	7	120	16,499	2
Other	3	0	57	725	10	24	526	na	27
Total	6,397	18,947	142	6,703	5,386	163	4,650	18,517	76

In 2017, a total of 79 licensed vessels were managed by the MMR. These include 55 longliners, 16 purse seiners, 2 high seas trawlers and 8 bunker vessels. In addition, there were 263 local artisanal and game charter fishing boats reporting catches to the MMR (Table 6.8).

Table 6.8 Number of active fishing vessels

Licensed and active vessels	2012	2013	2014	2015	2016	2017
Offshore fishery						
Long liner	60	45	36	38	47	55
Purse seiner	16	17	18	65	33	16
Other commercial (Bunkers, Trawlers)	4	4	5	5	10	8
Total	80	66	59	108	90	79
Local artisanal and game fishery						
		223	302	301	285	263

The estimated value of catches from the Cook Islands EEZ for 2015 was \$63 million, based on Pacific Islands Forum Fisheries Agency (FFA) estimates (Table 6.9). This was a decrease of \$16 million in value of catch from 2014, despite significantly higher catches in 2015. The decrease is largely due to the different methodology used by FFA in 2014 and 2016 to estimate catch values. The exchange rate of NZD to USD and Japanese Yen are also important factors.

Table 6.9 Landed value of fishery catches (\$m)

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

One domestic commercial fishing company, with three Cook Islands' flagged vessels, operates in the southern Cook Islands waters, and offloads its fresh catch at Rarotonga for sale in the domestic market and to be exported (Table 6.10). For Cook Islands' flagged vessels, an estimated 194 tonnes of fresh catch was offloaded in 2017 for domestic sale compared to 179 tonnes in 2016.

Landed frozen catch by Chinese flagged vessels in Rarotonga totalled nearly 400 mt in 2016, up from 363 mt in 2015. In 2014, the total catch landed by Chinese vessels was 1,900 mt.

Table 6.10 Catch Landed into Avatiu port (tonnes)

	2013	2014	2015	2016	2017
Cook Islands flagged vessels					
Fresh catches offloaded	105	194	188	179	194
Fresh catches to be exported by airfreight	15	23	115	125	151
Chinese flagged vessels					
Frozen by-catch sold locally	23	18	0	0	0
Frozen catches to be exported by sea freight	121	1,882	363	399	0
Total	264	2,117	666	703	345

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

The Fisheries Development Facility (FDF) is a grant scheme administered by MMR and funded by a development fee of \$10,000 charged to each foreign fishing license. 2017 is the sixth year that the FDF has been in operation. In 2017, \$300,000 was made available to support the local fishers comprising \$100,000 for the Cook Islands Fishing Association, \$150,000 in small grants to individuals and \$50,000 for the fishing clubs of the Pa Tokerau (Northern Group).

An ongoing programme to expand the deployment of Fish Aggregating Devices (FADs) complements the support of FDF. Ten FADs were deployed from June 2017 to November 2017, all in the southern Cook Islands. The total number of FADs currently active is 32 (Rarotonga 12, Aitutaki 7, Atiu 1, Mangaia 3, Mauke 2, Penrhyn 1, Manihiki 3, Pukapuka 2, and Rakahanga 2). The programme costs an estimated \$200,000 annually.

6.7.3 Black Pearls

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

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

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

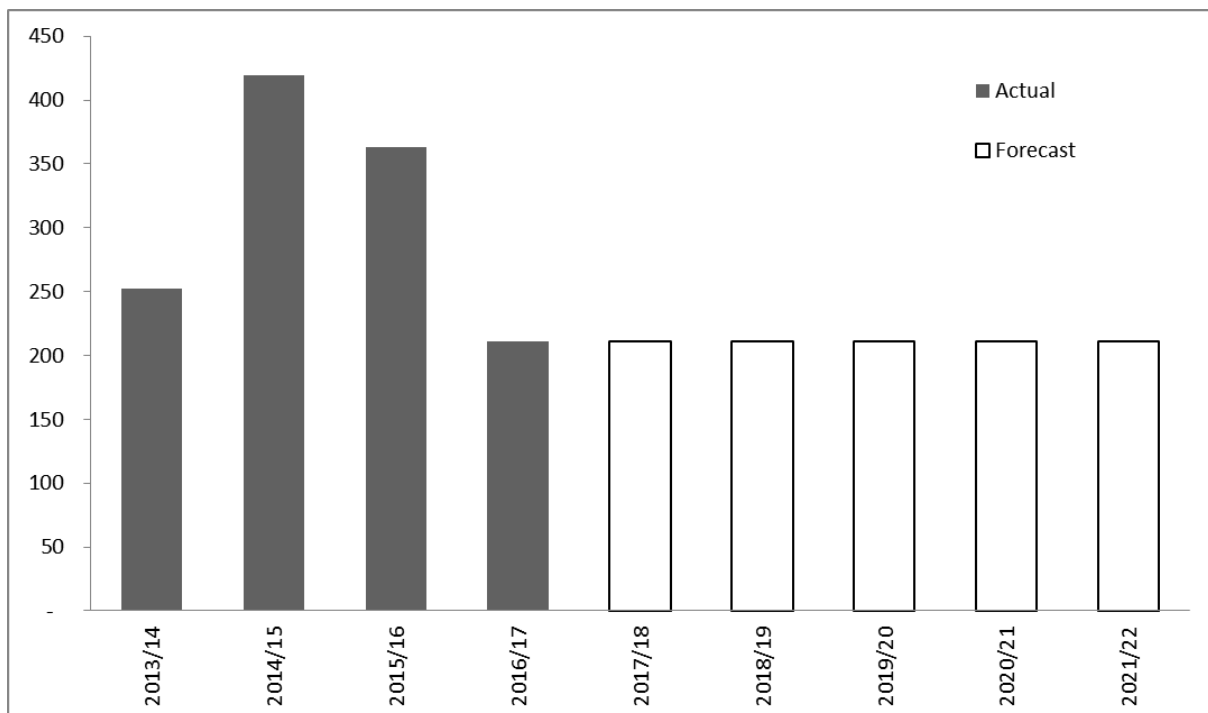
The total levels of production based on seeding and harvest reports submitted by farmers to MMR indicate annual production levels average just below 200,000 farmed oysters (Table 6.11).

Table 6.11 Pearl production, 2009-2016

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

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

Figure 6.18 Pearl Exports, 2013/14 -2021/22



6.7.4 Water Quality Monitoring

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

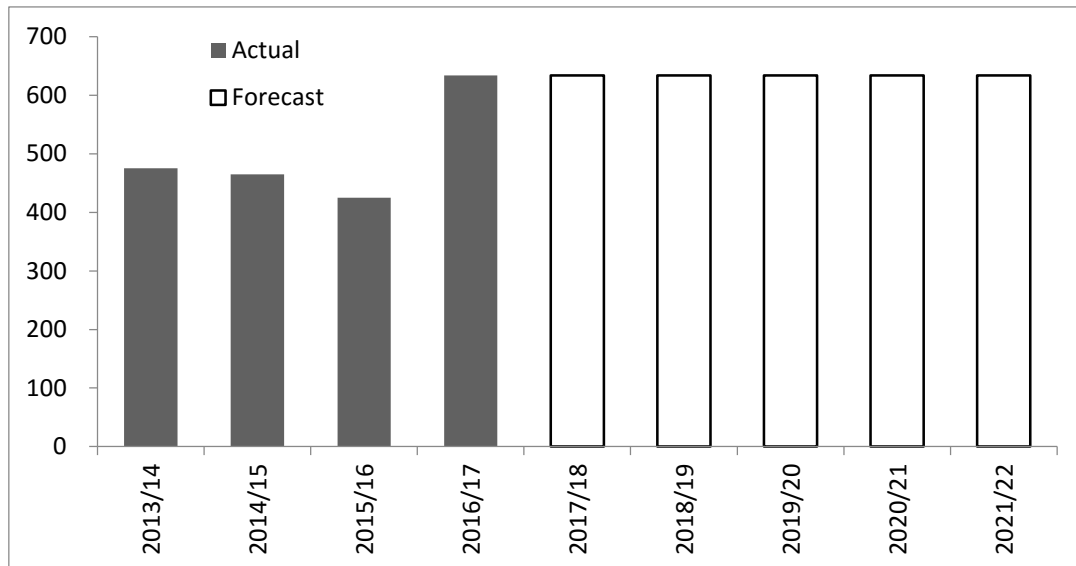
Regular water quality monitoring is undertaken on the islands of Rarotonga, Aitutaki and Manihiki. Three key water quality parameters (bacterial counts, water clarity and nutrient concentration) are reported for Rarotonga and Aitutaki and graded against standards of reference according the National Sustainable Development Plan 2016 – 2021. In Manihiki, the physical parameters collected are salinity, pH, temperature and dissolved oxygen. Results are important for stakeholders such as Manihiki pearl farmers to advise when water conditions are, or are not, suitable for farming activities. The monthly water quality report cards are disseminated to key stakeholders, such as Ministry of Health and National Environment Service.

Overall, the water quality monitoring shows a gradual improvement in most of the parameters that are tested for the three islands. Recent data for Rarotonga suggests that water quality of samples collected in Muri continue to improve towards national standards. This is thought to be the result of better sanitation and new building regulations.

6.9 Agriculture

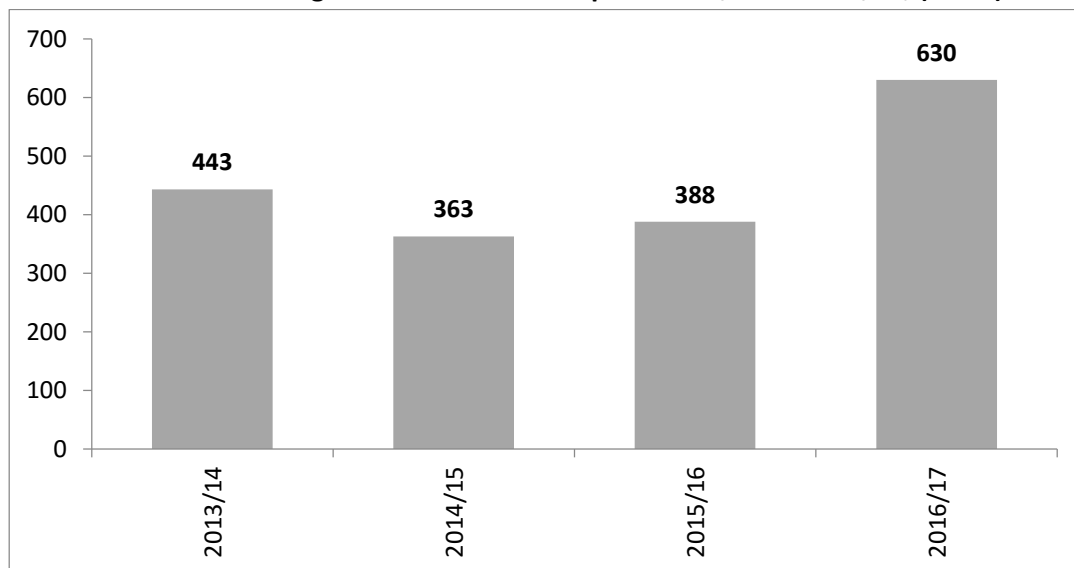
The agriculture sector accounted for 3.3 per cent of nominal GDP in 2016/17. Agricultural exports grew significantly in 2016/17 following decreases in 2014/15 and 2015/16. Agricultural exports have shifted from Maire Lei exports (which terminated in 2016) and coffee production, to growth in demand for Nono.

Figure 6.19 Agricultural exports 2013/14 to 2021/22, (\$'000)



Noni Juice remains the main export commodity product from Cook Islands, with the primary export markets in Japan, China and, more recently, South Korea. The value of Noni exports has grown by 62 per cent from \$388,000 in 2015/16 to \$630,000 in 2016/17, with new acreage plantings having reached harvesting stage. Minor export volumes of processed agricultural products such as virgin coconut oil, vanilla extracts, A-grade vanilla beans and Tamanu seed oil extracts are some of the new export products that are increasing in demand.

Figure 6.20 Noni Juice exports 2013/14 to 2021/22, (\$'000)



A range of initiatives in Rarotonga and the Pa Enua have been established to improve the supply of fruit and vegetable products by strengthening up-stream supply chains. The Ministry of Agriculture's (MOA) supply of fruit and vegetable nursery products to all growers on Rarotonga and the Pa Enua is one example of this. This initiative aims to support local production in competing with imported produce such as capsicums, tomatoes, broccoli, sweet corn and other leafy vegetables, helping to create a comparative advantage for our growers.

The United Nations (UN) Food and Agriculture Organization (FAO) continues to support the MOA's nursery program, providing technical assistance and material in 2016, and a large supply of seeds and assorted vegetables for 2017/18. The supply is sufficient to provide the country with seedlings and nursery products for the next two seasonal cycles. Varieties supplied include lettuces, Chinese cabbages, watermelons, cucumbers, tomatoes, eggplants, capsicums and open-pollinated seeds essential for the sustainability of seed supplies.

The Biosecurity Division of the MOA continues to protect our borders to ensure our security and economic growth. For example, the division has carried out routine surveillance and trapping work on fruit flies on Rarotonga, Aitutaki and selected Pa Enua islands, in compliance with the *Biosecurity Act 2008* against pest invasion.

The Livestock Division continues to support small-scale livestock and poultry production in Rarotonga and the Pa Enua to help farmers meet the needs of domestic consumers. The MOA is also improving livestock farmers' local meat production skills (goats and pork), to ensure high quality local meat that is healthy and safe to consume and competes well with imports.

Domestic hydroponic and summer vegetable production continues to grow, bridging the gap in fruit and vegetable supply value chains during the 'production off-season'. There has also been an increase in the number of hydroponics and summer house facilities on Rarotonga, Aitutaki and Northern Pa Enua. The FAO continues to provide support to hydroponic and summer house vegetable producers on how best to manage their farming systems for economic sustainability.

The MOA continues to provide planting-material to support to the FAO Fruit Tree and Vegetable Model Orchard Farms. This project, successfully implemented by the Cook Islands Chamber of Commerce in their Agribusiness training programme (via an FAO Grant Fund) is aimed at revitalising agricultural fruit tree production. Growers are trained on required measures and treatments for local off-season pineapples, mangoes, delicious cacti (e.g. Dragon Fruit), rambutan, longan, figs, passion fruit, citrus and abiu.

The MOA also promotes vegetable production in support of food security and tourism in Rarotonga and Pa Enua under the FAO Technical Corporation Program (TCP) Country Programme Framework (CPF 2015 to 2017) and the new CPF that will be rolling-out in 2018 (i.e. CPF 2018 to 2022).

The Cook Islands has considerable potential for increased local agricultural production such as drinking coconuts, Nono, vanilla, maire, coffee and cocoa in Atiu/ Mauke, root crops, ornamentals, tropical fruits, vegetables, honey, hydroponics vegetables, processing and value added products, including handicrafts.

The MOA is investing in and establishing 8 vanilla shade houses to boost production of this high value crop for export and the local market. Five vanilla shade houses have been built, are planted and fully operational. Vanilla plants are growing well, with some blooming within 8 months, which is unusually fast. The last three of the shade houses are expected to be completed by the end of November 2018.

Despite the potential, there are numerous constraints that limit growth in the agriculture sector. These include:

- substandard biosecurity treatment facilities to meet our SPS requirements for international market access and compliance with importing/exporting country's quarantine requirements for fruit flies and other pests
- issues related to labour shortages and, and in some cases, higher level local wages
- low or lack of agricultural water access and supply
- inexperience and failures in supply chain coordination, and
- high transport costs to get produce to markets.

The MOA is also establishing better data systems to ensure that more robust information and resources are available to help the ministry and farmers better understand the various challenges and trends in the agricultural industry.

An example of this is the Agriculture Market Bulletin that the MOA publishes on a monthly basis. The bulletin utilises data collected from the main Punanga Nui market to inform vendors, farmers and consumers of the types of fresh produce sold by value, price and weight to enable producers to better meet consumer demand at the best price.

Figure 6.21 Selected fruit, average price per quarter

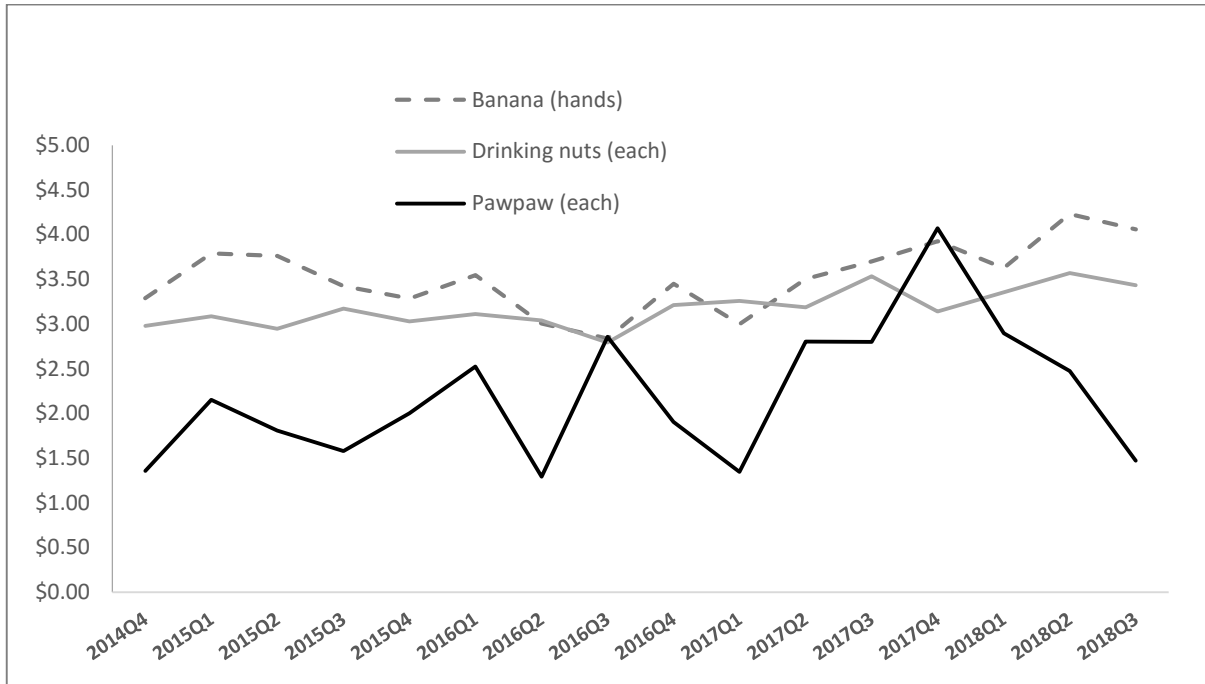
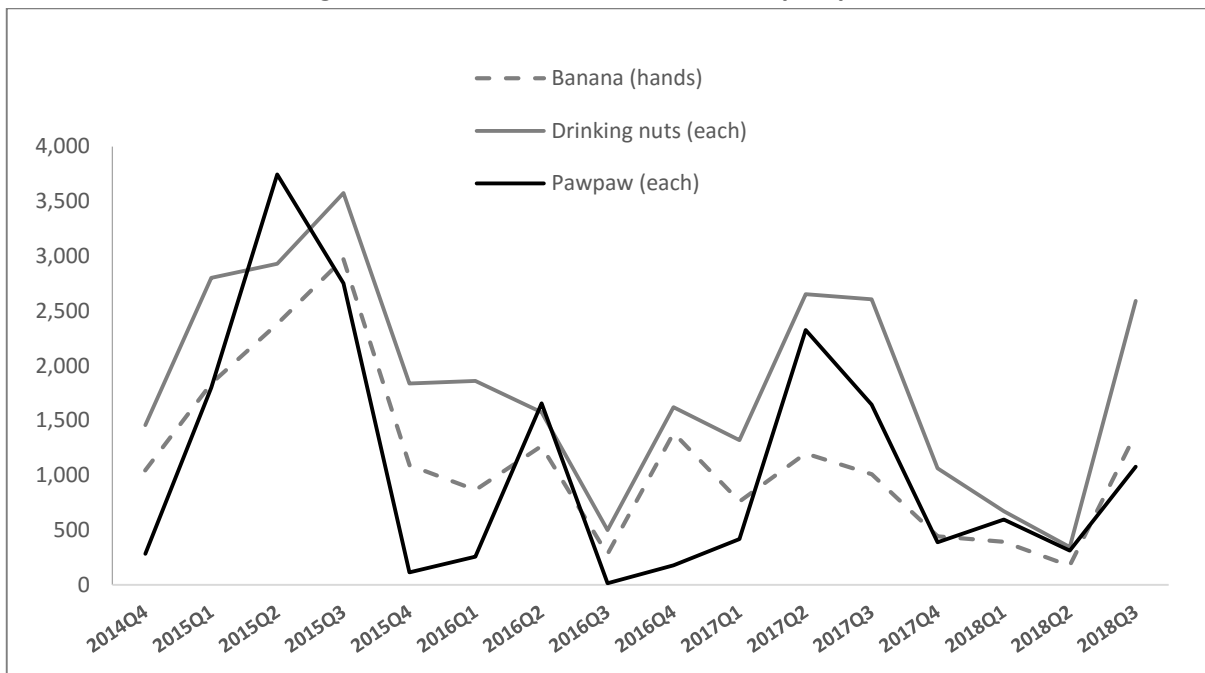


Figure 6.22 Selected fruit, sales volume per quarter



6.10 Goods Exports and Imports

6.10.1 Goods Imports

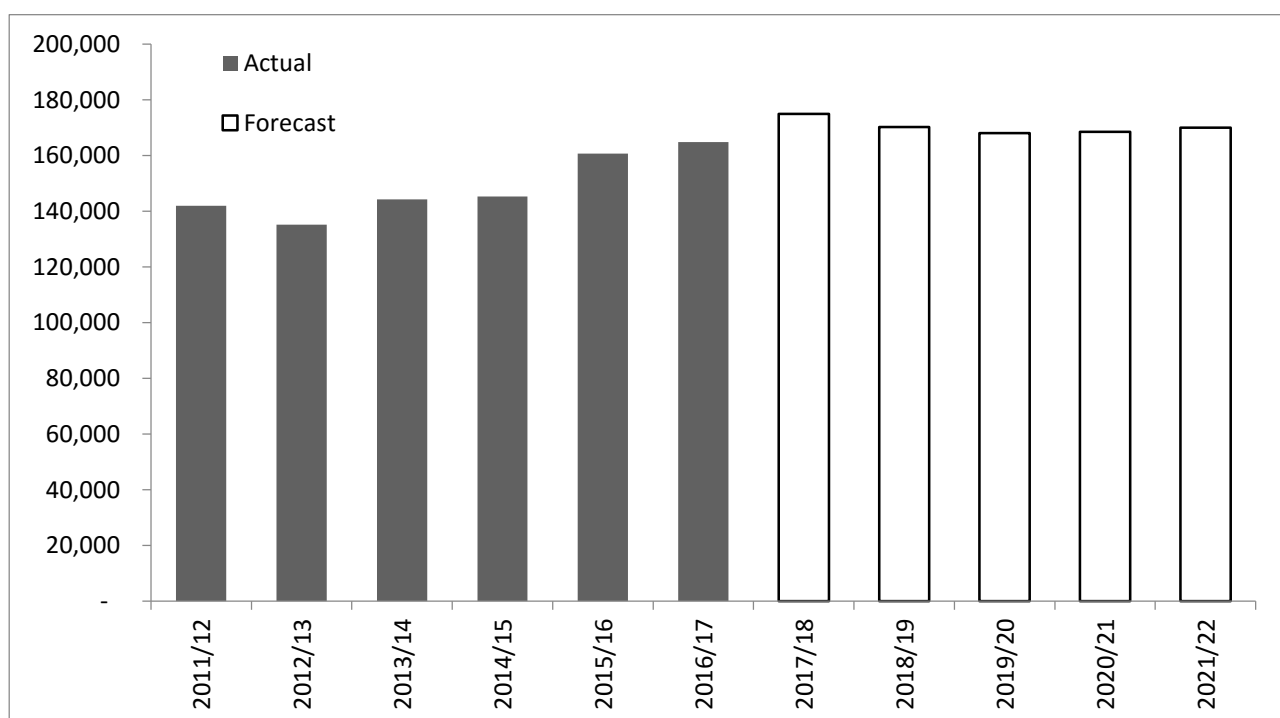
Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods. In 2017/18 it is expected that the value of goods imports will grow by 6.1 per cent to \$175 million.

The surge in both public and private construction has been a large contributing factor to the growth in the import of goods, with the value of the import of machines, transport and equipment expected to grow by 9.6 per cent to \$44 million in 2017/18. The importation of crude materials is also expected to grow in 2017/18 by 15.8 per cent to \$5 million.

High tourist arrivals are also driving an increase in the importation of food, which is estimated to grow 8.8 per cent in 2017/18 to \$44 million.

Looking forward, imports are forecast to decrease from 2018/19 due to the completion of a number of large capital projects which are contributing to growth in the importation of machines, transport and equipment. The slowing growth in tourism arrivals forecast from 2018/19 is also expected to drive lower growth in the importation of food and live animals. It is anticipated that once the Masterplan for Mei Te Vai Ki Te Vai is finalised, and accurate expenditure forecasts are known, that the imports in 2019/20 and onwards will grow.

Figure 6.23 Value of total imports 2011/12 to 2020/21, (\$'000)



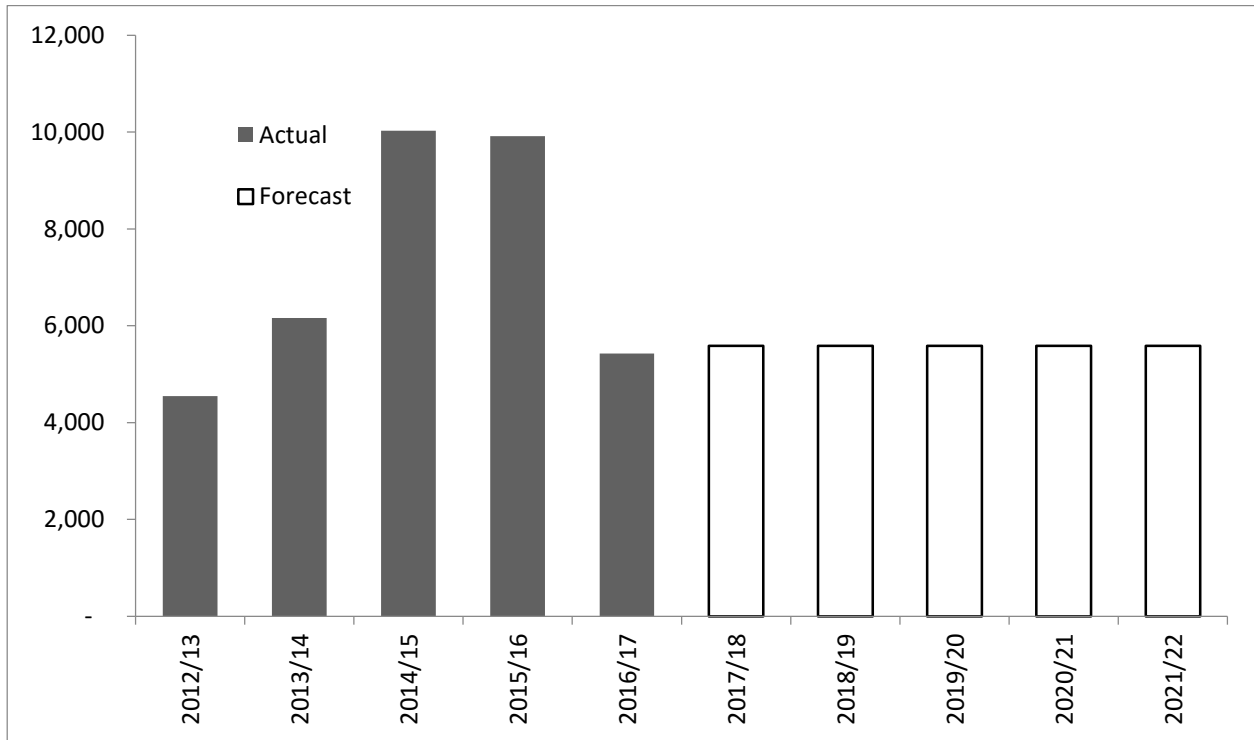
6.10.2 Goods Exports

Revisions have been made to the value of goods exports since the 2017/18 HYEPU. The total value of goods exports in 2016/17 is now estimated at \$5.4 million, a decrease of 45.2 per cent from 2015/16. This is largely attributed to a decrease in the export value of fresh and chilled fish from \$9.1 million in 2015/16 to \$4.5 million in 2016/17. The HYEPU estimate of fisheries exports in 2016/17 was \$16 million.

Growth is being seen in the export of noni, which is forecast to reach just under \$1 million in 2017/18. The export of basic manufacturing slowed in 2016/17 and is expected to remain at lower levels throughout the forward estimates.

Further revisions are due to take place to the estimates of fisheries exports, the numbers provided here are early estimates of the changes.

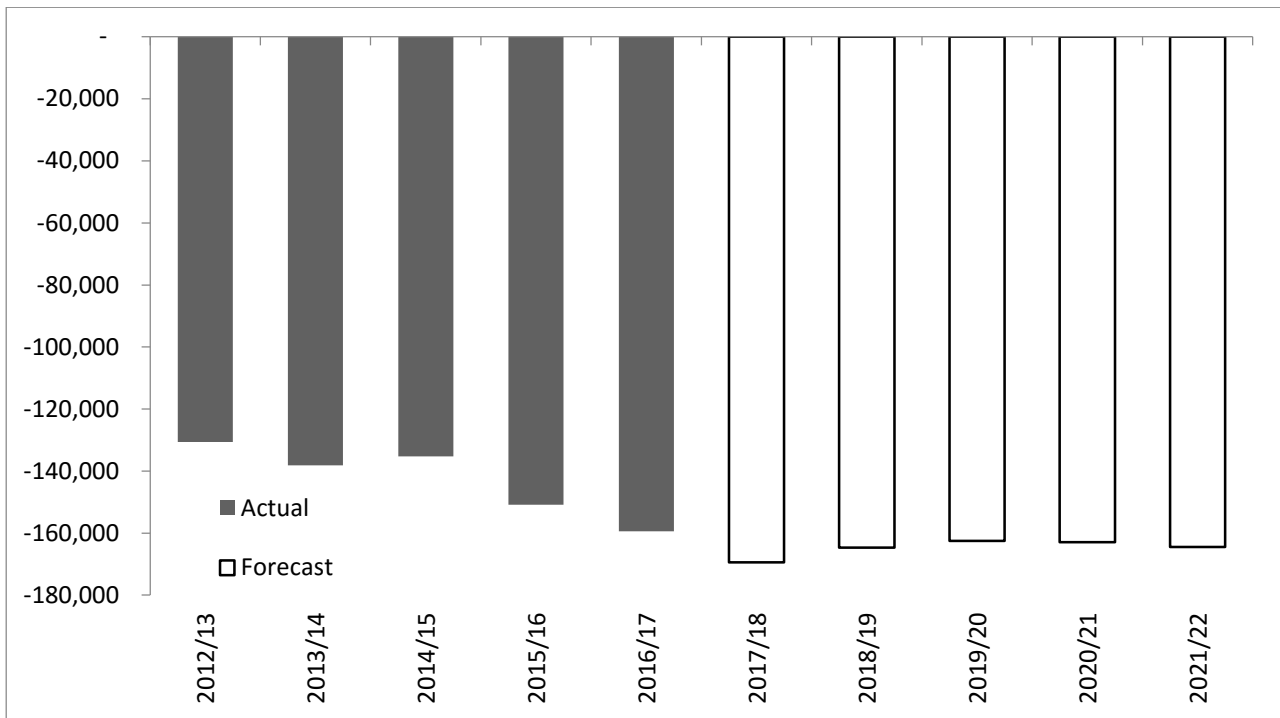
Figure 6.24 Total exports 2012/13 to 2021/22, (\$'000)



6.10.3 Merchandise Balance and Balance of Trade

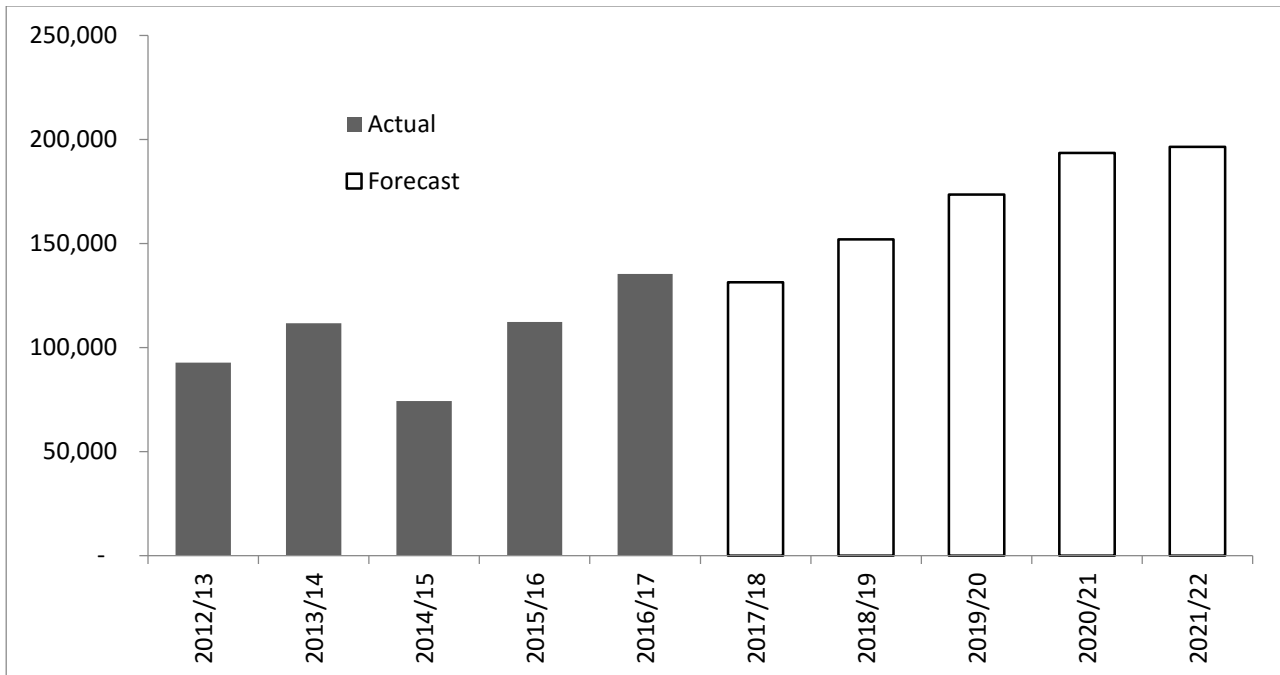
Fisheries revisions have had an impact on the balance of merchandise, resulting in a negative balance of \$160 million in 2016/17. This is expected to worsen over 2017/18 and the forward estimates as the value of imports increases.

Figure 6.25 Balance of Merchandise (goods) Trade 2012/13 to 2020/21, (\$'000)



The overall trade balance has also been revised down, however it remains in a highly positive position due to the strong tourism export growth at \$135 million in 2016/17. This is expected to decrease to \$131 million with increased tourist arrivals in 2017/18 unable to offset the increase in the value of imports. As capital import level decrease over the forward estimates, the balance of trade is expected to improve.

Figure 6.26 Overall Balance of Trade 2012/13 to 2020/21, (\$'000)



6.11 Banking and Finance

The global financial market has been volatile in recent months due to a range of factors, including the announcement of tariff changes in the United States.

The Federal Open Market Committee (the Fed) increased the target federal funds rate by 25 basis points to at 1.5 - 1.75 per cent. In arriving at its decision, the Fed cited the strong labour market. While acknowledging that inflation has continued to run below 2 per cent in 2017, expectations of increases in inflation levels over the coming months also contributed to the decision. The Fed is expected to continue to make gradual adjustments to the target rate over the coming year, while closely monitoring economic conditions in the United States.

The Reserve Bank decided in April to leave the cash rate unchanged at 1.5 per cent. The Reserve Bank pointed to low wages growth in its decision, and that inflation sits at 1.9 per cent, below the Bank's target rate of 2 per cent. Furthermore, strong growth in the Sydney and Melbourne property markets has slowed, resulting in the stabilisation, and in some case decrease, of property prices. This has in-turn decreased pressure on the RBA to increase the cash rate.

New Zealand Reserve Bank, like Australia, has decided to leave the cash rate at 1.75 per cent since November 2016. Releases by the Bank indicate that monetary policy will remain accommodative for a considerable period, due to uncertainties in the economy such as weaker than expected GDP in late 2017, capacity constraints in residential construction and weak CPI inflation.

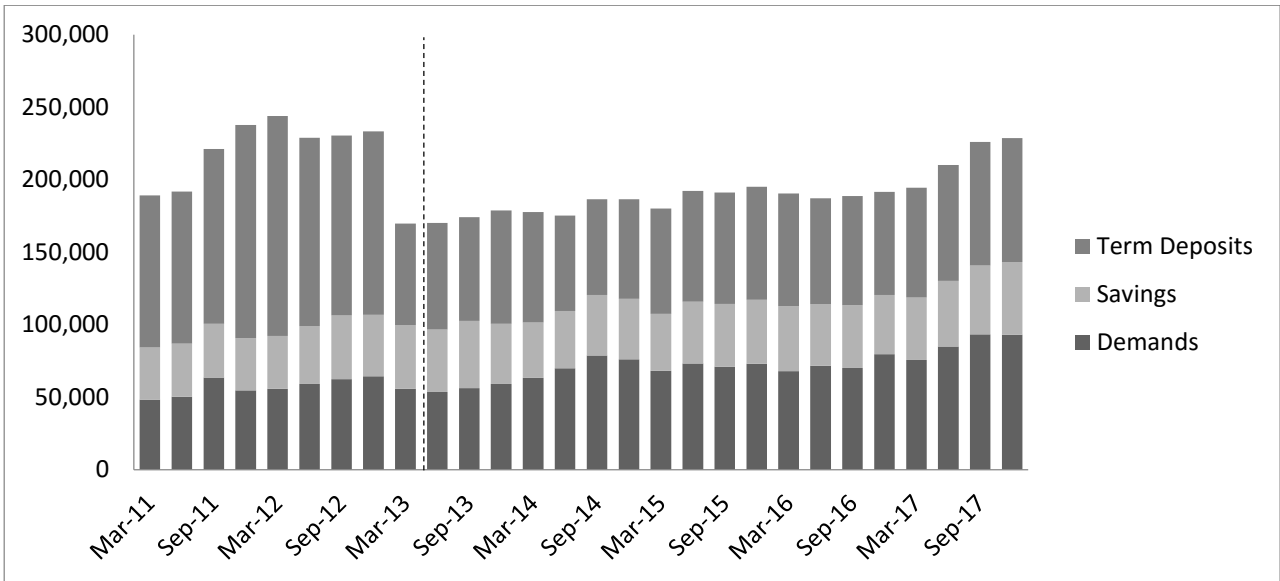
In the Cook Islands, the proportion of non-performing loans (NPL) to total gross lending has decreased through the September quarter of 2017/18 to 5.5 per cent, from 7.6 per cent in the same quarter of 2016. Further monitoring and analysis needs to be undertaken on this to assess the likely causes and implications.

6.11.1 Deposits

There has been significant growth in deposits throughout 2017, reaching a total of \$229 million in December 2018. The growth was largely in term deposits and demands.

A large portion of the increase in deposits is a result of an increase in government cash reserves. Government's inability to spend appropriated funds has resulted in excess cash reserves.

Figure 6.27 Total Value of Deposits, March 2011 to December 2017, (\$000)



6.11.2 Loans

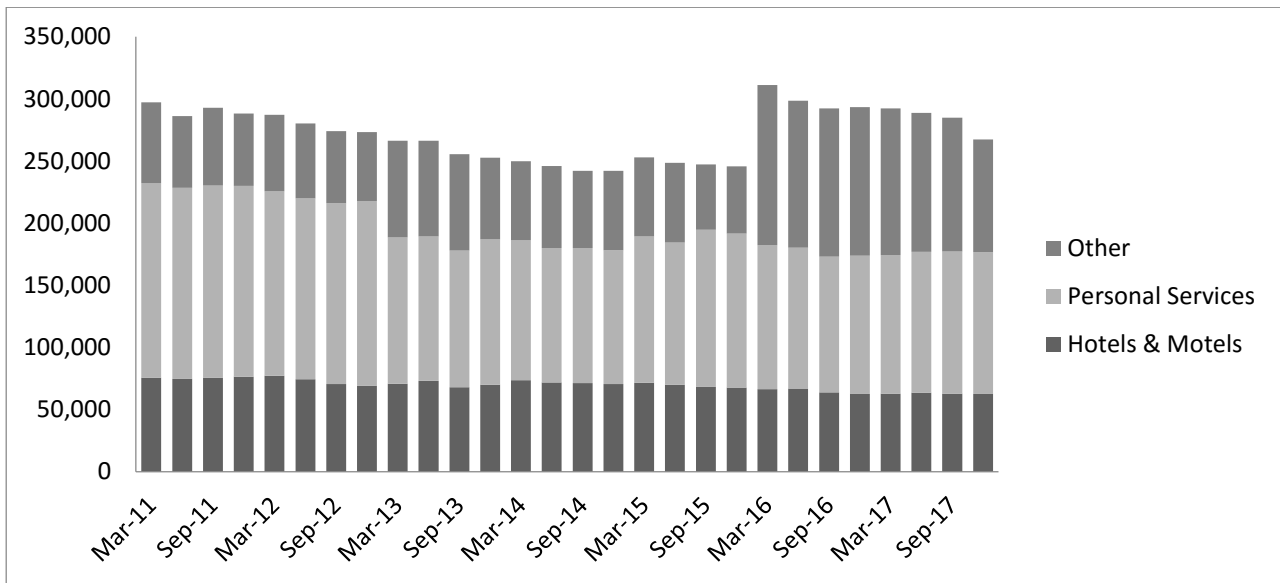
After increasing significantly in the March quarter 2016 to \$311 million, the value of loans has continued to decrease slowly over each quarter reaching a level of \$289 million in June 2017. Note that these figures include foreign lending, revisions to banking data will be made prior to the 2018/19 Budget.

Loans to hotels and motels remained steady in 2017, at around \$63 million, suggesting that despite the strong growth in the industry, additional loans are not being taken out to re-invest. Loans to hotels and motels are now among the lowest levels since adjustments were made to classifications in 2013, which makes prior years incomparable.

Loans to the finance and business sector increased significantly in the March quarter 2016. The outstanding value of loans in the sector have since decrease from \$73 million to \$32 million in the December quarter 2017. These loans are largely due to foreign lending.

Further information is required to undertake comprehensive analysis on the loans data.

Figure 6.28 Total Value of Loans, March 2011 to December 2017, (\$000)



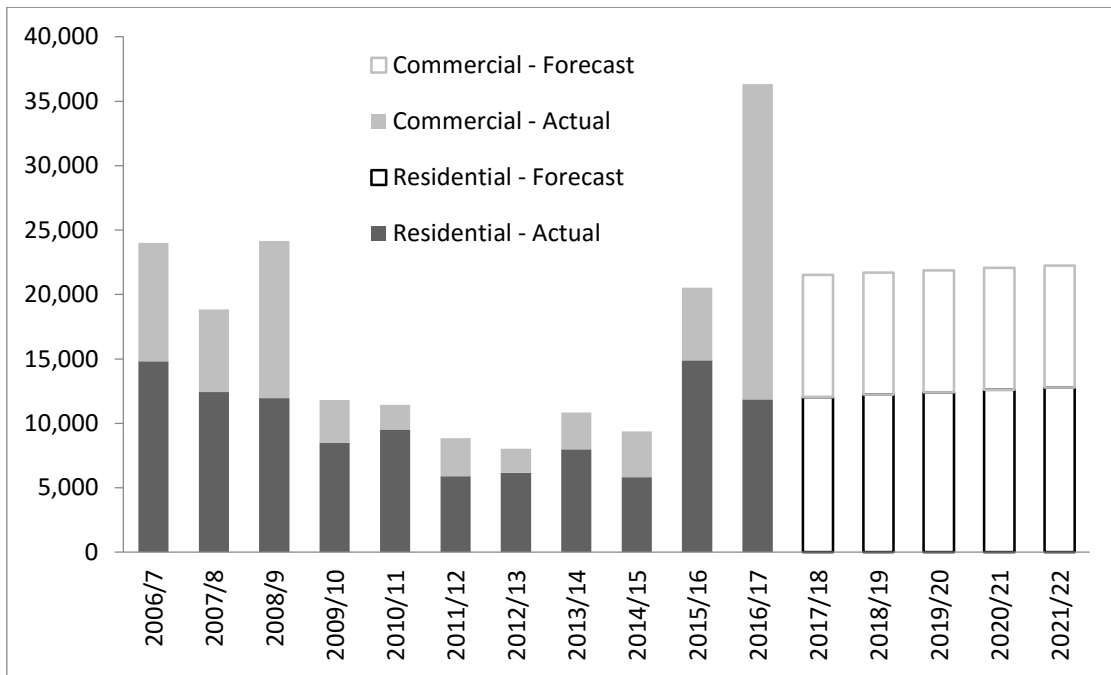
6.11.3 Housing and Construction

The value of building approvals increased significantly in 2016/17, to \$36 million, growth of 77 per cent. The spike in these number was largely due a large community project approved during the June quarter. With the removal of the community project from forecasts, it is expected that the value of building approvals in 2017/18 will be slightly above the 2015/16 value, at \$21.5 million.

Residential building approvals are expected to grow by 1.5 per cent to \$12 million in 2017/18. Anecdotal evidence, together with the significant growth in residential approvals during a period of strong tourism growth, suggest that a large share of these residential approvals is for holiday houses, rather than residential living. Further research needs to be undertaken to evaluate the housing situation in the Cook Islands, it is hoped that the 2016 Census will allow further analysis of this.

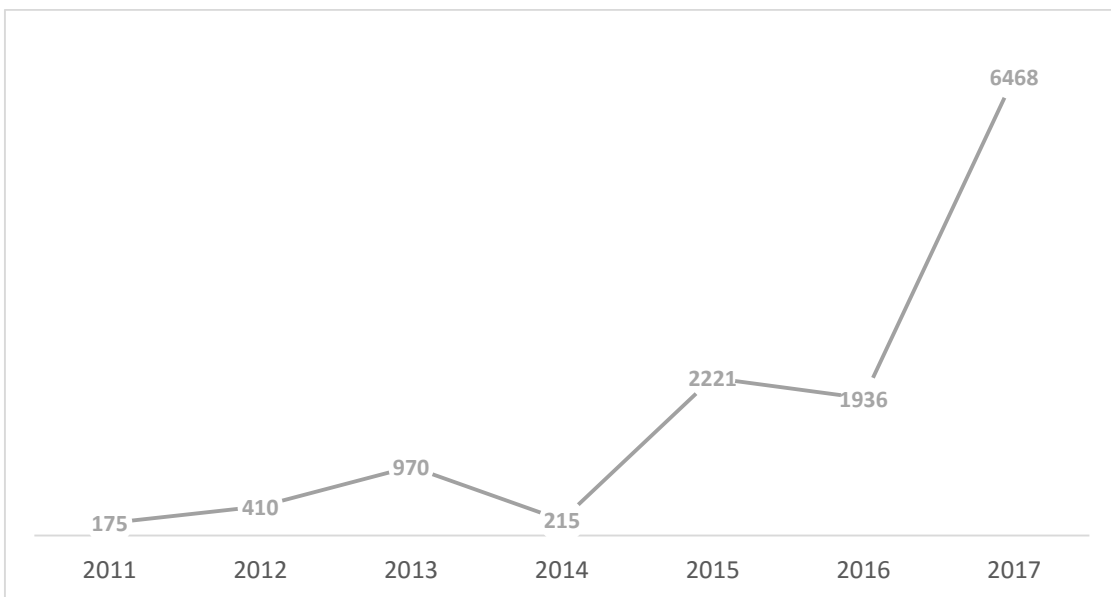
Significant growth in commercial building approvals seen in 2016/17 is not expected to continue into 2017/18. Despite this, commercial approvals are forecast to be \$9.5 million, well above the long-term average of commercial approvals.

Figure 6.29 Value of building approvals 2006/07 to 2021/22 (\$'000)



The value of commercial building approvals for tourism rose to \$6.5 million in 2017, significantly higher than the \$1 million average between 2011 and 2016.

Figure 6.30 Value of Tourism Building Approvals (\$'000s)



6.12 Financial Services Industry

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

Foundation registrations have increased but are still relatively small in number, and expected to continue growing. Captive Insurance is the newest service, with legislation passed in June 2013. The first Captive registration occurred in April 2015 and slow growth is anticipated given the nature of the global captive industry.

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

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

In its continued efforts to diversify markets and mitigate the risks associated with heavy reliance on business sourced from North America, the Financial Services Development Authority has increased its focus on Asia, including the hosting of the first Cook Islands Financial Services Conference in Hong Kong in November 2017. The conference received substantial support from the Cook Islands financial services industry.

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

6.13 Sensitivity Analysis

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

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

Scenario 2: Continued tourism growth – The visitor numbers from the end of 2015 year to mid-2017 have reached historic levels. In this scenario, we assume that strong growth in arrivals that occurred in 2016/17, at 14.9 per cent will be replicated in 2017/18.

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

Table 6.12 Sensitivity Analysis of economic forecasts

Scenario	Impact on nominal GDP in 2017/18 (percentage contribution)	Impact on total revenue in...	
		2017/18 (\$000)	2018/19 (\$000)
Scenario 1: Capital slippage	-2.9%	-2,877	0
Scenario 2: Continued tourism growth	8.2%	9,384	11,826
Scenario 3: Decline in visitor arrivals	-3.2%	-3,700	-7,242

7 Crown Debt and Net Worth

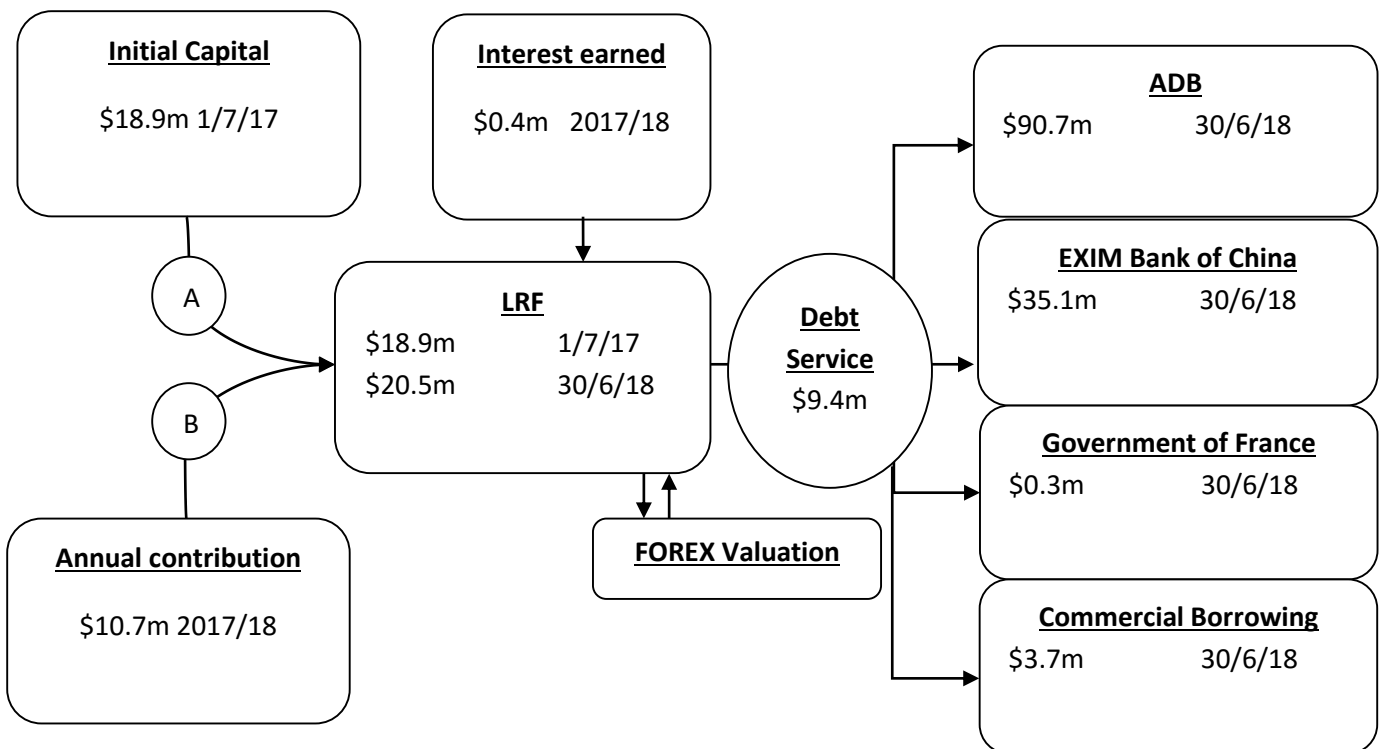
7.1 The Loan Repayment Fund (LRF)

In February 2014, the Parliament of the Cook Islands passed the *Cook Islands Loan Repayment Fund Act 2014* (LRF Act) formally creating a Loan Repayment Fund (LRF). The aim of the LRF is to quarantine funds accumulated for loan repayments and to prevent them from being utilised for anything outside of debt servicing requirements. The LRF Act also ensures a framework for the prudential management of all sovereign public debt and ensures the timely allocation of money from the budget for debt servicing. Since its enactment, the LRF has become the official means by which the Cook Islands Government (Crown) manages its debt portfolio.

In the 2017/18 Budget, funds were appropriated to the LRF, satisfying Section 32 of the MFEM Act (showing the appropriation for borrowing expenses and debt repayment). Under the LRF Act, these payments can only be used for debt servicing obligations, and hence, the funds held in the LRF can only be used to settle debt obligations, as per Section 61 of the MFEM Act (they do not require a Budget appropriation, as they have already been appropriated for in previous periods).

The figure below explains these movements.

Figure 7.1 Loan Repayment Fund movements during 2017/18²



² Note that these numbers do not include any provision for the DRM Loan to be drawn down.

The New Zealand company, Bancorp Treasury Services Limited (Bancorp), currently holds the tender for the analytical services of the LRF. Transactional services and account management for the LRF were awarded to the ANZ Bank, Cook Islands, in a competitive tender process.

Table 7.1 Loan Reserve Fund Statement (\$'000)³

	2017/18	2018/19	2019/20	2020/21	2021/22
Opening LRF balance	18,904	20,497	20,728	20,353	19,334
Contribution to LRF principal	8,619	8,787	8,316	8,306	8,208
Contribution to LRF interest	2,063	2,058	2,012	2,010	2,004
Transfer in	10,682	10,846	10,328	10,316	10,212
Interest earned (avg 2%)	378	410	415	407	387
Total transfer in	11,060	11,255	10,743	10,723	10,599
Repayment of SOE debt					
Principal	740	732	732	732	731
Interest	150	138	127	116	106
Total repayment from LRF	890	870	860	849	837
Repayment of other debt	-	-	-	-	-
Principal	5,636	7,283	7,288	8,132	8,997
Interest	2,941	2,871	2,970	2,761	2,528
Total repayment other debt	8,577	10,154	10,258	10,894	11,524
LRF stock balance	20,497	20,728	20,353	19,334	17,571

The LRF is used as a tool to smooth future debt repayments in order to reduce volatility to the Crown's cash reserves from new debt obligations and exchange rate shocks, and to decrease vulnerability to external shocks.

The table above calculates the final balance of the LRF for 2017/18 year based on year to date actuals, and the estimates for the four forward years. The figures include provisions for a new loans, to be partially drawn down for the Airport International Landing System loans. The figures in Table 7.1 do not include any provisions related to the Disaster Recovery Mechanism (DRM) loan from the Asian Development Bank (ADB), which is only triggered in the event of a catastrophe.

Exchange rate movements in 2017/18 have resulted in higher principal and interest repayments from the LRF so far this fiscal year, with the LRF closing balance expected to be lower at 30 June 2018 than previously anticipated. This, together with the delay in drawdowns for the Manatua Submarine Cable, Renewable Energy and the Airport International Landing System loans, and positive exchange rate movements from 2018/19, have resulted in lower LRF balances in future fiscal years.

Transfers in to the LRF will fall in future fiscal years as the current loan stock is repaid.

The transfers out of the LRF for principal and interest obligations for 2018/19 and beyond are the estimated debt servicing requirements at the time of the PEFU and will be subject to foreign exchange rate and debt drawdown variations.

Due to the smoothing nature of the LRF, payments made into the LRF do not match the debt servicing profile. For example, while Crown contributions to the LRF peak in 2018/19 at \$10.8 million, the debt servicing profile peaks at \$11.5 million in 2021/22.

³ Note that this table differs from the other LRF balances in this chapter due to the exclusion of the NZ\$13.95 million DRM Loan as a contingent liability in other parts of the chapter.

The LRF currently has sufficient funds to fully cover all debts owed by or on behalf of State Owned Enterprises (SOE) to official lenders, with the notable exception of loans relating to the redevelopment of Avatiu Port, which is being managed by the Ports Authority. These SOEs include the Te Aponga Uira and Telecom Cook Islands Limited (Bluesky). The Bank of the Cook Islands (BCI) is a financial institution, and is considered separately due to its specialised nature.

7.2 Gross Debt owed by the Crown⁴

Total gross debt owed by the Crown as at 30 June 2018 (including the DRM loan) is estimated to be \$122.6 million, a variance (reduction) of \$20.9 million from the 2017/18 HYEPU. This variance occurred because of delays in the drawdown of the Manatua Submarine Cable (\$20.8 million) in the 2017/18 year.

The exchange rates assumptions for the 2017/18 PEPU have been recommended by Bancorp. Estimated changes in major exchange rates against the New Zealand Dollar (NZD) are reflected in Table 7.2.

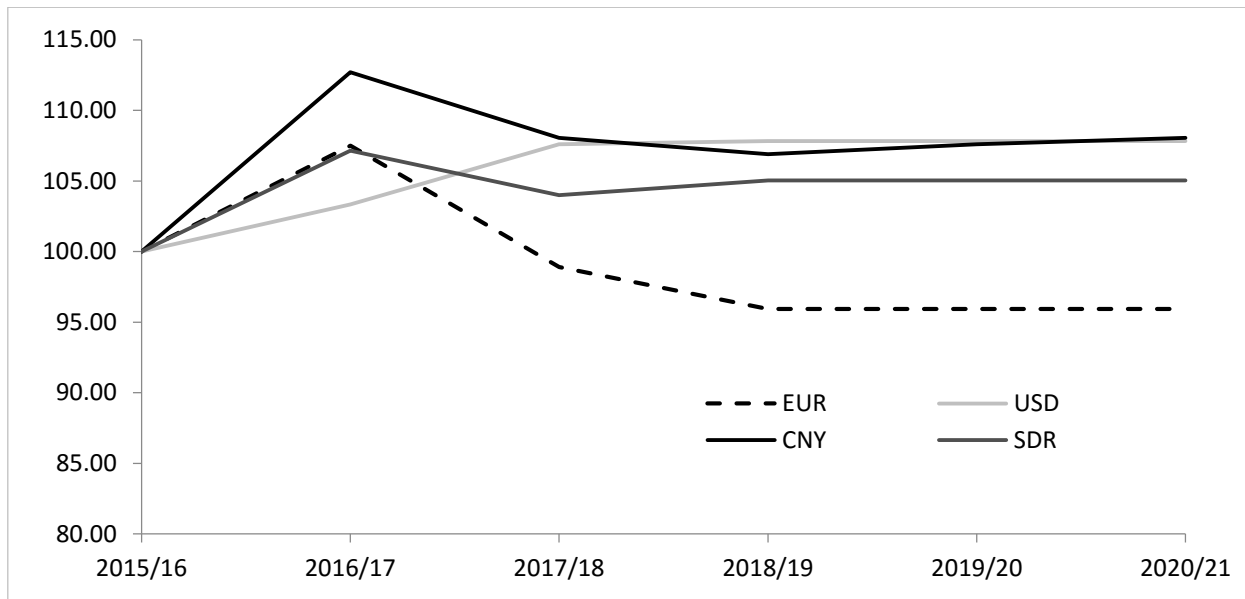
Table 7.2 Exchange Rate Assumptions – 2017/18 and 2018/19

Currency	2017/18		2018/19		2019/20	
	2017/18 HYEPU	2018 PEPU	2017/18 HYEPU	2018 PEPU	2017/18 HYEPU	2018 PEPU
EUR	0.6200	0.5980	0.6100	0.5800	0.6000	0.5800
USD	0.7150	0.7185	0.7100	0.7200	0.7000	0.7200
RMB	4.8000	4.6500	4.8000	4.6000	4.7500	4.6300
SDR	0.5000	0.4950	0.5000	0.5000	0.4900	0.5000

The NZD is forecast to be slightly stronger against the USD in 2017/18 and 2018/19 than estimated in the 2017/18 HYEPU. However, it is expected to be weaker against the euro (EUR), the renminbi (RMB) and the SDR.

⁴ All debt figures include the DRM loan.

Figure 7.2 Estimated Changes in Major Exchange Rates (indices – 2015/16 = 100)



The value of the NZD is projected to have peaked in 2016/17 and, having fallen in 2017/18, will slowly stabilise, with the notable exception of the EUR. The depreciation of the NZD against the EUR will not be of significance after 2018/19, as all loans in EUR will be fully paid down.

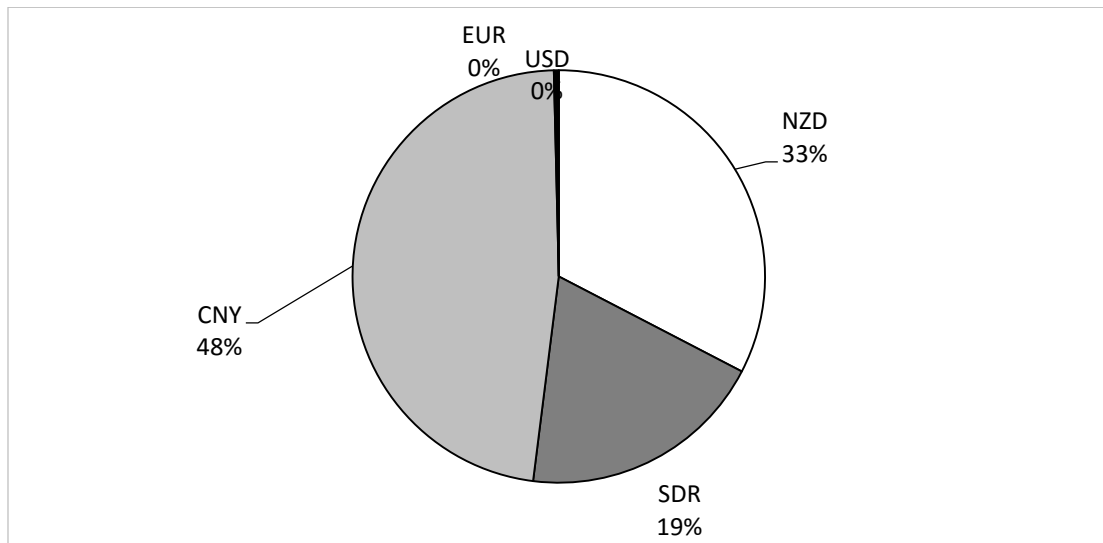
In the 2014/15 year, the Crown converted both USD loans held with the ADB to NZD, leaving all outstanding debt with the ADB in either SDR or NZD. The SDR is a basket of currencies composed of the USD (41.73%), EUR (30.93%), CNY (10.92%), yen (8.33%) and pound (8.09%).

As a result of these loan conversions, the Manatua Submarine Cable loan is the only debt explicitly denominated in USD. The movement in the NZD/USD exchange rate is still closely monitored, as all SDR loans held with the ADB are repaid in a USD equivalent. It is for this reason that the revised forecast for the USD has had a positive impact on the value of outstanding loans in as at 30 June 2018.

7.2.1 Debt held directly by the Crown

Directly held Crown debt, i.e. debt excluding that held by or on behalf of State-Owned Enterprises (SOEs) and the DRM Loan, is mainly denominated in foreign currencies, with 33 per cent of debt in local currency (NZD). Of the remaining 67 per cent denominated in foreign currencies, CNY is at 48 per cent, followed by the SDR at 19 per cent, and EUR at 0.2 per cent. This is a shift from the 2017/18 HYEFDU due to the delay in the drawdown of the USD Manatua Cable loan.

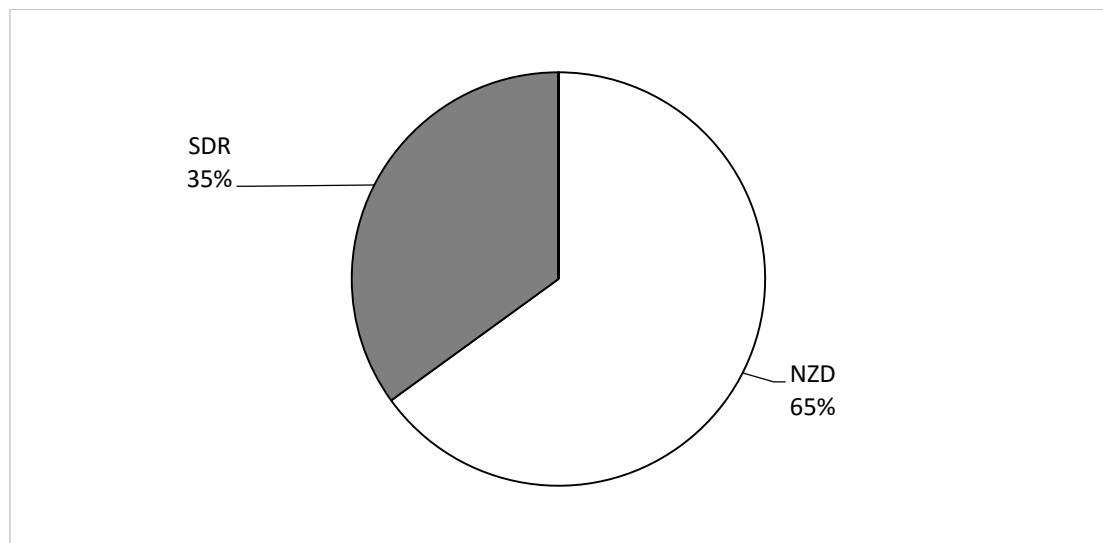
Figure 7.3 Projected Composition of Direct Crown Debt as at 30 June 2018 by Currency



7.2.2 Contingent & SOE debt

Debt held by, or on behalf of SOEs, as well as the DRM loan from the ADB, is mainly denominated in NZD, comprising 65 per cent of the total contingent debt. The remaining 35 per cent is held wholly in SDR.

Figure 7.4 Projection Composition of Contingent Crown Debt as at 30 June 2018 by Currency

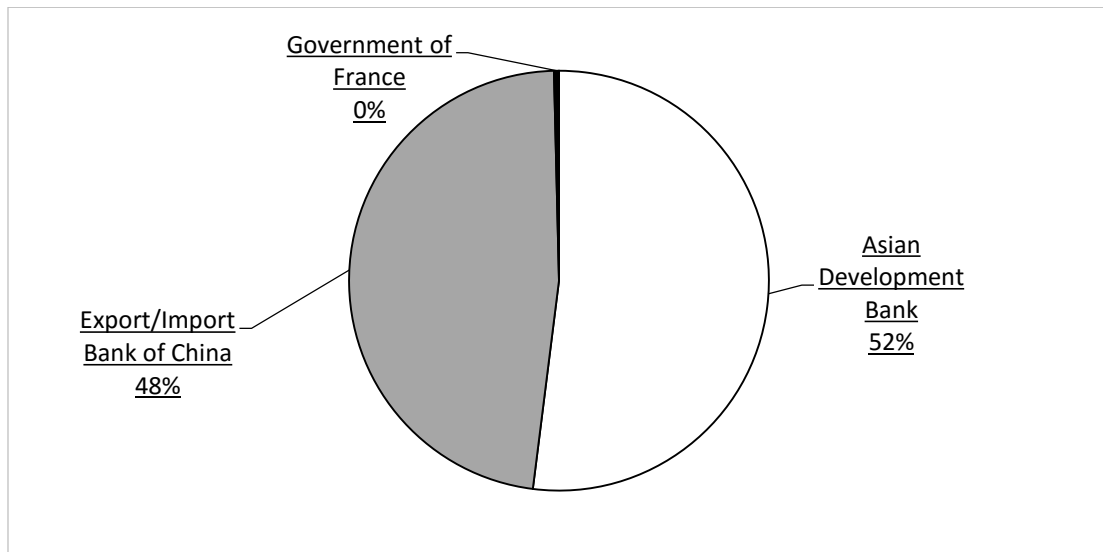


7.3 Gross Debt by Lenders

7.3.1 Debt held directly by the Crown

Gross direct Crown debt is held by two key lenders, the ADB and the Export/Import Bank of China (EXIM Bank). As illustrated in Figure 7.5, 52 per cent of the Crown's direct borrowings are from the ADB, while 48 per cent is from the EXIM Bank. The loan from the Government of France, which comprises less than 1 per cent of Crown debt, will be fully repaid in the 2018/19 year.

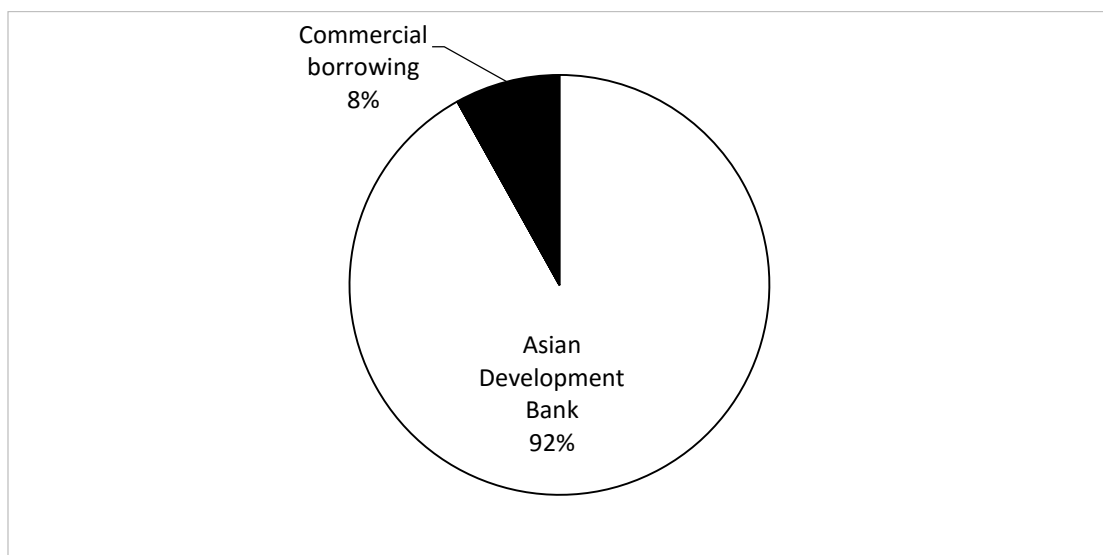
Figure 7.5 Gross Direct Crown Debt Estimates by Lender, 30 June 2018



7.3.2 Contingent and SOE debt

Contingent debt, and debt held by SOEs, is overwhelmingly dominated by the ADB (92 per cent). The commercial loan being drawn down by the Airport Authority for the International Landing System comprises the remaining 8 per cent of SOE and contingent debt.

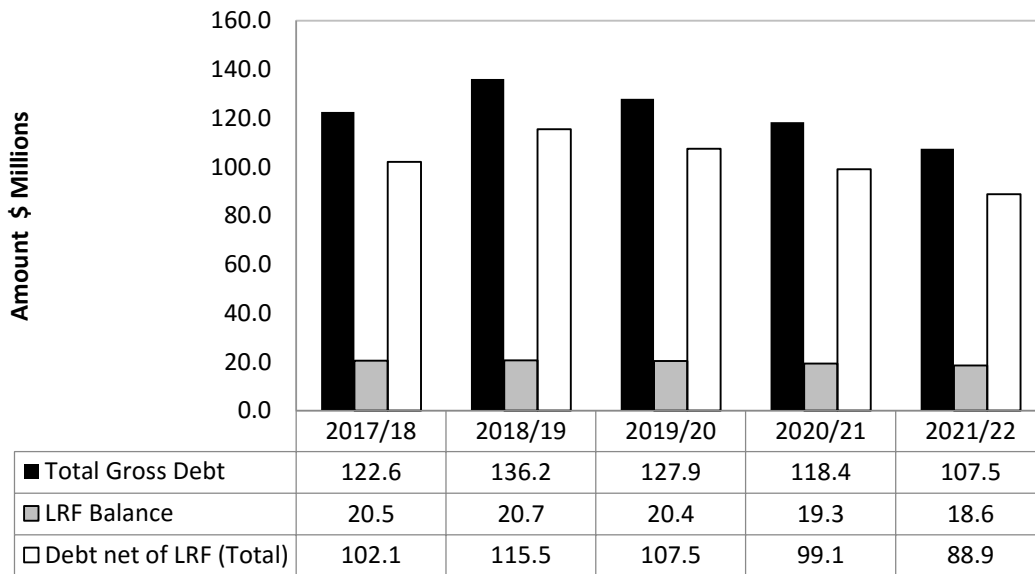
Figure 7.6 Gross Contingent Crown Debt Estimates by Lender



7.4 Crown Debt burden

Total gross (direct Crown and contingent) debt estimated to 30 June 2018 during the HYEPU was \$143.5 million, actual was reported at \$113.9 million at 31 March 2018. The estimate to 30 June 2018 has been revised down to \$122.6 million due to the delay in the drawdown of the Manatua Submarine Cable which now estimated to be drawn in 2018/19. It gradually reduces in the outer years on the assumption that loan principal is repaid and the Government does not undertake new loans.

Figure 7.7 Cook Islands overall debt burden



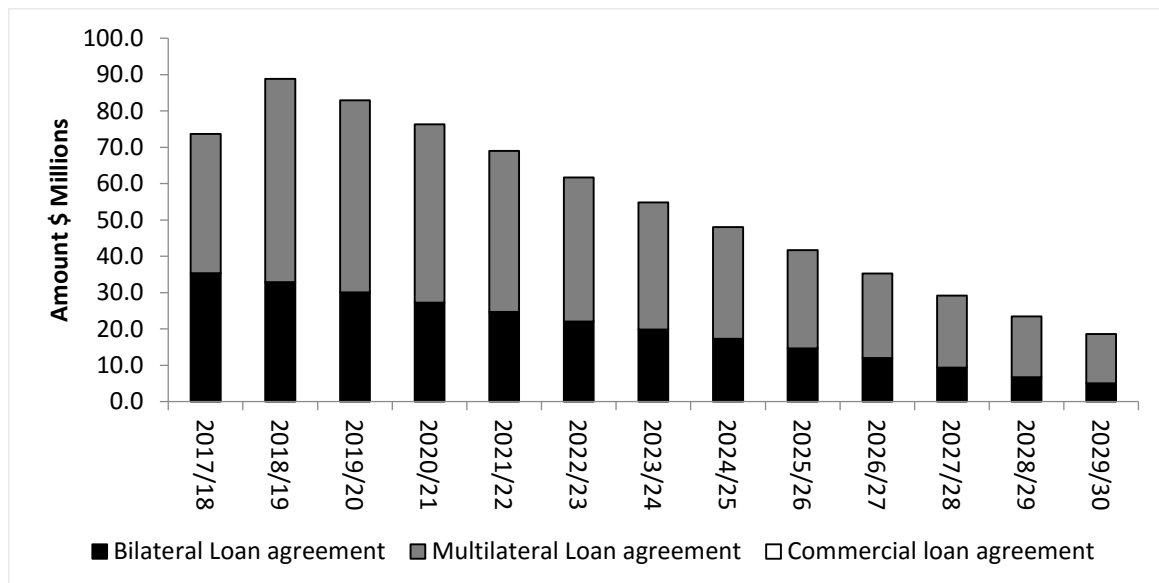
Net debt (total gross debt reduced by the LRF) follows the same trend as gross debt. As a percentage of GDP, net debt peaks at 26.9 per cent in 2018/19, 3.1 per cent below the Government’s debt target of 30 per cent. Net debt as a per cent of GDP is expected to slowly decrease to 19.2 per cent in 2021/22.

7.5 Status of Government Loans

Figure 7.9 below summarises the debt profile of existing Crown loan agreements over the next 10 years, as divided between multilateral lenders (only the ADB) and bilateral lenders (predominantly EXIM Bank).

The impact of the new loans can be seen in the peak in 2017/18, with debt declining thereafter. The figures presented include estimated movements in exchange rates.

Figure 7.9 Sources of Outstanding Direct Crown Debt Next 10 Years



Outstanding contingent Crown debt is largely held by the ADB, with a small portion of SOE debt held in a commercial agreement.

Figure 7.10 Sources of Outstanding Contingent Crown Debt Next 10 Years

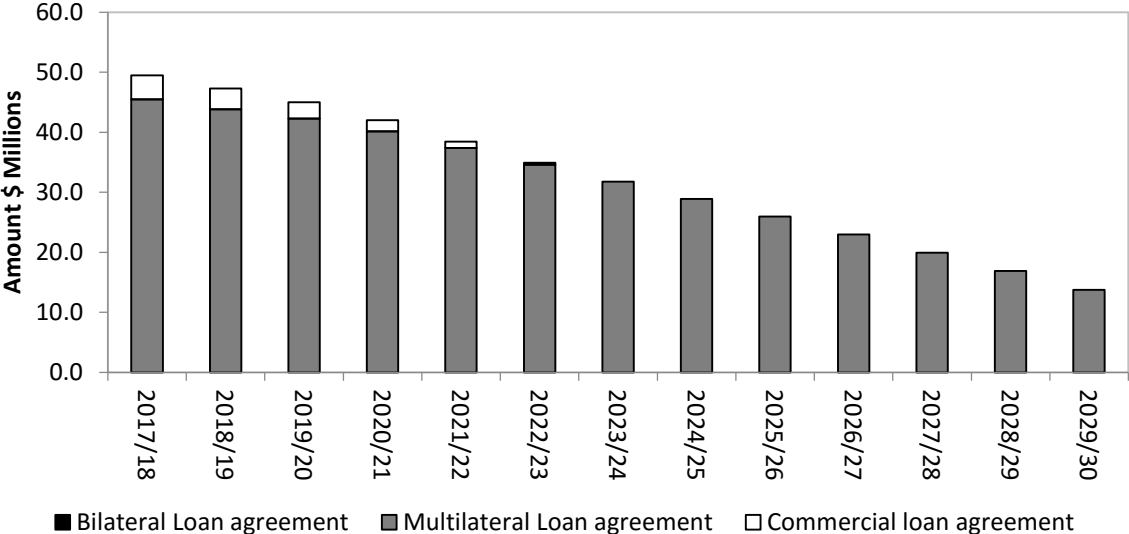


Table 7.3 shows the estimated balance of each loan as at 30 June 2018. This table assumes the full draw down of the \$13.9 million DRM loan even though the loan will only be drawn down in the event of a natural disaster.

Table 7.3 Status of Government loans, at 30 June 2018

Loans drawn down	Date loan taken	Original loan amount (000)	Balance (NZD,000)	Expected date of repayment
ADB 461 (SF) Multi Project	November, 1980	USD 1,000*	263	August, 2020
ADB 567 (SF) CIDB Project	July, 1982	USD 1,500*	309	April, 2022
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	1,520	August, 2027
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	3,824	August, 2030
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	978	December, 2031
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	339	June, 2032
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	389	August, 2034
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	2,376	August, 2034
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	2,036	September, 2035
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	4,642	September, 2036
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	813	January, 2038
Restructured French Loans	January, 1999	EUR 5,413	295	September, 2018
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	1,979	June, 2033
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,336	June, 2045
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	9,905	August, 2028
ADB 2472 (OCR) Avatiu Port Development Project*	September, 2009	NZD 10,309	9,140	November, 2033
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	8,473	November, 2040
ADB 2565 OCR Economic Recovery Support Program 1*	January, 2010	NZD 11,053	6,532	October, 2024
ADB 2739 (OCR) Amendment Avatiu Port project*	December, 2011	NZD 5,290	5,078	November, 2035
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	24,945	December, 2032
ADB 2946 OCR Economic Recovery Support Program 2	December, 2012	NZD 11,053	5,740	October, 2027
ADB 3913 Renewable Energy Project	December, 2014	NZD 12,980	11,773	June, 2036
ADB - Loan for Undersea Broadband Cable	November, 2017	USD 15,000	Nil	2031
Commercial - Loan for Rarotonga Airport Equipment	November, 2017	NZD 4,000	4,000	2022
ADB - Disaster Risk Management		USD 10,000	13,950	*Contingent
Total loans commitment			122,635	

*Note these loans have been converted to NZD

7.6 Net Debt

The internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (this means like for like, for example cash). Under this definition, the Crown's net debt position would be only \$27.7 million at 30 June 18.

Gross Debt + Currency on Issue = (\$122.6 million) + (\$4.1 million) =	(\$126.7 million)
Less Financial Assets (Cash reserves and Loan Repayment Fund) =	(\$99.0 million)
Net Debt =	(\$27.7 million)

However, for the purpose of prudent fiscal management, the Crown excludes cash reserves and currency issued from the net debt definition. On that basis, the Crown's 'Net Debt' is equivalent to total gross debt, net of the LRF. This is closer to the internationally accepted definition of net debt.

Net debt under this more conservative definition is estimated to be \$102.1 million (24.2 per cent of GDP) at 30 June 2018, lower than that expected at 2017/18 HYEPU, due to a change in drawdown schedules.

It should be noted that debt servicing figures in Table 7.4 differ from those discussed above, as this assumes drawdown of the DRM loan, and includes associated servicing costs.

Table 7.4 Current Borrowing Statement (\$m)

Current Statement	2017/18	2018/19	2019/20	2020/21	2021/22
	\$m	\$m	\$m	\$m	\$m
Gross Crown Debt, start of FY	129.0	144.2	136.0	127.8	118.4
Gross Crown Debt, end of FY	122.6	136.2	127.9	118.4	107.5
<i>Direct Crown Debt</i>	73.7	88.9	83.0	76.3	69.0
<i>SOE debt</i>	35.0	33.4	31.0	28.7	26.2
<i>Contingent (Disaster) debt</i>	14.0	14.0	14.0	13.4	12.2
...net of loan reserves, end of FY	102.1	115.5	107.5	99.1	88.9
as percentage of GDP	24.2%	26.9%	24.4%	21.8%	19.2%
Loan Repayment Reserves Held	20.5	20.7	20.4	19.3	18.6
Gross Debt Servicing	9.4	11.2	11.3	12.5	13.7
<i>Direct Crown Debt</i>	6.1	7.8	7.7	8.3	9.0
<i>SOE debt</i>	2.4	3.1	3.4	3.3	3.3
<i>Contingent (Disaster) debt</i>	0.9	0.3	0.3	0.9	1.4
Net Debt Servicing	7.2	9.1	9.1	10.3	11.5
Net Debt Servicing (without contingency)	6.4	8.8	8.8	9.5	10.1
... as percentage of Total Revenue	5.4%	7.5%	7.5%	8.0%	8.7%
Crown as % total revenue	3.5%	5.2%	5.1%	5.3%	5.7%

7.7 Debt Headroom

In the first half of the 2017/18 fiscal year, the Crown signed additional loans to fund an Instrument Landing System for Rarotonga Airport (through the Airport Authority) and a fibre-optic submarine cable (Manatua Submarine Cable). Once drawn down, these loans will have an impact on the Crown's

capacity to service additional borrowing. Furthermore, the DRM loan will have an additional and potentially significant impact should it be drawn down at short notice.

These loans, if drawn as assumed (with the Manatua Submarine Cable loan drawn down across the 2018/19 and 2019/20 years, the Instrument Landing System loan drawn evenly across the 2017/18 and 2018/19 fiscal years and the DRM loan fully drawn down), would increase net debt to \$115.5 million (gross debt of \$136.2 million) by 30 June 2019, leaving approximately \$13.3 million of room before the more conservative MFEM target of 30 per cent net debt to GDP is reached. With regard to the Crown's prudential 35 percent threshold this leaves headroom of \$34.7 million.

This analysis assumes full draw down of the DRM loan, which would occur only if a disaster occurs, and is the reason for the five percentage point gap between the MFEM target and the Crown's prudential threshold. As well as this, this analysis assumes that loans currently held by SOEs are unable to be serviced by those entities.

7.8 Long term debt projections and fiscal risks

Proposals to take on new loans must be treated under transparent processes as required by the MFEM Act 1995/96 and the LRF Act 2014.

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

7.8.1 Debt projections

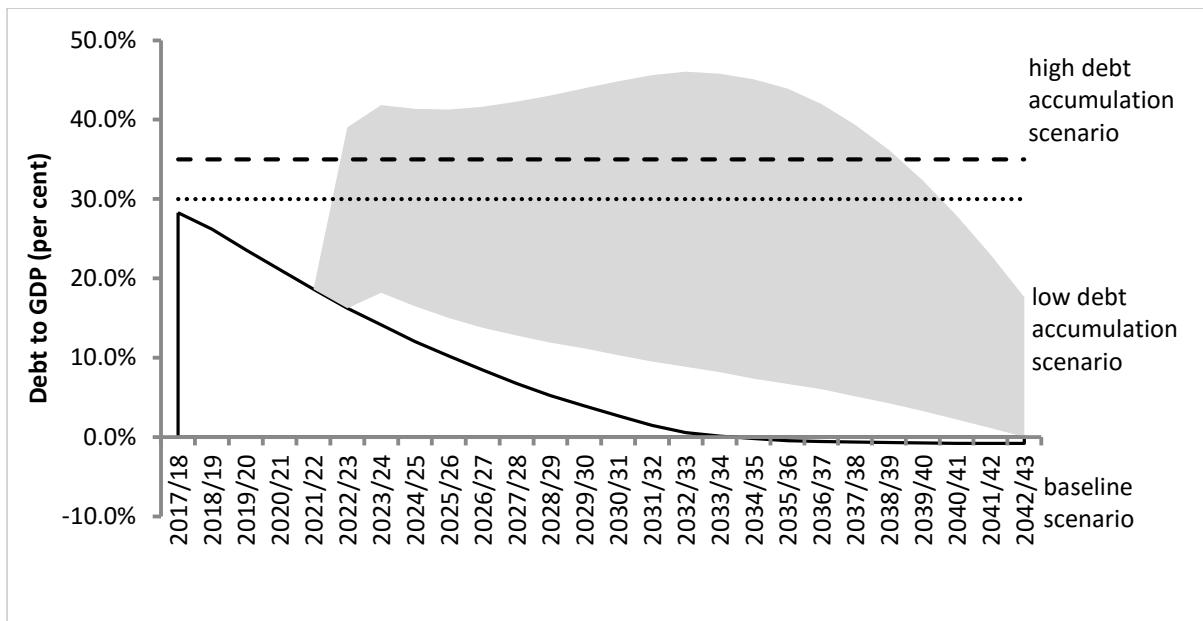
The following projections are designed to present an estimate the potential evolution of the debt position of the Cook Islands Government over the next 20 years. These do not model any specific projects, but can be considered as an indicative guide.

These scenarios assume that the contingent loan (DRM loan) from the ADB is fully drawn down across the forward estimate years (2018/19 to 2020/21). The DRM facility provides a disaster assistance loan to assist reconstruction efforts in the aftermath of a catastrophic weather event. This is not a liability on the Crown until such an event occurs, but does represent a contingent liability. All projection scenarios include the drawdown of this loan but, for the purposes of assessing debt sustainability, this should be considered to sit between the benchmarks of 30 and 35 per cent net debt to GDP (as this is the purpose of both the contingent loan, and the five per cent 'cushion').

The loans held by SOEs (as distinct from those held on behalf of SOEs, where the SOEs have discharged their debts to the Crown) also represent a contingent liability to the Crown, and are considered as such throughout the projection scenarios.

In addition to cataloguing the known investment programmes and associated borrowings, it is also important to estimate what the likely evolution of the debt profile is over time. Figure 7.11 shows three debt accumulation scenarios.

Figure 7.11 Net debt projection – 20 years



The baseline scenario is the evolution of the current debt over time. The estimates are those outlined in the current debt agreements, with the repayment schedules already mapped out over the next 20 to 30 years. This includes the contingent DRM loan.

Both the high and low debt accumulation scenarios assume that operational spending remains within prudent forecasts, producing modest operational surpluses. If this were not to be the case, the debt projections would be higher in both cases. Both scenarios also assume current loan terms of 15 years, with a three year grace period in each case.

The high debt accumulation scenario assumes that the growth of capital investment continues at growth five percentage points above nominal GDP. As this is significantly lower than the increase in planned capital investment in recent years, there remains an element of conservatism in this outlook. However, this scenario is designed to represent one in which the level of the Crown’s infrastructure investment in the Cook Islands is continually growing. This also assumes that ninety per cent of net capital investment (that is, capital investment less depreciation) is funded by debt, at interest rates of 2.5 per cent per annum. Under this scenario, as can be seen in the chart above, debt increases rapidly over the projection period, with the MFEM prudential target of 30 per cent net debt to GDP being breached around 2032, and the 35 per cent ‘hard limit’ being breached around 2035.

The low debt accumulation scenario assumes that the Crown’s capital investment is limited to (in broad terms) maintaining the existing level of capital stock. This means that total capital investment is assumed to grow in line with long term depreciation (considered to be five per cent for these purposes) and price growth of manufactures.⁵ This shows a much lower rate of debt accumulation, which does not threaten the benchmark debt to GDP ratios.

In all modelled scenarios, it is assumed that replacement costs for the Northern and Southern Renewable Energy Projects are provisioned for through the tax base or by user charges. A similar

⁵ From IMF databases.

assumption is made for the Rarotonga water network. The replacement costs for such systems are therefore neutral on the modelling presented here. Similarly, any costs incurred related to sanitation in Muri are assumed to be met through sources other than debt, and are not included here.

7.8.2 Conclusion

Both of the low and high debt scenarios suggest that some key planned infrastructure projects can be accommodated within current debt limits, but there is a need to remain prudent about future borrowing, and prioritise amongst competing capital projects.

Fundamentally, expectations of expanding operational budgets cannot coexist with the recent high levels of capital spending. At some point in the future, either capital or operational spending will need to be scaled back to match revenue growth.

Importantly, neither the low debt nor high debt scenario assumes expansion in operational spending in excess of revenue growth. As the population of the Cook Islands ages, and public expectations about social safety nets change, this assumption may no longer be valid, which would increase pressure on the debt sustainability through the financing of operational needs by debt.

Notably, projects such as the Tereora College rebuild are not factored into these estimates. This project is assumed to be financed largely by donors. Other, more aspirational projects are also not factored into these estimates, such as the renewable energy project for Rarotonga. Loan financing either of these projects would significantly degrade the Crown's ability to stay within its debt limits.

7.9 Other State Owned Enterprise Debt

The Airport Authority is in the process of drawing down on a loan from the commercial sector to fund an upgrade of the Instrument Landing System at Rarotonga International Airport. This loan will also cover costs associated with sealing of the runway and the building of a new cargo shed.

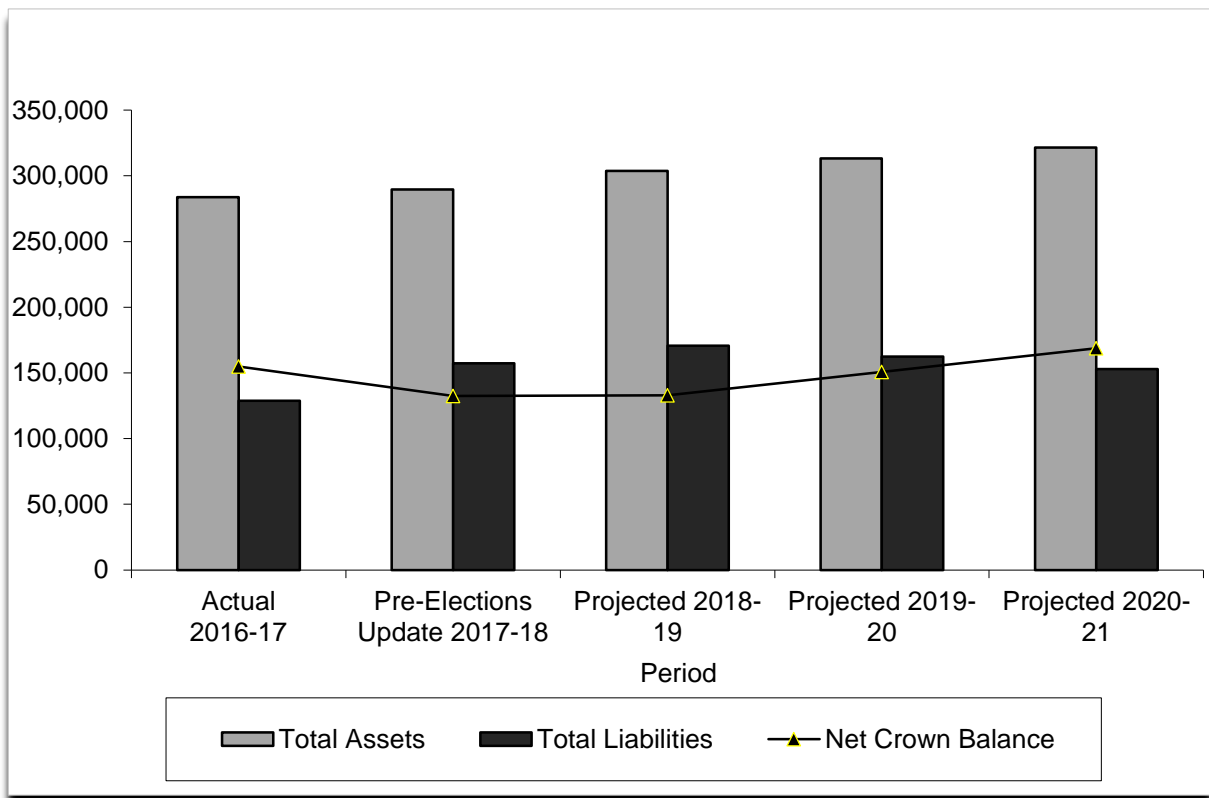
The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The Covenant will be measured annually in arrears.

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

7.10 Net Worth

The Cook Islands 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.

Figure 7.12 - Net Worth 2016/17 to 2020/21 (\$000)



The estimated net worth of the Crown as at June 2018 has decreased from the 2016/17 actuals of \$154.88 million to \$132.47 million at the time of the 2017/18 PEFU. This is a net movement of \$22.41 million. Even with an increase in total Crown assets, the net movement has been caused by the increase in Crown liabilities from gross borrowings.

The Crown's net worth is expected to increase in the outer years from 2017/18 as long as there is an estimated operating surplus. A major contributor to the forecast upward trend is the injection to the Crown's asset from aid donor funding and decrease in gross borrowings in outer years.

8 Cook Islands Government Capital Budget 2017/18

8.1 Summary

The Cook Islands capital expenditure appropriated at the time of the 2017/18 Budget amounted to \$44.9 million, supporting projects to be implemented in Rarotonga and the Pa Enua. The Capital Plan is intended to inform the Cook Islands Community of progress made towards the capital projects prioritized since the 2016/17 year and outlining new projects the Cook Islands Government has embarked on over the period 2017/18 to 2020/21.

Since the passing of the 2017/18 Appropriation Act, the 2017/18 Half Year Economic and Fiscal Update (HYEFU) was released and published in December 2017. This publication included any capital expenditure movements since the time of the 2017/18 Budget. Various capital expenditures amounting to \$15.4 million was carried forward from 2016/17 into 2017/18, increasing the capital budget from \$44.9 million at the time of the 2017/18 Budget to \$60.3 million at the time of HYEFU. The bulk of this increase is due to the carry forward of the Southern Group Renewable Energy Project – loan component of \$10.9 million.

As of 31 March 2018, total actual expenditure to date for capital projects is \$15.2 million, however it is forecast that \$26.3 million will be expended by 30 June 2018, an underspend of \$34 million. Compared to previous years, the actual expenditure to date (March) for capital projects has come in higher than actual expenditure for the 2015/16 and 2016/17 financial years. Expenditure has always been lower than budget due to the deferral of major projects for various reasons. The current state of these projects is further outlined in this chapter.

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

8.2 Office of the Prime Minister

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to Date	2017/18 PEFU Estimate	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Atiu	Atiu Power Distribution	660,000	183,255	705,966	-	-	-
Aitutaki	Aitutaki Renewable Energy Project	2,800,000	-	-	-	-	-
National	Government IT Network	40,000	36,625	40,000	40,000	40,000	40,000
National	Southern Group Renewable Energy Project – loan component	10,948,000	7,217,774	8,592,497	2,355,503	-	-
National	Renewable Management Project Management and Support	250,000	218,885	250,000	250,000	250,000	-
National	Manatua Submarine Cable (loan component)	10,869,565	-	-	12,500,000	8,333,333	-
National	Computers and printers	-	-	14,752			
	Total	25,567,565	7,656,539	9,603,215	15,145,503	8,623,333	40,000

Atiu Power Upgrade – Phase 2

The Atiu Power Upgrade commenced in 2011/12, with phase 1 completing the re-build of the power house and purchasing new generators for Atiu. \$660,000 was provided in 2017/18 capital funding to undertake phase 2 of this project to enable the distribution of power supply through an expansion of distribution lines and decommissioning the old system.

Phase 2 has commenced and funds have been committed for the tender to undergo this work. This includes providing equipment and materials for the supply of low voltage materials, streetlights and metering stations and the installation of these systems. This phase will also support the decommissioning activities associated with the decommissioning of the old overhead cables and power poles and their removal from the Island.

Phase 3 is the installation of the new Renewable Energy solar station funded under the Southern Group Renewable Energy Project – loan component.

Aitutaki Renewable Energy Project – Phase 1

Funding of \$2.8 million has been appropriated to extend the national renewable energy plans to the island of Aitutaki with the aim of reducing the island's diesel consumption by 245,000 litres a year and support at least 24 per cent of energy consumption from renewable energy sources. From the \$2.8 million, a 10 per cent payment (\$320,000) will be made to commence this work with the remainder of the work taking place in the 2018/19 financial year.

It is estimated that the gross cost of this initiative will be \$3.2 million, however this will be partially offset from savings arising from the Southern Group Renewable Energy Project funded by the Japan Pacific Environment Community (PEC) Fund.

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

Government IT Network

The whole of government (including a number of Island Governments) IT Network was provided an annual amount of \$40,000 in capital funding in 2017/18 for ongoing implementation and maintenance of the centralized Government Information Technology network. The ICT office undergoes regular maintenance so funds will be fully expended this financial year.

Renewable Energy Management Project

The management cost associated with the implementation of the Renewable Energy Programme appropriated \$250,000 per annual in the capital plan from 2017/18 to 2019/20.

This management team will continue to oversee the installation of the Southern Group Renewable Energy Project, namely for Mitiaro, Mauke and Mangaia now that the Northern Group Renewable Energy Project is complete.

Manatua Submarine Cable (loan component)

The Manatua Submarine Cable was supported to enable reliable and affordable broadband connections. This project has been developed in partnership with the governments of Samoa, French Polynesia and Niue who have all contributed to the procurement of the cable. The ADB procurement process was followed and a tender is yet to be awarded. Manatua's main trunk will connect directly to Samoa and French Polynesian with branching units linking Niue, Rarotonga and Aitutaki.

The total cost of the project was estimated to be \$35 million. Financing arrangements have been entered into with the New Zealand Government to offset the cost with a grant funding of \$15 million and some portion through the ADB loan financing mechanism. Other equity share arrangements are yet to be finalized.

Due to the prolonged preparatory work and the procurement process to be complied with, this has delayed the project resulting in the major underspend of the loan component of this project. Funding of \$1 million of NZAID funding has been used and information pertaining this spending is provided in the ODA Chapter.

8.3 Cook Islands Investment Corporation

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU Estimate	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	300,000	-	300,000	-	-	-
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	250,000	-	250,000	250,000	250,000	-
Rarotonga	Tereora College Redevelopment Stage 1 Vaikapuangi	1,462,000	2,099,459	2,099,459	-	-	-
Rarotonga	Government Building - design Vaikapuangi	450,000	-	450,000	-	-	-
Rarotonga	Government Building - construction	-	-	-	-	5,000,000	5,000,000
Pukapuka	Government House	21,164	-	21,164	-	-	-
Pukapuka	Hospital Reconstruction	500,000	-	500,000	-	-	-
Rarotonga	Te Mato Vai – Stage 1: road and pipeline easement & stage 2 land acquisition for water intakes	1,250,000	-	-	-	-	-
Rarotonga	Punanganui Road Improvement	-	-	275,000	-	-	-
Rarotonga	China Building Repair – Stage 1	-	-	340,000	-	-	-
Aitutaki	Arenikau Water Storage tank	315,000	-	-	-	-	-
		4,548,164	2,099,459	4,235,623	250,000	5,250,000	5,000,000

Apii Nikao Rebuild

The new Apii Nikao school building project is funded and implemented by the Government of the People's Republic of China (PRC). The China Civil Engineering Construction Corporation was awarded the construction contract in April 2017. The project is near completion with the opening of the school planned for May 2018.

Funding was approved to be transferred from Bridges and Drainage to improve the Apii Nikao Maori Roads by the school, including adding footpaths. This work will commence shortly and is planned to be completed for the opening of the school.

Orongo Development Project

Activity on the Orongo Development Project through the 2016/17 year has been limited. Changes in circumstances in Aitutaki required a review of the project priorities which were clarified towards the end of that financial year. This project has not progressed further. It was identified at the time of budget that the commissioning of the public toilet facility, channel dredging, and the development of the marina area in front of Aitutaki Fishing club will be done in 2017/18.

Tereora College Redevelopment Project – Stage 1

Stage 1 of Tereora College Redevelopment commenced in October 2016 and the construction contract was awarded to Landholdings Ltd.

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

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

Vaikapuangi Project

The main purpose of this project is to have the majority of government facilities on Rarotonga in a central, publicly owned and modern, purpose-built facility.

This project will be implemented in stages over a period of financial years subject to the completion of a scoping study. The concept designs appropriated to be confirmed this financial year have now progressed for a 3 staged approach to re-developing the site considered for this project. A value analysis will be conducted over the next 2 months together with a more extensive assessment of social and environmental impacts for the proposed re-development. Funds this financial year are estimated to be fully expended to cater for this work.

Pukapuka Government House and Hospital

The Pukapuka Government House project has mobilized the materials required for shipment. Once materials have reached Pukapuka, this project will commence and is expected to be completed by early June. The Pukapuka hospital work has gone out to tender and it is anticipated that the renovations will commence this financial year and will be possibly completed in the 2018/19 year.

Punanga Nui Road Improvement

The improvement of roads at the Punanga Nui market was provided an amount of \$275,000, to build resilient infrastructure in order to deliver quality, safe and reliable land transport network for the community and also achieve food security for vendors selling their produce to the wider public.

China Build Repair – Stage 1

A team from China is currently on Rarotonga working with CIIC to finalize the scope of work required for the TSA, Cook Islands Police and Ministry of Justice buildings. Following this visit, the PRC team will send the technical specifications and design plans for CIIC's review and endorsement before project schedules are confirmed. This repair project will be funded by China and this is the Cook Islands contribution to this development.

Arenikau Water Storage Tank

CIIC is working in collaboration with ICI on this project to install a 1 million litre water tank at Arenikau. A suitable site has been identified with geotechnical surveys completed by ICI. The draft designs and specification are currently under review before a long term solution is determined.

8.4 Infrastructure Cook Islands

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU Estimate	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Atiu	Atiu Airport Runway Stabilisation	454,549	92,852	212,875	-	-	-
Atiu	Atiu Road Improvement Programme	256,550	6,531	6,531	-	-	-
Rarotonga	Avatiu Valley Stream embankment	394,936	-	50,000	-	-	-
Rarotonga	Bridges & Drainage	1,814,271	144,702	400,324	870,000	750,000	-
Mitiaro	Manea Games Upgrade	23,063	20,995	23,063	-	-	100,000
National	HV Transport Trailer	106,178	96,068	101,068	-	-	-
National	Bitumen Truck	166,559	102,341	166,559	-	-	-
Mangaia	Mangaia Road Improvement Programme	495,336	128,329	136,485	-	-	-
Mangaia	HIAB (includes man cage & fork)	75,439	158,438	158,438	-	-	-
Mangaia	Central Water Project	11,766	10,740	11,766	-	-	-
Mangaia & Palmerston	Cargo Barge Repair	15,096	12,687	15,096	-	-	-
Mitiaro	Mitiaro Water Upgrade	247,000	67,170	197,000	-	-	-
Nassau	Nassau Cyclone Centre	-	-	-	500,000	-	-
Various	Outboard Motor Replacement program	63,866	81,221	83,866	-	-	-
Penrhyn	Omoka Harbour Upgrade	250,000	-	-	-	-	-
Palmerston	Palmerston Cyclone Center	390,311	65,889	390,311	-	-	-
Penrhyn	Penrhyn Cyclone Centers (Omoka & Tetautua)	-	-	-	1,000,000	-	-

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU Estimate	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Pukapuka	Pukapuka Airport terminal buildings upgrade	121,500	66,098	78,929	13,500	-	-
Rakahanga	Rakahanga Cyclone Centre	550,000	2,015	41,570	-	-	-
Rarotonga	Rarotonga Road Improvement Programme	2,352,850	620,554	925,823	2,000,000	2,000,000	2,000,000
Rarotonga	Road Network Maintenance	632,751	525,301	632,751	630,000	630,000	630,000
Mangaia	Tamarua Water Project	250,000	52,811	210,340	-	-	-
Rarotonga	Tip Truck	100,000	-	45,000	-	-	-
Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	150,000	8,530	64,430	-	-	-
Manihiki	Manihiki Airport Terminal - construction	55,845	55,845	76,845	-	-	-
National	Pa Enea Machinery Shelters	42,480	31,521	42,480	-	-	-
Pukapuka	Yato Cargo Shed Upgrade	7,911	7,850	7,911	-	-	-
Rarotonga	Rutaki Foreshore Rock Revetment	119,547	67,608	70,000	-	-	-
Rarotonga	TMV Titikaveka backroad ringmain pipeline	127,000	-	-	-	-	-
Rarotonga	Muri Road Widening	448,621	39,329	189,329	-	-	-
Rarotonga	Water Network Maintenance	532,367	264,982	532,367	500,000	500,000	500,000
Aitutaki	Aitutaki Road Improvement	536,527	688,267	831,494	-	-	-
Aitutaki	Establishing new Water Galleries	467,655	29,959	230,376	381,340	-	-
	Total	11,259,974	3,448,633	5,933,026	5,894,840	3,880,000	3,230,000

Atiu Runway Stabilisation

The current condition of the Atiu Airport, runway and supporting infrastructure is in a poor state. The runway requires suitable maintenance and this has led to operational and safety concerns from Air Rarotonga. Safe and secure air transport infrastructure is essential and can support an increase in economic opportunity for the Pa Enea.

A contract for the sourcing of the raw materials for the crusher plant has been awarded. This is now awaiting mobilization of contractor which will be followed by aggregate production. The procurement of the building materials for the Atiu Machinery Shelter is in progress.

Pa Enea Road Improvement Programme – Atiu & Mangaia

This road improvement programme aims to improve the land transport network of roads, both sealed and unsealed, on the islands of Atiu and subsequently, Mangaia. The sealed roads have now come to the end of their service life and require rehabilitation and improvement. The project will involve rehabilitation of pavements, including new granular pavement construction, drainage improvements to protect the pavement integrity over the long term and a new chip seal surface.

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

Aggregate is required to progress further with these projects and once the crusher plant and the sourcing of raw materials is completed to assist with the aggregate, the physical work will commence in Mangaia.

Bridges & Drainage

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

As part of this work critical drainage assets are also being inspected and prioritized for repair or replacement. The requirement for new drainage infrastructure is being assessed and will be facilitated under this CAPEX where possible. However at this time, a few drainage repairs will be undertaken over May/June 2018 period. The tender for this work is in progress with work expected to commence in May/June 2018.

ICI have awarded the contract for the design for the Empire Bridge, with construction in the next financial year. As such, funds have been transferred from Bridges and Drainage to cover shortfalls in other projects. These projects include:

- \$180,000 Aitutaki Road Sealing Project;
- \$50,002 Bitumen Truck;
- \$400,000 Aitutaki Road Sealing Project to complete the remaining roads not included in the initial plan; and
- \$62,000 Manihiki Terminal Construction.

Mitiaro Water Upgrade

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

Currently, the underground Vai Uti cave is the sole supply of groundwater. Water is pumped to an elevated reservoir tank and gravity-fed to the wider Mitiaro community. There are several issues with

the water supply system including high salinity, water wastage through leakage, highly corroded reservoir tank and platform stand and issues with the catchment and storage of rainwater tanks.

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

Omoka Harbour

The Penrhyn Island Council have submitted their priority to ICI for the Omoka Harbour to improve the existing cargo shed and extend it for another two bays. The design is being finalized for review by the Island Council before the work is sent out to tender. Construction will take place in the next financial year.

Pa Enea Cyclone Centre Programme

Improving the resilience in the Pa Enea against the effects of climate change is a priority. The Government has committed to constructing a purpose built cyclone shelter for Rakahanga Island in 2017/18. Design for the cyclone centre is 70 per cent complete and it is anticipated that construction will require additional funding. This design will be used for the islands of Penrhyn and Nassau.

Addition to this, Palmerston will be funded by Japan and ICI will go out to tender for the construction of this project in May.

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

Rarotonga Road Improvement Programme

The improvement of roads on Rarotonga is appropriated an annual amount of \$2 million. This is put towards the upgrading of the Rarotonga road standards along the main ring roads, Ara Tapu and if possible Ara Metua. This upgrade is targeted to provide for a quality, safe and reliable land transport network.

Additional improvements such as pedestrian facilities, road safety improvements and provision for safe cycle use will improve the amenity value as well as providing for a true multi-modal transportation system. Works programmed at the time of the 2017/18 budget included improving the Ara Tapu network from Pokino Road into Arorangi. This has been submitted for tender and is yet to be finalized.

In addition to the Arorangi road, the design and tender documents for Tupapa road improvement project is complete. Emergency repair works around Rarotonga is also underway following recent significant rainfalls.

Funds have been transferred from Bridges and Drainage to assist with the Nikao Road Improvement Work for the opening of the Nikao Maori School. The contract has been awarded and physical work is currently in progress with the work expected to be done by May.

Tamarua Water Project

Mangaia has faced water shortages during prolonged periods of drought. At times, the island can go up to 7 months without good rainfall. Mangaia has three main villages, Oneroa, Ivirua and Tamarua, which rely on stream surface water and rainwater for water supply.

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

The procurement of materials is in progress while shipping is also being sorted to transport these to Mangaia. Physical work is planned to commence this month.

Tukao Passage Widening project

The Manihiki island community have raised their concerns about improving access into and out of the lagoon. Initial scoping and design works has identified Tukao passage as a feasible site to improve lagoon access. The site has potential for low environmental impact as the bulk of the work comprises coral head removal from in and around the passage. This project will improve and increase safe access to and from the Manihiki lagoon for barges, canoes and fishing boats.

Explosives have been sourced and are currently being shipped from New Zealand. Work is expected to be undertaken in the next financial year.

Manihiki Airport Terminal Construction

Currently about 85 per cent of materials for the project have arrived on Manihiki with the remaining 15 per cent yet to be procured. This work has commenced and should be completed by the end of the financial year.

Muri Road Widening

The road in Muri requires significant improvement. Initial consultation and discussions are being held with landowners regarding the encroachment into the road corridor. The tender for this project is expected to go out in May 2018.

Water Network maintenance

Maintenance of water network and intake is an ongoing responsibility for Infrastructure Cook Islands to ensure that clean water is delivered to homes. This funding is utilized to undertake maintenance work on 12 intakes around Rarotonga to regularly clean the filtration system and remove debris that accumulates after heavy rains. The programme also covers efforts to minimize water wastage around the islands by attending to leaking pipes and broken mains at any time of the day and night.

Aitutaki Road Sealing

The original project scope has been completed and additional scope has been added to the project. This includes the sealing of the remaining road in Aitutaki that was not included in the original scope.

Funds have been transferred from Bridges and Drainage to fund this work and this will commence in June following aggregate production by the Aitutaki Island Administration.

Completed Projects under ICI

Listed below are projects completed by ICI below

- Mangaia Cargo Shed;
- Mangaia Central Water;
- Mangaia HIAB (Man Cage & Fork);
- Mitiaro Manea Games;
- Pa Enea Machinery Shelter;
- Rakahanga Large Boat & Outboard Motor;
- Yato Pukapuka Cargo Shed Upgrade;
- HV Transport trailer – (Mangaia, Mauke, Atiu); and
- Rutaki Foreshore and awaiting report from Consultant.

Establishing new Water Galleries for Aitutaki

The project involved the investigation and installation of a new groundwater infiltration gallery to supply water to the Are Nikau Village. It was evident that there is a dire need to improve the sustainability and reliability of the reticulated water supply in this village. Are Nikau has been identified as the priority area in Aitutaki because it is the first village to suffer from reduced flows into their reticulated system during prolonged dry periods. The investigation and design work is now complete and this work is expected to be tendered in May.

8.5 Ministry of Finance and Economic Management

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU	2018/19 Estimate	2019/20 Projection	2020/21 Projection
National	Banking payments system	635,000	-	-	-	-	-
Rarotonga	FMIS purchase and implementation	419,839	83,234	145,000	320,825	259,336	-
Rarotonga	AEOI IT System	500,000	189,887	395,000	-	-	-
Rarotonga	Te Mato Vai - Rarotonga		703,698	4,000,000			
Rarotonga	Water Upgrade (incl China loan)	13,000,000			11,276,792	7,063,036	-
Rarotonga	Water & Associated Services Programme (WASP)	2,080,846	64,989	64,988	10,289,691	7,000,000	7,000,000
	Total	16,635,685	1,041,808	4,604,988	21,887,308	14,322,372	7,000,000

Banking Payment System

Resulting from an initiative to link bank accounts here in the Cook Islands to New Zealand, a system and supplier was identified to undertake this work. \$600,000 was appropriated in 2016/17 and the remainder of the cost of \$35,000 in 2017/18. Since there was no progress to the project in 2016/17, the \$600,000 was carried forward into 2017/18 at the time of budget. To date, no expenditure has been charged to the project and it remains stagnant.

Financial Management Information System (FMIS)

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

The FMIS supports the standardization and integration of a centralized database accessible by government agencies. Agilyx who was awarded the contract have been working closely with the PMU team to implement the project plan. Phase 1 - planning stage has come to an end, and the project has now progressed to phase 2 – system configuration.

Te Mato Vai – Rarotonga Water Upgrade

Delivering reliable potable water to all properties connected to the existing water supply network, has been identified as a priority since 2015. Te Mato Vai was formed as the Cook Islands Water Partnership with the Governments of the People’s Republic of China and New Zealand. Funding for the Water Supply Upgrade has been provided through a combination of Cook Islands Government funds, a Chinese Government loan and grant assistance from the New Zealand Government.

The project is divided into two stages – Stage 1 being the replacement of the ring main; Stage 2 being the refurbishment of intakes and provision of storage, filtration and trunk mains. Stage 1 of the project is now completed and Stage 2 of the project is now underway with McConnell Dowell, the successful bidder.

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

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

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

There is no significant spending in this space to date as MFEM is currently covering PMU costs associated with the project with the Cook Islands contribution. Progress relating to the project covered by the ODA contribution is provided in the ODA chapter.

8.6 Ministry of Health (MOH)

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU	2018/19 Estimate	2019/20 Projection	2020/21 Projection
National	Fund to be Prioritized by Health for Technical Equipment	275,000	275,907	306,965	275,000	275,000	275,000
Rarotonga	Medical Service Bed End Panels	359,398	265,919	359,398	-	-	-
Rarotonga	Ambulance	150,000	2,202	2,202	-	-	-
Rarotonga	Hospital Incinerator	250,000	1,882	1,882	-	-	-
	Total	1,034,398	545,910	670,447	275,000	275,000	275,000

Funds to be prioritised by Health for Technical Equipment

There are various technical medical instruments and equipment necessary to assist medical professionals with health check-ups. \$275,000 has been appropriated per year to ensure the Ministry of Health can purchase this equipment when required. To date, Ministry of Health has expended the majority of this fund.

Medical Service Bed End Panels

These funds will cover the costs of implementing the final phase of the package purchase that has been offered to the Ministry of Health that includes the purchase and installation of beds, medical service bed end panels including gas lines and a wireless patient call system. These are required to complete the set up and meet the minimum standard requirement of a ward in any hospital. These installations are required for the medical, maternity, surgical and paediatric wards of the Rarotonga Hospital. To date, \$256,919 has been expended.

Ambulance for Rarotonga Hospital

The purchase of the second ambulance aims to benefit the Cook Island population, as well as to complement the ambulance fleet at the hospital. Current ambulance provision comprises one brand new ambulance (funded by MFAT-NZ through the partnership funding with the Cook Islands Ministry of Health in 2015) and two second-hand, aged ambulances (one operational with the second used as spare parts). Ministry of Health have gone out to tender and with the purchase of the Ambulance expected to take place next financial year.

Incinerator for Rarotonga Hospital

The effective management of clinical waste and proper disposal of all medical waste is important for the health and safety of the community and the environment. The \$250,000 appropriation will be used to replace the old incinerator. This will improve the management and treatment of healthcare waste and ensure that MOH maintain best-practice options for disposal, improve personnel skills and competency in managing healthcare waste, healthcare waste separation and infection control practices; promote the advantages of sustainable segregation and storage techniques for the different waste streams and an understanding of the health and safety risks resulting from the mismanagement

of healthcare goods; provide an established segregation audit of healthcare waste; and provide a disposal system that reduces the potential hazard posed by healthcare waste while endeavouring to protect the environment.

Ministry of Health have gone out to tender for an incinerator and this is yet to progress further.

8.7 Ministry of Agriculture

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU	2018/19 Estimate	2019/20 Projection	2020/21 Projection
Rarotonga	Vanilla Shade Houses	100,000	31,275	100,000	-	-	-
		100,000	31,275	100,000	-	-	-

Vanilla Shade Houses

This component of the project focuses on 'Investing in Vanilla Production for Rarotonga and selected Pa Enea, for economic growth and sustainable livelihood' by constructing eight new shade house structures and plantings for identified sites around Rarotonga and the Southern Pa Enea. With the actual spend to date, Ministry of Agriculture together with the Vanilla Consultant is working towards completing these shade houses as planned at the time of the 2017/18 Budget.

8.8 Ministry of Education

Island	Project/Programme	2017/18 HYEFU	2017/18 Actual to date	2017/18 PEFU	2018/19 Estimate	2019/20 Projection	2020/21 Projection
National	Fund to be prioritized by Education	360,000	166,518	360,000	110,000	110,000	110,000
		360,000	166,518	360,000	110,000	110,000	110,000

Funds to be prioritized by Education

Similar to Ministry of Health, the Ministry of Education receives an annual appropriation of \$110,000 for capital expenditure across all schools. This funding meets the requirements of replacement plans for computers, photocopiers, other multi-media items, desks, chairs and other classroom furniture. An additional \$250,000 has been made available from the New Zealand Aid higher modality fund.

9 ODA Pre-Election Update

The Cook Islands Government (CIG) ODA chapter provides a summary of planned expenditure programmes funded by development partners which were published in the annual appropriation in June 2017. This update reflects ODA estimated spends from July 2017 to June 2018. Current estimated spend for last financial year 2016/17 is reported at \$33.7 million, covering the period from July 2016 to June 2017. This was revised at the time of the 2017/18 HYEPU.

ODA was appropriated at the total value of \$77.7 million in the 2017/18 Budget published in June 2017 and year to date estimated expenditure to June is approximately \$61 million, 79 per cent of the total appropriation. The estimated expenditure in this financial year is the highest the Cook Islands has seen following the successful completion of key programmes such as Renewable Energy in Northern Group, Tereora College, Apii Nikao, SRIC, Manihiki Lagoon Clean Up. Contributions were also made by Core Sector Support and continued positive implementation of Renewable Energy in Southern Group, Te Mato Vai, Mei Te Vai Ki Te Vai, the Manatua Submarine cable and small grants programmes.

To a large extent, Cook Islands development funds have been dedicated to supporting major infrastructure initiatives. The CIG is actively working with its development partners to align grant funds to national priorities stipulated in the National Sustainable Development Plan (NSDP). MFEM is planning an ambitious development agenda in the coming financial year with continuation of resources dedicated towards infrastructure implementation and assessing the implications of ODA graduation.

The CIG also contributes towards ODA programmes through tax exemptions, administered by the Development Coordination Division (DCD). This initiative, which has contributed \$2.54 million to date, supports project implementation through the exemption on imported materials funded by grants as well as exemptions on value added tax for purchases of goods and services.

Table 9.1 ODA Budget vs Actuals for 2017/18

Development Partner	2017/18 Budget	2017/18 Actual Spend	% of Spend Against Budget
Asian Development Bank	652,174	8,065	1%
Australia	226,591	157,047	69%
China	11,734,000	21,544,999	184%
European Union	8,902,092	2,179,925	24%
New Zealand	39,946,349	29,492,884	73%
United Nations	1,917,514	1,052,823	55%
Global Environment Facility	9,669,946	5,760,960	60%
Green Climate Fund	869,565	150,994	17%
India	260,486	335,619	129%
Other	3,684,395	1,132,456	31%
Total Budget	77,863,113	61,815,771	79%

Figure 9.1 ODA by Donor Contribution YTD Spends 2017/18

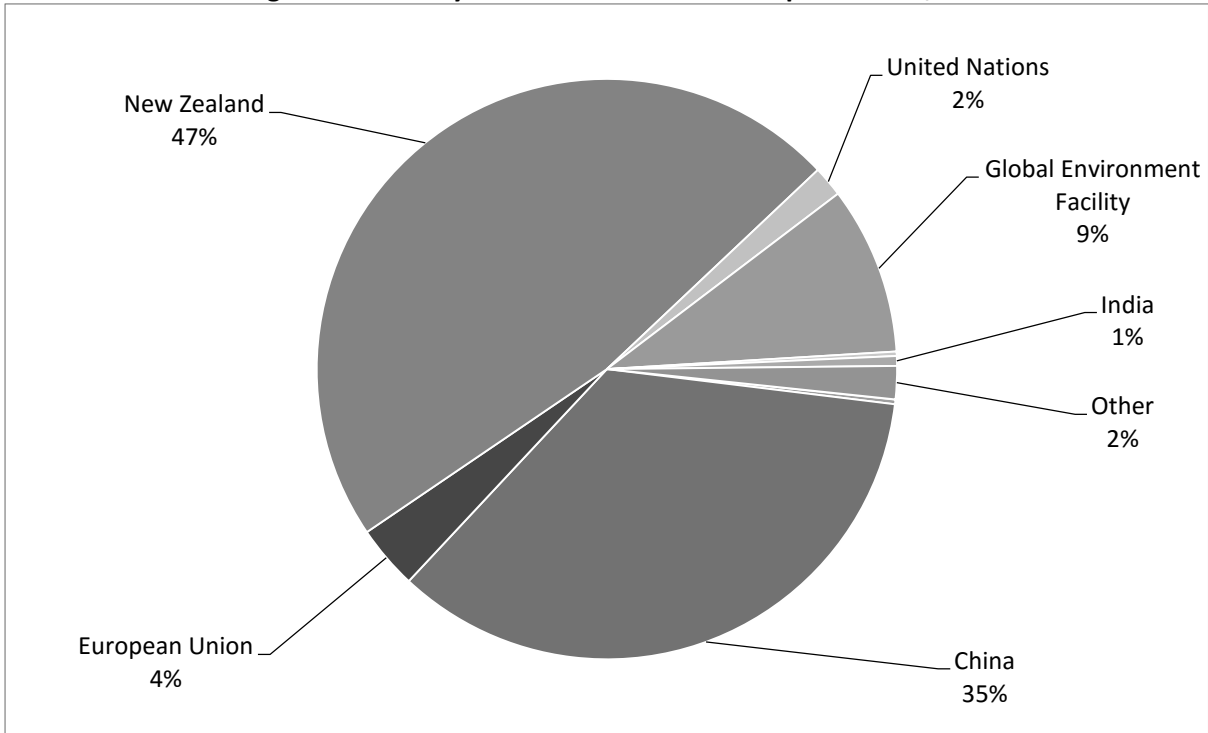
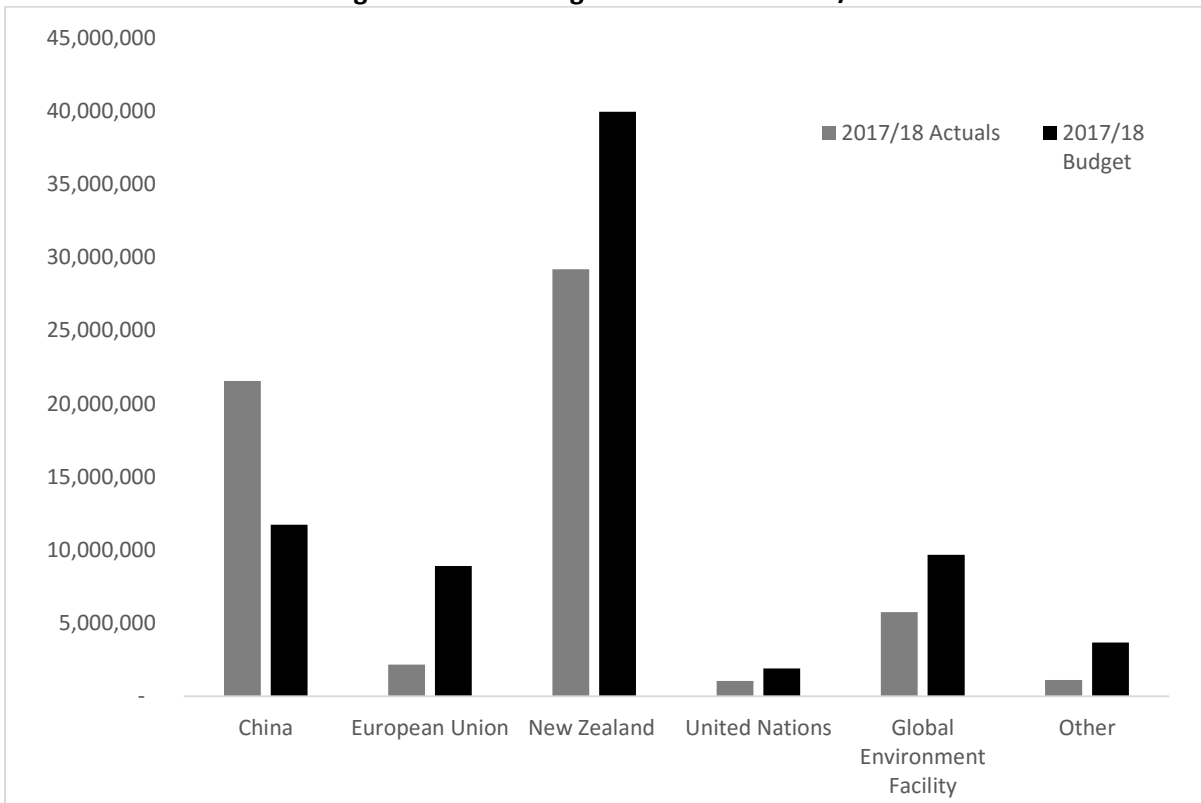


Figure 9.2 ODA Budget vs Actuals FY 2017/18



ODA Graduation

The Organisation for Economic Co-operation and Development (OECD) is expected to make a decision on the Cook Islands Development status by early 2019. This decision requires Gross National Income (GNI) data for the Cook Islands, which is not currently available. Work is underway by the Statistics Office to develop balance of payments data that will allow the Cook Islands to produce GNI statistics. The Statistics Office is currently in discussions with Statistics New Zealand to arrange technical assistance for this work. At this stage it is not clear whether the Cook Islands will graduate or not.

While further work is required to determine the likely impact of graduation, it is expected to be fairly limited due to the low level of bilateral assistance currently received from OECD ODA countries such as Japan, Korea, the EU and Australia. New Zealand's assistance to the Cook Islands is assumed to be unaffected by graduation status.

Potential areas that may be affected by ODA graduation status are likely to be access to technical assistance and training opportunities given the international organisations' use of ODA higher income status as an assessment criterion for assistance. MFEM is still assessing the impact, but it is envisaged that the Government will be required to undertake work on re-prioritising its expenditure should graduation occur. The recent Joint Ministerial Forum meeting in Auckland also included dialogue on the Cook Islands interest in strengthening agency to agency relationships to bridge capacity gaps that may develop with lower levels of international assistance.

New Zealand remains committed to providing support in some form post-graduation, with the level of assistance to be determined by the Triennium negotiations.

Core Sector Support (CSS) Budget and Triennium Funding with New Zealand

New Zealand is our largest development partner, and the Cook Islands has reached a stage where our bilateral relationship is maturing. The budget support type modality (Core Sector Support GFA) is progressing well and the preferred arrangement to implement the Cook Islands development programme going forward.

Core Sector Support (CSS) makes up 32 per cent of total New Zealand grant funding in the ODA schedule, and consist of four main outputs. The first three include direct budget support to the Ministry of Education, Cook Islands Tourism and the Ministry of Health. This investment is provided to improve indicators that directly relate to the NSDP of the Cook Island to which each of the respective agencies are required to report on annually. It is the Cook Islands intention to advocate extending the support for health, education, tourism, and public financial management strengthening to other sectors, in a multi-year Grant Funding Arrangement. This would continue to validate and demonstrate confidence in our national systems, simplify our bilateral and development relationship, and allow us to focus on outcomes and results.

Output four is focused on providing Technical Assistance across government. Priorities submitted for approval are endorsed by the National Sustainable Development Committee (NSDC). There have been several challenges around the development of terms of reference, procurement and local capacity. However some improvement has been made over the last few months.

The current GFA will end in June 2018. New Zealand, at the recent evaluation discussions, informally indicated that the arrangement will continue. Preliminary evaluation outcomes suggest that the CSS is progressing well and a final report will be produced in May 2018.

The Triennium funding from New Zealand ends in June 2018 and the new funding for the next three years will be announced in the coming financial year. Based on previous experience, the Cook Islands has received approximately \$45 million over three years towards the bilateral programme. This has been supplemented by transformational funds (Tereroa College, submarine cable), which sit outside the bilateral envelope. There has been a significant shift away from project support.

Going forward, should the Government of the Cook Islands and New Zealand negotiate a new higher support modality for the next forward aid programme, rather than focusing on a project-level oversight with multiple contracts for each project, the new agreement should shift program oversight to the policy level through an annual high-level dialogue. The funding agreement should also be focused on larger scale programmes compared to the smaller programmes we have funded under the previous development programmes.

National Implementing Entity (NIE) Accreditation to Climate Finance

The Cook Islands has been leading the way in the Pacific in achieving direct access to climate finance. Obtaining such access has been a long standing key priority for MFEM. The Cook Islands received financial resources from the Green Climate Fund (GCF) to strengthen capacity to access finance through GCF in 2016. The Cook Islands was the first country in the Pacific region and the first Small Island Developing State (SIDS) to receive such funding. Stage 1 of the Readiness program is now complete and the Cook Islands was successful to have subsequent readiness funds available in 2017.

MFEM began the process of accreditation for direct access to the GCF in March 2017. We are currently in Stage II (Step 1) Accreditation Panel Review stage. A national consultant was engaged to develop policies and guidelines for MFEM, such as anti-corruption small grants, environmental and social safeguards and anti-fraud policies. Additionally, funding was allocated to develop the capacity of the National Designated Authority (NDA), which is the Office of the Prime Minister (OPM).

The Adaptation Fund accredited MFEM as a National Implementing Entity (NIE) for the Cook Islands on 14 July 2016. Last month MFEM submitted a fully-developed project “Akamatutu’anga kia Tukatau te Ora’anga ite Pa Enuu” Pa Enuu Action for Resilient Livelihoods (PEARL)”, which was approved at a value of US\$3 million. Once again the Cook Islands was the first in the Pacific to receive funds through direct access from the Adaptation Fund. The implementation of the PEARL programme will commence in the new financial year once the structural framework has been established.

Manatua Cable

In early April 2017, an agreement with the Governments of Niue, French Polynesia and Samoa was signed to facilitate the design, construction, operation and maintenance of the regional submarine cable system connecting these countries. The agreement also enabled the establishment of the Manatua Consortium to progress the project. In February 2018, bids were invited for the design and construction of the cable. Bidding closed in March 2018, followed by the bid evaluation. It is anticipated that a contract will be signed with the supplier in the second half of 2018.

For the Cook Islands, Avaroa Cables Ltd is the Manatua Consortium member. The Government of New Zealand has granted \$15 million to support the project, and a Grant Funding Agreement was signed in April 2018 between the governments of New Zealand and the Cook Islands for the disbursement of the funds. The Asian Development Bank has approved a OCR Loan allocation of up to US\$15million to assist in (a) financing the sections that connect Rarotonga and Aitutaki to the main section of the cable

system; (b) finance construction of the landing stations in Rarotonga and Aitutaki, (c) finance the setting up a Project Management Unit (PMU) to support the implementing agency, and (d) to co-finance the main section of the cable system proportionate with the Cook Islands' share of the Manatua cable.

The cable is expected to be operational 18 months after the signing of the supply contract. It is anticipated that \$1 million will be spent by the end of the financial year towards technical assistance to establish the institutional framework, including the staffing structure.

Te Tarai Vaka (TTV) Activity Management System Simplification

The TTV is the CIG Activity Management System endorsed in 2014 to streamline the planning, implementation and monitoring of programmes across government. The system consists of policies, guidelines and tools to support CIG commitment to transparent, efficient and effective use of tax payer funds and development partner assistance.

A consultant was engaged to review and simplify the TTV to better suit the needs of users and stakeholders. The review is now complete with technical assistance from local expertise, Voyager Group Consultancy. Together with a working group consisting of CIIC, OPM, OPSC, ICI and MFEM representatives, this work included a review to ensure that TTV is fit for purpose within the machinery of the CIG. A key finding of the review was a lack of streamlined approval processes for ODA and CIG programmes, at the national and political levels.

TTV is now available for use for ODA projects and CIG projects. The suite of about eight existing TTV policies has been merged to one TTV overarching policy with a process map for ease of referencing. The condensed version of the existing TTV templates and guideline was released for trial in November 2017. Training is in progress for key TTV users and already nine agencies including MFEM received training in December 2017 and April 2018. Official endorsement and the launch of the new and improved TTV will be published on the MFEM website later in 2018. It is important that ongoing training for the new activity management system is embedded to ensure active application of TTV processes, concepts and principles. The goal is to strengthen skills in the area of planning, risk management, monitoring and evaluation, and results framework.

Te Mato Vai (TMV) and Mei Te Vai Ki Te Vai (MTV KTV)

Two of the largest infrastructure projects in the Cook Islands are managed by MFEM through a unique partnership arrangement.

MFEM relies to a large extent on technical expertise and advice on these projects from its Project Management Unit, which has been contracted to GHD Ltd.

The Cook Islands was one of the first countries in the world to enter into a tripartite development agreement with China and New Zealand through TMV. There have been challenges in bringing three partners together with different approaches to development, however the core principle behind this relationship is partnership.

TMV stage one was predominately funded by a loan through Exim Bank. Construction on Stage 1 has been completed, the CIG is yet to sign off on any official completion document. There have been issues identified, a Governance Group meeting in Auckland was held recently to address these issues.

The land issues that have arisen throughout the project implementation phase have impacted the timeframe and total costs of the project. The delays in TMV have resulted in price escalation, particularly in finalizing the Stage 2 construction contract and the identification of additional activities that were not included in the original concept budget. The revised total cost for the TMV project has increased by 27.5 per cent and is currently estimated at \$83.5 million.

Stage 2 works are on schedule and progressing well. In addition, McConnell Dowell has subcontracted local resources to a large extent which is supporting the local economy.

MTV KTV is currently still in its planning phase. Rarotonga's sanitation sector has been the subject of several investigations over the last decade, resulting in a number of reports recommending infrastructure upgrades. The CIG is currently assessing these recommendations in order to develop a long-term plan for Cook Islands sanitation systems.

MFEM is actively monitoring the financial management of both these key projects. The CIG have also dedicated resources to establish a Crown Corporate Entity which will become responsible for managing TMV and MTV KTV.

The narrative below provides a detailed update on specific donor programmes and key initiatives driven by the DCD.

9.1 New Zealand Programmes

9.1.1 Cook Islands Core Sector Support (CSS)

Implementing Agency: Ministry of Finance and Economic Management

Total estimated year to date expenditure is **\$12.1 million**

The goal of CSS is to enhance the Cook Islands self-sufficiency by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. The GFA goal aligns with our (recently-signed) Joint Commitment for Development (JCFD) objectives of improving economic growth, strengthening human capacity, and enhancing overall economic self-sufficiency. The CSS is progressing well and all funding has been to a large extent committed.

The Core Sector Support GFA which replaces the PBBS was signed in November 2016 and is valued at \$20.1 million inclusive of funding allocated through the previous PBBS. It is allocated over the 2016/17 and 2017/18 financial years. It is also designed to assist the Cook Islands in enhancing economic self-reliance into the future.

The programme will provide:

- predictable funding for health and education to ensure the quality of core services delivered to New Zealand citizens;
- predictable funding to the tourism sector to maintain and safeguard economic growth; and
- funding for specialist technical assistance and/or to procure specific outputs relating to the implementation of the Cook Islands Public Sector Strategy and broader Public Sector strengthening and reform.

Expenditure on Outputs 1, 2 and 3 (Health, Education and Tourism) will be reflected in the 2018/19 Budget as funding is channelled directly to the national budget. An update on output 4 programmes is provided below.

Total estimated expenditure to date for the overall CSS programme is inclusive of direct budget support to Ministry of Education, Cook Islands Tourism and the Ministry of Health.

Phase 4 Implementation of the Revenue Management System (CUSMOD)

The project was successfully completed within budget and within the timeframes, a completion report was produced by both the supplier Data Torque as well as the MFEM - Revenue Management Division using the recently updated TTV templates. There have been no issues identified to date with the system.

Financial Management Information System (FMIS)

The Cook Islands FMIS project management unit (PMU) are undertaking final recruitment of the team and are working to meet the targeted User Acceptance timeframes which begins in April 2018. A reallocation of funding was made to accommodate the Online Companies Registry project. This will not affect the overall project funding.

Online Companies Registry

The expected remaining work program cost increase from \$0.2 million to \$0.6 million will be covered by New Zealand. Initial meetings have been held between PSDI, the Asian Development Bank (ADB) and other stakeholders. Following project specification, procurement is underway with the contract likely to be awarded in early June 2018. The estimated project timeline is 12 months.

Audit House Keeping TA

This TA is still on-going, with positive feed-back from the Audit Office as well as the Crown Division within Treasury. The set targets for Audit completion dates are being revised to shorter timeframes. An updated bi-monthly report will be provided at the end of the April 2018 to report on which ministries were provided with Audit housekeeping.

Ministry of Transport Aviation International Compliance

In addition to the engagement of a Fixed Term Director of Civil Aviation (DCA), the CIG has engaged the Pacific Aviation Safety Organisation (PASO) to review and update civil aviation rules for the Cook Islands. This should be completed in the last quarter of this financial year.

A request for extension of the DCA TA has been pushed through the local budget appropriation. Work is still underway on the long term organizational structure of aviation transport.

Occupational Health and Safety Legislation Review

A tender for legislative and policy review and drafting has been awarded to Shaw Pty with the Awareness Campaign contract awarded to Fuchs Creative & Art Director. The contracts for both services have been signed. Shaw Pty are expected to be in country in May 2018 to begin their work plan and research, and will liaise with Fuchs, which is locally based.

Prison review and warden training

Engagement has progressed between NZ Corrections and MFAT who have both agreed to a high level engagement framework and consultation with the Deputy National Commissioner. Final approval is expected in April 2018. NZ Corrections will seek Ministerial endorsement on a partnership with Cook Islands Ministry of Justice. A team from NZ Corrections is expected to be in country by June 2018.

Asset Management Stock-take

Procurement is underway with NZ for this project. The Tender Evaluation Team, which includes representatives from the CIG and NZ, will assess tenders and expect to award a contract in mid-May 2018.

Foreign Investment Study

The contract signing is complete and the TA has commenced work in April 2018, with completion expected in July 2018. The TA will be managed by the Economics division within MFEM.

Ministry of Transport Maritime International Compliance

The contract for services has been negotiated with the successful supplier, GHD Ltd. The work programme is expected to begin in May 2018.

Fixed Term Maritime Technical Manager

The recruitment process is complete and the successful applicant has been notified with contract signing expected to take place during in April 2018.

Resourcing for CIG Annual Audit backlogs

The terms of reference has been approved by New Zealand with the recruitment of fixed term TA expected in the May 2018. Funding for capacity building components will be managed by DCD.

ODA graduation statistics

The project terms of reference has been forwarded to NZ Statistics for input as the contract is likely to be arranged between MFAT and NZ Statistics. In the meantime, MFEM is looking at other options should the TOR approval be delayed.

Public Expenditure Reviews of the economic, social, and environmental sectors

The contract signing is complete with the project starting in June 2018, with a completion date of March 2019.

Evaluation of Core Sector Support

An evaluation of the Core Sector Support, commissioned by the NZ MFAT, started on 9 April 2018 with a series of interviews with all stakeholders involved. The evaluation team comprised 2 representatives from MFAT, 1 from the Cook Islands and 1 independent consultant from New Zealand. The interviews ended on 13 April 2018 and a preliminary update of findings was reported back to MFAT, MFEM and OPM. The final evaluation findings are expected to be complete by the end of April 2018, and will be circulated to all stakeholders. The overall preliminary findings were positive. The next steps will be to ensure that all recommendations and feedback received during the evaluation process is integrated into the core sector support grant funding agreement for the next financial year.

9.1.2 Tereora College Redevelopment (Phase 1)

Implementing Agency: Cook Islands Investment Corporation

Total estimated year to date expenditure is **\$2.56 million**

The redevelopment plan for this project was approved by Cabinet in February 2016 with the support of the staff and students of the college, landowners and the community. In November 2016, construction work began and this was completed before the start of the 2018 school year. Redevelopment of the college and the delivery of Stage 1 was designed and built by Cook Islanders for Cook Islanders.

The official opening and handover ceremony was held in March 2018 and was attended by the Right Honourable Prime Minister Jacinda Arden of New Zealand and her delegation, staff and students, landowners and the wider community. This was New Zealand's 50th anniversary gift to the Cook Islands funded through the transformation funds.

Two buildings were presented: the Technology Centre which acts as a hub for technology creativity and the Student Research/Administration building as the heart of the college. In addition to providing

tutorial spaces, support services, administration offices and a library, the building houses a Seminar room – the first of its kind in the country.

The new buildings incorporate climate adaptation and mitigation measures where feasible. The College buildings and facilities are on track to becoming fit-for-purpose and responsive to the demands for innovative learning environments that support evolving learning and teaching practices. Throughout the project, CIIC provided up to date progress to the wider community and social network on their Facebook page Tereora College Redevelopment Project.

New Zealand construction funding for this project was approximately NZD\$11 million with the CIG contributing the rest. The final completion report for the programme will be completed by the end of the financial year.

9.1.3 Manihiki Lagoon Clean-Up

Implementing Agencies: MFEM, MMR and Manihiki Island Government

Total estimated year to date spend is **\$0.10 million**

The Manihiki Lagoon Clean-up project was successfully completed in August 2017. The final completion reports from the contractor, project manager and Manihiki Island Government were received and accepted by DCD. This project was designed to remove abandoned pearl farming materials and other waste products from the lagoon in an effort to improve pearl production and quality.

A total of 33 farms were cleaned with a total of 232.8 tonnes of materials removed, comprising 67.7km of ropes and 8,841 floats. The bulk of the waste removed was ropes and floats with bio-fouling growing on them. Other materials removed were roofing iron, tyres, household utensils, plastic piping and kerosene stoves. The dive team worked for 90 days on the lagoon. The work programme was well planned and implemented efficiently and effectively. The volume of materials removed averaged over 2.5 tonnes a day.

Some of the positive results of the project include:

- the removal of the abandoned materials and the bio-fouling growing on those materials, which has reduced the competition for food for the pearl oysters;
- active farmers wanting to expand in to some of the cleaned up areas; and
- upskilling of the Manihiki residents involved with the project with seven divers achieving advanced open water certification.

Public consultation and public awareness programmes were conducted throughout the project implementation period. The Manihiki Island Government (MIG) were the point of contact for farmers who were listed on the abandoned farms list for any enquiries or issues. Any objections were resolved by the MIG.

All stakeholders involved in this project established a good working relationship and worked in harmony. The MIG now own the equipment used for the project and the trained divers, so are capable of completing the removal of debris on all remaining abandoned farms in the Manihiki lagoon.

9.1.4 Mei te Vai Ki te Vai (MTV KTV) Project

Implementing Agency: Ministry of Finance and Economic Management

Total estimated expenditure to 30 June 2018 is **\$3.04 million**

The project name stands for “From Water to Water”, capturing the importance of effective sanitation practices which affects the quality of the lagoon waters.

Muri Lagoon is contaminated by sediments and nutrients that impact water quality, ecosystem diversity and its appearance. The purpose of the MTV KTV project is to improve the water quality of the lagoons in Rarotonga and Aitutaki for the benefit of our health, environment and economy. MTV KTV project aims to collect wastewater from domestic and commercial properties, and feed it through a network of pipes, pump stations and other infrastructure to a single point for treatment and then disposal. This will treat wastewater on a larger scale and reduce the impact of wastewater on the natural environment.

The project includes the following target outcomes progress to date.

Project Activity	Pre-Election Update
Master plan and Road Map	<p>Water pollution caused by increasing population and development pressure is contributing to degradation of tourism amenities (lagoons), catchments and freshwater in Rarotonga. Although the relative contributions of pollution sources are currently under investigation, the degradation has created an urgent need to address these sources, including wastewater from sanitation systems.</p> <p>The purpose of the Master Plan is to provide long-term planning for the Cook Islands’ sanitation systems, including a programme of infrastructure and institutional interventions. A draft has been submitted to CIG, with ongoing one on one consultation with relevant stakeholders.</p>
Environmental investigations and monitoring	<p>The environmental investigations by GHD, University of New South Wales, Southern Cross University with assistance from the Ministry of Marine Resources, aim to provide necessary data to help identify and develop the best technical solution to the environmental problems at Muri Lagoon.</p> <p>The investigations are looking at the source and type of nutrient and sediment levels, their transport patterns into the lagoon, and how they behave in the lagoon. This will include examining groundwater flow paths, streams and discharges from land-based activities, including wastewater. This work is currently underway in Rarotonga with Aitutaki to commence early May this year.</p>
Wastewater infrastructure	<p>Designs are in progress for wastewater infrastructure, specifically a Muri/Avana area reticulation system. The purpose of the reticulation system is to collect wastewater (from toilets, sinks and other drains) from properties and feed it into a network of pipes, pump stations and other infrastructure to transport it to a single point (off-site). This will help to better treat of wastewater on a larger scale and reduce the likelihood of overwhelming amounts of nutrients in the soil.</p>
Muri Wastewater concept design	<p>A concept design is the first step in designing wastewater infrastructure. The concept design stage looks at technical issues and options at a high level to develop the most appropriate approach.</p> <p>As part of the concept design work, we considered a wide range of potential options for wastewater disposal. Not all options are suitable in the context of the Cook Islands, and not all options are</p>

	<p>equal. Following community consultations it has been identified that there are two possible ways to dispose of treated wastewater in Rarotonga – either onto land, or into the ocean. A draft concept plan has been submitted to CIG.</p>
Early mitigation	<p>Completing new wastewater infrastructure will take time, and it will also take time for water quality in the lagoon to improve. This is why it is important to plan early measures alongside a new wastewater system. Early mitigation measures are actions we can implement in the short term to help alleviate some of the issues.</p> <p>Two early mitigation measures have been considered to alleviate the deteriorating condition of the lagoon water quality.</p> <p><u>Sediment removal</u></p> <p>Sediment accumulation hinders adequate flushing of lagoon water out to the ocean, therefore influencing the poor water quality in the lagoon in Muri. Together with the community, we have identified an opportunity to remove some of the sediment through dredging to reduce favourable conditions for algae growth.</p> <p><u>Riparian planting</u></p> <p>Working closely with the Ministry of Agriculture, Ridge to Reef team and others to progress the planting around streams. This is to reduce the sediment and nutrients entering the streams and ending up in the lagoon.</p>
Establishment of a Water and Wastewater Authority	<p>To date, CIIC has formed a transitional company, pending the establishment of a dedicated crown corporate entity that will be responsible for the provision of drinking water and wastewater services in Rarotonga. CIIC has established a Board for the Ta Tou Vai (company), which is currently recruiting for a CEO.</p>
Community and Stakeholders	<p>There is ongoing community consultation with the public informed every step of the way.</p>

9.1.5 Te Mato Vai (TMV)

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to 30 June 2018 is **\$10.05 million**

The purpose of the Te Mato Vai project is to replace Rarotonga’s ageing water network, improve storage and introduce treatment to provide our people with clean and reliable drinking water (potable).

Project target outcomes progress to date is detailed below.

Project Activity		Pre-Election Update
Stage 1	New Ring Main Construction	Overseas based contractor CCECC Ltd completed the Stage 1 Ring main Construction Works in December 2016.
	Ring Mains Commissioning	The wider Stage 1 commissioning contract was awarded to Land Holdings Ltd, where the new ring mains are connected to the

		existing sub mains. Work commenced early this year under DCD-MFEM Project Management Unit (PMU) supervision.
Stage 2	Construction Contract	Overseas based contractor McConnell Dowell Ltd was awarded the Stage 2 Contract. McConnell Dowell have subcontracted local workers and are now fully mobilized with Stage 2 construction currently underway.
	Land Negotiation support	Landowner meetings are an ongoing process, as the Cook Islands Government works toward obtaining consent from landowners to enable site preparations.
	Design and Contract Management	Design reviews are ongoing.

9.2 European Union Programmes

9.2.1 EU Budget Support

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date is **\$0.02 million**

The European Union (EU) continues its funding support via the budget support modality. The 10th cycle of funding (EDF10) has now concluded with focus moving to the 11th cycle (EDF11). This will continue with incentivized budget support to allocate funding using national systems up until the year 2020.

The focus of the 11th EDF funding will continue to improve the Sanitation Sector, as ratified through the signing of EDF11 in September 2017. The CIG will be receiving a fixed tranche of EURO 1.35 million for budget support for the Sanitation Sector. A further EURO 0.05 million has been earmarked for evaluation of the effectiveness of the program. These funds, which are estimated to be accessed in the 2019/20 financial year, have been targeted for the Ministry of Health to support resource mobilisation, sanitation upgrades, strengthen compliance and capacity building. It has been agreed that the primary focus of this program would be to assist in reviewing and making more robust plans to upgrade sewerage systems by commercial properties in compliance with the regulations (2014) established by the Ministry of Health.

The EU funded two TA programmes under the 10th EDF. The first TA proposal concerns interdisciplinary studies to be carried out on the Muri Lagoon area. This programme is expected to be completed in the second quarter of the financial year. The second TA for feasibility studies for a Centralised Laboratory on Rarotonga was completed with the Central Lab Implementation Plan and Feasibility Studies report endorsed by the relevant agencies in the last quarter.

9.2.2 EU Partnership Multiyear Fisheries Policy Support

Implementing Agency: Ministry of Marine Resources

Total estimated expenditure to date **\$0.59 million**

The Sustainable Fisheries Partnership Agreement includes an annual fisheries sector contribution of EURO 0.35 million by the European Commission under the four year protocol. The policy sector support is channelled through the Multi-Annual Sectoral Support Programme. During the first year of implementation, the Ministry of Marine Resources (MMR) implemented 15 out of 16 of the

programmes in the 2017 Multi-Annual Matrix. During the Joint Committee meeting in Brussels in January, the EU approved disbursement of the second tranche of the protocol. This was received by the CIG in February 2018 for MMR to continue implementation of programmes in the matrix.

9.2.3 EU-GIZ ACSE Northern Island Water Project Phase II

Implementing Agency: Office of the Prime Minister

Total year to date expenditure is **NZD \$0.36 million**

The EURO 35.5 million Regional EU programme Adapting to Climate Change and Sustainable Energy (ACSE) is funded out of the 10th EDF.

This project aims to improve the resilience of Nassau, Penrhyn and Palmerston to natural disasters (including drought proofing) by increasing their capacity to collect, store and manage their precious water resources. The supply and construction works is carried out through a partnership relationship between the Office of the Prime Minister, Infrastructure Cook Islands, Island Governments and the Island Communities of the Northern Cook Islands.

The total cost of this project is EURO 0.40 million. Two separate tenders were carried out, the first being for the supply and delivery of water catchment materials Section 1 – Building Materials and Section 3 – Tank Sealing Compound was awarded to Cook Islands Building Supplies. Section 2 – Aluminium Roofing was awarded to Cook Islands Trading Corporation Limited. The second tender for the design, fabrication, delivery and installation of tank lids which was awarded to a local based company, Tango Boats.

The first milestone payment of 50 per cent of the total contract was disbursed in December 2017. It is expected that implementation of the project may be delayed up to 6 weeks due to the uncertainty of shipping to the Northern Islands. This may cause delays to the overall completion of the project.

9.3 Secretariat of the Pacific Communities (SPC) Programmes

9.3.1 Cook Islands Household Income and Expenditure Survey

Implementing Agency: Ministry of Finance and Economic Management

The overall level of activity in the economy is closely aligned with domestic consumer activity. Household Expenditure Survey results will provide updated information about the ability of individuals to consume goods and services, spending patterns, availability of goods and services to the consumer and the means to acquire them.

Household Expenditure Surveys (HES) are conducted at irregular intervals due to high costs involved with the last one conducted in 2005/06. The Statistics Office, MFEM conducted the fourth Cook Islands HES in November 2015. A wide range of demographic information, private dwelling information as well as detailed level of expenditure for households were collected. All required field operations for this one year data collection activity are completed. This is the most resource intensive survey which required visits to households throughout the Cook Islands over a two week period rather than one visit like the Census.

Data entry and verification of data collected is in process in collaboration with the Statistics Programme at SPC. The survey results target release date is for in Quarter 3, 2018.

9.4 United Nations Administered Programmes

FAO Improved production, processing and marketing of agricultural produce (FAO Multi Country Programming Framework (CPF) 2013-2017)

Implementing Agency: Ministry of Agriculture

This programme began in 2013 and ended in December 2017. Project activity reporting is the responsibility of the Ministry of Agriculture.

For 2013-2017, the focus of the Pacific Multi Country Programming Framework (CPF) was to improve agriculture produce supply chain and increase households engaged in agriculture for own use and for sale. The 2013-2017 CPF project completion report for projects that have ended since 2013 have been published by FAO with publication pending for completed 2017 project activities.

The Cook Islands benefits from this regional programme through its national programmes for Technical Cooperation Programme (TCP) and Telefoods Projects. For 2017, there are four key projects including the review and redraft of the *Ministry of Agriculture Act 1978*. Improving the capacity of domestic farmers and agro-processors to supply the domestic markets with safe and nutritious foods has been the priority for this programme. Projects completed include:

- cultivation of Pitaya (dragon fruit) for food security on Rarotonga and the Pa Enea (US\$9,811);
- establishment of back yard gardens for food security programme (US\$8,295); and
- nursery and shade house for production of vegetable seedlings, fruit trees, flowering trees and plants, medicinal trees and plants for sustainable and self-sufficient food security (US\$9,281).

The Ministry of Agriculture and FAO are currently in negotiation about priority areas for the next CPF which will run for five years (2018-2022).

FAO Regional Funding

Implementing Agency: Ministry of Agriculture

Apart from the above national FAO programme, the Cook Islands also continues to have access to the regional FAO Technical Cooperation Programme, the primary focus of which is capacity building in Pacific SIDS to address climate change impacts.

The Cook Islands has also accessed FAO Trust Fund Projects through the Chamber of Commerce programme for training of young farmers in business skills.

FAO has also provided capacity building and support to ensure Cook Islands political and operational level attendance at regional and international meetings and teleconferences in the area of agriculture and fisheries.

GEF Small Grants Programme

Implementing Agency: Cook Islands Red Cross Society

Total estimated spend to date is **\$0.29 million**

The Cook Islands Global Environment Facility (GEF) Small Grants Programme (SGP) was established in 2005 and until 2015 was part of the SGP Samoa. As of late 2014, The Cook Islands Red Cross Society serves as the SGP host institution with the GEF SGP Cook Islands now a separate programme.

In progress for implementation are Operational Phase 5 approved projects and the Operational Phase 6 (OP6) country programme strategy (Jul 2017 – Jun 2018). OP6 aims to “effectively support creation of global environmental benefits and the safeguarding of global environment through community and

local solutions that complement and add value to national and global level action". The focus of support for community based organised activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programmes to address climate change through community based support. OP6 budget funds are estimated at US\$0.25 million.

Green Climate Fund Readiness

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date is **\$0.15 million**

The Cook Islands have been successful in accessing readiness support from the Green Climate Fund. The first readiness fund commenced in May 2016 and came to an end in August 2017. The main area of focus for the first readiness support was strengthening the National Designated Authority and MFEM.

In October 2017, the Cook Islands received a second round of readiness support funds to carry out the 3 core areas below:

- to continue to strengthen the National Designated Authority,
- to develop a Country Programme; and
- to support MFEM in gaining direct access to the fund.

The readiness 2 programme commenced with the launching of a consultation stakeholder meeting including the Pa Euna island representatives. This workshop was called "Green Climate Fund Fostering Resilience" and took place on 27 October 2017. The main outputs of the national workshop were to review the project proposal ideas that were developed during the May 2016 Brilliant Resilient workshop in the context of the GCF with the aim of:

- identifying if they are still relevant;
- determining if they should be included in the GCF Cook Islands Country Programme;
- refining the project proposal ideas.

In addition, this workshop hoped to improve our stakeholders understanding of:

- what the GCF is;
- what has currently taken place to date under the GCF at the national level with regards to accreditation and readiness support;
- provide clarity on the process to access GCF funds; and
- provide clarity on the development of a GCF Country Programme.

The readiness funds have also provided employment opportunities for 5 funded consultancy positions. These roles (listed below) have been successfully filled through the Cook Islands procurement system, which has resulted in rapid implementation of the activities within the programme:

- Climate Change Development Programme Manager within DCD, MFEM;
- Climate Change Programme Assistant within DCD, MFEM;
- Country Programme Consultant;
- Climate Change Policy Consultant; and

- Communications Consultant.

The most significant piece of work that the GCF team within MFEM has been working on for this readiness programme is gaining accreditation to the GCF. MFEM has hired a dedicated consultant who has been working closely with the GCF Climate Change Development Programme Manager and Climate Change Programme Assistant at MFEM in submitting an accreditation application to the GCF. The first official MFEM application for accreditation was submitted to the GCF in September 2017 and feedback provided to MFEM from the GCF suggested systematic strengthening in the areas of Gender Policy, Anti-corruption, Environmental and Social Safeguards, Grants Award System and Grievance Mechanisms. These areas have been strengthened and the final updated accreditation application will be submitted to the GCF secretary for review by 20 April 2018 in time for the GCF board's consideration at its board meeting scheduled for June 2018. If MFEM are successful in gaining accreditation to the fund, the Cook Islands will be eligible to access up to US\$50 million in climate finance through the GCF.

UNDP Ridge to Reef

Implementing Agencies/Ministries: National Environment Service, Ministry of Marine Resources, Ministry of Agriculture, Cook Islands Tourism, House of Ariki, Marae Moana

Total estimated year to date spend is **\$0.94 million**

The Ridge to Reef project will enhance the Cook Islands capacity to effectively manage its protected area estate and sustainably manage its productive landscapes at local scales while taking into account food security and livelihoods. It includes operationalisation of the CIMP and the establishment and strengthening of various forms of protected and locally managed areas within the CIMP, including Protected Natural Areas, Community Conservation Areas and Ra'ui Sites.

Although the project commencement date was delayed, major activities have been conducted and continue to be implemented by all stakeholders involved. The Mid Term Review was conducted in November 2017 with finalisation yet to be completed by the Biodiversity Steering Committee (BSC). UNDP also completed its' Project Implementation Review with an overall rating of 'moderately unsatisfactory' highlighting key areas for improvement. Also, in February 2018, UNDP Internal Control Audit of National Environment Services was carried out by the Cook Islands National Audit Office.

Other major highlights over the past 12 months include the *Marae Moana Act 2017*, which was passed in Parliament on 12th July 2017. This Act ensures that all agencies must report activities and the linkages to the achievement of the Marae Moana. The terms of reference continues to be developed for the production of the Marae Moana outlook report and communications strategy facilitator as well as Technical Assistance for a cost benefit analysis of the sustainable financing mechanism.

UNDP Adaptation Fund Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC)

Implementing Agency: United Nations Development Programme (UNDP).

Total estimated spend to date is **\$0.97 million**

The SRIC Programme is coming to an end with the official end date scheduled for May 2018. The programme has been a huge success and has delivered on all the activities stipulated in the project document. The programme has impacted largely on vulnerable communities in the Pa Enea (Outer Islands) in helping these small islands adapt to climate change and be ready to respond to the effects of climate change.

The programme is currently in the process of paying out all final contractual milestones to complete and close off existing projects in the Pa Enea.

A terminal evaluation will be taking place at the end of April 2018 and a completion report of the entire programme will be developed and shared publicly.

Pa Enea Action to Resilient Livelihoods “Akamatutu’anga kia Tukatau te Ora’anga ite Pa Enea” – (PEARL)

Implementing Agency: Ministry of Finance and Economic Management

In March 2018, the MFEM as the only Cook Islands NIE under the Adaptation Fund were approved US\$3 million to implement the PEARL project. The objective of the programme is to ‘build and implement an integrated approach to further increase the adaptive capacity of remote island communities and ecosystems to disaster risk and climate change impacts’ in the Pa Enea. The project is estimated to commence in the latter half of 2018 and end in September 2021 and is the very first project to be implemented through a Cook Island National Implementing Entity, the MFEM.

UNDP Nagoya Protocol

Implementation Agency: National Environment Services

Total estimated spend to date is **NZD\$0.42 million**

The Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilisation (ABS) to the Convention on Biological Diversity is a supplementary agreement to the Convention on Biological Diversity. Its objective is the fair and equitable sharing of benefits arising from the utilisation of genetic resources, thereby contributing to the conservation and sustainable use of biodiversity.

The Cook Islands Audit Office conducted an Audit on NES projects including Nagoya Protocol, Ridge to Reef and National Biodiversity Planning to Support the implementation of the CBD 2011-2020 Strategic Plan in the Cook Islands. The Mandatory Project Implementation Review (PIR) has also been completed for the Nagoya Protocol project.

An unsatisfactory rating was noted in the PIR and progress to June 2017 is sufficiently off track by project closure date of 5 July 2018. In order to achieve significant project milestones, the project will need to be extended by 12 months to compensate for the excessive time taken to procure a Project Coordinator. In addition, the delays in development of the legislation and regulatory framework under Component 1 has affected the implementation of much of the project as many activities particularly Component 2 rely on this policy and legislation being finished in order to proceed. Technical assistance has been sought from UNDP’s Global ABS project to support the national consultant/s on ABS policy.

Progress has been made under Component 3 such as agreeing in principle on a benefit sharing mechanism between the Koutu Nui, CIMTECH/Matheson Enterprises and partners and agreeing on the Raui Network Trust Fund in concept, which will be established once the policy and legislation is in place.

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

Implementing Agency: National Environment Services

Total estimated spend to date is **\$0.05 million**

The 5th Draft National Report to the convention on biological diversity is now prepared for Cabinet Submission and will be going through the endorsement process. This was based on the feedback from the NBSAP workshop last quarter as well as one on one meetings held.

The current consultancy that NBSAP have with Maureen Hilyard on the Cleaning House Mechanism is still in progress. A framework for the Biodiversity CHM is available but still needs input from key

Biodiversity stakeholders to share and update information/links as well as media releases. It is expected that this work would be complete by Quarter 4.

NBSAP is reaching the project closing phase with only 10 per cent of funds remaining which will be returned to UNDP to continue expenditure on behalf of NES via direct payments with UNDP. Funds have already been committed to ongoing activities such as the completion and printing of the final NBSAP document.

UNDP Pacific Regional Ridge to Reef

Implementing Agency: Infrastructure Cook Islands

Total estimated spend to date is **\$0.04 million**

Infrastructure Cook Islands (ICI) have appointed a Project Manager for the Pacific Regional Ridge to Reef project. This project is a test site of Muri Lagoon/Area under the Regional programme. A GEF Ridge to Reef Programme, Regional Programme Steering Committee meeting was held in Tonga in July/ August 2017. This project is testing the integration of water, land and forest and coastal management to preserve ecosystem services, store carbon, improve climate resilience and sustain livelihoods in Pacific Island Countries. The meeting was held to ensure harmonisation of the R2R Star with that of the R2R IW programme represented by Programme Manager and ICI Secretary.

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

Implementing Agency: Office of the Prime Minister

Total estimated spend to date is **\$0.07 million**

The last two quarters have been difficult for the Cook Islands Third National Communications (TNC) report. This is due to several reasons. There have been funding tranche request delays with the TNC only receiving one tranche of funds for 2017 which has delayed the 2017 work programme. There has also been a lack of communication from UN Environment, Nairobi Office (UNEP). However, progress to date includes the TNC extension for June 2019 and funding request. The necessary extension documents have been prepared and are currently with COS for final comments and approval.

World Health Organisation (WHO) Technical Cooperation Biennium Budget Support

Implementing Agency: Ministry of Health

Total estimated spend to date is **\$0.21 million**

The Cook Islands country budget allocation support agreed priority programmes (Categories 1 to 5 excluding Polio and Outbreak and crises response) for the 2016-2017 biennium is US\$0.38 million Half the budget is for human resources development, including fellowships aligned to the Clinical Workforce Development Plan. The other half focusses on Communicable Diseases, Non-communicable Diseases (implementation of the National Health Strategy and the National Strategy and action plan for NCDs) Promoting Health through Life and Preparedness Surveillance and Response.

Review and the development of new National Health Strategy has been completed with emphasis on avoiding duplication of effort especially in the water and sanitation areas with the WHO identified to provide technical assistance.

9.5 India Grant Fund

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date is **\$0.33 million**

A total of \$0.96 million was granted for 16 approved grassroots projects of India Grant Fund 2016/2017 Round. The main focal area of this funding from the Government of India is to support, promote, and/or develop social, economic and/or cultural and development cultural, economic and social development and sustainability. An additional prerequisite was the alignment to Te Kaveinga Nui Framework National Sustainable Development Plan 2016-2020.

Out of the 16 approved projects, 7 projects have been completed to date. The remaining 9 projects are still being implemented and progress reports are provided according to Grant Funding Arrangement requirements. It is envisaged that these projects will be completed before the next round of funding begins in the latter half of 2018.

9.6 Korea Grant Fund

Implementing Agency: Ministry of Finance and Economic Management

The Republic of Korea Government has allocated Official Development Assistance (ODA) through the Korean Small Grants Programme to the Cook Islands for amounts up to US \$0.2 million annually.

The Cook Islands proposal under the 2017/18 funding round for a medical waste incinerator for the Rarotonga Hospital was approved by the Korean Government in February 2018. The CIG were able to procure an invoice for the incinerator well below the value of the grant and have therefore put forward a request to the Korean Government for consideration of an additional two incinerators. The value of the invoices submitted to the Korean Government is US\$0.15 million.

DCD is waiting on final confirmation from the Korean Embassy if this request has been approved.

9.7 Japan Programmes

These are programmes other than the \$0.55 million Grant allocated towards the Cook Islands Renewable Energy sector programme through the Pacific Environment Community (PEC) Fund with regional agency Pacific Islands Forum Secretariat (PIFS). Also part of the Japan funding is the JICA training and development programme with an allocated funding of \$0.01 million.

Non Project Aid Grant Programme: Palmerston Island multipurpose Cyclone Centre

Implementing Agency: Ministry of Finance and Economic Management

In 2014, the Government of Japan allocated Grant towards the Te Aponga Uira Fuel Project with remaining funds of \$1.3 million towards the construction of the Palmerston Island Cyclone Centre. Project executing agency, Infrastructure Cook Islands is the process of procurement of goods and services for the construction of this Centre and in collaboration with Palmerston Islands Government, Office of the Prime Minister and Cook Islands Investment Corporation.

Economic and Social Development Programme

Implementing Agency: Ministry of Finance and Economic Management

The Government of Japan have endorsed project concept approval and grant fund for two hundred million Japanese Yen (JPY200,000,000) for this programme. This includes endorsement by both parties for the procurement of imported Japan made goods for this project. However, official project agreement signing by both parties are hold until the next financial year.

This is a new grant programme to equip public sector agencies in the delivery of infrastructure rehabilitation projects. This project is for importation of goods for civil engineering plant/equipment, tractors, and agricultural machinery/parts, motor vehicles for the transport of goods or materials and special purpose motor vehicles. Project executing agency is Japan procurement agency Japan International Cooperation Systems (JICS) with MFEM and public sector agencies identified as grant

recipients. The list of equipment and machinery has been identified through the existing capital plan and collaboration with key ministries.

Grassroots and Human Security Grant Fund Project (GGP)

Implementing Agency: Japan Wellington Embassy

Total estimated spend to date is **\$0.55 million**

There is a growing demand for this programme as seen in the significant increase in small grants of \$0.55 million approved. The grants are towards four new projects with respective civil society organisations as project executing agencies. The projects already underway are for the repair of Aitutaki Community tanks, Takitumu School repair and upgrade, Respite Unit construction for the Rarotonga Creative Centre and procurement of a fishing vessel for Pukapuka Islanders in Rarotonga.

9.8 China Programmes

China Building Repair

Implementing Agency: Cook Islands Investment Corporation

Total estimated spend to date is **\$7.58 million**

The renovations projects are for public buildings in Rarotonga namely the Indoor Sports Arena, Ministry of Justice, and Police Headquarters.

CIIC hosted two technical assistance teams from China in September 2017. The two teams conducted technical and structural inspections on the three buildings that will undergo renovations. The teams consisted of engineers specializing in electrical, structural, water supply and drainage, heating and ventilation as well as a revision to construction costing. The preliminary results from these inspections were discussed and signed off between CIIC and the China working groups.

The Implementation Agreement for this project was finalized and signed in October 2017. Furthermore, on the 07 December 2017, Government of the Cook Islands and Peoples Republic of China Government signed the Grant Agreement for CNY¥30,000,000, to supplement current funding for the renovations project.

The revised total budget for the project is now estimated to be \$14.58 million. During the recent visit of Counselor Huang it was confirmed a Chinese company had formally been awarded the construction contract for the renovations work. There is ongoing negotiations between CIIC and the Embassy on next steps.

Apii Nikao Construction

Implementing Agency: Cook Islands Investment Corporation

Total estimated spend to date is **\$13.95 million**

The construction of the Apii Nikao School project has evolved significantly since construction started in May 2017, despite delays this quarter caused by unfavourable weather.

The construction contract for the project was awarded to CCECC and construction supervision to be provided by China Railway Fifth Survey Design and Institute Group Co. CCECC engaged local contractors Landholding Ltd to construct the timber block fence surrounding the school and Prestige Furnishings Ltd to supply storage units for teachers. The total budget for the project is estimated to be \$14.58 million.

The completion certification is yet to be formally signed off before the formal handover ceremony for Apii Nikao, which is scheduled to take place in early May 2018.

9.9 Forum Fisheries Agency (FFA)

Project Development Fund – US Fisheries Treaty

Implementation Agency: Ministry of Marine Resources

Total estimated expenditure to date is **\$0.14 million**

The US Multilateral Treaty for fisheries includes an annual allocation of US\$0.15 million per Pacific Island party development fisheries projects. Funds are held in trust by the treaty with FFA with direct administration by Ministry of Marine Resources (MMR).

The Ministry of Marine Resources has received funding that includes Fishing Aggregate Device (FAD) support, operational equipment support for MMR staff in the Northern Group islands, Young Professional Scheme, Artisanal fishery e-monitoring and professional development supported targeted for fisheries officers at the regional and international levels.

This also included operational support in hosting the Thirteenth Regular Session of the Scientific Committee of the Commission for the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean held in Rarotonga during the month of August.

9.10 Multilateral Programmes

Pacific Information and Communication Technology Investment Planning and Capacity Development Facility (Phase 2)

Implementing Agency: Office of the Prime Minister with TA Support from ADB

Previously called “E-Government” this TA has now evolved into a recently approved US\$1 million regional project with sub-projects in the Cook Islands. The three outcomes of the overall TA are (i) advancing ICT Policy and regulatory frameworks, (ii) developing ICT applications and (iii) adopting technology innovations and protections against cybercrime.

The TA will support all the above three areas with a priority to assess and prepare for e-Government implementation. The work will start with a comprehensive assessment of the current ICT infrastructure and services with recommendations towards necessary developments (infrastructure, hardware and software, organizational structure, human resources and policies and legislation) for the implementation of full-scale e-government processes and then select a few government agencies to implement e-Services under a pilot project. The TA will also support necessary legal and legislative changes needed for e-Services.

Online Registry

In December 2017, the Cook Islands Parliament enacted a package of legislation which will significantly improve the enabling environment for the private sector. The package comprises (i) Companies Act, (ii) Personal Property Securities Act and (iii) Incorporated Societies Amendment Act. This is a significant step but the benefits will only be attained if there is a successful implementation. The implementation will involve a number of key deliverables. PSDI will work with the Government to develop an appropriate work program and support the implementation. The program will require significant resources and this will be in the form of funding the purchase of the registry as well as specialized technical support. The implementation will be rolled out over a long period and will involve the following tasks:

- (a) drafting of implementing regulations for all 3 Acts;
- (b) preparation of procurement specifications for the on-line registry;
- (c) procuring of the registry and preparation of the Ministry for installation;

- (d) installation of the software;
- (e) technical support and training for registry staff, bankers, private sector users; and
- (f) broader awareness raising.

The incentive for the legislative reform was to support the implementation of an online company registry. The CIG together with the NZ Government have generously committed financial resources to fund the procurement of the on-line registry software. The funding documentation is in process between the Government, NZ MFAT and ADB PLCO Sydney for completion. The funding will be directed through ADB, PSDI and ADB will manage the procurement. In addition, PSDI will provide all project management and technical support. PSDI has successfully implemented many on-line registries throughout the Pacific and will work closely with the Ministry of Justice as counterpart and other stakeholders to design and install a software package which will be appropriate for the Cook Islands.

Renewable Energy

Implementing Agency: Office of the Prime Minister

Total estimated spend to date is **\$5.19 million**

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

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

The Southern Group Renewable Energy Programme is well underway with the Cook Islands Renewable Energy Sector Project (COO46453-002). Phase 1 (Atiu, Mauke, Mitiaro and Mangaia) significant construction progress has been made. Mitiaro is 99 per cent complete with electrical installation work remaining. The civil work array is complete on Mauke with the remainder of the electrical installation expected in the early part of the next quarter. Work on Atiu has moved more quickly than expected with building 90 per cent complete and solar arrays now adjusted and within the boundary pegs. The PMU monitored site clearance on the island of Mangaia, the final project site and construction commenced in the later part of this quarter.

The first additional financing provided by GEF6 will be used for the battery energy storage system (BESS) installation at the Solar PV facility at the Rarotonga Airport for integration into the existing power system infrastructure. As for progress on the BESS contract awarded to MPower Limited on the 1 June 2017, 90 per cent of the design submission has been accepted, however progress has been slowed due to on site factory pre-commissioning tests still being undertaken and will continue until the POE is satisfied that all issues have been resolved.

A second additional financing of a US\$12 million grant was received from the Green Climate Fund (GCF) in December 2016 and the ADB's President provided approval on 30 October 2017. This funding will be used for the procurement of equipment and materials, civil works, related transportation, insurance, and installation costs for the installation of three additional units of BESS. TAU is the implementing agency for this subproject. The Fund Activity Agreement (FAA) between ADB and GCF is expected to be signed mid-May 2018. Following the signing of the FAA agreement, ADB and GCF will be able to proceed with signing the Grant Agreement (GA), and the Project Agreement (PA) between ADB and TAU can also be signed.

The Rarotonga Battery Energy Storage Systems "Power Station" and "Airport South" under Cook Islands Renewable Energy Sector Project (COO46453-002) – Phase 2 (Rarotonga) (BESS) ITB closed on

20 February 2018 with Bid Opening commencing at midday on the same day. Six bids were received and publicly opened. GCI approved NZ\$2.8million for the Aitutaki RE project appropriated in the 2017/18 capital budget and this together with savings from the current Phase 1 contracts is expected to see sufficient funds available for this project.

The Phase 2 Aitutaki tender documents closed at the end of the quarter with 7 bids being received. The Aitutaki ITB BER received a no objection letter from ADB and confirmation and approval from CI Government Tender Committee.

The third Semi-Annual Safeguard Monitoring Report for the CIRESP for the period 1 July – 31 December 2017 was submitted in January 2018. The purpose of the report was to document social and environmental safeguard monitoring activities as well as environmental safeguards. Questions raised by ADB are being responded to with the next Semi Annual report due by 30 June 2018.

9.11 CI New/Existing Programmes approved for implementation ⁶

Aid Effectiveness

Implementing Agency: Ministry of Finance and Economic Management

Total estimated spend to date is **\$0.05 million**

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used by MFEM to support the implementation of the official development assistance policy. The programme currently contributes to several projects including the following: annual meeting of development partners, development of Activity Management Framework (Te Tarai Vaka), surge capacity to catch up and standardise Crown financial statements and training and set-up of project financial management software. The framework assesses our country systems and measuring aid effectiveness principals as outlined in the ODA Policy 2015 of the Cook Islands in accordance with international standards.

Australia Pacer Plus

Implementing Agency: Ministry of Foreign Affairs and Immigration

Pacer Plus is a comprehensive Free Trade Agreement (FTA) between 14 members of the Pacific Islands Forum: Australia, Cook Islands, Federated States of Micronesia, Kiribati, Republic of Marshall Islands, Nauru, New Zealand, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

Late confirmation from the regional implementing agency meant that the inclusion of Pacer Plus funds of AU\$25,000 from the Australian Government was not included in the financial year 2017/18. This grant is for communications and consultations in the Cook Islands on Pacer Plus 2017/18. Based on the outcomes of consultations, the next steps will be to submit the Cook Islands proposal for the regional funds available for Pacer Plus, which has a total contestable funding budget of AU\$7 million.

A FTA means the parties reduce duties and other regulations of commerce that restrict trade. According to WTO practice, the FTA parties are expected to enter into reciprocal commitments to liberalise 'substantially all trade'. FTA parties however maintain their individual trade policies vis-à-vis third parties with no requirement to have a common external tariff. In the Pacer Plus context, this gives policy space to most Forum Islands Countries, as their tariffs are generally higher than those of Australia and New Zealand. This will not affect the right of the parties to levy internal taxes or changes on goods, provided the non-discrimination principle is observed. Meaning that parties may impose taxes on goods, provided the taxes on imported products are not different from the taxes imposed on like or similar domestic products.

⁶ Not included in ODA 2017/18 Publication.

Australian Government

Implementing Agency: Ministry of Internal Affairs

Total estimated spend to date is **\$0.15 million**

The Australian Government has allocated Official Development Assistance (ODA) through the Ministry of Internal Affairs – Gender Empowerment Programme to the Cook Islands for the amount of \$0.2 million.

The Pacific Women shaping Pacific Development (Pacific Women) was announced by the Australian Government at the Pacific Leaders forum in August 2012. It commits up to \$320 million over 10 years to the 14 Pacific Island Forum Members.

Over the 10-year life span of Pacific Women, DFAT has allocated \$3.9 million for Women's Empowerment on Cook Islands. The program will continue in two phases to account for the outcome of the upcoming OECD DAC review of Cook Islands ODA eligibility. The first phase (2016-2018) would provide funding to recruit national consultants to provide technical assistance to the Ministry of Internal Affairs and Funding to PTI to continue to its program of support for ending violence against women (EVAW).

9.12 New Zealand Funded Scholarships

Implementing Agency: Ministry of Internal Affairs

Total estimated spend to date is **\$0.06 million**

These cover Tertiary Scholarships NZ, Tertiary Scholarships Pacific Regional, TPD: Training and Professional Development and Commonwealth Scholars. These are recorded as 3rd party grants as they are managed directly by New Zealand.

10 Schedules

10.1 Statement of Fiscal Responsibility (Operating)

	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Operating Revenue						
Taxation Revenue	125,398	123,633	134,106	127,799	130,466	136,613
Other Crown Revenue	22,108	17,643	21,508	14,188	12,188	12,068
Trading Revenue	7,585	6,169	6,169	6,169	6,169	6,169
Interest on Loans to Subsidiaries	1,286	733	733	715	694	694
Dividends	382	1,672	1,672	1,759	1,885	1,967
Interest on Balances	2,140	1,740	1,800	1,740	1,740	1,740
Core Sector Support	7,730	7,766	7,766	0	0	0
Total Operating Revenue (excluding Bonus)	166,629	159,356	173,754	152,370	153,142	159,250
<i>Performance Based Budget Support - Bonus Payment</i>						
	1,877	604	120	0	0	0
Total Operating Revenue (including Bonus)	168,506	159,960	173,874	152,370	153,142	159,250
Operating Expenditure						
Ministry Outputs	99,720	116,138	116,952	105,583	104,611	102,171
<i>Personnel</i>	47,307	52,634	52,634	51,556	51,772	51,773
<i>Operating</i>	20,376	20,396	20,396	16,464	16,477	16,477
<i>Administered Payments</i>	27,698	38,824	39,638	33,281	32,079	29,639
<i>Depreciation</i>	4,338	4,284	4,284	4,282	4,282	4,282
POBOC	23,087	25,362	25,510	23,931	24,094	24,094
Provisional for Doubtful Debts	0	0	6,781	0	0	0
Debt Interest Contribution to LRF	1,710	2,063	2,063	2,060	2,022	2,020
Crown Infrastructure Depreciation	3,682	4,603	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	604	50	50	50	50	50
Depreciation Contingency Fund	2,362	3,957	3,957	4,066	4,066	4,066
<i>Chinese Equipment</i>	663	663	663	663	663	663
<i>Rarotonga Water Network</i>	299	694	694	803	803	803
<i>Northern Pa Enua Renewable Energy System</i>	400	400	400	400	400	400
<i>Southern Pa Enua Renewable Energy System (excl. Aitutaki)</i>	0	1,200	1,200	1,200	1,200	1,200
<i>Other Assets</i>	1,000	1,000	1,000	1,000	1,000	1,000
Contingency Funds - Operating	582	200	300	100	100	100
Contributions to CISWF	0	0	0	0	0	0
Total Operating Expenses	131,746	152,373	160,216	140,392	139,546	137,104
Operating Surplus/(Shortfall) (excluding Bonus)	34,883	6,983	13,538	11,978	13,596	22,146
<i>Operating Surplus/(Shortfall) (including Bonus)</i>	36,759	7,587	13,658	11,978	13,596	22,146

10.2 Statement of Fiscal Responsibility (Non - Operating)

	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Reductions in Net Borrowings						
Loan Disbursements	600	22,246	8,592	14,856	8,333	0
Contribution to Loan Reserve Fund	8,603	10,682	10,682	10,846	10,328	10,316
	8,004	(11,564)	2,090	(4,010)	1,995	10,316
Capital Expenditures						
Ministries and Outer Islands (Including CIIC Capital)						
	13,441	60,266	26,267	44,573	32,921	16,065
	13,491	60,266	26,267	44,573	32,921	16,065
Foreign Aid						
Receipts	(25,404)	(69,392)	(53,929)	(31,996)	(15,263)	(422)
Expenditure	25,404	69,392	53,929	31,996	15,263	422
	0	0	0	0	0	0
Other Committed Considerations						
Transfer to Reserve Trust Fund	627	618	671	639	652	683
ADB Share Capital	0	0	0	0	0	0
Disaster Response Fund	604	50	50	50	50	50
	1,231	668	721	689	702	733
Total Non-Operating balance	(22,725)	(49,370)	(29,077)	(41,252)	(35,618)	(27,114)
To be Funded by						
Operating Surplus	34,883	6,983	13,538	11,978	13,596	22,146
Depreciation	10,382	12,845	12,845	12,950	12,950	12,950
<i>of which: R.E. Capital Replacement</i>	<i>400</i>	<i>1,600</i>	<i>1,600</i>	<i>1,600</i>	<i>1,600</i>	<i>1,600</i>
Unencumbered Cash Reserves	(2,243)	18,810	(8,037)	5,428	(1,306)	(18,348)
Contribution to Loan Reserve Fund	8,603	10,682	10,682	10,846	10,328	10,316
Economic Recovery Support Program	206	0	0	0	0	0
Transfer to Emergency Response Trust Fund	604	50	50	50	50	50
Total Funding Items	52,834	49,370	29,077	41,252	35,618	27,114
Net Surplus/Shortfall	30,109	0	0	0	0	0

10.3 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	882,138	134,643	0	22,182	1,038,963	90,535	948,428
Audit (PERCA)	936,350	68,180	0	26,678	1,031,208	60,700	970,508
Crown Law	601,549	144,100	354,000	5,983	1,105,632	0	1,105,632
Cultural Development	621,760	144,650	737,500	96,655	1,600,565	110,000	1,490,565
Business Trade and Investment Board	440,094	232,575	0	9,000	681,669	23,380	658,289
Education	11,842,082	4,133,401	4,101,882	412,364	20,489,729	0	20,489,729
Environment	849,690	148,724	182,241	30,381	1,211,036	35,000	1,176,036
Finance and Economic Management	3,425,445	662,189	14,759,078	128,530	18,975,242	603,500	18,371,742
Financial Services Development Authority	240,339	177,906	0	9,867	428,112	0	428,112
Foreign Affairs	1,266,905	598,151	10,000	77,726	1,952,782	28,000	1,924,782
Head Of State	168,038	34,080	23,000	15,057	240,175	0	240,175
Health	9,053,286	2,531,330	2,159,870	886,814	14,631,300	350,000	14,281,300
Infrastructure Cook Islands	1,814,113	303,351	745,000	241,596	3,104,060	295,626	2,808,434
Internal Affairs	1,040,000	121,085	3,071,001	17,264	4,249,350	6,000	4,243,350
<i>of which: Welfare Payments - Allowances</i>			<i>982,893</i>				
Justice	1,577,855	399,371	337,000	133,947	2,448,173	500,000	1,948,173
Marine Resources	1,204,964	358,125	350,000	95,000	2,008,089	28,000	1,980,089
Ombudsman	219,695	61,840	0	5,822	287,357	0	287,357
Parliamentary Services	487,567	71,192	152,765	24,579	736,103	0	736,103
Pearl Authority	217,600	234,688	0	28,303	480,591	0	480,591
Police	3,108,483	461,724	255,000	218,622	4,043,829	93,421	3,950,408
Prime Minister's Office	1,265,016	236,849	978,000	36,069	2,515,934	0	2,515,934
Public Service Commission	398,609	87,447	1,230,316	79,293	1,795,665	0	1,795,665
Tourism Corporation	1,744,118	2,756,016	5,400,000	31,500	9,931,634	352,000	9,579,634
Transport	537,571	135,964	0	39,047	712,582	36,000	676,582
Cook Islands Investment Corporation	941,950	3,298,194	4,791,500	371,189	9,402,833	2,455,943	6,946,890

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Cook Islands Seabed Minerals Authority	179,021	111,940	0	7,200	298,161	0	298,161
Capital Funds Committee- Administered by MFEM	0	0	0	45,000	45,000	0	45,000
Total Ministries, Crown & Statutory Agencies	45,064,236	17,647,714	39,638,154	3,095,668	105,445,772	5,068,105	100,377,667
Ministerial Support							
Prime Minister	301,176	109,773	0	11,100	422,049	0	422,049
Deputy Prime Minister	134,894	85,372	0	11,503	231,769	0	231,769
Minister Mark Brown	202,666	81,613	0	6,802	291,081	0	291,081
Minister Kiriau Turepu	129,514	56,931	0	11,162	197,607	0	197,607
Minister Nandi Glassie	107,704	78,415	0	12,000	198,119	0	198,119
Minister Albert Nicholas	78,447	117,000	0	5,500	200,947	0	200,947
Leader Of Opposition	154,185	48,200	0	6,800	209,185	0	209,185
Total Ministerial Support Offices	1,108,586	577,304	-	64,867	1,750,757	-	1,750,757
Outer Islands							
Aitutaki	1,137,762	367,829	0	143,884	1,649,476	67,828	1,581,648
Aitutaki Power Supply	0	0	0	0	0	0	0
Atiu	785,426	407,041	0	138,561	1,331,029	224,318	1,106,711
Mangaia	861,498	552,165	0	204,700	1,618,363	301,000	1,317,363
Manihiki	638,449	150,438	0	92,199	881,086	117,500	763,586
Mauke	653,141	201,413	0	178,982	1,033,535	113,853	919,682
Mitiaro	541,364	69,446	0	55,200	666,009	58,899	607,110
Palmerston	257,571	65,528	0	42,000	365,099	20,599	344,500
Penrhyn	460,817	155,124	0	62,407	678,348	74,000	604,348
Pukapuka-Nassau	752,172	142,467	0	140,552	1,035,191	73,695	961,496
Rakahanga	372,496	59,373	0	37,829	469,698	49,336	420,362
Outer Islands Capital Fund-Administered by MFEM	0	0	0	27,500	27,500	0	27,500
Total Outer Islands							

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
	6,460,697	2,170,824	-	1,123,813	9,755,334	1,101,028	8,654,306
Gross Total	52,633,519	20,395,842	39,638,154	4,284,348	116,951,862	6,169,133	110,782,730

10.4 Schedule 2 – Payments on Behalf of Crown (POBOCS)

Administering Ministry		POBOC	2017/18 HYEFU Estimate	2017/18 PEFU Estimate
Compensation of Employees				
Finance & Economic Management	Parliamentary Superannuation		180,000	180,000
Audit	Transfer of PERC Salaries and Administration Costs		42,500	42,500
Parliamentary Services	Civil List - Personnel		2,023,361	2,046,361
Parliamentary Services	House of Ariki		228,337	228,337
Compensation of Employees POBOCs			2,474,198	2,497,198
Use of Goods and Services				
Audit	Audit Fees		95,600	95,600
Justice	General Elections, Petitions and By-Elections		0	0
Parliamentary Services	Civil List - Operating Expenses		0	0
Parliamentary Services	Civil List - Constituency Visits		170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses		120,000	120,000
Parliamentary Services	QR & MP Travel and Allowance (local and overseas)		0	0
Parliamentary Services	QR Travel and Allowances (local and overseas)		109,000	109,000
Parliamentary Services	MP Travel and Allowances (local and overseas)		221,850	346,231
Prime Minister's Office	Local Government Election		0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands		63,461	63,461
Use of Goods and Services POBOCs			780,111	904,492
Subsidies				
Finance & Economic Management	Apex - Profit Guarantee		750,000	750,000
Finance & Economic Management	FSC - subsidy to meet depreciation expenses		0	0
Cook Islands Investment Corporation	Airport Authority subsidy		2,047,997	2,047,997
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy		120,000	120,000
Cook Islands Investment Corporation	Ports Authority - subsidy		110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy		380,000	380,000
Subsidies POBOCs			3,408,096	3,408,096
Social Assistance				
Internal Affairs	Welfare Payments		17,353,517	17,353,517
Social Assistance POBOCs			17,353,517	17,353,517
Other Expense				
Finance & Economic Management	Pacific Catastrophe Risk Insurance		120,694	120,694
Finance & Economic Management	CICC Mission Training Centre Construction Grant		600,000	600,000
Foreign Affairs	International Subscriptions		625,667	625,667
Other Expenses POBOCs			1,346,361	1,346,361
Grand Total			25,362,283	25,509,664

10.5 Schedule 3 – Cook Islands Capital Spending

	2017/18 HYEFU Estimate	2017/18 PEFU Estimate
Cook Islands Government Capital programs (see Schedule 6 for details)	60,265,785	26,267,299
Total Capital spending	60,265,785	26,267,299

10.6 Schedule 4 – Overseas Development Assistance

	2017/18 HYEFU Estimate	2017/18 PEFU Estimate
Operating or recurrent expenditure	28,053,720	9,031,601
Capital Project Expenditure	44,736,585	44,885,503
Total Borrowing Expenses and Debt Repayment	72,790,305	53,917,104

10.7 Schedule 5a – Other Expense and Financing Transactions

Category of Expense	2017/18 HYEFU Estimate	2017/18 PEFU Estimate
Contingency Funds - Capital Expenditure	-	-
Contingency Funds - Operating	200,000	300,000
Crown Infrastructure Depreciation	4,602,897	4,602,897
Provisional for Doubtful Debts	-	6,781,136
Public Sector Strengthening	-	-
ADB Share Capital	-	-
Transfer to Emergency Response Trust Fund	50,000	50,000
Transfer to Reserve Trust Fund	618,167	670,531
Depreciation Contingency Fund	3,957,454	3,957,454
Contributions to CISWF	-	-
Total Other Expenses	9,428,519	16,362,019

10.8 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2017/18 HYEFU Estimate	2017/18 PEFU Estimate
Contribution to LRF - Principal	8,618,817	8,619,000
Contribution to LRF - Interest	2,062,953	2,063,000
Total Contribution to LRF	10,681,769	10,682,000

10.9 Schedule 5b – Summary

Category of Payment	2017/18 HYEPU Estimate	2017/18 PEPU Estimate
Schedule 1 - Ministry Outputs (Gross Operating)	116,137,676	116,951,862
Schedule 2 - POBOCs	25,362,283	25,509,664
Schedule 3 - CIG Capital Expenditure	60,265,785	26,267,299
Schedule 4 - Official Development Assistance	72,790,305	53,917,104
Schedule 5a - Other Expenses and Financing Transactions	9,428,519	16,362,019
Schedule 5b - Loan Reserve Fund Appropriations	10,681,769	10,682,000
TOTAL APPROPRIATION	294,666,337	249,689,948

10.10 Schedule 6 – Capital

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2016/17 Estimate	2017/18 HYEPU Estimate	2017/18 YTD Actuals	2017/18 PEPU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2018/19 - 2021/22
Aitutaki Island Government				0	0	688,267	0	0	0	0	0
	Aitutaki	Aitutaki road sealing	CIG	0	0	688,267	0	0	0	0	0
	Aitutaki	Establishing new water galleries	CIG	0	0	0	0	0	0	0	0
Ministry of Agriculture				0	100,000	31,275	100,000	0	0	0	100,000
	Rarotonga	Vanilla Shade House	CIG	0	100,000	31,275	100,000	0	0	0	100,000
Cook Islands Investment Corporation				1,990,446	4,548,164	2,099,459	4,235,623	250,000	5,250,000	5,000,000	14,735,623
	Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	CIG	86,685	300,000	0	300,000	0	0	0	300,000
	National	Provision for land rent reviews	CIG	767,500	0	0	0	0	0	0	0
	Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	CIG	33,976	250,000	0	250,000	250,000	250,000	0	750,000
	Pa Enua	Pa Enua Renewable Energy Projects-Land Acquisition	CIG	799,467	0	0	0	0	0	0	0
	Pukapuka	Government House	CIG	4,836	21,164	0	21,164	0	0	0	21,164
	Pukapuka	Pukapuka Hospital Reconstruction	CIG	0	500,000	0	500,000	0	0	0	500,000
	Rarotonga	Tereora College Redevelopment Stage 1	CIG	297,982	1,462,000	2,099,459	2,099,459	0	0	0	2,099,459
	Rarotonga	Vaikapuangi Government Building - design	CIG	0	450,000	0	450,000	0	0	0	450,000
	Rarotonga	Vaikapuangi Government Building - construction	CIG	0	0	0	0	0	5,000,000	5,000,000	10,000,000
	Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	CIG	0	1,250,000	0	0	0	0	0	0
	Rarotonga	Punanganui Road Improvement	CIG	0	0	0	275,000	0	0	0	275,000
	Rarotonga	China Building Repair - Stage 1	CIG	0	0	0	340,000	0	0	0	340,000
	Rarotonga	Arenikau Water Storage tank	CIG	0	315,000	0	0	0	0	0	0
Education				481,459	360,000	166,518	360,000	110,000	110,000	110,000	690,000
	National	Fund to be Prioritised by Education	CIG	393,836	360,000	166,518	360,000	110,000	110,000	110,000	690,000
	National	ICT upgrades (computers & laptops)	CIG	87,623	0	0	0	0	0	0	0
Health				662,637	1,034,398	545,910	670,447	275,000	275,000	275,000	1,495,447
	National	Fund to be Prioritised by Health for Technical Equipment	CIG	275,000	275,000	275,907	306,965	275,000	275,000	275,000	1,131,965
	Rarotonga	Ultrasound Machine	CIG	128,035	0	0	0	0	0	0	0

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2016/17 Estimate	2017/18 HYEPU Estimate	2017/18 YTD Actuals	2017/18 PEPU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2018/19 - 2021/22
	Rarotonga	Medical Service Bed End Panels	CIG	259,602	359,398	265,919	359,398	0	0	0	359,398
	Rarotonga	Ambulance	CIG	0	150,000	2,202	2,202	0	0	0	2,202
	Rarotonga	Hospital Incinerator	CIG	0	250,000	1,882	1,882	0	0	0	1,882
Infrastructure Cook Islands				6,258,439	11,259,972	2,694,528	5,933,026	5,894,840	3,880,000	3,230,000	17,750,484
	Atiu	Atiu Airport Runway Stabilisation	CIG	259,359	454,549	92,852	212,875	0	0	0	212,875
	Atiu	Atiu Road Improvement Programme	CIG	85,450	256,550	6,531	6,531	0	0	0	6,531
	Atiu	Atiu tipper truck	CIG	19,943	0	0	0	0	0	0	0
	National	Bitumen truck	CIG	15,558	166,559	102,341	166,559	0	0	0	0
	Rarotonga	Bridges & Drainage	CIG	686,717	1,814,271	144,702	400,324	870,000	750,000	0	2,020,324
	Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	CIG	34,904	15,096	12,687	15,096	0	0	0	15,096
	Various	Outboard Motor replacement program	CIG	50,122	63,866	0	83,866	0	0	0	83,866
	Nassau	Nassau Cyclone Centre	CIG	0	0	0	0	500,000	0	0	500,000
	Palmerston	Palmerston Cyclone Center	CIG	9,689	390,311	0	390,311	0	0	0	390,311
	Rarotonga	Avatiu Valley Stream embankment	CIG	1,064	394,936	0	50,000	0	0	0	50,000
	Rarotonga	Rarotonga Road Improvement Programme	CIG	1,850,393	2,352,850	620,554	925,823	2,000,000	2,000,000	2,000,000	6,925,823
	Mangaia	Mangaia Road Improvement Programme	CIG	227,642	495,336	128,379	136,485	0	0	0	136,485
	Mangaia, Atiu, Mauke	HV Transport Trailer	CIG	68,272	106,178	96,068	101,068	0	0	0	101,068
	Mangaia	HIAB (includes man cage & fork)	CIG	74,561	75,439	158,438	158,438	0	0	0	158,438
	Mangaia	Central water project	CIG	113,234	11,766	10,740	11,766	0	0	0	11,766
	Manihiki	Manihiki Island Airport Terminal - construction	CIG	4,155	55,845	55,845	76,845	0	0	0	76,845
	Mauke	Medium Genset (42kVA)	CIG	25,550	0	0	0	0	0	0	0
	Mitiaro	Manea Games Upgrade	CIG	76,937	23,063	20,995	23,063	0	0	100,000	123,063
	Mitiaro	Mitiaro Water Upgrade	CIG	92,184	247,000	67,170	197,000	0	0	0	197,000
	Penrhyn	Slasher	CIG	3,993	0	0	0	0	0	0	0
	Penrhyn	Omoka Harbour Upgrade	CIG	0	250,000	0	0	0	0	0	0
	Pukapuka	Pukapuka Airport terminal buildings upgrade	CIG	0	121,500	66,098	78,929	13,500	0	0	92,429
	Pukapuka	Yato Cargo Shed Upgrade	CIG	20,089	7,911	7,850	7,911	0	0	0	7,911
	Rakahanga	Large boat & outboard motor	CIG	76,134	0	81,221	0	0	0	0	0

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2016/17 Estimate	2017/18 HYEFU Estimate	2017/18 YTD Actuals	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2018/19 - 2021/22
	Rakahanga	Rakahanga Cyclone Centre	CIG	0	550,000	2,015	41,570	0	0	0	41,570
	Rarotonga	National Incinerator Feasibility Study	CIG	102,010	0	0	0	0	0	0	0
	Rarotonga	Project City Stage 3 - Retention fund	CIG	205,746	0	0	0	0	0	0	0
	Rarotonga	Road Network Maintenance	CIG	627,249	632,751	525,301	632,751	630,000	630,000	630,000	2,522,751
	Rarotonga	Rutaki Foreshore Rock Revetment	CIG	453	119,547	67,608	70,000	0	0	0	70,000
	Rarotonga	TMV Titikaveka backroad ringmain pipeline		0	127,000	0	0	0	0	0	0
	Rarotonga	Water Network Maintenance	CIG	467,633	532,367	264,982	532,367	500,000	500,000	500,000	2,032,367
	Rarotonga	RSA Cemetery Rock Wall	CIG	117,059	0	0	0	0	0	0	0
	Aitutaki	Aitutaki road Improvement Programme	CIG	744,615	536,527	0	831,494	0	0	0	0
	Mangaia	Tamarua Water Project	CIG	0	250,000	52,811	210,340	0	0	0	210,340
	Rarotonga	Tip Truck	CIG	0	100,000	0	45,000	0	0	0	45,000
	Penrhyn	Penrhyn Cyclone Centres (Omoka & Tetautua)	CIG	0	0	0	0	1,000,000	0	0	1,000,000
	Pa Enua	Pa Enua Machinery Shelters	CIG	186,939	42,480	31,521	42,480	0	0	0	42,480
	Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	CIG	0	150,000	8,530	64,430	0	0	0	64,430
	Rarotonga	Muri Road Widening	CIG	0	448,621	39,329	189,329	0	0	0	0
	Aitutaki	Establishing new water galleries	CIG	10,785	467,655	29,959	230,376	381,340	0	0	611,716
Internal Affairs				50,000	50,000	50,000	50,000	50,000	50,000	50,000	200,000
	Rarotonga	Vaka Maintenance Capital Projects	CIG	50,000	50,000	50,000	50,000	50,000	50,000	50,000	200,000
Marine Resources				0	0	0	0	500,000	0	0	500,000
	Rarotonga	Central Laboratory	CIG	0	0	0	0	500,000	0	0	500,000
Ministry of Finance and Economic Management				2,178,002	16,635,685	1,041,808	4,604,988	21,887,308	14,322,372	7,000,000	25,474,840
	National	Banking payments system	CIG	0	635,000	0	0	0	0	0	0
	Rarotonga	FMIS purchase and implementation	CIG	0	419,839	83,234	145,000	320,825	259,336	0	725,161
	Rarotonga	AEOI IT System	CIG	0	500,000	189,887	395,000	0	0	0	395,000
	Rarotonga	Rarotonga water Subsidy - ADB ERSP	CIG	57,613	0	0	0	0	0	0	0
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	958,231	12,613,942	703,698	4,000,000	11,276,792	7,063,036	0	0
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade (incl China loan)	CIG	0	386,058	0	0	0	0	0	0
	Rarotonga	Water & Sanitation Programme (WASP)	CIG	1,162,158	2,080,846	64,989	64,988	10,289,691	7,000,000	7,000,000	24,354,679

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2016/17 Estimate	2017/18 HYEPU Estimate	2017/18 YTD Actuals	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection	4-Year 2018/19 - 2021/22
Ministry of Justice				0	200,000	200,000	200,000	0	0	0	200,000
	National	Online business registry	CIG	0	200,000	200,000	200,000	0	0	0	200,000
Office Of Prime Minister				1,459,246	25,567,565	7,656,509	9,603,215	15,145,503	8,623,333	40,000	33,412,051
	Atiu	Atiu Power Distribution	CIG	252,372	660,000	183,225	705,966	0	0	0	705,966
	Atiu	Atiu water distribution mains	CIG	278,498	0	0	0	0	0	0	0
	Pa Enea	Renewable Energy - Capital works	CIG	727,640	10,948,000	7,217,774	8,592,497	2,355,503	0	0	10,948,000
	National	Government IT Network	CIG	35,534	40,000	36,625	40,000	40,000	40,000	40,000	160,000
	National	Computers and Printers	CIG	40,973	0	0	14,752	0	0	0	14,752
	Aitutaki	Aitutaki Renewable Energy Project	CIG	0	2,800,000	0	0	0	0	0	0
	National	Renewable Management Project Management and Support	CIG	124,229	250,000	218,885	250,000	250,000	250,000	0	750,000
	National	Manatua Polynesian Cable (loan component)	CIG	0	10,869,565	0	0	12,500,000	8,333,333	0	20,833,333
MINISTRY TOTAL				13,080,229	59,755,785	15,174,273	25,757,299	44,112,651	32,510,705	15,705,000	94,458,445
Capital Funds Administered BY MFEM				360,675	510,000	510,000	510,000	460,000	410,000	360,000	1,740,000
	National	Capital Distribution Fund		225,396	400,000	400,000	400,000	350,000	300,000	250,000	1,300,000
	Pa Enea	Outer Islands Small Capital Fund		135,279	110,000	110,000	110,000	110,000	110,000	110,000	440,000
		<i>Aitutaki</i>		15,466	16,000	16,000	16,000	16,000	16,000	16,000	64,000
		<i>Atiu</i>		11,232	12,000	12,000	12,000	12,000	12,000	12,000	48,000
		<i>Mangaia</i>		11,631	12,000	12,000	12,000	12,000	12,000	12,000	48,000
		<i>Manihiki</i>		9,930	10,000	10,000	10,000	10,000	10,000	10,000	40,000
		<i>Mauke</i>		9,921	10,000	10,000	10,000	10,000	10,000	10,000	40,000
		<i>Mitiaro</i>		44,627	8,000	8,000	8,000	8,000	8,000	8,000	32,000
		<i>Palmerston</i>		9,861	10,000	10,000	10,000	10,000	10,000	10,000	40,000
		<i>Penrhyn</i>		11,604	12,000	12,000	12,000	12,000	12,000	12,000	48,000
		<i>Pukapuka-Nassau</i>		3,541	12,000	12,000	12,000	12,000	12,000	12,000	48,000
		<i>Rakahanga</i>		7,465	8,000	8,000	8,000	8,000	8,000	8,000	32,000
Grand Total				13,440,904	60,265,785	15,684,273	26,267,299	44,572,651	32,920,705	16,065,000	96,198,445

10.11 Schedule 7 – Revenues on Behalf of the Crown (ROBOCS)

	2016/17 Actuals	2017/18 HYEPU Estimate	2017/18 PEPU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Taxation Revenue						
Value Added Tax (VAT)	58,531,000	59,627,514	60,277,514	60,590,954	61,668,955	63,746,483
Income tax	24,386,000	24,725,496	26,284,496	25,220,188	25,650,769	28,421,727
Company tax	16,154,862	14,628,262	19,629,262	15,069,336	16,044,590	16,813,595
Import levies	14,335,000	13,464,057	15,293,057	13,471,808	13,119,557	12,675,604
Withholding tax	1,757,390	485,000	1,800,000	2,000,000	2,100,000	2,100,000
Departure tax	10,233,958	10,703,149	10,821,897	11,446,283	11,882,225	12,855,394
Total	125,398,211	123,633,478	134,106,226	127,798,569	130,466,096	136,612,803
Other Crown Revenue						
Financial Services Levy	324,069	262,014	262,014	262,014	262,014	262,014
FSC Return of Excess	0	0	0	0	0	0
FSC Vested Assets	0	0	0	0	0	0
Immigration Fees	885,903	860,000	860,000	860,000	860,000	860,000
IMO Subscription - Maritime Cook Islands	63,641	66,000	156,000	66,000	66,000	66,000
Court Services	37,448	50,000	50,000	50,000	50,000	50,000
Instant Fines	66,601	40,000	100,000	40,000	40,000	40,000
Fishing Licences	16,508,784	11,505,000	11,505,000	8,000,000	6,000,000	6,000,000
Fisheries Catch Revenue	0	0	0	0	0	0
Fisheries - US Treaties (purse seine)	1,548,095	1,200,000	4,835,000	1,200,000	1,200,000	1,200,000
Fishing Fines	486,601	0	0	0	0	0
Research Fee	1,689	1,020	1,020	1,020	1,020	1,020
Permits	27,033	24,000	24,000	24,000	24,000	24,000
<i>Dividends</i>	<i>381,755</i>	<i>1,671,752</i>	<i>1,671,752</i>	<i>1,759,352</i>	<i>1,884,952</i>	<i>1,966,552</i>
Banana Court - dividend	0	8,000	8,000	10,000	10,000	10,000

	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Bank of the Cook Islands - dividend	183,372	198,400	198,400	284,000	409,600	491,200
Ports Authority - dividend	0	0	0	0	0	0
Punanga Nui Market - dividend	0	0	0	0	0	0
Te Aponga Uira - dividend	35,383	255,352	255,352	255,352	255,352	255,352
Extraordinary SOE Dividend	0	60,000	60,000	60,000	60,000	60,000
Telecom Cook Islands (Bluesky) - dividend	163,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000
Numismatics	353,550	350,000	350,000	400,000	400,000	400,000
Border Management Fees	0	120,000	120,000	120,000	120,000	0
Drivers Licences	87,098	100,000	180,000	100,000	100,000	100,000
Motor Vehicle Registration	887,860	875,000	875,000	875,000	875,000	875,000
Interest on balances	2,139,845	1,740,000	1,800,000	1,740,000	1,740,000	1,740,000
Interest on loans to subsidiaries	1,285,796	733,000	733,000	715,000	694,000	694,000
Foreign Investment Fees	26,375	25,725	25,725	25,725	25,725	25,725
Upper Air Management Agreement	544,575	746,000	746,000	746,000	746,000	746,000
Shipping Registration	61,467	268,259	268,259	268,259	268,259	268,259
International Shipping Licence	10,000	10,000	10,000	10,000	10,000	10,000
Liquor Licencing	42,244	60,000	60,000	60,000	60,000	60,000
Tattslotto Grants	139,527	120,000	120,000	120,000	120,000	120,000
Censorship Fees	2,447	4,000	4,000	4,000	4,000	4,000
Circulating Currency - Coins	0	875,500	875,500	875,500	875,500	875,500
Sale of NZ coins	0	0	0	0	0	0
Sale of Circulating Currency Cook Islands Coins	0	0	0	0	0	0
Smelting of Old Coins	0	0	0	0	0	0
Employer Liabilities	0	75,000	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	2,783	5,000	5,000	5,000	5,000	5,000
Justice Unclaimed Rental Monies	0	0	0	0	0	0
Core Sector Support	7,730,400	7,766,400	7,766,400	0	0	0

	2016/17 Actuals	2017/18 HYEPU Estimate	2017/18 PEPU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Public Sector Strengthening-processes and systems MFEM	0	0	0	0	0	0
Total Other	33,645,586	29,553,670	33,478,670	18,401,870	16,506,470	16,468,070
<i>Total Crown Receipts - excluding Bonus Payment</i>	<i>159,043,797</i>	<i>153,187,148</i>	<i>167,584,896</i>	<i>146,200,439</i>	<i>146,972,566</i>	<i>153,080,873</i>
<i>Performance Based Budget Support - Bonus Payment</i>	<i>1,876,720</i>	<i>604,000</i>	<i>120,267</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total Crown Receipts - including Bonus Payment	160,920,517	153,791,148	167,705,163	146,200,439	146,972,566	153,080,873

10.12 Schedule 8a – Administered Payment

Administering Ministry	Administered Payment	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Compensation of Employees							
Cook Islands Investment Corporation	Infrastructure Committee	42,428	75,000	75,000	75,000	75,000	75,000
Cook Islands Investment Corporation	Joint Venture with Seabed Minerals Authority	72,956	130,000	130,000	130,000	130,000	130,000
Cook Islands Investment Corporation	Special Projects Units	0	420,000	420,000	420,000	420,000	420,000
National Environment Service	National Heritage Trust	82,239	82,241	82,241	82,241	82,241	82,241
Finance and Economic Management	Public Sector Strengthening-processes and systems MFEM	53,986	435,214	435,214	0	0	0
Finance and Economic Management	Tax Amnesty Refund	0	500,000	500,000	0	0	0
Finance and Economic Management	Salary Adjustment Administered Fund		150,000	150,000	0	0	0
Finance and Economic Management	Director of Civil Aviation		56,000	56,000	56,000	56,000	56,000
Internal Affairs	Price Tribunal	30,000	30,000	30,000	30,000	30,000	30,000
Justice	Project to bring land records up to date	119,758	120,000	120,000	0	0	0
Justice	Judges Allowances	127,955	177,000	177,000	177,000	177,000	177,000
Public Service Commission	HOM's Salaries	1,216,453	1,230,316	1,230,316	1,230,316	1,230,316	1,230,316
Prime Minister's Office	Public Sector Strengthening	0	600,000	600,000	600,000	600,000	0
Cook Islands Investment Corporation	School Security	196,313	250,000	250,000	250,000	250,000	250,000
Transport	Director of Civil Aviation	0	0	0	0	0	0
	Compensation of Employees Administered Payments	1,942,088	4,255,771	4,255,771	3,050,557	3,050,557	2,450,557
Use of Goods and Services							
Marine Resources	WCPFC Conference	0	50,000	50,000	0	0	0
Cultural Development	Te Maeva Nui Constitution Celebrations	569,695	722,500	722,500	722,500	722,500	722,500

Administering Ministry	Administered Payment	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Cook Islands Investment Corporation	Provision for Land Rentals	0	1,500,000	1,500,000	1,500,000	1,500,000	0
Cook Islands Investment Corporation	Land Rent Reviews	0	1,016,500	1,016,500	642,000	0	0
Finance and Economic Management	HRMIS Tax Amnesty Change	0	100,000	100,000	0	0	0
Education	Tertiary Training Institutions	759,854	759,855	759,855	759,855	759,855	759,855
Finance and Economic Management	Audit of Crown Accounts	30,000	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	Border Management System Maintenance	135,000	135,000	135,000	135,000	135,000	135,000
Finance and Economic Management	National Superannuation Fund	134,448	242,678	242,678	242,678	242,678	242,678
Finance and Economic Management	Standard and Poor's Subscription	40,000	55,000	55,000	55,000	55,000	55,000
Crown Law	Arbitration Case	0	0	354,000	0	0	0
Foreign Affairs	Cook Islands Student Association Support	5,000	5,000	5,000	5,000	5,000	5,000
Head Of State	Domestic Hosting Entertainment	14,033	15,000	15,000	15,000	15,000	15,000
Head Of State	QR Social Responsibility Fund	0	8,000	8,000	8,000	8,000	8,000
Health	Hosting of the 2017 Pacific Health Ministers' Meeting	0	83,000	83,000	0	0	0
Health	Pharmaceuticals	1,067,892	667,800	867,800	667,800	667,800	667,800
Infrastructure Cook Islands	Outer Islands Equipment Repairs of Unanticipated Breakdowns	194,434	200,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	Waste Management	452,833	545,000	545,000	545,000	545,000	545,000
Internal Affairs	Lease extension	72,000	72,000	72,000	72,000	72,000	72,000
Internal Affairs	Vaka Maintenance	393,153	400,000	400,000	400,000	400,000	400,000
Parliamentary Services	Pacific Legislatures for Population and Governance (PLPG)	56,928	52,000	52,000	52,000	52,000	52,000
Parliamentary Services	Special Select Committee	0	100,765	100,765	10,000	10,000	10,000
Cultural Development	Te Kopapa Reo Maori Board	0	15,000	15,000	15,000	15,000	15,000
Prime Minister's Office	Social Responsibility Fund	195,000	243,000	243,000	243,000	243,000	243,000
Prime Minister's Office	Undersea Fibre optic Cable	0	35,000	35,000	0	0	0

Administering Ministry	Administered Payment	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Police	Search and Rescue	0	20,000	20,000	20,000	20,000	20,000
Police	Serious Crime Investigations	140,867	50,000	50,000	50,000	50,000	50,000
Police	Te Kukupa - Biannual Slipping	151,284	0	0	150,000	0	0
Police	Te Kukupa - Fuel Contribution	137,981	140,000	140,000	140,000	140,000	140,000
Police	Te Kukupa Refit	0	0	0	0	0	0
Police	Youth Program	38,923	45,000	45,000	45,000	45,000	45,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	5,499,999	5,400,000	5,400,000	3,100,000	2,950,000	2,950,000
Foreign Affairs	Returned Services Association	9,760	5,000	5,000	5,000	5,000	5,000
Prime Minister's Office	Cook Islands Marine Park	0	0	0	0	0	0
Prime Minister's Office	Community Support Fund	90,618	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	Te Maeva Nui transport (OPM)	0	0	0	0	0	0
Environment	E - Waste & Whitewear Collection	0	100,000	100,000	0	0	0
	Use of Goods and Services Administered Payments	10,189,703	12,913,098	13,467,098	9,929,833	8,987,833	7,487,833
Subsidies							
Education	University of the South Pacific Contribution	123,139	285,000	285,000	285,000	285,000	285,000
Finance and Economic Management	Air New Zealand - Subsidies	9,106,042	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	18,000	500,000	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enea	0	45,000	45,000	45,000	45,000	45,000
	Subsidies Administered Payments	9,247,181	12,830,000	12,830,000	12,830,000	12,830,000	12,830,000
Social Assistance							
Education	Government Funded Scholarships	437,933	910,000	910,000	280,000	280,000	280,000
Health	Patient Referrals	740,000	550,000	750,000	550,000	550,000	550,000
Health	Nursing School	234,070	234,070	234,070	234,070	234,070	234,070
Health	NCD Fund	194,998	195,000	195,000	195,000	195,000	195,000
Health	Oxygen Plant	0	30,000	30,000	30,000	30,000	30,000
Internal Affairs	Welfare Payments - Allowances	1,139,818	982,893	982,893	983,393	983,918	983,918

Administering Ministry	Administered Payment	2016/17 Actuals	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Justice	Legal Aid	0	40,000	40,000	40,000	40,000	40,000
	Social Assistance Administered Payments	2,746,819	2,941,963	3,141,963	2,312,463	2,312,988	2,312,988
Other Expense							
Cook Islands Investment Corporation	Establishment and implementation of a water utility for Rarotonga	0	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Education	Private School Funding	2,147,028	2,147,027	2,147,027	2,007,027	2,007,027	2,007,027
Marine Resources	Fisheries Development Facility	199,992	200,000	200,000	200,000	200,000	200,000
Marine Resources	Fisheries Development Facility in the Pa Enuā	99,817	100,000	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	235,000	220,000	220,000	220,000	220,000	220,000
Internal Affairs	SIF - Cook Islands Government Contribution	55,892	1,366,108	1,366,108	881,000	621,000	281,000
Finance and Economic Management	2017 Baseline Funding for Conduct of the National Census	189,813	0	60,186	0	0	0
Finance and Economic Management	Conduct of a Labour Force Survey	0	100,000	100,000	0	0	0
Finance and Economic Management	Production of new currency, transportation and sale of old coins	1,043	350,000	350,000	350,000	350,000	350,000
	Other Expenses Administered Payments	2,928,584	5,883,135	5,943,322	5,158,027	4,898,027	4,558,027
Grand Total		27,054,375	38,823,967	39,638,154	33,280,880	32,079,405	29,639,405

10.13 Schedule 8b – Payment on Behalf of the Crown (POBOCS)

POBOC	Administering Ministry	2016/17 Estimate	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Compensation of Employees							
Finance and Economic Management	Parliamentary Superannuation	134,534	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	Transfer of PERC Salaries and Administration Costs	38,611	42,500	42,500	42,500	42,500	42,500
Parliamentary Services	Civil List - Personnel	1,986,729	2,023,361	2,046,361	2,011,461	2,011,461	2,011,461
Parliamentary Services	House of Ariki	226,853	228,337	228,337	178,337	178,337	178,337
	Compensation of Employees POBOCs	2,386,728	2,474,198	2,497,198	2,412,298	2,412,298	2,412,298
Use of Goods and Services							
Audit (PERCA)	Audit Fees	95,600	95,600	95,600	95,600	95,600	95,600
Justice	General Elections, Petitions and By-Elections	0	0	0	0	0	0
Parliamentary Services	Civil List - Operating Expenses	0	0	0	0	0	0
Parliamentary Services	Civil List - Constituency Visits	162,911	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	64,560	120,000	120,000	120,000	120,000	120,000
Parliamentary Services	QR & MP Travel and Allowance (local and overseas)	489,119	0				
Parliamentary Services	MP Travel and Allowances (local and overseas)	0	221,850	346,231	41,000	41,000	41,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	0	109,000	109,000	109,000	109,000	109,000
Prime Minister's Office	Local Government Election	0	0	0	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	63,461	63,461	63,461	63,461
	Use of Goods and Services POBOCs	875,651	780,111	904,492	599,261	599,261	599,261
Subsidies							
Finance and Economic Management	Apex - Profit Guarantee	1,267,243	750,000	750,000	0	0	0
Finance and Economic Management	FSC - subsidy to meet depreciation expenses	0	0	0	0	0	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	120,000	120,000	120,000	120,000

POBOC	Administering Ministry	2016/17 Estimate	2017/18 HYEFU Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997
Cook Islands Investment Corporation	Ports Authority - subsidy	0	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	380,000	380,000	380,000	380,000	380,000
	Subsidies POBOCs	3,435,240	3,408,096	3,408,096	2,658,096	2,658,096	2,658,096
Social Assistance							
Internal Affairs	Welfare Payments	15,642,566	17,353,517	17,353,517	17,514,562	17,678,341	17,678,341
	Social Assistance POBOCs	15,642,566	17,353,517	17,353,517	17,514,562	17,678,341	17,678,341
Other Expense							
Finance and Economic Management	Pacific Catastrophe Risk Insurance	0	120,694	120,694	120,694	120,694	120,694
Finance and Economic Management	CICC Mission Training Centre Construction Grant	150,000	600,000	600,000	0	0	0
Foreign Affairs	International Subscriptions	596,395	625,667	625,667	625,667	625,667	625,667
	Other Expenses POBOCs	746,395	1,346,361	1,346,361	746,361	746,361	746,361
Grand Total		23,086,579	25,362,283	25,509,664	23,930,578	24,094,357	24,094,357

10.14 Schedule 9a – Debt Servicing Schedule (\$'000)

Creditor	2016/17 Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Asian Development Bank (ADB)					
Principal	3,694	4,292	4,588	4,627	-
Interest	1,685	2,024	1,903	1,779	-
Total Debt Servicing to ADB	5,379	6,316	6,490	6,406	-
People's Republic of China (China)					
Principal	903	933	2,653	2,636	-
Interest	721	727	707	650	-
Total Debt Servicing to China	1,625	1,660	3,361	3,286	-
France					
Principal	549	582	296	-	-
Interest	9	6	1	-	-
Total Debt Servicing to France	559	588	297	-	-
Gross Debt Servicing	7,562	8,564	10,148	9,692	-
Interest revenue on Loan Reserve Fund	223	378	410	415	407
Net Debt Servicing	7,339	8,186	9,738	9,277	407

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

Transaction	2016/17 Estimate	2017/18 PEFU Estimate	2018/19 Projection	2019/20 Projection	2020/21 Projection
Opening Balance in LRF	17,255	18,904	20,497	20,728	20,353
<i>Transfer into LRF by Government</i>	<i>8,603</i>	<i>10,682</i>	<i>10,846</i>	<i>10,328</i>	<i>10,316</i>
Contribution to LRF - Principal	6,893	8,619	8,787	8,316	8,306
Contribution to LRF - Interest	1,710	2,063	2,058	2,012	2,010
Interest earned by LRF	223	378	410	415	407
Total inflows	8,826	11,060	11,255	10,743	10,723
Total Principal Paid out of LRF	4,896	6,376	8,015	8,020	8,865
Total Interest Paid out of LRF	2,221	3,031	2,949	3,037	2,818
Service Fees	60	60	60	60	60
Total outflows	7,177	9,467	11,024	11,117	11,742
Closing balance of LRF	18,904	20,497	20,728	20,353	19,334

10.16 Schedule 10 – Official Development Assistance Schedule (\$'000)

Programs/Projects by Agency	Development Partner	2016/17 Actuals	2017/18 HYEPU	2017/18 PEPU	Budget 2018/19	Budget 2019/20	Budget 2020/21
Projects funded directly in New Zealand dollars							
Cook Islands Core Sector Support	New Zealand	8,382,485	7,766,400	7,766,400	0	0	0
Performance Based Budget Support Incentive Payment	New Zealand	0	604,000	120,267	0	0	0
Cook Islands Core Sector Support	New Zealand		5,060,949	4,472,149	0	0	0
Apii Nikao Construction	China	12,809,628	10,220,000	13,958,333	0	0	0
Tereora Reconstruction Phase One	New Zealand	851,835	9,998,165	2,565,000	1,050,000	0	0
Chinese Building Repairs	China	0	1,400,000	7,586,666	2,800,000	0	0
Agribusiness and agricultural value chain investment support	FAO	0	0	0	0	0	0
Regional Ridge to Reef Project - Testing the Integration of Water, Land, Forest & Coastal Management	Global Environment Facility	76,923	212,932	47,971	75,758	75,758	0
RSA Cemetery PDCT Project	New Zealand	45,000	0	5,000	0		0
Disability Inclusive Development	Australia	85,218	0	0	0	0	0
Social Impact Fund (NGO and community initiatives Scheme)	New Zealand	97,317	95,000	95,000	0	0	0
Gender Empowerment		0	215,517	157,047			
Pacific Integration Technical Assistance Programme (PITAP)	European Union	0	0	0	0	0	0
Public Sector Reform TA Support	Asian Development Bank	0	0	0	0	0	0
E-Government TA Support	Asian Development Bank	119,887	579,710	0	152,672	0	0
NIE Accreditation Process	European Union	0	0	0	0	0	0
India Grant Fund	India	703,900	260,486	335,619	303,030	303,030	0
Korean Grant - Medical Incinerator	Korea	0	289,855	0	0	0	0
Pacific Parliamentary Development Project	UNDP	0	76,336	0	75,758	75,758	0
Grassroots Grant Fund	Japan	0	300,000	557,167	300,000	300,000	300,000
Non Project Grant Aid - Palmerston Cyclone Centre	Japan	0	1,335,113	0	0	0	0
JICA Training and Development	Japan	124,993	125,000	10,886	125,000	125,000	0
Germany Small Grants	Germany	14,400	15,000	0	15,000	15,000	0
General Budget Support	European Union	120,000	770,000	20,000	669,657	2,105,400	0

Programs/Projects by Agency	Development Partner	2016/17 Actuals	2017/18 HYEFU	2017/18 PEFU	Budget 2018/19	Budget 2019/20	Budget 2020/21
Online Registry	New Zealand	0	0	0	0	0	0
Improving Connectivity for the South Pacific	Asian Development Bank	413,388	72,464	8,065	0	0	0
Manatua Polynesian Cable Project	New Zealand	0	10,000,000	1,000,000	5,000,000	0	0
Aid Effectiveness	Other	80,000	100,000	57,130	100,000	100,000	100,000
Pacific Maritime Safety project	New Zealand	270,000	0	0	0	0	0
Sanitation Upgrade Program-Manihiki Lagoon Clean Up	New Zealand	250,035	120,000	100,139	0	0	0
Te Mato Vai	New Zealand	2,310,000	4,700,000	10,056,928	2,690,000	0	0
Mei Te Vai Ki Te Vai (MTVKTV)	New Zealand	444,239	4,899,427	3,300,000	3,975,573	0	0
TRAC Funds	UNDP	0	93,600	0	93,600	0	0
Household Income Expenditure Survey	Secretariat of the Pacific Community	53,388	111,718	360	0	0	0
Sustainable Fisheries Partnership Agreement	European Union	325,321	708,980	594,121	551,729	473,329	0
Fisheries Support Grant	China	0	114,000	0	0	0	0
Project Development Fund - US Fisheries Treaty	Forum Fisheries Agency	200,000	331,895	148,397	346,981	0	0
Pago Pago CIFFO Operations	Forum Fisheries Agency	0	36,641	0	0	0	0
Pago Pago CIFFO Operations	Western Pacific Council (US)	0	36,641	0	0	0	0
Pago Pago CIFFO Operations	South Pacific Fisheries Cooperation on - Te Vaka Moana	0	33,800	70,000	0	0	0
Fisheries Electronic Monitoring Systems - Operational Support	European Union - OPAGAC	0	35,200	0	0	0	0
Technical Assistance for Muri Lagoon & Central Lab	European Union	491,002	0	0	0	0	0
Crop Enhancement Technical Cooperation	FAO	0	0	0	0	0	0
Improved production processing and marketing of agricultural produce	FAO	0	230,000	0	0	0	0

Programs/Projects by Agency	Development Partner	2016/17 Actuals	2017/18 HYEPU	2017/18 PEPU	Budget 2018/19	Budget 2019/20	Budget 2020/21
Bio control of Invasive weeds	New Zealand	0	0	0	0	0	0
Participation Program	UNESCO	109,510	20,000	0	0	0	0
National Auditorium Indoor and Outdoor Sound Equipment	China	0	0	0	0	0	0
SPC Small Grants	Secretariat of the Pacific Community	0	11,074	0	11,074	11,074	11,074
Strengthening Specialised Clinical Services in the Pacific (SSCSIP)	Australia	0	11,074	0	11,074	11,074	11,074
WHO Biennium Budget Support	WHO	211,264	148,397	217,731	0	0	0
Western Pacific Multi-country Integrated HIV/TB programme - UNDP	UNDP	44,979	43,937	75,531	0	0	0
Trauma Training	Australia	0	0	0	0	0	0
Ridge to Reef	Global Environment Facility	113,908	2,013,780	945,689	2,244,273	886,253	0
Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	Global Environment Facility	50,597	807,340	421,195	0	0	0
HCFC Phase-out Management Plan for PIC Countries through Regional Approach Stage 1 Second tranche	MLF/UNEP	0	15,942	0	0	0	0
Review and Update the National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (POPs) in the Cook Islands	UN Environment Programme (UNEP)	0	183,641	0	0	0	0
Pacific POPs Release Project	GEF/UNEP/SPR EP	0	27,899	0	0	0	0
Development of Minamata Convention Mercury Initial Assessment in Pacific	GEF/UNEP/SPR EP	0	87,101	0	0	0	0
National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP)	Global Environment Facility	63,010	15,000	58,650	0	0	0
Monitoring of Ozone Depletion Substance	Multilateral Fund	0	15,714	0	0	0	0
Renewable Energy Grant (Southern Group)	European Union	2,485,018	6,498,033	1,200,617	0	0	0
Renewable Energy Grant (Southern Group)	Global Environment Facility	548,631	5,942,029	3,923,313	0	0	0
Renewable Energy Grant (Southern Group)	Green Climate	0	0	0	9,160,305	9,160,305	0

Programs/Projects by Agency	Development Partner	2016/17 Actuals	2017/18 HYEPU	2017/18 PEFU	Budget 2018/19	Budget 2019/20	Budget 2020/21
	Fund						
Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	Global Environment Facility	45,675	231,884	70,599	244,275	121,212	0
SPC EU GCCA PSIS Projects	European Union	0	0	0	0	0	0
ACP-EU Building Resilience and Safety in the Pacific	European Union	0	295,000	0	0	0	0
Green Climate Fund Readiness	Green Climate Fund	82,354	869,565	150,994	0	0	0
PEC Fund - PV Mini Grids	Japan	132,981	547,605	70,785	0	0	0
Strengthening Resilience of Island Communities	UN Adaptation Fund	1,411,755	1,500,000	977,292	1,500,000	1,500,000	0
Northern Water Project Phase 2	EU-German Development Cooperation	15,297	594,880	365,187	500000	0	0
GEF Small Grants Programme	Global Environment Facility	203,019	331,981	293,543	0	0	0
Total NZD Funding		33,786,956	81,160,705	61,803,771	31,995,759	15,263,193	422,148

11 Financial Statements

11.1 Financial Statements for year-end June 2018

The forecasted financial estimates of the Crown are set out in the following order.

11.1.1 Statement of Financial Performance

	Actual 2016-17	Pre- Elections Update 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
Revenue					
Taxation revenues	126,944	140,887	127,799	130,466	136,613
<u>Other revenue</u>					
Revenue on behalf of the Crown	31,715	29,394	14,188	12,188	12,068
Sale of goods and services	7,585	6,169	6,169	6,169	6,169
Interest	3,426	2,533	2,455	2,434	2,434
Dividends	382	1,672	1,759	1,885	1,967
Total Revenue	170,051	180,655	152,370	153,142	159,250
Expenditure					
Appropriations to agencies	99,719	116,952	105,583	104,611	102,171
Payments on behalf of Crown	23,087	25,510	23,931	24,094	24,094
Debt-servicing interest	1,710	2,063	2,060	2,022	2,020
Infrastructure depreciation	3,682	4,603	4,603	4,603	4,603
Depreciation contingency fund-renewable energy	400	1,600	1,600	1,600	1,600
Other expenditure	3,148	9,489	2,616	2,616	2,616
Total Expenditure	131,746	160,216	140,392	139,546	137,104
NET OPERATING SURPLUS / (DEFICIT)	38,306	20,439	11,978	13,596	22,146

11.1.2 Statement of Financial Position

	Actual 2016-17 ('000)	Pre-Elections Update 2017-18 ('000)	Projected 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)
Assets					
Cash and equivalents	79,828	78,531	62,098	52,307	58,934
Loan reserves	18,904	20,497	20,728	20,353	19,334
Trust accounts	17,178	17,896	18,575	19,267	19,990
Inventory	1,850	1,850	1,850	1,850	1,850
Tax receivables	31,616	23,155	21,121	20,103	19,086
Debtors and other receivables	5,108	5,108	5,108	5,108	5,108
Advances to SOEs	28,375	28,375	28,375	28,375	28,375
Plant, property, and equipment	100,838	114,261	145,883	165,854	168,969
Total Assets	283,696	289,673	303,738	313,217	321,645
Liabilities					
Creditors and other payables	17,392	17,392	17,392	17,392	17,392
Trust liabilities	17,178	17,178	17,178	17,178	17,178
Borrowings	94,244	122,635	136,180	127,946	118,371
Total Liabilities	128,814	157,205	170,750	162,516	152,941
Net Crown Balance	154,882	132,468	132,988	150,701	168,704

11.1.3 Statement of Cash flows

	Actual 2016-17 ('000)	Pre- Elections Update 2017-18 ('000)	Projected 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)
Cashflows from Operating Activities					
<u>Cash provided from:</u>					
Taxation and levies	126,944	132,427	125,764	129,449	135,596
Collection of tax arrears	-1,546	1,679	2,035	1,017	1,017
Sale of goods and services	7,585	6,169	6,169	6,169	6,169
Interest	3,426	2,533	2,455	2,434	2,434
Dividends	382	1,672	1,759	1,885	1,967
Other income	37,306	29,394	14,188	12,188	12,068
	174,096	173,874	152,370	153,142	159,250
<u>Cash applied to:</u>					
Appropriations to agencies (less depn)	95,381	112,668	101,301	100,329	97,889
Payments on behalf of Crown	23,087	25,510	23,931	24,094	24,094
Debt-servicing interest	1,710	2,063	2,060	2,022	2,020
Other expenditure	1,186	7,131	150	150	150
	121,363	147,372	127,442	126,596	124,154
Net Operating Activity Cashflows	52,733	26,503	24,928	26,546	35,096
Cashflows from Investing Activities					
<u>Cash provided from:</u>					
	0	0	0	0	0
<u>Cash applied to:</u>					
Capital expenditure	13,441	26,267	44,573	32,921	16,065
	13,441	26,267	44,573	32,921	16,065
Net Investing Activity Cashflows	-13,441	-26,267	-44,573	-32,921	-16,065
Cashflows from Financing Activities					
<u>Cash provided from:</u>					
Cash drawn into the loan reserves					
Loans drawn down	600	8,592	14,856	8,333	0
Cash drawn from loan reserves	0	0	0	0	0
	600	8,592	14,856	8,333	0
<u>Cash applied to:</u>					
Loan reserves	4,897	9,407	10,964	11,057	11,682
Other reserves	1,228	718	679	692	723
	6,125	10,125	11,643	11,749	12,405
Net Financing Activity Cashflows	-5,526	-1,533	3,212	-3,416	-12,405
Net cash movements	28,740	-1,297	-16,433	-9,790	6,626
Add: Opening Cash and Equivalents	51,087	79,828	78,530	62,098	52,307
Closing Cash and Equivalents	79,828	78,530	62,098	52,307	58,933

11.1.4 Statement of Borrowings

	Actual 2016-17 ('000)	Pre-Elections Update 2017-18 ('000)	Projected 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)
Total Gross Borrowings	94,244	122,635	136,180	127,946	118,371
Assets Held Against Borrowings:					
Advances to subsidiaries	28,375	28,375	28,375	28,375	28,375
Loan reserves	18,904	20,497	20,728	20,353	19,334
Total Assets Held Against Borrowings	47,279	48,872	49,103	48,728	47,709
Net Borrowings of the Government	46,965	73,763	87,077	79,218	70,663

11.1.5 Summary of Revenue Levied on Behalf of the Crown

	Actual 2016-17	Pre-Elections Update 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
	('000)	('000)	('000)	('000)	('000)
Taxation					
Income tax	24,386	26,284	25,220	25,651	28,422
Company tax	16,155	19,629	15,069	16,045	16,814
Import levies	14,335	15,293	13,472	13,120	12,676
Departure tax	10,234	10,822	11,446	11,882	12,855
VAT	58,531	60,278	60,591	61,669	63,746
Withholding tax	1,757	1,800	2,000	2,100	2,100
Total Taxation	125,398	134,106	127,799	130,466	136,613
Other Crown Revenue					
Financial Services Levy	324	262	262	262	262
FSC Return of Excess	-	-	-	-	-
FSC Vested Assets	-	-	-	-	-
Immigration Fees	886	860	860	860	860
IMO Subscription - Maritime Cook Islands	64	156	66	66	66
Court Services	37	50	50	50	50
Instant Fines	67	100	40	40	40
Fishing Licences	16,509	11,505	8,000	6,000	6,000
Fisheries Catch Revenue	-	-	-	-	-
Fisheries - US Treaties (purse seine)	1,548	4,835	1,200	1,200	1,200
Fishing Fines	487	-	-	-	-
Research Fee	2	1	1	1	1
Permits	27	24	24	24	24
Dividends					
Banana Court - dividend	-	8	10	10	10
Bank of the Cook Islands - dividend	183	198	284	410	491
Ports Authority - dividend	-	-	-	-	-
Punanga Nui Market - dividend	-	-	-	-	-
Te Aponga Uira - dividend	35	255	255	255	255
Extraordinary SOE Dividend	0	60	60	60	60
Telecom Cook Islands (Bluesky) - dividend	163	1,150	1,150	1,150	1,150
Numismatics	354	350	400	400	400
Border Management Fees	-	120	120	120	-
Drivers Licences	87	180	100	100	100
Motor Vehicle Registration	888	875	875	875	875
Interest on balances	2,140	1,800	1,740	1,740	1,740
Interest on loans to subsidiaries	1,286	733	715	694	694
Foreign Investment Fees	26	26	26	26	26
Upper Air Management Agreement	545	746	746	746	746
Shipping Registration	61	268	268	268	268
International Shipping Licence	10	10	10	10	10
Liquor Licencing	42	60	60	60	60
Tattslotto Grants	140	120	120	120	120
Censorship Fees	2	4	4	4	4
Circulating Currency - Coins	-	876	876	876	876
Employer Liabilities	-	75	75	75	75
Motor Vehicle Dealers	3	5	5	5	5
Performance Based Budget Support - Core	-	-	-	-	-
Funding	7,730	7,766	-	-	-
Public Sector Strengthening-processes and systems	-	-	-	-	-
Total Other	33,646	33,479	18,402	16,506	16,468
Total Revenue Levied on Behalf of Crown	159,044	167,585	146,200	146,973	153,081

	Actual 2016-17	Pre-Elections Update 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
<i>Performance Based Budget Support – Bonus Payment</i>	1,877	120	-	-	-
<i>Total Revenue Levied on Behalf of Crown – including Bonus Payment</i>	160,921	167,705	146,200	146,973	153,081

11.1.6 Statement of Financial Risks

	('000)
Quantifiable Contingent Liabilities	
Guarantees and indemnities	500
Uncalled capital	1,645
Legal proceedings and disputes	4,356
Total Quantifiable Contingent Liabilities	6,501

The total quantifiable contingent liabilities are estimated at \$6.5 million in 2017/18. This is made up of the guarantees and indemnities outlined below. Possible liabilities stemming from the Outer Island Governments are also discussed.

Guarantees and indemnities relate to the following:

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

Uncalled Capital

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

Total quantifiable risk to the Crown under legal proceedings and disputes is \$4.4 million.

Financial liabilities relating to Island Governments

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

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

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

12 Statement of Accounting Policies

There have been no changes since the Half Year Economic and Fiscal Update 2016/17. There are no major changes to accounting policies anticipated in the foreseeable future.

12.1 Basis of Preparation

12.1.1 Reporting Entity

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

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

A schedule of the entities included in these financial statements is detailed on page 64.

12.1.2 Statement of Compliance

These financial statements in Chapter 11 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).

12.1.3 Measurement Base

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

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

12.2 Significant Accounting Policies

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

Recent Standards

Of significant relevance to the Crown is the recent development of new standards at the IPSASB. These include:

<u>STANDARDS</u>	<u>EFFECTIVE DATE</u>
IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013
IPSAS 29 Financial Instruments: Presentation	1/01/2011
IPSAS 30 Financial Instruments: Disclosure	1/01/2013

These new standards have been issued but are not yet effective for the consolidated Crown accounts as the preparation of the 30 June 2013 accounts are currently in progress – the 30 June 2012 consolidated accounts were completed and audited on 29 April 2015. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

12.2.1 Basis of Consolidation

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

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

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

12.2.2 Associate

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

12.2.3 Revenue

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

Revenue Levied through the Crown's Sovereign Power

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

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

12.2.4 Revenue Earned Through Operations

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

Fines

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

Investment Income

Investment income is recognised in the period in which it is earned.

Gains

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

Dividends

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

Aid Revenue

Revenue is recognised when donor funds are expensed on approved projects.

12.2.5 Expenses

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

Welfare Benefits

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

Grants and Subsidies

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

Losses

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

Foreign Currencies

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

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

Aid Expenses

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

Depreciation

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

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

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and Equipment	5 – 15 years
Buildings and improvements	10 years
Coastal protection	25 years
Power distribution network	20 years
Roading network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years

12.2.6 Non-Current Assets

Plant, Property, and Equipment

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

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

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

Disposals

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

Additions

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

Work in Progress

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

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

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

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

Infrastructure assets include: roading networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures and waste management and airport assets.

IPSAS 17 allows a choice of accounting model for an entire class of property, plant and equipment. The Crown has changed the accounting policy from the cost to revaluation model for the following classes of assets:

- Power network
- Harbours & ports
- Airports

These assets are now carried at re-valued amounts which are the fair value at revaluation date less subsequent depreciation and impairment losses.

When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

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

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

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

Intangible assets might include: databases, software purchased, or software developed.

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

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

Software, databases: 3 - 5 years

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

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

Inventories

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

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

Investments

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

Banking portfolio investments

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

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

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

Aid Assets

Donor funds are deposited into bank accounts until expensed on approved assets.

12.2.7 Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

Pension Liabilities

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

Employee Entitlements

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

Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed.

Aid Liabilities

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

12.2.8 Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown. Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

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

12.2.9 Leases

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

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease.

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

12.2.10 Commitments

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

12.2.11 Contingent Liabilities

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