COOK ISLANDS GOVERNMENT

2018/19 Half-year Economic and Fiscal Update

Hon. Mark Brown

Minister of Finance

4 December 2018

Disclaimer

The 2017/18 actual expenditure and revenue data will differ from the June 2018 Quarterly Financial Report due to the accrual accounting system used by the Cook Islands Government. The data presented in the 2018/19 HYEFU are a more accurate reflection of actual expenditure and revenues in 2017/18.

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4th December 2018

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2018/19 Half-year Economic and Fiscal Update (HYEFU).

To enable the Ministry of Finance and Economic Management to prepare the 2018/19 HYEFU, I have ensured that the Financial Secretary has been advised of all Government decisions and other circumstances as at December 2018 of which I was aware and had material economic and fiscal implications.

The 2018/19 HYEFU has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995-96*.

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

Kia Manuia,

Honourable Mark Brown
Minister of Finance

MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
GOVERNMENT OF THE COOK ISLANDS

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4th December 2018

STATEMENT OF RESPONSIBILITY

This Half Year Economic and Fiscal Update (HYEFU) 2018/19 is prepared in accordance with Section 11 and 16 of the *Ministry of Finance and Economic Management Act 1995-96*. Section 16 further states that the Minister shall no earlier than the 1st day of December, nor later than the 31st day of December in each financial year, cause to be published a report containing an economic and fiscal update prepared by the Ministry.

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

The integrity of the disclosures and consistency with the requirements of the *Ministry of Finance and Economic Management Act 1995-96* are warranted in relation to the financial statements included within the 2018/19 HYEFU.

The update incorporates the fiscal and economic implications both of Government decisions and circumstances as at December 2018 that were communicated to me, and of other economic and fiscal information available to the Ministry in accordance with the provisions of the *Ministry of Finance and Economic Management Act 1995-96.*

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

Kia Manuia,

Garth Henderson
Financial Secretary

1 Medium-term Fiscal Strategy 2019/20 – 22/23

1.1 Summary

This chapter presents the Cook Island Government's Medium-term Fiscal Strategy (MTFS) for the period 2019/20 to 2022/23. This also serves as the 2019/20 Budget Policy Statement.

The MTFS forms the base of the Cook Islands Fiscal Framework 2019–2023 and will be built upon with the development of the Medium-term Budget during 2019. The MTFS has been developed with the aim of smoothing Government expenditure over the course of the economic cycle. It outlines the Government's fiscal commitments over the medium-term, including the fiscal rules that the Government will aim to achieve, economic forecasts and in turn, the expenditure profile.

The Government's medium-term fiscal strategy is to deliver fiscally sustainable budgets. To achieve this the Government commits to:

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

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

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

The Government has revised its Fiscal Responsibility Ratios (FRRs) within the MTFS. The new fiscal rules that Government commits to are as follows:

- Net debt rule: net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP.
- Fiscal balance rule: the fiscal balance cannot exceed a deficit of 1.9 per cent of GDP.
- Expenditure rule: budgeted expenditure cannot grow by more than 4 per cent year-on-year.
- Cash reserves rule: the equivalent of 3 months of operating expenditure must be held in cash at any one time.

To accompany the fiscal rules, and to provide greater guidance to the Ministry of Finance and Economic Management (MFEM) in the development of medium-term expenditure ceilings, a number of internal operational guides have also been developed which are outlined in this document.

With a view to improving the fiscal resilience of the Cook Islands against economic shocks and natural disasters, and collecting revenues from seabed minerals harvesting for future generations, two reserve funds are being established in the MTFS.

The first is a Stabilisation Account. This account will hold excess cash and will be used to make additional debt repayments in periods of strong economic growth, and to cover operational and capital expenditure during periods of economic contractions. The second is a Sovereign Wealth Fund, which will capture the revenues expected in the future from seabed minerals harvesting for use by future generations.

The Government is committed to the expenditure profile set out in Table 1.1 over the medium-term, with the fiscal space indicating the amount of additional expenditure that the Government can undertake in each year.

Table 1.1: Fiscal space and total expenditure

$ million	2019/20	2020/21	2021/22	2022/23
Total expenditure	206.3	204.8	205.2	205.2
Fiscal space	8	23	40	40

This expenditure profile has been derived from the fiscal rules and internal operating guides, and as such, meets all the requirements of the fiscal rules. The profile will guide the development of a medium-term budget that considers the economic and fiscal context as forecast by the Ministry of Finance and Economic Management (MFEM).

1.2 Introduction and context

1.2.1 Current fiscal strategy

Fiscal policy is the Cook Islands Government's primary lever to influence economic growth and development due to the adoption of the New Zealand dollar as its currency, which rules out monetary policy options.

The Government's fiscal strategy – with its two main tools of taxes and government expenditure – therefore plays a key role in the sustainable economic management of the Cook Islands, while at the same time being the primary tool for achieving the national sustainable development plan.

The current fiscal strategy, to be replaced by the MTFS, is guided by the fiscal responsibility provisions in Part III of the *Ministry of Finance and Economic Management Act 1995-96* (MFEM Act), and a number of supporting fiscal responsibility ratios (FRRs) – or fiscal rules – arising out of the 1998 Manila Agreement with the Asian Development Bank and subsequent reviews. The FRRs establish the key parameters for fiscal management and ongoing budget development:

- Net operating balance > 0 (in surplus) – this target ensures that the Government is able to afford the operational expenditure required to perform the functions of Government from its own revenue streams.
- Fiscal balance +/- 2 per cent of Gross Domestic Product (GDP) – this target ensures that Government does not over extend itself financially. If the fiscal balance is in deficit this must be financed through lending or the use of cash reserves.
- Debt servicing < 5 per cent of revenue – ensures the ability of Government to service its debt obligations from revenue collected.
- Net debt < 35 per cent of GDP – ensures the level of debt relative to national income, controls the overall level of debt taken on by Government.
- Cash reserves > 3 months of operating expenditure – ensures that cash is available to act as a buffer in the case of a liquidity shortage or a natural disaster that impacts the collection of revenue.

- Tax revenue < 25 per cent of GDP – ensures Government limits the diversion of resources away from the private sector.
- Personnel expenditure < 40 per cent of revenue – controls the expansion in the size of the public sector.

While the FRRs are used to guide budget appropriations for the current budget year and three forward years, a clear expenditure profile and list of fiscal aims has not previously been outlined at the beginning of the budget process, which has served to decrease the application of the FRRs and the quality of medium-term fiscal planning.

In addition, the design of the current fiscal strategy and the FRRs have the potential to encourage Government expenditure to be pro-cyclical, that is, when the economy is growing strongly, the Government receives strong revenues and spends these, which further increases economic growth. Evidence suggests that over the long-term this can raise macroeconomic volatility, depress investment in real and human capital, hamper growth and harm those on low incomes.[1]

This pro-cyclical characteristic is especially relevant at the moment as preliminary business cycle analysis by MFEM indicates that the Cook Islands is currently facing a positive output gap.[2] A formal review of the current fiscal responsibility ratios has been undertaken and can be found in Appendix 1 of the *Cook Islands Medium-term Fiscal Strategy 2019/20–22/23*.[3]

1.3 The Cook Islands Fiscal Framework 2019/20–22/23

1.3.1 Objectives

The Cook Islands Fiscal Framework 2019/20–22/23 (the Framework) is a new fiscal planning and budget process that has been developed by MFEM. The Framework will allow Government to strengthen the strategic focus of its expenditure and tax decisions by incorporating a more robust medium-term perspective that takes into account interactions with the economy. More specifically, this Framework has been established to achieve the following outcomes:

- improve long-term fiscal sustainability; and
- improve medium-term fiscal planning nationally, and within each agency.

Guided by the outcomes, the MTFS forms the base of the Framework by providing the fiscal structure to be utilised over the four forward years. This is supplemented by the development of Medium-term Expenditure Ceilings (MTEC) which will guide the 2019/20 medium-term budget.

[1] IMF (2016), Procyclical Fiscal Policy: Shocks, Rules and Institutions – A View from Mars, available at: https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Procyclical-Fiscal-Policy-Shocks-Rules-and-Institutions-A-View-From-Mars-18789.
[2] For more information, see Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2, available at: http://www.mfem.gov.ck/economics.
[3] Available at: http://www.mfem.gov.ck/economics.

1.3.2 The outcomes of the Medium-term Fiscal Strategy

The MTFS aims to foster long-term growth by smoothing Government expenditure over the course of the economic cycle. This will help deliver macroeconomic stability, encourage private investment and entrench low public debt.

The specific outcomes of the MTFS are:

- fiscal sustainability through responsible fiscal management and debt sustainability; and
- improved linkages between fiscal policy and economic conditions.

The MTFS, together with the MTEC, will provide agencies with an indication of the funds available to them for the coming budget year, and the following three years. It is intended that this will improve linkages between national priorities and agency budgets, and improve agencies' ability to undertake planning by providing greater autonomy and certainty.

1.4 The Medium-term Fiscal Strategy

The Government's Medium-term Fiscal Strategy is to deliver fiscally sustainable budgets. To achieve this the Government commits to:

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

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

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

The Government commits to achieving balanced budgets as of the 2019/20 Budget, with a fiscal surplus to be achieved from 2020/21 onwards. This will be maintained while real economic growth remains above 2 per cent.

1.5 Fiscal rules

1.5.1 Introduction

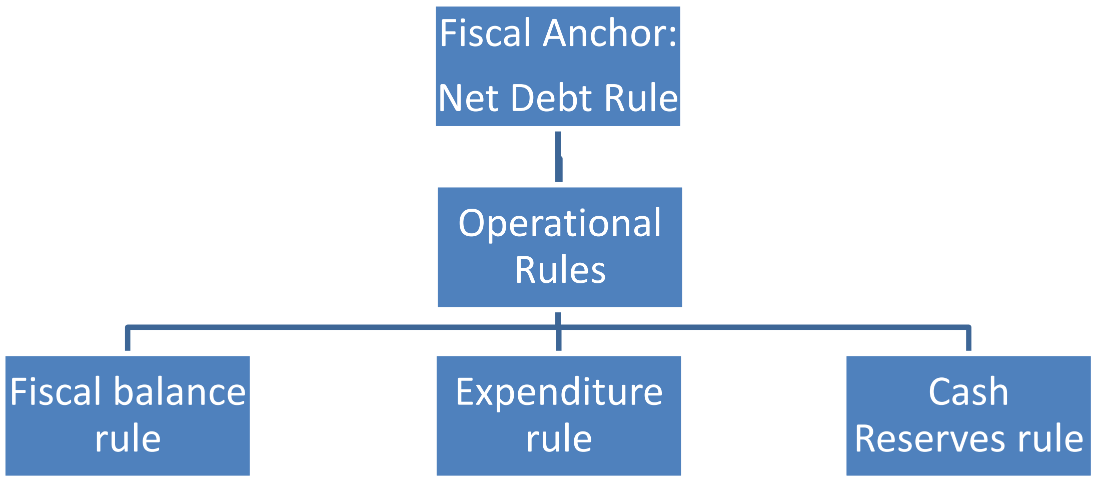
Fiscal rules have been developed as benchmarks for the Government in its aim of achieving fiscally sustainable budgets. In forming the rules, guidance on the criteria for rule development from the IMF has been considered as follows:[4]

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

Too many rules can complicate fiscal policymaking and result in overlap and inconsistency of targets. As such, selected rules need to minimise the trade-off between the above criteria.[5]

Based on these criteria, the rule structure set out in Figure 1.1 has been adopted.

Figure 1.1: MTFS rule structure



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

[5] Ibid.

The new fiscal rules are structured around the fiscal anchor which is linked to the final objective of the fiscal strategy, fiscal sustainability. This rule is used to guide the development of three operational targets. The Government agrees to adhere to the fiscal anchor and the operational rules over the medium-term. These will be frequently measured and published in both the Budget releases and the Quarterly Financial Reports released by MFEM.

Internal guides have also been developed to support the application of the rules (see Section 5). These are not binding and will not be published, however they will be used by MFEM to develop the aggregate expenditure ceiling and the MTEC.

The fiscal rules have been developed using guidance from the IMF.[6] For an explanation on the development of the fiscal rules, including formulae, see the MTFS technical paper – *Fiscal Tool 2018: Explanatory note* (Technical Paper), which is available on the MFEM website.[7]

1.5.2 Fiscal anchor

Net debt rule: *"Net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP".*

The net debt rule has been selected as the fiscal anchor due to its ability to achieve the objective of fiscal sustainability, by providing an upper limit for fiscal slippages.

The fiscal anchor comprised of a soft and hard net debt target. In the Cook Islands context, net debt is defined as gross debt less funds held in the Loan Repayment Fund. The hard target of 35 per cent of GDP has been maintained to provide a buffer for the soft target of 30 per cent, allowing space for exchange rate shocks or natural disasters. The soft net debt target of 30 per cent of GDP has been used to develop the operational targets. This is based on evidence which suggests that debt levels greater than 30 per cent of GDP have a negative impact on economic growth in countries in the Asia-Pacific.[8]

1.5.3 Operational rules

Three operational rules have been selected to meet the objectives of the Medium-term Fiscal Strategy:

- Fiscal balance rule: the fiscal balance cannot exceed a deficit of 1.9 per cent of GDP.
- Expenditure rule: budgeted expenditure cannot grow by more than 4 per cent year-on-year.
- Cash rule: the equivalent of 3 months of operating expenditure must be held in cash at any one time.

These rules have been calibrated according to guidelines provided in IMF (2018b)[9].

[6] IMF, 2018b. Fiscal policy: How to calibrate fiscal rules – A Primer. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.
[7] www.mfem.gov.ck/economics.
[8] IMF, 2015. Strengthening Fiscal Frameworks and Improving the Spending Mix in Small States. Asia and Pacific Department, International Monetary Fund, Washington D.C., June 2015: p.5.
[9] IMF, 2018b. Fiscal policy: How to calibrate fiscal rules – A Primer. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.

Fiscal balance rule

The fiscal balance rule states that the fiscal balance cannot exceed a deficit of 1.9 per cent of GDP in any one year.

This is a nominal budget balance rule and imposes a limit on the headline fiscal balance. Nominal budget balance rules can be very effective in preserving debt sustainability by constraining overall expenditure in each year. However, as they are not adjusted for the economic cycle, they are limited in their ability to foster macroeconomic stabilisation.[10] To address this short-coming an accompanying internal operational guide has been developed to account for the economic cycle.

The fiscal balance rule is calculated so that if the Government repeatedly operated at a deficit of 1.9 per cent of GDP, over the long-term it would reach the net debt rule of 30 per cent of GDP. To avoid reaching the net debt rule, Government will aim to achieve surpluses during periods of economic growth, to allow space for borrowing in periods of economic downturn. For further information on the calibration of this rule see the Technical Paper.

Expenditure rule

The expenditure rule states that ‘growth of total Cook Islands Government expenditure cannot exceed 4 per cent year-on-year’. The 4 per cent is to be applied to total expenditure (operating and capital) appropriated in the prior year. The 2018/19 Budget total expenditure appropriation is $207.7 million, therefore the maximum total expenditure in 2019/20 will be $216 million.

The expenditure rule is equivalent to the Cook Islands’ long-run growth rate of potential GDP. This is based on the assumption that the 2018/19 Budget Appropriation is generally in line with the structural balance rule and that once in this situation, nominal expenditure should grow at the same pace as nominal potential GDP.[11]

Cash reserves rule

The cash reserves rule has not been amended nor calibrated according to the fiscal anchor and will remain at a requirement of 3 months of operating expenditure. This rule ensures quick and easy access to funds in the case of an economic shock or natural disaster, thus reinforcing the objective of fiscal sustainability.

Exit clause

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

Prudency

The Government’s aim in the development of the fiscal rules is to ensure fiscal prudency. As such, in determining the rules, rounding has been applied to ensure that prudency is reinforced. For example, in the case of the expenditure ratio this has been rounded down from 43 to 40 per cent of GDP.

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

[11] IMF, 2018b. Fiscal policy: How to calibrate fiscal rules – A Primer. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.

1.6 Internal operational guides

1.6.1 Introduction

Internal operational guides have been developed to assist MFEM in developing the MTEC and the medium-term budget.

The guides will not be publicly reported to avoid further complicating the fiscal framework, however they will be computed by MFEM on a frequent basis and will be reported to Cabinet when finalising the Budget.

The guidelines are:

- Personnel expenditure should not exceed 40 per cent of total government revenue.
- Requirement to spend cash – expenditure on new projects should only be made from cash (i.e. not debt) where this expenditure does not cause cash levels to fall below three months of operating expenditure.
- The Government will aim to achieve a cyclically adjusted balance in each year.
- Any cash in excess of four months of operating expenditure will be moved to the Stabilisation Account at the beginning of each financial year.

1.6.2 Operational guides

Personnel ratio

The personnel ratio has been moved from the FRRs to the internal operational guides to help prevent excessive growth in the public service, while providing flexibility in the case where the rule is breached in the short-term.

Requirement to spend cash

This rule aims to prevent new debt commitments where the Government has sufficient cash to fund the relevant expenditure. If new expenditure does not result in cash falling below the cash reserves rule of 3 months of operating expenditure, cash must be used as opposed to debt. If new expenditure would push cash levels below three months of operating expenditure, new debt can be entered into.

Cyclically-adjusted balance

This guide encourages the use of the cyclically-adjusted balance as a benchmark when developing the total expenditure ceiling. The use of the cyclically-adjusted balance aims to encourage better economic stabilisation by disconnecting spending from cyclical revenues and allowing governments to maintain expenditure during downturns.[12]

To achieve better linkages between fiscal policy and the economic context, the cyclically-adjusted balance has been calculated for each year over the medium-term. The resulting 'fiscal space' or gap between the current expenditure profile and the cyclically-adjusted balance has been used to guide the development of the expenditure profile.

[12] IMF, 2018b. Fiscal policy: How to calibrate fiscal rules – A Primer. Fiscal Affairs Department, International Monetary Fund, Washington D.C., March 2018.

Stabilisation Account

This internal operational guide requires that any cash in excess of four months of operating expenditure held as unencumbered cash at the end of the financial year is automatically transferred to the Stabilisation Account at the beginning of the following financial year.

This ensures that excess funds are frequently added to the Account and invested at higher rates of return to be used to encourage economic stabilisation, and not sitting idle in Government reserves. Further detail on the operations of the Stabilisation Account are provided below.

1.7 Establishment of reserve funds

1.7.1 Introduction

MFEM will establish two reserve funds to assist in achieving the objectives of the MTFS. The two Funds will have different aims and rules guiding the collection of contributions and their draw-downs, as outlined below.

1.7.2 Stabilisation Account

The aim of the Stabilisation Account is to ensure fiscal sustainability over the medium-term. The Account will hold surplus funds from operating expenditure in periods of economic growth, which will be used to fund government operations and investment in periods of economic contraction.

Once a minimum balance, which will initially be set at $25 million, has been reached in the Account, the funds can be used to make additional repayments on current debt during periods of real economic growth greater than 4 per cent per year the funds can be used to make additional repayments on current debt. The decision to make additional repayments, as opposed to maintaining funds in the Stabilisation Account will be guided by a Debt Management Strategy to be developed in 2019.

During periods of real economic contraction, defined as growth less than 1 per cent per year, funds can be drawn from the Stabilisation Account to fund government operations and investment, however the use of the funds must not breach of the fiscal rules as outlined in Section 1.5.

1.7.3 Sovereign Wealth Fund

A Sovereign Wealth Fund (SWF) will be established in 2019/20 with the aim of ensuring that benefits from seabed minerals harvesting are kept for future generations.[13]

Revenues from seabed harvesting will be deposited into the SWF and funds only drawn down on once a minimum balance has been reached. Once this minimum has been achieved, a portion of the interest received will be paid to Government on an annual basis, as a form of income to fund future expenditure. A policy outlining the purpose and structure of the SWF will be developed in 2019/20 and publicly consulted on prior to the drafting of relevant legislation.

[13] Exploration of the seabed for minerals harvesting is expected to commence in 2019. If successful, exploitation could commence within five years of the commencement of exploration, providing significant revenue opportunities for the Government.

1.8 MTFS economic and fiscal forecasts

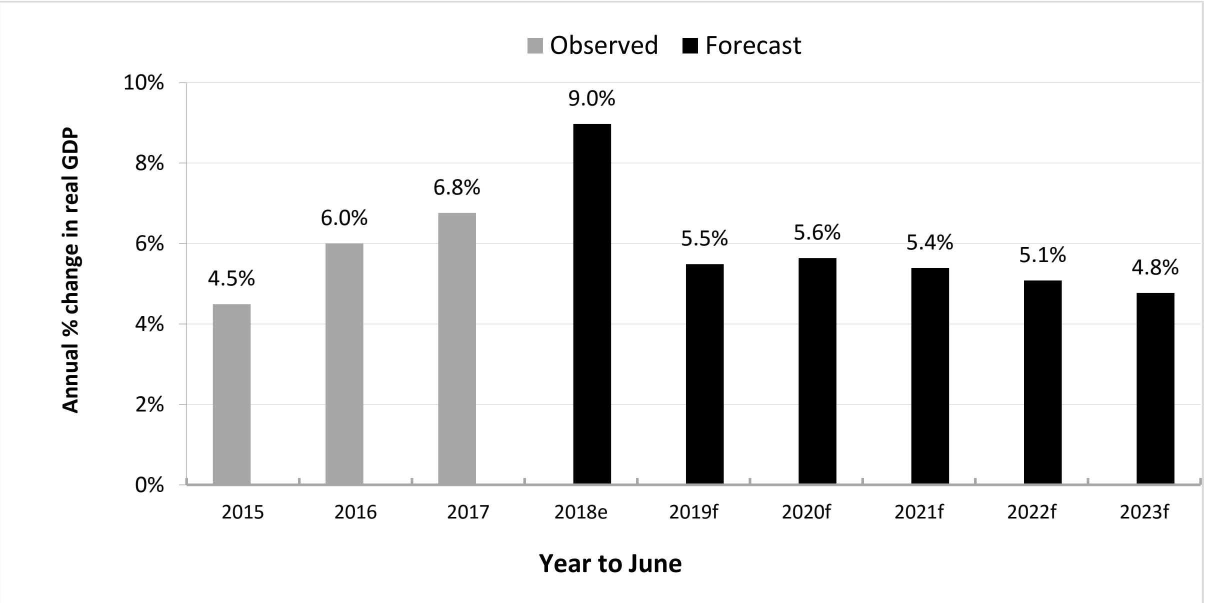
1.8.1 Economic growth

Economic growth is forecast to be strong over the medium-term, following estimated real GDP growth of 9 per cent in 2017/18. Strong economic growth in recent years has resulted in the Cook Islands experiencing a positive output gap, that is, economic growth is currently larger than potential economic growth (or the level of growth above which inflation will be experienced). The result is that the Cook Islands economy is experiencing capacity constraints in many areas including labour and skills shortages and accommodation shortages.

Due to capacity constraints, growth is expected to decrease to an average of 5.4 per cent over the forward estimates as the constraints place additional pressure on prices and limit the economy's ability to experience the high growth rates of recent years.

Both historical and forecast economic growth have been revised upwards in the MTFS as compared to the 2018/19 Budget. This upward adjustment is largely due to a revision in officially released historical data from the National Statistics Office, both due to a re-basing of the constant price GDP series and a change in methodology.

Figure 1.2: Forecast real GDP growth



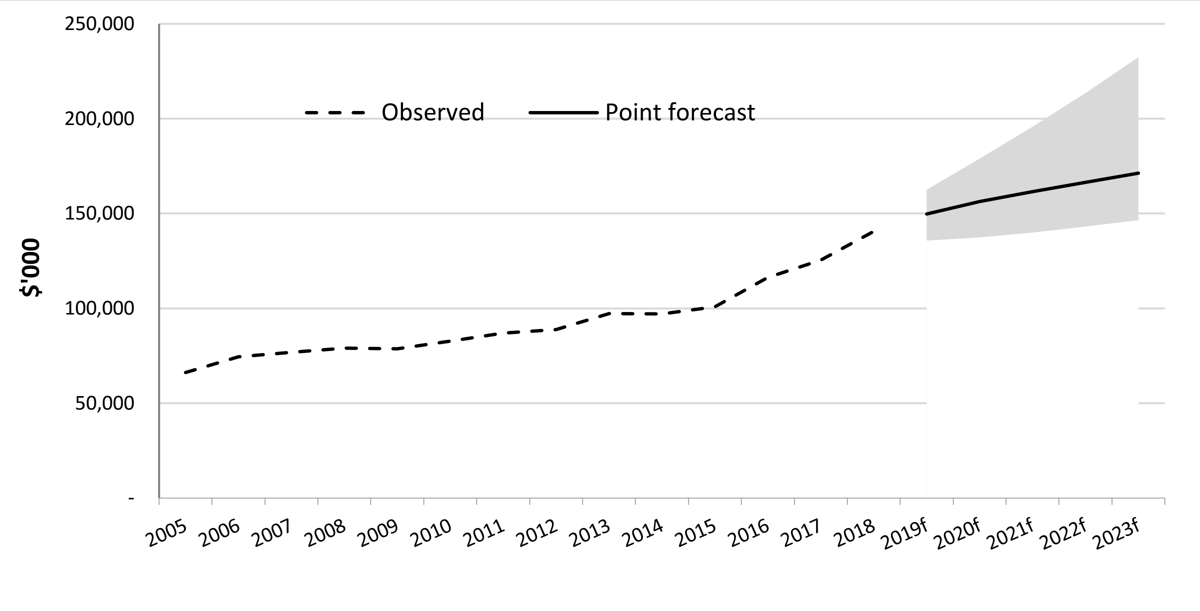
1.8.2 Revenue

Revenue forecasts for 2019/20 and the forward years remain consistent with those published in the 2018/19 Budget, despite economic growth being revised upwards, for two reasons:

- Revenue forecasts undertaken during the budget process were solely based on historical revenue, using univariate techniques, without direct consideration of the forecast levels of economic growth.
- Revenue to date in 2018/19 is in line with forecasts.

Forecasts are for tax revenue to remain strong over the forward estimates, averaging around 4 per cent growth over the coming four years.

Figure 1.3: Tax revenue projections



The MTFS does not propose any changes to revenue policy. A review of the Government's taxation structure is intended to be undertaken during the 2019/20 year. In the meantime, the Government is committed to increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.

A key aspect of this commitment is to increase the Revenue Management Division's ability to collect outstanding taxes and to enforce current legislation, for example by targeting non-conformers.

1.8.3 Expenditure

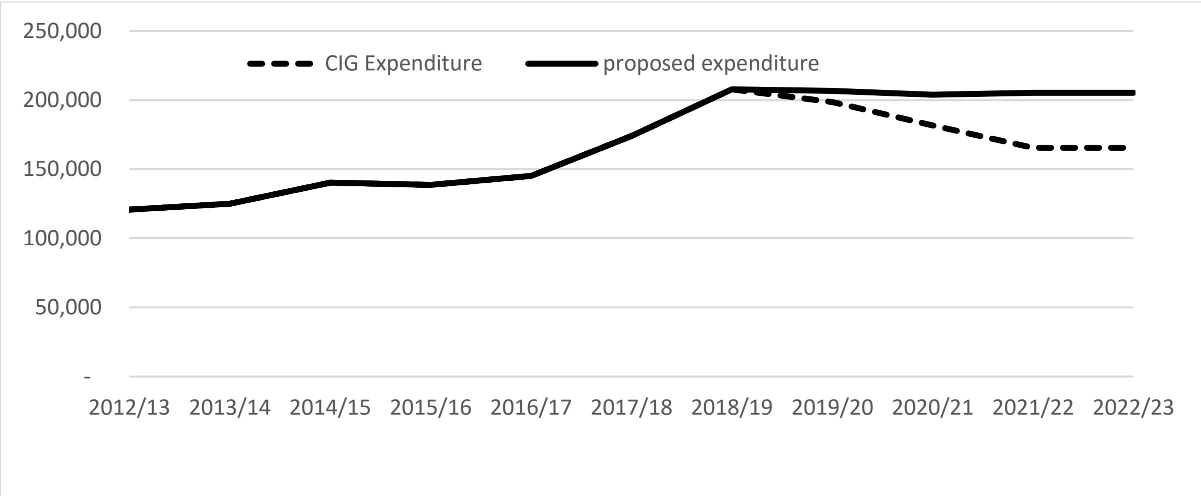
Based on forecast economic growth, revenues and the new fiscal rules the Government agrees to the expenditure profile set out in Table 1.2.

Table 1.2: Government's expenditure profile 2019/20 – 2022/23

$ million	2019/20	2020/21	2021/22	2022/23
Total expenditure	206.3	204.8	205.2	205.2
Fiscal space	8	23	40	40

The expenditure profile allows for fiscal space (or new spending) in each of the forward years, largely because of the decrease in capital and operating expenditure currently appropriated in the forward years. The changes to the expenditure profile as a result of the MTFS can be seen in Figure 1.4.

Figure 1.4: MTFS expenditure profile against the 2018/19 budget profile



The MTFS expenditure profile fits well within the rules committed to by the Government. The focus of Government expenditure in the coming four years is:

- investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change; and
- investing in the capabilities of Government Agencies to ensure that they are operating effectively and efficiently.

Government will be investing in infrastructure that encourages sustainable economic growth. This is largely due to the emergence of capacity constraints within the economy which have been exacerbated by strong growth in tourism arrivals. The Government is now focused on developing infrastructure that meets the level of demand that is being placed on it by the increased population.

Furthermore, to ensure that Government Agencies have the ability to manage and undertake large infrastructure projects, and meet increasing demands in other sectors of the economy, Government will re-assess baseline funding to agencies to ensure that sufficient resources are provided to allow agencies to perform effectively and efficiently. Achieving these expenditure commitments will be guided by the Medium-term National Priorities as outlined in Section 1.9.

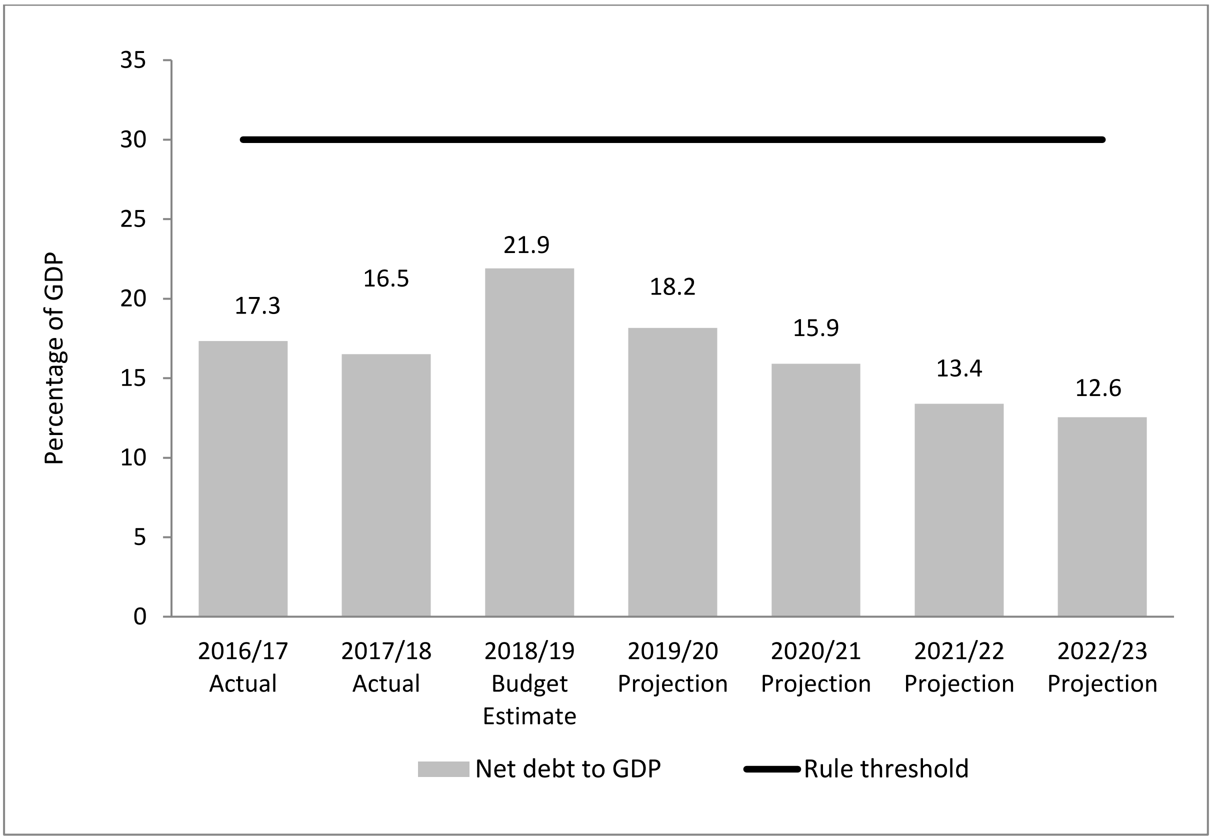
1.8.4 Impact of the expenditure profile on revenue and economic output

The economic and tax revenue forecasts for the 2018/19 Budget assumed steady Government expenditure over the forward estimates, as opposed to the official declining expenditure profile published in the 2018/19 Budget. That is, an expenditure profile along the lines of that outlined above for the MTFS underlies both the economic and tax revenue forecasts. As such, MFEM has undertaken preliminary analysis of the impact of not adopting the new expenditure profile on both the economic and revenue forecasts. In 2021/22, the economic output would fall by about 5 per cent or $34 million, while tax revenue would fall by about $9 million.

1.8.5 MTFS net debt rule

The new expenditure profile does not require any new debt to be entered into, as such there is no change to the net debt profile as seen in Figure 1.5. Net debt is expected to decrease to just under 13 per cent of GDP by 2022/23.

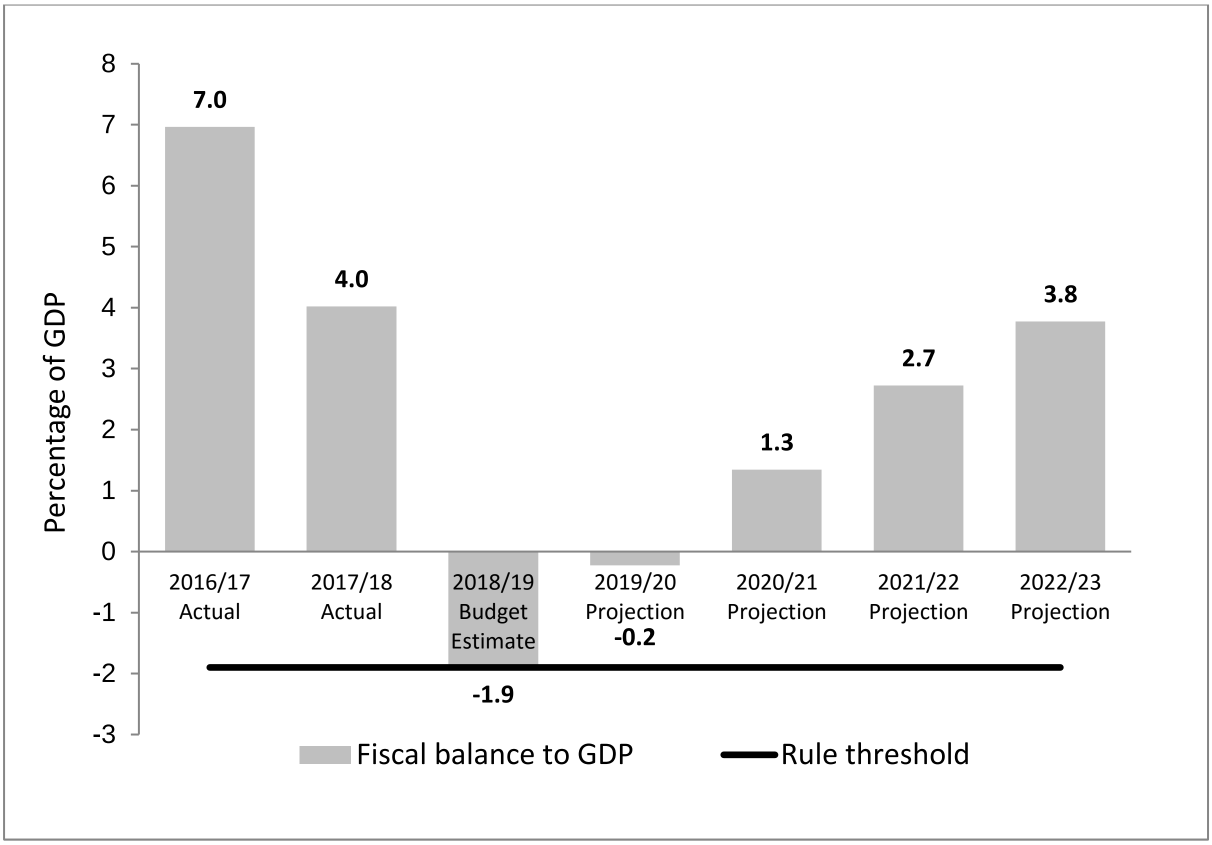
Figure 1.5: Net debt projections



1.8.6 MTFS fiscal balance rule

The MTFS also results in the adherence to the fiscal balance rule as seen in Figure 1.6. New expenditure of $8 million will result in a fiscal deficit of 0.2 per cent of GDP in 2019/20, before increasing to a surplus of 1.4 per cent in 2020/21.

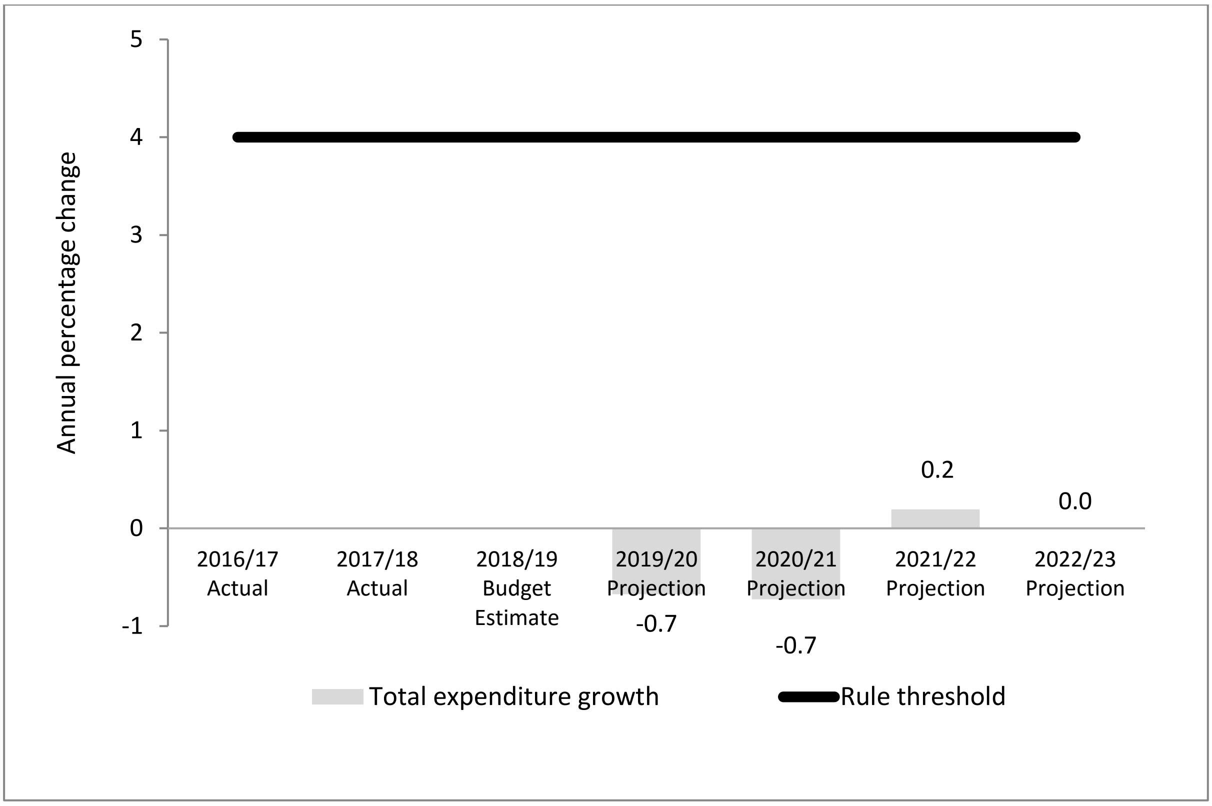
Figure 1.6: Fiscal balance projections



1.8.7 MTFS expenditure rule

The MTFS expenditure profile is well within the expenditure rule as seen in Figure 1.7. In accordance with the cyclically-adjusted balance, the expenditure profile has been designed to provide additional expenditure space in each year, while delivering a total profile that is slightly lower than the peak in 2018/19. This acknowledges the strong economic growth that the Cook Islands is now experiencing and the need to constrain expenditure growth to prevent further pressure being placed on the economy.

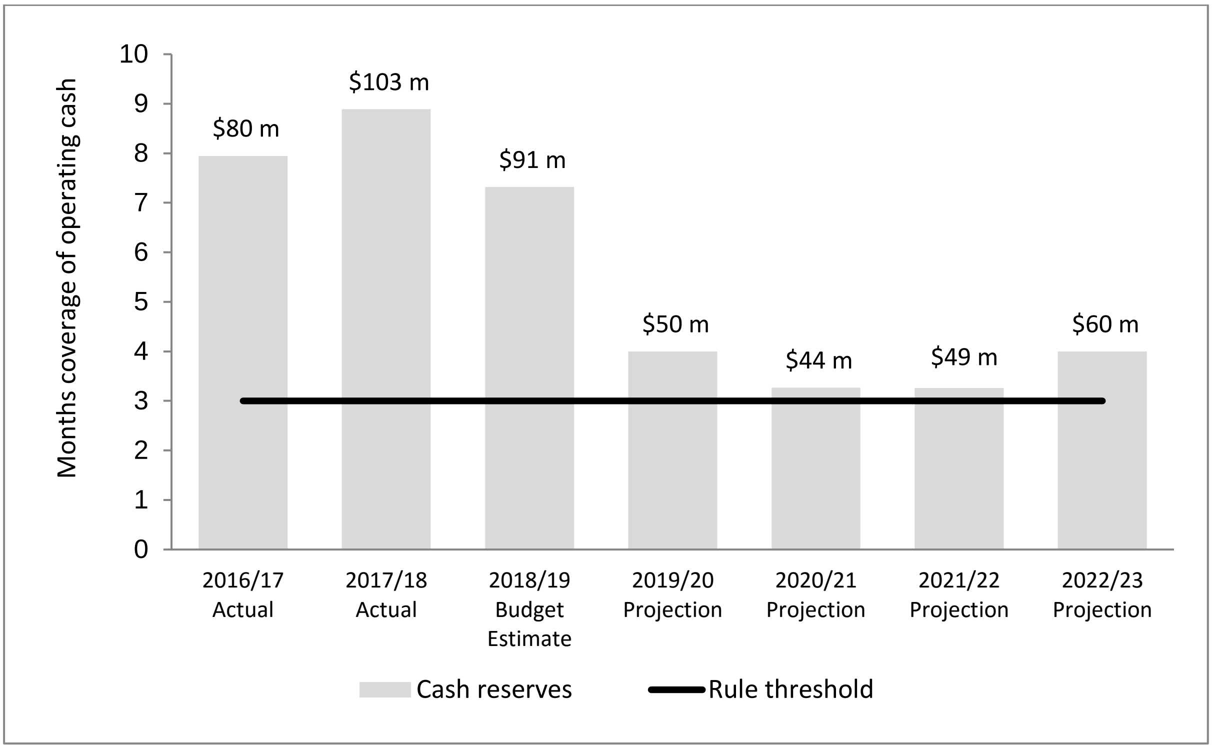
Figure 1.7: Expenditure growth projections



1.8.8 MTFS cash reserves rule

The MTFS results in stronger cash management from Government, with cash expected to remain just above the requirement over the forward years. In 2019/20 it is anticipated that approximately $27 million will be moved from the cash reserves into the Stabilisation Account, resulting in the large decrease in cash reserves seen in Figure 1.8. Following that cash is expected to remain stable, with revenues generally in line with expenditure in 2021/22 and 2022/23.

Figure 1.8: Cash reserves projections



1.9 Medium-term National Priorities

To improve the alignment between fiscal planning and the achievement of national priorities, the MTFS incorporates the Medium-term National Priorities. This not only provides further information on the Government's intentions over the medium-term, but will help to guide the development of the MTEC.

Government is committed to resolving the significant long-term challenges facing the country, including sustainable economic development, a healthy and educated population, a healthy environment, a fair society and good governance. It is committed to reducing inequality and improving the wellbeing of all Cook Islanders.

To assist this, Government agencies will work towards sector driven collaboration and planning, particularly to tackle cross cutting challenges such as connectivity, transport, data and statistical information, ICT, Information Systems, Governance (proper management of people, infrastructure, natural resources and absorptive capacity), health and education. Inclusion of the Pa Enua in tackling cross cutting challenges is crucial for sustainable development to be effective and ensuring that "no one in the tribe" is left behind.

The 2019/20 Budget is the first year of implementation of the Medium Term Goal Priorities (2019/20 to 2022/23) set in the context of the National Sustainable Development Plan 2016–2020. The newly refined priorities were formulated after evidence from the past two NSDP Indicator Reports and Cabinet considerations suggested that the previous priorities needed to be amended going forward to reflect the evidence base. These priorities are expected to continue to guide the Government's identification of priority programs over the medium-term. The goal priorities for the next four years are outlined in Figure 1.9. The realisation of the priority goals will also have positive impacts on other NSDP goals.

Figure 1.9: Medium-term Goal Priorities

2019/20	2020/21	2021/22	2022/23
Goal 9: Gender & the Vulnerable	**Goal 8:** Education	**Goal 3:** Waste Management	**Goal 1:** Welfare & Equity
Goal 16: Good Governance, Law & Order		**Goal 6:** Transport & Energy	**Goal 2:** Economic Opportunities
Goal 7: Health		**Goal 12:** Ocean Lagoon and Marine Resources	**Goal 15:** Population
Goal 13: Resilience and Climate Change			
Goal 11: Environment & Biodiversity	**Goal 10:** Agriculture & Food Security	**Goal 14:** Culture	**Goal 7:** Health
Goal 5: Infrastructure & ICT			
Goal 4: Water & Sanitation			**Goal 8:** Education

The Medium-term National Priorities and the medium-term expenditure profile will together guide the development of the MTEC for each Government agency. As a result, the 2019/20 Budget will outline a clear path towards the achievement of the NSDP goals over the medium-term.

1.10 Fiscal risks

1.10.1 Introduction

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

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including explicit and implicit liabilities.[14]

The broader risk matters facing the Cook Islands are discussed in Chapter 3. The focus of this section is on the key risks to the Government's MTFS and their likely impacts.

1.10.2 Sources of risk

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

Global economic risks

Should the current trade war escalate and cause a global economic downturn, or there is an economic recession in one of the Cook Islands main tourism markets, such as New Zealand, this could reduce the visitor arrivals assumptions that underpin the positive GDP forecasts over the forward budget period. Fewer tourists could impact on the Government's fiscal position by reducing expected tax revenue – for example, less VAT being collected than forecast.

The risk of the US dollar continuing to appreciate, should the Federal Reserve raise US interest rates further, could impact on inflation in the Cook Islands through increased costs of imports. An oil price shock would have a similar effect on inflation.

Exchange rate variations can also impact on the Cook Islands debt portfolio as a number of loans are denominated in US dollars and other international currencies. The IMF notes that the impact of exchange rate depreciations is immediate, and can be especially strong when a large share of the debt is in foreign currency. The potential impact of exchange rate movements on the Cook Islands debt position is assessed in Chapter 3.

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

Domestic capacity risks

Preliminary analysis suggests that the Cook Islands economy is currently performing above its potential capacity – that is we are facing a positive output gap. There are already signs of capacity constraints appearing in the labour and housing markets. Should these constraints tighten over the forward period, thanks to higher than expected tourist arrivals, for example, and in turn an increase in tourism accommodation construction, this could impact on the economic forecasts by constraining the Government's ability to execute its capital program due to the lack of skilled construction labour.

Natural disasters

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

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

To mitigate the economic risk posed by natural disasters, the Government has put in place a range of structures to reduce its financial exposure to disaster risk. More detail on the Government's approach to dealing with disaster risk financing is provided in Section 1.11.

1.10.3 Assessing the impact of fiscal and macroeconomic shocks

Introduction

The Cook Islands Government has developed an analytical fiscal tool – the Cook Islands Fiscal Tool 2018 – to first calibrate, and then operationalise the revised set of fiscal rules that form the core of the MTFS.

The fiscal tool, which is described in detail in the Technical Paper, comprises a number of interrelated elements:

- the Calibration Model;
- the Fiscal & Macro Impact Model:
    - fiscal and macro shocks;
    - fiscal multiplier model; and
    - tax impact.

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

The model provides for three types of shock:

- Fiscal – change in operating expenditure, capital expenditure and/ or revenue;
- GDP – models the impact of a direct change in GDP;

- Arrivals – models the impact of a change in the number of international visitors to the Cook Islands.

This section shows the potential impact of a selected range of fiscal and macroeconomic shocks on the MTFS expenditure profile using the fiscal impact tool.

Fiscal shocks

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

Revenue shock

Two revenue shocks are applied: low and high, using the forecast 95 per cent low and high confidence intervals.

The low revenue case, with revenues falling by about 12 to 14 per cent per year over the modelling period, is presented in Table 1.3. The fiscal balance breaches the -1.9 per cent of GDP rule in 2019/20 and 2020/21 before recovering in the outer years.

Table 1.3: Low revenue shock

		2019/20	2020/21	2021/22	2022/23
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-18.6	-21.3	-23.5	-25.6
Fiscal balance (% of GDP)	Base	-0.2	1.3	2.7	3.8
	Shock	-3.5	-2.1	-0.8	0.2
Change in nominal GDP	%	0	0	0	0
	$m	1	1	2	2

The high revenue case, with revenues higher by 14 to 36 per cent per year over the modelling period, is presented in Table 1.4. The key result is a significant strengthening of the fiscal balance.

Table 1.4: High revenue shock

		2019/20	2020/21	2021/22	2022/23
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		22.2	34.0	47.9	63.3
Fiscal balance (% of GDP)	Base	-0.2	1.3	2.7	3.8
	Shock	3.7	7.0	10.3	13.4
Change in nominal GDP	%	0	0	0	-1
	$m	-1	-2	-3	-4

Operating shock

A higher than expected operating expenditure shock is applied, assuming a 10 per cent increase above the estimates over the forward period. The impact of the additional expenditure over the modelling period is presented in Table 1.5. The fiscal balance breaches the -1.9 per cent of GDP rule in 2019/20. There is a positive impact on GDP of about 3 per cent or $18 million by 2022/23.

Table 1.5: Higher opex shock

		2019/20	2020/21	2021/22	2022/23
Change in opex ($m)		16	18	19	19
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		1.4	3.4	5.0	6.0
Fiscal balance (% of GDP)	Base	-0.2	1.3	2.7	3.8
	Shock	-2.8	-1.0	0.6	1.9
Change in nominal GDP	%	1	2	3	3
	$m	5	13	17	18

Capital Shock

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

The impact of the reduced expenditure over the modelling period is presented in Table 1.6. The negative impact on GDP of about $25 million per year by 2022/23 has a knock on effect on revenue of about $8 million. The net effect on the fiscal balance is positive, with the capital expenditure reduction outweighing the fall in revenue.

Table 1.6: Lower capex shock

		2019/20	2020/21	2021/22	2022/23
Change in opex ($m)		0	0	0	0
Change in capex ($m)		-9	-9	-9	-9
Change in tax revenue ($m)		-2.0	-4.5	-6.4	-7.8
Fiscal balance (% of GDP)	Base	-0.2	1.3	2.7	3.8
	Shock	0.9	1.7	2.3	2.8
Change in nominal GDP	%	-1	-3	-3	-4
	$m	-7	-17	-22	-25

GDP shock

A low GDP shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of drop in GDP is presented in Table 1.7. Tax revenue falls by about $17 million per year by the 2022/23, which causes the fiscal balance to deteriorate, but not enough to breach the -1.9 per cent of GDP rule. The cumulative GDP impact in 2022/23 is minus 8 per cent, or a reduction of $53 million.

Table 1.7: Lower GDP shock

		2019/20	2020/21	2021/22	2022/23
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-7.6	-11.4	-14.8	-16.6
Fiscal balance (% of GDP)	Base	-0.2	1.3	2.7	3.8
	Shock	-1.6	-0.5	0.6	1.6
Change in nominal GDP	%	-5	-7	-8	-8
	$m	-29	-42	-50	-53

Arrivals shock

A low international visitor arrivals shock is applied, assuming a 5 per cent decrease on the forecast for each year of the forward period. The impact of the reduction in arrivals is presented in Table 1.8. Tax revenue falls by about $15 million per year by 2022/23, which causes the fiscal balance to deteriorate, but not enough to breach the -1.9 per cent of GDP rule. The impact on GDP is substantial, with a 7 per cent reduction by 2022/23.

Table 1.8: Lower arrivals shock

		2019/20	2020/21	2021/22	2022/23
Change in opex ($m)		0	0	0	0
Change in capex ($m)		0	0	0	0
Change in tax revenue ($m)		-6.7	-10.1	-13.3	-15.0
Fiscal balance (% of GDP)	Base	-0.2	1.3	2.7	3.8
	Shock	-1.5	-0.3	0.8	1.9
Change in nominal GDP	%	-4	-6	-7	-7
	$m	-25	-37	-44	-47

1.11 Disaster risk financing

To mitigate the economic and financial risk posed by natural disasters, the Government has put in place a range of measures to reduce its financial exposure to disaster risk, the most important being:

- a Disaster Emergency Trust Fund, with a current balance of $1.7 million, to provide a fast and coordinated response following the declaration of a State of Emergency;
- insurance coverage under the Pacific Catastrophe Risk Assessment and Financing Initiative for cyclones, with a 1-in-10-year probability of occurrence with payout based on the assessed severity of a specific cyclone; and
- a Disaster Recovery Mechanism loan from the Asian Development Bank (ADB) of $13.95 million, which will only be triggered and drawn down in the event of a catastrophe.

More detail on the Government's current approach to dealing with disaster risk financing is provided in Appendix 2 of the *Medium-term Fiscal Strategy 2019/20–22/23*.

In developing the MTFS, the Government has identified a need to review its current disaster risk financing arrangements to ensure the right balance between the required level of disaster coverage and the ongoing costs of paying for that coverage. This is particularly pertinent in light of the new Stabilisation Account being introduced under the MTFS, which will provide an additional source of disaster financing at low cost. The World Bank and Asian Development Bank have published a guidance note on conducting a disaster risk finance diagnostic that provides a useful framework for gathering the relevant information and conducting the necessary analysis.[15] This publication will inform the Government's review.

1.12 Overseas Development Assistance – Foreign aid

While foreign aid has not directly been accounted for in the analysis provided above, it has traditionally formed an important part of the Government's fiscal undertakings. Foreign aid donations peaked in 2017/18, with the provision of funds from donor governments for large capital projects. At present the foreign aid profile decreases over the forward years, however this is expected to change as new grant funding agreements are signed over the coming years.

While it is anticipated that the Cook Islands will graduate from Official Development Assistance (ODA) in 2019, engagement with donor partners suggests that this will not have a significant impact on the level of foreign aid provided to the Cook Islands, with a limited number of partners stating that their support will cease with graduation. Based on this, preliminary estimates suggest that the impact of graduation on economic growth will be approximately 0.4 per cent of GDP.

In the context of graduation, better Government planning is required to ensure that sectors that are highly reliant on donor funds, such as environment, and more broadly, capacity building, are not neglected should that support cease.

Based on the current fiscal outlook, as outlined in this MTFS, greater consideration is required from Government on the use of aid funds. In particular, more analysis is required to assess the costs and benefits of donor funding.

[15] World Bank and ADB, 2017. Assessing Financial Protection against Disasters: A Guidance Note on Conducting a Disaster Risk Finance Diagnostic. https://www.adb.org/publications/assessing-disaster-risk-finance-diagnostic.

2 Government Financial Statistics Statement

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

Table 2.1: GFS Statement

Statement of Government Operations	2017/18 Actual	2018/19 Budget Estimate	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
REVENUE	**231,510**	**238,808**	**238,808**	**220,793**	**206,977**	**202,966**
Taxes	140,587	148,153	148,153	154,282	160,101	165,633
Social contributions	0	75	75	75	75	75
Grants	50,565	53,454	53,454	30,260	10,553	30
Current	9,541	16,048	16,048	14,648	9,492	30
Capital	41,024	37,406	37,406	15,612	1,061	0
Other revenue	40,358	37,126	37,126	36,176	36,248	37,228
EXPENSE	**161,369**	**179,252**	**179,560**	**170,330**	**163,179**	**153,618**
Compensation of employees	54,878	61,114	61,092	60,728	60,774	60,874
Use of goods and services	47,327	63,624	63,955	54,884	48,205	38,741
Depreciation	13,357	13,882	13,882	13,882	13,882	13,882
Interest	2,063	2,367	2,367	2,271	2,094	1,896
Subsidies	15,484	16,213	16,213	15,638	15,638	15,638
Grants	0	0	0	0	0	0
Social benefits	18,865	19,841	19,841	21,075	21,075	21,075
Other expense	9,394	2,211	2,211	1,851	1,511	1,511
NET OPERATING BALANCE	**70,141**	**59,556**	**59,247**	**50,463**	**43,798**	**49,348**
***Plus* NON CASH APPROPRIATIONS**						
Depreciation	13,357	13,882	13,882	13,882	13,882	13,882
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	**83,498**	**73,438**	**73,129**	**64,345**	**57,680**	**63,230**
CASH TRANSACTIONS IN NONFINANCIAL ASSETS						
Net Cash Applied to the Acquisition of Fixed Assets	62,895	81,925	83,149	58,561	29,210	11,835
Gross transactions in Non-Financial Assets	76,252	95,807	97,031	72,442	43,092	25,717
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	-13,357	-13,882	-13,882	-13,882	-13,882	-13,882
NET (BORROWING)/LENDING	**20,603**	**-8,487**	**-10,020**	**5,784**	**28,469**	**51,395**
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	**22,292**	**-11,454**	**-12,783**	**13,466**	**24,748**	**41,622**
Domestic Transactions	22,292	-11,454	-12,783	13,466	24,748	41,622
Foreign Transactions	0	0	0	0	0	0
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	**-1,009**	**2,395**	**2,395**	**-8,045**	**3,238**	**8,922**
Domestic Transactions	0	0	0	0	0	0
Foreign Transactions	-1,009	2,395	2,395	-8,045	3,238	8,922
NET CASH FINANCING TRANSACTIONS	**21,283**	**-9,059**	**-10,388**	**5,421**	**27,986**	**50,544**
Statistical discrepancy with financial statements	681	-572	-368	-363	-483	-851

2.1 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 for 2018/19 is $59.2 million.

Going forward, changes in expenditure and revenue estimates are predicted to result in an operating balance of $50.5 million in 2019/20, $43.8 million in 2020/21, and $49.3 million in 2021/22.

Across all years, the large net operating balances are due to grant funding and Government revenues being channeled towards Crown and ODA funded capital projects. Even without the impact of grant revenues, the Crown runs sizable operating surpluses in all years, with these operating surpluses being used to fund the overall fiscal balance (which includes capital) in 2018/19 and 2019/20.

2.1.1 GFS Operating Revenue

Operating revenues are made up of taxation receipts (62 per cent in 2018/19), grants from other Governments (22 per cent) and other revenues, including agency trading revenues, interest and dividend receipts (16 per cent). These revenue streams are used to finance the on-going operational expenditure of Government, with surpluses used for investing activities such as infrastructure development projects or accumulated in reserves.

As at the 2018/19 Budget published in September 2018, GFS operating revenues in 2018/19 were estimated to be $238.8 million. This estimate remains unchanged for the HYEFU.

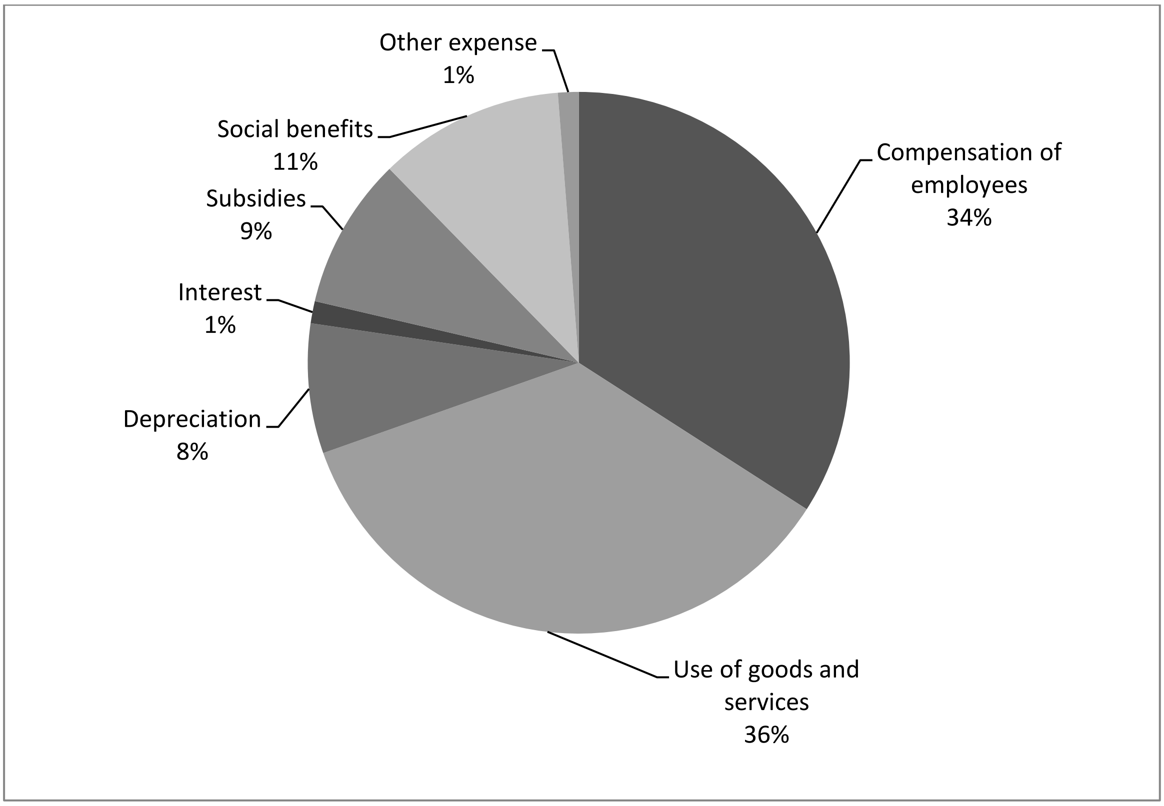
GFS operating revenues in 2019/20 are estimated at $220 million, of which $154 million is expected to be collected in taxes alone. In 2020/21, operating revenue is expected to decrease to $206 million, with tax revenue of $160 million due to a decrease in foreign grant revenues.

2.1.2 GFS Operating Expenditure

Operating expenditure is made up of compensation of employees (34 per cent in 2018/19), use of goods and services (36 per cent), social benefits (11 per cent), subsidies (9 per cent), depreciation (8 per cent), other expenses (1 per cent), and interest expenses (1 per cent).

Total operating expenditure is now expected to be $179.6 million in 2018/19, up from the $179.3 million estimated at Budget, due to additional expenditure approvals since the passing of the 2018/19 Budget. These expenditures are explained in the fiscal chapter.

Figure 2.1: GFS operating expenditure, 2018/19 HYEFU (percentage)



2.2 GFS Non-Operating Items

Cash transactions in non-financial assets outlines the transactions relating to capital, including public works, purchase of plant and equipment and investments in ICT by both the Crown and foreign donors.

Total purchases of non-financial assets (excluding depreciation) is estimated to rise to $83.1 million in 2018/19 following lower than anticipated actuals in 2017/18. Delays in large purchases of non-financial assets, mainly in infrastructure (renewable energy, Te Mato Vai, Manatua Submarine Cable and others) have resulted in 2017/18 funding being spread across 2018/19 and 2019/20.

2.2.1 Net Borrowing/Lending and Cash Financing Transactions

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

The net borrowing requirement is $10.0 million in 2018/19, serviced by a combination of cash and debt financing. The net borrowing requirement decreases over the forward period, resulting in a net lending position as a result of a decrease in capital projects, at the same time as revenues are increasing.

There are some smaller movements not captured in the GFS schedules, with most of these relating to the classification of reserves in the financial schedules. Most of the statistical discrepancy shown in the GFS Operating Statement relates to timing issues between when projects are executed and when their funding is received into the Crown account. The sum of the statistical discrepancy across the years shown is not considered to be significant.

2.3 Classification of Functions of Government (COFOG)

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

The COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level. Table 2.2 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA.

Table 2.2: Classification of Functions of Cook Island Government 2018/19 HYEFU

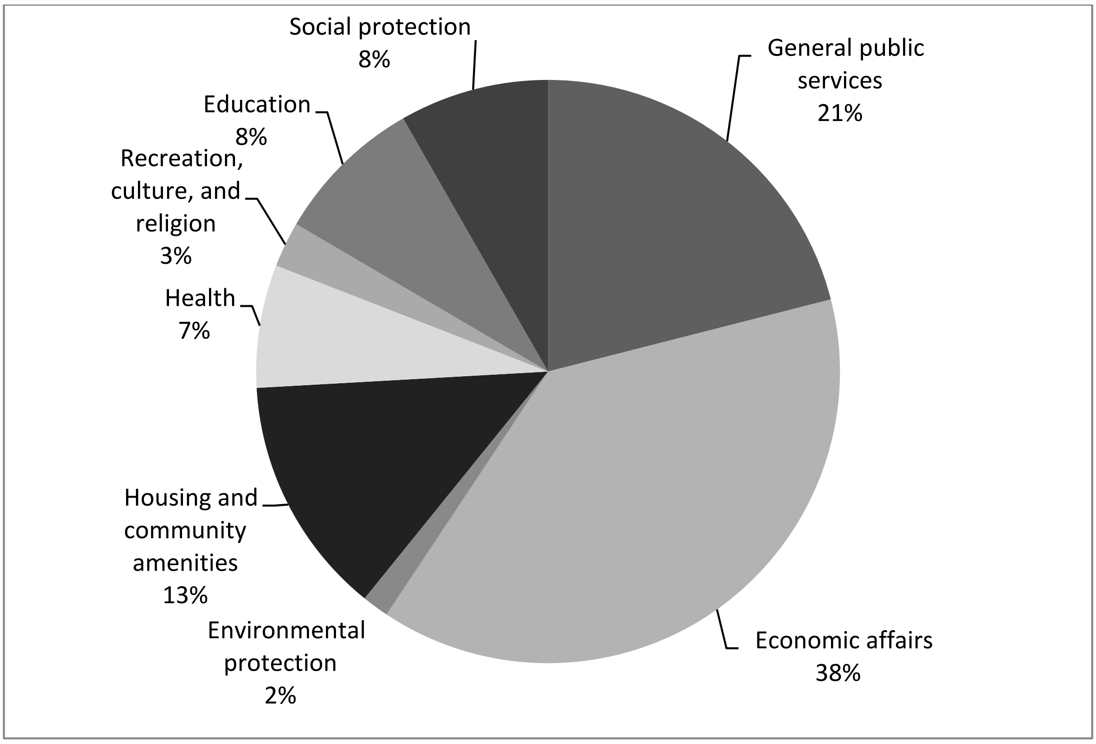
Function of Government	2017/18 Actual	2018/19 Budget Estimate	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Cook Islands Government (CIG) Expenditure						
General public services	33,816,346	38,279,267	38,557,087	39,158,929	37,245,008	36,145,278
Executive and legislative organs, financial and fiscal affairs, external affairs	23,362,308	25,795,837	26,073,657	28,806,224	28,659,303	27,657,573
Foreign economic aid	0	0	0	0	0	0
General services	8,026,346	9,545,060	9,545,060	7,509,415	6,009,415	6,109,415
Basic research	0	0	0	0	0	0
R&D General public services	0	230,000	230,000	230,000	140,000	140,000
General public services	364,738	340,960	340,960	341,993	341,993	341,993
Public debt transactions	2,062,953	2,367,410	2,367,410	2,271,297	2,094,297	1,896,297
Public order and safety	7,740,511	8,911,752	8,911,752	7,618,935	7,618,935	7,618,935
Police services	4,935,417	5,008,926	5,008,926	4,875,199	4,875,199	4,875,199
Fire protection services	0	0	0	0	0	0
Law courts	2,008,257	3,024,885	3,024,885	1,865,795	1,865,795	1,865,795
Prisons	796,837	877,941	877,941	877,941	877,941	877,941
Economic affairs	58,912,671	58,997,666	59,627,262	64,984,606	52,657,300	46,443,300
General economic, commercial, and labor affairs	10,304,687	14,413,303	14,413,303	27,683,146	17,132,146	12,418,146
Agriculture, forestry, fishing, and hunting	10,169,670	3,534,131	3,534,131	3,510,077	3,510,077	3,510,077
Fuel and energy	9,219,206	7,478,555	7,698,555	1,836,355	1,586,574	1,586,574
Mining, manufacturing, and construction	539,127	1,343,105	1,343,105	1,794,049	1,794,049	294,049
Transport	6,474,656	9,821,691	10,231,287	7,894,973	6,368,448	6,368,448
Communication	298,855	291,797	291,797	291,797	291,797	291,797
Tourism	21,403,715	21,668,182	21,668,182	21,527,308	21,527,308	21,527,308
Multi-purpose development projects	0	0	0	0	0	0
R&D Economic affairs n.e.c.	382,755	326,901	326,901	326,901	326,901	326,901
Economic affairs n.e.c.	120,000	120,000	120,000	120,000	120,000	120,000
Environmental protection	2,034,894	3,670,085	3,670,085	10,421,142	10,421,142	8,421,142
Waste management	635,614	671,554	671,554	668,168	668,168	668,168
Waste water management	273,977	1,650,000	1,650,000	8,400,000	8,400,000	6,400,000
Environmental protection n.e.c.	1,044,397	1,266,290	1,266,290	1,270,733	1,270,733	1,270,733
Housing and community amenities	11,329,985	33,336,602	33,931,602	16,084,102	13,783,882	6,783,882
Housing development	0	0	0	0	0	0
Community development	0	600,000	600,000	250,000	0	0
Water supply	5,828,227	26,722,614	26,722,614	10,263,226	8,263,226	1,263,226
Housing and community amenities n.e.c.	5,501,757	6,013,988	6,608,988	5,570,876	5,520,656	5,520,656
Health	15,070,497	17,056,124	17,056,124	15,784,976	15,784,976	15,784,976
Medical products, appliances, and equipment	2,389,925	2,136,261	2,136,261	1,692,800	1,692,800	1,692,800
Outpatient services	2,232,298	1,957,485	1,957,485	1,957,485	1,957,485	1,957,485
Hospital services	8,991,076	11,340,217	11,340,217	11,023,780	11,023,780	11,023,780
Public health services	195,000	195,000	195,000	195,000	195,000	195,000
R&D Health	0	0	0	0	0	0
Health n.e.c.	1,262,198	1,427,161	1,427,161	915,911	915,911	915,911
Recreation, culture, and religion	2,195,020	5,525,810	5,525,810	1,982,573	2,082,573	1,982,573

Function of Government	2017/18 Actual	2018/19 Budget Estimate	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Recreational and sporting services	419,603	618,066	618,066	318,066	418,066	318,066
Cultural services	1,735,697	4,862,744	4,862,744	1,619,507	1,619,507	1,619,507
Education	22,316,463	20,860,305	20,860,305	20,570,422	20,557,422	20,557,422
Pre-primary and primary education	471,602	0	0	0	0	0
Secondary education	2,099,459	247,000	247,000	13,000	0	0
Postsecondary non-tertiary education	0	0	0	0	0	0
Tertiary education	1,757,100	1,864,325	1,864,325	1,864,325	1,864,325	1,864,325
Education not definable by level	13,105,996	15,663,434	15,663,434	15,576,867	15,509,367	15,509,367
Education n.e.c.	4,882,306	3,085,546	3,085,546	3,116,230	3,183,730	3,183,730
Social protection	20,210,377	20,838,404	20,838,404	21,815,024	21,475,024	21,475,024
Sickness and disability	366,800	366,800	366,800	366,800	366,800	366,800
Old age	12,169,659	12,455,538	12,455,538	12,632,459	12,632,459	12,632,459
Survivors	0	0	0	0	0	0
Family and children	5,344,801	5,821,567	5,821,567	6,879,200	6,879,200	6,879,200
Unemployment	0	0	0	0	0	0
Housing	79,200	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	13,555
R&D Social protection	0	0	0	0	0	0
Social protection n.e.c.	2,236,362	2,101,744	2,101,744	1,843,810	1,503,810	1,503,810
Total CIG Expenditure	**173,626,763**	**207,476,016**	**208,978,432**	**198,420,709**	**181,626,262**	**165,212,532**
Official Development Assistance (ODA) Expenditure*						
General public services	7,322,860	14,702,910	14,702,910	11,819,959	9,156,087	0
Economic affairs	42,615,210	37,546,821	37,546,821	18,277,730	1,361,032	30,303
Environmental protection	148,110	75,758	75,758	75,758	0	0
Housing and community amenities	5,000	151,515	151,515	0	0	0
Health	298,974	116,753	116,753	11,074	11,074	0
Education	50,000	50,000	50,000	50,000	0	0
Social protection	124,719	0	0	0	0	0
Total ODA Expenditure	**50,564,873**	**53,453,757**	**53,453,757**	**30,259,520**	**10,553,193**	**30,303**
TOTAL PUBLIC EXPENDITURE	**224,191,636**	**260,929,773**	**262,432,189**	**228,680,230**	**192,179,455**	**165,242,835**

*Excluding Performance Based Budget Support, which is allocated through CIG Expenditure

Figure 2.2 classifies the combined Cook Islands Government and ODA spending in the 2018/19 HYEFU at the 10 main functional levels.

Figure 2.2: Classification of Functions of Cook Island Government 2018/19 HYEFU



Economic affairs is by far the largest area of total public expenditure at 38 per cent of the total spending, driven by tourism spending through the Cook Islands Government appropriation, and energy infrastructure in the ODA spend.

General public services is next, at around 21 per cent of total public spending, with the Cook Islands Government administration costs being the main driver.

Housing and community amenities (which includes general community infrastructure) is the third largest area of spending at 13 per cent. Other major areas of spending are education and social protection, at 8 per cent each and Health at 7 per cent.

3 Fiscal Update

Table 3.1: Fiscal Indicators Summary

	2016/17 Actual	2017/18 Actual	2018/19 Budget Estimate	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Statement of Financial Performance							
Taxation Revenue ($m)	125.4	140.6	148.2	148.2	154.3	160.1	165.6
Social Contributions ($m)	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other Revenue ($m)	41.2	40.4	37.1	37.1	36.2	36.2	37.2
Total Operating Revenue ($m)	**166.6**	**180.9**	**185.4**	**185.4**	**190.5**	**196.4**	**202.9**
Total Operating Revenue Percentage of GDP	36.5	35.6	41.6	34.4	33.3	32.4	31.6
Tax Revenue Percentage of GDP	27.4	27.7	33.2	27.5	27.0	26.4	25.8
Total Cyclical Revenue ($m)	32.5	27.8	25.0	25.0	26.8	26.9	28.0
Total Cyclical Revenue Percentage of GDP	7.1	5.5	5.6	4.7	4.7	4.4	4.4
Total Structural Revenue ($m)	134.2	153.2	160.3	160.3	163.7	169.5	175.0
Total Structural Revenue Percentage of GDP	29.4	30.2	36.0	29.8	28.6	27.9	27.3
Personnel ($m)	**51.6**	**55.7**	**62.5**	**62.5**	**61.5**	**61.6**	**61.7**
Percentage of Total Revenue	31.0	30.8	33.7	33.7	32.3	31.4	30.4
Percentage of Structural Revenue	38.5	36.4	39.0	39.0	37.6	36.3	35.3
Total Operating Expenditure ($m)	**131.7**	**152.0**	**163.2**	**163.5**	**155.7**	**153.7**	**153.6**
Percentage of GDP	28.8	29.9	36.6	30.4	27.2	25.3	23.9
Percentage of Operating Revenue	79.1	84.0	88.0	88.2	81.7	78.2	75.7
Cash Operating Expenditure*	120.8	138.6	148.7	149.0	141.1	139.6	139.6
Operating Balance ($m)	**34.9**	**29.0**	**22.2**	**21.8**	**34.9**	**42.7**	**49.4**
Percentage of GDP	7.6	5.7	5.0	4.1	6.1	7.0	7.7
Capital Expenditure	13.4	21.9	44.5	45.7	42.9	28.1	11.835
Depreciation	10.4	13.3	13.9	13.9	13.9	13.9	13.9
Non Operating Balance ($m)	-19.0	-21.6	-47.7	-48.9	-35.7	-32.2	-21.6
Fiscal Balance surplus/deficit ($m) *	**31.8**	**20.4**	**-8.5**	**-10.0**	**5.8**	**28.5**	**51.4**
Percentage of GDP	7.0	4.02	-1.90	-1.9	1.0	4.7	8.0
Statement of Financial Position ($m)							
Assets ($m)	284.0	372.6	421.4	421.5	475.4	514.6	552.5
Liabilities ($m)	132.4	136.1	143.3	144.7	148.5	142.3	131.9
Crown Balance ($m)	151.6	236.4	278.2	276.8	326.9	372.3	420.6
Percentage of GDP	33.2	46.6	62.4	51.4	57.1	61.4	65.6
Cash & Equivalents ($m)	80.4	102.7	91.2	89.9	103.4	128.1	169.7
Cash & Equivalents (months coverage)	8.0	8.9	7.4	7.2	8.8	11.0	14.6
Statement of Borrowings ($m)							
Gross Debt end of FY ($m)	97.8	103.4	138.8	140.3	125.7	119.6	109.3
Excluding Contigency Loan	94.2	129.6	124.9	126.4	111.7	105.7	95.4
Percentage of GDP	21.4	20.4	31.1	26.1	22.0	19.7	17.0
Net Crown Debt, end of FY ($m)	79.2	85.3	117.9	119.4	104.4	98.6	89.4
Percentage of GDP	17.3	16.8	26.4	22.2	18.2	16.2	13.9
Loan Repayment Reserves Held ($m)	18.6	18.1	20.9	20.9	21.3	21.0	19.9
Net Debt Servicing ($m)	18.9	10.3	7.3	7.4	7.4	9.3	10.0
Percentage of Total Revenue	11.3	5.8	3.9	4.0	3.9	4.7	4.9
Percentage of Structural Revenue	14.1	6.8	4.5	4.6	4.5	5.5	5.7
Development Partner Support ($m)							
Grants ($m)	25.4	50.6	53.5	53.5	30.3	10.6	0.0
Percentage of GDP	5.6	10.0	12.0	9.9	5.3	1.7	0.0
Memo item: Nominal GDP ($m)	457.0	507.8	445.8	538.2	572.3	606.8	641.4

3.1 Overview

The HYEFU is developed to allow necessary revisions to the fiscal forecasts that underpin the 2018/19 Budget. The Cook Islands elections announced in April 2018 resulted in the 2018/19 Budget being passed on 1st October 2018. Since the passing of the 2018/19 Budget, minimal changes have been made to the forecasts. Revenue forecasts remain the same, and expenditure estimates (operating and capital) have increased slightly to include any Executive Order and Carry Forward decision approved.

3.2 Movements from 2018/19 Budget

The 2018/19 Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments;
- Reclassification of expenses; and
- Parameter changes – movements that occur due to economic changes that are outside of a decision by the Government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs on the underwrite.

Table 3.2 shows the movements between the 2018/19 Budget and the 2018/19 HYEFU. These are explained in greater detail below.

Table 3.2: Reconciliation of Operating Statement

Statement of Government Operations	2018/19	2019/20	2020/21	2021/22
Operating balance as at 2018/19 Budget	22,155	34,946	42,829	49,440
Revenue				
Revenue Parameter Changes	**0**	**0**	**0**	**0**
Adjustments to:				
Value Added Tax (VAT)	0	0	0	0
Income tax	0	0	0	0
Import levies	0	0	0	0
Company tax	0	0	0	0
Departure tax	0	0	0	0
Withholding tax	0	0	0	0
Other Revenue Changes	**0**	**0**	**0**	**0**
Other revenue	0	0	0	0
Trading Revenue	0	0	0	0
Dividend	0	0	0	0
Core Sector support	0	0	0	0
Total Revenue Changes to 2018/19 Budget	**0**	**0**	**0**	**0**
Expenditure				
Expenditure Decisions by Government	308	81	81	81
Technical adjustments	0	0	0	0
Reclassifications of expenditure	0	0	0	0
Parameter changes	0	8	6	5
Total Expenditure Changes to 2018/19 HYEFU	**308**	**89**	**87**	**86**
OPERATING BALANCE as at 2018/19 HYEFU	**21,847**	**34,857**	**42,742**	**49,354**
Capital Expenditure	45,743	42,949	28,149	11,835
Depreciation	13,876	13,876	13,876	13,876
FISCAL BALANCE - 2018/19 HYEFU	**-10,021**	**5,784**	**28,469**	**51,395**

The Government has increased its appropriation for operating expenditures in 2018/19 and the forward years. This is largely due to expenditure decisions by Government, with a minor impact from exchange rate changes on the level of debt repayments.

As a result of these changes, the operating surplus in 2018/19 has been revised down from $22.0 million to $21.8 million.

3.2.1 Revenue

Since the release of the 2018/19 Budget, total estimated revenue is expected to remain unchanged for the 2018/19 financial year and the forward years.

Overall taxes collected to date are slightly less than anticipated for the first quarter of the 2018/19 financial year, with a total of $49.2 million reported in October. Although total revenue to date is lower, VAT collections to October ending were $1 million higher than budgeted due to higher than expected tourist arrivals.

Income tax for the first quarter is $1.0 million lower than expected with collections over the first 4 months totaling $9.5 million, compared to an estimate of $10.4 million.

Total actual company tax receipts are $4 million, $1.1 million lower than anticipated for the first quarter of the 2018/19 financial year. The shortfall in both income and company tax actuals is in part due to overdue payment plans by taxpayers.

Collections in import and excise-equivalent duties were $5 million compared to budgeted estimates of $4.5 million in import levies up to the month of October, due to increased imports of goods and services.

With tourist arrivals increasing, departure tax collections are slightly higher than estimated at $4.6 million compared to budget estimates of $3.9 million for the first four months.

Withholding taxes collected are lower than anticipated at $0.2 million compared to budget estimates of $0.6 million for the first four months of 2018/19. The 15 per cent withholding tax applies to dividends generated by local companies and land payments received which are subsequently repatriated overseas.

Movements in other revenues:

- Immigration fees to date are significantly higher than anticipated with a total of $0.4 million collected. Estimates for the forward years have remained unchanged from the time of the 2018/19 budget.
- Actuals for fishing revenues to date are $1.3 million, lower than the $2.1 million estimated for the first four months.
- Revenue of $1.1 million has been received from higher than expected interest on balances compared to the first quarter estimate of $0.7 million.
- Shipping licenses totalled $0.2 million for the first quarter of the 2018/19 financial year.
- Revenue of $0.25 million has been received from Circulation of Cook Islands currency coins, higher than anticipated compared to budgeted estimates of $0.22 million for the first four months of 2018/19.

3.2.2 Expenditure Orders since 2018/19 Budget

Additional expenditure for 2018/19 of $1.1 million was approved for a number of government priorities, outlined below:

- **$80,815** to increase the Leader of the Opposition Office's total appropriation from $209,185 to $290,000. This will be included in the next Appropriation Bill to baseline this going forward.
- Additional funds are required for Government to continue to meet its regional and its international obligations this financial year therefore funds of **$180,000** will be required to increase the MP's Travel and Allowance POBOC for 2018/19.
- **$17,005** for Minister Vaine Mokoroa's support office to fund operations for the 2018/19 financial year. Additional funds were required to make severance payments to outgoing staff of the Support office of Minister Albert Nicholas.
- Government approved an increase to the Capital Distribution Fund (CDF) of **$595,000** to replace the current Ministerial fleet and other various capital purchases. The top up is necessary to prevent the reallocation of appropriated CDF funds.
- **$220,000** to purchase remaining electrical materials for the Atiu Power Upgrade project and to cover personnel and operating costs for the installation of the remaining cable wiring and street lighting to complete the project.
- **$30,054** to cover equipment, furnishings and renovation costs of the offices for the newly established Ministry of Corrective Services which will be located at the Ministry of Culture.

3.2.3 Carry Forwards since 2018/19 Budget

Capital expenditure by the CIG is now estimated to be $45.7 million in 2018/19. The Government has committed to a significant infrastructure program in recent years both on Rarotonga and the Pa Enua. These programs include water, renewable energy, roads, harbour rehabilitation, cyclone centers, and telecommunications which all affect the livelihoods of Cook Islanders.

Capital expenditures carried forward from 2017/18 into 2018/19 since the 2018/19 Budget are as follows:

- **$46,258** to release final payments for the Pukapuka airport terminal project
- **$15,921** to release final payments for the Manihiki airport terminal project
- **$100,000** to complete the Apii Nikao road
- **$218,953** to build quarry shelter in Mangaia
- **$14,230** to settle final payments for the HV transport trailer
- **$14,229** to settle final invoices for the Bitumen Truck

The carry forwards, together with the Executive Order approvals for the CDF and the Atiu Power Upgrade result in an increase in the capital budget of $1.2 million in 2018/19.

3.3 Fiscal Responsibility Ratios

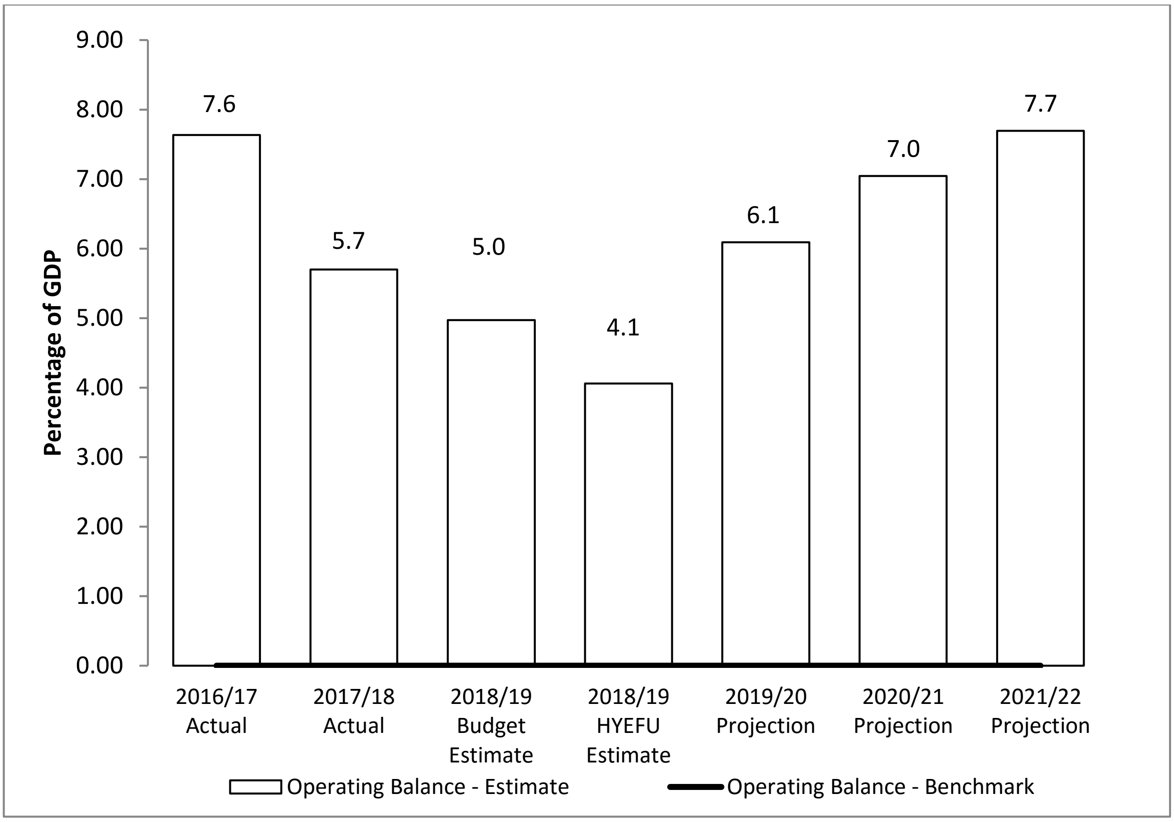
As provided in the MTFS, the Fiscal Responsibility Ratios will be replaced by four basic rules in the 2019/20 Budget. Prior to the enactment of the MTFS in the 2019/20 Budget, the estimated results of the current FRRs are discussed and current budgeted figures used (not the new expenditure ceilings from the MTFS).

3.3.1 Net operating balance to GDP

It is anticipated that Government will have an operating surplus of 4.1 per cent of GDP in 2018/19.

Going forward, changes in expenditure and revenue estimates are predicted to result in operating surpluses of 6.7 per cent in 2019/20, 7.0 per cent in 2020/21, and 7.7 per cent of GDP in 2021/22.

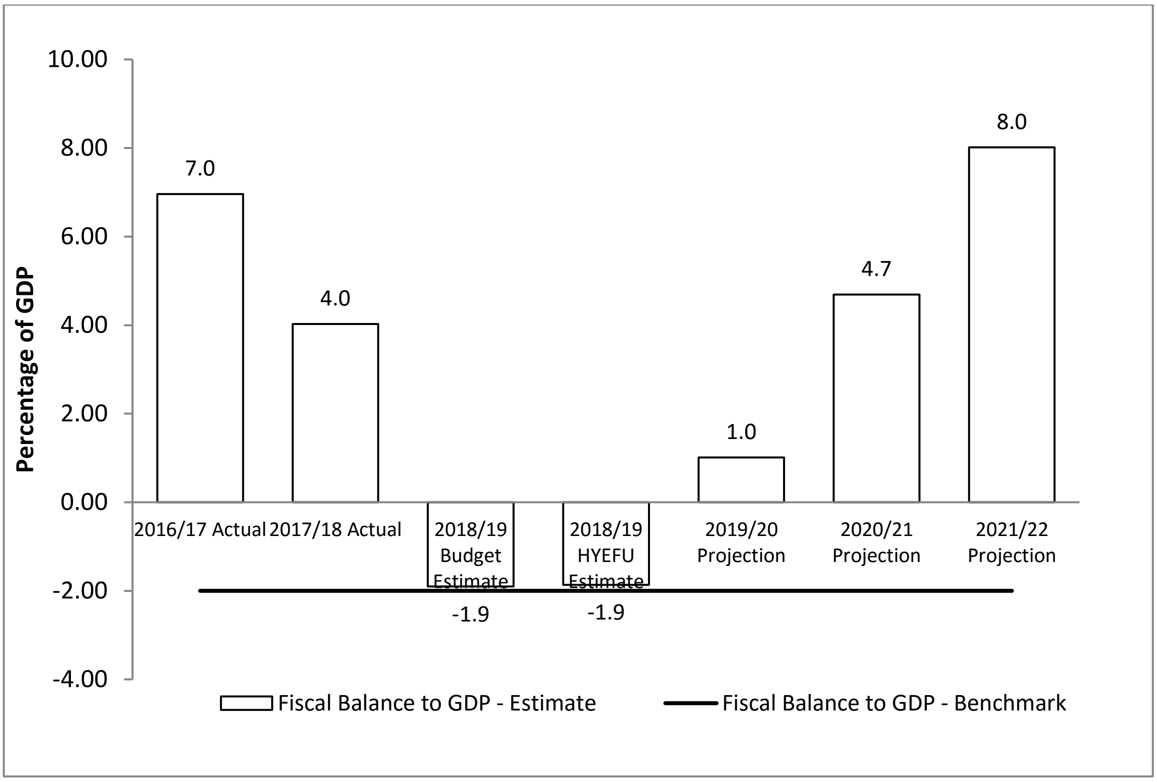
Figure 3.1: Operating balance to GDP, 2016/17 to 2021/22



3.3.2 Fiscal balance to GDP

With the increase in capital funding, the Government's fiscal balances for 2018/19 and 2019/20 still fall within the agreed ratio, with the remaining two years of the forward period continuing to exceed the upper bound.

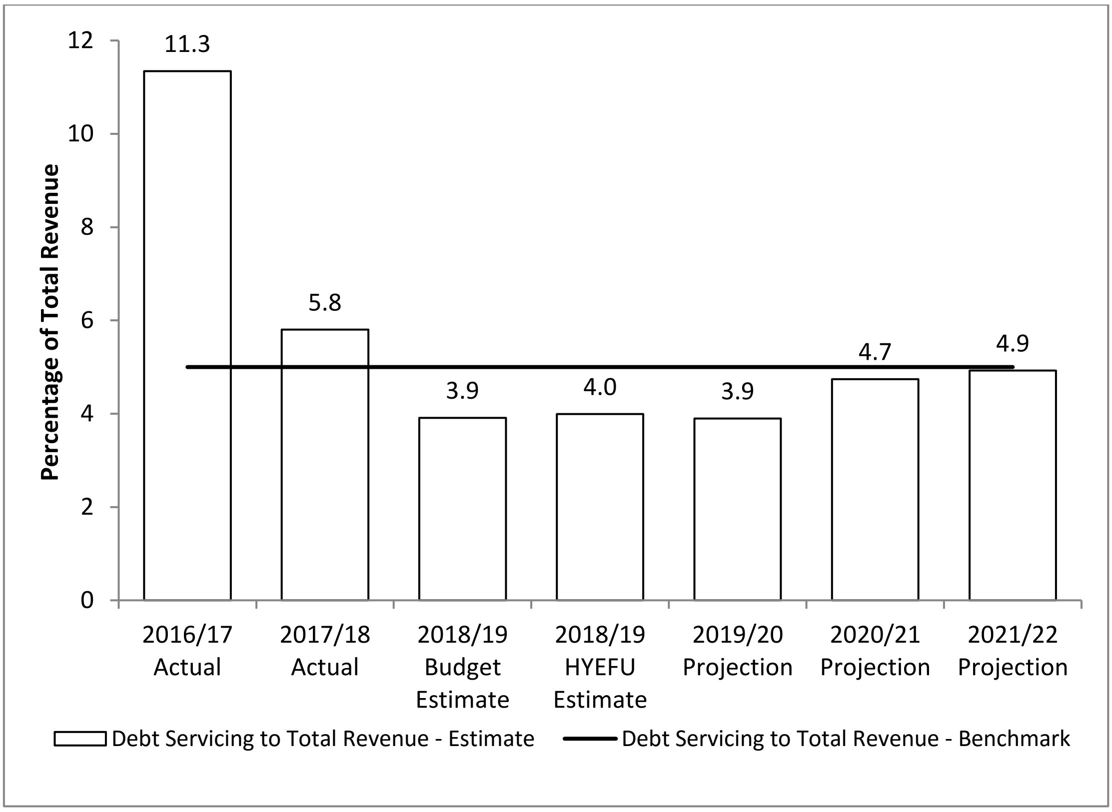
Figure 3.2: Fiscal balance to GDP, 2016/17 to 2021/22



3.3.3 Debt servicing to revenue

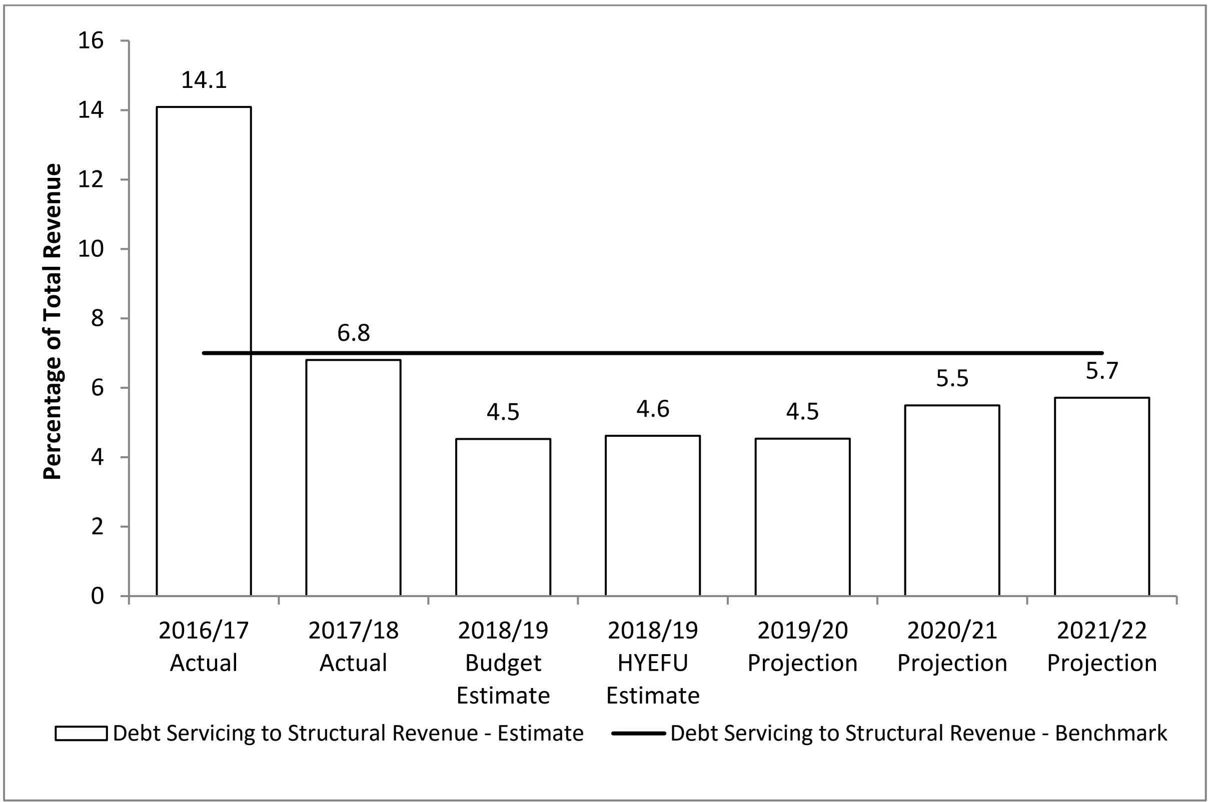
Debt servicing to total revenue measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principle. The figure shown below represents the debt servicing payment as a per cent of GDP going out of the Loan Repayment Fund (LRF), minus any interest earnings of the LRF (rather than the amount paid into the LRF in the specified year). Debt servicing to total revenue falls within the Government's 5 per cent benchmark. Further details around debt sustainability can be found in the debt section below.

Figure 3.3: Debt servicing to revenue, 2016/17 to 2021/22



It is useful to compare debt servicing with structural revenue to assess the Government's ability to meet debt obligations in the longer term, as seen in Figure 3.4. When considering debt servicing to structural revenue the benchmark level is adjusted to 7 per cent, as structural revenue is, by definition, smaller than total revenue.

Figure 3.4: Debt servicing to structural revenue, 2016/17 to 2021/22

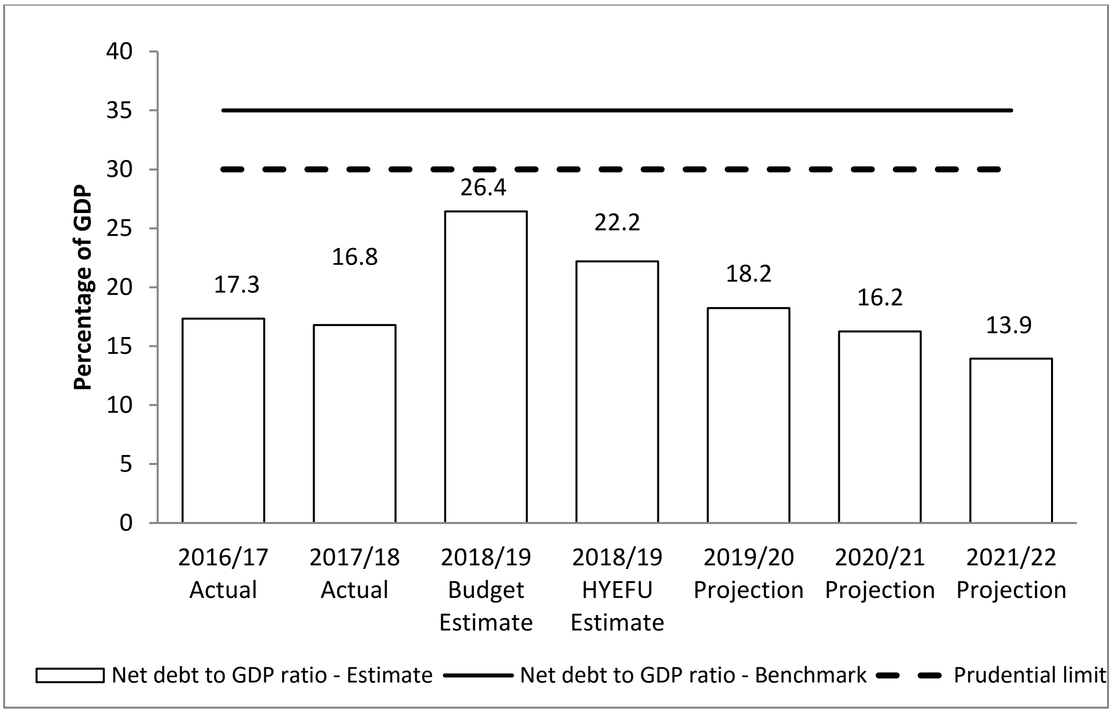


3.3.4 Net debt to GDP

The limit agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of around $188.4 million in 2018/19. The Government remains well within the net debt benchmark.

Figure 3.5 also shows a 30 per cent debt target that the Government is committed to staying below (this would be equivalent to approximately $161.5 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. As at June 2019, it is expected that Government will have a net debt ratio of approximately 22.2 per cent, well within the debt benchmarks set.

Figure 3.5: Net debt to GDP ratio, 2016/17 to 2021/22

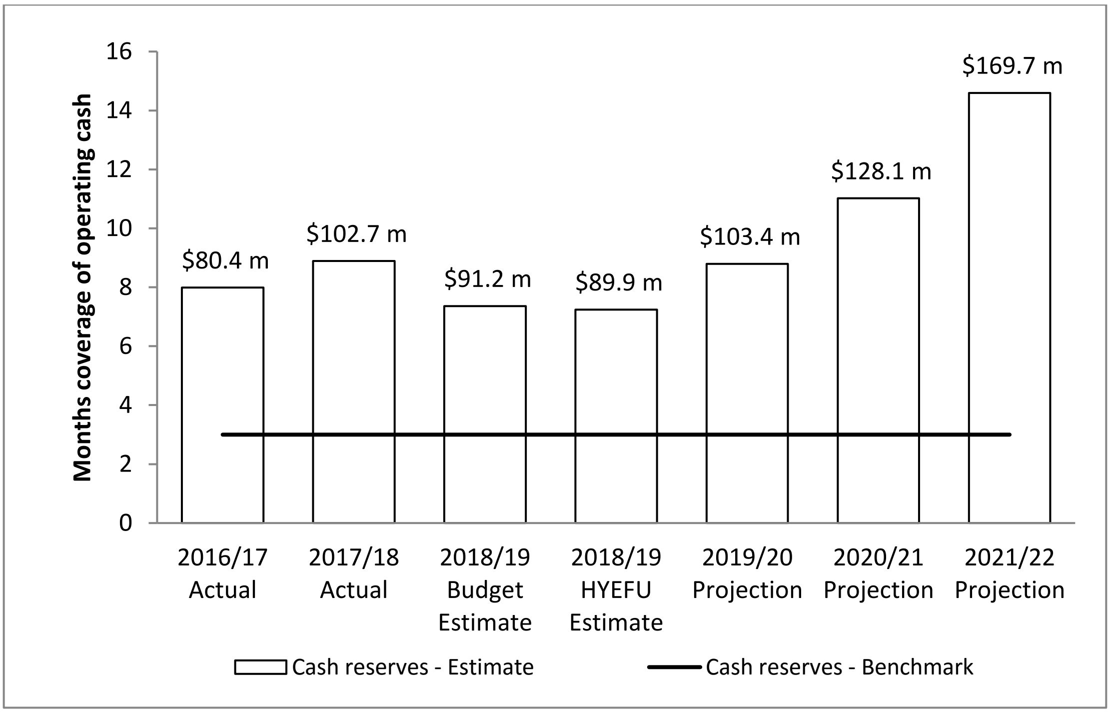


These ratios should not be looked at in isolation. Any proposal to take on additional borrowing should be looked at in the context of the whole of the Government Budget, the Crown's ability to pay annual debt servicing and international best practice. The latter aspect includes prudential requirements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

3.3.5 Cash reserves

For prudential reasons, the Government requires a level of cash reserves to be on hand at all times, to act as a buffer in case of a liquidity shortage. For example, if a large cyclone were to impact Rarotonga, and cause a halt to tax collections, the Government would require a level of cash to be held in reserve to cover operations. A prudent level of cash reserves is considered to be three months of operating expenditure, which is shown in Figure 3.6. This figure shows that the Government is currently in a strong position to support any liquidity shortage when required.

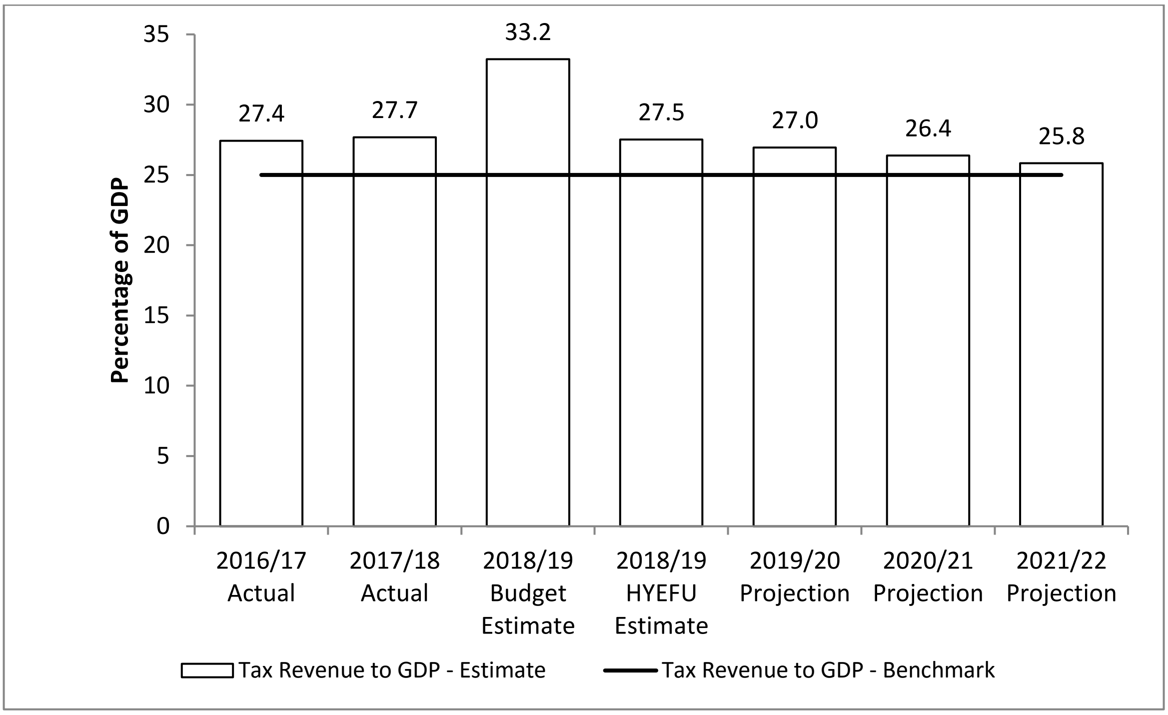
Figure 3.6: Cash reserves to operating expenditure, 2016/17 to 2021/22



3.3.6 Tax revenue to GDP

Current forecasts estimate that the Government has exceeded the benchmark at 27.5 per cent in 2018/19, decreasing to 25.8 per cent by 2021/22. This increase is primarily driven by the revised forecast for VAT revenue, on the back of expected continued economic growth. The significant change in these figures since the 2018/19 is the result of revised historical GDP and in turn, revised GDP forecasts.

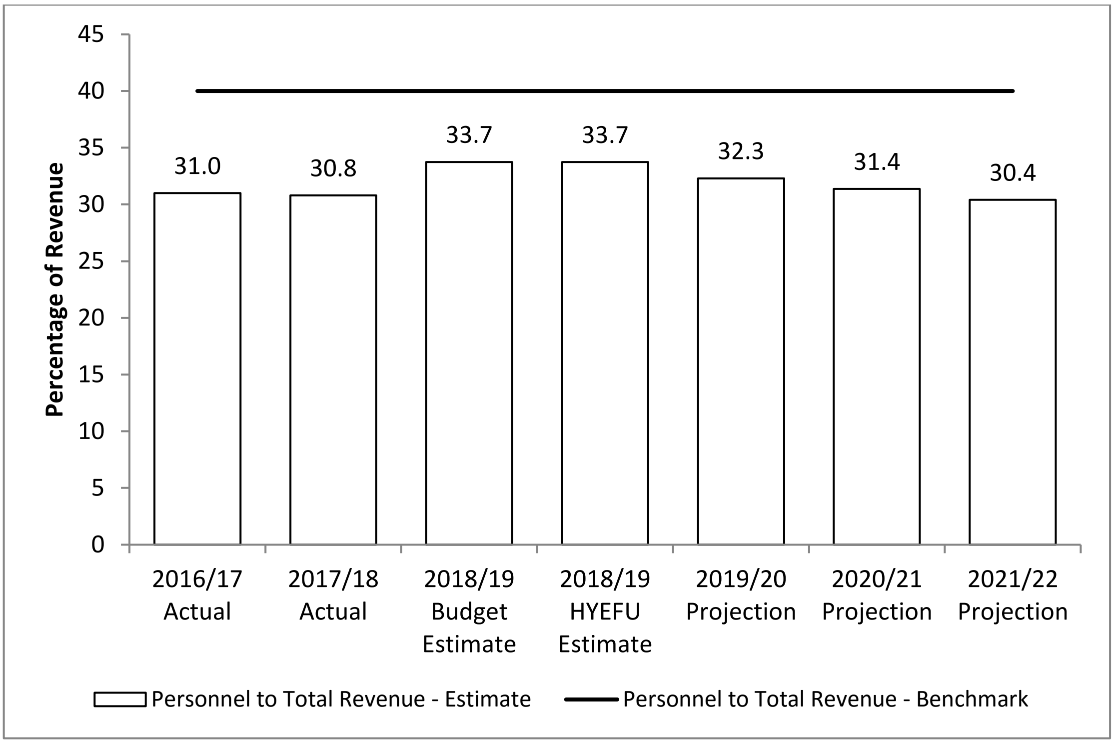
Figure 3.7: Tax revenue to GDP, 2016/17 to 2021/22



3.3.7 Personnel expenditure to revenue

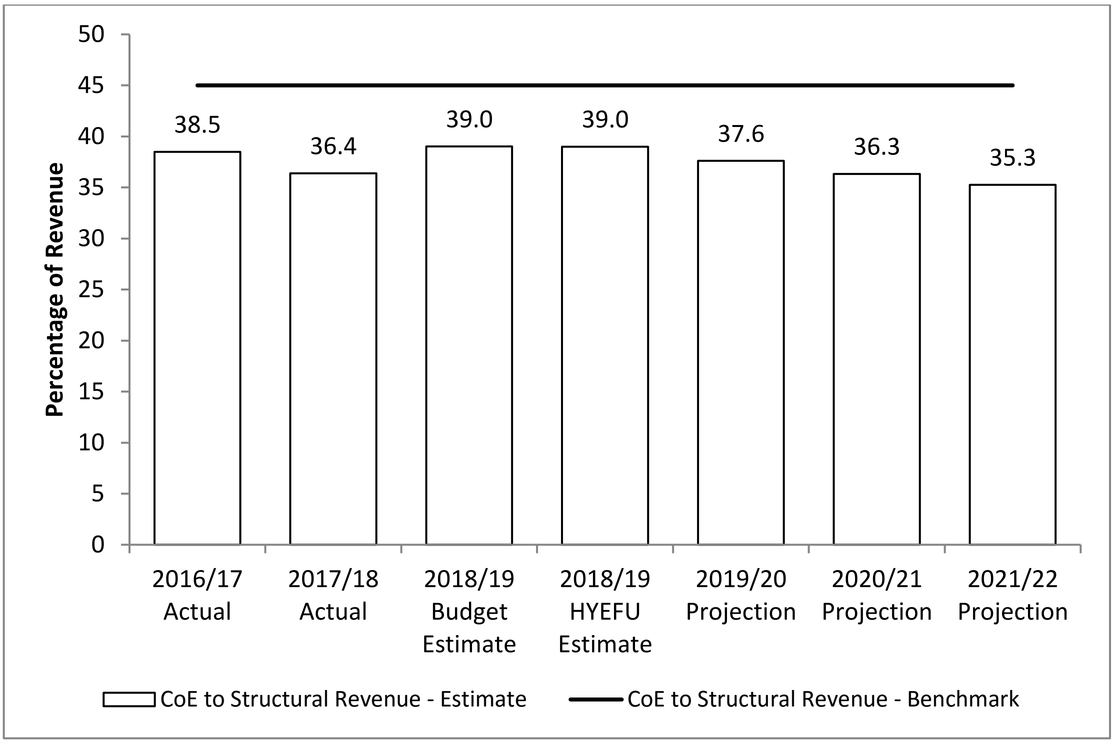
This ratio is aimed at controlling expansion in the size of the public sector. The benchmark that current and previous governments agreed to work within is maintaining the expenditure on personnel within 40 per cent of total revenues. As is illustrated in Figure 3.8, this target is currently being achieved.

Figure 3.8: Personnel expenditure to total revenue, 2016/17 to 2021/22



As personnel spending is a structural spending component, and some of the revenue included in the ratio for Figure 3.8 is not structural in nature, it is useful to consider the ratio shown in Figure 3.9 as well. This ratio compares total 'Compensation of Employees' (a Government Financial Statistics measure of personnel expenditure, which includes personnel funded through POBOCs) with structural revenue to indicate the level of personnel spending as a proportion of structural revenue.[16]

Figure 3.9: Compensation of Employees to Structural Revenue, 2016/17 to 2021/22



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

3.4 Assumptions underlying the economic and fiscal projections

Various assumptions have been made in the 2018/19 HYEFU to forecast the Cook Islands economic outlook and the Government's fiscal performance and position in the outer years.

3.4.1 Economic assumptions

Introduction

The Cook Islands Statistics Office publishes current price and real price (2016 base year) estimates of GDP on quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data from the Statistics Office is for the December Quarter 2017.

The Government has relied on an econometric time series model to forecast GDP for the 2018/19 HYEFU. MFEM has produced revised estimates of GDP production for 2017/18, and forecasts for the 4-year forward budget period from 2018/19 to 2021/22.

The aggregate and component outputs of the GDP model are presented in Chapter 4.

GDP production model

A time series ARIMA modelling approach was used to forecast aggregate GDP production, in real terms. A combination forecasting method has been adopted, utilising a simple average of five quarterly time series models, one multivariate and four univariate. Nominal forecasts are then derived by applying an implicit GDP price deflator, derived using time series forecasts over the forward period. For more detailed information on the time series model, see *Cook Islands time series economic forecasting model: Working Paper No. 18/1*, available on the MFEM website.[17]

The GDP forecasts assume historical trends in government expenditure, rather than the current policy commitments.

Data

The key data sets used for the model are:

- Real and nominal GDP – quarterly data to December 2017;
- Trade, imports and exports – quarterly data to June 2018;
- CPI – quarterly index data to September 2018;
- International arrivals – Customs and Immigration monthly data to September 2018;
- Building approvals – quarterly data to September 2018;

Key economic indicator assumptions

Nominal GDP is expected to grow by (see Section 6.3 for more detail):

- 11.1 per cent in 2017/18.
- 6.0 per cent in 2018/19.
- 6.3 per cent in 2019/20.
- 6.0 per cent in 2020/21.

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[17] Available at: http://www.mfem.gov.ck/economics.

- 5.7 per cent in 2021/22.

Growth in prices, measured through movements in the CPI, and forecast using an econometric time series approach, is expected as follows (see Section 6.4 for more detail):

- 0.4 per cent in 2017/18 (actual).
- 0.9 per cent in 2018/19.
- 1.3 per cent in 2019/20.
- 1.4 per cent in 2020/21.
- 1.4 per cent in 2021/22.

3.4.2 Fiscal assumptions

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

- operating revenues are forecast on the basis of recent trends in economic activity, the economic forecasts set out in Chapter 6, and one off considerations;
- operating expenditure movements reflect current Government policy commitments; and
- the level of Government borrowing is based on exchange rates provided by Bancorp, derived using Consensus Economics forecasts.

3.5 Fiscal risks

3.5.1 Introduction

The Government subscribes to the IMF's Public Expenditure and Financial Accountability (PEFA) program which provides a framework for strengthening public financial management systems using a range of quantitative indicators to measure performance.[18]

PEFA indicator 10 requires governments to monitor and report on the fiscal risks associated with:

- contingent liabilities and other general fiscal risks;
- public corporations – state-owned enterprises in the Cook Islands context; and
- sub-national governments – Island Governments of the Pa Enua.[19]

[18] See: https://pefa.org/. The Cook Islands Government was assessed in October 2015.
[19] Note that macroeconomic and fiscal risks are discussed in section 1.8.

3.5.2 Risk categories

Contingent liabilities

The Government's contingent liabilities as at 30 June 2018 are summarised in Table 3.3.

Table 3.3: Quantifiable contingent liabilities, as at 30 June

Category	$'000
Guarantees and indemnities	500
Uncalled capital	1,734
Legal proceedings and disputes	4,100
Total	**6,334**

Guarantees and indemnities

Government has entered into a program under the New Zealand Aid Programme focused on Pearl Sector Support run by 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

The Government holds $1.7 million in the Asian Development Bank – Cook Islands Government Property Corporation. This takes the form of 88 uncalled shares with a par value of USD 13,500 each.

Legal proceedings and disputes

The total quantifiable risk to the Crown under legal proceedings and disputes is $4.1 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.

State-owned enterprises

The Cook Islands Government has a number of State-owned Enterprises (SOEs) under the management of the Cook Islands Investment Corporation (CIIC). The key SOEs are the Airport Authority, Bank of the Cook Islands, the Ports Authority and Te Aponga Uira (electricity). CIIC has also recently established two new subsidiary companies, To Tatou Vai Limited (water and sanitation) and Avaroa Cable Limited (Manatua cable project).

The key risk associated with SOEs concerns poor financial performance, and/ or excessive borrowing that can result in central governments having to bail out failing enterprises, and potentially restructure their debt, often at substantial budgetary cost. Poor performance can result from a range of factors including:

- exogenous shocks – macroeconomic, for example;
- lack of incentive to be competitive compared to a private sector enterprise that would go bankrupt as result of protracted poor performance; and

- government requirements to undertake community obligations.

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

- placing all SOEs under the CIIC umbrella, with one its principal objectives being the efficient, profitable and professional management of SOEs;
- ensuring that SOE debt falls under the broader Government debt ceiling target; and
- providing for a portion of SOE debt repayments in the Loan Repayment Fund.

Crown debt risks

Chapter 11 sets out the Cook Islands Government debt current and future debt position. A key ongoing risk to the Crown's debt liability is movement in the value of the NZD against the currencies in which the Crown's loans are denominated.

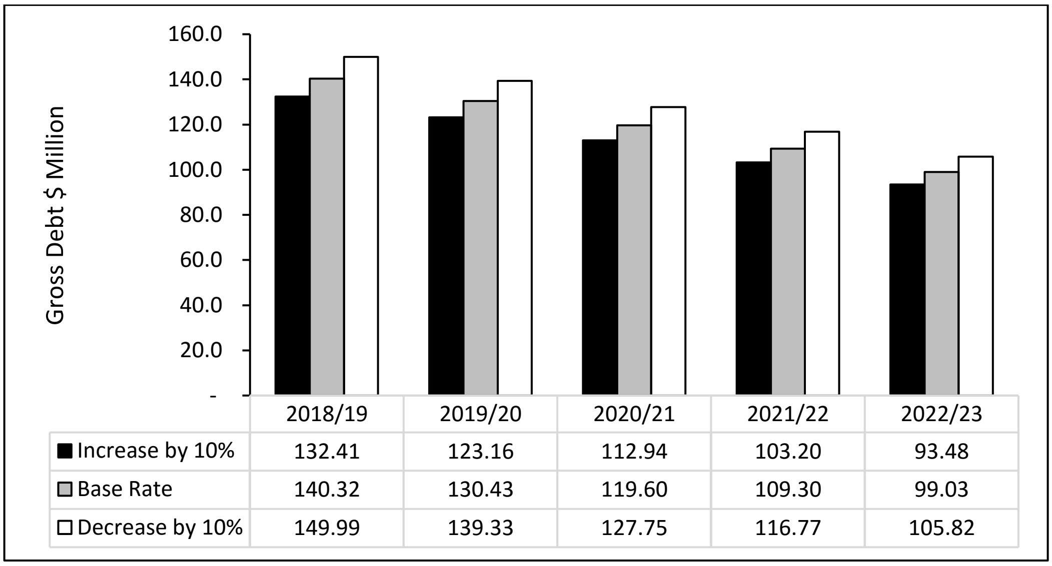
The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation by the NZD to determine the impact on the gross borrowings and the debt servicing cost.

Table 3.4: Exchange rates assumptions used in 2018/19 HYEFU, +/- 10 per cent

Foreign currency	-10%	Budget assumption rate	+10%
EUR	0.5130	0.5700	0.6270
USD	0.5940	0.6600	0.7260
RMB	4.0500	4.5000	4.9500
SDR	0.4275	0.4750	0.5225

If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at the end of the June 2019 year would increase by an estimated $9.67 million compared to a decrease of $7.91 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown's gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 3.10: Sensitivity of direct Crown gross debt to NZD movements



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by $0.68 million in the 2018/19 year.

4 Economic Update

4.1 Summary

4.1.1 Performance

The Cook Islands economy has experienced a strong run of real economic growth in recent years, averaging 4.7 per cent per year over the period 2013/14 to 2016/17, thanks to unprecedented tourism arrivals and higher levels of public and private capital investment.

Over the last three years, tourist arrivals have risen by an average of nearly 11 per cent per year, from 121,772 in 2014/15 to 164,800 in 2017/18. July 2018 saw the most visitors the Cook Islands has ever seen, with 18,332 arrivals.

The value of residential and commercial (commercial, tourism and community buildings) building approvals has also been much higher than trend in the three years to 2017/18. The rise in residential approvals appears to be for holiday houses, rather than residential living, driven by tourism growth. Commercial approvals have been led by a number of large community projects, as well as a significant spike in tourist accommodation approvals.

Capital expenditure (both Cook Islands Government and donor funding), including on a number of large signature projects such as renewable energy in the Pa Enua and Te Mato Vai, has risen from an average of $25.8 million from 2012/13 to 2014/15, to $40.6 million over the last three years.

This strong economic performance 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 finalised by the Statistics Office on developing comprehensive balance of payments data, which will be used to determine the Cook Islands' Gross National Income for the last three years. 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'.

Preliminary analysis by the Government suggests that the Cook Islands economy is currently performing above its potential level – that is the Cook Islands is facing a positive output gap. While there is little sign of the economy overheating in the leading economic indicator, the CPI, there are increasing signs of capacity constraints emerging in the labour and housing markets, and the construction sector. In light of this, the Government maintained consistent capital expenditure estimates in the 2018/19 Budget to ensure that it does not further fuel the constraints in these sectors.

4.1.2 Outlook

In summary, the outlook for Cook Islands economy over the forward years is positive, albeit at lower levels than seen recently. Real GDP growth is estimated at 9.0 per cent in 2017/18, before moderating to 5.5 per cent in 2019/20, largely due to slower growth in tourism – as the number of beds reaches capacity – and a slowdown in investment, both public and private.

With a mildly expansionary fiscal stance in 2018/19, the capacity constraints alluded to above are expected to tighten in the medium-term. Further pressure on the domestic housing market is likely, along with wage-price pressure flowing from an increasing shortage of skilled workers. Along with imported inflation from a depreciating New Zealand dollar, this is expected to result in inflation rising from 0.4 per cent in 2017/18 to an average of 1.4 per cent per year over the forward period.

Over the longer-term, a number of planned capital projects are expected to increase the productive capacity of the Cook Islands economy, increasing the 'potential GDP' in future years, helping to ease capacity constraints.

Table 4.1 provides a summary of the key indicators for the budget appropriation year and the three forward years of the 2018/19 budget cycle.

Table 4.1: Summary of economic indicators

	2016/17 Actuals	2017/18 Est	2018/19 Proj	2019/20 Proj	2020/21 Proj	2021/22 Proj
Economic activity						
Nominal GDP ($'000)	457,056	507,797	538,206	572,235	606,812	641,421
Percentage change (YOY)	4.8	11.1	6.0	6.3	6.0	5.7
Real GDP (at constant 2016 Prices, $'000)	463,227	504,791	532,855	563,167	593,775	623,387
Percentage change (YOY)	6.8	9.0	5.6	5.7	5.4	5.0
Inflation (CPI)						
Percentage change (YOY)	-0.1	0.4	0.9	1.3	1.4	1.4
Construction/capital investment						
Commercial building approvals ($'000)	24,476	7,968	7,968	7,968	7,968	7,968
Residential building approvals ($'000)	11,864	11,993	12,073	12,073	12,073	12,073
Public works ($'000) (includes dev partners)	16,001	55,465	81,925	58,561	29,210	11,835
Productive sector indicators						
Visitor arrivals	155,230	164,800	176,851	179,814	182,364	184,537
Percentage change (YOY)	14.9	6.2	7.3	1.7	1.4	1.2
Estimated visitor expenditure ($'000)	333,745	354,320	380,230	386,600	392,082	396,753
Pearl exports ($'000)	170	122	122	122	122	122
Fish exports ($'000)	57.7	57	57	57	57	57
External sector						
Merchandise trade balance ($'000)	-150,305	-169,234	-173,545	-178,999	-183,623	-187,897
Services trade balance ($'000)	235,745	255,949	280,993	286,065	290,141	293,370
Exchange rate (USD/NZD average)	0.71	0.71	0.66	0.68	0.69	0.69

4.2 The global economy

4.2.1 Economic growth

The Cook Islands is a small, open economy whose economic growth is heavily reliant on the export of services to a number of key partner countries, New Zealand, Australia and the United States of America. As such, it is necessary to examine the economic conditions and outlook for our key partners, as well as the regional and global economy.

New Zealand

The Reserve Bank of New Zealand's (RBNZ) Monetary Policy Statement November 2018 reports annual GDP growth of 2.8 per cent in the June 2018 quarter, down from over four per cent in mid-2016. The lower GDP growth is largely due to a softening of growth in residential investment which is expected to weigh on household spending going forward. The RBNZ reports that inflation remains below the two per cent target mid-point, but notes that there are signs of inflationary pressure rising.

The RBNZ expects positive global conditions, stimulatory fiscal (such as KiwiBuild) and monetary (low interest rates) policy in New Zealand, and higher net exports thanks to a depreciating currency, to increase annual GDP growth to above trend in 2019.

In its November 2018 statement, the RBNZ decided to leave its official cash rate unchanged, at 1.75 per cent. The Bank indicated that the rate is expected to remain at its current level through 2019 and into 2020.

Australia

The Reserve Bank of Australia's (RBA) Statement on Monetary Policy November 2018 reports that Australian GDP growth, supported by accommodative domestic monetary policy and a positive international outlook, is expected to be just above 3 per cent in both 2018 and 2019. The RBA notes that this will reduce spare capacity, with the unemployment rate forecast to decline from 5 per cent currently to 4.75 per cent by 2020. As the labour market tightens, the RBA expects wage growth and inflation to increase gradually.

Conditions in the Australian housing market have eased. The RBA reports that nationally, established housing prices have declined by 4.5 per cent since their September 2017 peak, following an increase of around 45 per cent over the previous five years. In Sydney, prices are around 8 per cent below their peak, while in Melbourne prices are around 5 per cent lower. The decreased demand for housing is in part due to the stricter lending conditions. Three of the big four Australian banks, recently raised their standard mortgage rates despite the RBA keeping the cash rate steady at 1.5 per cent for the last two years.

In its November 2018 statement, the RBA chose to leave the cash rate unchanged, noting that higher interest rates will be necessary at some point if the Australian economy continues to evolve as expected.

Looking forward, the RBA highlighted risks to global financial markets from the increasing levels of trade protectionism, particularly for trade-exposed economies.

United States

The International Monetary Fund's (IMF) World Economic Outlook October 2018 expects the United States (US) GDP growth to rise from 2.2 per cent in 2017 to 2.9 percent in 2018, before moderating to 2.5 percent in 2019 and 1.8 per cent in 2020. This reflects stronger than expected activity in 2017, firmer external demand, the expected macroeconomic impact of the December 2017 tax reform (particularly the changes to corporate tax rates) and higher public spending following the February 2018 bipartisan budget agreement.

The drop in the projected growth is explained by the recently introduced trade measures. The United States has increased tariffs on steel and aluminum imports from almost all economies. The European Union, Canada and Mexico have responded with tariff increases on a wide range of US imports. In addition, around half of all US imports from China and three quarters of all Chinese imports from the US are now subject to higher tariffs. The effective US tariff rate on imports from China has increased from around 3 per cent to about 8 per cent. At the same time the effective Chinese tariff rate on imports from the US has increased from around 6 per cent to close to 14 per cent.

The RBA noted that the intensification of protectionist measures could materially weaken the investment outlook and weigh on confidence and financial market conditions more generally.

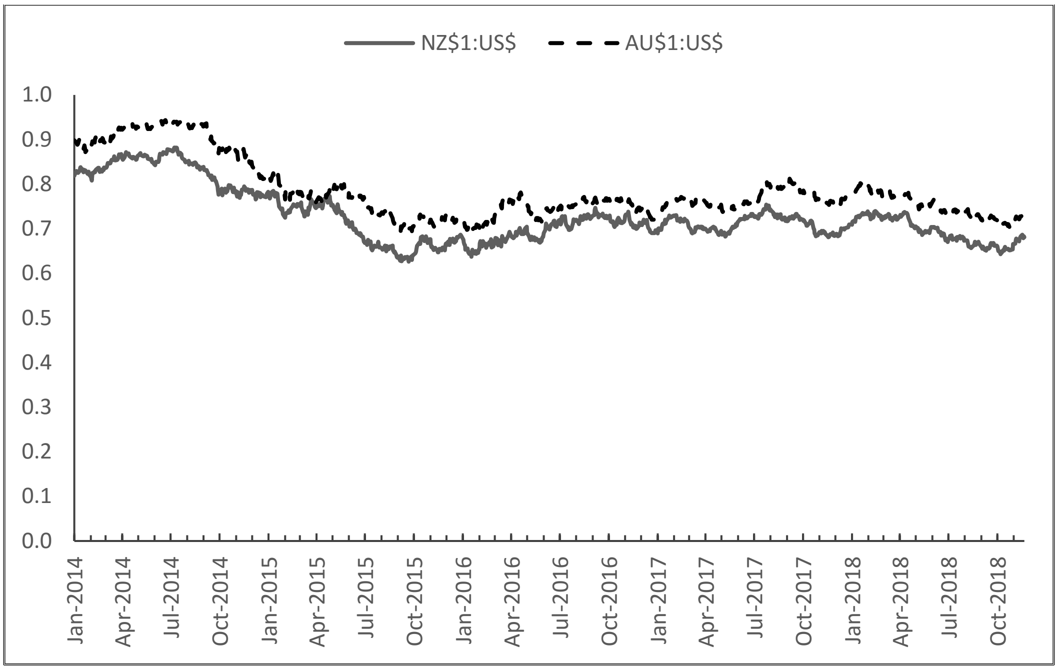
In September 2018, the US Federal Reserve (the Fed) raised its target benchmark rate, for the eighth time since 2015, to 2.25 per cent, the highest level since 2008. It is expected that more hikes are to come, with the rates anticipated to reach 3.4 per cent by 2020. This is expected to lead to a decrease in inflation as consumers choose to restrain from spending.

The tighter monetary policy reflects the Fed's confidence in the US economy. The decision to increase the rate was made to support the strong labour market conditions and a sustained return to 2 per cent inflation as cited by the Fed.

The Fed's decision may lead emerging markets to tighten their monetary policies for the purpose of defending their currencies. In return the emerging markets' demand for US goods and services is expected to decrease.

Rising US interest rates have led to a broad-based appreciation of the US dollar, including against commodity currencies such as the Australian and New Zealand dollars. **Error! Not a valid bookmark self-reference.**Figure 4.1 shows the decline in the New Zealand dollar from 73.5 cents in August 2017 to 67 cents in November 2018.

Figure 4.1: US dollar exchange rate, New Zealand and Australia



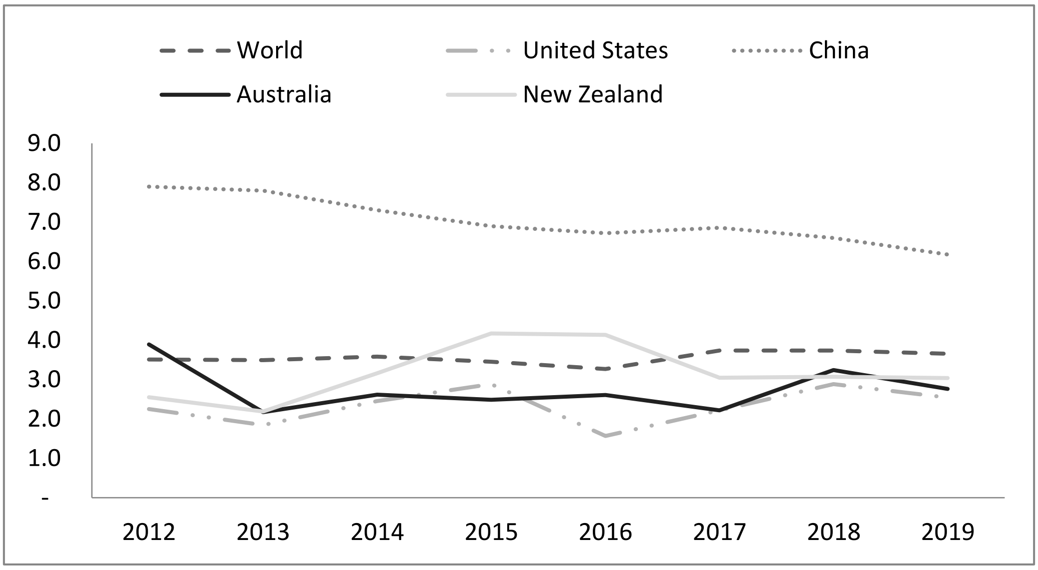
Asia Pacific

The September 2018 Asian Development Outlook Supplement estimates that regional GDP will remain at 6.0 per cent in 2018, dropping to 5.8 per cent in 2019, a decrease of 0.1 per cent compared to the July 2018 outlook. The ADB notes that the rise in protectionist trade measures from the US and countermeasures from China and other countries pose a clear downside risk to the outlook for developing Asia. The September 2018 Outlook expects economic growth in the Pacific of 1.1 per cent in 2018, accelerating to 3.1 per cent in 2019. The estimates for the Pacific have been halved since July due to lower economic prospects for Papua New Guinea as it is still recovering from the earthquake.

Global

In its October 2018 outlook, the IMF expects global growth to be at 3.7 per cent for 2018 and 2019 (see Figure 4.2). The new estimate is 0.2 per cent lower than the April forecast. The reason for the decline is in part due to the US-China trade war. Other risks include country-specific factors, tighter financial conditions, geopolitical tensions and high oil prices.

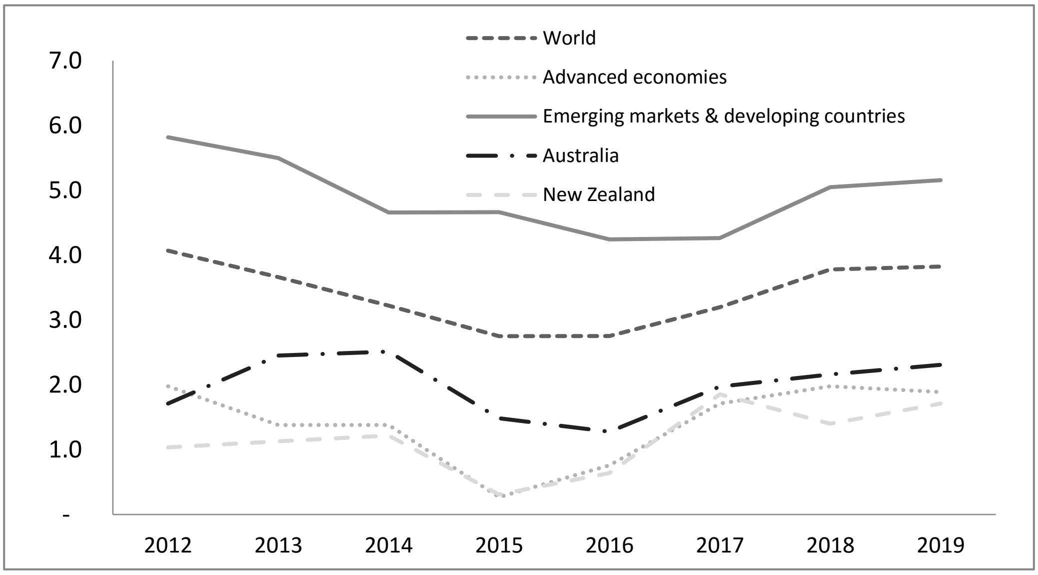
Figure 4.2: IMF GDP growth estimates, selected countries



Despite the forecast tightening of the global economic conditions, the Cook Islands is expecting positive economic growth in part due to the expected increases in tourist arrivals, although there is a risk of increased inflation.

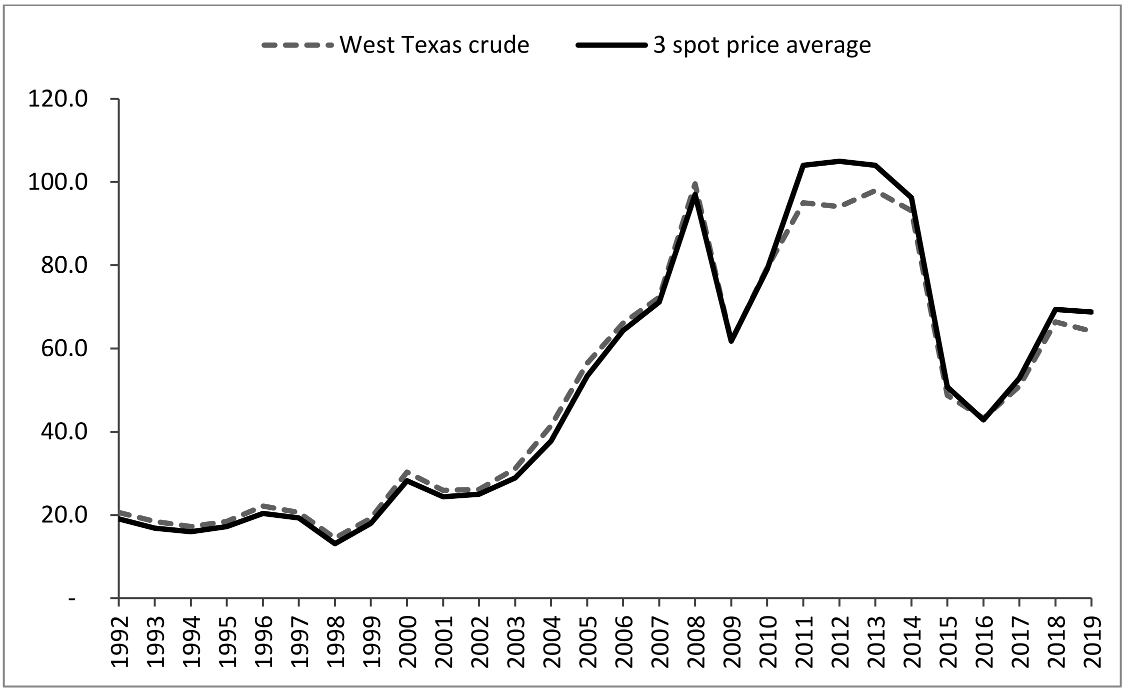
The IMF expects global headline inflation to pick up over the near term due to stronger demand putting upward pressure on commodity prices and the strengthening global outlook narrowing output gaps. The global headline inflation rate is currently at 3.8 per cent which is expected to remain throughout 2019 (see Figure 4.3). Core inflation (excluding fuel and food prices) is also expected to increase as wage dynamics reflect tighter labour markets. Headline inflation rates in advanced economies are projected to rise to about 2 percent in 2018 and 2019, from 1.7 per cent in 2017.

Figure 4.3: IMF inflation estimates, selected groupings and countries



Oil prices have been rising since 2016, increasing from around US$26 per barrel in January 2016 to about $70 per barrel in August 2018, as shown in Figure 4.4. In June 2018 oil prices reached $76 per barrel, the highest price since November 2014. On the back of the Organization for the Petroleum Exporting Countries (OPEC) (including Russia) agreeing to increase oil supply, the IMF expects prices to start moderating in 2019 to about US$69 per barrel, and further decreasing to about US$60 per barrel by 2023.

Figure 4.4: Daily oil spot prices, 1986 to 2019, US$/barrel



4.3 Cook Islands Gross Domestic Product

In October 2018, subsequent to the publication of the 2018/19 Budget, the Cook Islands Statistical Office released a substantially revised GDP time series. Key changes included:

- incorporation of new data – including new Census and Household Income and Expenditure Survey data;
- new industry classification to meet international standards – includes a new Information and Communications industry and a new Administrative Services industry;
- different valuation basis for industry value added – value added tax and import duties are now added to the total value added by industry;
- changed base year for constant price GDP from 2006 to 2016; and
- improved methodology for estimating VAT and government expenditure using quarterly data.

As a result of these substantive changes, which impact both the level and structure of the GDP time series, a comparison with the GDP data and forecasts presented in the 2018/19 Budget would not be meaningful.

Utilising the new time series, the Cook Islands has experienced positive real GDP growth since 2013/14, as shown in Figure 4.5, recording 6.8 per cent growth in 2016/17, the most recent complete financial year for which observed GDP production data is available, rising from $433.9 million to $463.2 million.

Figure 4.5: Real GDP growth, annual percentage change

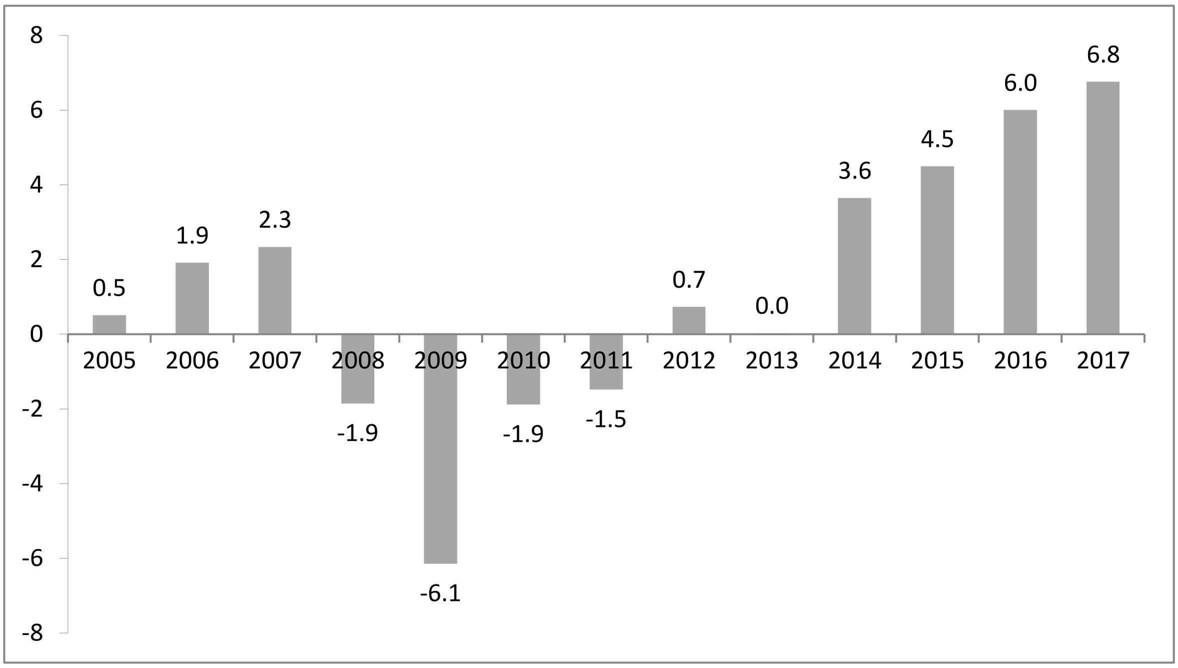
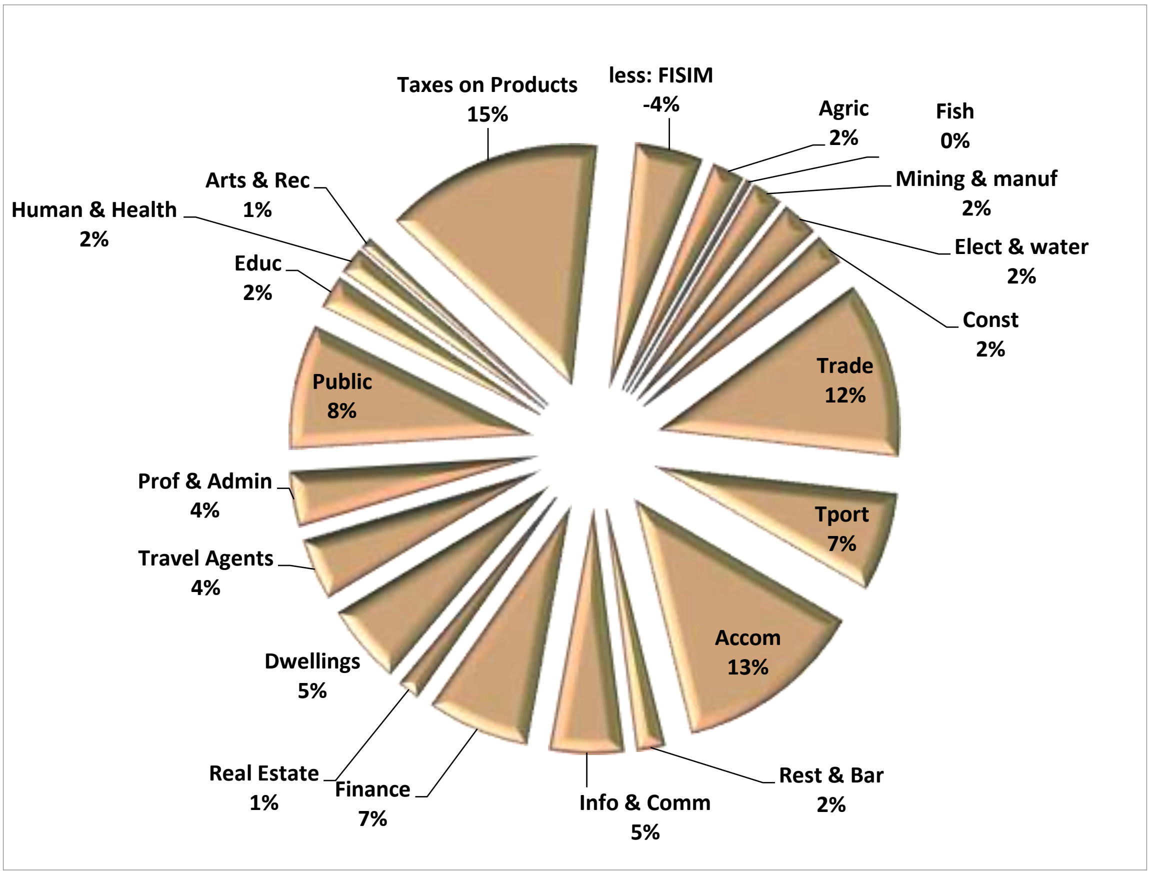


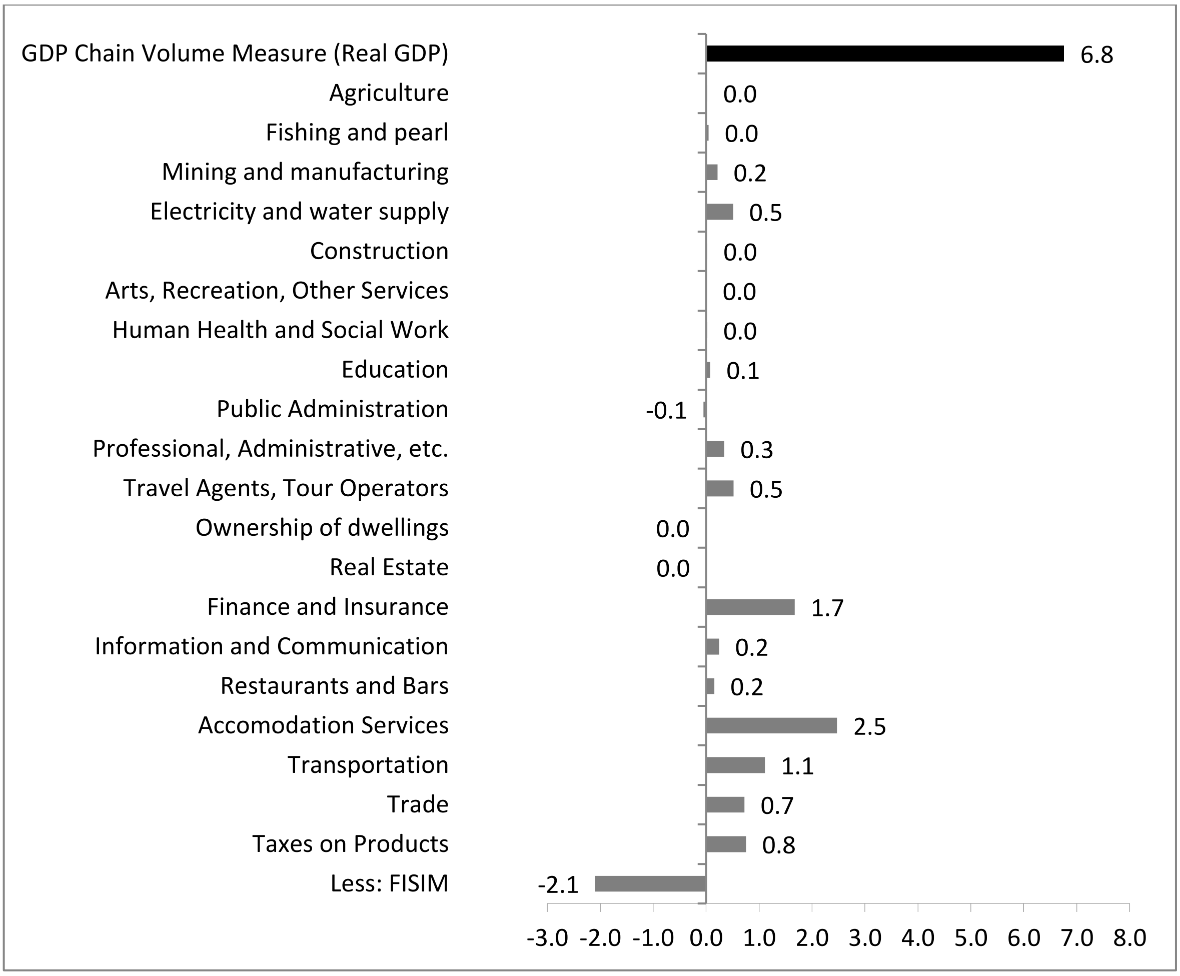
Figure 4.6 shows the breakdown of the Cook Islands economy by industry in 2016/17 following the new industry classification. The economy is dominated by the tertiary or services sector, accounting for nearly 80 per cent of the total economy in 2016/17, with the two largest tertiary industries, trade and accommodation services accounting for about a quarter of total economic output.

Figure 4.6: Cook Islands economy by industry, 2016/17



In 2016/17, high tourist arrivals drove strong growth in the economy, with the tertiary sector contributing 7.3 percentage points to real economic growth. The strongest industry contributions were from accommodation services (2.9 percentage points) and finance and insurance services (1.7 percentage points). During this period, accommodation services grew by 16.7 per cent from $54.5 million to $65.2 million and finance and insurance services rose by 26.3 per cent from $27.5 million to $34.8 million. Public administration services contracted in 2016/17.

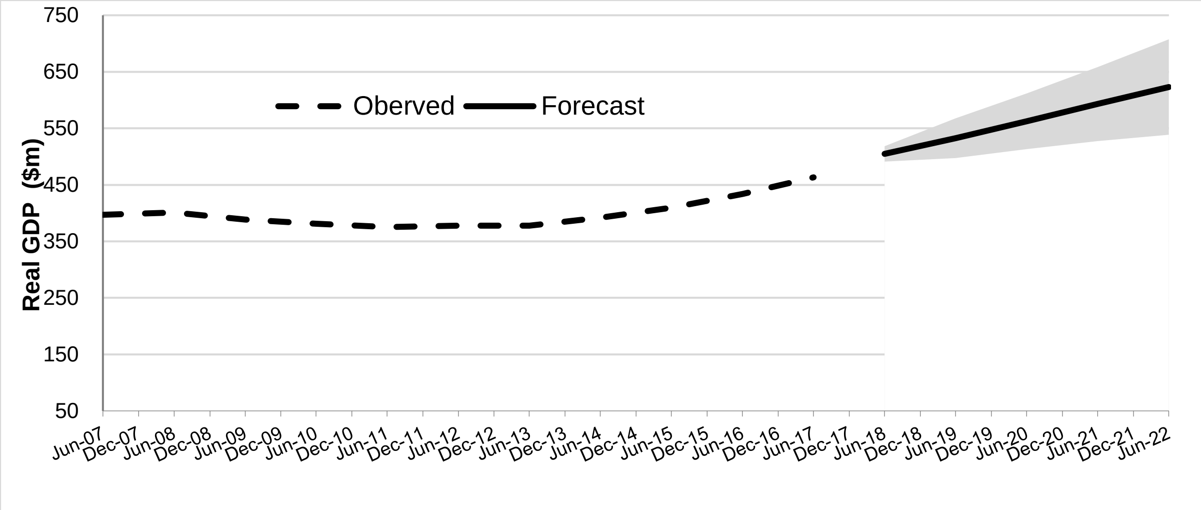
Figure 4.7: Contribution to 2016/2017 real growth (percentage point)



The secondary sector, which includes construction, electricity and manufacturing, contributed 0.7 percentage points to growth, while the primary sector, agriculture and fishing made a 0.1 percentage point contribution.

Observed and forecast real GDP from 2006/07 to 2022/23 is shown in Figure 4.8. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the forecast time series.

Figure 4.8: Observed and forecast real GDP, financial year ($m)



The forecast percentage change over the forward budget period compared to recent years is shown in Figure 4.9. A growth rate of 9 per cent is estimated in 2017/18, with growth forecast to fall to 5.5 per cent in 2018/19, before falling further to 5.1 per cent by the final year of the forward budget period. Average annual growth over the 4-year forward period is forecast at 5.4 per cent.

Figure 4.9: Annual change in real GDP (percentage)

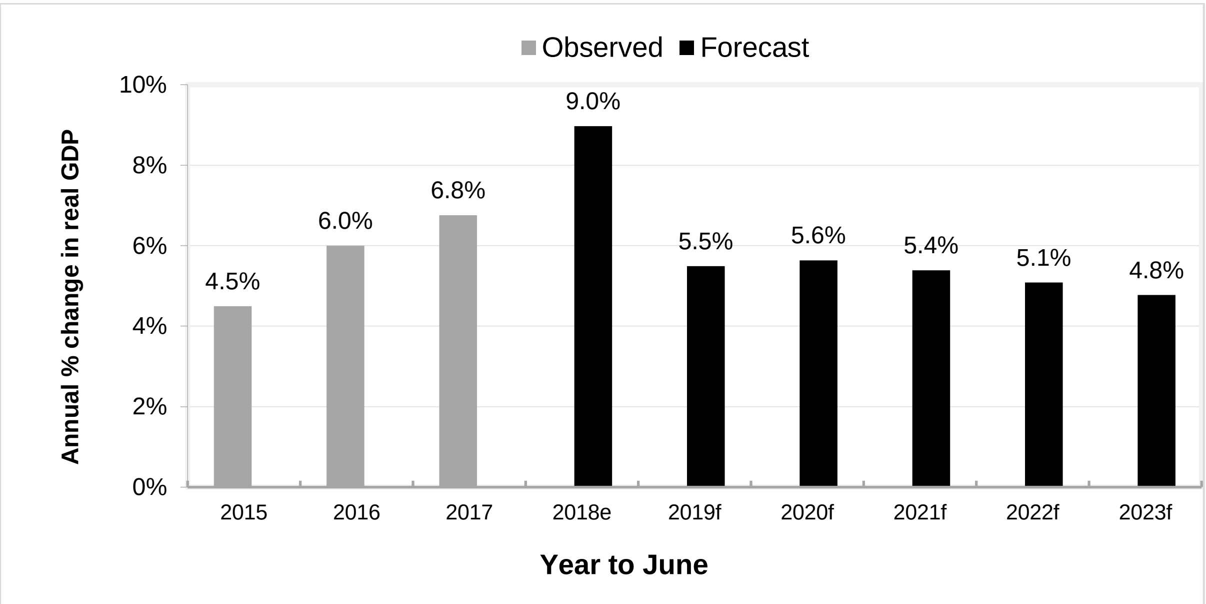
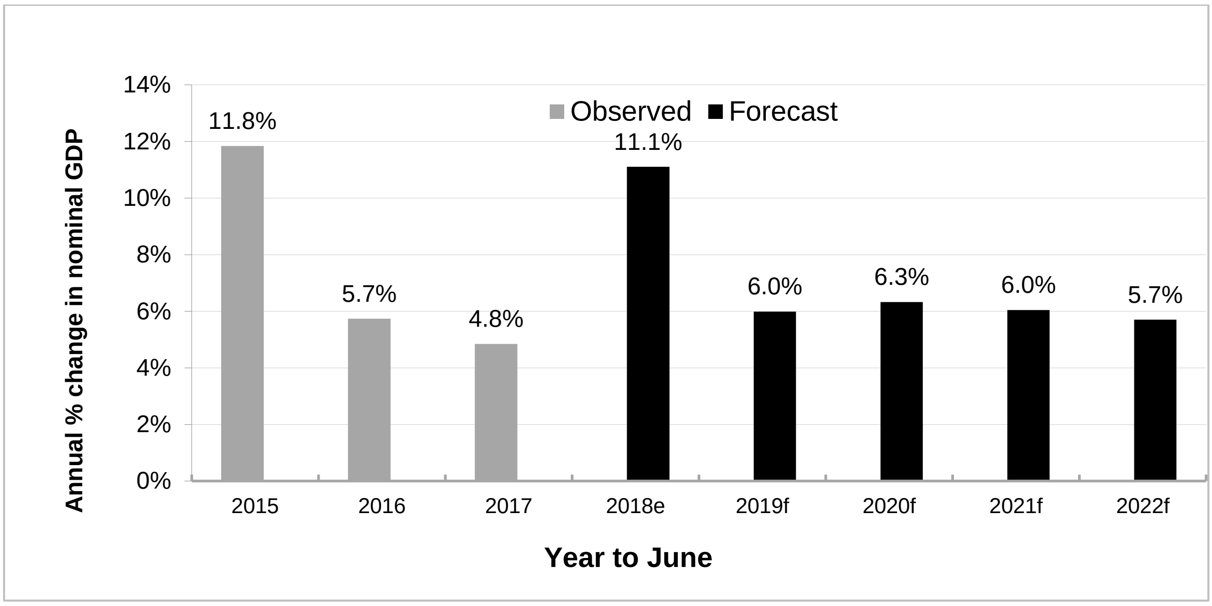


Figure 4.10 shows the forecast percentage change for nominal GDP. A growth rate of 11.1 per cent is estimated in 2017/18, with growth forecast to fall from 6 per cent in 2018/19 to about 5.7 per cent by the final year of the forward budget period. Average annual growth over the 4-year forward period is forecast at 6 per cent.

Figure 4.10: Annual change in nominal GDP (percentage)



In summary, as shown in Table 4.2, nominal and real GDP growth is expected to remain strong in the coming years, albeit at lower levels, due to continued but slower growth in tourism and investment, both public and private. While high levels of construction are also expected to contribute to economic growth, the resulting increase in the value of machinery imports and the import of services will likely offset some of the growth in construction. . Despite this, over the medium to long-term, high levels of investment are expected to drive improvements to the productive capacity of the Cook Islands economy.

Table 4.2: Annual GDP growth summary

	2017/18e	2018/19f	2019/20f	2020/21f	2021/22f
Nominal GDP growth (%)	11.1	6.0	6.3	6.0	5.7
Real GDP growth (%)	9.0	5.6	5.7	5.4	5.0
Implicit GDP deflator (percentage change)	2.0	0.4	0.6	0.6	0.7

4.4 Consumer price index

Inflation in the Cook Islands is measured by the consumer price index (CPI), which is reported on a quarterly basis by the Cook Islands Statistical Office. The Statistical Office made some minor revisions to the CPI data presented in the 2018/19 Budget. As shown in Figure 4.11, aggregate inflation has fallen steadily since about 2011/12, from 2.8 per cent per year then, to minus 0.1 per cent in 2016/17. In 2017/18, CPI rose slightly to an average of 0.4 per cent over the year. The most recent data, for the September quarter 2018, shows a fall in the CPI of 0.7 per cent since the September 2017 quarter. This was largely due to falls in alcohol and tobacco, transport and food categories.

Figure 4.11: CPI, year average, 2005/06 – 2017/18 (percentage change)

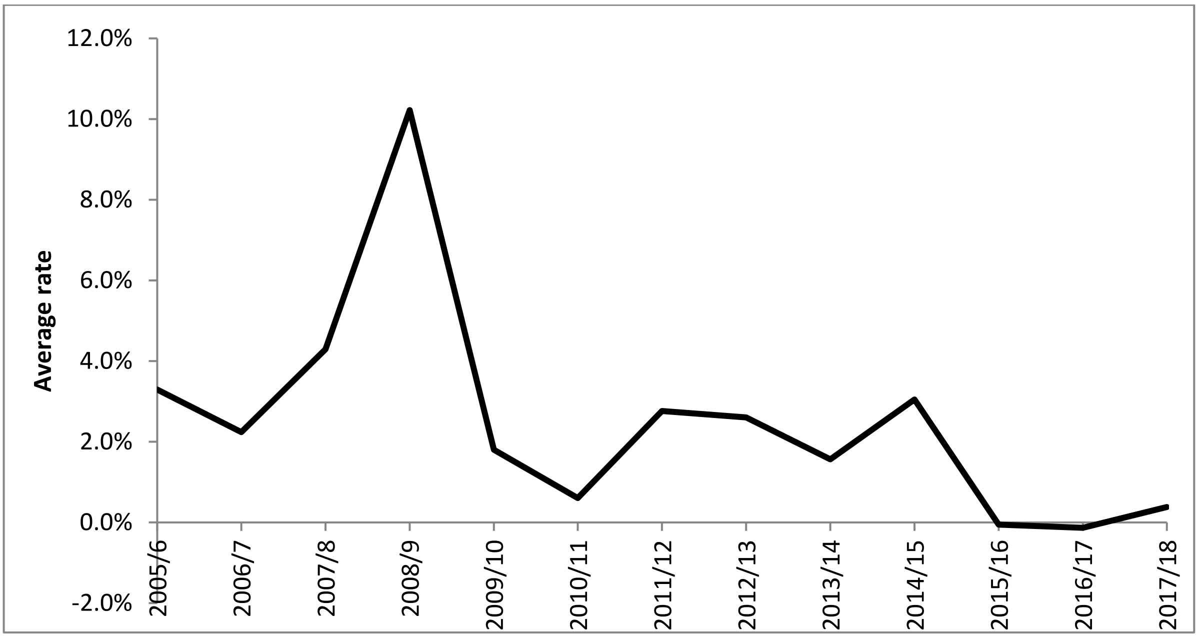
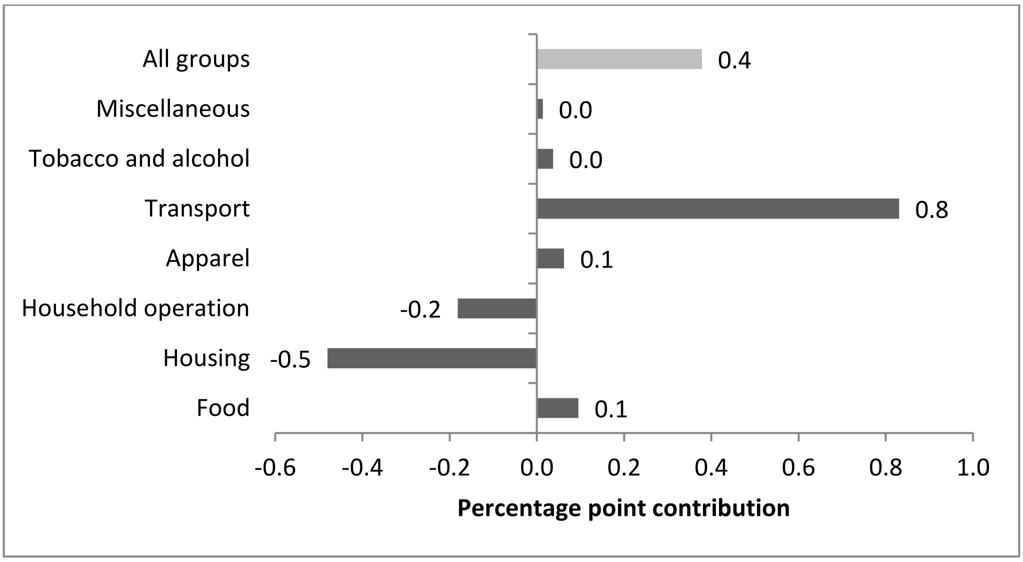


Figure 4.12 shows the contribution to aggregate inflation in 2017/18 by major category. The key driver of the increase was the transport category at 0.8 percentage points, with the household operation and housing categories partially offsetting this rise with falls of -0.2 and -0.5 percentage points, respectively.

Figure 4.12: Contribution to 2017/18 average inflation (percentage point)



The rise in transport costs reflects a recovery in the price of oil, as shown earlier in Figure 4.4. While increased competition in flights from New Zealand to the Cook Islands have helped to keep ticket prices low, the rising oil price has affected the cost of overseas travel, as well as the price of fuel and oil in the Cook Islands. Together, the overseas travel and motor fuel and oil sub-categories account for 40 per cent of the transport category weighting in the aggregate CPI measure.

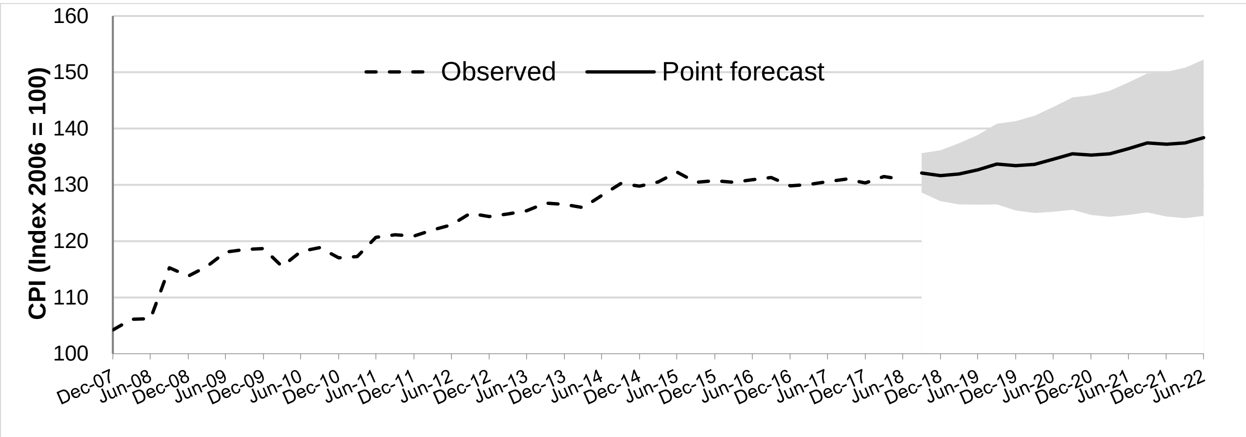
The decrease in the housing category is entirely due to a fall in the rent and mortgages sub-category, despite limited housing supply due to an increase in the use of private homes for short-term tourist accommodation and increased demand for long-term rental accommodation from larger tourism operators for their contract staff.

Global inflation has been relatively steady, reducing any external pressures from higher import prices. The use of the New Zealand dollar as the national currency has also helped to ensure that inflation in the Cook Islands has been relatively stable over the past 10 years (with the exception of a peak in 2008/09).

The recent depreciation in the New Zealand Dollar, together with the estimation that global inflation will increase to around 2 per cent in 2018, is expected to result in an increase in domestic inflation over the medium-term (through increased costs of imports). Additional demand in the local housing market also has the potential to reverse the deflation currently seen in the housing cost category. In contrast, the expectation that the global price of petroleum and industrial items will slow in 2018 should weaken inflationary pressures from the transport category.

Observed and forecast quarterly CPI from December 2007 to June 2022 is shown in Figure 4.13. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the point forecast time series.

Figure 4.13: CPI, quarterly index, 2007 to 2022



Overall, as shown in Figure 4.14 and Table 4.3, inflation is expected to pick up to 0.9 per cent in 2018/19 before rising further to about 1.4 per cent per year over the forward budget period on the back of increased pressure from imported inflation and a tightening local housing market.

Figure 4.14: Annual average change in CPI (percentage)

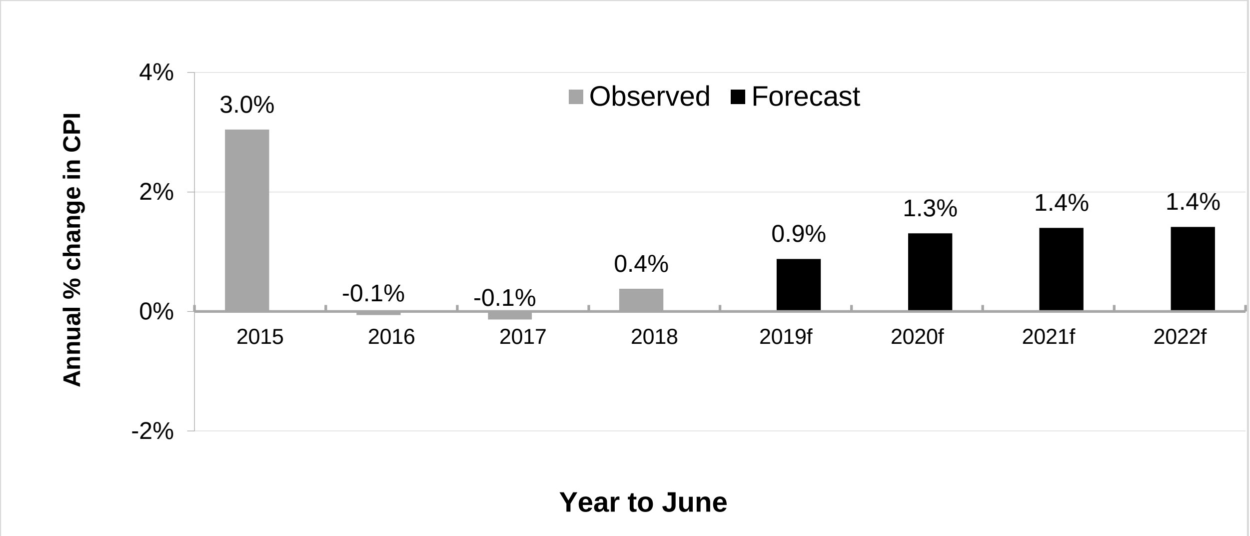


Table 4.3: Annual CPI forecast summary

	2017/18	2018/19f	2019/20f	2020/21f	2021/22f
CPI average annual index	130.9	132.1	133.8	135.7	137.6
CPI average annual percentage change	0.4%	0.9%	1.3%	1.4%	1.4%

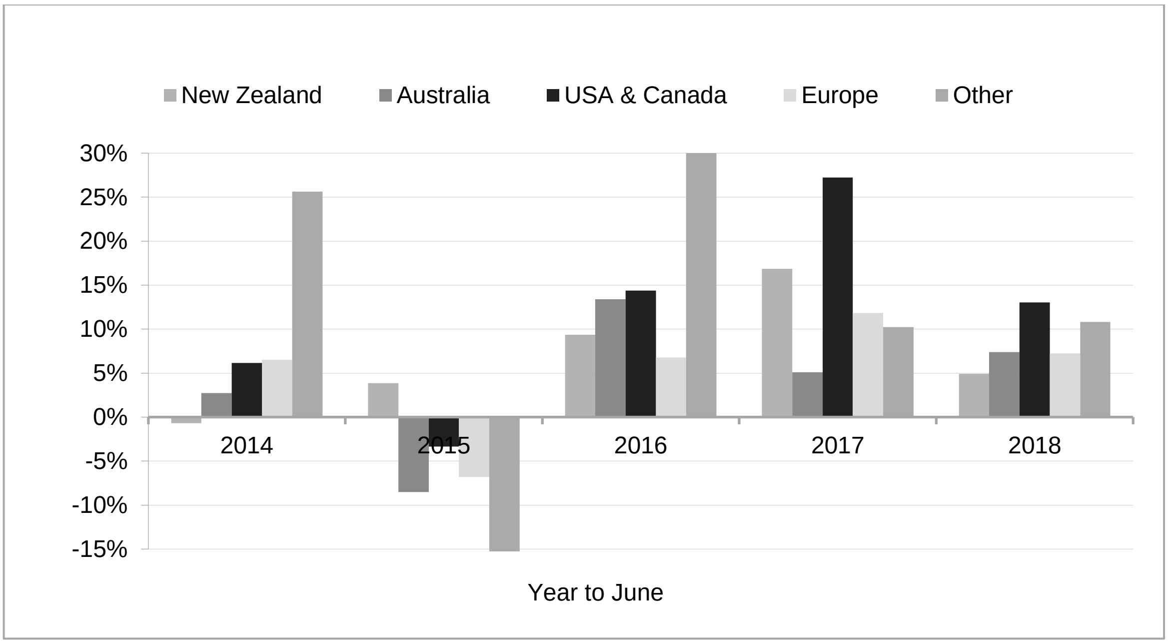
4.5 Tourism

4.5.1 Aggregate tourist arrivals

Continued strong growth in tourist arrivals in 2017/18 has ensured that tourism remains the key driver of economic activity in the Cook Islands. After contracting by 0.9 per cent in 2014/15, the tourism market saw growth of 11 per cent in 2015/16, and 15 per cent in 2016/17. The 2017/18 year saw lower, but still strong, growth, with arrivals reaching 164,800, 6 per cent higher than the 155,230 visitors recorded in the year to June 2017.

While New Zealand visitors still dominate the raw numbers, the USA and Canada recorded the highest visitor growth rate in the year to June 2018, with a 13 per cent rise on the previous year's 10,100 visitors to 11,418 (see Figure 4.15). Tourist arrivals from Europe and New Zealand have also grown strongly, at 7.2 and 4.9 per cent, respectively.

Figure 4.15: Visitor arrivals, country of residence (annual percentage change)



Total arrivals for 2018/19 are forecast to be about 176,851, 7.3 per cent higher than the 164,800 seen in 2017/18. This is higher than the 4.6 per cent forecast growth reported in the 2018/19 Budget, reflecting more recent data showing strong observed tourism numbers in the first quarter of 2018/19. Arrivals in the September quarter 2018 at 51,608 were nearly 8 per cent higher than that recorded for the September quarter 2017. As shown in Figure 4.16 and Table 4.4, growth is then expected to moderate to 1.7 per cent in 2019/20, before reaching a more sustainable 1.2 per cent by 2021/22.

Figure 4.16: Total visitor arrivals, financial year, 2010 to 2022

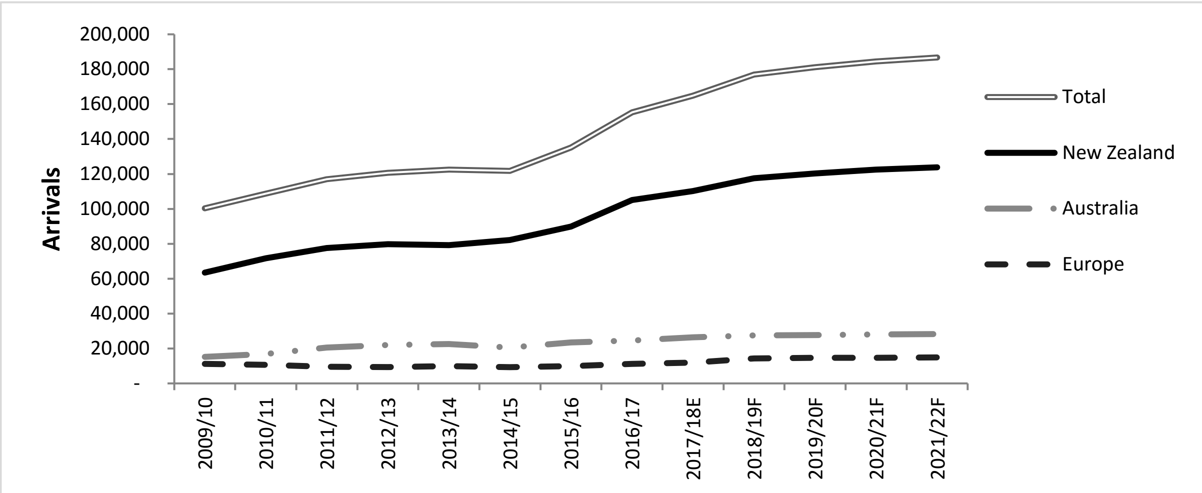


Table 4.4: Estimated total arrivals, quarterly, 2016/17 to 2021/22

Quarters	2016/17	2017/18	2018/19f	2019/20f	2020/21f	2021/22f
September	45,770	47,977	51,608	51,000	51,000	51,000
December	38,464	42,389	45,044	46,437	47,220	47,888
March	28,661	29,949	33,436	34,704	35,769	36,675
June	42,335	44,485	46,764	47,672	48,374	48,974
Annual total	**155,230**	**164,800**	**176,851**	**179,814**	**182,364**	**184,537**

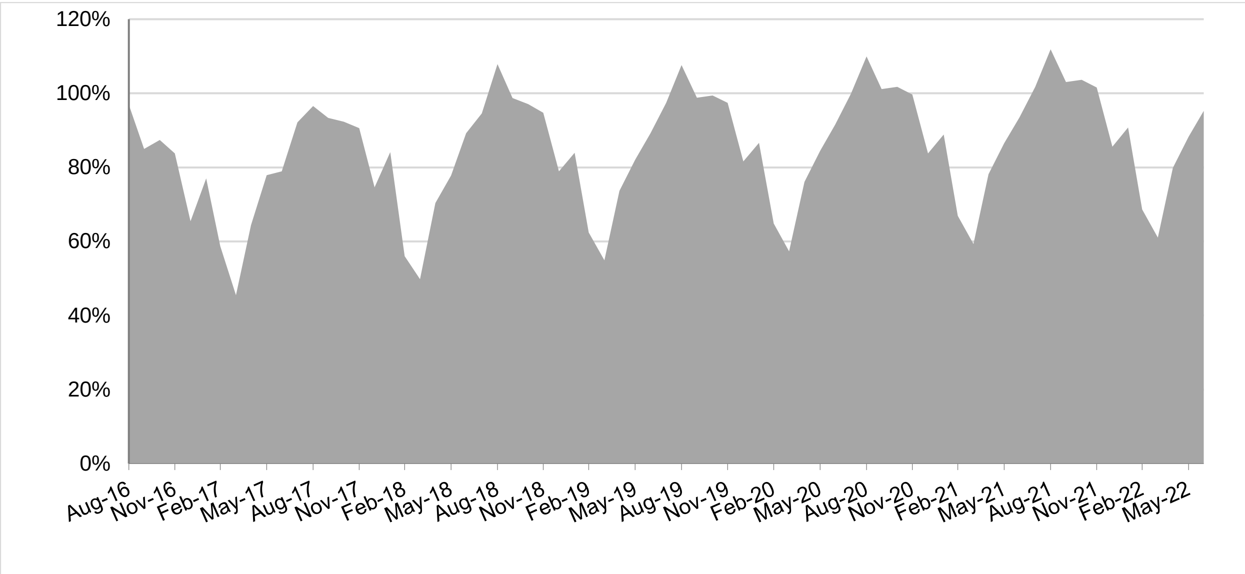
Despite the strong growth in tourism arrivals, the industry faces growing capacity constraints. Accurate data on tourism capacity in the Cook Islands is not currently available, particularly due to the recent growth in private holiday rentals. The highest number of tourists that the country has seen is 18,332, in July 2018. The economic forecasting in this chapter is based on a slightly lower assumed tourist capacity of about 17,000 per month. This conservative estimate accounts for the fact that July 2018 was unusual due to the Te Maeva Nui celebrations which likely saw many Cook Islanders return from abroad and as such classified as 'visitors'.

Limited accommodation and infrastructure impact upon the ability of the Cook Islands to carry higher 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. In addition, there has been a large increase in holiday home rentals through online sales such as Airbnb, with 306 rentals listed in November 2018. However, the increase in holiday home availability does not address the 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 for 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.

Figure 4.17 highlights the capacity limitations being experienced in the Cook Islands, by month. As Table 4.4 indicates, the September quarter (July to September) is the busiest time for tourists, with numbers already reaching their maximum assumed capacity in July 2018. During 2019/20, maximum capacity is expected to be reached in the September quarter and again in June 2020. This situation worsens in 2020/21 with maximum capacity expected to be reached during 5 months of the year.

Figure 4.17: Tourism capacity utilisation, monthly, 2016 to 2022



The Cook Islands Tourism Corporation is currently focusing on increasing the diversification of tourist arrivals, with a view to increasing the number of high value tourists arriving in the Cook Islands. It is also encouraging tourist arrivals during the March quarter (January to March), which has traditionally been known as the low season. If successful, this strategy should decrease the strong reliance on New Zealand by increasing arrivals from the North American market.

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 capitalise on the expected higher arrivals numbers.

4.5.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand with 67 per cent of total arrivals in 2017/18, followed by Australia with 16 per cent and Europe and the USA and Canada at 7 per cent each. Other markets including Asia and French Polynesia make up the remaining 3 per cent. Table 4.5 shows the aggregate tourist arrivals forecasts broken down by major market.

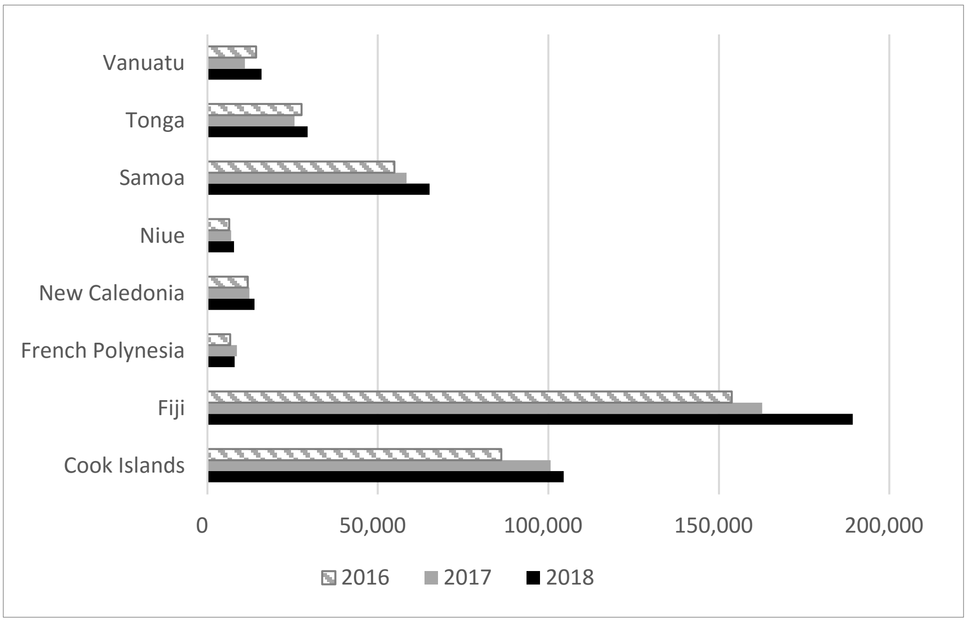
Table 4.5: Estimated total tourism numbers, by major market, 2016/17 to 2021/22

Markets	2016/17	2017/18	2018/19f	2019/20f	2020/21f	2021/22f
New Zealand	105,072	110,227	117,574	119,354	121,033	122,262
Australia	24,578	26,398	27,517	27,529	27,730	27,971
USA & Canada	10,100	11,418	13,085	13,734	14,192	14,662
Europe	11,122	11,928	14,364	14,515	14,635	14,771
Other	4,358	4,829	4,313	4,681	4,773	4,871
Total	**155,230**	**164,800**	**176,851**	**179,814**	**182,364**	**184,537**

New Zealand

New Zealand arrivals reached 110,227 in 2017/18, a 4.9 per cent increase over 2016/17. Over the past ten years, New Zealand arrivals have grown an average of about 6 per cent a year. Growth in tourism numbers from New Zealand is generally consistent with the growth in New Zealand outward tourists to the Pacific, which has increased steadily in recent years, however the Cook Islands is starting to receive a larger share of tourists to Oceania, rising from 5.2 per cent in 2015/16 to 6.3 per cent in 2017/18, behind Australia and Fiji.

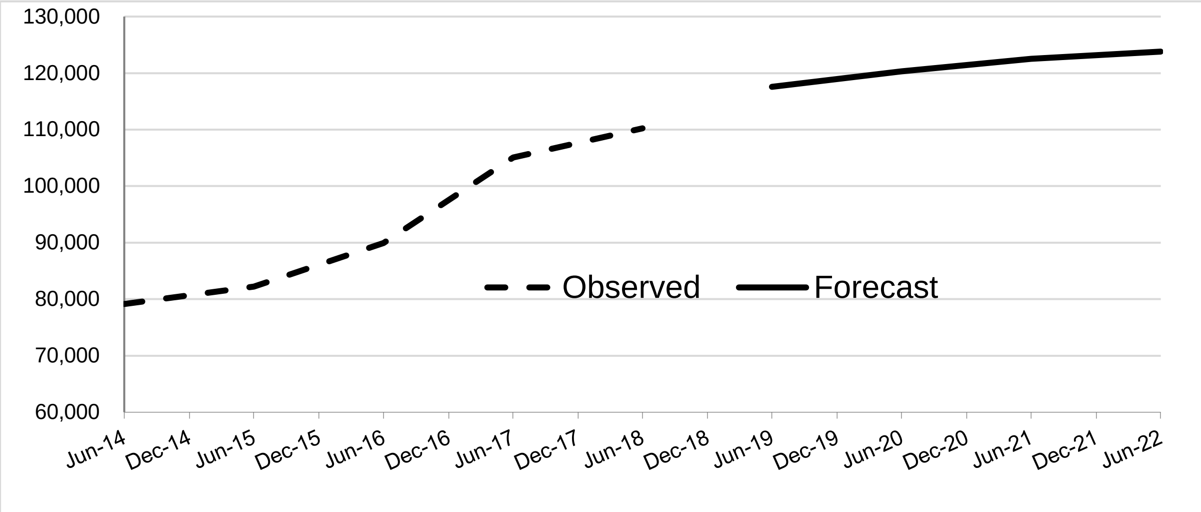
Figure 4.18: New Zealand Pacific outbound tourist numbers, by destination



Strong growth in the New Zealand market has encouraged several airlines to increase the number of flights to the Cook Islands, which also has a positive impact on the Australian market as it provides more options for indirect flights.

Arrival numbers for New Zealand visitors to the Cook Islands are expected to continue to increase going forward, but at slower rates in the forward period than in recent years (see Figure 4.19). Growth is projected to be 6.7 per cent in 2018/19, before slowing down to around 1.0 per cent by 2022/23. Total New Zealand arrivals are expected to rise from 110,227 to 122,262 over this period.

Figure 4.19: New Zealand arrivals, 2008 to 2022



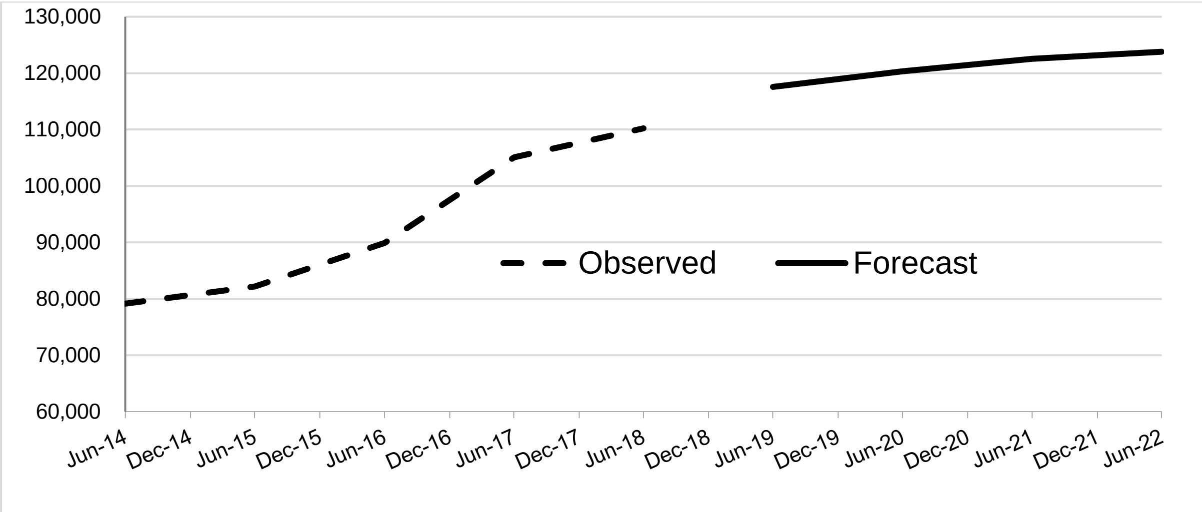
Australia

Australia is the second largest tourism market for the Cook Islands, with growth averaging about 9 per cent per year over the past ten years. After experiencing a 9 per cent decrease in arrivals in 2014/15, visitor numbers recovered with an increase of about 13 per cent in 2015/16 and 5 per cent in 2016/17, followed by a further rise of 7.4 per cent in 2017/18, rising from 24,578 to 26,398.

The increases in arrivals are off the back of strong growth in Australian outbound tourism (5.5 per cent from May 2017 to May 2018) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities. Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, increasing by 4 per cent to 10.5 million in 2017/18, and by 4.2 per cent to 10.9 million in 2018/19.

Arrival numbers for Australian visitors to the Cook Islands are expected to moderate going forward. Growth is projected to be 4.2 per cent in 2018/19, dropping to about 0.9 per cent by 2021/22 (see Figure 4.20). Australian visitors are expected to increase from about 26,398 to 27,971 over this period.

Figure 4.20: Australia arrivals, 2008 to 2022



Other markets

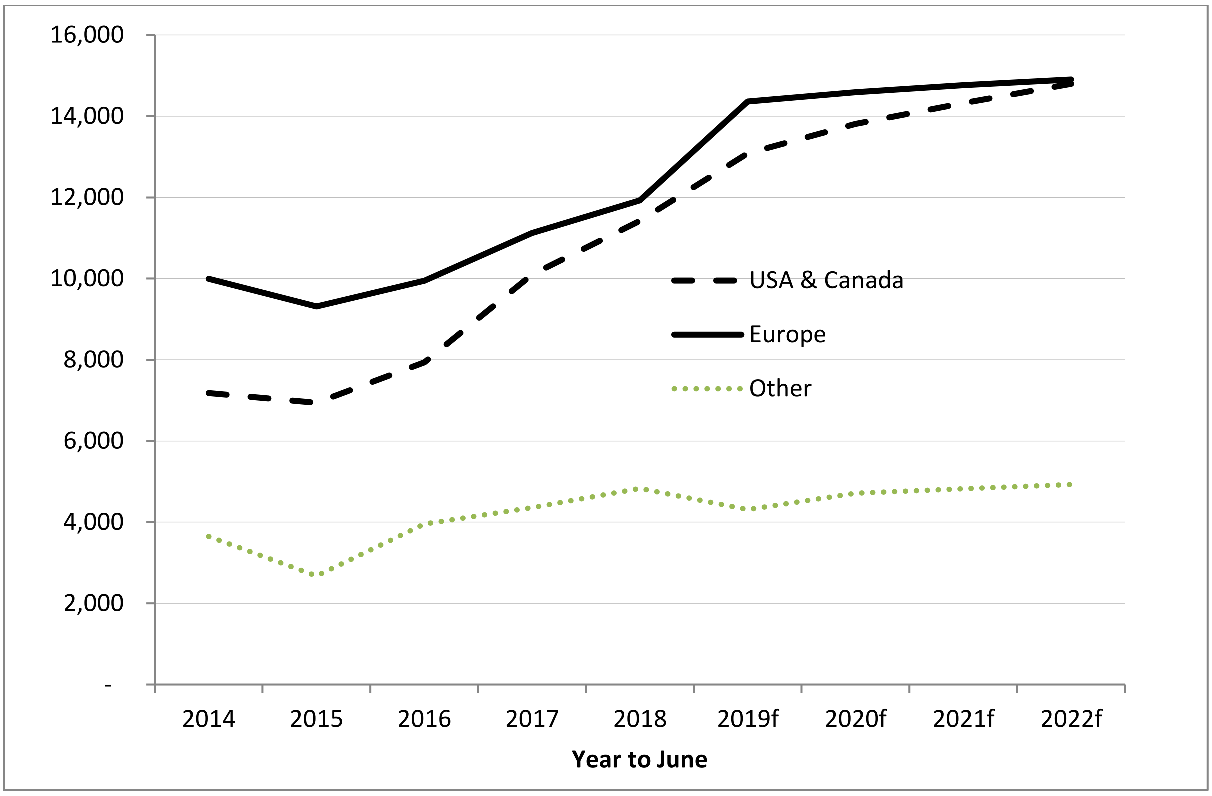
The strong growth experienced in other markets in 2016/17 has continued into 2017/18. The level of growth is expected to moderate over the forward estimates, as shown in Figure 4.21.

Arrivals from the United States increased by 9.3 per cent in 2017/18, to 8,131 from 7,436. Growth in 2018/19 is projected to be lower at 2.4 per cent and then expected to fall further to about 1.2 per cent. A strengthening US dollar should have a positive impact on tourist numbers.

As with the United States, there has been strong growth in Canadian visitors in the past two years, albeit from a low base. Growth in 2015/16 was 9.9 per cent, followed by 23.4 per cent in 2017/18. Arrivals rose from 2,664 to 3,287 in the year to June 2018. Growth is expected to remain strong over the medium term, averaging about 6.6 per cent per year over the forward budget period.

Strong growth, albeit from a low base, in arrivals from other countries (primarily Asia and French Polynesia) in recent years is expected to moderate going forward.

Figure 4.21: Other major markets arrivals, 2014 to 2022



4.6 Housing and construction

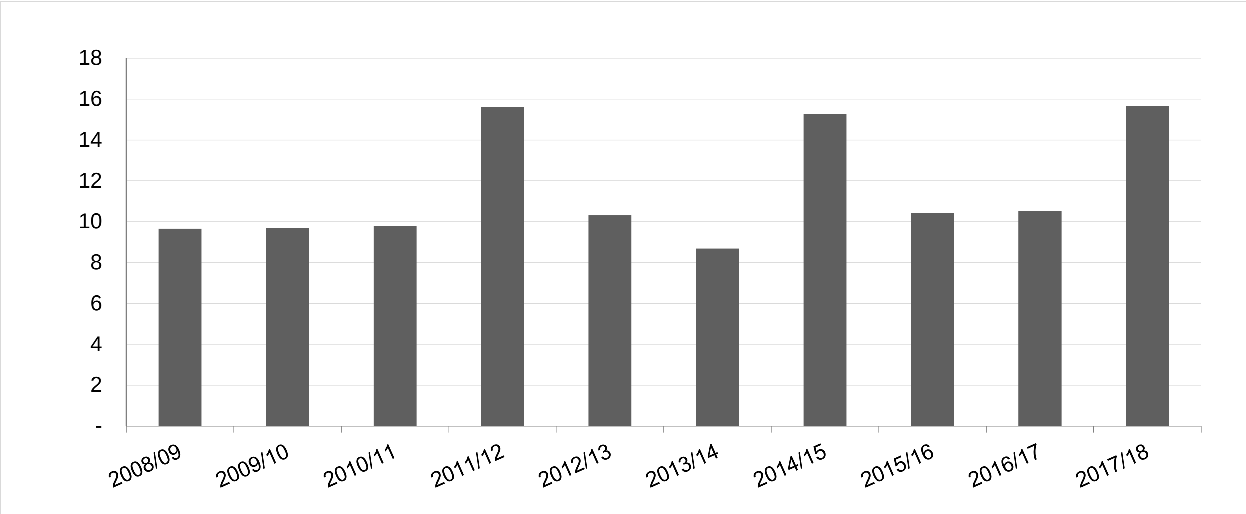
The value of residential and commercial (commercial, tourist and community buildings) building approvals has been much higher than trend in the three years to 2017/18.

In 2015/16 residential approvals increased by 166 per cent to $15.4 million. This fell in 2016/17 by 23 per cent to $11.9 million, and remained steady in 2017/18, increasing by just 1 per cent to $12 million. 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.

Commercial building approvals rose significantly in 2015/16 and 2016/17, at 55 and 33 per cent, respectively, peaking at $24.5 million. This was largely due to a number of large community projects such as Apii Nikao and Tereora College, with both undertaking major redevelopment. Commercial approvals fell by 67 per cent to $8 million in 2017/18, although still at a historically high level.

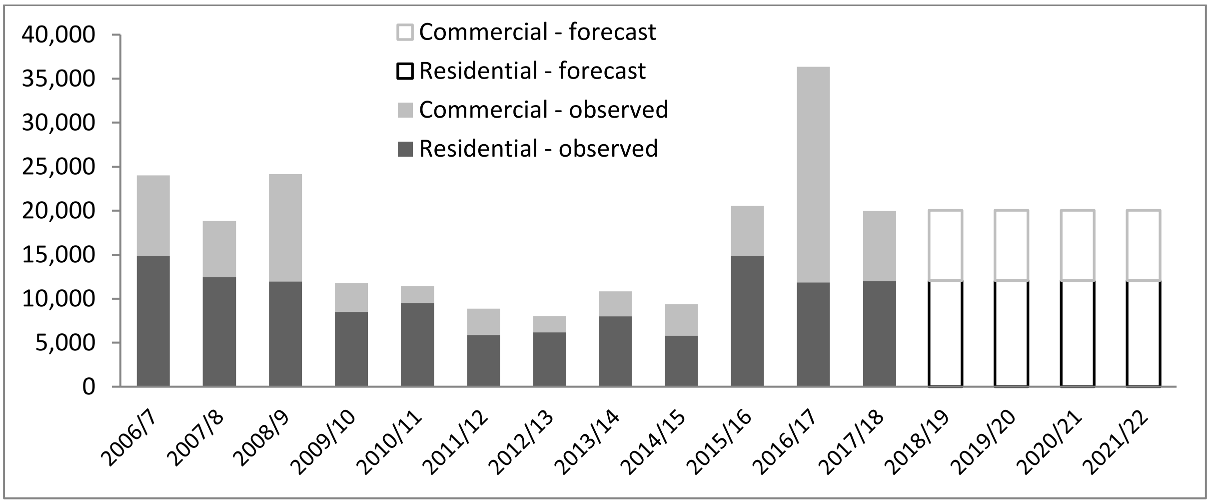
The unprecedented level of the value of building approvals in recent years is reflected in the recent performance of the construction sector of the Cook Islands economy. The construction sector's contribution to GDP, shown Figure 4.22, has risen from $10.4 million in 2015/16 to an estimated $13.5 million in 2017/18.

Figure 4.22: Construction sector contribution to real GDP, 2008 to 2018, $ million real



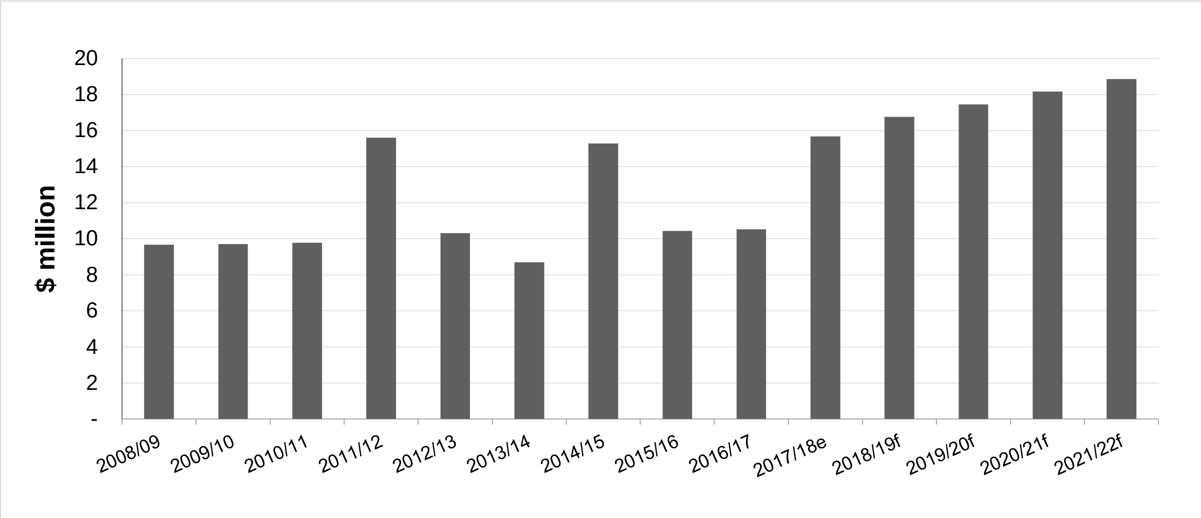
Going forward it is expected that both residential and commercial building approvals will stay at similar levels to those seen in 2017/18, reflecting the expected level of construction activity to service the tourism market (see Figure 4.23).

Figure 4.23: Value of building approvals, 2006/07 to 2020/21, $'000



The construction sector as a whole is forecast to grow at a steady state over the forward years, as shown in Figure 4.24.

Figure 4.24: Construction sector forecast, 2007 to 2022 ($ million real)



4.7 Marine resources

4.7.1 Fishing

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. The provisional revenue estimate for 2018/19 is $10.8 million.

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 Central Pacific Fisheries Commission (WCPFC).

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

In January 2017, the Government licensed two Spanish purse seine fishing vessels under the European Union Sustainable Fisheries Partnership Arrangement. Under the 5 year agreement there is a 4 year protocol for fisheries access allowing up to 7,000 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.

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

For the 2018 calendar year, the average price for a fishing day is expected to be between $12,500 and $13,500 dollars, depending on exchange rates. Projected fisheries revenue for 2018/19 is about $10.8 million:

- $1.8 million from the longline quota system;
- $1.2 million from the US treaty equal shares;
- $4.3 million from the US treaty annual pool;
- $758,000 from the US treaty bilateral arrangements;
- $1.3 million from the EU SFPA agreement.

The decline in forecast revenue from 2017/18 actuals of $13.5 million is due partly to changes in fishing patterns leading to a reduction in licensing and in part, the flow on financial effect of the Marae Moana Act 50nm closure. The decline in the US treaty bilateral arrangements revenue is attributable to the re-negotiation of the regional multilateral treaty which led to a renewal of US effort elsewhere in the region.

Fishing activities

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

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

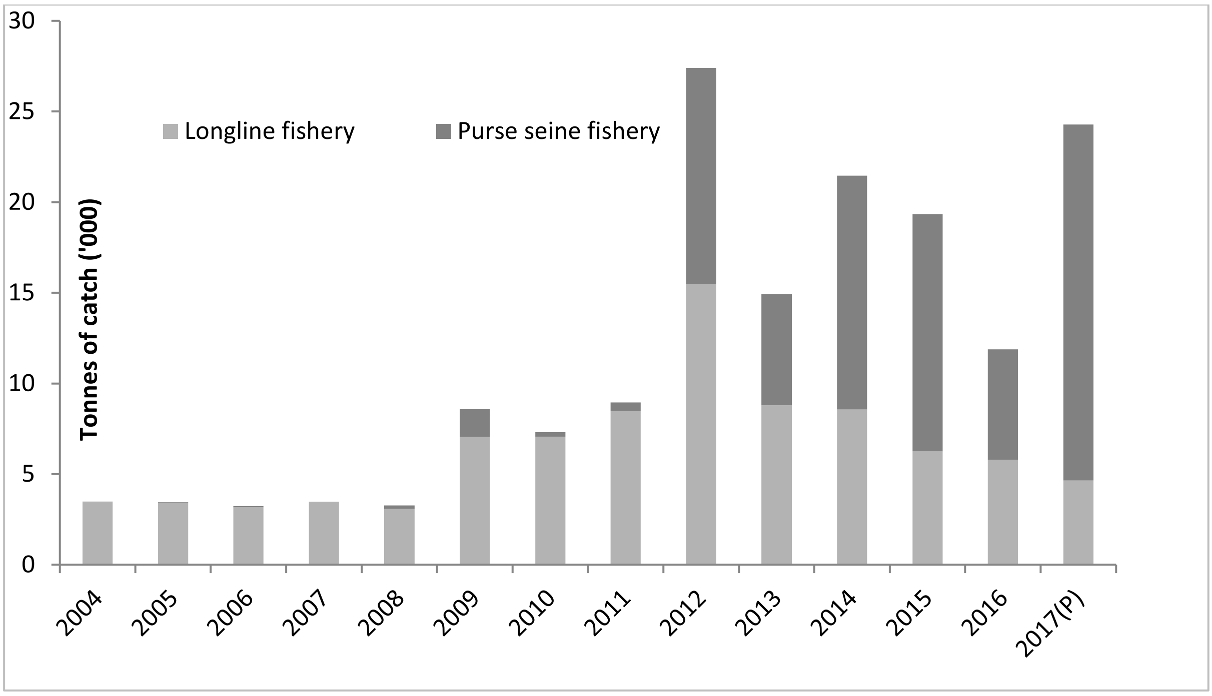
The longline catch peaked at 15,500 tonnes in 2012 during exploratory fishing for bigeye tuna. This has declined to 4,650 tonnes in 2017 as the fishery has reverted back to its regulated albacore catches. Over the same period purse seining has become the dominant fishery in the Cook Islands, expanding from 476 tonnes in 2010 to a peak of 19,510 tonnes in 2017.

The Quota Management System Regulations introduced in 2016 placed a commercial quota limit or total allowable commercial catch (TACC) and total allowable catch (TAC) for each of the species being;

- 9,750 MT ALB (TAC)
- 9,698 MT ALB (TACC)
- 3,500 MT BET (TAC)
- 2,500 MT BET (TACC).

The set price per tonnage of quota is $250. In 2017 the total revenue generated from the QMS was estimated at $2 million. For 2018 the estimated revenue as at November is estimated at $1.9 million.

Figure 4.25: Fishery catch in the Cook Islands EEZ (MT)



The Cook Islands also supports a small local fishery of artisanal and fishing game operators. The estimated catch of local fishers in the Southern Group was 140 MT in 2017.

Albacore and yellow fin tuna together accounted for around 80 per cent of species caught by long line in 2017, with a decrease in yellow fin in 2016 compared to 2015 as seen in Table 4.6 With the increase in purse seining, Skipjack was the most caught species overall in 2017 at approximately 17,492 MT, or 72 per cent of the total catch.

Table 4.6: Fishery catches in the Cook Islands EEZ by species (MT)

	2015		2016			2017p		
	Purse seine	*Local*	*Longline*	*Purse seine*	*Local*	*Longline*	*Purse seine*	*Local*
Albacore	0	2	4,224	0	1	2,966	0	1
Bigeye	110	0	537	86	0	226	339	0
Yellowfin	599	71	1,094	416	77	812	1,679	46
Skipjack	18,238	12	123	4,874	7	120	17,492	2
Other	0	57	725	10	24	526	n/a	27
Total	**18,947**	**142**	**6,703**	**5,386**	**109**	**4,650**	**19,510**	**76**

In 2017, a total of 101 licensed vessels were managed by the MMR. These include 54 long liners, 38 purse seiners, 2 high seas trawlers and 8 bunker vessels. In addition there were 265 local artisanal and game charter fishing boats reporting catches to the MMR (Table 4.7).

Table 4.7: Number of active fishing vessels

Licensed and active vessels	2014	2014	2015	2016	2017	2018p
Offshore fishery						
Long liner	45	36	38	47	55	36
Purse seiner	17	18	65	33	16	33
Other commercial	4	5	5	10	8	12
Total	**66**	**59**	**108**	**90**	**79**	**81**
Local artisanal and game fishery	223	302	301	285	265	265

Total landed value of fishery catches decreased between 2014 and 2016 to $40.6 million, before recovering in 2017 to $55.3 million as seen Table 4.8. The decrease is largely due to change in 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 4.8: Landed value of fishery catches ($m)

Landed value	2012	2013	2014	2015	2016	2017
Longline fishery	40	32	44	41.4	30.1	21.8
Purse seine fishery	25	15	33	21.6	10.5	33.5
Local artisanal and game fishery		2	2	n/a	n/a	n/a
Total	**65**	**49**	**79**	**63**	**40.6**	**55.3**

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. In 2017, 286 MT of fish was unloaded from Cook Island's domestic vessels in Rarotonga, compared to 179MT in 2016. The volume of exports increased from 15 to 25 MT over this period.

Landed frozen catch by foreign flagged vessels in Rarotonga totaled nearly 400 MT in 2016, up from 363 MT in 2015. In 2014, the total catch landed by Chinese vessels was 1,900 MT, a very large spike compared to normal catch levels. No landed catch was reported for 2017.

Table 4.9: Catch landed at Avatiu Port (MT)

	2013	2014	2015	2016	2017
Cook Islands flagged vessels					
Fresh catches offloaded	105	194	188	179	286
Fresh catches to be exported by airfreight	15	23	115	125	25
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**	**311**

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

MMR anticipates improved coverage in artisanal data collections with the introduction of reporting initiatives such as the Pacific Community (SPC) 'Tails' application, which is designed to synchronise artisanal catch data to the database automatically from mobile devices.

The US Project Development Fund (PDF) raises a development fee of $10,000 charged to each foreign fishing license. In 2016, $300,000 was made available to support the local fishers comprising $100,000 for the Cook Islands Fishing Association, $150,000 in small grants to individuals and $50,000 for the fishing clubs of the Pa Tokerau (Northern Group).

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

4.7.2 Black pearls

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

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

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

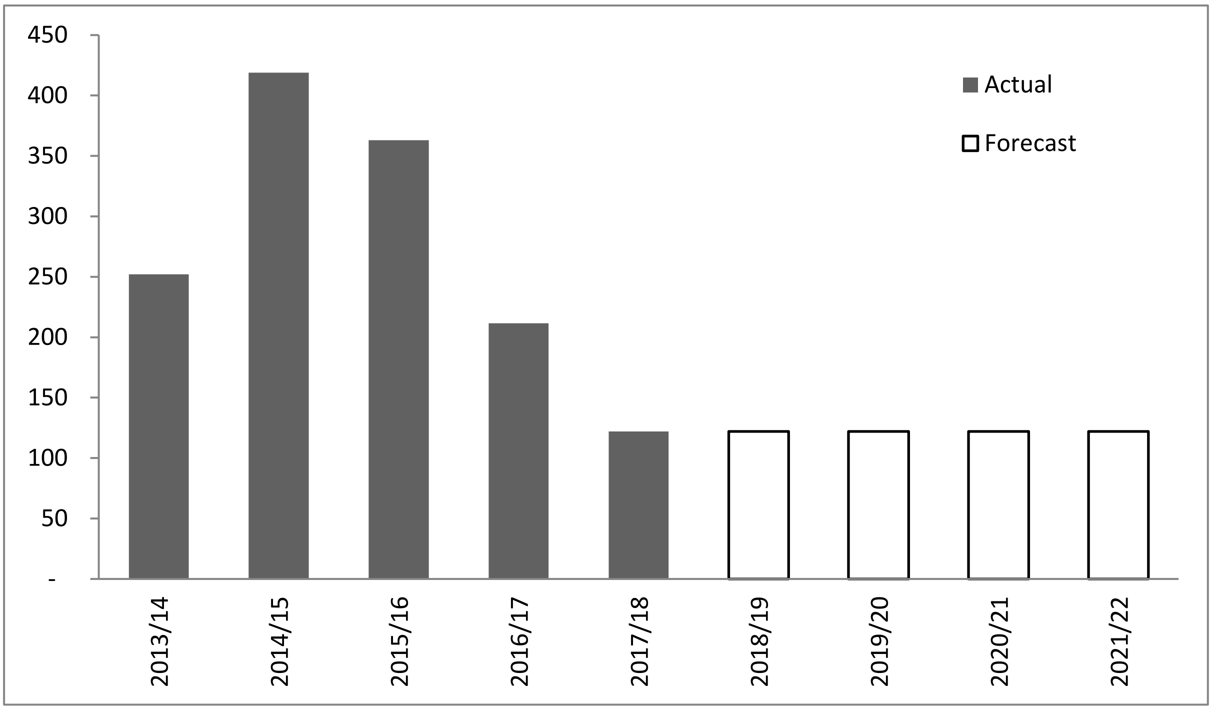
The total levels of production based on seeding and harvest reports submitted by farmers to MMR indicate that annual production levels average just below 200,000 farmed oysters, see Table 4.10. Data for 2016 was incomplete at the time of writing.

Table 4.10: Pearl production, 2009-2016

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

In 2017/18, the value of pearl and pearl shell exports fell to $122,000, down from $211,000 in 2016/17 (Figure 4.26).

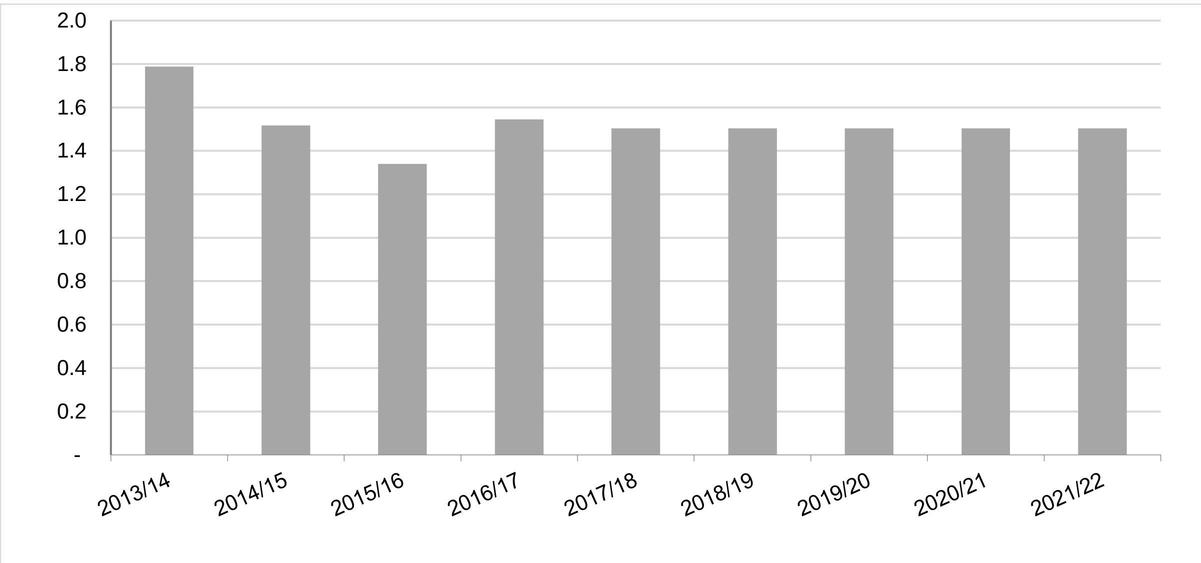
Figure 4.26: Pearl exports, 2012/13 -2021/22 ($'000)



4.7.3 Economic contribution

The Fishing and Pearl sector accounted for less than 2 per cent of real GDP in 2016/17, and is estimated to account for a similar proportion in 2017/18. The sector grew by 15 per cent in 2016/17 from $1.3 million to $1.5 million in real terms. A slight fall is expected in 2017/18, with the outlook for the sector over the budget forecast period steady, as shown in Figure 4.27.

Figure 4.27: Fishing and pearl contribution to GDP, annual, 2008/09 to 2021/22 ($m real)



4.7.4 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. Regular water quality monitoring is undertaken on the islands of Rarotonga, Aitutaki and Manihiki due to the tourism industry on Rarotonga and Aitutaki and the pearl industry on Manihiki.

Water quality checks suggest that the overall quality of water is improving in Muri, possibly as a result of better sanitation and new building regulations, however spikes of poor water quality do occur. The health of Muri lagoon is crucial to the success of the tourism sector. Similar tests in Manihiki between 2015 and 2018 highlight incidents of poor bacterial conditions amongst relatively good water quality in Manihiki.

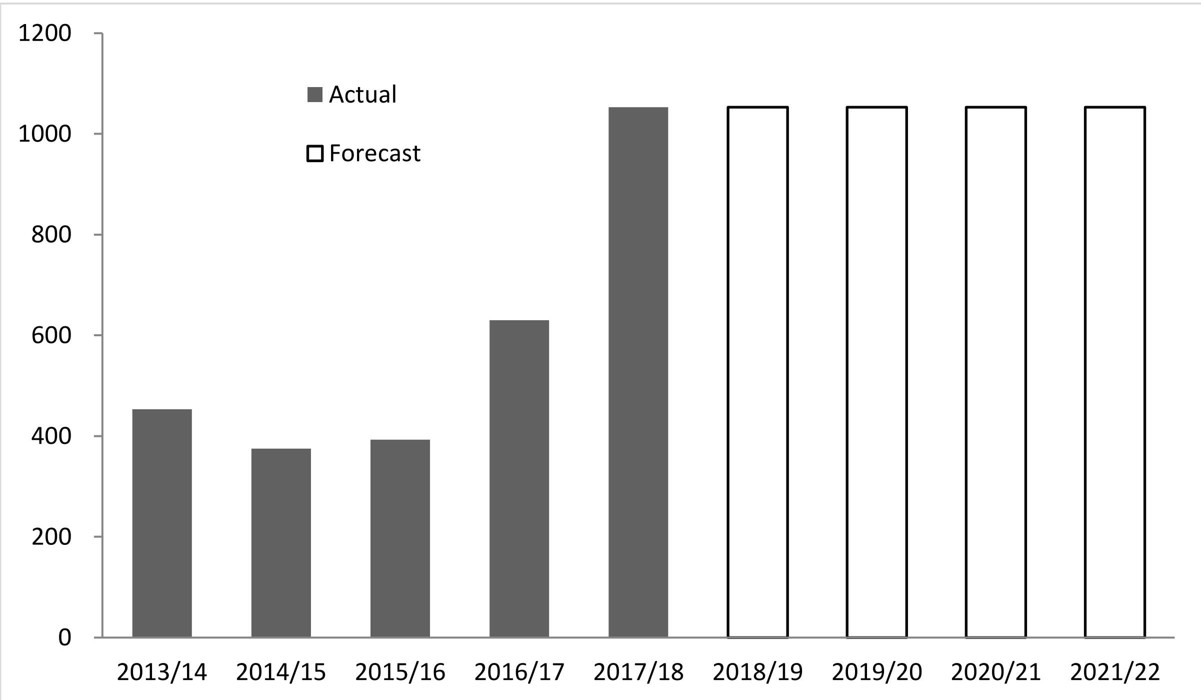
4.8 Agriculture

The Agricultural sector accounted for about 2 per cent of real GDP in 2016/17. The sector grew by 0.8 per cent in 2016/17 from $10.5 million to $10.6 million in real terms. Further growth is estimated for 2017/18, rising by 0.9 per cent to $10.7 million.

This growth was underpinned by a significant expansion in agricultural exports in 2016/17 and 2017/18, following a decreases in 2015/16. Noni Juice remains the main export commodity product from the Cook Islands, with the primary export markets in Japan, China and, more recently, South Korea. 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.

Total agricultural exports, almost entirely comprised of Nono, rose from $630,000 in 2016/17 to just over $1 million in 2017/18, an increase of 67 per cent (see Figure 4.28).

Figure 4.28: Agriculture 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 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, helping to create a comparative advantage for our growers.

The Ministry of Agriculture manages the Food and Agriculture Organization's (FAO) funding of the Nursery Program supporting MOA's nursery production, providing seeds, seedlings and technical support to Rarotonga and Pa Enua farmers, including schools and home gardeners. Varieties supplied include all recommended vegetable varieties and open-pollinated seeds for self-sustainability of the next seasons seed supplies.

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 the Northern Pa Enua. The Ministry of Agriculture is also investing in vanilla shade houses to boost production of this high value crop for export and the local market.

The Ministry of Agriculture continues to provide new potential varieties (White Jade Pineapple, Rambutan), and material support towards the FAO Fruit Tree and Vegetable Model Orchard Farms, implemented by the Cook Islands Chamber of Commerce in their Agribusiness training program. This has now expanded to Aitutaki, Mangaia, Mauke, Atiu – the Agricultural Fruit Tree Production and training of Growers, under the Pa Enua Action for Resilient Livelihood (PEARL) program, managed by MFEM.

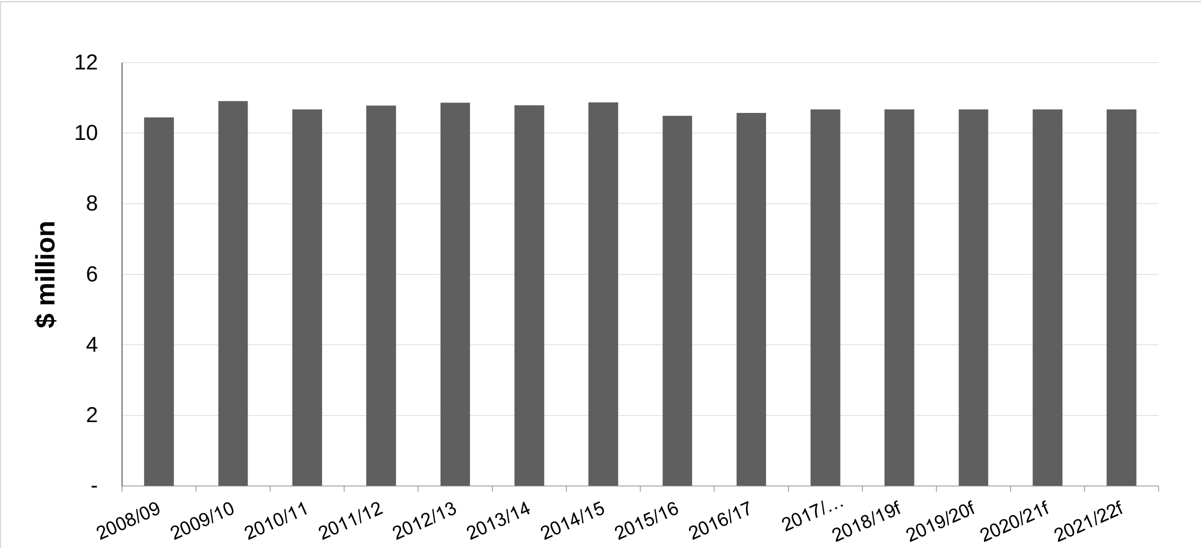
There is high demand for local agricultural products, however there are a number of constraints that limit growth in the agriculture sector:

- substandard biosecurity treatment facilities to meet 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 in some cases, high 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.

A new survey system for the Pa Enua has been developed that collates production, land usage, market, livestock and inputs. This allows farmers and buyers to understand the level of production they are on and forecast expected crops before harvest. The first quarterly report for the Pa Enua will be released at the end of the first quarter of 2019. In Rarotonga the first sample survey for agriculture will be conducted in the first quarter of 2019 and is expected to be maintained on a quarterly basis.

A steady economic outlook for the agriculture sector is expected over the budget forecast period, as shown in Figure 4.29.

Figure 4.29: Agriculture contribution to GDP, 2007 to 2022 ($ million real)



4.9 Goods imports and exports

4.9.1 Goods imports

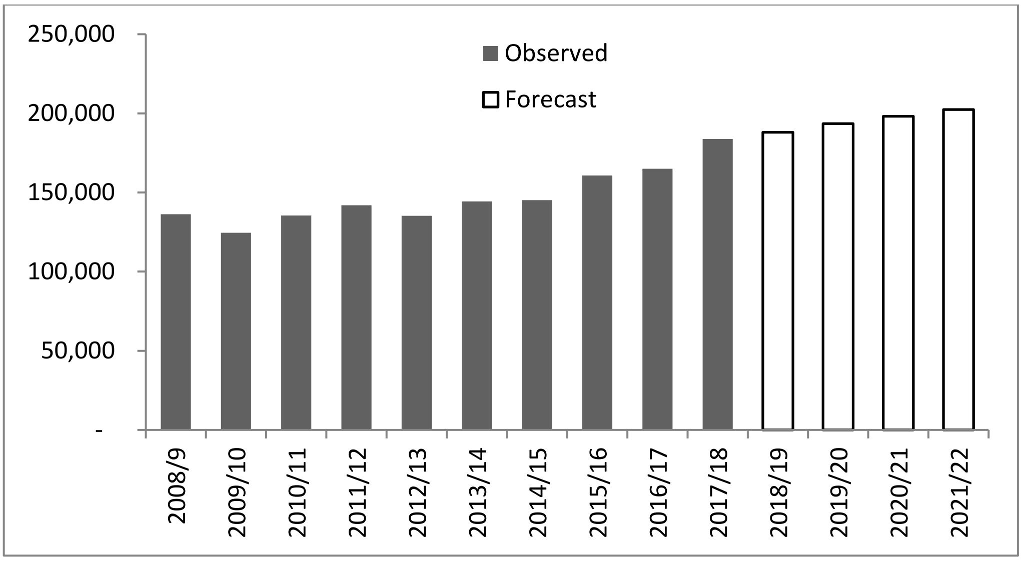
Due to the size and geography of the Cook Islands, the country is highly reliant on the import of goods. In 2017/18 the value of goods imports grew by 11.5 per cent to $183.8 million. This followed growth of 2.6 per cent in 2016/17 and 10.7 per cent in 2015/16.

The surge in both public and private construction has been a significant contributing factor to the growth in imports. The value of machines, transport and equipment imports grew by 15 per cent to $46.5 million in 2017/18, with the import of crude materials rising by 29 per cent to $5.6 million. Machines, transport and equipment imports accounted for 25 per cent of total imports in 2017/18, up from 19 per cent in 2014/15.

High tourist arrivals also drove an increase in food imports, which grew by 14 per cent in 2017/18 to $46 million. Beverages and tobacco followed a similar pattern with imports rising by 18 per cent to $13.5 million in 2017/18.

Figure 4.30 shows the projected annual value of total goods imports over the forward budget period. Looking forward, import growth is expected to moderate from 2018/19, averaging about 2 per cent per year, for two reasons. The first relates to the maturation of the current large capital projects, which will reduce the importation of machines, transport and equipment. The second is the expected slowdown in the growth of tourism arrivals which should drive lower growth in the importation of food and live animals. Looking further ahead, once the Masterplan for Mei Te Vai Ki Te Vai is finalised, and accurate expenditure forecasts are known, imports are expected to increase.

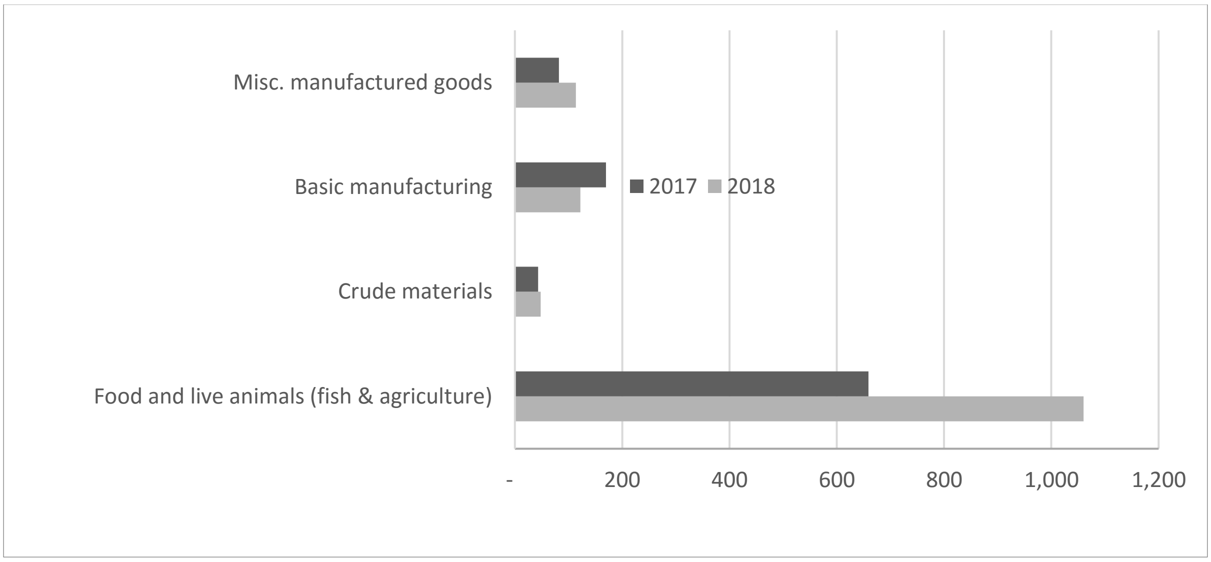
Figure 4.30: Value of total imports, annual, 2008/09 to 2021/22 ($'000)



4.9.2 Goods exports

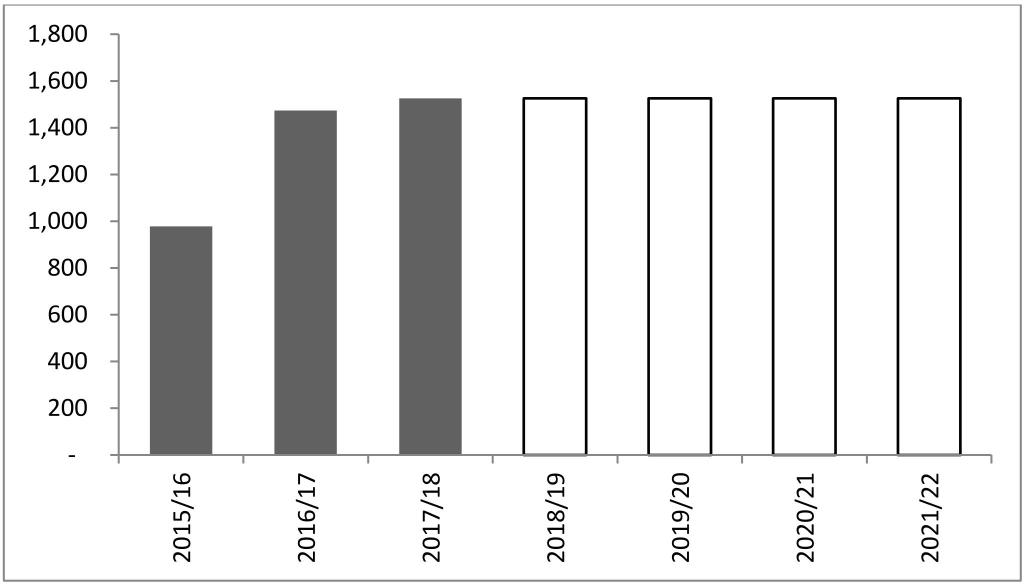
Total goods exports rose in 2017/18 by 3.5 per cent to $1.5 million. This growth is largely attributed to growth of 39 per cent in the export value of miscellaneous manufactured goods (see Figure 4.31). Manufactured goods exports also increased, by 39 per cent, albeit from a low base, to $114,000 from $82,000. Basic manufacturing exports fell by 28 per cent from $170,000 to $122,000.

Figure 4.31: Major goods exports, 2016/17 to 2017/18 ($'000)



Looking forward, the value of goods exports is expected to remain steady, as shown in Figure 4.32. The forecast values should be treated with caution until the fisheries adjustments are finalised.

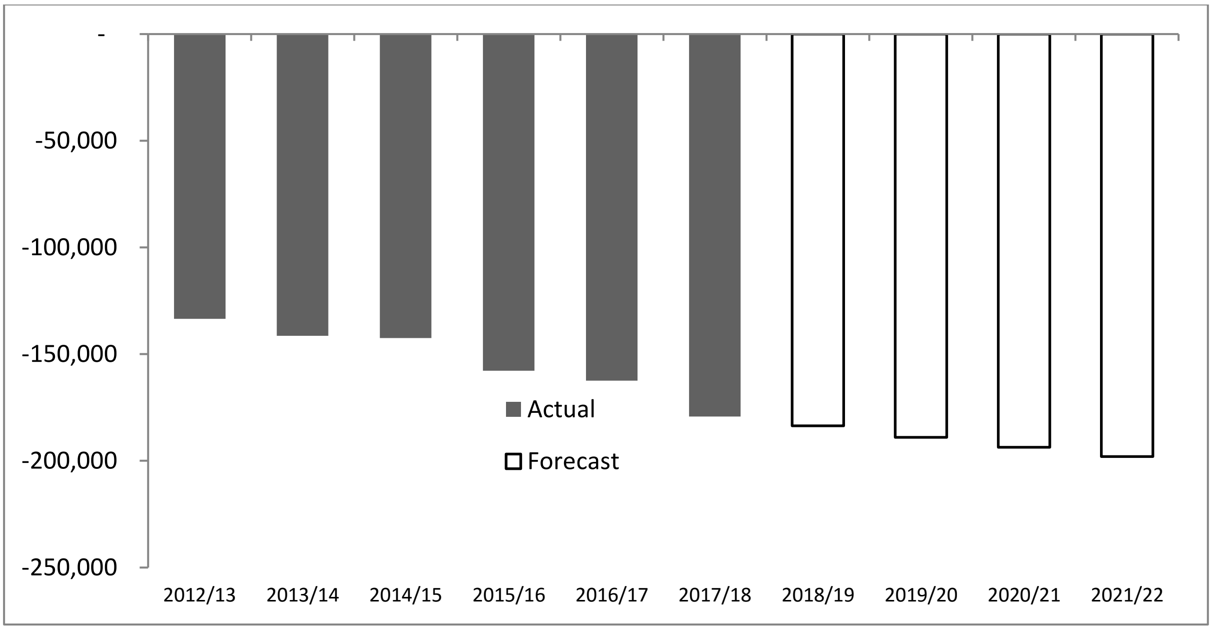
Figure 4.32: Total goods exports 2012/13 to 2021/22 ($'000)



4.9.3 Merchandise balance of trade

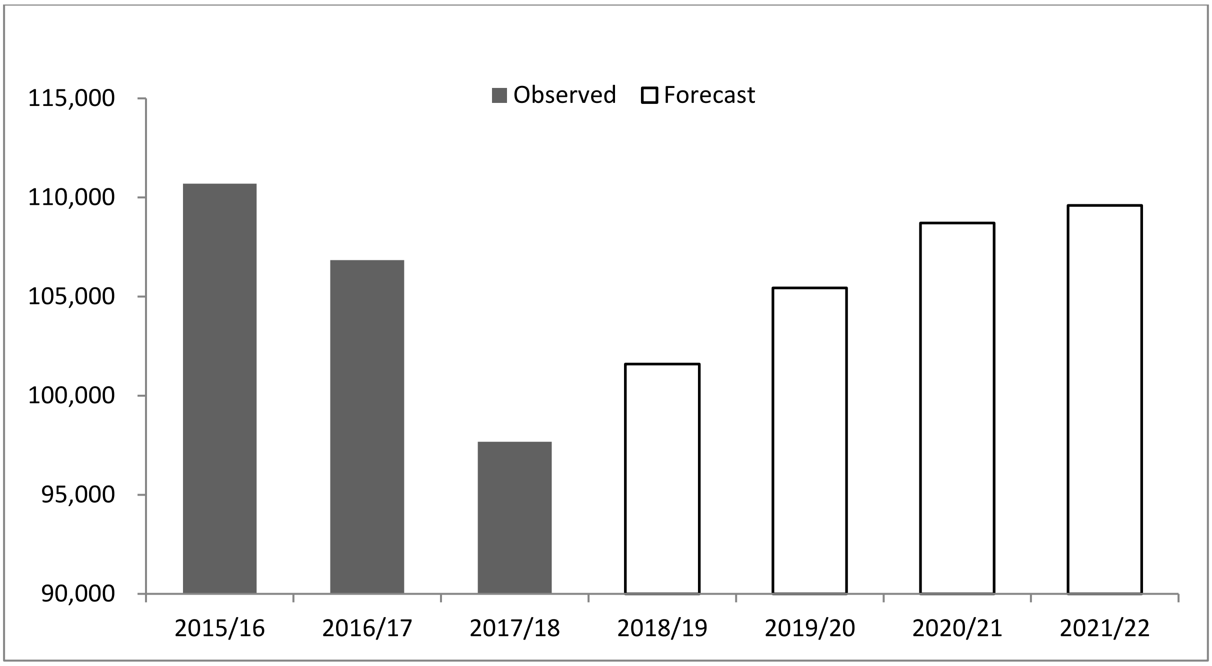
Due to the strong growth in imports, a negative merchandise balance of $179.3 million is estimated for 2017/18, an increase from the negative $162.3 million in 2016/17. Looking forward, the trade balance is expected to slowly deteriorate reflecting the moderate growth in imports and stable exports outlook.

Figure 4.33: Balance of trade (goods) 2012/13 to 2021/22 ($'000)



Despite the increasingly large deficit in the merchandise trade balance, the overall trade balance is highly positive due to healthy services exports from the tourism industry. The balance fell marginally in 2017/18 from $119.8 million to $113.5 million as a result of the growth in imports. Looking forward, as shown in Figure 4.34, the overall trade surplus is expected to improve over the budget forecast period in line with growth in tourism spending. It should be noted that figures differ markedly from those reported in the 2018/19 Budget due to the inclusion of preliminary balance of payments data, which has revised the estimate of the value of services imports.

Figure 4.34: Overall balance of trade, 2015/16 to 2021/22, ($'000)

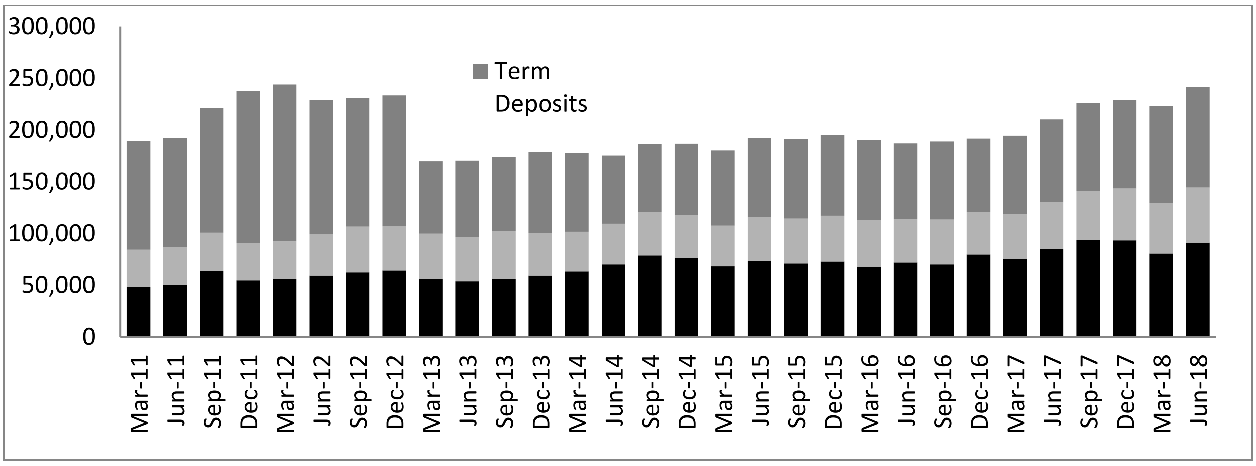


4.10 Banking and finance

4.10.1 Deposits

Total deposits in Cook Islands banks in June 2018 rose by 15 per cent from $210.2 million to $241.5 million when compared to June 2017. The key driver of this increase, about 55 per cent, was a steep rise in term deposits, from $80 million to $97 million. A significant portion of the increase in deposits is a result of an increase in Government cash reserves resulting from the Government's underspend of appropriated funds.

Figure 4.35: Total value of bank deposits, March 2011 to June 2018 ($'000)

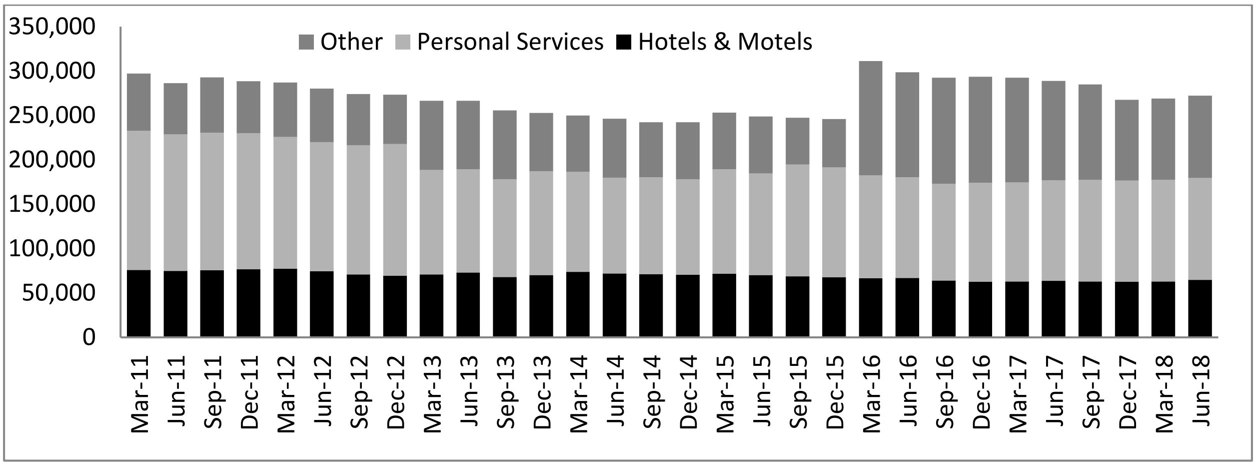


4.10.2 Loans

Lending by Cook Islands banks is dominated by loans to the Personal services and Hotel and motels industry sectors. In June 2018, the former accounted for 42 per cent and the latter 24 per cent of the total loan portfolio.

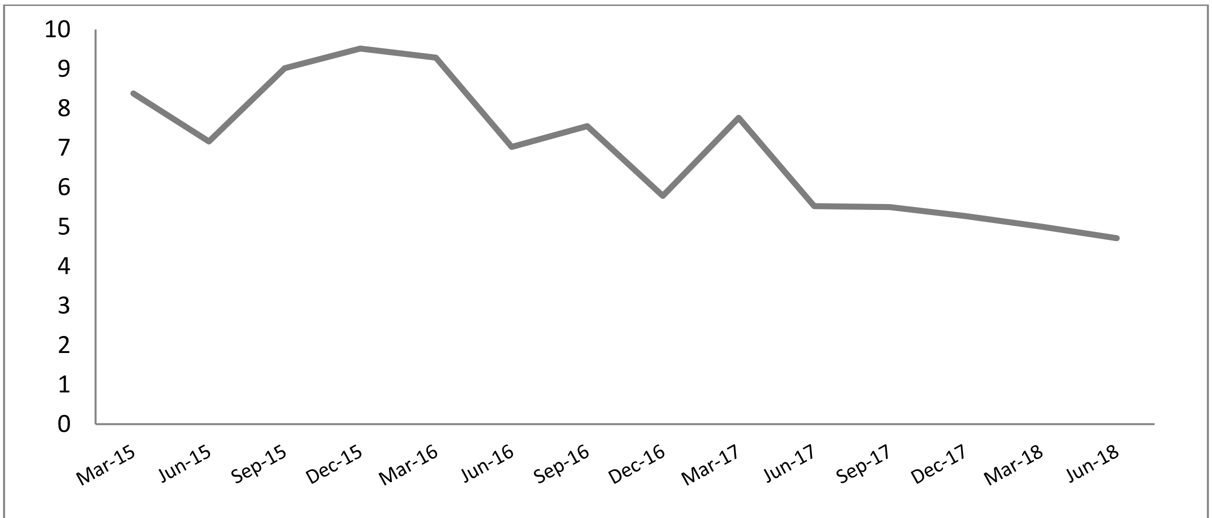
Total lending by Cook Islands banks in June 2018, when compared to June 2017, fell by 6 per cent from $288.8 million to $272.2 million (see Figure 4.36). Agriculture and fishing, Hotels and motels, Transport and communications and Personal services categories all recorded increases, but not enough to offset a substantial fall of 39 per cent in the Finance and business category.

Figure 4.36: Total value of bank loans, March 2011 to June 2018 ($'000)



In June 2018, the proportion of non-performing loans (loans that are longer than 90 days due) to total gross lending continued its declining trend, falling to 4.7 per cent from 5.5 per cent in the same quarter of 2017, see Figure 4.37.

Figure 4.37: Non-performing loan ratio, March 2015 to June 2018



4.11 Financial services industry

The financial services industry, which includes trustee companies, banks, insurance companies and money exchangers, employs over 260 staff, accounting for approximately 5.3 per cent of total employment in the Cook Islands.[20]

The financial services industry is expected to collect fees in net value of $1.3 million for services undertaken in 2018/19. The estimated value is affected by changes in US dollar exchange rates, as

[20] Based on surveys conducted in February 2017 and February 2018 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands, which was 4,906 as at March 2018.

registration fees are generally denominated in US dollars. This estimate does not include revenue generated by company, PAYE and value added taxes in relation to the financial services industry, nor does it include miscellaneous revenue collected by the Financial Supervisory Commission.

The industry continues to comply with international regulatory standards and is now considered to be a world leader.

Legislation has been passed to allow banks and trustee companies to comply with international tax information exchange agreements – namely the United States *Foreign Account Tax Compliance Act 2010* (FATCA) – and each financial institution has registered under FATCA. The Cook Islands has 21 tax information exchange agreements (TIEAs). In October 2015, the Cook Islands committed to implement the Common Reporting Standard (CRS) as part of the automatic exchange of information (AEOI) for tax purposes. Legislation was passed in 2016 to implement CRS with all financial institutions now having reported to the Cook Islands competent tax authority in 2018. In September 2018 the Cook Islands automatically exchanged relevant tax information with other countries in accordance with CRS standards set by the OECD.

The Cook Islands has now completed its second mutual evaluation with the Asia Pacific Group on Money Laundering (APG) after an 18-month process. The Mutual Evaluation Report (MER) was adopted by the APG in July and was published in October 2018. As evidenced by the 2018 MER, the Cook Islands has further improved from its already positive 2009 MER and is now rated top in the world for Technical Compliance. The Cook Islands achieved Largely Compliant and above in respect of 38 of the 40 FATF Recommendations, indicating that the Cook Islands is meeting its international obligations and is successfully implementing international regulatory standards. The recent MER report is a significant achievement for the Cook Islands.

International trusts continue to be the key financial product for the Cook Islands. Foundation registrations continue to increase but are still relatively small in number. Captive Insurance is the newest service, with slow growth since the first registration occurred in April 2015. The International Trusts Act is in the process of being updated with amendments submitted for Parliament's consideration. Focus continues on promotion of the Cook Islands in Asia, particularly for trusts, foundations, and companies.

The Cook Islands is one of many jurisdictions that has come under scrutiny by the European Union, which is developing an EU "Common List" of non-EU jurisdictions, which the EU considers non-cooperative in tax matters. The Cook Islands has not been listed, however communication with the EU is ongoing.

5 Crown Debt and Net Worth

5.1 Gross Debt owned by the Crown

Total gross debt owed by the Crown at 30 June 2019 is estimated to be $106.3 million, an increase of $1.5 million from the amount reported in the 2018/19 budget, primarily due to the foreign exchange revaluation of the Chinese loans which increased by $1.5 million.

Table 5.1: Gross Debt by Crown estimated to 30 June 2019 ($ million)

Original Estimate	**Direct Debt**	**SOE Debt**	**Gross Debt**
Loans committed and drawn	70.89	33.98	104.88
Loans committed but not drawn	33.93	0.00	33.93
Total Commitment - Original Estimate	104.82	33.98	138.81
Movement since the 2018/19 Appropriation			
Loans committed and drawn	1.45	0.00	1.46
Loans committed but not drawn	0.07	0.00	0.07
Total Movement	1.52	0.00	1.52
Half-Year Update Estimate			
Loans committed and drawn	72.34	33.98	106.33
Loans committed but not drawn	34.00	0.00	34.00
Total Half-year Estimate	**106.34**	**33.98**	**140.32**

This brings the overall committed debt to $140.3 million, including $34 million of loans that have not been disbursed. The undisbursed loans relate to $20.05 million for the Undersea Broadband Cable loan and $13.95 million for the DRM loan, which is only triggered and drawn down in the event of a catastrophe.

The $33.98 million of loans held on behalf of/and by SOEs includes a $2.9 million commercial loan taken directly by the Airport Authority to fund a necessary upgrade to the Instrument Landing System (ILS) for Rarotonga Airport.

5.1.1 Exchange rate assumptions

Since the publishing of the 2018/19 Budget exchange rate assumptions have been modified. Table 5.2 details the change in each forecast currency since the Budget.

Table 5.2: Exchange Rate movement – 2018/19 – 2021/22

Movement	**2018/19**	**2019/20**	**2020/21**	**2021/22**
EUR	0.0000	0.0000	0.0000	0.0000
USD	0.0000	0.0000	**-0.0100**	**-0.0100**
RMB	**-0.2000**	**-0.1000**	0.0000	0.0000
SDR	0.0000	**0.0100**	0.0000	0.0000

The NZD exchange rate assumptions for 2018/19 have been maintained except for the Chinese Renminbi. This change reflects the lower than previously assumed NZD/RMB exchange rate since the start of the 2018/19 year and Bancorp's revised outlook going forward.

Table **5.3** shows the revised exchange rate assumptions for each year to 2021/22.

Table 5.3: Exchange Rate Assumptions – 2018/19 – 2021/22

Currency	2018/19	2019/20	2020/21	2021/22
EUR	0.5700	0.5800	0.6000	0.6000
USD	0.6600	0.6800	0.6900	0.6900
RMB	4.5000	4.7000	4.8000	4.8000
SDR	0.4750	0.4900	0.5000	0.5000

The assumptions for the major exchange rates against the New Zealand Dollar (NZD), detailed in the table above, have been used to calculate future NZD flows.

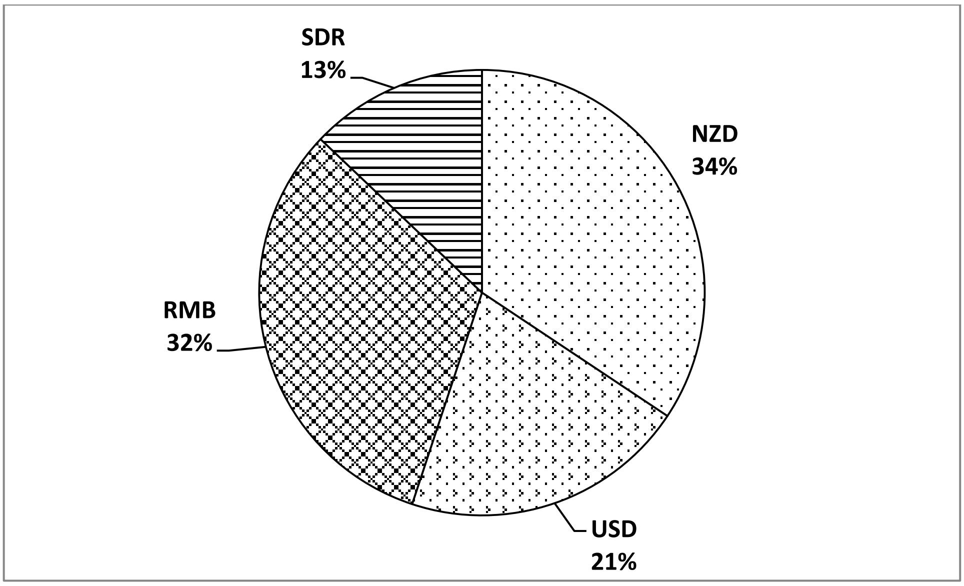
5.2 Gross Debt by Currency

5.2.1 Debt held directly by the Crown

Directly held Crown debt, i.e. debt not held by or on behalf of SOEs was estimated during the 2018/19 budget to be $104.8 million at the end of the 2018/19 fiscal year, this has been revised to $106.3 million as a result of the revised exchanged rates used.

Directly held Crown debt is mainly denominated in NZD foreign currencies with 34 per cent of debt in local currency (NZD). Of the remaining 66 per cent denominated in foreign currencies, 32 per cent is in Chinese renminbi (RMB), 21 per cent is in USD and 13 per cent is in International Monetary Fund's Special Drawing Rights (SDR), as shown in Figure 5.1.

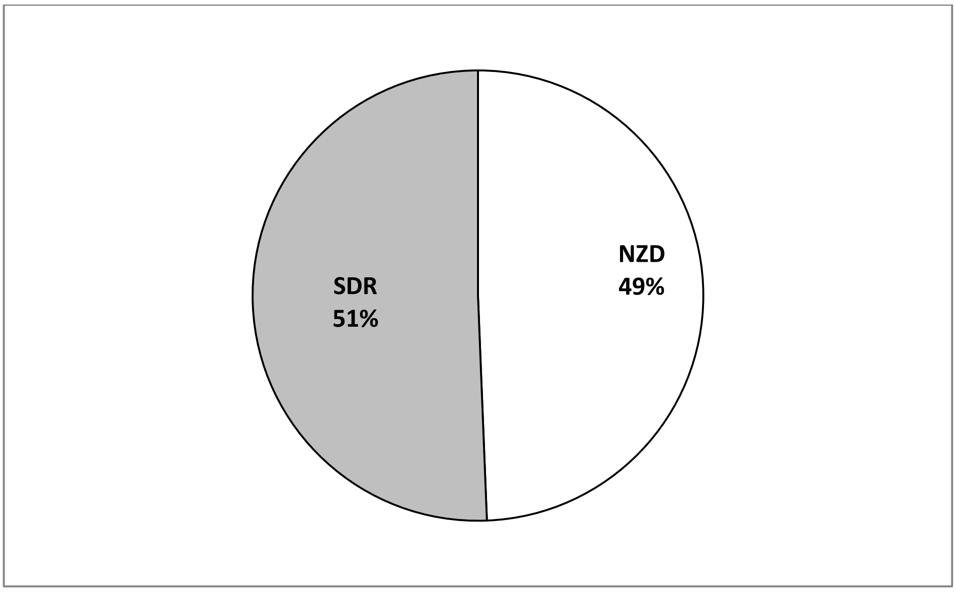
Figure 5.1: Projected Composition of Direct Crown Debt at 30 June 2019 by Currency



5.2.2 Debt held on behalf of SOEs

The SDR exchange rate used did not change between the budget write up and this half year update and therefore the estimated debt held by Crown on behalf of and by SOEs remain unchanged at $33.98 million. The composition of the debt is evenly denominated with 51 per in SDR and 49 per cent in NZD, as shown in Figure 5.2.

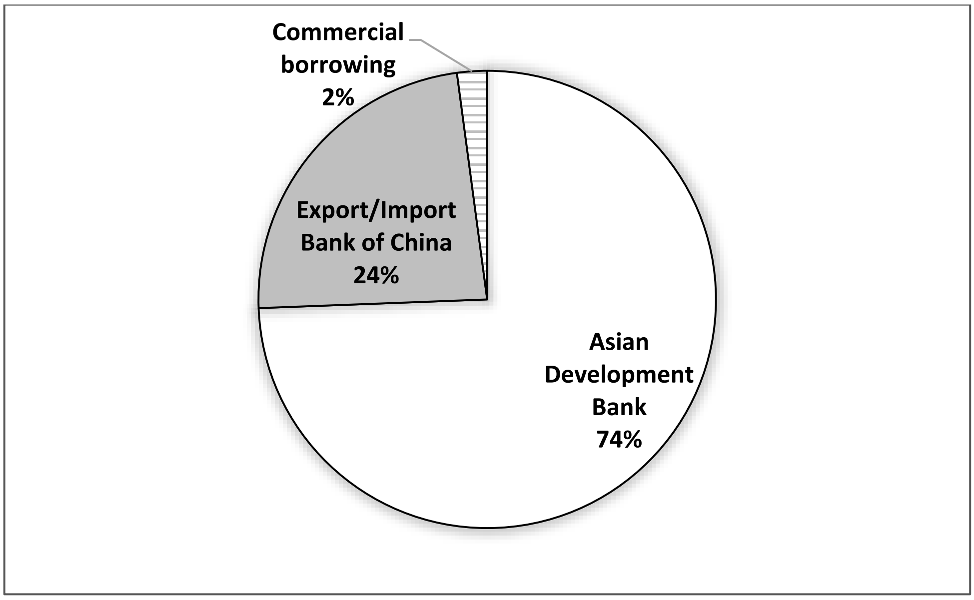
Figure 5.2: Projected Composition of SOE Debt at 30 June 2019 by Currency



5.3 Gross Debt by Lenders

5.3.1 Overall Gross Debt

Figure 5.3: Gross Crown Debt Estimates by Lender

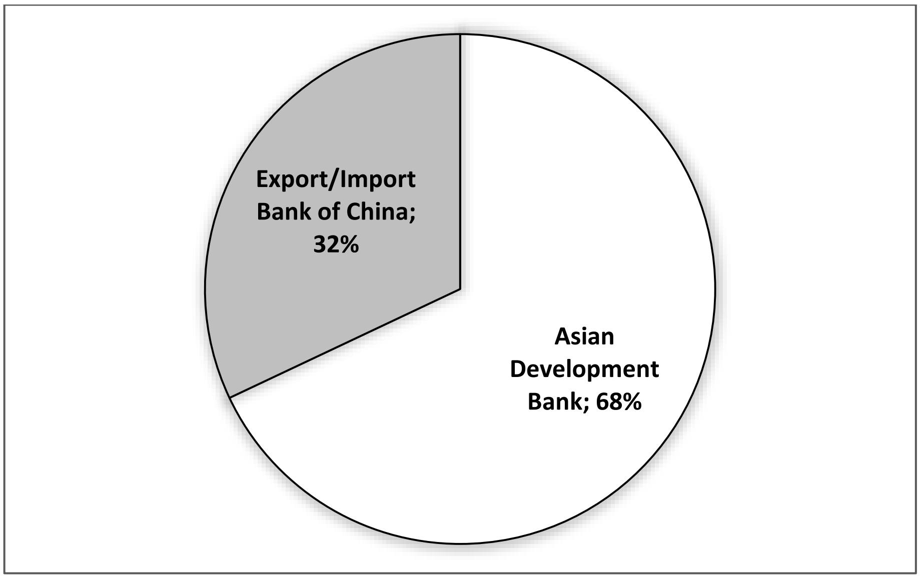


The overall gross committed debt of $140.3 million estimated to the end of June 2019 is mainly held by the ADB with 74 per cent, followed by the Export/Import Bank of China (EXIM Bank) with 24 per cent and only two per cent held by commercial financial institutions.

5.3.2 Debt held directly by the Crown

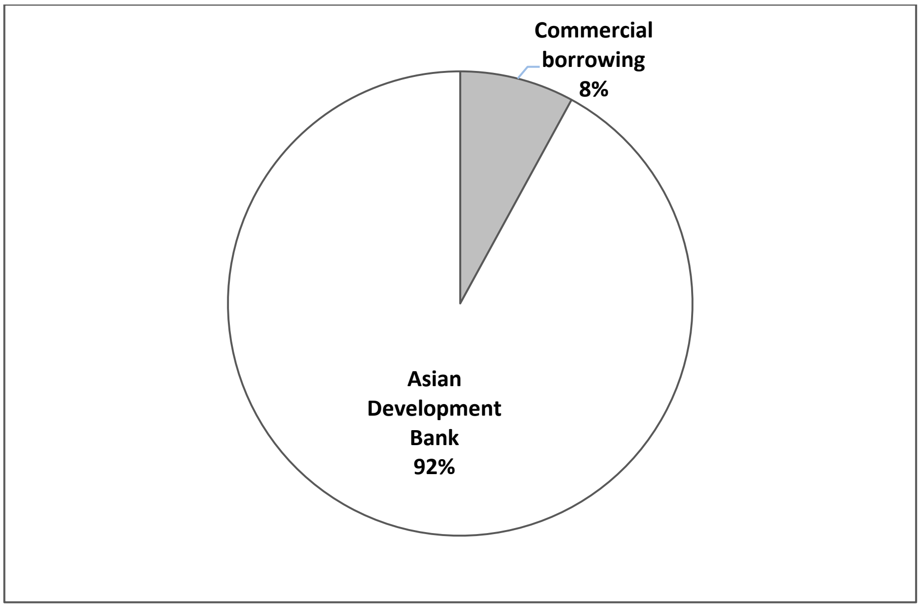
Direct gross debt is estimated to be $106.3 million by June 2019 and is held by two key lenders, the ADB and the EXIM Bank. As illustrated in Figure 5.4, 68 per cent of the Crown's direct debt is from the ADB compared to 32 per cent from the EXIM Bank. The EXIM Bank share has increased by one per cent since the 2018/19 Budget as a result of exchange rate assumptions.

Figure 5.4: Gross Direct Crown Debt Estimates by Lender



5.3.3 Debt held on behalf of SOEs

Figure 5.5: SOE Debt Estimates by Lender

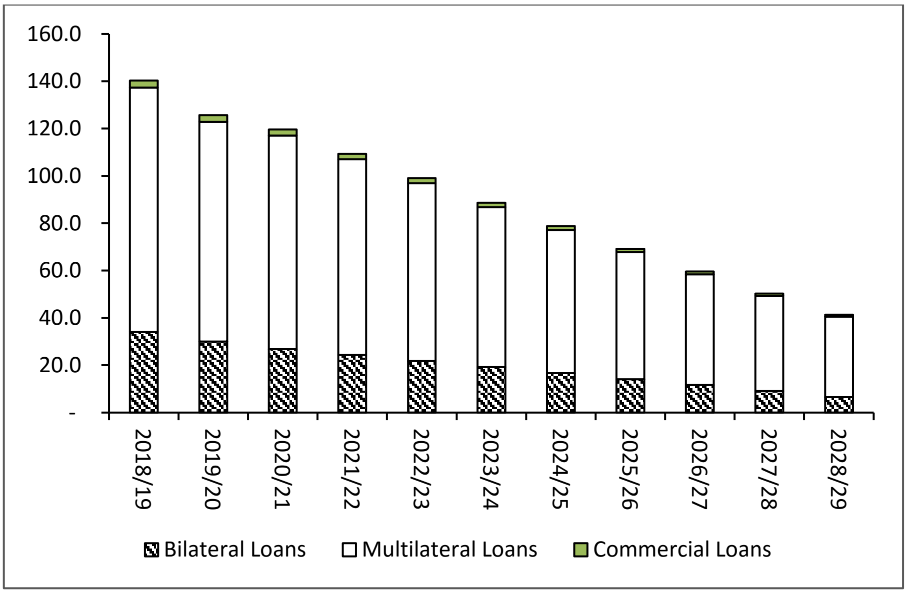


Debt held on behalf of and by SOEs remain at the same level reported during the budget, at $33.98 million, and is overwhelmingly held by the ADB (92 per cent), with only the Rarotonga Airport ILS loan (8 per cent) coming from commercial sources.

5.4 Gross Debt by Source

Figure 5.6 summarises the debt profile of all existing loan agreements over the next 10 years by source of funding, multilateral lenders (only the ADB) and bilateral lenders (predominantly EXIM Bank). The commercial loan relates to the direct loan taken by the Airport Authority with a commercial bank.

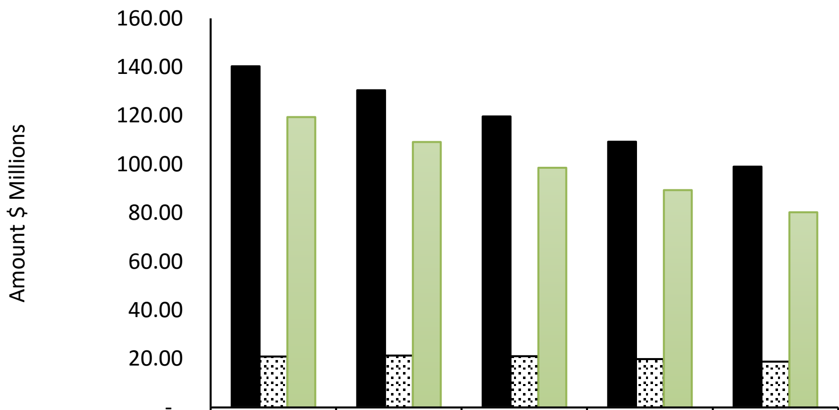
Figure 5.6: Gross Crown Debt Estimates by Source ($million)



5.5 Crown Debt burden

Total gross Crown debt of $140.3 million in 2018/19 is expected to gradually reduce to $99 million in 2022/23 on the assumption that principal is repaid and the Crown does not undertake new loans. Over the same period net debt decreases from $119.4 million to $80.3 million.

Figure 5.7: Cook Islands overall debt burden



	2018/19	2019/20	2020/21	2021/22	2022/23
Total Gross Debt	140.32	130.43	119.60	109.30	99.03
LRF Balance	20.92	21.29	21.05	19.94	18.78
Debt net of LRF	119.40	109.15	98.55	89.37	80.25

5.6 Status of Government Loans

Table 5.4 lists the estimated balance of each loan estimated to the end of the 2018/19 fiscal year. The total of currently drawn down loans ($106.3 million) is the estimated direct liability in the Crown's balance sheet. However, the Crown is committed to an additional $34 million in loans which are expected to be drawn down after 30 June 2019. While $2 million of the Undersea Broadband Cable is expected to be drawn down during 2018/19 for the Undersea Broadband Cable loan, $20.05 million, will remain committed to, but undrawn as at 30 June 2019. In addition, the DRM loan ($13.95 million) will only be utilised and disbursed in the event of a catastrophe.

Table 5.4: Status of Government loans 30 June 2019

Loans committed and drawn	Date loan taken	Original loan amount (000's)	Expected date of Repayment	Current Balance ($NZD 000's)
ADB 461 (SF) Multi Project	November, 1980	USD 1,000	August, 2020	165
ADB 567 (SF) CIDB Project	July, 1982	USD 1,500	April, 2022	244
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	August, 2027	1,432
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	August, 2030	3,703
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	December, 2031	953
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	June, 2032	330
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	August, 2034	385
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	August, 2034	2,350
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	September, 2035	2,021
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	September, 2036	4,623
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	January, 2038	812
Restructured French Loans	January, 1999	Euro 5,413	September, 2018	0
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	June, 2033	1,944
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	June, 2045	3,438
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	August, 2028	9,643
ADB 2472 (OCR) Avatiu Port Development Project*	September, 2009	NZD 10,309	November, 2033	8,875
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	November, 2040	8,523
ADB 2565 OCR Economic Recovery Support Program 1*	January, 2010	NZD 11,053	October, 2024	5,527
ADB 2739 (OCR) Amendment Avatiu Port project*	December, 2011	NZD 5,290	November, 2035	4,964
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	December, 2032	24,409
ADB 2946 OCR Economic Recovery Support Program 2	December, 2012	NZD 11,053	October, 2027	5,135
ADB 3193 Renewable Energy Project	December, 2014	NZD 12,980	June, 2036	11,909
ADB 3479 - Disaster Risk Management	TBC	NZD 13,950	TBC	0
ADB - Loan for Undersea Broadband Cable	Pending signing	USD 15,000	2031	2,000
Commercial - Loan for Rarotonga Airport Equipment	January, 2018	NZD 3,206	2033	2,939
Total Loans Drawn Down				**106,325**
Loans committed but not drawn				
ADB 3193 Renewable Energy Project	December, 2014	NZD 12,980	June, 2036	0
ADB 3479 - Disaster Risk Management	TBC	NZD 13,950	TBC	13,950
ADB - Loan for Undersea Broadband Cable	Pending signing	USD 15,000	2031	20,047
Commercial - Loan for Rarotonga Airport Equipment	January, 2018	NZD 3,206	2033	0
Total Loans committed but not drawn				**33,997**
Total Loans Commitment by the Crown				**140,322**

*These loans have been converted to NZD

5.7 Debt Headroom

Table 5.5: Current Borrowing Statement ($ million)

Current Statement	2018/19	2019/20	2020/21	2021/22
Gross Crown Debt	**140.32**	**125.65**	**119.60**	**109.30**
Direct Crown Debt	*92.39*	*84.82*	*77.27*	*69.99*
SOE debt	*33.98*	*31.67*	*29.55*	*27.69*
Contingent (Disaster) debt	*13.95*	*13.95*	*12.79*	*11.63*
... net of LRF	**119.40**	**104.37**	**98.55**	**89.37**
... net of LRF, as percentage of GDP	22.2	18.2	16.2	13.9
Loan Repayment Fund Held	20.92	21.29	21.05	19.94
Gross Debt Servicing	**10.51**	**10.18**	**12.04**	**12.72**
Direct Crown Debt	*7.40*	*7.43*	*9.31*	*9.99*
SOE debt	*2.83*	*2.47*	*1.29*	*1.31*
Contingent (Disaster) debt	*0.29*	*0.29*	*1.44*	*1.42*
Net Debt Servicing	**7.40**	**7.43**	**9.31**	**9.99**
... as percentage of Total Revenue	4.14%	4.04%	3.91%	4.71%

Table 5.5 assumes full draw down of the DRM loan during the 2018/19 fiscal year, which would occur only if a disaster occurs. It shows net Crown debt to GDP at 27 per cent, well within its fiscal responsibility ratio threshold of 35 per cent.

5.8 Other State-Owned Enterprise Debt

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

Airport Authority

The Airport Authority is currently drawing down loan from the commercial sector (2019: $2.94 million) to fund an upgrade of the ILS at Rarotonga International Airport. The loan is to be secured by registered mortgage debenture over the assets and undertakings of the Authority.

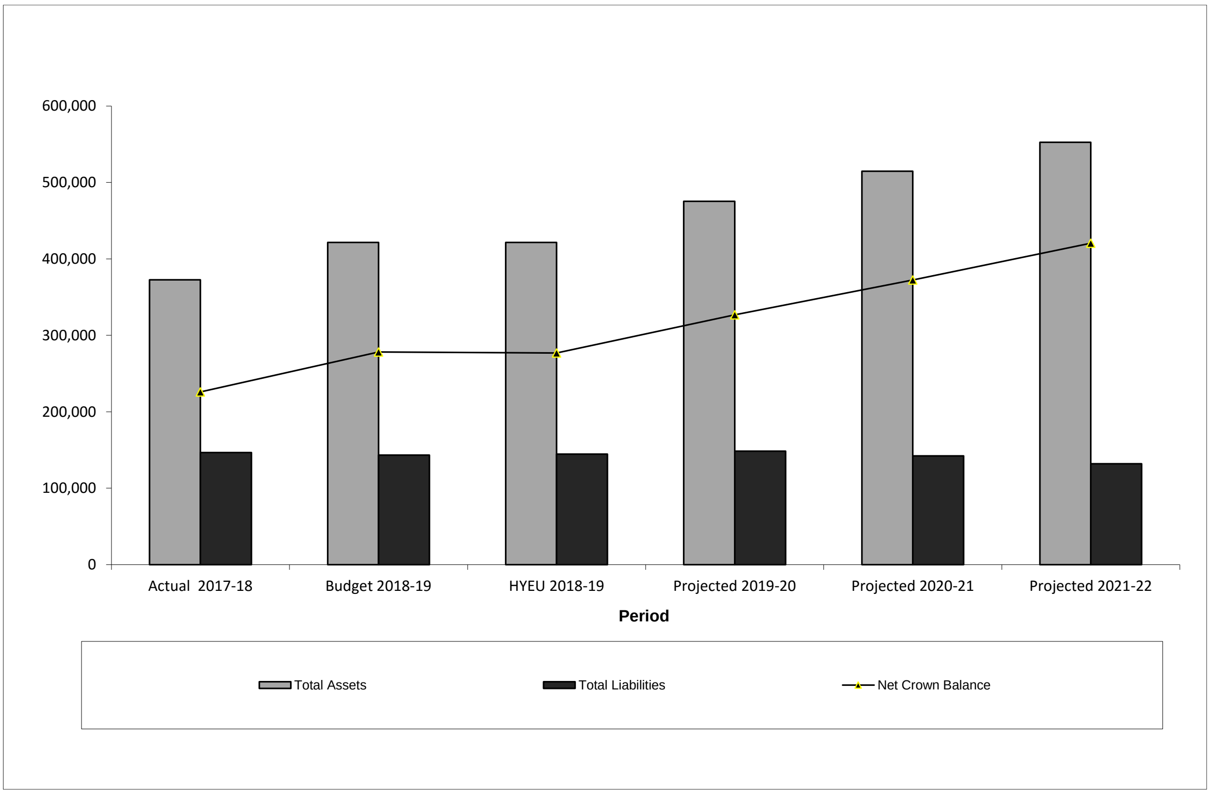
Ports Authority

The Ports Authority is repaying its current loan commitment to the ADB (2019: $22.36 million).

5.9 Net worth

Government's net worth is the difference between Crown assets and Crown liabilities providing a snapshot of Government's ability/inability to service all its creditors. There are currently no clear guides to determining an optimal level of public sector net worth; however analysing the Government's net worth and what causes it to change can lead to understanding the need for appropriate policies.

Figure 5.8: Net Worth 2017/18 to 2021/22, ($000)



The estimated net worth of the Crown as at half year 2018-19 has increased from the 2017/18 actuals of $225.9 million to $276.8 million. This is a net movement of $50.9 million. This net movement is caused from an increase in total Crown assets from increased capital growth in plant, property and equipment and a decrease in Crown liabilities from gross borrowings.

The Crown's net worth is expected to increase in the outer years from 2018/19 as long as there is an estimated operating surplus.

6 Official Development Assistance

6.1 Summary

6.1.1 Introduction

Cook Islands ODA December 2018 Update	
FY2018/19 ODA Budget (NZ$’000)	61,184
FY2018/19 HYFEU estimated spend to date (NZ$’000)	7,043
ODA conversion rate December 2018 (%)	12

In 2018/19, $61 million was appropriated for Official Development Assistance (ODA) reflecting a decrease of $17 million since 2017/18. Estimated spend to date is reported at $7 million, representing 12% of the total budget. The low conversion rate is due to delays in anticipated payments for large infrastructure projects.

6.1.2 ODA Graduation

In July 2017, the OECD agreed to provide the Cook Islands until the end of 2018 to develop Gross National Income (GNI) data. Since this time, the National Statistics Office of the Ministry of Finance and Economic Management (MFEM) have been working closely with MFAT and the International Monetary Fund’s Pacific Financial and Technical Assistance Centre (PFTAC) on the development of this data.

Since this project commenced, upward revisions have been made to GDP estimates. It is expected that Balance of Payments estimates will be released during the first quarter of 2019, allowing the development of GNI data.

In addition to the work being done on the Cook Islands economic data, the Cook Islands Government is undertaking an analysis on the sectors that would be affected in the event of graduation, to inform a possible transition plan in the event of graduation.

6.1.3 Manatua Cable

In early April 2017, an agreement between the Governments of the Cook Islands, Niue, French Polynesia and Samoa was signed to facilitate the design, construction and operation and maintenance of a regional submarine cable system that will connect these countries.

In October 2018, all four Consortium members signed a Construction and Maintenance Agreement (C&MA) and Supply Contract. The Supply Contract will come into effect the first week of December and has been awarded to Tyco Electronics Subsea Communications LLC (TESubCom). The Supply Contract is for the design, manufacture, installation, integration, testing and commissioning of the Manatua Cable System and the provision of long term technical support and maintenance of the System.

Avaroa Cable Ltd is the Manatua Consortium member for the Cook Islands. The Government of New Zealand has granted NZ $15 million to support the project, and a Grant Funding Agreement (GFA) was signed for the disbursement of the funds in April 2018. The Asian Development Bank has approved an OCR Loan allocation of up to US$15million. As of October 2018 a revised work plan has been put together which details key milestones to be achieved as part of the Manatua Submarine Cable project with budgeted costing and will be utilised as a guide for the release of funds from the GFA and the ADB Loan.

6.2 New Zealand Programmes

6.2.1 Cook Islands Core Sector Support (CSS)

New Zealand has committed $50 million towards the bilateral program for the next three years. It is important to note that New Zealand support will continue to be allocated towards existing priorities such as the Core Sector Support (CSS – Health, Tourism, Education and strengthening public sector initiatives) and Sanitation. The estimated budget towards CSS has been based on the previous baseline data which has been pre-approved by New Zealand in anticipation of a finalised Grant Funding Arrangement.

The CSS makes up 32 per cent of total New Zealand Aid in the ODA Schedule. The NZ CSS Programme includes direct budget support to Ministry of Education, Cook Islands Tourism and the Ministry of Health. The following discussion is focused on NZ CSS Output 4, as the activities for Output 1-3 are complete and awaiting re-drafting as a part of the new GFA. To date there are 14 TA projects in progress for CSS Output 4.

Cook Islands Core Sector Support – Output 4 Programmes

Online Companies Registry

The ADB has begun the tender process following their procurement guidelines. It is anticipated that a supplier will be contracted in November 2018 with an inception mission to be conducted in January 2019. The ADB’s Private Sector Development Initiative have drafted the legislative forms needed to support the commencement of the three Acts; (i) Companies Act, (ii) Personal Property Securities Act and (iii) Incorporated Societies Amendment Act. These have been reviewed and approved by Ministry of Justice (MoJ).

NZ’s contribution of $615,000 has been paid direct to PSDI. In addition to USD350,000 (amount still tentative) to be provided under PSDI for the registry and implementation.

Audit House Keeping TA

The TA is making considerable progress and contribution to TMD and CIAO’s aim of up-to-date CIG financial reports. This work is crucial to ensuring that financial information is accurate and complete prior to migration into the new FMIS. Furthermore, the TA is currently reviewing internal processes for Ministries/Agencies.

Cook Islands Aviation International ministry of Transport (MOT)

The Director of Civil Aviation (DCA) contract has been extended for another 12 months to progress the current work plan and negotiate safety oversight services. Discussions are ongoing for the oversight services to be transferred to NZ from PASO. All relevant safety and legislative rules (CICAR), information and guidance documents have now been approved, adopted, gazetted and published on the Ministry of Transport website.21

Compliance to ICAO is now at 30 per cent due to the work plan items completed so far.

[21] http://www.transport.gov.ck/aviation/rules/

Occupational Health and Safety Legislation Review

This programme continues to progress well and is on track with contractual outputs. The TA has delivered the first 3 milestones of the contract and has recently completed the research and scoping report which is currently being reviewed by relevant stakeholders for commentary. The communications consultant continues with its concept design for effective promotion and awareness of OSH in the Cook Islands.

Prison review and warden training

The first mission was undertaken in September, as such, progress on outputs is well underway. The first progress report was due at the end October but is yet to be received.

Asset Management Stocktake

The tender report is currently with MFAT, thereafter Cook Islands Investment Corporation will work on drafting terms and conditions of the contract before a review is undertaken by Crown Law Office.

Study of Foreign Direct Investment (FDI) in the Cook Islands

The Draft Report has been received, as well as recommendations. Work is now being undertaken to finalise the report.

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

The scope of this project is to conduct a review to determine whether the Economic, Social and Environmental sectors are adequately resourced to achieve the Cook Islands National priorities.

The final report was completed end October and has been approved by Cabinet.

Resourcing for CIG Annual Audit backlogs

Two additional auditors have been engaged to date to provide the necessary resources for CIAO to catch-up with the audit back logs. A dedicated Crown audit team has been established so as not to compromise the completion of Ministry audits and timeframes. DCD and CIAO have signed an MOU to allow for better monitoring of outputs and disbursement of funding for this programme.

Ministry of Transport (MoT) Quality Management System (QMS)

Training took place in September 2018 on the Draft QMS as well as business process maps for each output of MoT. This project has been finalised with the approval of the Completion Report in early November.

Fixed Term Maritime Technical Manager

An initial risk assessment was carried out by the TA with the Ministry of Transport to identify procedures and processes critical to addressing these risks. Following the assessment, additional scope of works were identified. All activities were prioritised to ensure a sustainable approach is taken to achieve planned outputs.

GNI Development

A contract has been signed with the preferred supplier and the work for this programme started in early October and will progress to the end of the year. The draft data has been received by the Statistics Office.

Financial Management Information Systems (FMIS)

Following the completion of the build stage which included but was not limited to Configuration of System, QZ review, Integration development and Data Migration preparation, the FMIS project is currently in its 11 week test stage which includes but is not limited to PMU training, Integrated Systems Testing Prep & Execution, Data Migration completion, Integration development and UAT.

Financial Analysis of Manatua Cable

An inception report was provided in early November which provides a snapshot of the situation in the Cook Islands relating to ICT development and focusing on the impact of the landing of the proposed submarine cable.

6.3 European Union Programmes

6.3.1 EU Budget Support

The European Union (EU) provides ODA via budget support modality. The 10th cycle of funding (EDF10) has now concluded with the focus moving to the 11th cycle (EDF11) to continue with its incentive based budget support using the Cook Islands national systems up until the year 2020.

The focus of the 11th EDF funding will continue to improve the Sanitation Sector, this was ratified through the signing of the Financing Agreement (EDF11) in September 2017. The Cook Islands government will be receiving a fixed tranche of EUR1,350,000 for budget support for the Sanitation Sector. A further EUR50,000 has been earmarked for evaluation of the effectiveness of the programme. These funds are estimated to be accessed in the 2019/20 Fiscal Year, and have been targeted for the Ministry of Health to support programmes in sanitation, towards resource mobilisation, sanitation upgrades, strengthening compliance and capacity building. The agreed primary focus of this programme would be to review support towards improved robust plans to upgrade sewerage systems by commercial properties in compliance with 2014 Regulations administered by Ministry of Health.

EU Partnership Multiyear Fisheries Policy Support

The Sustainable Fisheries Partnership Agreement includes an annual fisheries sector contribution of EUR350,000 by the European Commission under the 4 year protocol. These funds assists MMR with the implementation of the Multiannual Sectorial Program Matrix which supports projects in the Cook Islands fisheries sector.

EU-GIZ ACSE Northern Island Water Project Phase II

The construction team, as well as the In-Country Coordinator, travelled to the Northern Group in August to commence work on the project and returned in early November. A handover ceremony has been deferred. A no-cost extension was also approved by GIZ due to the unavailability of shipping opportunities to the Outer Islands from Rarotonga. The new completion date is now set for 31st March 2019.

In October, a Peer learning workshop for practitioners was held in Suva, Fiji to celebrate, share experiences, best practices, success stories and lessons learnt. The workshop provided inclusive learning spaces for thematic discussions and sharing of experiences from project implementation between practitioners on a regional level. A report on the outcomes of the meeting are soon to be provided by EU-GIZ.

6.4 Green Climate Fund (GCF) Readiness 2

6.4.1 GCF Readiness Stage 2

The second readiness programme is progressing well against the project activities as follows:

Accreditation to the fund

The Ministry of Finance and Economic Management applied for accreditation in the area of “Grants” at the “small scale” funding modality which allows access of funds up to US$50 million per climate change project.

During the B.21 GCF board meeting held in October 2018, MFEM were approved as an accredited entity to the GCF. MFEM will now work with the NDA on completing a 5 year entity work plan which will entail all climate change projects that MFEM wish to implement, these projects will be derived from the Country programme document.

Develop a National Climate Change Policy

The Office of the Prime Minister has engaged a consultant to develop a National Climate Change Policy. The first draft is complete and went through various stakeholder consultations. The final draft is scheduled to be finalised at the end of November 2018.

Develop a Cook Islands GCF Country Programme

The first draft of the GCF Country Program has been developed and circulated to stakeholders. The draft document was prepared through analyses of the Cook Islands main strategic documents relating to sustainable development and climate change, such as the NSDP 2016-2020, the JNAP2, and NIIP 2015, among others, with the purpose of seeking alignment with the GCF result areas for mitigation (Energy generation and access; Transport; Buildings, cities, industries and appliances; Land use and forest) and adaptation (Livelihoods of vulnerable people, communities and regions; Health, food and water security; Infrastructure and built environment; Ecosystems and ecosystem services).

The final draft is scheduled for completion by November 2018 once all stakeholder input has been incorporated into the final document. The Cook Islands GCF team are organising an investor's round table meeting in February 2019 where the country programme document will be launched.

Project Proposal Development

The National Designated Authority (NDA), the Office of the Prime Minister, together with MFEM are currently working on a project proposal under the Simplified Approval Process funding modality for the Green Climate Fund. The key components of the project will focus on Health and Water. A consultant has been engaged to complete the project proposal application in order to have it ready for the next board meeting in 2019 for consideration.

Adaptation Fund

Pa Enua Action to Resilient Livelihoods (PEARL) Project

The PEARL project proposal was submitted to the Adaptation Fund board for consideration in May 2018 and was successfully approved at the value of US$3 million over three years. The Cook Islands aims to use the funds to strengthen national and local capacity to reduce climate change risks, establish climate resilient water management instruments through an approach that involves communities and to revitalise agricultural production systems. MFEM have recently completed the recruitment process for staff to fill the roles of the National Implementing Entity unit within DCD and project staff to implement the project within OPM. The first task that the NIE and PMU will be undertaking is the inception workshop with stakeholders and the community to launch the project in early December 2018.

6.5 United Nations Administered Programmes

FAO Improved production, processing and marketing of agricultural produce

This programme ended in December 2017 with the FAO Steering Committee final meeting held at that time, TA ANZDEC provided programme management oversight on behalf of FAO for the implementation of this programme in the Cook Islands.

The Ministry of Agriculture is in the process of consultations for agriculture and food projects of up to NZ$330,000 to inform the CPF 20187-20220. The intention is to apply for agriculture programmes in food & nutrition in schools, school vegetable & fruit tree gardens, home gardens, community gardens, health and community gardens, summer house for off-seasons hot /rainy weather, and Pa Enua gardens. Although technical assistance in this space was scheduled for September, this was pushed out to next quarter due to the unavailability of TA.

GEF Small Grants Programme

This is the only in country development partner agency outside of government reporting administration of a development programme targeted at Cook Islands civil society organizations as the executing agencies of small environment projects. The Cook Islands Red Cross Society served as the SGP host institution with the GEF SGP Cook Islands now a separate programme.

There are five projects which are currently active under Operational Phase 5, with four more in their final stages of approval. Total OP5 spend to date is USD230,122. The Operational Phase 6 (OP6) country programme strategy (Jul 2017 – Jun 2018) outlines the OP6 aim 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.

UNDP Ridge to Reef

Staffing issues in the implementing agencies has delayed some of the R2R work plan components as well as reporting requirements to UNDP. These are also partly due to the underestimation and/or overestimation of costs and unexpected timeline changes. The last two quarters of this project saw the reprogramming of all respective stakeholders involved and the continuation of their current work programmes.

UNDP Nagoya Protocol

The primary objective of this project is to develop and implement a National Access and Benefit Sharing (ABS) Legal Framework, build national capacity and support an ABS Agreement based on traditional knowledge and a public-private partnership.

The budget for 2018/19 fiscal year was confirmed before the request for an extension of this project was approved by UNDP to 5th October 2019 to allow the completion of remaining project activities.

UNDP Pacific Regional Ridge to Reef – Infrastructure Cook Islands (ICI)

Infrastructure Cook Islands (ICI) were previously advertising for a Project Manager to lead this program and are yet to confirm the successful candidate. This project is a test site of Muri Lagoon/Area under the Regional programme including 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.

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

Climate Change Cook Islands welcomed consultants in September to work on the GHG and MIT component in the Third National Communication Report. Their visit consisted of a presentation at a climate change platform meeting and discussions throughout the week with relevant stakeholders. The project coordinator is currently organising their second and last visit where they will run a technical training workshop and provide a draft for the GHG and MIT component.

The Third National Communication program with Climate Change Cook Islands advertised for a consultant to undertake work on the report with the Project coordinator in October. The Project

Coordinator has also taken up the financial assistant and administration role after discussion with Cook Islands Climate Change officer and UNEP focal point for the Cook Islands.

World Health Organisation Technical Cooperation Biennium Budget Support
Ministry of Health reported expenditure under this project primary towards health officials continuing professional development in mental health, social health care, trauma and training for dental therapists and assistants. Approximately $20,000 was also expended on the 20th Cook Islands Annual Health Conference in July 2018 held in Rarotonga and Aitutaki. Immunization activities and the mid-term review of the Non Communicable Diseases and Oral Health Strategy were also activities under this funding support.

6.6 India Grant Fund

A total of $964,386 was granted for 16 approved grassroots projects of India Grant Fund 2016/2017 Round. The main focal area of this funding 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, 12 have been completed successfully to date. The remaining 4 projects are still being implemented and progress reports are provided as per Grant Funding Arrangement requirements. New timeframe for completion of existing projects has been extended to January 2019. The next round of funding for 2018/19 was advertised to the public with the due date for applications now closed.

6.7 China Programmes

The Cook Islands Government recently signed two new Memorandum of Understanding (MOU) with the People's Republic of China (PRC), namely the Cook Islands-PRC Belt and Road Initiative (BRI) MOU and the Cook Islands-Guangdong MOU. Under the Cook Islands/China BRI MOU, the two Governments have agreed to promote between themselves policy coordination, facilities connectivity, trade, financial co-operation and people to people relations. In the pipeline is a China Strategy inclusive of development programmes and management of the PRC funding. This new strategy should inform the way forward between the Cook Islands and China's relationship.

Renovations Projects for the Indoor Sports Arena, Ministry of Justice, and Police Headquarters buildings
The renovations project is intended for public buildings in Rarotonga namely the Indoor Sports Arena, Ministry of Justice, and Police Headquarters.

The preliminary results from the extensive technical and structural inspections of the three building were carried out in 2017/18. These were discussed with representatives from CIIC and then signed off between CIIC and the Chinese working groups. Based on the preliminary inspections, the new proposed budget for this project was revised to approximately $10,146,898 million. The renovations project is to be funded through the Economic and Technical Cooperation Agreement (ETCA) Grant funded by the People's Republic of China (PRC).

The Implementation Agreement for this project was finalized and signed in October 2017. Furthermore, the Governments of the Cook Islands and Peoples Republic of China have signed Grant Agreements to the value of CNY¥30,000,000, to fund the renovations project. Since then, this project has been suspended pending outcome of discussions between PRC Government and the Cook Islands Government.

6.8 Japan Programmes

There are four officially recognised Japanese ODA programme to the Cook Islands. The $55,000 towards the Cook Islands Renewable Energy sector programme with Pacific Environment Community (PEC) Fund administered by Pacific Islands Forum Secretariat (PIFS) which came to an end last quarter.

The JICA training and development programme with an allocated funding of $12,500 is difficult to capture in terms of financial expenditure as published expenditure report is only available at end of October.

A one-off grant from the Japan Trust Grant accessed by Ministry of Marine Resources (MMR) through the regional Western and Central Pacific Fisheries Commission (WCPFC) to undertake fisheries monitoring, control and surveillance (MCS) and also gap analysis is targeted for project completion by end of 2018/19.

Non Project Aid Grant Programme: Palmerston Island multipurpose Cyclone Centre

The Cook Islands Government directly manages the remaining balance of $1.3 million of this 2014 TAU Fuel Project. This is towards the construction of the Palmerston Island Cyclone Centre, a project that is now currently in progress. Work has been underway since September with the initial site visit made, materials shipped and foundation construction currently in progress. Of importance in this work is managing contractor and community expectation towards joint collaboration in the construction of this new building.

Economic and Social Development Programme

This project also sits under the regional umbrella for the Japan Non Project Grant Aid programme. A political level agreement has been signed for this grant to the value of two hundred million Japanese Yen which includes the joint Government approved List for procurement of capital goods towards enhancement of public sector agencies functions in infrastructure rehabilitation. The project is primarily 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.

In August 2018, the project executing agency Japan International Cooperation Systems (JICS), visited Rarotonga. Information was provided to understand the utilisation of the grant, Cook Islands co-financing contribution, roles and responsibilities of each agency and next steps towards firming up the list of equipment and machinery for procurement that was identified through the capital plan and in collaboration with public sector agencies identified as grant recipients.

Key deliverables achieved during this period:

- Cabinet endorsement of the programme, grant use exclusively for the mutually agreed list for the purchase of products and/ or services necessary for programme implementation, JICS as procurement agent, and the role of MFEM with DCD as its preferred operations focal point and contracts manager.
- Signed procurement agent and bank account agreements.
- At least 5 priority items targeted to finalise procurement specifications

Grassroots and Human Security Grant Fund Project (GGP)
Although there are no new project approvals this quarter, three of four separate projects to the value of $55,000 are currently in progress. Handover in August of the two fire pump trucks and a tank truck to Teimorimotia Fire Rescue Station truck confirmed project completion. Timely procurement and handover of these fire fighting vehicles has enhanced efforts in combating the alarming increase in house, business and bush fires since June 2018. Three construction projects on Rarotonga are underway for the Pokoinu Child Welfare Centre, the Community Hall & Evacuation Shelter based at St Joseph Primary school and the Avarua School multipurpose hall & cyclone shelter.

6.9 Forum Fisheries Agency (FFA)

Project Development Fund – US Fisheries Treaty
The US Multilateral Treaty for fisheries includes an annual allocation of US$150,000 per Pacific Island party development fisheries projects.

Approximately $20,000 remains with FFA for direct administration of Ministry of Foreign Affairs (MFAI) technical support for Cook Islands foreign affairs by MFAI at overseas fisheries international and regional meetings, interventions, conferences, conventions and events.

Funds are held in trust by the treaty with FFA with a key component directly administered 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 which was held in Rarotonga during the month of August 2018.

6.10 Multilateral Programmes

Pacific Information and Communication Technology Investment Planning and Capacity Development Facility: Phase 2
Previously called "E-Government", this TA has now evolved into a US$1,000,000 regional project with sub-projects. US$400,000 will support the governments of the Cook Islands, Tonga and other interested developing member countries. 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 of assessing and preparing 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, organisational 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. In October the Cook Islands implementing agency in consultation with ADB confirmed the consulting firm with an inception mission held in late November.

Online Registry
In addition to the New Zealand funded portion of the Online Registry, an approximate amount of USD350,000 (amount still tentative) will be provided under ADB PSDI for the registry and implementation.

6.11 Renewable Energy

The project has experienced delayed disbursements. The contractor has been experiencing major delays in receiving payments from the ADB due to funds from EU being transferred to ADB later than normal. ADB and EU are working closely to find a solution to resolve the issue.

The programme has a blended funding arrangement, primarily the ADB loan and grant financing support from the European Union (EU), Global Environment Facility (GEF) and the Green Climate Fund Grant. All grant financing is administered by the ADB.

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 for the Cook Islands Renewable Energy Sector Project (COO46453-002). Significant progress has been made for all Phase 1 islands (Atiu, Mitiaro, Mauke and Mangaia), with all Phase 1 islands are now fully running on the new renewable power systems.

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. This BESS contract was awarded to a supplier on the 1 June 2017 for a fixed price of US$3,092,768 (equivalent). A variation for NZ$103,000 was agreed in August 2018 to allow a larger transformer sizing to take advantage of latent BESS PCS and battery capacity. While progress of this work has been slow, the BESS has been installed on site and most pre-commissioning tests have been successfully completed and is awaiting approval from the Project Owners Engineer. Commissioning of the BESS, contracted for April, is now scheduled for November.

Green Climate Fund – Renewable Energy Battery Storage.
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 was signed in May 2018, followed by ADB and CIG signing the Grant Agreement (GA) and the Project Agreement (PA) between ADB and TAU on the 20 June 2018.

Airport South (LOT2) contract has been awarded to a supplier on the 26 September 2018. An update for the Rarotonga Battery Energy Storage Systems Power Station (LOT1) is not yet awarded.

Sanitation Upgrade Programme (Mei te Vai Ki te Vai)
The purpose of the Mei Te Vai Ki Te Vai Project is to improve the water quality of the lagoons in Rarotonga and Aitutaki for the benefit of our health, environment and economy. The following are project activities progress to date (for further information please visit https://www.totatouvai.co/mei-te-vai-ki-te-vai)

Project Activity	Progress
Master plan and road Map	The Sanitation Master Plan proposes a planning process and implementation plan for a sanitation upgraded programme for Rarotonga. This document also outlines a programme of infrastructure upgrades long-term planning for the Cook Islands' sanitation systems, including a programme of infrastructure and institutional interventions, this is an ongoing progress.
Environmental investigations and monitoring	This is to establish a firm scientific and environmental understanding of the current situation to ensure that the final technical options developed are robust and can be clearly justified. The Investigation has been completed, with a full report available to the public by the end of November 2018.
Muri Wastewater concept design	Conceptual design work has been undertaken to assist in informing the community on the technical solutions that are being considered. Workshops and consultations with the public are underway, where options concerning the disposal of the treated effluent generated from the reticulation system. One which includes land treatment and the other disposal through an outfall beyond the reef. Cost estimates, environmental and engineering information will go into the Concept Design report, together with a summary of community feedback
Early Mitigation	Considered to alleviate the deteriorating condition of the lagoon water quality. The timing for construction is planned for the first week of February 2019. This was the preferred timing by the most affected landowner, the Muri Beach Club Hotel, and also was preferred by the Muri Environmental Group.

Te Mato Vai (TMV)

The total funds from NZ for TMV has been spend. Cook Islands Government is continuing to fund TMV Stage2 while ongoing negotiation with NZ in regards to future funding for TMV.

The purpose of the Te Mato Vai project is to replace Rarotonga's aging water network, improve storage and introduce treatment to provide our people with clean and reliable drinking water (for further information please visit https://www.totatouvai.co/te-mato-vai-1)

Project Activity	Progress
Project Management Unit	The Cook Islands Government has engaged GHD New Zealand Limited to project manage the Te Mato Vai project through the Project Management Unit (PMU). A multi-agency Steering Group oversees the PMU's work, to provide a consistent direction for Government policy and funding. Once we have completed the project, a new Crown-owned water and wastewater authority will operate and maintain the new water supply infrastructure
Land Consultation	This is an ongoing process, getting land access to all construction sites. This is a major part of the project in order to meet the construction programme. The landowners are working closely with the PMU in order to provide access for McConnell Dowell.
Stage 2	Construction at the Turangi, Takuvaine, Avana, Avatiu, Tupapa, and Matavera intake sites have commenced, as well as trunk main upgrades at Papua and Avatiu. The aim is to complete all Stage 2 construction and for the upgraded treatment and filtration facilities to be operational in 2020.
Water Treatment	The World Health Organisation's Drinking Water Standards require an appropriate level of chlorine to be added to remove bacteria before water can be considered 'potable' water. While chlorination is not part of Stage 2 of the project, we are future-proofing the treatment facilities to enable disinfection through chlorination if required. Any proposal to introduce chlorine treatment will be discussed extensively with the community.

Aid Effectiveness

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 Te Tarai Vaka, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software. The Aid Effectiveness funds were also utilised to commission a national consultant to prepare completion reports for programmes and the Islands submission of the Cook Islands assessment in accordance to the Global Partnership for Effective Development Co-operation Monitoring Framework. The framework assesses our country systems and measuring aid effectiveness principals as outlined in the ODA Policy 2015 of the Cook Islands in accordance to international standards.

Funding, in the interim, will also be allocated to support the new Finance Manager post within the Development Coordination Division, increasingly required within office to uphold fiduciary standards of ODA funds.

Australian Government
The Government of Australia has allocated Official Development Assistance (ODA) through the Ministry of Internal Affairs – Gender Empowerment Programme to the Cook Islands of $200,000

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) provides 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).

Australia Pacer Plus
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.

As of October 2018, the Cook Islands have put on hold activities towards the design of Pacer Plus for the Cook Islands pending outcome of its ODA graduation from a developing country to a developed country.

7 Schedules

7.1 Statement of Fiscal Responsibility (Operating)

Operating Statement ($'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Operating Revenue							
Taxation Revenue	125,398	140,587	148,153	148,153	154,282	160,101	165,633
Other Crown Revenue	22,108	18,313	17,982	17,982	17,217	17,207	18,188
Trading Revenue	7,585	7,503	6,848	6,848	6,848	6,848	6,848
Interest on Loans to Subsidiaries	1,286	1,158	830	830	830	830	830
Dividends	382	3,293	1,759	1,759	1,885	1,967	1,967
Interest on Balances	2,140	2,360	2,050	2,050	1,740	1,740	1,740
Core Sector Support	7,730	7,730	7,730	7,730	7,730	7,730	7,730
Total Operating Revenue (excluding Bonus)	**166,629**	**180,945**	**185,354**	**185,354**	**190,533**	**196,424**	**202,936**
Performance Based Budget Support - Bonus Payment	1,877	120	0	0	0	0	0
Total Operating Revenue (including Bonus)	**168,506**	**181,065**	**185,354**	**185,354**	**190,533**	**196,424**	**202,936**
Operating Expenditure							
Ministry Outputs	99,720	109,006	126,786	126,914	118,377	116,558	116,658
Personnel	47,307	50,437	56,162	56,140	56,132	56,178	56,278
Operating	20,376	20,199	20,934	21,085	20,562	20,627	20,627
Administered Payments	27,698	33,587	44,482	44,482	36,475	34,545	34,545
Depreciation	4,338	4,783	5,208	5,208	5,208	5,208	5,208
POBOC	23,087	24,850	25,127	25,307	26,210	26,211	26,210
Airport Authority subsidy	0	0	0	0	0	0	0
Airport Authority Capital	0	0	0	0	0	0	0
Bank of the Cook Islands - social assistance subsidy	0	0	0	0	0	0	0
Provisional for Doubtful Debts	0	6,781	0	0	0	0	0
Cook Islands Primary Schools 50 year Saver	0	0	0	0	0	0	0
Public Sector Strengthening	0	0	0	0	0	0	0
Ports Authority - subsidy	0	0	0	0	0	0	0
Te Aponga Uira - social assistance subsidy	0	0	0	0	0	0	0
Debt Interest Contribution to LRF	1,710	2,063	2,367	2,367	2,271	2,094	1,896
Asset Management (CIIC)	0	0	0	0	0	0	0
Crown Infrastructure Depreciation	3,682	4,603	4,603	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	604	50	50	50	50	50	50
Depreciation Contingency Fund	2,362	3,957	4,066	4,066	4,066	4,066	4,066
Chinese Equipment	663	663	663	663	663	663	663
Rarotonga Water Network	299	694	803	803	803	803	803
Northern Pa Enua Renewable Energy System	400	400	400	400	400	400	400
Southern Pa Enua Renewable Energy System (excl. Aitutaki)	0	1,200	1,200	1,200	1,200	1,200	1,200
Other Assets	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Contingency Funds - Operating	582	682	200	200	100	100	100
Contributions to CISWF	0	0	0	0	0	0	0
Total Operating Expenses	**131,746**	**151,993**	**163,199**	**163,507**	**155,676**	**153,682**	**153,582**
Operating Surplus/(Shortfall) (excluding Bonus)	**34,883**	**28,952**	**22,155**	**21,847**	**34,857**	**42,742**	**49,354**
Operating Surplus/(Shortfall)	**36,759**	**29,072**	**22,155**	**21,847**	**34,857**	**42,742**	**49,354**

7.2 Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement ($'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Reductions in Net Borrowings							
Loan Disbursements	-600	-6,817	-5,164	-5,164	-15,265	-4,782	0
Principal repayment	4,897	5,808	7,559	7,559	7,220	8,020	8,922
	4,297	**-1,009**	**2,395**	**2,395**	**-8,045**	**3,238**	**8,922**
Capital Expenditures							
Ministries and Outer Islands (Including CIIC Capital)	13,441	21,871	44,519	45,743	42,949	28,149	11,835
Infrastructure Capital Investment in SOEs	0	0	0	0	0	0	0
Airport Authority	0	0	0	0	0	0	0
Te Aponga Uira	0	0	0	0	0	0	0
Contingency Funds - Capital Expenditure	50	0	0	0	0	0	0
	13,491	**21,871**	**44,519**	**45,743**	**42,949**	**28,149**	**11,835**
Foreign Aid							
Receipts	-25,404	-50,565	-53,454	-53,454	-30,260	-10,553	0
Expenditure	25,404	50,565	53,454	53,454	30,260	10,553	0
	0	**0**	**0**	**0**	**0**	**0**	**0**
Other Committed Considerations							
Transfer to Reserve Trust Fund	627	703	741	741	771	801	828
ADB Share Capital	0	0	0	0	0	0	0
Disaster Response Fund	604	50	50	50	50	50	50
	1,231	**753**	**791**	**791**	**821**	**851**	**878**
Total Non-Operating balance	**-19,019**	**-21,615**	**-47,705**	**-48,929**	**-35,725**	**-32,238**	**-21,635**
To be Funded by							
Operating Surplus	34,883	28,952	22,155	21,847	34,857	42,742	49,354
Depreciation	10,382	13,343	13,876	13,876	13,876	13,876	13,876
of which: R.E. Capital Replacement	400	1,600	*1,600*	1,600	1,600	1,600	1,600
Unencumbered Cash Reserves	-2,243	-31,786	2,261	3,369	-23,378	-34,856	-51,895
Contribution to Loan Reserve Fund	8,603	11,055	9,362	9,787	10,320	10,425	10,250
Economic Recovery Support Program	206	0	0	0	0	0	0
Transfer to Emergency Response Trust Fund	604	50	50	50	50	50	50
Total Funding Items	**52,434**	**21,615**	**47,705**	**48,929**	**35,725**	**32,238**	**21,635**
Net Surplus/Shortfall	**33,415**	**0**	**0**	**0**	**0**	**0**	**0**

7.3 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	892,063	168,643	0	22,181	1,082,887	90,535	992,352
Audit (PERCA)	943,072	120,180	0	21,000	1,084,252	60,700	1,023,552
Crown Law	604,344	144,101	1,189,090	5,983	1,943,518	0	1,943,518
Cultural Development	643,307	168,783	3,708,999	66,655	4,587,744	110,000	4,477,744
Business Trade and Investment Board	442,783	232,576	0	4,500	679,859	23,380	656,479
Education	11,842,096	3,562,242	4,084,964	641,000	20,130,302	0	20,130,302
Environment	855,776	171,724	82,241	30,381	1,140,122	35,000	1,105,122
Finance and Economic Management	4,036,975	641,939	14,746,750	128,530	19,554,194	954,341	18,599,853
Financial Services Development Authority	241,541	177,906	0	9,868	429,315	0	429,315
Foreign Affairs	1,400,854	607,151	10,000	77,726	2,095,731	28,000	2,067,731
Head Of State	171,148	34,080	23,000	8,057	236,285	0	236,285
Health	10,195,124	3,142,925	1,846,870	886,814	16,071,733	350,000	15,721,733
Infrastructure Cook Islands	2,075,717	343,351	3,125,000	241,596	5,785,664	315,626	5,470,038
Internal Affairs	1,096,527	121,085	2,856,393	17,265	4,091,269	6,000	4,085,269
of which: Welfare Payments - Allowances			*983,393*				
Justice	1,834,618	399,371	337,000	131,447	2,702,436	700,000	2,002,436
Corrective Services	100,000	80,564	0	0	180,564	0	180,564
Marine Resources	1,213,318	358,125	337,000	95,000	2,003,443	28,000	1,975,443
Ombudsman	234,268	61,840	0	5,822	301,930	0	301,930
Parliamentary Services	490,352	91,193	62,000	24,579	668,124	0	668,124
Pearl Authority	218,836	234,688	0	25,000	478,524	0	478,524
Police	3,132,254	461,724	405,000	1,009,948	5,008,926	201,783	4,807,143
Prime Minister's Office	1,287,801	271,849	343,000	59,039	1,961,689	0	1,961,689
Public Service Commission	486,227	81,447	1,372,885	79,293	2,019,852	0	2,019,852
Tourism Corporation	1,753,020	2,756,016	5,072,000	36,500	9,617,536	352,000	9,265,536
Transport	529,203	135,964	0	39,047	704,214	36,000	668,214
Cook Islands Investment Corporation	1,141,950	3,298,194	4,879,439	371,189	9,690,772	2,455,943	7,234,829
Cook Islands Seabed Minerals Authority	173,965	111,940	0	7,200	293,105	0	293,105
Capital Funds Committee- Administered by MFEM	0	0	0	0	0	0	0
Total Ministries, Crown & Statutory Agencies	**48,037,137**	**17,979,600**	**44,481,631**	**4,045,620**	**114,543,988**	**5,747,308**	**108,796,680**

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	301,696	109,773	0	11,100	422,569	0	422,569
Deputy Prime Minister	260,784	81,289	0	7,927	350,000	0	350,000
Minister Vaine Mokoroa	121,200	163,300	0	5,500	290,000	0	290,000
Minister Vainetutai Toki-Brown	189,994	101,838	0	11,162	302,994	0	302,994
Minister Robert Tapaitau	204,072	97,993	0	11,504	313,569	0	313,569
Minister George Angene	172,000	131,628	0	12,000	315,628	0	315,628
Leader Of Opposition	115,160	168,040	0	6,800	290,000	0	290,000
Total Ministerial Support Offices	**1,364,906**	**853,861**	**0**	**65,993**	**2,284,760**	**0**	**2,284,760**
Outer Islands							
Aitutaki	1,187,369	384,505	0	143,884	1,715,758	67,829	1,647,929
Aitutaki Power Supply	0	0	0	0	0	0	0
Atiu	809,982	423,851	0	138,561	1,372,394	224,319	1,148,076
Mangaia	904,134	574,349	0	204,700	1,683,183	301,000	1,382,183
Manihiki	652,271	151,824	0	92,200	896,295	117,501	778,794
Mauke	683,462	210,853	0	178,983	1,073,297	113,853	959,444
Mitiaro	587,374	73,172	0	55,200	715,746	58,900	656,846
Palmerston	260,135	66,058	0	42,000	368,193	20,599	347,594
Penrhyn	487,796	161,948	0	62,407	712,151	74,000	638,151
Pukapuka-Nassau	765,876	143,936	0	140,553	1,050,365	73,695	976,670
Rakahanga	383,232	59,746	0	37,829	480,807	49,336	431,471
Outer Islands Capital Fund-Administered by MFEM	0	0	0	0	0	0	0
Total Outer Islands	**6,721,632**	**2,250,241**	**0**	**1,096,316**	**10,068,189**	**1,101,032**	**8,967,157**
Gross Total	**56,123,675**	**21,083,702**	**44,481,631**	**5,207,929**	**126,896,937**	**6,848,340**	**120,048,597**

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

Administering Ministry	POBOC	2018/19 Budget Estimate	2018/19 HYEFU Estimate	Variance
Compensation of Employees				
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000	0
Audit	Transfer of PERC Salaries and Administration Costs	42,500	42,500	0
Parliamentary Services	Civil List - Personnel	2,267,961	2,267,961	0
Parliamentary Services	House of Ariki	228,420	228,420	0
	Compensation of Employees POBOCs	**2,718,881**	**2,718,881**	**0**
Audit	Audit Fees	95,600	95,600	0
Justice	General Elections, Petitions and By-Elections	0	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	0
Parliamentary Services	Parliamentary Sitting Expenses	120,000	120,000	0
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000	0
Parliamentary Services	MP Travel and Allowances (local and overseas)	141,000	321,000	180,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	0
	Use of Goods and Services POBOCs	**699,261**	**879,261**	**180,000**
Subsidies				
Finance & Economic Management	Apex - Profit Guarantee	0	0	0
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	0
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	0
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	0
	Subsidies POBOCs	**2,658,096**	**2,658,096**	**0**
Social Assistance				0
Internal Affairs	Welfare Payments	18,156,712	18,156,712	0
	Social Assistance POBOCs	**18,156,712**	**18,156,712**	**0**
Other Expense				
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	0
Finance & Economic Management	CICC Mission Training Centre Construction Grant	0	0	0
Finance & Economic Management	CIG Insurance	100,000	100,000	0
Foreign Affairs	International Subscriptions	673,717	673,717	0
	Other Expenses POBOCs	**894,411**	**894,411**	**0**
Grand Total		**25,127,361**	**25,307,361**	**180,000**

7.5 Schedule 3 – Cook Islands Capital Spending

	2018/19 Budget Estimate	2018/19 HYEFU Estimate	Variance
Cook Islands Government Capital programs (see Schedule 6 for details)	44,518,794	45,743,390	1,224,596
Total Capital spending	**44,518,794**	**45,743,390**	**1,224,596**

7.6 Schedule 4 – Official Development Assistance

	2018/19 Budget Estimate	2018/19 HYEFU Estimate	Variance
Operating or recurrent expenditure	16,047,701	16,047,701	0
Capital Project Expenditure	37,406,056	37,406,056	0
Total Borrowing Expenses and Debt Repayment	**53,453,757**	**53,453,757**	0

7.7 Schedule 5a – Other Expenses and Financing Transactions

Category of Expense	2018/19 Budget Estimate	2018/19 HYEFU Estimate	Variance
Contingency Funds - Operating	200,000	200,000	0
Crown Infrastructure Depreciation	4,602,500	4,602,500	0
Provisional for Doubtful Debts	0	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000	0
Transfer to Reserve Trust Fund	740,767	740,767	0
Depreciation Contingency Fund	4,065,734	4,065,734	0
Total Other Expenses	**9,659,001**	**9,659,001**	**0**

7.8 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2018/19 Budget Estimate	2018/19 HYEFU Estimate	Variance
Contribution to LRF - Principal	6,995,000	6,995,000	0
Contribution to LRF - Interest	2,367,000	2,367,000	0
Total Contribution to LRF	**9,362,000**	**9,362,000**	**0**

7.9 Summary

Category of Payment	2018/19 Budget Estimate	2018/19 HYEFU Estimate	Variance
Schedule 1 - Ministry Outputs (Gross Operating)	116,951,862	126,913,942	9,962,079
Schedule 2 - POBOCs	25,509,664	25,307,361	-202,303
Schedule 3 - CIG Capital Expenditure	26,267,299	45,743,390	19,476,091
Schedule 4 - Official Development Assistance	53,917,104	53,453,757	463,347
Schedule 5a - Other Expenses and Financing Transactions	16,362,019	9,659,001	-6,703,017
Schedule 5b - Loan Reserve Fund Appropriations	10,682,000	9,362,000	-1,320,000
TOTAL APPROPRIATION	**249,689,948**	**270,439,451**	**20,749,503**

7.10 Schedule 6 – Capital Schedule

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Ministry of Agriculture			CIG	0	**71,871**	**30,091**	**30,091**	0	0	0
	Rarotonga	Vanilla Shade House	CIG	30,091	71,871	30,091	30,091	0	0	0
Cook Islands Investment Corporation				0	**2,571,061**	**2,481,495**	**2,481,495**	**5,250,000**	**5,000,000**	**4,000,000**
	Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	CIG	0	471,602	0	0	0	0	0
	Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	CIG	0	0	0	0	250,000	0	0
	Rarotonga	Nukutere Rebuild	CIG	0	0	530,000	530,000	0	0	0
	Pukapuka	Government House	CIG	0	0	0	0	0	0	0
	Pukapuka	Pukapuka Hospital Reconstruction	CIG	0	0	500,000	500,000	0	0	0
	Rarotonga	Tereora College Redevelopment Stage 1	CIG	0	2,099,459	130,000	130,000	0	0	0
	Rarotonga	Vaikapuangi Government Building - design	CIG	0	0	204,499	204,495	0	0	0
	Rarotonga	Vaikapuangi Government Building - construction	CIG	0	0	0	0	5,000,000	5,000,000	4,000,000
	Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	CIG	0	0	650,000	650,000	0	0	0
	Rarotonga	TMV Titikaveka Backroad Rehabilitation	CIG	0	0	127,000	127,000	0	0	0
	Rarotonga	China Building Repair	CIG	0	0	340,000	340,000	0	0	0
		Arenikau Water Storage tank	CIG	0	0	0	0	0	0	0
Education				0	**340,952**	**110,000**	**110,000**	**110,000**	**110,000**	**110,000**
	National	Fund to be Prioritised by Education	CIG	0	340,952	110,000	110,000	110,000	110,000	110,000
Health				0	**592,125**	**718,461**	**718,461**	**275,000**	**275,000**	**275,000**
	National	Fund to be Prioritised by Health for Technical Equipment	CIG	0	306,895	275,000	275,000	275,000	275,000	275,000
	Rarotonga	Medical Service Bed End Panels	CIG	0	281,146	78,252	78,252	0	0	0
	Rarotonga	Ambulance	CIG	0	2,202	147,798	147,798	0	0	0
	Rarotonga	Hospital Incinerator	CIG	0	1,882	217,411	217,411	0	0	0
Infrastructure Cook Islands				**0**	**4,487,553**	**7,562,350**	**7,971,946**	**5,039,525**	**3,600,000**	**2,000,000**
	Atiu	Atiu Airport Runway Stabilisation	CIG	0	100,647	0	0	267,525	0	0
	Atiu	Atiu Road Improvement Programme	CIG	0	6,531	250,000	250,000	0	0	0
	National	Bitumen truck	CIG	0	202,331	0	14,229	0	0	0
	Rarotonga	Bridges & Drainage	CIG	0	165,496	1,299,000	1,299,000	1,259,000	0	0
	Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	CIG	0	13,466	0	0	0	0	0
	Various	Pa Enua Cyclone centre	CIG	0	89,813	1,050,000	1,050,000	1,500,000	1,500,000	0
	Rarotonga	Avatiu Valley Stream embankment	CIG	0	0	394,396	394,396	0	0	0
	Rarotonga	Road Asset Management	CIG	0	1,166,818	2,000,000	2,100,000	2,000,000	2,000,000	2,000,000
	Mangaia	Mangaia Road Improvement Programme	CIG	0	192,135	0	218,958	0	0	0
	Mangaia, Atiu, Mauke	HV Transport Trailer	CIG	0	96,927	0	14,230	0	0	0

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
	Mangaia	HIAB (includes man cage & fork)	CIG	0	75,241	0	0	0	0	0
	Mangaia	Central water project	CIG	0	10,744	0	0	0	0	0
	Manihiki	Manihiki Island Airport Terminal - construction	CIG	0	86,795	0	15,921	0	0	0
	Mauke	Medium Gen-set (42kVA)	CIG	0	0	0	0	0	0	0
	National	Manea Games Upgrade	CIG	0	20,995	0	0	0	100,000	0
	Mitiaro	Mitiaro Water Upgrade	CIG	0	77,862	382,000	382,000	0	0	0
	Penrhyn	Slasher	CIG	0	0	0	0	0	0	0
	Penrhyn	Omoka Harbour Upgrade	CIG	0	0	250,000	250,000	0	0	0
	Pukapuka	Pukapuka Airport terminal buildings upgrade	CIG	0	75,241	13,500	59,758	0	0	0
	Pukapuka	Yato Cargo Shed Upgrade	CIG	0	7,850	0	0	0	0	0
	Rarotonga	Tereora Drainage Improvement	CIG	0	0	117,000	117,000	13,000	0	0
	Rarotonga	Rutaki Foreshore Rock Revetment	CIG	0	117,155	0	0	0	0	0
	Rakahanga	Large boat outboard motor	CIG	0	83,709	0	0	0	0	0
	Aitutaki	Aitutaki road Improvement Programme	CIG	0	863,153	226,000	226,000	0	0	0
	Mangaia	Tamarua Water Project	CIG	0	116,087	133,913	133,913	0	0	0
	Rarotonga	Tip Truck	CIG	0	54,397	0	0	0	0	0
	Pa Enua	Pa Enua Machinery Shelters	CIG	0	42,460	0	0	0	0	0
	Rarotonga	Road Network Maintenance	CIG	0	723,543	0	0	0	0	0
	Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	CIG	0	9,480	140,500	140,500	0	0	0
	Rarotonga	Muri Road Widening	CIG	0	39,398	287,665	287,665	0	0	0
	Aitutaki	Establishing new water galleries	CIG	0	49,279	418,376	418,376	0	0	0
	Rarotonga	Culvert	CIG	0		600,000	600,000	0	0	0
INTAFF				0	**45,000**	**50,000**	**50,000**	**50,000**	**50,000**	**50,000**
	Rarotonga	Vaka Maintenance Capital Projects	CIG	0	45,000	50,000	50,000	50,000	50,000	50,000
Ministry of Finance and Economic Management				**0**	**5,526,235**	**24,765,664**	**24,765,664**	**16,259,336**	**14,000,000**	**5,000,000**
	National	Banking payments system	CIG	0	0	0	0	0	0	0
	Rarotonga	FMIS purchase and implementation	CIG	0	124,619	644,011	644,011	259,336	0	0
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	0	4,849,292	23,750,000	23,750,000	9,000,000	7,000,000	0
	Rarotonga	AEOI IT System	CIG	0	378,347	121,653	121,653	0	0	0
	Rarotonga	Water & Sanitation Programme (WASP)	CIG	0	173,977	250,000	250,000	7,000,000	7,000,000	5,000,000
Justice				**0**	**200,000**	**0**	**0**	**0**	**0**	**0**
	Rarotonga	Online Business Registry	CIG	0	200,000	0	0	0	0	0
Office Of Prime Minister				**0**	**7,848,290**	**7,928,124**	**8,148,124**	**15,555,000**	**4,754,000**	**40,000**
	Atiu	Atiu Power Distribution	CIG	0	418,449	0	220,000	0	0	0
	Pa Enua	Renewable Energy - Capital works	CIG	0	6,817,217	3,163,939	3,163,939	0	0	0
	National	Government IT Network	CIG	0	40,000	40,000	40,000	40,000	40,000	40,000
	Aitutaki	Aitutaki Renewable Energy Project	CIG	0	325,815	2,474,185	2,474,185	0	0	0
	National	Renewable Management Project Management and Support	CIG	0	246,809	250,000	250,000	250,000	0	0
	National	Manatua Polynesian Cable (loan component)	CIG	0	0	2,000,000	2,000,000	15,265,000	4,714,000	0

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
MINISTRY TOTAL				**0**	**21,683,087**	**43,646,185**	**44,275,781**	**42,538,861**	**27,789,000**	**11,475,000**
Capital Funds Administered BY MFEM				0	**187,650**	**872,609**	**1,467,609**	**410,000**	**360,000**	**360,000**
	National	Capital Distribution Fund		0	97,391	762,609	1,357,609	300,000	250,000	250,000
	Pa Enua	Outer Islands Small Capital Fund		0	90,259	110,000	110,000	110,000	110,000	110,000
		Aitutaki		0	*15,818*	*16,000*	*16,000*	*16,000*	*16,000*	*16,000*
		Atiu		0	*11,686*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Mangaia		0	*5,370*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Manihiki		0	*0*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
		Mauke		0	*9,500*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
		Mitiaro		0	*7,609*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*
		Palmerston		0	*8,639*	*10,000*	*10,000*	*10,000*	*10,000*	*10,000*
		Penrhyn		0	*11,844*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Pukapuka-Nassau		0	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*	*12,000*
		Rakahanga		0	*7,793*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*
GRAND TOTAL				**0**	**21,870,737**	**44,518,794**	**45,743,390**	**42,948,861**	**28,149,000**	**11,835,000**

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

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Taxation Revenue							
Value Added Tax (VAT)	58,531,000	63,509,000	68,123,873	68,123,873	72,404,735	76,375,706	80,059,222
Income tax	24,386,000	28,688,816	28,865,883	28,865,883	29,088,612	29,311,342	29,534,072
Company tax	16,154,862	21,760,000	23,190,214	23,190,214	23,848,029	24,505,844	25,163,659
Import levies	14,335,000	14,164,518	14,159,131	14,159,131	14,246,319	14,333,508	14,420,696
Withholding tax	1,757,390	1,841,603	2,507,561	2,507,561	2,704,157	2,900,753	3,097,349
Departure tax	10,233,958	10,623,158	11,306,796	11,306,796	11,990,434	12,674,072	13,357,711
Total	**125,398,211**	**140,587,094**	**148,153,458**	**148,153,458**	**154,282,287**	**160,101,226**	**165,632,709**
Other Crown Revenue							
Financial Services Levy	324,069	261,743	0	0	0	0	0
FSC Return of Excess	0	0	143,000	143,000	143,000	143,000	143,000
Immigration Fees	885,903	927,000	860,000	860,000	860,000	860,000	860,000
IMO Subscription - Maritime Cook Islands	63,641	90,000	66,000	66,000	66,000	66,000	66,000
Court Services	37,448	45,746	50,000	50,000	50,000	50,000	50,000
Instant Fines	66,601	107,010	80,000	80,000	70,000	40,000	40,000
Fishing Licenses	16,508,784	8,617,159	6,305,125	6,305,125	8,000,000	8,000,000	12,305,000
Fisheries Catch Revenue	0	0	0	0	0	0	0
Fisheries - US Treaties (purse seing)	1,548,095	4,890,095	4,504,500	4,504,500	4,504,500	4,504,500	1,200,000
Fishing Fines	486,601	0	2,500,000	2,500,000	0	0	0
Research Fee	1,689	1,470	1,500	1,500	1,500	1,500	1,500
Permits	27,033	26,916	24,000	24,000	24,000	24,000	24,000
Dividends	***381,755***	***3,293,000***	***1,759,352***	***1,759,352***	***1,884,952***	***1,966,552***	***1,966,552***
Banana Court - dividend	0	10,000	10,000	10,000	10,000	10,000	10,000
Bank of the Cook Islands - dividend	183,372	248,000	284,000	284,000	409,600	491,200	491,200
Ports Authority - dividend	0	0	0	0	0	0	0
Punganga Nui Market - dividend	0	0	0	0	0	0	0
Te Aponga Uira - dividend	35,383	255,000	255,352	255,352	255,352	255,352	255,352
Extraordinary SOE Dividend	0	60,000	60,000	60,000	60,000	60,000	60,000
Telecom Cook Islands (Bluesky) - dividend	163,000	2,720,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000
Numismatics	353,550	511,000	400,000	400,000	450,000	450,000	450,000
Border Management Fees	0	0	0	0	0	0	0
Drivers Licenses	87,098	214,000	200,000	200,000	200,000	220,000	200,000
Motor Vehicle Registration	887,860	922,000	875,000	875,000	875,000	875,000	875,000
Interest on balances	2,139,845	2,360,000	2,050,000	2,050,000	1,740,000	1,740,000	1,740,000
Interest on loans to subsidiaries	1,285,796	1,158,000	830,000	830,000	830,000	830,000	830,000
Foreign Investment Fees	26,375	29,000	27,000	27,000	27,000	27,000	27,000
Upper Air Management Agreement	544,575	545,000	746,000	746,000	746,000	746,000	746,000
Shipping Registration	61,467	224,000	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	10,000
Liquor Licencing	42,244	75,000	70,000	70,000	70,000	70,000	70,000

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Tattslotto Grants	139,527	172,000	120,000	120,000	120,000	120,000	120,000
Censorship Fees	2,447	3,000	4,000	4,000	4,000	4,000	4,000
Circulating Currency - Coins	0	638,000	650,000	650,000	650,000	650,000	650,000
Employer Liabilities	0	0	75,000	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	2,783	3,000	3,000	3,000	3,000	3,000	3,000
Justice Unclaimed Rental Monies	0	0	0	0	0	0	0
Core Sector Support	7,730,400	7,730,400	7,730,487	7,730,487	7,730,487	7,730,487	7,730,487
Public Sector Strengthening-processes and systems MFEM	0	0	0	0	0	0	0
Total Other	**33,645,586**	**32,854,539**	**30,352,223**	**30,352,223**	**29,402,698**	**29,474,298**	**30,454,798**
Total Crown Receipts - excluding Bonus Payment	**159,043,797**	**173,441,633**	**178,505,681**	**178,505,681**	**183,684,985**	**189,575,524**	**196,087,506**
Performance Based Budget Support - Bonus Payment	1,876,720	120,267	0	0	0	0	0
Total Crown Receipts - including Bonus Payment	**160,920,517**	**173,561,900**	**178,505,681**	**178,505,681**	**183,684,985**	**189,575,524**	**196,087,506**

7.12 Schedule 8a – Administered Payments

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Compensation of Employees								
Cook Islands Investment Corporation	Infrastructure Committee	42,428	75,000	75,000	75,000	75,000	75,000	75,000
Cook Islands Investment Corporation	Joint Venture with Seabed Minerals Authority	72,956	67,009	130,000	130,000	130,000	130,000	130,000
Cook Islands Investment Corporation	Special Projects Units	0	354,766	420,000	420,000	420,000	420,000	420,000
National Environment Service	National Heritage Trust	82,239	80,906	82,241	82,241	82,241	82,241	82,241
Finance and Economic Management	Public Sector Strengthening-processes and systems	53,986	140,593	345,000	345,000	0	0	0
Finance and Economic Management	Post Tax Amnesty Work	0	1,290	500,000	500,000	0	0	0
Finance and Economic Management	Salary Adjustment Administered Fund	0	82,680	0	0	0	0	0
Finance and Economic Management	Director of Civil Aviation	0	56,129	56,000	56,000	0	0	0
Finance and Economic Management	Price Tribunal Committee	0	0	45,000	45,000	45,000	45,000	45,000
Internal Affairs	Price Tribunal	30,000	18,730	0	0	0	0	0
Justice	Project to bring land records up to date	119,758	120,000	120,000	120,000	120,000	120,000	120,000
Justice	Judges Allowances	127,955	171,090	177,000	177,000	177,000	177,000	177,000
Public Service Commission	HOM's Salaries	1,216,453	1,254,903	1,372,885	1,372,885	1,372,885	1,372,885	1,372,885
Prime Minister's Office	Public Sector Strengthening	0	190,812	0	0	0	0	0
Cook Islands Investment Corporation	School Security	196,313	250,000	250,000	250,000	250,000	250,000	250,000
Education	Centre of Research and Policy Studies	0	0	80,000	80,000	80,000	80,000	80,000
Transport	Civil Aviation	0	0	0	0	111,000	111,000	111,000
	Compensation of Employees Administered Payments	**1,942,088**	**2,863,908**	**3,653,126**	**3,653,126**	**2,863,126**	**2,863,126**	**2,863,126**
Use of Goods and Services								
Marine Resources	WCPFC Conference	0	49,170	0	0	0	0	0
Cultural Development	Te Maeva Nui Constitution Celebrations	569,695	749,633	3,693,999	3,693,999	722,500	722,500	722,500
Cook Islands Investment Corporation	Provision for Land Rentals	0	1,037,560	1,962,439	1,962,439	1,500,000	0	0
Cook Islands Investment Corporation	Land Rent Reviews	0	787,500	642,000	642,000	0	0	0
Finance and Economic Management	HRMIS Tax Amnesty Change	0	99,980	0	0	0	0	0
Education	Tertiary Training Institutions	759,854	749,940	759,855	759,855	759,855	759,855	759,855
Education	Centre of Excellence in Information Technology (CEIT)	0	0	150,000	150,000	150,000	60,000	60,000
Finance and Economic Management	Audit of Crown Accounts	30,000	0	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	Border Management System Maintenance	135,000	135,000	155,250	155,250	155,250	155,250	155,250
Finance and Economic Management	National Superannuation Fund	134,448	67,224	0	0	0	0	0
Finance and Economic Management	Standard and Poors Subscription	40,000	54,150	55,000	55,000	55,000	55,000	55,000
Finance and Economic Management	Special Investigative and Prosecution Services	0	0	200,000	200,000	70,000	70,000	70,000
Finance and Economic Management	Debt Advisory Services	0	0	60,000	60,000	60,000	60,000	60,000
Crown Law	Arbitration Case	0	354,000	1,159,090	1,159,090	0	0	0
Foreign Affairs	Cook Islands Student Association Support	5,000	0	5,000	5,000	5,000	5,000	5,000
Head Of State	Domestic Hosting Entertainment	14,033	13,480	15,000	15,000	15,000	15,000	15,000
Head Of State	QR Social Responsibility Fund	0	4,840	8,000	8,000	8,000	8,000	8,000

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Health	Hosting of the 2017 Pacific Health Ministers' Meeting	0	83,000	0	0	0	0	0
Health	Pharmaceuticals	1,067,892	867,800	867,800	867,800	867,800	867,800	867,800
Infrastructure Cook Islands	Outer Islands Equipment Repairs of Unanticipated Breakdowns	194,434	196,929	200,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	Waste Management	452,833	494,000	545,000	545,000	545,000	545,000	545,000
Infrastructure Cook Islands	Water Maintenance	0	0	500,000	500,000	500,000	500,000	500,000
Infrastructure Cook Islands	Road Maintenance	0	0	630,000	630,000	630,000	630,000	630,000
Infrastructure Cook Islands	Road Assets Management	0	0	650,000	650,000	0	0	0
Infrastructure Cook Islands	Bridges and Drainage Maintenance	0	0	600,000	600,000	600,000	600,000	600,000
Internal Affairs	Lease extension	72,000	72,000	72,000	72,000	72,000	72,000	72,000
Internal Affairs	Vaka Maintenance	393,153	400,890	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	52,000
Parliamentary Services	Special Select Committee	0	66,399	10,000	10,000	10,000	10,000	10,000
Cultural Development	Te Kopapa Reo Maori Board	0	12,220	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	243,000
Prime Minister's Office	Undersea Fiber-optic Cable	0	33,600	0	0	0	0	0
Police	Search and Rescue	0	18,220	20,000	20,000	20,000	20,000	20,000
Police	Serious Crime Investigations	140,867	48,850	50,000	50,000	50,000	50,000	50,000
Police	Te Kukupa - Biannual Slipping	151,284	0	150,000	150,000	0	0	0
Police	Te Kukupa - Fuel Contribution	137,981	140,000	140,000	140,000	140,000	140,000	140,000
Police	Youth Program	38,923	694	45,000	45,000	45,000	45,000	45,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	5,499,999	5,400,000	5,072,000	5,072,000	4,922,000	4,922,000	4,922,000
Foreign Affairs	Returned Services Association	9,760	3,283	5,000	5,000	5,000	5,000	5,000
Prime Minister's Office	Community Support Fund	90,618	96,930	100,000	100,000	100,000	100,000	100,000
Environment	E - Waste & Whitewear Collection	0	15,060	0	0	0	0	0
Parliamentary Services	Remuneration Tribunal Committee	0	3,150	0	0	0	0	0
Crown Law	Pacific Islands Law Officers Network (PILON)	0	0	30,000	30,000	0	0	0
Marine Resources	15th Forum Fisheries Ministerial Meeting	0	0	37,000	37,000	0	0	0
	Use of Goods and Services Administered Payments	**10,189,703**	**12,350,502**	**19,329,433**	**19,329,433**	**12,947,405**	**11,357,405**	**11,357,405**
Subsidies								
Education	University of the South Pacific Contribution	9,106,042	241,130	205,000	205,000	205,000	205,000	205,000
Finance and Economic Management	Air New Zealand - Subsidies	18,000	11,466,710	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	0	76,927	500,000	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enua	0	39,720	45,000	45,000	45,000	45,000	45,000
Finance and Economic Management	Asian Infrastructure Investment Bank (AIIB) Membership	9,247,181	0	30,500	30,500	30,500	30,500	30,500
	Subsidies Administered Payments	**9,247,181**	**11,824,487**	**12,780,500**	**12,780,500**	**12,780,500**	**12,780,500**	**12,780,500**
Social Assistance								
Education	Government Funded Scholarships	437,933	487,981	660,400	660,400	660,400	660,400	660,400
Health	Patient Referrals	740,000	900,000	550,000	550,000	550,000	550,000	550,000
Health	Nursing School	234,070	278,049	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	195,000

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Health	Oxygen Plant	0	30,000	0	0	0	0	0
Internal Affairs	Welfare Payments - Allowances	1,139,818	695,360	983,393	983,393	983,918	983,918	983,918
Justice	Legal Aid	0	0	40,000	40,000	40,000	40,000	40,000
	Social Assistance Administered Payments	**2,746,819**	**2,586,390**	**2,662,863**	**2,662,863**	**2,663,388**	**2,663,388**	**2,663,388**
Other Expense								
Cook Islands Investment Corporation	Establishment and implementation of a water utility for Rarotonga	0	100,000	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	2,229,709	2,229,709	2,229,709	2,229,709	2,229,709
Marine Resources	Fisheries Development Facility	199,992	199,188	200,000	200,000	200,000	200,000	200,000
Marine Resources	Fisheries Development Facility in the Pa Enua	99,817	98,570	100,000	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	235,000	220,000	520,000	520,000	220,000	220,000	220,000
Internal Affairs	SIF - Cook Islands Government Contribution	55,892	1,115,230	881,000	881,000	621,000	281,000	281,000
Finance and Economic Management	2017 Baseline Funding for Conduct of the National Census	189,813	13,711	0	0	0	0	0
Finance and Economic Management	Conduct of a Labour Force Survey	0	0	100,000	100,000	0	0	0
Finance and Economic Management	Production of new currency, transportation and sale of old coins	1,043	68,170	350,000	350,000	350,000	350,000	350,000
Finance and Economic Management	Marumaruatua	0	0	275,000	275,000	0	0	0
Finance and Economic Management	Economic Utilities Regulator	0	0	0	0	100,000	100,000	100,000
	Other Expenses Administered Payments	**2,928,584**	**3,961,896**	**6,055,709**	**6,055,709**	**5,220,709**	**4,880,709**	**4,880,709**
Grand Total		**27,054,375**	**33,587,183**	**44,481,631**	**44,481,631**	**36,475,128**	**34,545,128**	**34,545,128**

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

Administering Ministry	POBOC	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Compensation of Employees								
Finance and Economic Management	Parliamentary Superannuation	134,534	125,000	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	Transfer of PERC Salaries and Administration Costs	38,611	35,400	42,500	42,500	42,500	42,500	42,500
Parliamentary Services	Civil List - Personnel	1,986,729	2,031,180	2,267,961	2,267,961	2,101,961	2,101,961	2,101,961
Parliamentary Services	House of Ariki	226,853	229,954	228,420	228,420	228,420	228,420	228,420
	Compensation of Employees POBOCs	**2,386,728**	**2,421,534**	**2,718,881**	**2,718,881**	**2,552,881**	**2,552,881**	**2,552,881**
Use of Goods and Services								
Audit (PERCA)	Audit Fees	95,600	0	95,600	95,600	95,600	95,600	95,600
Justice	General Elections, Petitions and By-Elections	0	0	0	0	0	0	0
Parliamentary Services	Civil List - Constituency Visits	162,911	90,028	170,200	170,200	170,200	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	64,560	84,307	120,000	120,000	120,000	120,000	120,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	0	331,231	141,000	321,000	141,000	141,000	141,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	0	106,356	109,000	109,000	109,000	109,000	109,000
Prime Minister's Office	Local Government Election	0	0	0	0	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	0	63,461	63,461	63,461	63,461	63,461
	Use of Goods and Services POBOCs	**875,651**	**611,923**	**699,261**	**879,261**	**699,261**	**699,261**	**699,261**
Subsidies								
Finance and Economic Management	Apex - Profit Guarantee	1,267,243	618,070	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	120,000
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	2,047,997
Cook Islands Investment Corporation	Ports Authority - subsidy	0	0	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	0	380,000	380,000	380,000	380,000	380,000
	Subsidies POBOCs	**3,435,240**	**2,786,067**	**2,658,096**	**2,658,096**	**2,658,096**	**2,658,096**	**2,658,096**
Social Assistance								
Internal Affairs	Welfare Payments	15,642,567	17,682,100	18,156,712	18,156,712	19,390,741	19,390,741	19,390,741
	Social Assistance POBOCs	**15,642,567**	**17,682,100**	**18,156,712**	**18,156,712**	**19,390,741**	**19,390,741**	**19,390,741**
Other Expense								
Finance and Economic Management	Pacific Catastrophe Risk Insurance	0	0	120,694	120,694	120,694	120,694	120,694
Finance and Economic Management	CICC Mission Training Centre Construction Grant	150,000	650,000	0	0	0	0	0
Foreign Affairs	International Subscriptions	596,395	698,800	673,717	673,717	687,967	689,697	687,967
Finance and Economic Management	CIG Insurance	0	0	100,000	100,000	100,000	100,000	100,000
	Other Expenses POBOCs	**746,395**	**1,348,800**	**894,411**	**894,411**	**908,661**	**910,391**	**908,661**
Grand Total		**23,086,580**	**24,850,424**	**25,127,361**	**25,307,361**	**26,209,640**	**26,211,370**	**26,209,640**

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

Creditor	2017/18 Actual	2018/19 Budget	2018/19 HYEFU Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Asian Development Bank (ADB)						
Principal	4,292	4,645	4,645	4,623	5,477	6,379
Interest	2,024	1,832	1,832	2,037	2,005	1,857
Total Debt Servicing to ADB	**6,316**	**6,477**	**6,477**	**6,660**	**7,482**	**8,236**
People's Republic of China (China)						
Principal	933	2,597	2,712	2,597	2,543	2,543
Interest	727	691	722	639	575	524
Total Debt Servicing to China	**1,660**	**3,288**	**3,434**	**3,236**	**3,118**	**3,067**
France						
Principal	582	317	317	0	0	0
Interest	6	1	1	0	0	0
Total Debt Servicing to France	**588**	**318**	**318**	**0**	**0**	**0**
Gross Debt Servicing	**8,564**	**10,083**	**10,229**	**9,896**	**10,600**	**11,303**

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

Transaction	**2017/18 Actual**	**2018/19 Budget**	**2018/19 HYEFU Estimate**	**2019/20 Projection**	**2020/21 Projection**	**2021/22 Projection**
Opening Balance in LRF	18,639	21,278	21,277	20,922	21,287	21,051
Transfer into LRF by Government	10,682	9,362	9,362	9,901	9,999	9,829
Contribution to LRF - Principal	8,619	6,995	6,995	7,630	7,905	7,933
Contribution to LRF - Interest	2,063	2,367	2,367	2,271	2,094	1,896
Interest earned by LRF	373	426	426	418	426	421
Total inflows	**11,055**	**9,787**	**9,787**	**10,320**	**10,425**	**10,250**
Total Principal Paid out of LRF	5,808	7,559	7,559	7,220	8,020	8,922
Total Interest Paid out of LRF	2,548	2,524	2,524	2,676	2,580	2,381
Service Fees						
Total outflows	**8,356**	**10,142**	**10,083**	**9,896**	**10,600**	**11,303**
Closing balance of LRF	**21,338**	**20,923**	**20,981**	**21,346**	**21,112**	**19,998**

7.16 Schedule 10 – Official Development Assistance Schedule

Agency	Programs/Projects by Agency	Development Partner	2017/18 Actuals	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22
Projects funded directly in New Zealand dollars							
MFEM	Cook Islands Core Sector Support	New Zealand	7,730,487	7,730,487	7,730,487	7,730,487	7,730,487
MFEM	New Zealand Triennium Fund	New Zealand	5,096,862	8,995,013	8,995,013	8,995,013	0
	Performance	New Zealand	167,446	0	0	0	0
CIIC	Apii Nikao Construction	China	13,958,333	0	0	0	0
CIIC	Tereora Reconstruction Phase One	New Zealand	2,565,000	0	0	0	0
CIIC	Chinese Building Repairs	China	7,586,666	2,560,232	0	0	0
ICI	Regional Ridge to Reef Project - Testing the Integration of Water, Land, Forest & Coastal Management	Global Environment Facility	47,971	75,758	75,758	0	0
ICI	RSA Cemetery PDCT Project	New Zealand	5,000	0	0	0	0
INTAFF	Social Impact Fund (NGO and community initiatives Scheme)	New Zealand	95,000	0	0	0	0
INTAFF	Gender Empowerment	Australia	124,719	0	0	0	0
OPM	E-Government TA Support	Asian Development Bank	0	1,000	50,000	50,000	0
MFEM	India Grant Fund	India	284,976	105,000	0	0	0
MFEM	Korean Grant - Medical Incinerator	Korea	223,443	0	0	0	0
MFEM	Pacific Parliamentary Development Project	UNDP	0	75,758	75,758	0	0
	Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands)	UNDP	0	151,515	0	0	0
	US Treaty Project Development Fund (PDF) Support	FFA	0	30,303	30,303	30,303	30,303
	Pacific Agreement on Closer Economic Relations (PACER) Plus	Australia	4,660	20,340	0	0	0
MFEM	Grassroots Grant Fund	Japan	557,167	300,000	300,000	300,000	0
MFEM	Non Project Grant Aid - Palmerston Cyclone Centre	Japan	0	1,040,398	0	0	0
	Economic Social Development Programme 2018-Japanese Machinery and Equipment	Japan	0	2,000,000	0	0	0
MFEM	JICA Training and Development	Japan	10,886	125,000	125,000	0	0
MFEM	General Budget Support	European Union	20,000	1,439,637	2,105,400	0	0

Agency	Programs/Projects by Agency	Development Partner	2017/18 Actuals	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22
MFEM	Improving Connectivity for the South Pacific	Asian Development Bank	94,676	0	0	0	0
MFEM	Manatua Polynesian Cable Project	New Zealand	109,029	10,000,000	4,890,000	0	0
MFEM	Aid Effectiveness	New Zealand	320,440	100,000	100,000	100,000	0
MFEM	Sanitation Upgrade Program-Manihiki Lagoon Clean Up	New Zealand	100,139	0	0	0	0
MFEM	Te Mato Vai	New Zealand	7,212,992	3,400,000	0	0	0
MFEM	Mei Te Vai Ki Te Vai (MTVKTV)	New Zealand	2,005,725	4,362,000	0	0	0
MFEM	TRAC Funds	UNDP	0	93,600	0	0	0
MFEM	Household Income Expenditure Survey	Secretariat of the Pacific Community	360	0	0	0	0
MMR	Sustainable Fisheries Partnership Agreement	European Union	594,121	486,459	588,730	294,365	0
MMR	Project Development Fund - US Fisheries Treaty	Forum Fisheries Agency	148,397	236,364	236,364	236,364	0
MMR	Pago Pago CIFFO Operations	South Pacific Fisheries Cooperation on - Te Vaka Moana	0	70,000	0	0	0
	NZ Volunteer Services Aboard	New Zealand	218,984	160,000	0	0	0
	Japan Trust Fund	Japan	0	86,500	0	0	0
MMR	FAO Country Programme Framework Cook Islands	FAO	0	230,000	0	0	0
MOA	Improved production processing and marketing of agricultural produce	FAO	0	230,000	0	0	0
MOC	Bio control of Invasive weeds	New Zealand	50,000	50,000	50,000	0	0
MOH	Establishment of the Community-based ICH Inventory in the CI	UNESCO	0	50,000	25,000	25,000	0
	Cultural Small Grants (WIPO, India, China)	Multilateral Fund	0	760,000	0	0	0
MOH	SPC Small Grants	Secretariat of the Pacific Community	0	0	11,074	11,074	11,074
MOH	Strengthening Specialised Clinical Services in the Pacific (SSCSIP)	Australia	0	11,074	11,074	11,074	0
MOH	WHO Biennium Budget Support	WHO	353,408	204,545	204,545	0	0
MOH	Western Pacific Multi-country Integrated HIV/TB programme - UNDP	UNDP	75,531	55,679	0	0	0
	Small Health Grants	Multilateral Fund	0	50,000	0	0	0
NES	Ridge to Reef	Global Environment Facility	945,689	1,084,003	1,712,028	0	0

Agency	Programs/Projects by Agency	Development Partner	2017/18 Actuals	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22
NES	Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	Global Environment Facility	427,969	281,831	0	0	0
NES	National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP)	Global Environment Facility	76,209	0	0	0	0
OPM	Renewable Energy Grant (Southern Group)	European Union	1,501,750	1,528,660	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Global Environment Facility	3,923,313	1,062,097	0	0	0
OPM	Renewable Energy Grant (Southern Group)	Green Climate Fund	0	9,160,305	9,160,305	0	0
OPM	Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	Global Environment Facility	80,835	389,448	153,169	0	0
OPM	Green Climate Fund Readiness	Green Climate Fund	215,000	360,000	360,000	0	0
OPM	PEC Fund - PV Mini Grids	Japan	70,785	0	0	0	0
OPM	Pa Enua Action for Resilient Livelihoods (PEARL)	UN Adaptation Fund	748,236	1,500,000	1,000,000	500,000	0
OPM	Northern Water Project Phase 2	EU-German Development Cooperation	308,331	206000	0	0	0
REDCROSS	GEF Small Grants Programme	Global Environment Facility	164,825	384164	0	0	0
Total NZD Funding			**50,564,873**	**53,453,757**	**30,259,520**	**10,553,193**	**30,303**

8 Financial Statements

The forecasted financial estimates of the Crown are set out in the following order as at 31 December 2018.

8.1 Statement of Financial Performance

	Actual 2016-17 ('000)	Actual 2017-18 ('000)	Budget 2018-19 ('000)	HYEFU 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)	Projected 2021-22 ('000)
Revenue							
Taxation revenues	125,398	140,588	148,153	148,153	154,282	160,101	165,633
Other revenue							
Revenue on behalf of the Crown	31,715	26,163	25,714	25,714	24,948	24,938	25,918
Sale of goods and services	7,585	7,503	6,848	6,848	6,848	6,848	6,848
Interest	3,426	3,518	2,880	2,880	2,570	2,570	2,570
Dividends	382	3,293	1,759	1,759	1,885	1,967	1,967
Total Revenue	***168,506***	***181,065***	***185,354***	***185,354***	***190,533***	***196,424***	***202,936***
Expenditure							
Appropriations to agencies	99,719	109,006	127,428	126,914	118,377	116,558	116,658
Payments on behalf of Crown	23,087	24,850	24,485	25,307	26,210	26,211	26,210
Debt-servicing interest	1,710	2,063	2,367	2,367	2,271	2,094	1,896
Infrastructure depreciation	3,682	4,603	4,603	4,603	4,603	4,603	4,603
Depreciation contingency fund-renewable energy	400	1,600	1,600	1,600	1,600	1,600	1,600
Other expenditure	3,148	10,224	2,716	2,716	2,615	2,616	2,615
Total Expenditure	***131,746***	***152,347***	***163,199***	***163,507***	***155,675***	***153,682***	***153,581***
NET OPERATING SURPLUS / (DEFICIT)	***36,760***	***28,718***	***22,155***	***21,847***	***34,858***	***42,743***	***49,355***

8.2 Statement of Financial Position

	Actual 2016-17 ('000)	Actual 2017-18 ('000)	Budget 2018-19 ('000)	HYEFU 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)	Projected 2021-22 ('000)
Assets							
Cash and equivalents	80,392	102,684	91,576	91,247	104,713	129,461	171,083
Loan reserves	18,639	21,338	20,923	20,981	21,346	21,111	19,998
Trust accounts	17,180	20,166	20,957	20,957	21,778	22,629	23,507
Inventory	1,850	1,620	1,458	1,458	1,312	1,181	1,063
Tax receivables	31,616	35,628	29,384	29,384	25,344	25,164	25,039
Debtors and other receivables	5,108	9,311	8,845	8,845	8,403	7,960	7,539
Advances to SOEs	28,375	28,010	26,897	26,897	26,108	25,352	24,596
Plant, property, and equipment	100,888	153,802	221,728	221,728	266,413	281,747	279,706
Total Assets	***284,047***	***372,559***	***421,768***	***421,497***	***475,417***	***514,604***	***552,530***
Liabilities							
Creditors and other payables	17,392	19,662	17,696	17,696	15,926	14,334	12,901
Trust liabilities	17,178	23,625	23,625	23,625	23,625	23,625	23,625
Borrowings	97,843	103,365	101,937	103,386	108,977	104,304	95,382
Total Liabilities	***132,413***	***146,652***	***143,258***	***144,707***	***148,528***	***142,263***	***131,908***
Net Crown Balance	***151,634***	***225,907***	***278,510***	***276,790***	***326,889***	***372,341***	***420,622***

8.3 Statement of Cashflows

	Actual 2016-17 ('000)	Actual 2017-18 ('000)	Budget 2018-19 ('000)	HYEFU 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)	Projected 2021-22 ('000)
Cashflows from Operating Activities							
Cash provided from:							
Taxation and levies	125,398	151,381	141,910	141,909	150,242	159,921	165,508
Collection of tax arrears	-1,546	-10,793	6,244	6,244	4,040	180	125
Sale of goods and services	7,585	7,503	6,848	6,848	6,848	6,848	6,848
Interest	3,426	3,518	2,880	2,880	2,570	2,570	2,570
Dividends	382	3,293	1,759	1,759	1,885	1,967	1,967
Other income	37,306	26,605	26,157	26,135	25,391	25,359	25,918
Foreign Aid Income	25,404	50,565	53,454	53,454	30,260	10,553	30
	197,955	232,072	239,251	239,229	221,236	207,398	202,966
Cash applied to:							
Appropriations to agencies (less depn)	99,751	104,223	121,578	121,706	113,169	111,350	111,450
Payments on behalf of Crown	23,087	24,850	25,127	25,307	26,210	26,211	26,210
Debt-servicing interest	1,710	2,063	2,367	2,367	2,271	2,094	1,896
Building maintenance	0	0			0	0	
Other expenditure	1,186	7,867	251	250	149	150	149
Foreign Aid Expense	25,404	9,541	16,048	16,048	14,648	9,492	30
	151,138	148,544	165,371	165,679	156,447	149,297	139,735
Net Operating Activity Cashflows	**46,817**	**83,528**	**73,880**	**73,550**	**64,789**	**58,101**	**63,231**
Cashflows from Investing Activities							
Cash provided from:							
	0	0	0	0	0	0	0
Cash applied to:							
Capital expenditure	13,491	21,871	44,397	45,743	42,949	28,149	11,835
Capital expenditure Foreign Aid	0	41,024	37,406	37,406	15,612	1,061	0
Advances to Subsidiaries	0	0	0	0	0	0	0
	13,491	62,895	81,803	83,149	58,561	29,210	11,835
Net Investing Activity Cashflows	**-13,491**	**-62,895**	**-81,803**	**-83,149**	**-58,561**	**-29,210**	**-11,835**
Cashflows from Financing Activities							
Cash provided from:							
Cash drawn into the loan reserves							
Loans drawn down	600	6,817	5,164	5,164	15,265	4,715	0
Cash drawn from loan reserves	0	0	0	1	0	0	
	600	6,817	5,164	5,165	15,265	4,715	0
Cash applied to:							
Loan reserves	4,897	5,808	7,559	7,559	7,206	8,007	8,896
Other reserves	1,231	2,986	791	791	821	851	878
	6,128	8,794	8,349	8,349	8,027	8,858	9,774
Net Financing Activity Cashflows	**-5,528**	**-1,976**	**-3,185**	**-3,184**	**7,238**	**-4,143**	**-9,774**
Net cash movements	29,304	22,292	-11,108	-12,783	13,466	24,748	41,622
Add: Opening Cash and Equivalents	51,087	80,392	102,684	102,684	89,901	103,367	128,115
Closing Cash and Equivalents	**80,392**	**102,684**	**91,576**	**89,901**	**103,367**	**128,115**	**169,737**

8.4 Statement of Borrowings

	Actual 2016-17 ('000)	Actual 2017-18 ('000)	Budget 2018-19 ('000)	HYEFU 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)	Projected 2021-22 ('000)
Total Gross Borrowings	***97,843***	***103,365***	***101,937***	***103,386***	***108,977***	***104,304***	***95,382***
Assets Held Against Borrowings:							
Advances to subsidiaries	28,375	28,010	26,897	26,897	26,108	25,352	24,596
Loan reserves	18,639	21,338	20,923	20,981	21,346	21,111	19,998
Total Assets Held Against Borrowings	***47,014***	***49,348***	***47,820***	***47,878***	***47,454***	***46,463***	***44,594***
Net Borrowings of the Government	***50,829***	***54,016***	***54,118***	***55,509***	***61,523***	***57,841***	***50,788***

8.5 Summary of Revenue Levied on Behalf of the Crown

	Actual 2016-17 ('000)	Actual 2017-18 ('000)	Budget 2018-19 ('000)	Projected 2019-20 ('000)	Projected 2020-21 ('000)	Projected 2021-22 ('000)
Taxation						
Income tax	24,386	28,689	28,866	29,089	29,311	29,534
Company tax	16,155	21,760	23,190	23,848	24,506	25,164
Import levies	14,335	14,165	14,159	14,246	14,334	14,421
Departure tax	10,234	10,623	11,307	11,990	12,674	13,358
VAT	58,531	63,509	68,124	72,405	76,376	80,059
Withholding tax	1,757	1,842	2,508	2,704	2,901	3,097
Total Taxation	***125,398***	***140,588***	***148,153***	***154,282***	***160,101***	***165,633***
Other Crown Revenue						
Financial Services Levy	324	262	0	0	0	0
FSC Return of Excess	0	0	143	143	143	143
FSC Vested Assets	0	0	0	0	0	0
Immigration Fees	886	927	860	860	860	860
IMO Subscription - Maritime Cook Islands	64	90	66	66	66	66
Court Services	37	46	50	50	50	50
Instant Fines	67	107	80	70	40	40
Fishing Licenses	16,509	8,617	6,305	8,000	8,000	12,305
Fisheries Catch Revenue	0	0	0	0	0	0
Fisheries - US Treaties (purse seing)	1,548	4,890	4,505	4,505	4,505	1,200
Fishing Fines	487	0	2,500	0	0	0
Research Fee	2	1	2	2	2	2
Permits	27	27	24	24	24	24
Dividends	***381***	***3,283***	***1,749***	***1,875***	***1,956***	***1,956***
Banana Court - dividend	0	10	10	10	10	10
Bank of the Cook Islands - dividend	183	248	284	410	491	491
Ports Authority - dividend	0	0	0	0	0	0
Punganga Nui Market - dividend	0	0	0	0	0	0
Te Aponga Uira - dividend	35	255	255	255	255	255
Extraordinary SOE Dividend	0	60	60	60	60	60
Telecom Cook Islands (Bluesky) - dividend	163	2,720	1,150	1,150	1,150	1,150
Numismatics	354	511	400	450	450	450
Border Management Fees	0	0	0	0	0	0
Drivers Licenses	87	214	200	200	220	200
Motor Vehicle Registration	888	922	875	875	875	875
Interest on balances	2,140	2,360	2,050	1,740	1,740	1,740
Interest on loans to subsidiaries	1,286	1,158	830	830	830	830
Foreign Investment Fees	26	29	27	27	27	27
Upper Air Management Agreement	545	545	746	746	746	746
Shipping Registration	61	224	268	268	268	268
International Shipping Licence	10	10	10	10	10	10
Liquor Licencing	42	75	70	70	70	70
Tattslotto Grants	140	172	120	120	120	120
Censorship Fees	2	3	4	4	4	4
Circulating Currency - Coins	0	638	650	650	650	650
Employer Liabilities	0	0	75	75	75	75
Motor Vehicle Dealers	3	3	3	3	3	3
Performance Based Budget Support - Core Funding	7,730	7,730	7,730	7,730	7,730	7,730
Public Sector Strengthening-processes and systems MFEM	0	0	0	0	0	0
Total Other	**33,646**	**32,855**	**30,352**	**29,403**	**29,474**	**30,454**
Total Revenue Levied on Behalf of Crown	**159,044**	**173,443**	**178,506**	**183,685**	**189,576**	**196,087**
Performance Based Budget Support - Bonus Payment	1,877	120	0	0	0	0
Total Revenue Levied on Behalf of Crown - including Bonus Payment	**160,921**	**173,563**	**178,506**	**183,685**	**189,576**	**196,087**

8.6 Statement of Financial Risks

Quantifiable Contingent Liabilities	('000)
Guarantees and indemnities	500
Uncalled capital	1,712
Legal proceedings and disputes	4,100
Total Quantifiable Contingent Liabilities	***6,312***

The total quantifiable contingent liabilities are estimated at $7.5 million in 2014/15. 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 $4.1 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.

9 Statement of Accounting Policies

There have been no changes since the Half Year Economic and Fiscal Update 2017/18. There are no major changes to accounting policies anticipated in the foreseeable future.

9.1 Basis of Preparation

9.1.1 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.

9.1.2 Statement of Compliance

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

9.1.3 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.

9.2 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:

STANDARDS	EFFECTIVE DATE
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.

9.2.1 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.

9.2.2 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.

9.2.3 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.

9.2.4 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.

9.2.5 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

9.2.6 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 of for nominal consideration, the cost is the current replacement cost at the date of acquisition.

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

Investments

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

Banking portfolio investments

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

Provision for doubtful debts

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

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

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.

9.2.7 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.

9.2.8 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.

9.2.9 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.

9.2.10 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.

9.2.11 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.