

Summary Outcomes of Cook Islands Quarterly Financial Report

September 2019.

The financial year to September 2019 preliminary report was prepared on an accrual basis as far as practical. Budget reported may include additional funding that was either being carried forward from previous year(s) or approved through an Executive Council order.

The financial statements are for the General Government Sector. SOE's group financials are reported separately.

Key Outcomes:

1. Net Operating Balance and Fiscal Balance of General Government

<p>\$5.55 million</p> <p>Fiscal Surplus</p>	September 2019 Quarter	Budget ('000)	Actual ('000)	Variance ('000)
	Operating Revenue	\$49,381	\$49,133	-\$248
	Operating Expenditure	\$46,721	\$41,604	\$5,117
	Net Operating Balance	\$2,660	\$7,529	\$4,869
	Add Depreciation	\$3,435	\$2,482	\$953
	Less Capital Expenditure	-\$6,445	-\$4,464	-\$1,981
Fiscal Balance	-\$350	\$5,547	\$5,897	

The net operating balance for the period ended 30 September 2019 was a surplus of \$7.53 million, which represents \$4.87 million higher compared to the surplus estimated for the period. This was driven mainly by underspending in Operating Expenditure of \$5.12 million, please refer to section three on operating expenses commentary.

The overall fiscal balance¹ however was \$5.55 million and represents \$5.90 million higher than the fiscal balance estimated for the quarter.

In addition to underspending in operating expenditure, spending on capital projects were also below budget estimates by \$1.98 million in the first quarter, mainly due to scheduling of major projects especially projects administered by Cook Islands Investment Corporation (CIIC). These capital projects are forecasted to be implemented in the second half of the financial year.

2. Crown Operating Revenue

September 2019 Quarter	Budget ('000)	Actual ('000)	Variance ('000)
Taxation Revenue	\$38,549	\$40,200	\$1,651
Trading Revenue	\$1,232	\$750	-\$482
Core Sector Support	\$3,865	\$3,865	\$0
Other Revenue	\$5,735	\$4,318	-\$1,417
Total Revenue	\$49,381	\$49,133	-\$248



¹ The fiscal balance is the overall net result after taking into account spending on Capital items and the corresponding depreciation inflow.

Total Crown revenue collected to the end of the September quarter was in line with budget estimate.

Although Taxation collection was up on budget estimates by \$1.65 million, this was offset by the collection of other revenue which was down on budget estimates by \$1.42 million. The shortfall stems from less purse seine days purchased due to FAD closure during the quarter. Revenues are expected to pick up around second quarter due to high presence of yellow fin tuna around our EEZ zone.

3. Crown Operating Expenditure

September 2019 Quarter	Budget	Actual	Variance
	('000)	('000)	('000)
Ministry/Pa Enea Expenditure	\$22,460	\$21,834	\$1,075
Administered Payments	\$13,364	\$10,206	\$3,158
Payment on Behalf of Crown	\$6,721	\$6,431	\$289
Other Expenses	\$4,177	\$3,583	\$594
Total Operating Expenditures	\$46,721	\$41,604	\$5,117

\$5.12 million

Underspending

Total spending for the reporting period was \$5.12 million lower than budget estimate, the main contributing items were;

- Underspending in Agencies core spending by \$1.08 million was mainly attributed to saving in personnel as unfilled positions remains the main cause;
- Underspending in Administered Payments by \$3.16 million was mainly due to timing of spending on To Tatou Vai project, Bridges and Drainage project, Production of new currency and Air New Zealand Underwrite. These are expected to be utilised in the next half of the year.

4. Crown Capital Expenditure

September 2019 Quarter	Budget	Actual	Variance
	('000)	('000)	('000)
Capital Expenditure	\$6,445	\$4,464	\$1,981
Total Capital Expenditures	\$6,445	\$4,464	\$1,981

\$4.46 million

Capital Spent

Capital expenditure was below budget estimates by \$1.98 million. The variance was mainly due to scheduling of major projects especially projects administered by Cook Islands Investment Corporation. These capital projects are forecasted to be implemented into the second half of the financial year, please refer to the quarterly financial report for details.

5. General Cash Reserves

September 2019 Quarter	
	('000)
Operating Bank Accounts	\$28,955
Term Deposit Accounts	\$147,235
Cash Reserve Balance	\$176,190
Less: 2018/19 Budget Shortfall	-\$11,515
Total Cash Reserve Balance	\$164,675
Less: Total Claims on Cash Reserve	-\$140,510
Estimated General Cash Reserve	\$24,165



Estimated general cash reserve at the end of the period was \$24.17million, this is unencumbered cash and are not committed to anything. The government has established various investment policies to ensure these funds are earning good returns on investment.

Overall cash balance was \$176.19 million and includes funds that are committed of \$140.51 million. Committed funds relates to funds set aside for specific purposes which includes the Reserve Trust Fund, the Loan Repayment Fund (LRF), Stabilisation Account Disaster Response Trust and other Trust accounts.

Government has also put aside funds for the Stabilisation Account in the 2019/20 budget appropriation. The Stabilisation Account was set up, with the purpose of improving fiscal resilience of the Cook Islands against economic shocks and natural disasters. During periods of real economic contraction, defined as growth less than 1 percent per year, funds may be drawn from the Stabilisation Account to fund government operations.

6. Crown Debt



September 2019 Quarter	
	('000)
Total Gross Debt	\$96,333
Less: Loan Repayment Fund	-\$28,858
Net Debt by the Crown	\$67,475
Less: Avatiu Port Development	-\$20,008
Net Debt by General Government	\$47,467

Total Gross Debt was \$96.33 million at the end of 30 September 2019. This represented actual disbursed loans only adjusted for debt service repayments. There are other loans that government has committed to but are yet to be drawn of \$18.99 million. The undisbursed loans are made up of \$13.95 million for the Disaster Recovery Management (DRM) loan, which is only triggered and drawn down in the event of a catastrophe, and \$5.04 million for the Undersea Broadband Cable loan which is expected to be drawn in early 2020/21.

Net Debt adjusts the Gross Debt for the effect of the LRF held against those loans and the loans held on behalf of SOE's. Net debt was reported at \$47.47 million at the end of the reporting period.

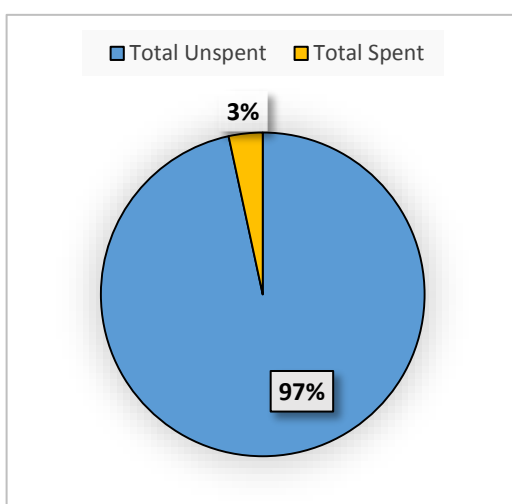
7. State Owned Enterprises (SOE's)



September 2019 Quarter	Budget ('000)	Actual ('000)	Variance ('000)
Personnel	\$2,694	\$2,653	\$41
Operating	\$8,367	\$6,853	\$1,514
Depreciation	\$1,444	\$1,458	-\$14
Trading Revenue	-\$12,704	-\$12,696	-\$7
Net Activity Cost (Surplus)	-\$199	-\$1,732	-\$1,533

The consolidated group returned a net operating surplus of \$1.73 million, \$1.53 million above budget estimates for the September quarter mainly as a result of saving in both operation and personnel expenditures.

8. Official Development Assistance



Official Development Assistance (ODA) was appropriated at the total value of \$65.22 million in the 2019/20 Appropriation. This value includes the Core Sector Support Grant Funding Arrangement with New Zealand for Education, Health and Tourism.

The first quarter for the financial year 2019/20 reported a total spend of \$2.21 million.

The low spending for ODA in the first quarter of the financial year was a result of delays in ongoing negotiations on priorities and the design of individual grant funding agreements. Spending is expected to pick up as we progress towards the

second half of the financial year.

For further information, refer to the Cook Islands Government Quarterly Financial Report for September 2019 on the MFEM website (www.mfem.gov.ck) or contact the Treasury Division-MFEM for more details on 29511.