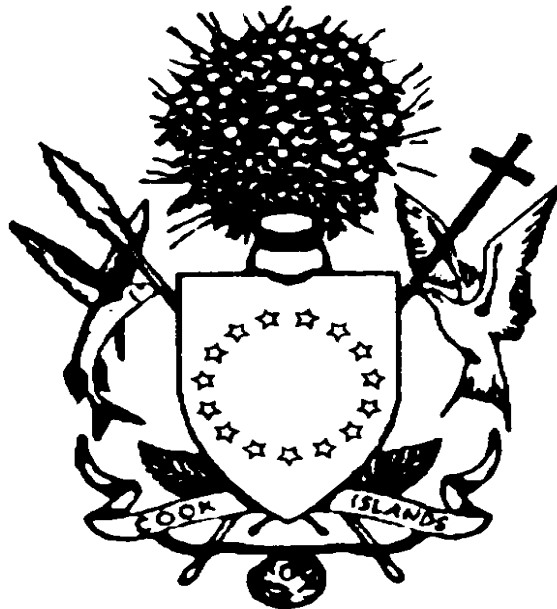

COOK ISLANDS GOVERNMENT
APPROPRIATION
AMENDMENT
2018/19



Hon. Mark Brown
Minister of Finance

April 2019

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OFFICE OF THE MINISTER OF FINANCE**

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8th April 2019

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the 2018/19 Appropriation Amendment. Section 23 of the *Ministry of Finance and Economic Management Act 1995-96* requires the Government to pursue its policy objectives in accordance with the principles of responsible fiscal management and specifies these principles in Section 23 (2).

This Budget document was produced based on the best professional judgment that we have at this time. I accept the overall responsibility for the integrity of the 2018/19 Appropriation Amendment in compliance with the *Ministry of Finance and Economic Management Act 1995-96*.

Kia Manuia,

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

Honourable Mark Brown
Minister of Finance



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

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8th April 2019

STATEMENT OF RESPONSIBILITY

The 2018/2019 Appropriation Amendment is produced in accordance with the *Ministry of Finance and Economic Management Act 1995-96 (MFEM Act)*.

In compliance with Section 24 (1) of the MFEM Act the Ministry provided Cabinet with the:

Estimated revenue of the Crown;
Details of each Government Department's bid for funds;
Crown's debt management responsibilities;

Cabinet, as required under Section 24 (2) of the MFEM Act, are required to maintain the principles of responsible fiscal management set out in the Act.

The information in this document is comprehensive and includes a Statement of Fiscal Responsibility that clearly sets out the position in terms of fiscal responsibility as required in section 23 (2) (a) of the MFEM Act.

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

Kia Manuia,

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

Garth Henderson
Financial Secretary

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

1.1 Summary

This chapter presents the Cook Island Government's Medium-term National Priorities for the period 2019/20 to 2022/23.



















Published in the 2018 HYEPU in December 2018, the Medium Term Fiscal Strategy 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.

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.

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 1.1. The realisation of the priority goals will also have positive impacts on other NSDP goals.

Figure 1.1: 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 2019/20 Budget will outline a clear path towards the achievement of the NSDP goals over the medium-term.

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 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
REVENUE	231,510	238,606	220,591	206,775	202,764
Taxes	140,587	148,153	154,282	160,101	165,633
Social contributions	-	75	75	75	75
Grants	50,565	53,454	30,260	10,553	30
<i>Current</i>	9,541	16,048	14,648	9,492	30
<i>Capital</i>	41,024	37,406	15,612	1,061	-
Other revenue	40,358	36,924	35,974	36,046	37,026
EXPENSE	161,369	181,923	168,236	161,085	151,464
Compensation of employees	54,878	61,402	60,769	60,815	60,915
Use of goods and services	47,327	64,652	54,641	47,962	38,438
Depreciation	13,357	14,157	11,990	11,990	11,990
Interest	2,063	2,367	2,271	2,094	1,896
Subsidies	15,484	16,983	15,638	15,638	15,638
Grants	-	-	-	-	-
Social benefits	18,865	19,901	21,075	21,075	21,075
Other expense	9,394	2,461	1,851	1,511	1,511
NET OPERATING BALANCE	70,141	56,682	52,355	45,690	51,300
<i>Plus</i> NON CASH APPROPRIATIONS					
Depreciation	13,357	14,157	11,990	11,990	11,990
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	83,498	70,839	64,345	57,680	63,290
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	62,895	84,478	58,561	29,210	11,835
Gross transactions in Non-Financial Assets	76,252	98,635	70,550	41,200	23,825
<i>Less</i> Non Cash Transactions in Non-Financial Assets (Depreciation)	(13,357)	(14,157)	(11,990)	(11,990)	(11,990)
NET (BORROWING)/LENDING	20,603	(13,639)	5,784	28,469	51,455
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	22,292	(16,482)	13,451	24,734	41,655
Domestic Transactions	22,292	(16,482)	13,451	24,734	41,655
Foreign Transactions	-	-	-	-	-
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	(1,009)	3,186	(7,224)	4,089	9,800
Domestic Transactions		791	821	851	878
Foreign Transactions	(1,009)	2,395	(8,045)	3,238	8,922
NET CASH FINANCING TRANSACTIONS	21,283	(13,296)	6,227	28,823	51,455
<i>Statistical discrepancy</i>	681	343	442	354	-

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 \$56.6 million.

Going forward, changes in expenditure and revenue estimates are predicted to result in an operating balance of \$52.3 million in 2019/20, \$45.6 million in 2020/21, and \$51.3 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. Estimate have decreased slightly to \$238.6 million.

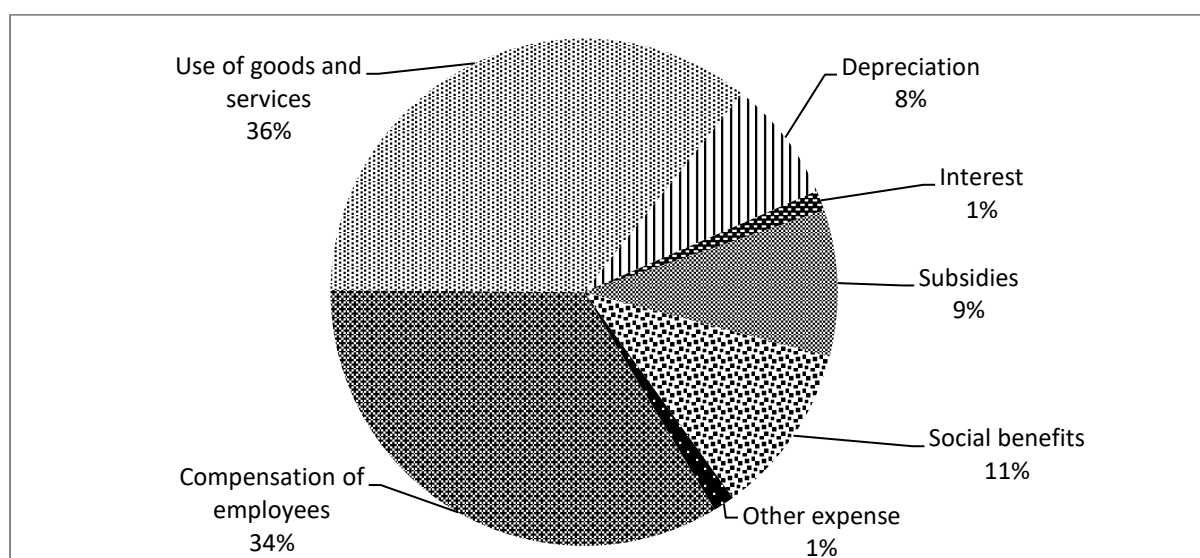
GFS operating revenues in 2019/20 are estimated at \$220 million, of which \$154 million is expected to be collected in taxes alone. In 2020/21, operating revenue is expected to decrease to \$206 million, with tax revenue of \$160 million due to a decrease in foreign grant revenues.

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 \$181.9 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 Supplementary (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 \$84.4 million (\$3 million increase since the 2018/19 budget) 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 Amended

Function of Government	2017/18 Actual	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Cook Islands Government (CIG) Expenditure					
General public services	33,816,346	39,742,261	39,158,929	37,245,008	36,085,278
Executive and legislative organs, financial and fiscal affairs, external affairs	23,362,308	26,999,952	28,806,224	28,659,303	27,657,573
General services	8,026,346	9,803,939	7,509,415	6,009,415	6,109,415
R&D General public services	-	230,000	230,000	140,000	80,000
General public services	364,738	340,960	341,993	341,993	341,993
Public debt transactions	2,062,953	2,367,410	2,271,297	2,094,297	1,896,297
Public order and safety	7,740,511	9,272,381	7,618,935	7,618,935	7,618,935
Police services	4,935,417	5,008,926	4,875,199	4,875,199	4,875,199

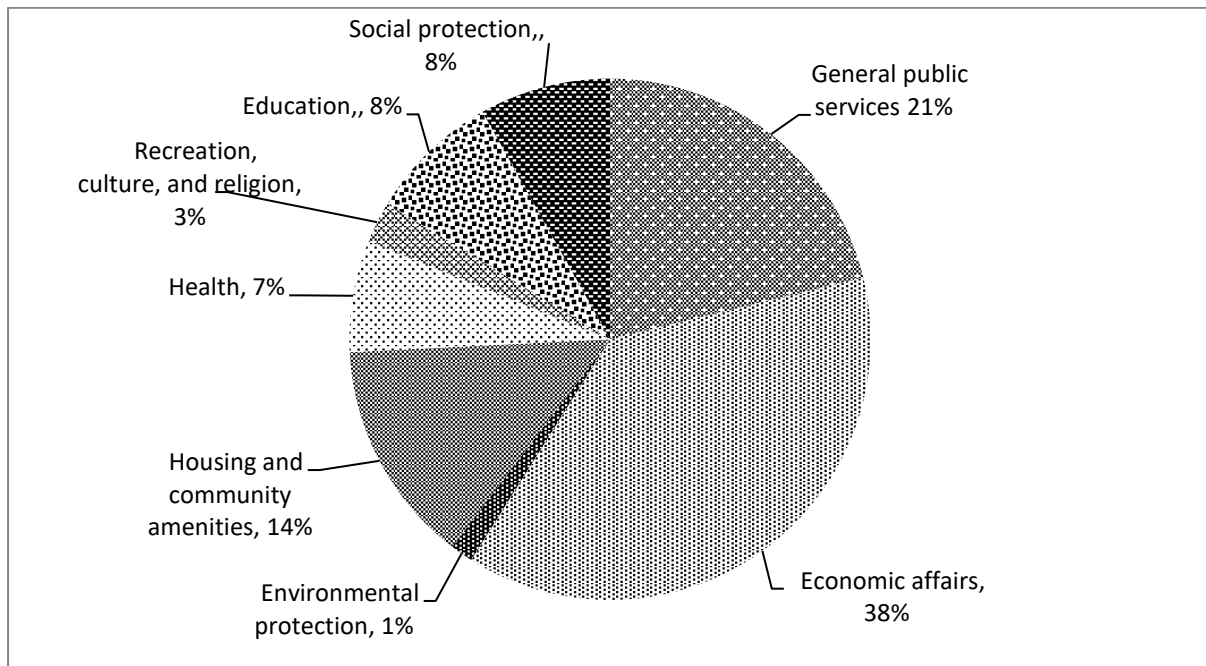
Function of Government	2017/18 Actual	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Law courts	2,008,257	3,385,514	1,865,795	1,865,795	1,865,795
Prisons	796,837	877,941	877,941	877,941	877,941
Economic affairs	58,912,671	59,390,933	62,890,452	50,563,146	44,349,066
General economic, commercial, and labor affairs	10,304,687	12,608,376	25,790,992	15,239,992	10,525,912
Agriculture, forestry, fishing, and hunting	10,169,670	3,812,125	3,510,077	3,510,077	3,510,077
Fuel and energy	9,219,206	7,698,555	1,836,355	1,586,574	1,586,574
Mining, manufacturing, and construction	539,127	1,584,392	1,794,049	1,794,049	294,049
Transport	6,474,656	10,952,234	7,894,973	6,368,448	6,368,448
Communication	298,855	291,797	291,797	291,797	291,797
Tourism	21,403,715	21,989,182	21,325,308	21,325,308	21,325,308
R&D Economic affairs n.e.c.	382,755	334,271	326,901	326,901	326,901
Economic affairs n.e.c.	120,000	120,000	120,000	120,000	120,000
Environmental protection	2,034,894	3,555,018	10,421,142	10,421,142	8,421,142
Waste management	635,614	756,487	668,168	668,168	668,168
Waste water management	273,977	1,450,000	8,400,000	8,400,000	6,400,000
Environmental protection n.e.c.	1,044,397	1,266,290	1,270,733	1,270,733	1,270,733
Housing and community amenities	11,329,985	35,447,281	16,084,102	13,783,882	6,783,882
Community development	-	600,000	250,000	-	-
Water supply	5,828,227	26,722,614	10,263,226	8,263,226	1,263,226
Housing and community amenities n.e.c.	5,501,757	8,124,667	5,570,876	5,520,656	5,520,656
Health	15,070,497	17,644,140	15,784,976	15,784,976	15,784,976
Medical products, appliances, and equipment	2,389,925	2,636,261	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
Hospital services	8,991,076	11,340,217	11,023,780	11,023,780	11,023,780
Public health services	195,000	283,016	195,000	195,000	195,000
Health n.e.c.	1,262,198	1,427,161	915,911	915,911	915,911
Recreation, culture, and religion	2,195,020	5,800,195	1,982,573	2,082,573	1,982,573
Recreational and sporting services	419,603	865,451	318,066	418,066	318,066
Cultural services	1,735,697	4,889,744	1,619,507	1,619,507	1,619,507
Education	22,316,463	20,915,785	20,570,422	20,557,422	20,557,422
Pre-primary and primary education	471,602	-	-	-	-
Secondary education	2,099,459	247,000	13,000	-	-
Tertiary education	1,757,100	1,864,325	1,864,325	1,864,325	1,864,325

Function of Government	2017/18 Actual	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Education not definable by level	13,105,996	15,663,434	15,576,867	15,509,367	15,509,367
Education n.e.c.	4,882,306	3,141,026	3,116,230	3,183,730	3,183,730
Social protection	20,210,377	20,901,936	21,815,024	21,475,024	21,475,024
Sickness and disability	366,800	366,800	366,800	366,800	366,800
Old age	12,169,659	12,455,538	12,632,459	12,632,459	12,632,459
Family and children	5,344,801	5,821,567	6,879,200	6,879,200	6,879,200
Housing	79,200	79,200	79,200	79,200	79,200
Social exclusion n.e.c.	13,555	13,555	13,555	13,555	13,555
Social protection n.e.c.	2,236,362	2,165,276	1,843,810	1,503,810	1,503,810
Total CIG Expenditure	173,626,763	212,669,931	196,326,555	179,532,108	163,058,298
Official Development Assistance (ODA) Expenditure*					
General public services	7,322,860	14,702,910	11,819,959	9,156,087	-
Economic affairs	42,615,210	37,546,821	18,277,730	1,361,032	30,303
Environmental protection	148,110	75,758	75,758	-	-
Housing and community amenities	5,000	151,515	-	-	-
Health	298,974	116,753	11,074	11,074	-
Education	50,000	50,000	50,000	-	-
Social protection	124,719	-	-	-	-
Total ODA Expenditure	50,564,873	53,453,757	30,259,520	10,553,193	30,303
TOTAL PUBLIC EXPENDITURE	224,191,636	266,123,688	226,586,076	190,085,301	163,088,601

*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 Supplementary at the 10 main functional levels.

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



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 14 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 Amended 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)	42.1	40.4	37.1	36.9	36.0	36.0	37.0
Total Operating Revenue (\$m)	167.5	180.9	185.4	185.1	190.3	196.2	202.7
Total Operating Revenue Percentage of GDP	36.7	35.6	41.6	34.4	33.3	32.3	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)	135.1	153.2	160.3	160.1	163.5	169.3	174.8
Total Structural Revenue Percentage of GDP	29.6	30.2	36.0	29.7	28.6	27.9	27.2
Personnel (\$m)	51.7	55.7	62.5	62.8	61.6	61.6	61.7
Percentage of Total Revenue	30.9	30.8	33.7	33.9	32.4	31.4	30.5
Percentage of Structural Revenue	38.3	36.4	39.0	39.2	37.7	36.4	35.3
Total Operating Expenditure (\$m)	131.7	152.0	163.2	166.0	153.6	151.6	151.4
Percentage of GDP	28.8	29.9	36.6	30.8	26.8	25.0	23.6
Percentage of Operating Revenue	78.6	84.0	88.0	89.6	80.7	77.3	74.7
Cash Operating Expenditure	120.8	138.6	148.7	151.2	140.9	139.2	139.3
Operating Balance (\$m)	35.8	29.0	22.2	19.2	36.7	44.6	51.3
Percentage of GDP	7.8	5.7	5.0	3.6	6.4	7.4	8.0
Capital Expenditure	13.4	21.9	44.5	47.0	42.9	28.1	11.8
Depreciation	10.4	13.3	13.9	14.2	12.0	12.0	12.0
Non-Operating Balance (\$m)	-19.0	-21.6	-47.7	-50.3	-35.7	-32.2	-21.6
Fiscal Balance surplus/deficit (\$m)	32.7	20.4	-8.4	-13.7	5.7	28.4	51.4
Percentage of GDP	7.2	4.02	-1.90	-2.6	1.0	4.7	8.0
Statement of Financial Position (\$m)							
Assets (\$m)	284.0	372.6	421.4	418.9	474.7	515.7	555.6
Liabilities (\$m)	132.4	136.1	143.3	144.7	149.0	142.7	132.3
Crown Balance (\$m)	151.6	236.4	278.2	274.1	325.7	373.0	423.3
Percentage of GDP	33.2	46.6	62.4	50.9	56.9	61.5	66.0
Cash & Equivalents (\$m)	80.4	102.7	91.2	86.2	99.7	124.4	166.0
Cash & Equivalents (months coverage)	8.0	8.9	7.4	6.8	8.5	10.7	14.3
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 Contingency 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	14.0	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 Appropriation Amendment Estimates (otherwise known as Supplementary) is developed to allow necessary revisions to the fiscal forecasts that underpin the 2018/19 Budget. Since the passing of the 2018/19 Budget on the 1st October 2018, minimal changes have been made to the forecasts. Revenue forecasts have remained the same with the exception of adjusting trading revenue for agencies. Expenditure estimates (operating and capital) have increased to include the additional expenditures to be funded through the Appropriation Amendment Bill. In addition, all Executive Orders and Carry Forward requests approved to 31st March 2019 are included to be validated.

3.2 Movements since 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 Supplementary. 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 HYEPU	21847	34857	42742	49354
Revenue				
<i>Revenue Parameter Changes</i>	0	0	0	0
<i>Adjustments to:</i>				
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
<i>Other Revenue Changes</i>	-202	-202	-202	-202
Other revenue	0	0	0	0
Trading Revenue	(202)	(202)	(202)	(202)
Dividend	0	0	0	0
Core Sector support	0	0	0	0
Total Revenue Changes to 2018/19 Supplementary	-202	-202	-202	-202
Expenditure				
<i>Expenditure Decisions by Government</i>	2,390	0	0	0
<i>Decisions by BPS Goal</i>				
<i>Technical adjustments</i>	0	0	0	-60
<i>Reclassifications of expenditure</i>	0	0	0	0
<i>Parameter changes</i>	73	-2,094	-2,094	-2,094
Total Expenditure Changes to 2018/19 Supplementary	2,463	-2,094	-2,094	-2,154
OPERATING BALANCE as at 2018/19 Supplementary	19,182	36,749	44,634	51,306
Capital Expenditure	47,072	42,949	28,149	11,835
Depreciation	14,151	11,984	11,984	11,984
FISCAL BALANCE - 2018/19 Supplementary	-13,739	5,784	28,469	51,455

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.

As a result of these changes, the operating surplus in 2018/19 has been revised down from \$22.0 million to \$19.2 million.

3.2.1 Revenue

Since the release of the 2018/19 Budget, total estimated revenue collected up to February 2019 was \$8 million higher than budgeted for the first 8 months of this financial year. Revenue forecast generally remain the same for the major revenue sources (Taxes and Other Revenue) as predicted at the time of the 2018/19 Budget with the exception of adjusting agency trading revenue. The bulk of the additional revenue is made up of fishing revenues, with other smaller items, as detailed below.

Overall taxes collected to date are tracking along with the total tax forecast, totaling at \$100 million reported as at February 2019. VAT collections to the end of February were \$2.6 million higher than budgeted due to large importations and strong business sector activity.

Income tax collections for the first 8 months of this financial year is \$0.364 million lower than expected.

Total actual company tax receipts are \$13.2 million, \$0.491 million lower than anticipated for the first half of the 2018/19 financial year. It is expected that company tax received will increase for the remainder of the financial year.

Collections in import and excise-equivalent duties were \$9.4 million compared to budgeted estimates of \$9.3 million in import levies up to February, due to increased imports of goods and services.

Departure tax collections are higher than forecast at \$8.1 million compared to budget estimates of \$7.9 million for the first eight months. Arrivals for the months of December and January were high and this was evident as our islands were full of our Cook Island people from overseas.

Withholding taxes collected are lower than anticipated at \$0.866 million compared to budget estimates of \$1.6 million for the first eight months of 2018/19, however this is expected due to timing of data. The 15 per cent withholding tax applies to dividends generated by local companies and land payments received which are subsequently repatriated overseas, and reported in quarter 4.

Movements in other revenues:

- Immigration fees to date are significantly higher than anticipated with a total of \$0.7 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 \$13.3 million, higher than the \$7.2 million estimated for the first eight months. Large increases includes the additional \$4.9 million from fishing licences and \$2.2 million from fishing fines.
- Dividend payment of \$1.6 million has been received from Bluesky with actuals \$1 million higher than budgeted for the first 2 quarters of the financial year.
- Shipping licenses totalled \$0.2 million for the first half of the 2018/19 financial year.
- Total revenue has decreased by \$0.202 million due to Tourism reducing its trading revenue budget for 2018/19.

3.2.2 Expenditure since 2018/19 Budget

Since the 2018/19 Budget, total Expenditure has increased from \$163.2 million to \$166.0 million with majority of expenditures affecting the 'expenditure decision by Government' category. These government priorities are detailed below:

- **\$208,879** to increase the HOMs Administered Payment from \$1,372,885 to \$1,581,764. With the recruitment of new HOMs for few ministries it is forecast that the total budget will be overspent by the end of financial year. With the overlap and increase in salaries offered, additional funding is required to cover this shortfall to ensure government is able to meet its contractual agreements.
- **\$523,000** to increase the Air New Zealand Subsidy from \$12,000,000 to \$12,523,000. The current forecast provided for the Air New Zealand Subsidy for 2018/19 is \$12,522,852. This is \$1.3 million higher than the 2017/18 actuals for the subsidy. In February 2019, the budget forecast had come in higher however with the drop in fuel cost recently, re-introduction of B787-9 to both routes (LA & SYDNEY) from April and lastly receiving a small reimbursement as a result of the negotiation of the leased craft this has reduced the total forecast. The increase in cost for fuel in the first half of 2018/19 and the Singapore airline exchange were matters outside the government's control. Heading into the peak season of tourist arrivals, it is anticipated that load factors will increase and be maintained until end of financial year to mitigate additional cost.
- **\$200,000** in support of the athletes representing the Cook Islands in the South Pacific Games. The number of qualified athletes and management planned to attend the South Pacific Games has reached 238 travellers. The sports codes include:
 - Athletics, basketball, 3x3 basketball (mix, men's and women's teams), boxing, cricket, football, golf, lawn bowls, netball, rugby 7s, rugby league 9s (men and women teams), swimming, tennis, touch rugby, volleyball, weightlifting.

The different federations are working hard to fundraise to meet travelling costs however with the number of qualified athletes increasing, fundraising has been a limited success. In addition to the fundraising held by these sport codes, other associations such as league teams, youth teams etc are also fundraising for other purposes.

This funding will be appropriated through CISNOC

- **\$166,000** to increase parliamentary sitting from \$123,000 to \$286,000. There are 2 parliamentary sitting planned for the remainder of the financial year. Based on previous actuals parliament has projected that an additional \$166,000 is required to accommodate the April and June sitting. The current parliamentary sitting POBOC does not have sufficient funds remaining to support these planned sittings.
- **\$3,150** to increase Ministry of Transport operating budget. This is required to help cover Hugh Munro's invoice to perform an investigative report for the MS Maasdam serious maritime accident that occurred in our waters outside the entrance to the Port of Avatiu on 07th November 2018. Under section 40 of the Cook Islands Maritime Transport Act 2008, Ministry of Transport is able to carry out investigation of accidents, incidents and mishaps where it occurs in the Cook Islands waters. Under section 41 of the Act, the Secretary appointed Hugh Munro to investigate the serious maritime accident of the United States national disembarking on to the Dutch flag vessel MS Maasdam. Hugh Munro was the chief investigator who undertook the government's investigations who had access to reports and statements obtained by Marine and Police departments including ship's crew and medical staff involved while co-operating with the US. This report has been submitted to the Secretary of Transport.

- **\$300,629** to increase Ministry of Justice (MoJ) operating budget from \$399,371 to \$700,000. At the time of the 2018/19 Budget trading revenue for MoJ was increased to \$700,000 however operating budget remained at \$399,371. With MoJ operational costs funded by the trading revenue collected, the operating budget must now be increased to match the trading revenue budgeted for the year. Increasing the operating budget will enable ministry of justice to cover operating costs for the remaining months. Currently the ministry can only legally spend up to \$399,371 and is unable to spend revenue generated over this amount.
- **\$50,000** for the establishment of Ministerial Office. Article 13, section (3A) of the Cook Islands Constitution 2004 with amendments incorporated sets the allowance for the Queens Representative to appoint another minister on the advice of the Prime Minister. Funding is appropriated through Ministry of Finance to assist with the establishment of this function. Further assistance will be assessed and provided through the next appropriation to parliament.
- **\$100,000** to assist with the operations of Avaroa Cable Limited (ACL). ACL's CEO recently commenced employment and formulated a budget for the current 2018/19 financial year to the end of the establishment period (30 April 2020). Projected expenditure for this period is mostly covered by NZAID with the construction of the cable covered by borrowings. However, costs to attend the consortium management meetings and contingencies are not factored in the funding provided by NZAID and loan. The government is supporting the ACL to ensure they are established well to carry out the essential service required.
- **\$50,000** to allow the purchase of other capital requirements for the Avaroa Cable Office. This is related to vehicle and office furnishings for the office.
- **\$275,050** worth of depreciation to ensure Government Agencies have sufficient budget to cover depreciation through the year:
 - \$27,000 increase to Ministry of Culture due to donated screens for the auditorium by the People's Republic of China, received in July 2018.
 - \$13,200 increase to Ministry of Transport due to vehicles (MET truck, motorbike and van) purchased through capital distribution fund in 2018/19.
 - \$2,849 increase to Internal Affairs due to new vehicle purchased through capital distribution fund in December 2018.
 - \$2,187 increase due to purchase and installation of a GIS database for Seabed Minerals.
 - \$229,814 increase due to the installation of Revenue Management System for Ministry of Finance and Economic Management.

In addition to the expenditures that fit within the decision expenditure category are the expenditures allocated as parameter changes or technical adjustments. These are detailed below:

- **\$1,892,154** transferred from Depreciation Contingency (appropriated under Other Expense) to each Island Administrations. The quarterly financials reported by MFEM picked up large discrepancies in the Island Administration budgets primarily relating to depreciation due to the transfer of the Chinese Equipment's to each Island. This information was not available at the time of developing the 2018/19 budget however these assets are now reflected on the fixed asset register of each island. This will a significant impact on Island Administration budgets who are currently receiving higher than projected trading revenue. This excess will be used to cover shortfall in the depreciation budget instead of having this available to assist with other operational matters. This will need to be an ongoing adjustment. See below table of current depreciation baselines and new adjusted totals for the remainder of the financial year.

Island Administration	Expenditure	Baseline	Adjustment	2018/19 Total
Aitutaki	Depreciation	\$ 143,884	\$ 290,481	\$ 434,365
Atiu	Depreciation	\$ 138,561	\$ 277,994	\$ 416,555
Mangaia	Depreciation	\$ 204,700	\$ 431,124	\$ 635,824
Manihiki	Depreciation	\$ 92,200	\$ 382,183	\$ 474,383
Mauke	Depreciation	\$ 178,983	\$ 238,051	\$ 417,034
Mitiaro	Depreciation	\$ 55,200	\$ 36,042	\$ 91,242
Palmerston	Depreciation	\$ 42,000	\$ 42,399	\$ 84,399
Penrhyn	Depreciation	\$ 62,407	\$ 76,474	\$ 138,881
Pukapuka - Nassau	Depreciation	\$ 140,553	\$ 72,828	\$ 213,381
Rakahanga	Depreciation	\$ 37,829	\$ 44,578	\$ 82,407
Total Funding		\$ 1,096,317	\$ 1,892,154	\$ 2,988,471

- Tourism has reduced trading revenue based on actuals collected in the 2017/18 financial year. Forecast determines that Tourism is unable to achieve the previous trading revenue budget. Addition to this, \$41,100 has been shifted from their operating budget to cover personnel costs.

	Personnel	Operating	Administered Payment	Depreciation	Gross Appropriation	Trading Revenue	Net Appropriation
Baseline	\$1,753,020	\$ 2,756,016	\$ 5,072,000	\$ 36,500	\$ 9,617,536	\$ 352,000	\$ 9,265,536
Adjustments	\$ 41,100	\$ (41,100) \$ (202,000)				\$(202,000)	
New Total 2018/19	\$ 1,794,120	\$ 2,512,916	\$ 5,072,000	\$ 36,500	\$ 9,415,536	\$ 150,000	\$ 9,265,536

- Administered Payments shifted from Ministry of Education to Ministry of Finance and Economic Management. The rationale behind this proposal is to streamline, simplify and improve efficiency in accessing funding to successfully establish both centres by the agreed deadlines. USP will provide report directly to MFEM to account for the use of funds.

Agency	Administered Payment	2018/19 Budget
Education	Centre of Research and Policy Studies	\$ (80,000.00)
Education	Centre of Excellence in Information Technology	\$(150,000.00)
MFEM	Centre of Research and Policy Studies	\$ 80,000.00
MFEM	Centre of Excellence in Information Technology	\$ 150,000.00

- Establishment of Water Utility reduced by \$200,000 to assist the office with capital purchases. This will be reduced and funding will remain in crown account and fund capital through executive council. This particular transaction will have a nil impact on fiscal balance.

3.2.3 Expenditure Orders since 2018/19 Budget

Expenditure totaling \$1.1 million was approved for a number of government priorities and published through the Half Year Economic and Fiscal Update. Snapshot of this provided in table below:

Agency	Title	Amount
Leader of the Opposition Office	Increase Leader of the Opposition office total Appropriation	\$ 80,815
Parliamentary Services	Increase in MP's Travel and Allowance Budget	\$ 180,000
Minister Vaine Mokoroa Support Office	Hon. Vaine Mokoroa increase in Operating to make severance payment for previous Support Staff	\$ 17,005
Ministry of Finance and Economic Management	Increase to the Capital Distribution Fund	\$ 595,000
Office of the Prime Minister	Atiu Power Upgrade Project	\$ 220,000
Corrective Services	Renovation of office space required for the Ministry of Corrective Services	\$ 30,564

Addition to expenditures mentioned above and published through the Half Year Economic Update, detailed below are those approved since November 2018:

- **\$87,307** to purchase a new bus for the island of Mangaia for the purpose of transporting students to and from schools around the island. This follows a request from the Hon. Tetangi Matapo, Member of Parliament for Tamarua. The bus will complement the existing bus service and will enable more flexibility in getting students to and from school in a timely manner.
- **\$47,385** to fund the Cook Islands Rugby Union (CIRU) for costs associated with the 2018 Rugby World Cup Qualifiers two-match series here in Rarotonga on 30th June and in Hong Kong on 7th July 2018. The two match series was part of a route to qualifying and offered the opportunity to the winning team to advance to a four nation repechage tournament held in France in November 2018. Initially, CIRU set a budget of \$45,000 to host the tournament, however with the additional requirements imposed by World Rugby for the Qualifier matches, the initial budget was well below what was required to host the match, even with favourable costs.
- **\$704,597** for the Atiu Road Improvement Project. The critical issues for the roading infrastructure on Atiu have been identified as inadequate maintenance due to limited resources and the absence of appropriate policy guidelines that would assist with the implementation of infrastructure development. These are being addressed through Government's refocused strategic priorities, in order to achieve better outcomes for the community in the following areas of economic strength, social prosperity and infrastructure advancement. This has been enhanced further through the development of the NSDP 2016 – 2020 and the Cook Islands National Infrastructure Investment Plan 2015.

It is envisaged that this project will promote the vision and goals of the NSDP by delivering improved road safety and resilience as well as providing operational sustainability within the

physical resources of the Cook Islands Government on the island of Atiu. This will enhance the living standards of the local communities and provide economic to the wider Cook Islands.

- **\$239,100** for Sheraton Foreshore Protection Project. A study was commissioned using Tonkin and Taylor Consultants from New Zealand and a report was published in May 2018 entitled “Rutaki Foreshore Feasibility Study for Coastal Hazard Management”. This report covered the inner coastal area for a distance of 2km from the Rarotongan Resort as far south as the Sheraton site at Vaimaanga and identified a number of vulnerable areas where protection was necessary.

Further site investigations revealed that the current rock wall protection at the Sheraton site had been severely damaged and was virtually non-existent. Continuous wave action has penetrated behind the wall and is threatening the sub strata of the outer road in places. Earlier this financial year, Rarotonga experienced a series of high seas and this particular area was affected. There was a risk of the main road collapsing if the foreshore protection work was not done immediately.

- **\$60,000** to increase crown law total appropriation. The Crown Law Office made commitments to critical staff required to assist the office. The additional funding will allow the current Solicitor General to employ a new Senior Crown Counsel and to cover the cost of paying private consultant (who have worked in crown law previously) to assist the office with the current workload until a new Senior Crown Counsel can commence employment.
- **\$250,000** approved for pharmaceutical top up. As of 31st January 2019, a budget of \$60,000 was left to cover the remaining financial year. With 5 months to the end of the financial year, Ministry of Health requested a top up of \$250,000 to ensure they have sufficient supplies on hand until end of June.
- **\$250,000** approved for patient referrals. Patient referrals is forecasted to increase going forward with the NCD epidemic requiring additional health specialist visits (12 to 27 per annum). The current mammography programme screens less than 10% of our women. Longer and more specialist visits are required to increase screening and early detection of cancer, to 80% of females between 20 – 69 years. There is also an increase in the number of patient referrals returning and requiring palliative care before passing. This top up is required to have funding available for the remainder of the year.
- **\$165,000** approved to increase operating contingency budget. The Ivirua bi-election was funded through the operating contingency and budget required a top up to fund the Tengtangi-Areora-Ngatiarua bi-election. Remaining funds are allocated to ensure there is sufficient funds available to cover any unforeseen costs for the remainder of the financial year.
- **\$55,480** approved to support the actual costs of the previously approved ‘iPad’ and Laptop tenders (CK181903 and CK181904), including additional capital requirements that were unanticipated but essential, ensuring capital commitments and fixed asset replacement plans across all schools, providers and Ministry headquarters are maintained.
- **\$88,016** approved for the Operation Namu initiative due to dengue cases being confirmed for Rarotonga. Approval was sought for the release of public servants, use of government machinery and additional funds for Te Marae Ora (TMO) Cook Islands Ministry of Health to procure supplies and cover surge costs to lead a country-wide ‘clean-up-our-environment’ campaign (‘Namu19’). Namu19 was a coordinated response to recent cases of dengue and the urgent need to destroy breeding sites for the aedes mosquito in order to avoid a dengue outbreak.

- **\$192,000** approved to increase Capital Distribution for the procurement of the following expenditures:

Requests	Per Unit	Quantity	Total Estimate
<u>Vehicle</u>			
Single Cab Pickup truck		1	\$42,000
<u>ICT equipment</u>			
Laptops	\$1,660	10	\$16,600
Projector Screens	\$1,700	2	\$3,400
Total			\$62,000

Motor Vehicle

The single cab pickup truck is needed to assist Ministry of Agriculture in its operations. The Ministry's current fleet of trucks were purchased in 2001 and 2004. The Ministry is concerned with the increased risk to the occupational health and safety of its employees if they continue to utilise these vehicles. These vehicles have also been approved for write off by the Financial Secretary.

ICT Equipment

The ICT equipment listed below are essential ICT equipment confirmed by MOA to be a priority to transition towards the Cook Islands Government network. The current ICT equipment for the Ministry (purchased in 2003) are either obsolete or no longer in good working condition. As a result, most of the Ministry's staff use their own personal computers to work.

Requests	Quantity	Total Estimate
<u>Surgical Equipment</u>		
Burr Hole Drill	1	\$50,000
Skin Graft Machine	1	\$50,000
100,000 litre Water Tank Aitutaki	1	\$30,000
Total		\$130,000

Surgical Equipment

This surgical equipment ((Burr Hole Drill and the Skin Graft Machine) will enable the surgeon to perform lifesaving procedures and to carry out procedures like skin grafting here in the Cook Islands. This is beneficial in achieving better patient outcomes as we can expect faster recovery time and a reduced number of patient referrals to New Zealand for skin grafting procedures.

A water tank for the Aitutaki Hospital is needed to replace the 100,000 litre water tank that failed in November 2018. At this time, the Aitutaki Hospital rely on one water tank to service the whole Hospital. This existing tank can only carry the hospital for about 3 months with rainwater being its main water source. With no back-up water tank and no rain, the hospital services in Aitutaki may be put on halt for the upcoming months. The procurement of a new water tank will ensure the continuity of health services for the Aitutaki community without any water shortages.

3.2.4 Carry Forwards since 2018/19 Budget

Capital expenditure by the CIG is now estimated to be \$47.1 million in 2018/19. The Government has committed to a significant infrastructure program in recent years both on Rarotonga and the Pa Enea. 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 and published through the HYEPU 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 capital expenditure including increase in Capital Distribution Fund, the Atiu Power Upgrade and Sheraton Foreshore etc result in an increase in the capital budget of \$2.5 million in 2018/19.

Additionally the capital expenditure approved to be carried forward are the operating expenditure's including:

- **\$60,683** for Special Assistance Project
- **\$25,000** for Remuneration Tribunal
- **\$84,933** for E-waste
- **\$7,370** to cover cost for technical assistance to complete workforce plan for Ministry of Agriculture

3.3 Fiscal Responsibility Ratios

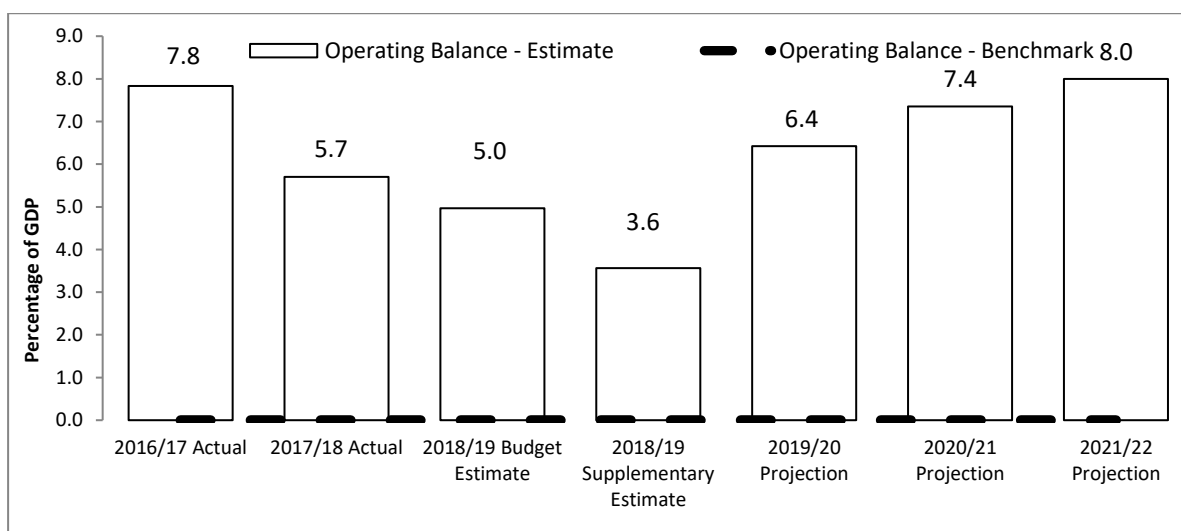
As provided in the MTF, the Fiscal Responsibility Ratios will be replaced by four basic rules in the 2019/20 Budget. Prior to the enactment of the MTF in the 2019/20 Budget, the estimated results of the current FRRs are discussed and current budgeted figures used (not the new expenditure ceilings from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

3.3.1 Net operating balance to GDP

It is anticipated that Government will have an operating surplus of 3.6 per cent of GDP in 2018/19.

Going forward, changes in expenditure and revenue estimates are predicted to result in operating surpluses of 6.4 per cent in 2019/20, 7.4 per cent in 2020/21, and 8.0 per cent of GDP in 2021/22.

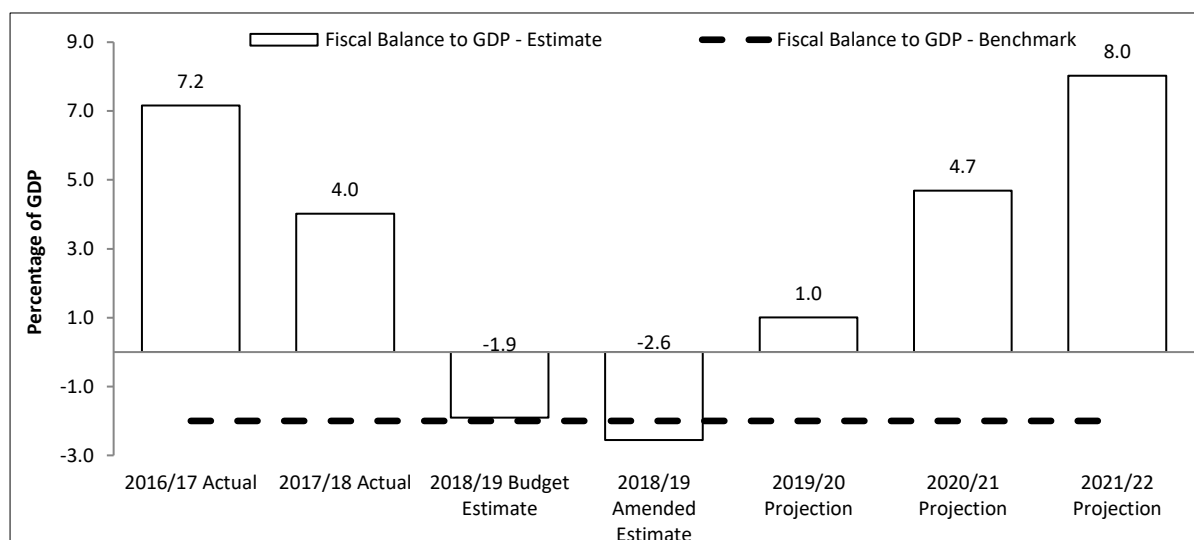
Figure 3.1: Operating balance to GDP, 2016/17 to 2021/22



3.3.2 Fiscal balance to GDP

With the increase in capital funding, the Government's fiscal balance at the time of the 2018/19 Budget fall within the agreed ratio. However with the additional capital expenditures considered the 2018/19 Supplementary estimates has breached the benchmark set a $-/+2\%$ of GDP, with the remaining two years of the forward period continuing to exceed the upper bound.

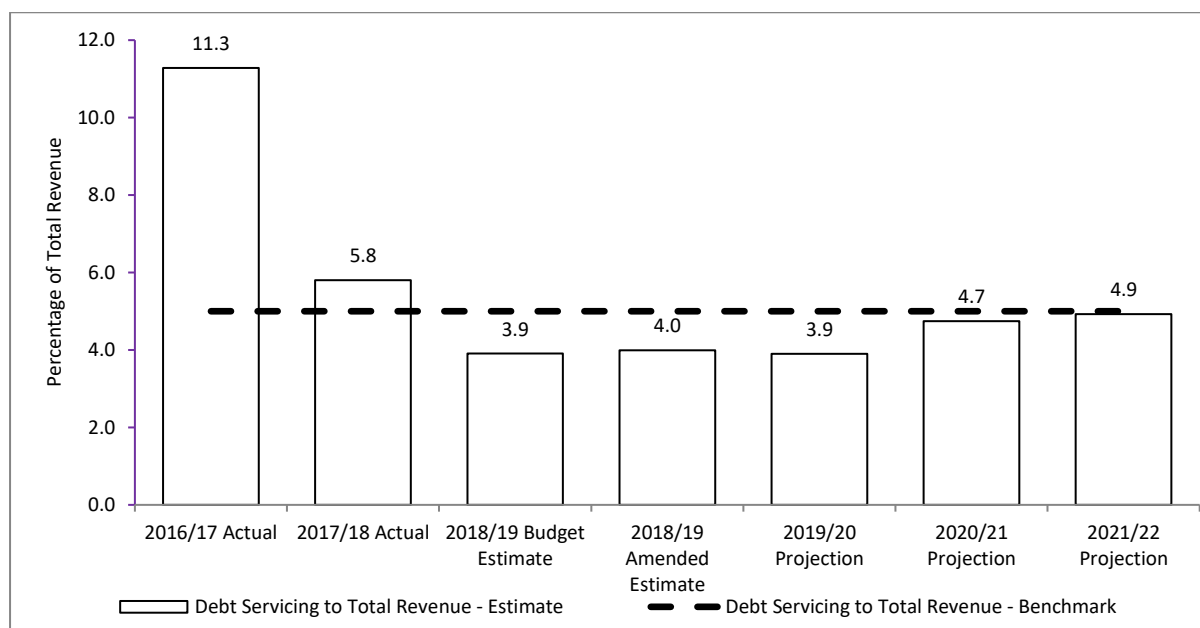
Figure 3.2: Fiscal balance to GDP, 2016/17 to 2021/22



3.3.3 Debt servicing to revenue

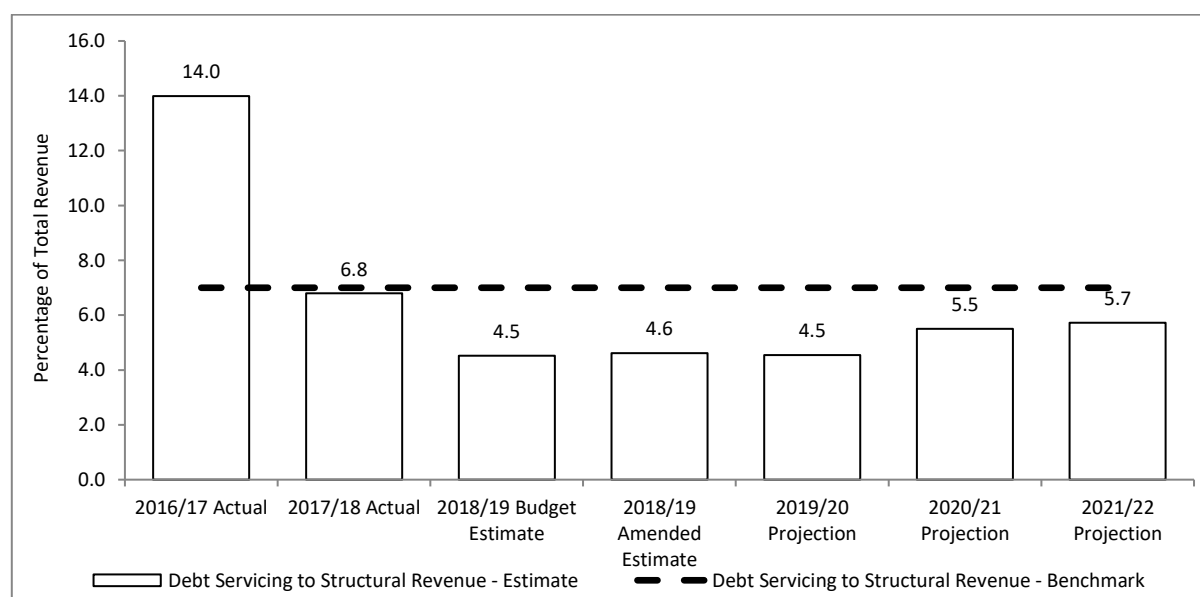
Debt servicing to total revenue measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principle. The figure shown below represents the debt servicing payment as a per cent of GDP going out of the Loan Repayment Fund (LRF), 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

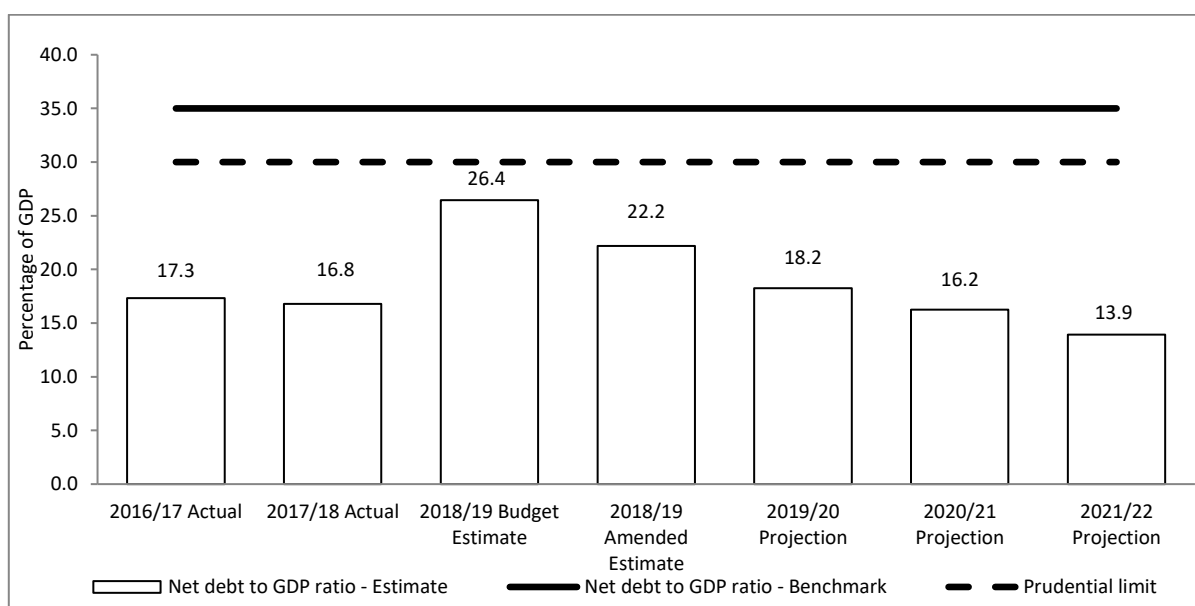


3.3.4 Net debt to GDP

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

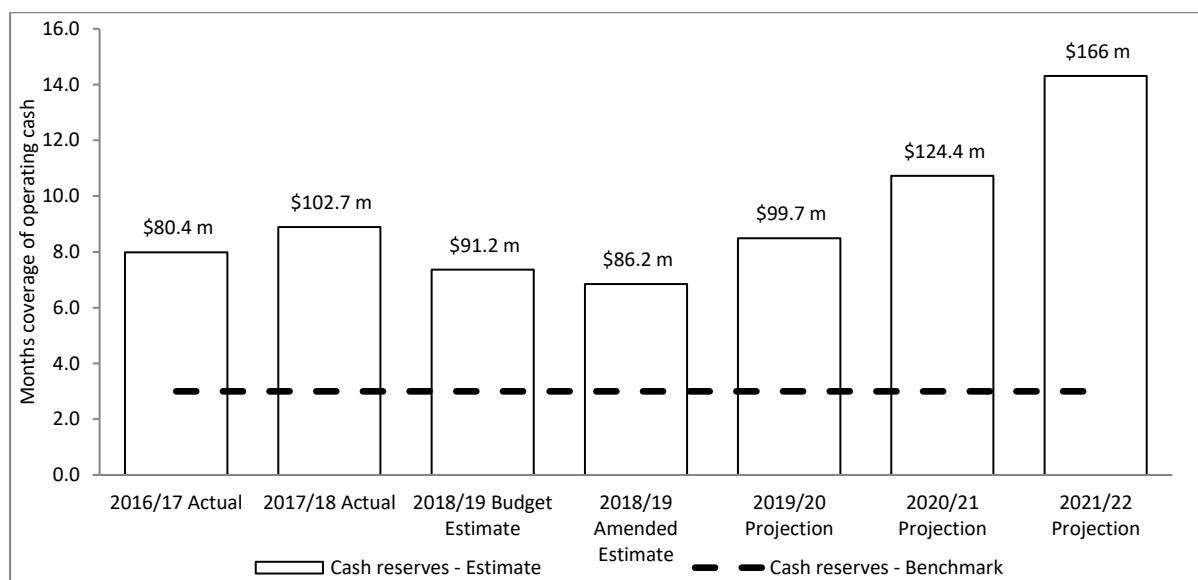


These ratios should not be looked at in isolation. Any proposal to take on additional borrowing should be looked at in the context of the whole of the Government Budget, the Crown’s ability to pay annual debt servicing and international best practice. The latter aspect includes prudential requirements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

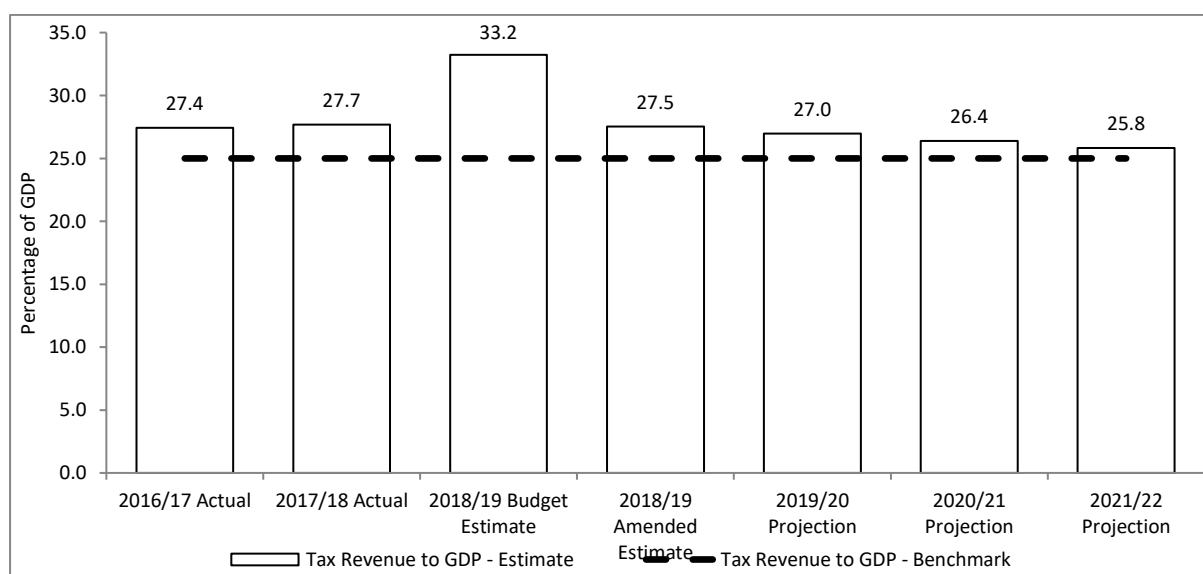
Figure 3.6: Cash reserves to operating expenditure, 2016/17 to 2021/22



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.

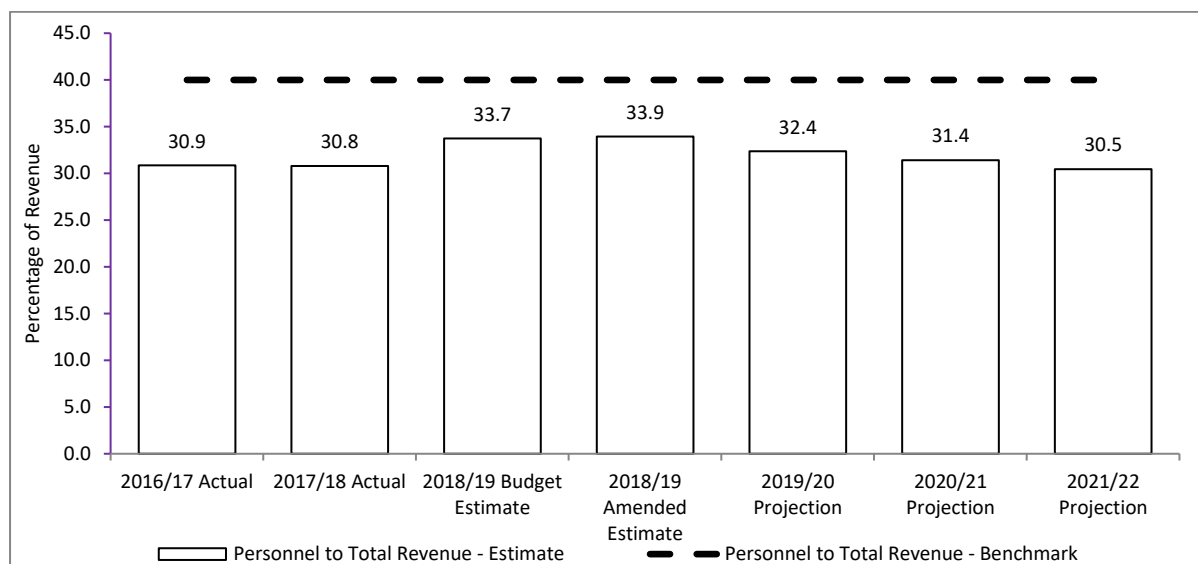
Figure 3.7: Tax revenue to GDP, 2016/17 to 2021/22



3.3.7 Personnel expenditure to revenue

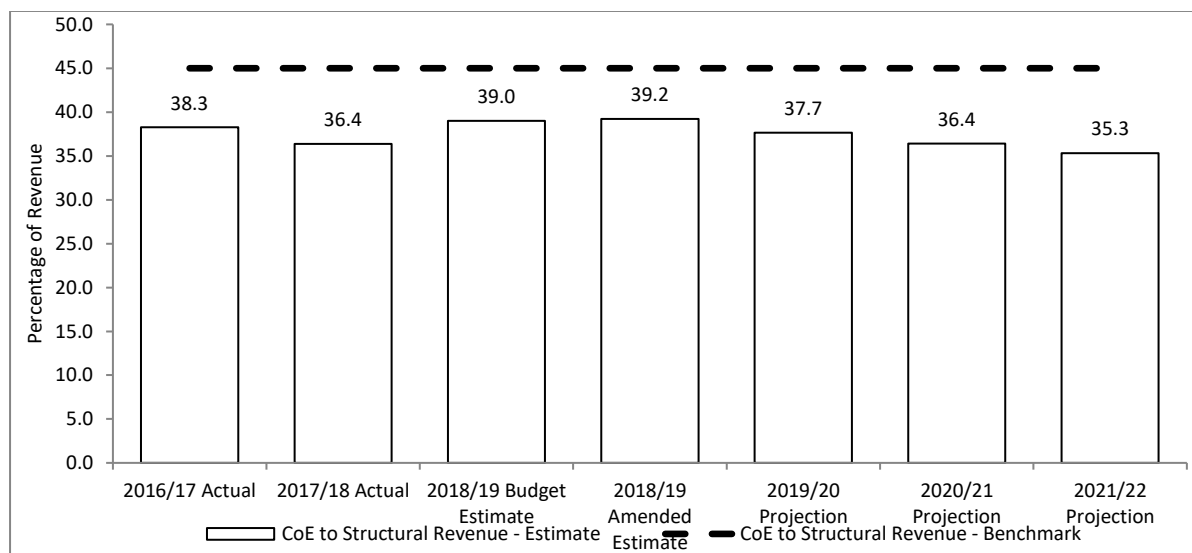
This ratio is aimed at controlling expansion in the size of the public sector. The benchmark that current and previous governments agreed to work within is maintaining the expenditure on personnel within 40 per cent of total revenues. As is illustrated in Figure 3.8, this target is currently being achieved.

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.¹

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



¹ 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.

4 Economic Update

4.1 Introduction

This chapter provides a brief update on a number of key Cook Islands economic parameters for which new data has become available since the 2018/19 Half-year Economic and Fiscal Update (2018/19 HYEPU) published in December 2018. The economic forecasts presented in the 2018/19 HYEPU remain current and will be updated for the 2019/20 Budget expected to be tabled in June 2019.

4.2 Gross Domestic Product

Since the 2018/19 HYEPU, the March and June 2018 quarters of GDP data have been released, providing observed data for the complete 2017/18 financial year. As shown in Figure 4.1: Real GDP growth, annual percentage change, the Cook Islands experienced real GDP growth of 8.9 per cent in 2017/18, rising from \$463.2 million to \$504.5 million. This compares to the estimate of 9.0 per cent for 2018/19 presented in the 2018/19 HYEPU. This performance continues a strong run of growth of 6.0 per cent in 2015/16 and 6.8 per cent on 2016/17.

Figure 4.1: Real GDP growth, annual percentage change

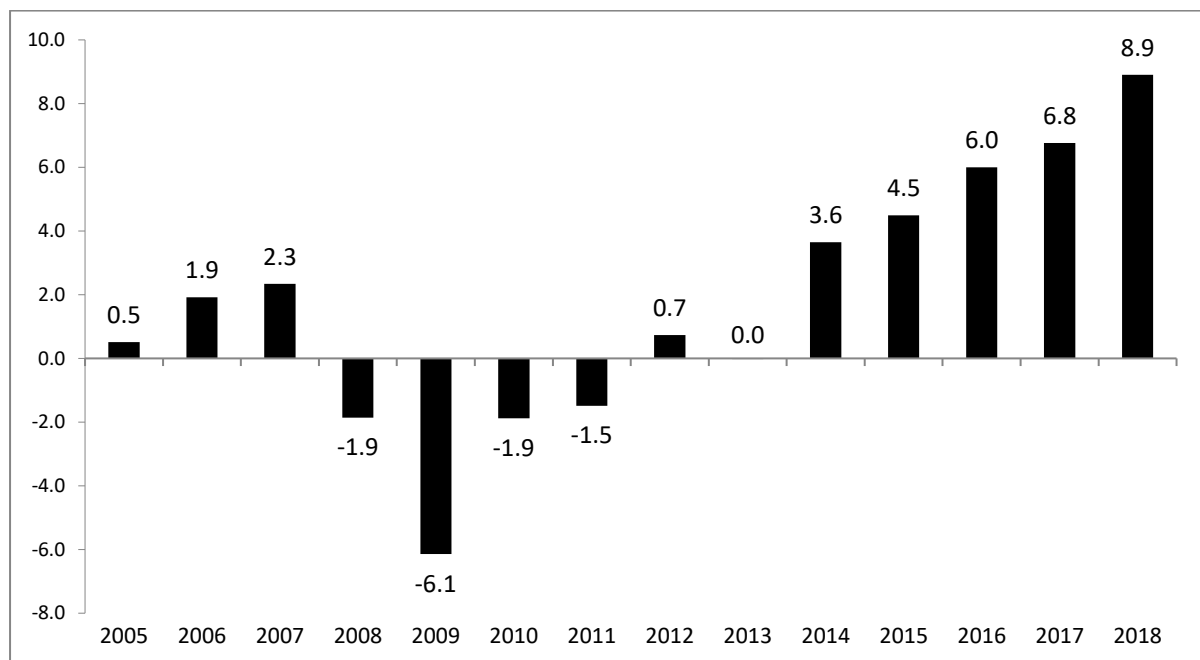
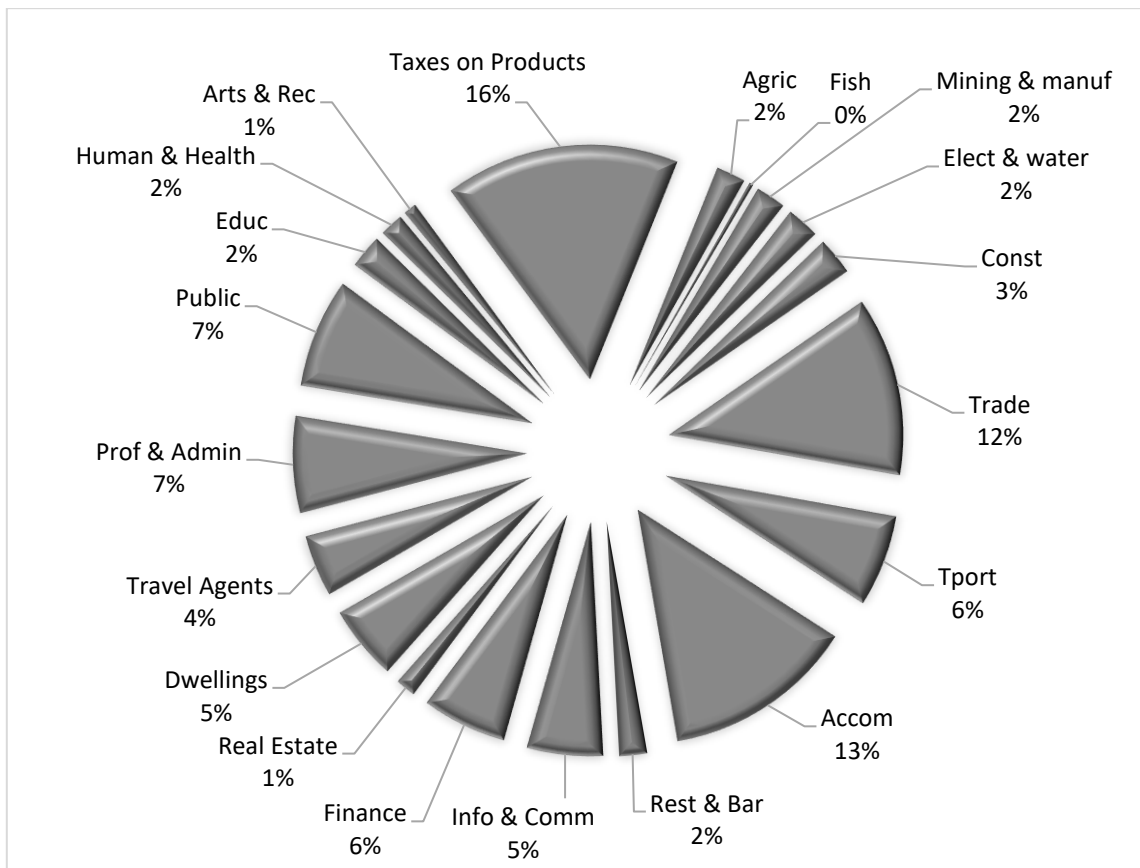


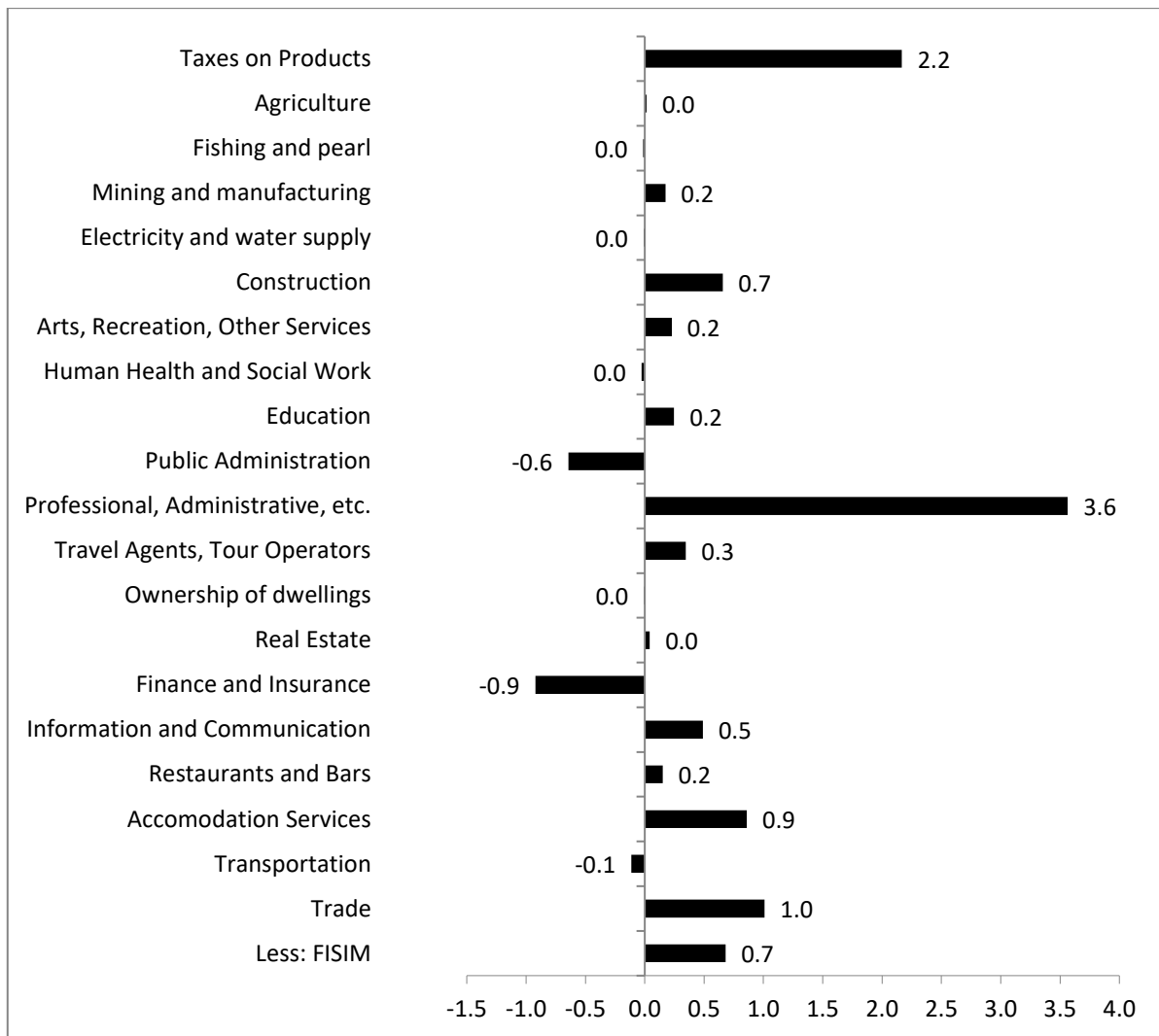
Figure 4.2: Cook Islands economy by industry, 2017/18 shows the breakdown of the Cook Islands economy by industry in 2017/18. The economy is dominated by the tertiary or services sector, accounting for about 77 per cent of the total economy in 2017/18, with the two largest tertiary industries, trade and accommodation services accounting for more than a quarter of total economic output.

Figure 4.2: Cook Islands economy by industry, 2017/18



In 2017/18, high tourist arrivals drove strong growth in the economy, with the tertiary sector contributing 5.2 percentage points to real economic growth. The strongest industry contributions were from professional and administrative services (3.6 percentage points) and trade (1 percentage points). During this period, professional and administrative services grew by 91 per cent from \$18.2 million to \$34.7 million and trade rose by 7.8 per cent from \$60.3 million to \$65.0 million. A number of industries contracted in 2017/18, finance and insurance and public administration.

Figure 4.3: Contribution to 2017/18 real growth (percentage point)

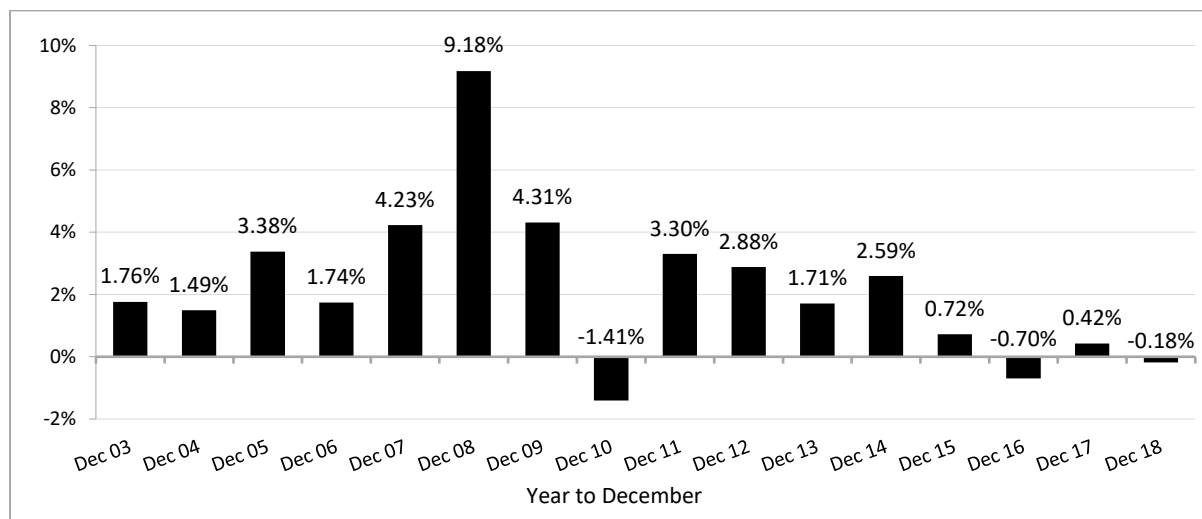


The secondary sector, which includes construction, electricity and manufacturing, contributed 0.8 percentage points to growth, while the primary sector, agriculture and fishing made no contribution.

4.3 Consumer Price Index

Since the 2018/19 HYEUFU, one more quarter of CPI data has been released, the December 2018 quarter. The CPI for December quarter 2018 decreased by 0.18 per cent compared to the December quarter 2017, as shown in Figure 4.4: CPI, year to December, annual percentage change. Over this period, rises in the transport, apparel and food groups were more than offset by falls in the housing, household operations and tobacco and alcohol groups.

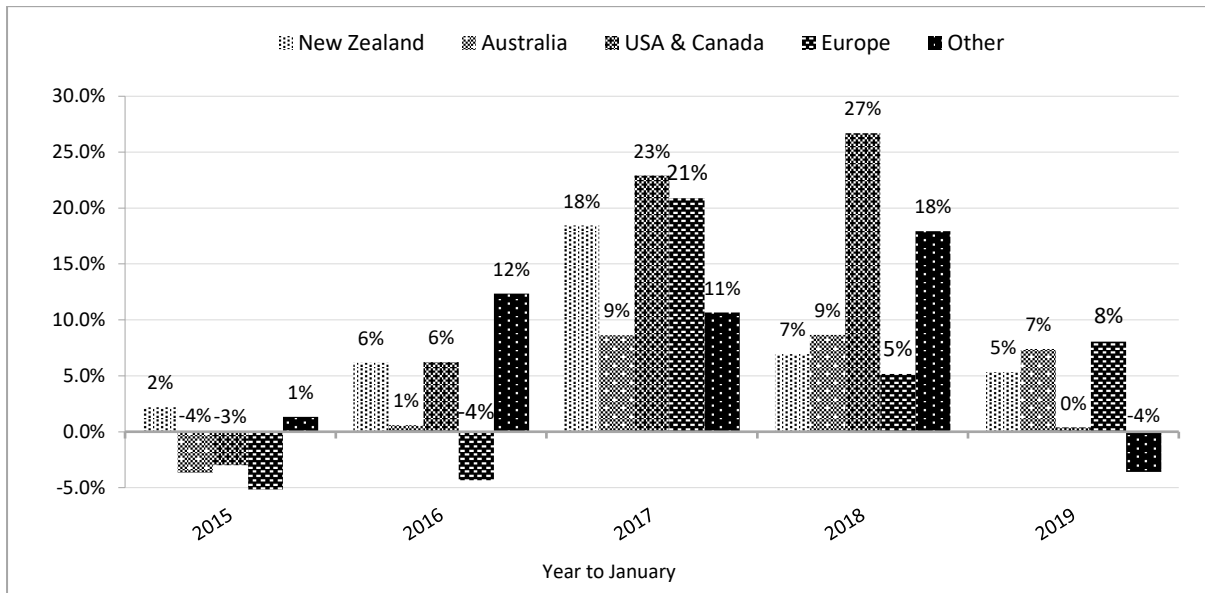
Figure 4.4: CPI, year to December, annual percentage change



4.4 Tourism

Since the 2018/19 HYEUFU, an additional 4 months of visitor arrivals data has been released, the most recent for January 2019. In the year to January 2019, visitor arrivals in the Cook Islands reached 169,361, 5.3 per cent higher than the 160,913 visitors recorded in the year to January 2018. While New Zealand visitors still dominate the raw numbers, Europe recorded the highest visitor growth rate in the year to January 2019, with an 8 per cent rise on the previous year's 11,547 visitors to 12,477 (see Figure 4.5: Visitor arrivals by country of residence, year to January (percentage change)). Australian visitor number rose by 7 per cent, with visitors from other markets falling by 4 per cent over the same period.

Figure 4.5: Visitor arrivals by country of residence, year to January (percentage change)

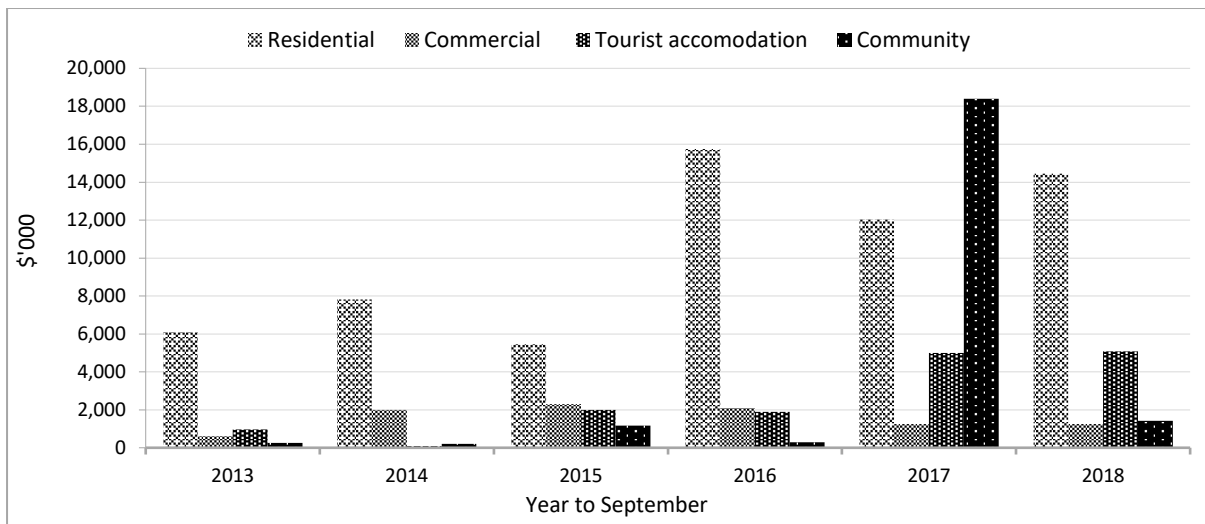


4.5 Housing and construction

An additional quarter of building approvals data, the September quarter 2018, has been released since the 2018/19 HYEPU.

The total value of Cook Islands building approvals in the year to September 2018 fell by 39 per cent to \$22.2 million from \$36.7 million in the year to September 2017 (see Figure 4.6). A 20 per cent rise in the value of residential sector approvals was more than offset by a decline in the community sector, falling by 92 per cent to a more normal level following a big spike in 2017 due to a number of large community projects such as Apii Nikao and Tereora College.

Figure 4.6: Building approvals, year to September (\$'000)

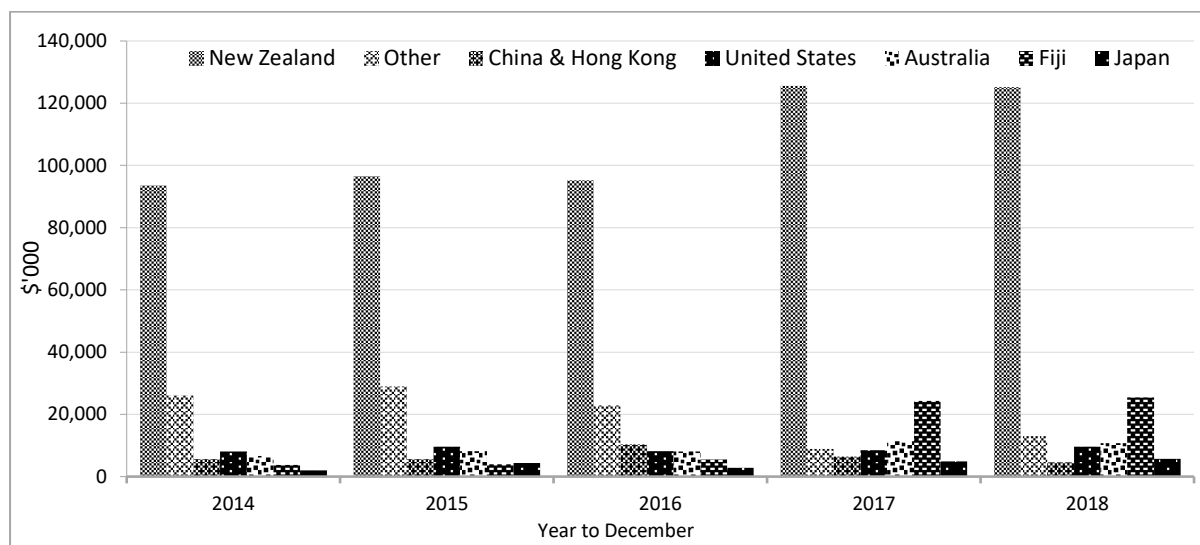


4.6 Merchandise Imports & Exports

4.6.1 Goods imports

Since the 2018/19 HYEPU, an additional 2 quarters of import data has been released, the most recent for the December quarter 2018. In the year to December 2018, the total value of imports into the Cook Islands rose by 2.2 per cent from \$190 million to \$194 million, the vast majority from New Zealand (see Figure 4.7: Import value by country of origin, year to December (\$'000)). The primary driver of the increase was minerals & fuels, beverages and tobacco and crude materials, which more than offset falls in machines and transport, basic manufactures and food and live animals.

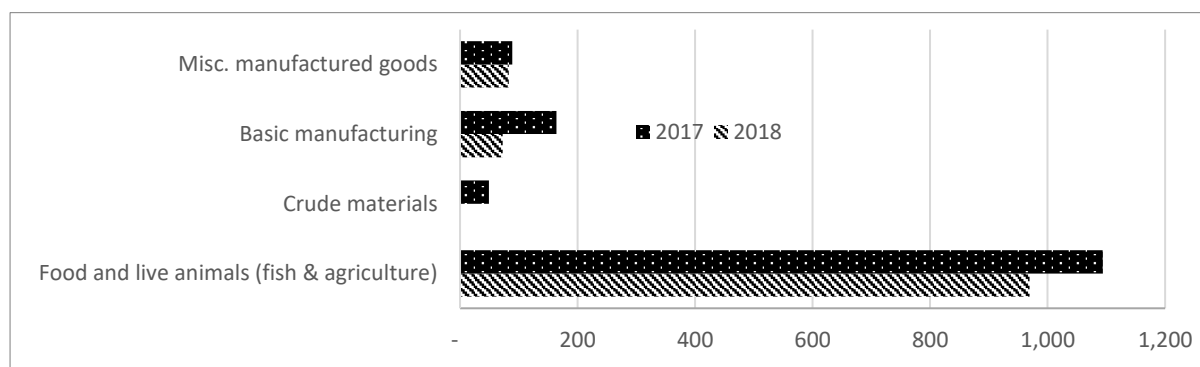
Figure 4.7: Import value by country of origin, year to December (\$'000)



4.6.2 Goods exports

Total goods exports fell in the year to December 2018 by 18.5 per cent to \$1.1 million. This fall is largely attributed a decline of 11 per cent in the export value of food and live animals and a drop in basic manufacturing export value by 56 per cent (see Figure 4.8: Major goods exports, 2017 to 2018 (\$'000)).

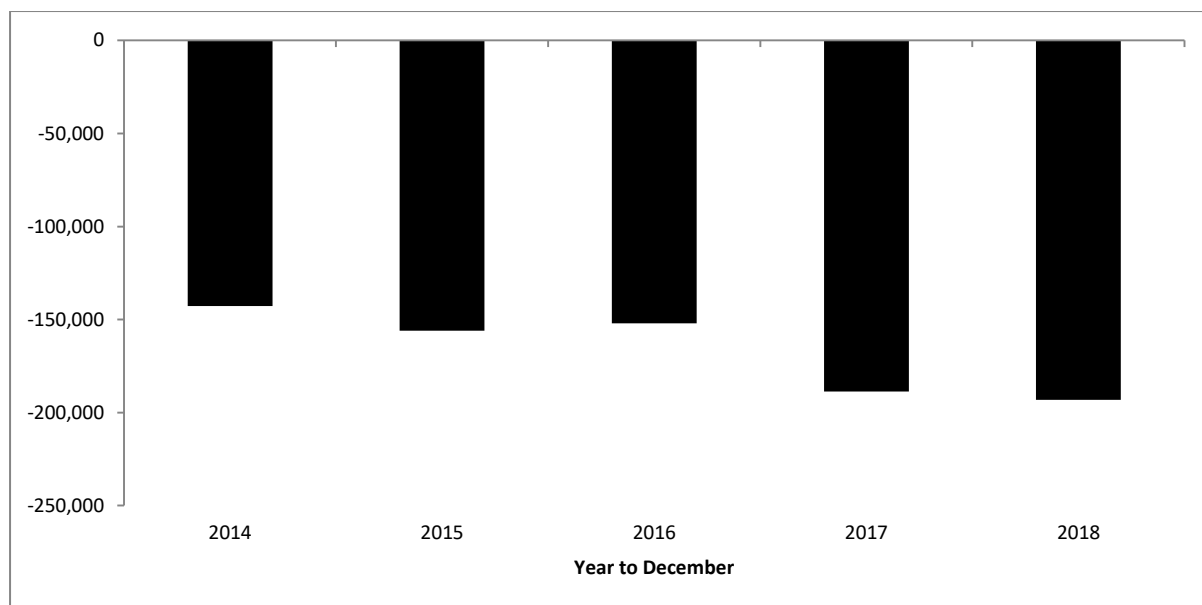
Figure 4.8: Major goods exports, 2017 to 2018 (\$'000)



4.6.3 Merchandise balance of trade

Thanks to the positive growth in imports and fall in exports, a negative merchandise balance of \$193.1 million is estimated for the year to December 2018, an increase from the negative \$188.6 million in 2017 (see Figure 4.9)

Figure 4.9: Merchandise balance of trade, 2014 to 2018 (\$'000)

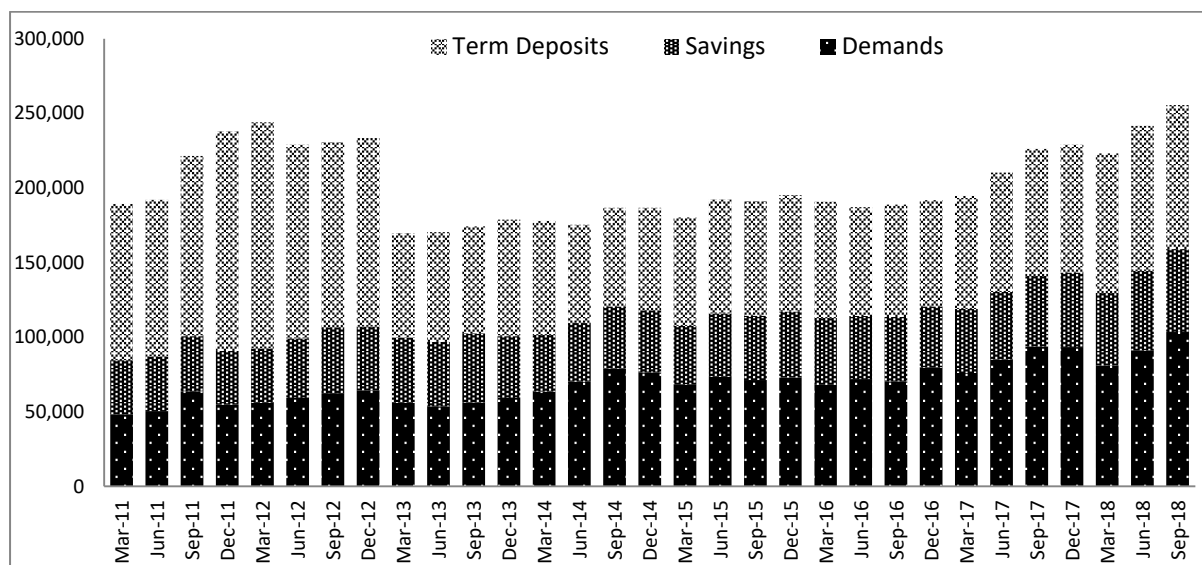


4.7 Banking and finance

4.7.1 Deposits

Since the 2018/19 HYEUFU, an additional quarter of banking data has been released, the September quarter 2018. Total deposits in Cook Islands banks in September 2018 rose by 15 per cent from \$226.1 million to \$255.5 million when compared to September 2017 (see **Error! Reference source not found.**). The key driver of this increase, about 39 per cent, was a steep rise in term deposits, from \$85.1 million to \$96.5 million.

Figure 4.10: Total value of bank deposits, March 2011 to September 2018 (\$'000)

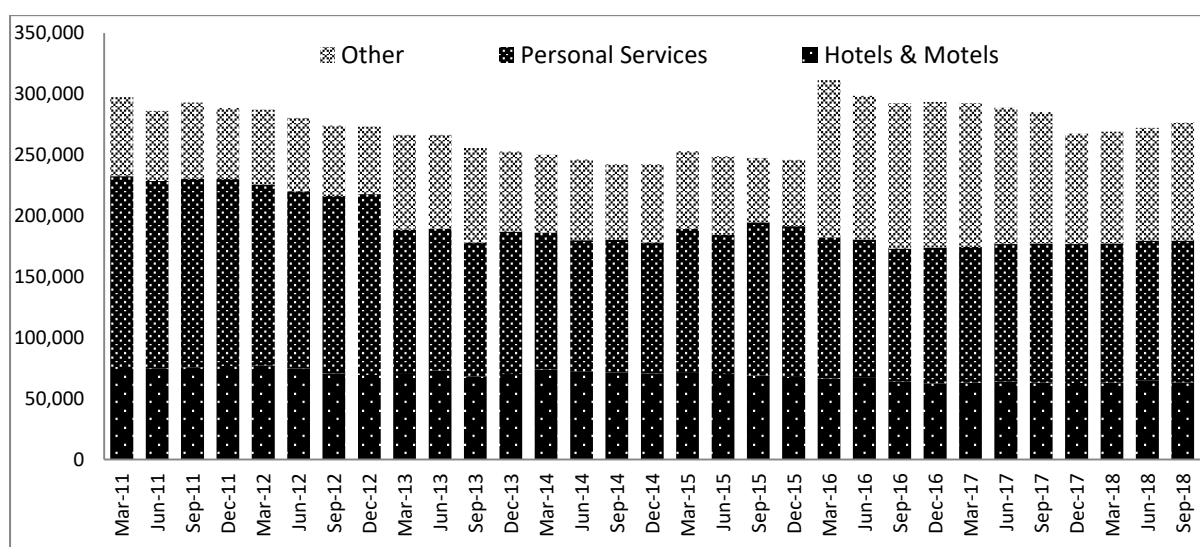


4.7.2 Loans

Lending by Cook Islands banks continues to be dominated by loans to the Personal services and Hotel and Motels industry sectors. In September 2018, the former accounted for 42 per cent and the latter 23 per cent of the total loan portfolio.

Total lending by Cook Islands banks in September 2018, when compared to September 2017, fell by 3 per cent from \$285.0 million to \$276.5 million (see Figure 4.11: Total value of bank loans, March 2011 to September 2018 (\$'000)). Agriculture and fishing, hotels and motels, transport and communications and personal services categories all recorded increases, but not enough to offset a fall of 24 per cent in the finance and business category.

Figure 4.11: Total value of bank loans, March 2011 to September 2018 (\$'000)



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)

<i>Original Estimate</i>	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
<i>Movement since the 2018/19 Appropriation</i>			
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
<i>Half-Year Update Estimate</i>			
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 Disaster Risk Management (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.

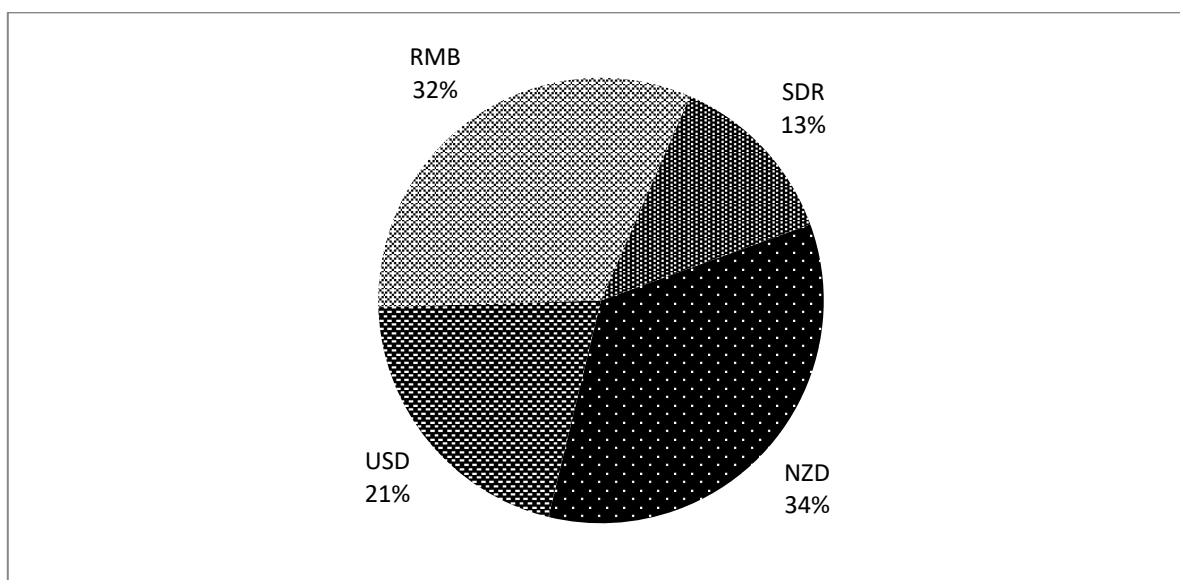
5.2 Gross Debt by Currency

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.

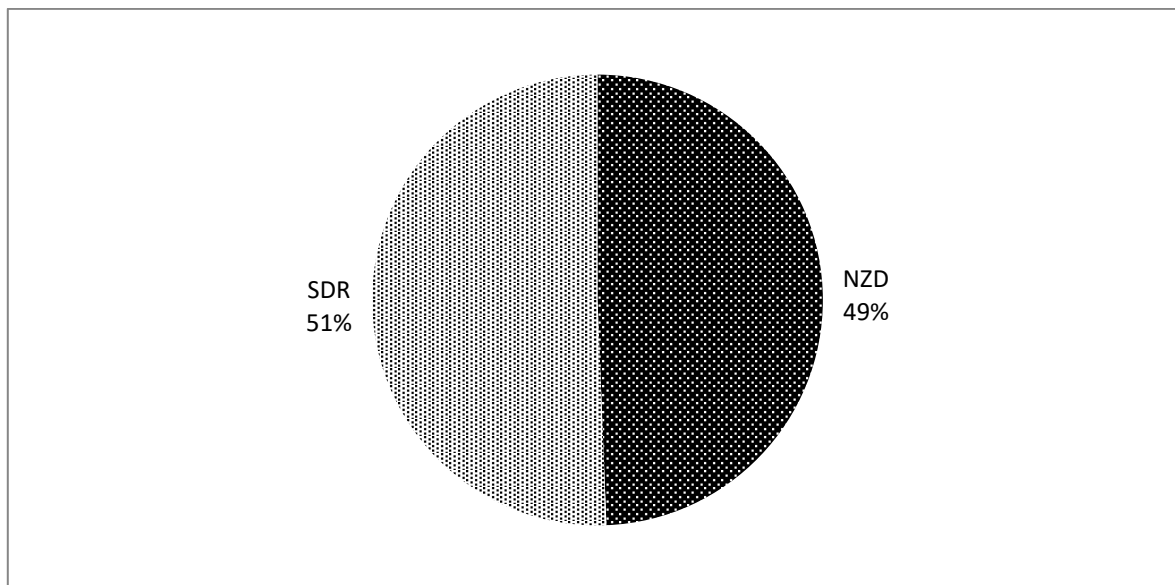
Figure 5.1: Projected Composition of Direct Crown Debt at 30 June 2019 by Currency



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.

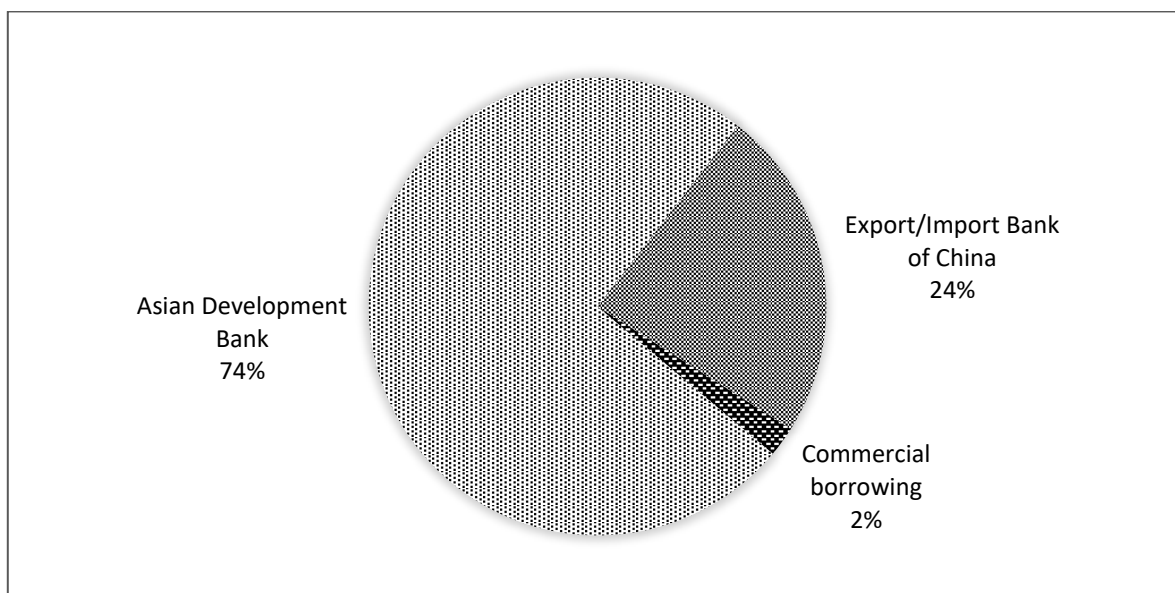
Figure 5.2: Projected Composition of SOE Debt at 30 June 2019 by Currency



5.3 Gross Debt by Lenders

5.3.1 Overall Gross Debt

Figure 5.3: Gross Crown Debt Estimates by Lender

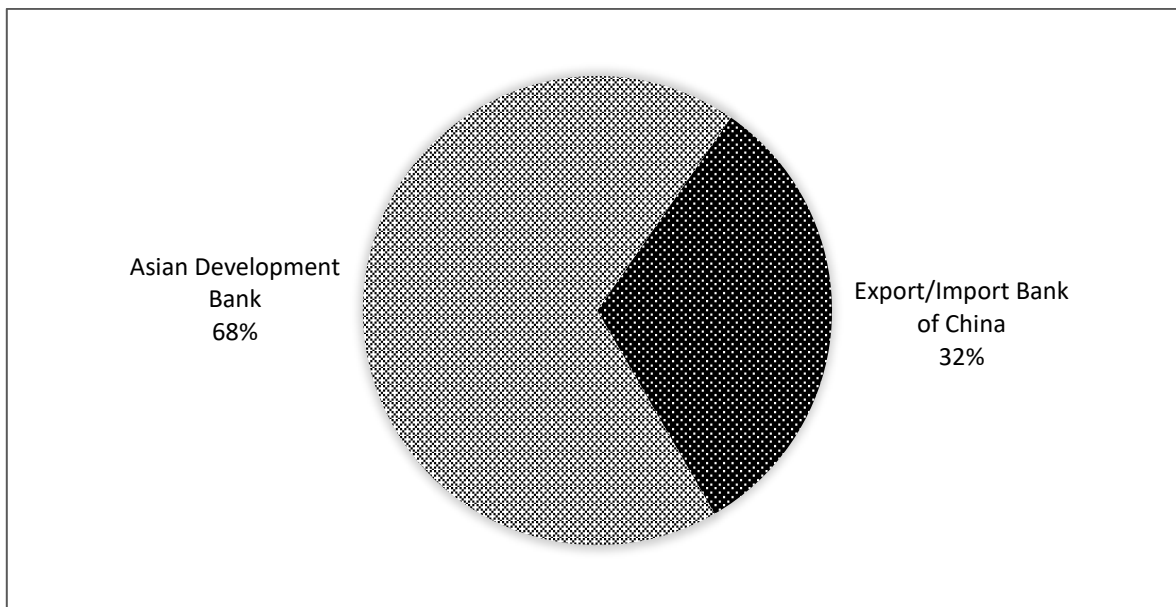


The overall gross committed debt of \$140.3 million estimated to the end of June 2019 is mainly held by the ADB with 74 per cent, followed by the Export/Import Bank of China (EXIM Bank) with 24 per cent and only two per cent held by commercial financial institutions.

5.3.2 Debt held directly by the Crown

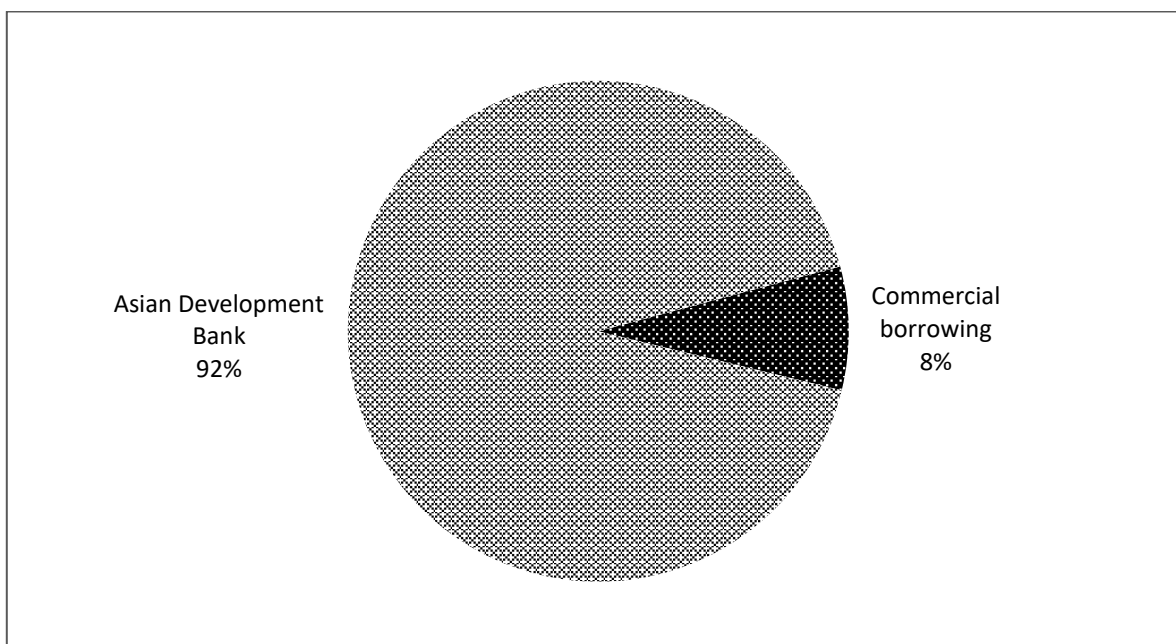
Direct gross debt is estimated to be \$106.3 million by June 2019 and is held by two key lenders, the ADB and the EXIM Bank. As illustrated in Figure 5.4, 68 per cent of the Crown’s direct debt is from the ADB compared to 32 per cent from the EXIM Bank. The EXIM Bank share has increased by one per cent 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

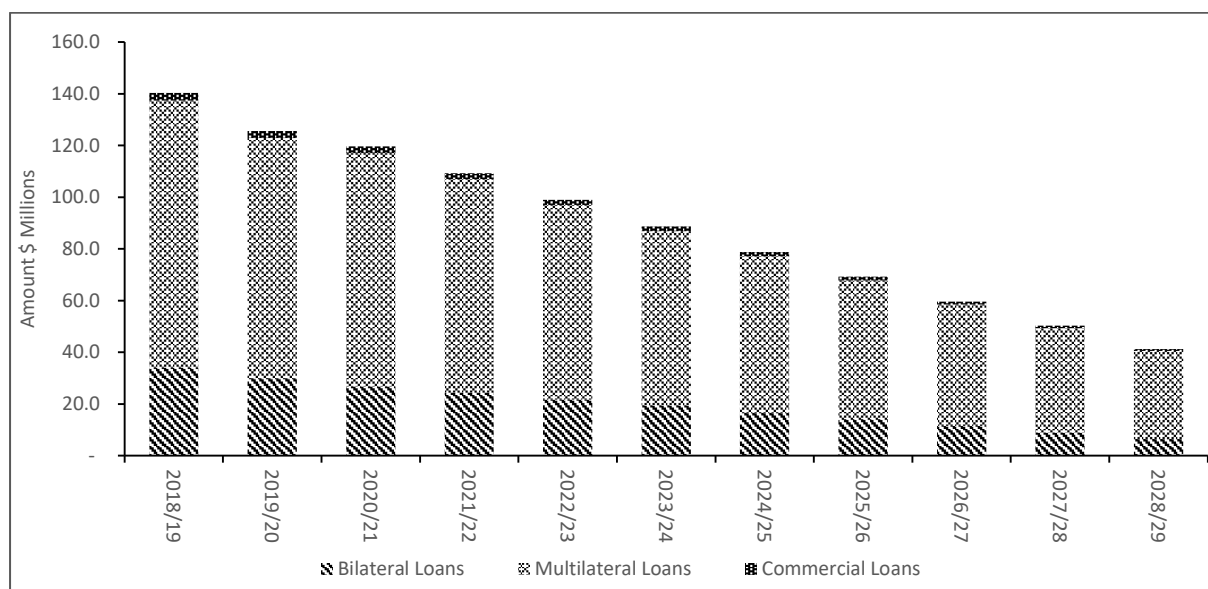


Debt held on behalf of and by SOEs remain at the same level reported during the budget, at \$33.98 million, and is overwhelmingly held by the ADB (92 per cent), with only the Rarotonga Airport ILS loan (8 per cent) coming from commercial sources.

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.

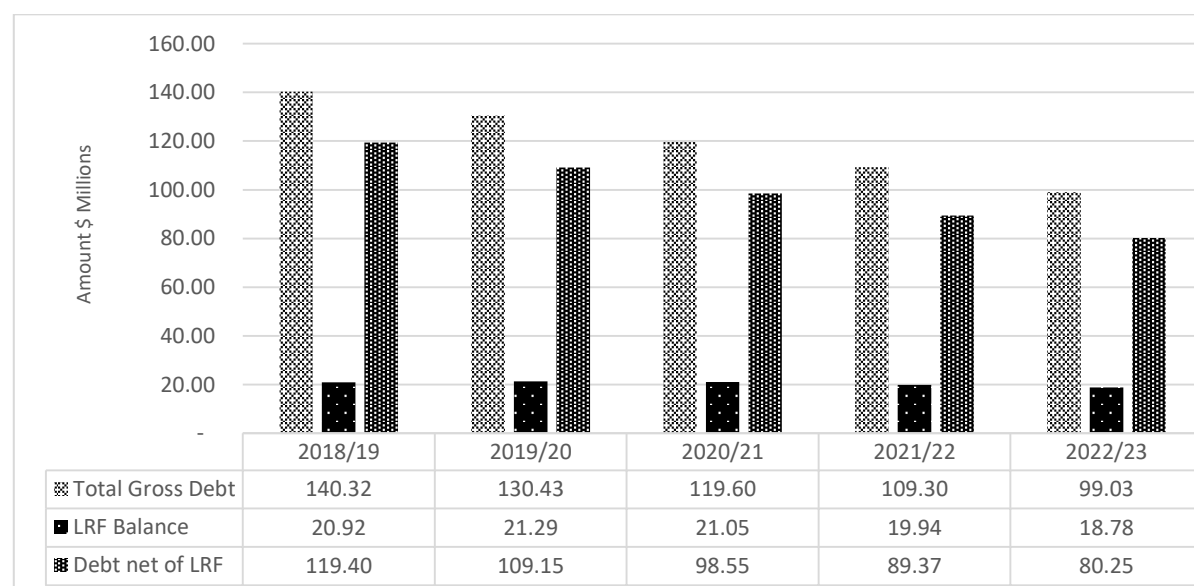
Figure 5.6: Gross Crown Debt Estimates by Source (\$million)



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



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
<i>Direct Crown Debt</i>	92.39	84.82	77.27	69.99
<i>SOE debt</i>	33.98	31.67	29.55	27.69
<i>Contingent (Disaster) debt</i>	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
<i>Direct Crown Debt</i>	7.40	7.43	9.31	9.99
<i>SOE debt</i>	2.83	2.47	1.29	1.31
<i>Contingent (Disaster) debt</i>	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.

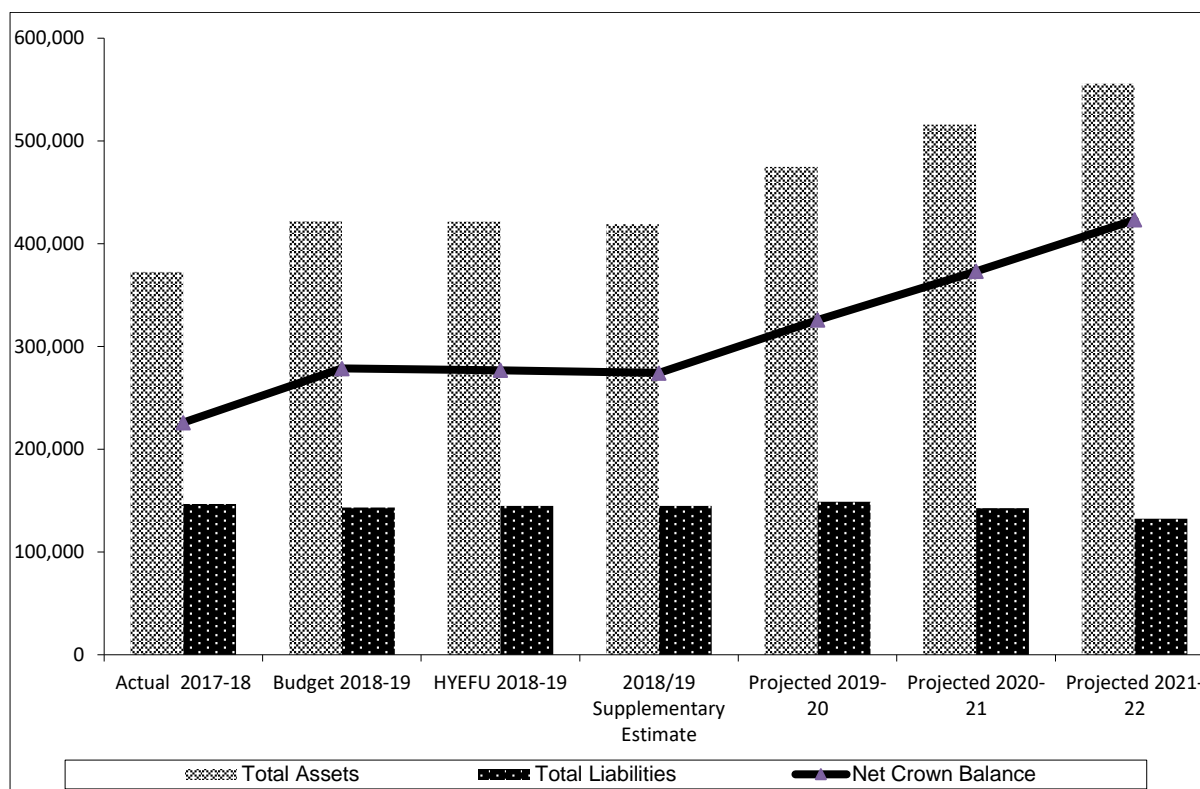
Ports Authority

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 Supplementary Estimate 2018-19 had increased from the 2017/18 actuals of \$225.9 million to \$274.1 million, a net movement of \$48.2million. This net movement was 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 2019/20 as long as there is an estimated operating surplus.

6 Schedules

6.1 Statement of Fiscal Responsibility (Operating)

Operating Statement (\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended 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	22,110	18,313	17,982	17,982	17,217	17,207	18,188
Trading Revenue	7,585	7,503	6,848	6,646	6,646	6,646	6,646
Interest on Loans to Subsidiaries	788	1,158	830	830	830	830	830
Dividends	1,795	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)	167,546	180,945	185,354	185,152	190,331	196,222	202,734
<i>Performance Based Budget Support - Bonus Payment</i>	1,877	120	0	0	0	0	0
<i>Total Operating Revenue (including Bonus)</i>	169,423	181,065	185,354	185,152	190,331	196,222	202,734
Operating Expenditure							
Ministry Outputs	99,720	109,006	126,786	130,938	118,175	116,356	116,396
<i>Personnel</i>	47,307	50,437	56,162	56,241	56,173	56,219	56,319
<i>Operating</i>	20,376	20,199	20,934	21,153	20,319	20,384	20,384
<i>Administered Payments</i>	27,698	33,587	44,482	46,170	36,475	34,545	34,485
<i>Depreciation</i>	4,338	4,783	5,208	7,375	5,208	5,208	5,208
POBOC	23,087	24,850	25,127	25,473	26,210	26,211	26,210
Provisional for Doubtful Debts	0	6,781	0	0	0	0	0
Debt Interest Contribution to LRF	1,710	2,063	2,367	2,367	2,271	2,094	1,896
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	2,174	2,174	2,174	2,174
<i>Chinese Equipment</i>	663	663	663	0	0	0	0
<i>Rarotonga Water Network</i>	299	694	803	803	803	803	803
<i>Northern Pa Enea Renewable Energy System</i>	400	400	400	400	400	400	400
<i>Southern Pa Enea Renewable Energy System (excl. Aitutaki)</i>	0	1,200	1,200	971	971	971	971
<i>Other Assets</i>	1,000	1,000	1,000	0	0	0	0
Contingency Funds - Operating	582	682	200	365	100	100	100
Total Operating Expenses	131,746	151,993	163,199	165,970	153,582	151,587	151,428
Operating Surplus/(Shortfall) (excluding Bonus)	35,800	28,952	22,155	19,182	36,749	44,634	51,306

6.2 Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement (\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended 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	47,072	42,949	28,149	11,835
Contingency Funds - Capital Expenditure	50	0	0	0	0	0	0
	13,491	21,871	44,519	47,072	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)	(50,258)	(35,725)	(32,238)	(21,635)
To be Funded by							
Operating Surplus	34,883	28,952	22,155	19,182	36,749	44,634	51,306
Depreciation	10,382	13,343	13,876	14,151	11,984	11,984	11,984
<i>of which: R.E. Capital Replacement</i>	400	1,600	1,600	1,371	1,371	1,371	1,371
Unencumbered Cash Reserves	(2,243)	(31,786)	2,261	7,087	(23,378)	(34,856)	(51,955)
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	50,258	35,725	32,238	21,635
Net Surplus/Shortfall	33,415	0	0	0	0	0	0

6.3 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	892,063	176,013	0	22,181	1,090,257	90,535	999,722
Audit (PERCA)	943,072	120,180	0	21,000	1,084,252	60,700	1,023,552
Crown Law	664,344	144,101	1,189,090	5,983	2,003,518	0	2,003,518
Cultural Development	643,307	168,783	3,708,999	93,655	4,614,744	110,000	4,504,744
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	3,854,964	641,000	19,900,302	0	19,900,302
Environment	855,776	171,724	167,174	30,381	1,225,055	35,000	1,190,055
Finance and Economic Management	4,036,975	641,939	15,549,750	358,344	20,587,008	954,341	19,632,667
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	2,434,886	886,814	16,659,749	350,000	16,309,749
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	3,164,461	20,114	4,402,186	6,000	4,396,186
<i>of which: Welfare Payments - Allowances</i>			<i>1,044,076</i>				
Justice	1,834,618	700,000	337,000	131,447	3,003,065	700,000	2,303,065
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	87,000	24,579	693,124	0	693,124
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	1,581,764	79,293	2,228,731	0	2,228,731
Tourism Corporation	1,794,120	2,512,916	5,072,000	36,500	9,415,536	150,000	9,265,536
Transport	529,203	139,114	0	52,247	720,564	36,000	684,564
Cook Islands Investment Corporation	1,141,950	3,298,194	4,779,439	371,189	9,590,772	2,455,943	7,134,829
Cook Islands Seabed Minerals Authority	173,965	111,940	0	9,387	295,292	0	295,292
Total Ministries, Crown & Statutory Agencies	48,138,237	18,047,649	46,169,527	4,320,670	116,676,083	5,545,308	111,130,775

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	138,205	163,300	0	5,500	307,005	0	307,005
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	1,381,911	853,861	-	65,993	2,301,765	-	2,301,765
Outer Islands							
Aitutaki	1,187,369	384,505	0	434,365	2,006,239	67,829	1,938,410
Aitutaki Power Supply	0	0	0	0	0	0	0
Atiu	809,982	423,851	0	416,555	1,650,388	224,319	1,426,070
Mangaia	904,134	574,349	0	635,824	2,114,307	301,000	1,813,307
Manihiki	652,271	151,824	0	474,383	1,278,478	117,501	1,160,977
Mauke	683,462	210,853	0	417,034	1,311,348	113,853	1,197,495
Mitiaro	587,374	73,172	0	91,242	751,788	58,900	692,888
Palmerston	260,135	66,058	0	84,399	410,592	20,599	389,993
Penrhyn	487,796	161,948	0	138,881	788,625	74,000	714,625
Pukapuka-Nassau	765,876	143,936	0	213,381	1,123,193	73,695	1,049,498
Rakahanga	383,232	59,746	0	82,407	525,385	49,336	476,049
Total Outer Islands	6,721,632	2,250,241	-	2,988,470	11,960,343	1,101,032	10,859,311
Gross Total	56,241,780	21,151,751	46,169,527	7,375,133	130,938,191	6,646,340	124,291,851

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

Administering Ministry	POBOC	2018/19 Budget Estimate	2018/19 Amended Estimate
Compensation of Employees			
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000
Audit	Transfer of PERC Salaries and Administration Costs	42,500	42,500
Parliamentary Services	Civil List - Personnel	2,267,961	2,267,961
Parliamentary Services	House of Ariki	228,420	228,420
Compensation of Employees POBOCs		2,718,881	2,718,881
Use of Goods and Services			
Audit	Audit Fees	95,600	95,600
Justice	General Elections, Petitions and By-Elections	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	120,000	286,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	141,000	321,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461
Use of Goods and Services POBOCs		699,261	1,045,261
Subsidies			
Finance & Economic Management	Apex - Profit Guarantee	0	0
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000
Subsidies POBOCs		2,658,096	2,658,096
Social Assistance			
Internal Affairs	Welfare Payments	18,156,712	18,156,712
Social Assistance POBOCs		18,156,712	18,156,712
Other Expense			
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694
Finance & Economic Management	CICC Mission Training Center Construction Grant	0	0
Finance & Economic Management	CIG Insurance	100,000	100,000
Foreign Affairs	International Subscriptions	673,717	673,717
Other Expenses POBOCs		894,411	894,411
Grand Total		25,127,361	25,473,361

6.5 Schedule 3 – Cook Islands Capital Spending

	2018/19 Budget Estimate	2018/19 Amended Estimate	Variance
Cook Islands Government Capital programs	44,518,794	47,071,874	2,553,080
Total Capital spending	44,518,794	47,071,874	2,553,080

6.6 Schedule 4 – Official Development Assistance

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

6.7 Schedule 5a – Other Expenses and Financing Transactions

Category of Expense	2018/19 Budget Estimate	2018/19 Amended Estimate	Variance
Contingency Funds - Operating	200,000	365,000	165,000
Crown Infrastructure Depreciation	4,602,500	4,602,500	-
Provisional for Doubtful Debts	-	0	-
Transfer to Emergency Response Trust Fund	50,000	50,000	-
Transfer to Reserve Trust Fund	740,767	740,767	0
Depreciation Contingency Fund	4,065,734	2,173,500	- 1,892,234
Total Other Expenses	9,659,001	7,931,767	(1,727,234)

6.8 Schedule 5b – Loan Repayment Fund Appropriation

Category of Appropriation	2018/19 Budget Estimate	2018/19 Amended 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

6.9 Summary

Category of Payment	2018/19 Budget Estimate	2018/19 Amended Estimate	Variance
Schedule 1 - Ministry Outputs (Gross Operating)	126,785,558	130,938,191	4,152,633
Schedule 2 - POBOCs	25,127,361	25,473,361	346,000
Schedule 3 - CIG Capital Expenditure	44,518,794	47,071,874	2,553,080
Schedule 4 - Official Development Assistance	53,453,757	53,453,757	- 0
Schedule 5a - Other Expenses and Financing Transactions	9,659,001	7,931,767	(1,727,234)
Schedule 5b - Loan Reserve Fund Appropriations	9,362,000	9,362,000	0
TOTAL APPROPRIATION	268,906,471	274,230,950	5,324,479

6.10 Schedule 6 – Capital Schedule

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Ministry of Agriculture				30,091	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					2,571,061	2,481,495	2,531,495	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	Avaroa Cable Establishment	CIG	0	0	0	50,000	0	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	204,495	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
	Aitutaki	Arenikau Water Storage tank	CIG	0	0	0	0	0	0	0
Education				0	340,952	110,000	165,480	110,000	110,000	110,000
	National	Fund to be Prioritised by Education	CIG	0	340,952	110,000	165,480	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	8,915,643	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	954,597	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

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
	Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	CIG	0	13,466	0	0	0	0	0
	Various	Pa Enea Cyclone Center	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
	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 Genset (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
	Rarotonga	Sheraton Foreshore Protection	CIG	0	0	226,000	239,100			
	Rakahanga	Large boat outboard motor	CIG	0	83,709	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 Enea	Pa Enea Machinery Shelters	CIG	0	42,460	0	0	0	0	0
	Rarotonga	Road Network Maintenance		0	723,543	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			
	Aitutaki	Establishing new water galleries	CIG	0	49,279	418,376	418,376	0	0	0
	Rarotonga	Culvert	CIG	0		600,000	600,000			
Internal Affairs				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			
	Rarotonga	Water & Sanitation Programme (WASP)	CIG	0	173,977	250,000	250,000	7,000,000	7,000,000	5,000,000

MINISTRY	Island	PROJECT/PROGRAMME	FUNDING SOURCE	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
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	8,235,431	15,555,000	4,754,000	40,000
	Atiu	Atiu Power Distribution	CIG	0	418,449	0	220,000	0	0	0
	Pa Enea	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
	Mangaia	Mangaia School Bus	CIG	0	0	0	87,307	0	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 TOTAL				0	21,683,087	43,646,185	45,412,265	42,538,861	27,789,000	11,475,000
Capital Funds Administered BY MFEM				0	187,650	872,609	1,659,609	410,000	360,000	360,000
	National	Capital Distribution Fund		0	97,391	762,609	1,549,609	300,000	250,000	250,000
	Pa Enea	Outer Islands Small Capital Fund		0	90,259	110,000	110,000	110,000	110,000	110,000
		<i>Aitutaki</i>		0	15,818	16,000	16,000	16,000	16,000	16,000
		<i>Atiu</i>		0	11,686	12,000	12,000	12,000	12,000	12,000
		<i>Mangaia</i>		0	5,370	12,000	12,000	12,000	12,000	12,000
		<i>Manihiki</i>		0	-	10,000	10,000	10,000	10,000	10,000
		<i>Mauke</i>		0	9,500	10,000	10,000	10,000	10,000	10,000
		<i>Mitiaro</i>		0	7,609	8,000	8,000	8,000	8,000	8,000
		<i>Palmerston</i>		0	8,639	10,000	10,000	10,000	10,000	10,000
		<i>Penrhyn</i>		0	11,844	12,000	12,000	12,000	12,000	12,000
		<i>Pukapuka-Nassau</i>		0	12,000	12,000	12,000	12,000	12,000	12,000
		<i>Rakahanga</i>		0	7,793	8,000	8,000	8,000	8,000	8,000
GRAND TOTAL				0	21,870,737	44,518,794	47,071,874	42,948,861	28,149,000	11,835,000

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

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended 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	249	0	143,000	143,000	143,000	143,000	143,000
Immigration Fees	908,021	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	14,197,039	8,617,159	6,305,125	6,305,125	8,000,000	8,000,000	12,305,000
Fisheries Catch Revenue	2,311,744	0	0	0	0	0	0
Fisheries - US Treaties (purse seine)	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	1,795,225	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	0	248,000	284,000	284,000	409,600	491,200	491,200
Ports Authority - dividend	290,735	0	0	0	0	0	0
Punanga 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	1,469,107	2,720,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000
Numismatics	319,861	511,000	400,000	400,000	450,000	450,000	450,000

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
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	787,471	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 License	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Liquor Licensing	42,244	75,000	70,000	70,000	70,000	70,000	70,000
Tattslotto Grants	153,121	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	34,563,002	32,854,539	30,352,223	30,352,223	29,402,698	29,474,298	30,454,798
Total Crown Receipts - excluding Bonus Payment	159,961,213	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	161,837,933	173,561,900	178,505,681	178,505,681	183,684,985	189,575,524	196,087,506

6.12 Schedule 8a – Administered Payments

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended 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	1,581,764	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	0	0	0	0
Finance and Economic Management	The Centre of Research and Policy Studies	0	0	0	80,000	80,000	80,000	80,000
Transport	Civil Aviation	56,040	0	0	0	111,000	111,000	111,000
	Compensation of Employees Administered Payments	1,998,128	2,863,908	3,653,126	3,862,005	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
Cook Islands Investment Corporation	Avaroa Cable	0	0	0	100,000	0	0	0

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
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	0	0	0	0
Finance and Economic Management	The Centre of Excellence in Information Technology (CEIT)	0	0	0	150,000	150,000	60,000	0
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 Poor's 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
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	1,117,800	867,800	867,800	867,800
Health	Operation Namu		0	0	88,016	0	0	0
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 Asset 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

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
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	84,933	0	0	0
Parliamentary Services	Remuneration Tribunal Committee	0	3,150	0	25,000	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	19,877,382	12,947,405	11,357,405	11,297,405
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	12,523,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	50,344	76,927	500,000	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enea	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	13,303,500	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	800,000	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
Health	Oxygen Plant	0	30,000	0	0	0	0	0
Internal Affairs	Welfare Payments - Allowances	1,139,818	695,360	983,393	1,044,076	983,918	983,918	983,918

Administering Ministry	Administered Payment	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
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	2,973,546	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	1,200,000	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 Enea	99,817	98,570	100,000	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	235,000	220,000	520,000	767,385	220,000	220,000	220,000
Internal Affairs	SIF - Cook Islands Government Contribution	195,000	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	Establishment of Ministerial Office	0	0	0	50,000	0	0	0
Finance and Economic Management	Economic Utilities Regulator	0	0	0	0	100,000	100,000	100,000
	Other Expenses Administered Payments	3,067,693	3,961,896	6,055,709	6,153,094	5,220,709	4,880,709	4,880,709
Grand Total		27,249,524	33,587,183	44,481,631	46,169,527	36,475,128	34,545,128	34,485,128

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

Administering Ministry	POBOC	2016/17 Actual	2017/18 Actual	2018/19 Budget	2018/19 Amended 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
	Transfer of PERC Salaries and Administration	38,611	35,400	42,500	42,500	42,500	42,500	42,500
Audit (PERCA)	Costs							
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	227,120	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	286,000	120,000	120,000	120,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	489,118	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
	International Maritime Organisation - Maritime	63,461	0	63,461	63,461	63,461	63,461	63,461
Foreign Affairs	Cook Islands							
	Use of Goods and Services POBOCs	875,651	611,923	699,261	1,045,261	699,261	699,261	699,261
Subsidies								
Finance and Economic Management	Apex - Profit Guarantee	207,948	618,070	0	0	0	0	0
	Bank of the Cook Islands - social assistance	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Cook Islands Investment Corporation	subsidy							
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
	CICC Mission Training Center Construction	150,000	650,000	0	0	0	0	0
Finance and Economic Management	Grant							
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	25,473,361	26,209,640	26,211,370	26,209,640

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

Creditor	2017/18 Actual	2018/19 Budget	2018/19 Amended 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

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

Transaction	2017/18 Actual	2018/19 Budget	2018/19 Amended 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 Financial Statements

The forecasted financial estimates of the Crown are set out in the following order for the year ending 30 June 2019.

7.1 Statement of Financial Performance

	Actual 2016-17	Actual 2017-18	Budget 2018-19	HYEU 2018-19	2018/19 Amended Estimate	Projected 2019-20	Projected 2020-21	Projected 2021-22
	('000)	('000)	('000)	('000)	('000)	('000)	('000)	('000)
Revenue								
Taxation revenues	125,398	140,588	148,153	148,153	148,153	154,282	160,101	165,633
<u>Other revenue</u>								
Revenue on behalf of the								
Crown	31,715	26,163	25,714	25,714	25,714	24,948	24,938	25,918
Sale of goods and services	7,585	7,503	6,848	6,848	6,646	6,646	6,646	6,646
Interest	3,426	3,518	2,880	2,880	2,880	2,570	2,570	2,570
Dividends	382	3,293	1,759	1,759	1,759	1,885	1,967	1,967
Total Revenue	168,506	181,065	185,354	185,354	185,152	190,331	196,222	202,734
Expenditure								
Appropriations to agencies	99,719	109,006	126,786	126,914	130,938	118,175	116,356	116,396
Payments on behalf of								
Crown	23,087	24,850	25,127	25,307	25,473	26,210	26,211	26,210
Debt-servicing interest	1,710	2,063	2,367	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	4,603
Depreciation contingency								
fund-renewable energy	400	1,600	1,600	1,600	1,371	1,371	1,371	1,371
Other expenditure	3,148	10,224	2,717	2,716	1,218	953	954	953
Total Expenditure	131,746	152,347	163,200	163,507	165,970	153,582	151,588	151,428
NET OPERATING SURPLUS / (DEFICIT)	36,760	28,718	22,155	21,847	19,182	36,749	44,634	51,306

7.2 Statement of Financial Position

	Actual 2016-17	Actual 2017-18	Budget 2018-19	HYEFU 2018-19	2018/19 Amended Estimate	Projected 2019-20	Projected 2020-21	Projected 2021-22
	('000)	('000)	('000)	('000)	('000)	('000)	('000)	('000)
Assets								
Cash and equivalents	80,392	102,684	91,576	89,901	86,202	99,653	124,387	166,042
Loan reserves	18,639	21,338	20,923	20,981	20,981	21,346	21,112	19,998
Trust accounts	17,180	20,166	20,957	20,957	20,957	21,779	22,629	23,507
Inventory	1,850	1,620	1,458	1,458	1,458	1,312	1,181	1,063
Tax receivables	31,616	35,628	29,384	29,384	29,384	25,344	25,164	25,039
Debtors and other receivables	5,108	9,311	8,845	8,845	8,845	8,403	7,960	7,539
Advances to SOEs	28,375	28,010	26,897	26,897	26,897	26,108	25,352	24,596
Plant, property, and equipment	100,888	153,802	221,728	223,074	224,129	270,706	287,932	287,783
Total Assets	284,047	372,559	421,768	421,497	418,853	474,651	515,716	555,566
Liabilities								
Creditors and other payables	17,392	19,662	17,696	17,696	17,696	16,369	14,777	13,344
Trust liabilities	17,178	23,625	23,625	23,625	23,625	23,625	23,625	23,625
Borrowings	97,843	103,365	101,937	103,386	103,388	108,965	104,279	95,331
Total Liabilities	132,413	146,652	143,258	144,707	144,709	148,959	142,681	132,300
Net Crown Balance	151,634	225,907	278,510	276,790	274,144	325,692	373,035	423,266

7.3 Statement of Cashflows

	Actual 2016-17	Actual 2017-18	Budget 2018-19	HYEU 2018-19	2018/19 Amended Estimate	Projected 2019-20	Projected 2020-21	Projected 2021-22
	('000)	('000)	('000)	('000)	('000)	('000)	('000)	('000)
Cashflows from Operating Activities								
<u>Cash provided from:</u>								
Taxation and levies	125,398	151,381	141,910	141,909	141,909	150,242	159,921	165,508
Collection of tax arrears	-1,546	-10,793	6,244	6,244	6,244	4,040	180	125
Sale of goods and services	7,585	7,503	6,848	6,848	6,646	6,646	6,646	6,646
Interest	3,426	3,518	2,880	2,880	2,880	2,570	2,570	2,570
Dividends	382	3,293	1,759	1,759	1,759	1,885	1,967	1,967
Other income	37,306	26,605	26,157	26,135	26,156	25,391	25,359	25,918
Foreign Aid Income	25,404	50,565	53,454	53,454	53,454	30,260	10,553	30
	197,955	232,072	239,251	239,229	239,048	221,034	207,196	202,764
<u>Cash applied to:</u>								
Appropriations to agencies (less depn)	99,751	104,223	121,578	121,706	123,563	112,967	111,148	111,188
Payments on behalf of Crown	23,087	24,850	25,127	25,307	25,473	26,210	26,211	26,210
Debt-servicing interest	1,710	2,063	2,367	2,367	2,367	2,271	2,094	1,896
Building maintenance	0	0				0	0	
Other expenditure	1,186	7,867	251	250	415	150	151	150
Foreign Aid Expense	25,404	9,541	16,048	16,048	16,048	14,648	9,492	30
	151,138	148,544	165,371	165,679	167,867	156,246	149,096	139,474
Net Operating Activity Cashflows	46,817	83,528	73,880	73,550	71,181	64,788	58,100	63,290
Cashflows from Investing Activities								
<u>Cash provided from:</u>								
*	0	0	0	0	0	0	0	0
<u>Cash applied to:</u>								
Capital expenditure	13,491	21,871	44,397	45,743	47,072	42,949	28,149	11,835
Capital expenditure Foreign Aid	0	41,024	37,406	37,406	37,406	15,612	1,061	0
Advances to Subsidiaries	0	0	0	0	0	0	0	0
	13,491	62,895	81,803	83,149	84,478	58,561	29,210	11,835
Net Investing Activity Cashflows	-13,491	-62,895	-81,803	-83,149	-84,478	-58,561	-29,210	-11,835
Cashflows from Financing Activities								
<u>Cash provided from:</u>								
Cash drawn into the loan reserves								
Loans drawn down	600	6,817	5,164	5,164	5,164	15,265	4,715	0
Cash drawn from loan reserves	0	0	0	1	1	0	0	
	600	6,817	5,164	5,165	5,165	15,265	4,715	0
<u>Cash applied to:</u>								
Loan reserves	4,897	5,808	7,559	7,559	7,559	7,220	8,020	8,922
Other reserves	1,231	2,986	791	791	791	821	851	878
	6,128	8,794	8,349	8,349	8,350	8,041	8,871	9,800
Net Financing Activity Cashflows	-5,528	-1,976	-3,185	-3,184	-3,185	7,224	-4,156	-9,800
Net cash movements	29,304	22,292	-11,108	-12,783	-16,482	13,451	24,734	41,655

Add: Opening Cash and Equivalents	51,087	80,392	102,684	102,684	102,684	86,202	99,653	124,387
Closing Cash and Equivalents	80,392	102,684	91,576	89,901	86,202	99,653	124,387	166,042

7.4 Statement of Borrowings

	Actual 2016-17	Actual 2017-18	Budget 2018-19	HYEU 2018-19	2018/19 Amended Estimate	Projected 2019-20	Projected 2020-21	Projected 2021-22
	('000)	('000)	('000)	('000)	('000)	('000)	('000)	('000)
Total Gross Borrowings	97,843	103,365	101,937	103,386	103,388	108,965	104,279	95,331
Assets Held Against Borrowings:								
Advances to subsidiaries	28,375	28,010	26,897	26,897	26,897	26,108	25,352	24,596
Loan reserves	18,639	21,338	20,923	20,981	20,981	21,346	21,112	19,998
Total Assets Held Against Borrowings	47,014	49,348	47,820	47,878	47,878	47,454	46,463	44,594
Net Borrowings of the Government	50,829	54,016	54,118	55,509	55,510	61,511	57,815	50,737

7.5 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.

8 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.

8.1 Basis of Preparation

8.1.1 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.

8.1.2 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).

8.1.3 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.

8.2 Significant Accounting Policies

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

Recent Standards

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

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

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

8.2.1 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.

8.2.2 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.

8.2.3 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.

8.2.4 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.

8.2.5 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

8.2.6 Non-Current Assets

Plant, Property, and Equipment

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

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

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

Disposals

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

Additions

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

Work in Progress

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

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

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

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

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

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

- Power network
- Harbours & ports
- Airports

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

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

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

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

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

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

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

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

Software, databases: 3 - 5 years

Cash and Cash Equivalents

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

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

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

Inventories

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

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

Investments

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

Banking portfolio investments

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

Provision for doubtful debts

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

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

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

Aid Assets

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

8.2.7 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.

8.2.8 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.

8.2.9 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.

8.2.10 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.

8.2.11 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.