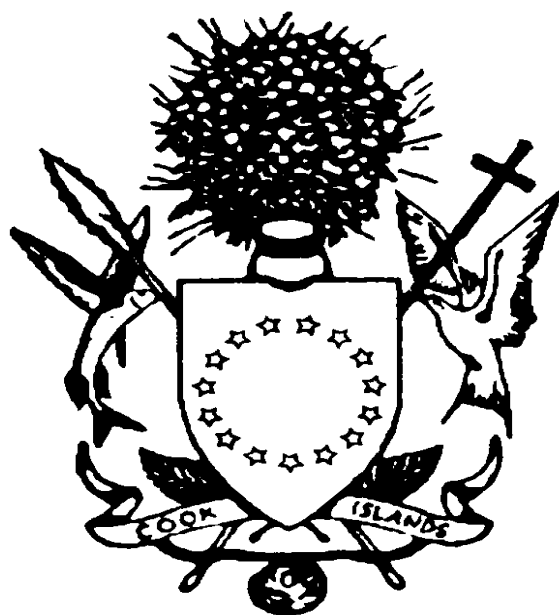

COOK ISLANDS GOVERNMENT
BUDGET ESTIMATES

2018/19

Book 1
Appropriation Bill
Appropriations and Commentary



Hon. Mark Brown
Minister of Finance
September 2018

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**GOVERNMENT OF THE COOK ISLANDS
OFFICE OF THE MINISTER OF FINANCE**

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21 September 2018

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2018/19.

The economic and fiscal information included in the Budget is based on the best professional judgement that we have at this time.

I accept the overall responsibility for the integrity of the Budget Appropriation 2018/19 and the compliance with the *Ministry of Finance and Economic Management Act 1995/96*.

A handwritten signature in black ink, appearing to read 'Mark Brown', with a long horizontal stroke 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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21 September 2018

STATEMENT OF RESPONSIBILITY

The Budget Appropriation 2018/19 has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995/96* (the Act).

The 2018/19 Budget process involved the annual publication of the Budget Policy Statement in December 2017, which was available on the mfem.gov.ck website, and the establishment of the Budget Support Group which was commissioned to review agency budget proposals prior to Cabinet consideration and approval.

In compliance with Section 24 (1) of the Act, the Ministry of Finance and Economic Management provided Cabinet with the:

- estimated revenue of the Crown;
- details of each Government Department's bid for funds; and
- Crown's debt management responsibilities.

Cabinet, as required under Section 24 (2) of the Act, returned to the Ministry a fiscally responsible budget in accordance with the principles outlined in the Act.

The information in the supporting documentation is comprehensive, going well beyond the requirements of the Act, 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 Act.

It should be noted that financial information relating to national public finances is consistent with the standards outlined in the International Monetary Fund (IMF) 2001 manual on Government Finance Statistics.

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



PARLIAMENT OF THE COOK ISLANDS

APPROPRIATION BILL

EXPLANATORY NOTE

This note does not form part of the Bill but is intended to indicate its effect.

The Constitution of the Cook Islands provides in Article 70(1) that "... all expenditure from the Cook Islands Government Account or from any other public fund or account, shall be in accordance with an Appropriation Act..."

Clause 1 provides that, on enactment, the Bill will be called the Appropriation Act 2018.

Clause 2 is the application provision, which specifies the financial year to which the Bill relates. In this case it is the financial year ending 30th June 2019.

Clause 3 authorises expenditure out of the Cook Islands Government Account of the amounts not exceeding those set out in the Schedules to the Bill, for the several votes specified therein.

Subsection 5 limits any expenditure which may be charged to the 2018/19 appropriation to actual expenditure incurred in the period 1 July 2018 to 30 June 2019.

Subsections 6-7 limits any expenditure which may be charged to the 2017/18 appropriation to actual expenditure incurred up to 30 June 2018.

Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2017/18 to actual expenditure incurred up to 30 June 2018.

Note: Budget Books numbered 1 and 2 will be available with the Bill. The breakdown of items and amounts, to justify the figures in the Bill, are presented in those Books.

Hon. Mark Brown

Appropriation Bill 2018

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Schedule 2	Payments on Behalf of Crown (POBOC)
Schedule 3	Cook Islands Capital Spending
Schedule 4	Official Development Assistance
Schedule 5a	Other Expenses and Financing Transactions
Schedule 5b	Loan Reserve Fund (LRF) Appropriations
Summary	

An Act to appropriate certain sums of money out of the Cook Islands Government Account to the services of the year ending on the thirtieth day of June 2019 and to appropriate the supplies granted in this period

MOST GRACIOUS SOVEREIGN: We, Your Majesty's most dutiful and loyal subjects, the Parliament of the Cook Islands, towards making good the supply which we have cheerfully granted to Your Majesty in this year, have resolved to grant Your Majesty the sum specified in this Act and humbly ask Your Majesty to assent to the sum. And the Parliament of the Cook Islands enacts as follows—

1 Title

This Act is the Appropriation Act 2018.

2 Application

This Act applies to the year ending on the thirtieth day of June 2019 ("the year").

3 Grant and appropriation out of the Cook Islands Government Account

- (1) The Minister responsible for Finance may authorise the incurrence of expenses or expenditure and may issue and apply out of the Cook Islands Government Account, towards making good the supplies granted to Her Majesty for the services of the year, any sums which in total do not exceed the sum of **\$268,906,471**.
- (2) Subject to subsection (3) the sums authorised to be supplied are appropriated for the services set out in the votes specified in the Schedules to this Act.
- (3) The votes identified in Schedule 4 to this Act as being funded through loans from financing partners or from grants by development partners are further limited to the lesser of the votes specified in those Schedules and the loan proceeds or grants received for the purpose of financing the expense or expenditure in relation to those votes.
- (4) Notwithstanding Section 37 of the Ministry of Finance and Economic Management Act 1995-96, the appropriations made under this Act will lapse on 30 June 2019.
- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2019 are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2019; or
 - (b) expenses incurred or payments due during the year ended 30 June 2019 for which a valid invoice was submitted before 30 June 2019, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2019.
- (6) The appropriations made in the Appropriation Act 2017 will lapse on 30 June 2018.
- (7) Payments that may be charged after 30 June 2018 against any appropriation that lapses under the provisions of subsection (6) are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2018; or
 - (b) Expenses incurred or payments due during the year ended 30 June 2018 for which a valid invoice was submitted before 30 June 2018, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2018.
- (8) Where in the period ended 30 June 2018, the Financial Secretary appointed under section 4 of the Ministry of Finance and Economic Management Act 1995-96 had directed that an unexpended appropriation from an Appropriation Act for a previous year be available for expenditure in the year ended 30 June 2018, those appropriations will also lapse on 30 June 2018.
- (9) Payments that may be charged after 30 June 2018 against any appropriation that lapses under the provisions of subsection (8) are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2018; or
 - (b) expenses incurred or payments due during the year ended 30 June 2018 for which a valid invoice was submitted before 30 June 2018, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2018.

Schedule 1

Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	892,063	168,643	0	22,181	1,082,887	90,535	992,352
Audit (PERCA)	943,072	120,180	0	21,000	1,084,252	60,700	1,023,552
Crown Law	604,344	144,101	1,189,090	5,983	1,943,518	0	1,943,518
Cultural Development	643,307	168,783	3,708,999	66,655	4,587,744	110,000	4,477,744
Business Trade and Investment Board	442,783	232,576	0	4,500	679,859	23,380	656,479
Education	11,842,096	3,562,242	4,084,964	641,000	20,130,302	0	20,130,302
Environment	855,776	171,724	82,241	30,381	1,140,122	35,000	1,105,122
Finance and Economic Management	4,036,975	641,939	14,746,750	128,530	19,554,194	954,341	18,599,853
Financial Services Development Authority	241,541	177,906	0	9,868	429,315	0	429,315
Foreign Affairs	1,400,854	607,151	10,000	77,726	2,095,731	28,000	2,067,731
Head Of State	171,148	34,080	23,000	8,057	236,285	0	236,285
Health	10,195,124	3,142,925	1,846,870	886,814	16,071,733	350,000	15,721,733
Infrastructure Cook Islands	2,075,717	343,351	3,125,000	241,596	5,785,664	315,626	5,470,038
Internal Affairs	1,096,527	121,085	2,856,393	17,265	4,091,269	6,000	4,085,269
<i>of which: Welfare Payments - Allowances</i>			1,625,543				
Justice	1,834,618	399,371	337,000	131,447	2,702,436	700,000	2,002,436
Corrective Services	100,000	50,000	0	0	150,000	0	150,000
Marine Resources	1,213,318	358,125	337,000	95,000	2,003,443	28,000	1,975,443
Ombudsman	234,268	61,840	0	5,822	301,930	0	301,930
Parliamentary Services	490,352	91,193	62,000	24,579	668,124	0	668,124
Pearl Authority	218,836	234,688	0	25,000	478,524	0	478,524
Police	3,132,254	461,724	405,000	1,009,948	5,008,926	201,783	4,807,143
Prime Minister's Office	1,287,801	271,849	343,000	59,039	1,961,689	0	1,961,689
Public Service Commission	486,227	81,447	1,372,885	79,293	2,019,852	0	2,019,852
Tourism Corporation	1,753,020	2,756,016	5,072,000	36,500	9,617,536	352,000	9,265,536
Transport	529,203	135,964	0	39,047	704,214	36,000	668,214
Cook Islands Investment Corporation	1,141,950	3,298,194	4,879,439	371,189	9,690,772	2,455,943	7,234,829
Cook Islands Seabed Minerals Authority	173,965	111,940	0	7,200	293,105	0	293,105
Capital Funds Committee- Administered by MFEM	0	0	0	0	0	0	0
Total Ministries, Crown & Statutory Agencies	48,037,137	17,949,036	45,123,781	4,045,620	115,155,574	5,747,308	108,766,116

Appropriation Bill 2018

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	301,696	109,773	0	11,100	422,569	0	422,569
Deputy Prime Minister	260,784	81,289	0	7,927	350,000	0	350,000
Minister Vaine Mokoroa	121,200	163,300	0	5,500	290,000	0	290,000
Minister Vainetutai Toki-Brown	189,994	101,838	0	11,162	302,994	0	302,994
Minister Robert Tapaitau	204,072	97,993	0	11,504	313,569	0	313,569
Minister George Angene	172,000	131,628	0	12,000	315,628	0	315,628
Leader Of Opposition	154,185	48,200	0	6,800	209,185	0	209,185
Total Ministerial Support Offices	1,403,931	734,021	0	65,993	2,203,945	0	2,203,945
Outer Islands							
Aitutaki	1,187,369	384,505	0	143,884	1,715,758	67,829	1,647,929
Aitutaki Power Supply	0	0	0	0	0	0	0
Atiu	809,982	423,851	0	138,561	1,372,394	224,319	1,148,076
Mangaia	904,134	574,349	0	204,700	1,683,183	301,000	1,382,183
Manihiki	652,271	151,824	0	92,200	896,295	117,501	778,794
Mauke	683,462	210,853	0	178,983	1,073,297	113,853	959,444
Mitiaro	587,374	73,172	0	55,200	715,746	58,900	656,846
Palmerston	260,135	66,058	0	42,000	368,193	20,599	347,594
Penrhyn	487,796	161,948	0	62,407	712,151	74,000	638,151
Pukapuka-Nassau	765,876	143,936	0	140,553	1,050,365	73,695	976,670
Rakahanga	383,232	59,746	0	37,829	480,807	49,336	431,471
Outer Islands Capital Fund-Administered by MFEM	0	0	0	0	0	0	0
Total Outer Islands	6,721,632	2,250,241	0	1,096,316	10,068,189	1,101,032	8,967,157
Gross Total	56,162,700	20,933,298	44,481,631	5,207,929	126,785,558	6,848,340	119,937,218

Schedule 2

PAYMENTS ON BEHALF OF THE CROWN (POBOCs)

Administering Ministry	POBOC	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Compensation of Employees				
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000	0
Audit	Transfer of PERC Salaries and Administration Costs	42,500	42,500	0
Parliamentary Services	Civil List - Personnel	2,011,461	2,267,961	256,500
Parliamentary Services	House of Ariki	178,337	228,420	50,083
Compensation of Employees POBOCs		2,412,298	2,718,881	306,583
Use of Goods and Services				
Audit	Audit Fees	95,600	95,600	0
Justice	General Elections, Petitions and By-Elections	0	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	0
Parliamentary Services	Parliamentary Sitting Expenses	120,000	120,000	0
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000	0
Parliamentary Services	MP Travel and Allowances (local and overseas)	41,000	141,000	100,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	0
Use of Goods and Services POBOCs		599,261	699,261	100,000
Subsidies				
Finance & Economic Management	Apex - Profit Guarantee	750,000	0	-750,000
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	0
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	0
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	0
Subsidies POBOCs		3,408,096	2,658,096	-750,000
Social Assistance				
Internal Affairs	Welfare Payments	17,353,517	18,156,712	803,195
Social Assistance POBOCs		17,353,517	18,156,712	803,195
Other Expense				
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	0
Finance & Economic Management	CICC Mission Training Center Construction Grant	600,000	0	-600,000
Finance & Economic Management	CIG Insurance	0	100,000	100,000
Foreign Affairs	International Subscriptions	625,667	673,717	48,050
Other Expenses POBOCs		1,346,361	894,411	0
Grand Total		25,119,533	25,127,361	459,778

Schedule 3
Cook Islands Capital Spending

	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Cook Islands Government Capital programs	44,904,336	44,518,794	-385,542
Total Capital spending	44,904,336	44,518,794	-385,542

Schedule 4
Official Development Assistance¹

	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Operating or recurrent expenditure	28,053,720	16,047,701	-12,006,019
Capital Project Expenditure	41,338,420	37,406,056	-3,932,364
Total Official Development Assistance	69,392,140	53,453,757	-15,938,383

Schedule 5a
Other Expenses and Financing Transactions

Category of Expense	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Contingency Funds - Operating	100,000	200,000	100,000
Crown Infrastructure Depreciation	4,602,897	4,602,500	-397
Provisional for Doubtful Debts	0	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000	0
Transfer to Reserve Trust Fund	592,044	740,767	148,723
Depreciation Contingency Fund	3,957,454	4,065,734	108,280
Total Other Expenses	9,302,395	9,659,001	356,606

¹Excluding Budget Support (Core Sector Support) and appropriated through agencies or POBOCs in Schedule 1.

Schedule 5b
Loan Reserve Fund (LRF) Appropriations

Category of Appropriation	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Contribution to LRF - Principal	8,618,817	6,995,000	-1,623,817
Contribution to LRF - Interest	2,062,953	2,367,000	304,047
Total Contribution to LRF	10,681,769	9,362,000	-1,319,769

Summary

Category of Payment	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Schedule 1 - Ministry Outputs (Gross Operating)	113,846,920	126,785,558	12,938,638
Schedule 2 - POBOCs	25,119,533	25,127,361	7,828
Schedule 3 - CIG Capital Expenditure	44,904,336	44,518,794	-385,542
Schedule 4 - Official Development Assistance	69,392,140	53,453,757	-15,938,383
Schedule 5a - Other Expenses and Financing Transactions	9,302,396	9,659,001	356,605
Schedule 5b - Loan Reserve Fund Appropriations	10,681,769	9,362,000	-1,319,769
TOTAL APPROPRIATION	273,247,094	268,906,471	-4,340,624

This Act is administered by the Ministry of Finance and Economic Management.

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3 Fiscal Strategy

3.1 Introduction

The Cook Islands has experienced a run of strong economic growth in recent years, generating a stream of Government revenue that has increased at a faster rate than Government expenditure, providing a sound fiscal basis for the 2018/19 budget. A strong fiscal position makes the Cook Islands more resilient to future economic shocks and natural disasters.

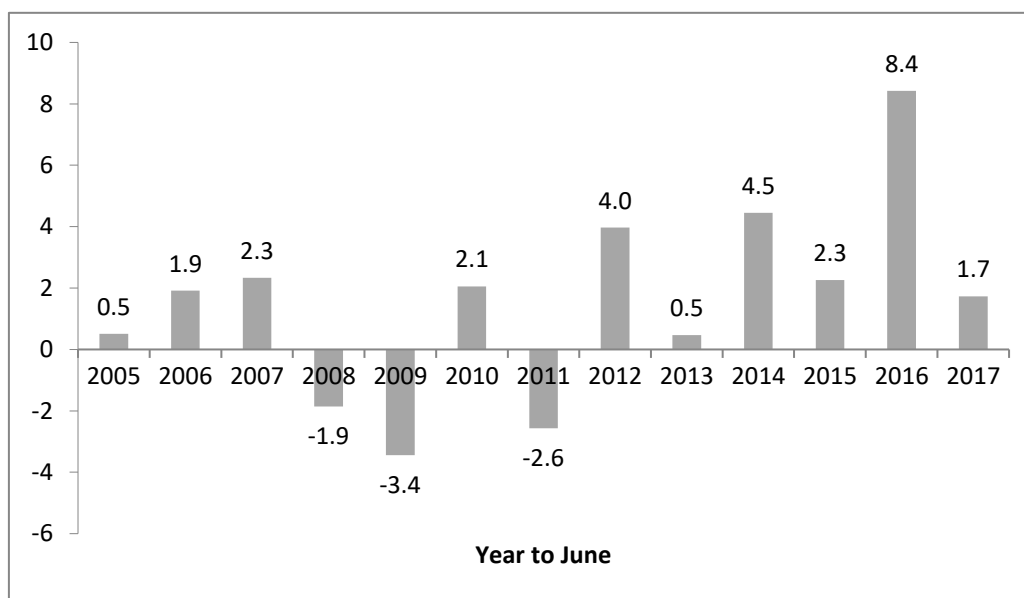
In this context, the Cook Islands Government has developed an interim fiscal strategy for the 2018/19 Budget. The strategy involves mild fiscal expansion which is expected to be more than offset by increases in revenue, resulting in improvements to the operating and fiscal balances in 2018/19 and the forward estimates.

The Government is currently working on developing a Medium-term Fiscal Framework, which will be implemented as of the 2019/20 Budget and will factor in broader economic analysis in determining the future fiscal strategy.

Economic performance

The Cook Islands has experienced positive real growth in its Gross Domestic Product (GDP), the primary measure of economic performance, since 2011/12, as shown in Figure 3.1. Growth has averaged 3.6 per cent per year over the period 2011/12 to 2016/17. The key driver has been a boom in tourist arrivals, in turn driving strong performances by the hotels and accommodation, wholesale and retail trade, transport and communications and construction sectors of the economy. A growth rate of 1.7 per cent growth was recorded in 2016/17, the most recent complete financial year for which observed GDP production data is available. A growth rate of 1.8 per cent is estimated for 2017/18.

Figure 3.1: Real GDP growth, annual percentage change



Government revenue and expenditure

Figure 3.2 shows a time series of general Government operating revenue and expenditure from 2012/13 to 2017/18. The chart shows that, on average over the last five years, Government operating revenues have been rising at a faster rate (10 per cent) than operating expenditure (7 per cent), to the

benefit of the net operating balance. From 2012/13 to 2014/15, the net operating balance averaged \$5.8 million. This compares to an average of \$28.7 million over the last three years, a 5-fold increase.

Figure 3.2: Government revenue and expenditure, as at June (\$'000)

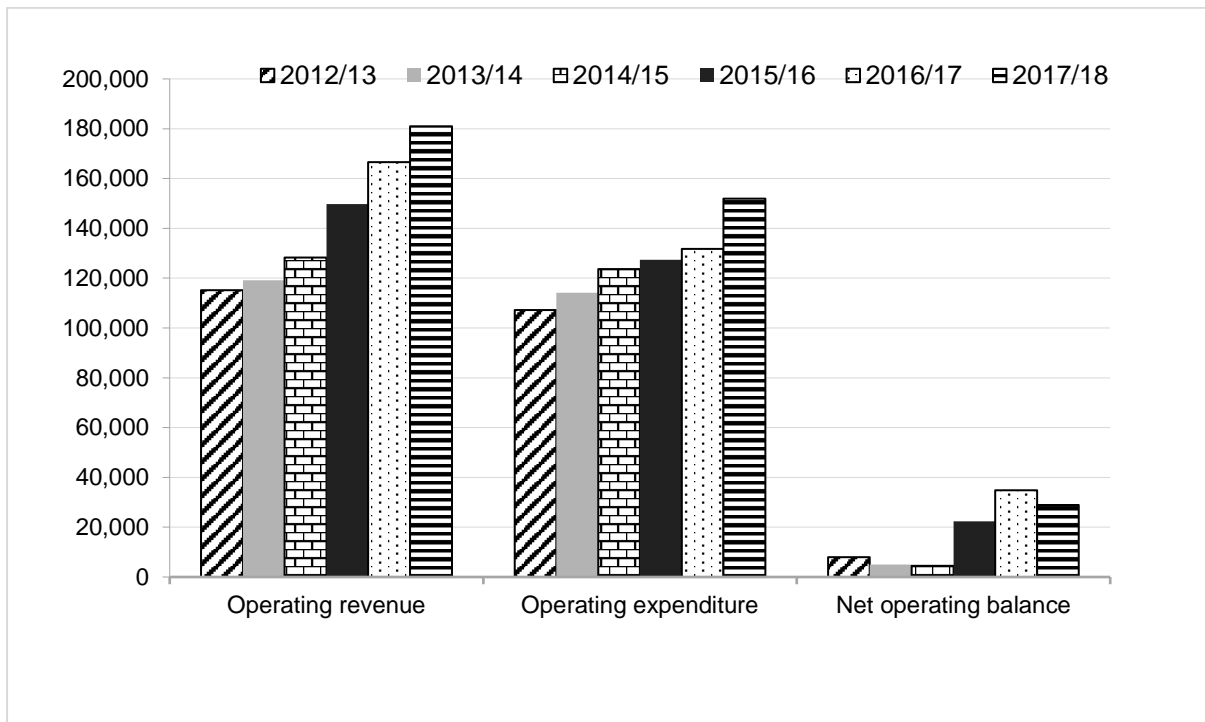
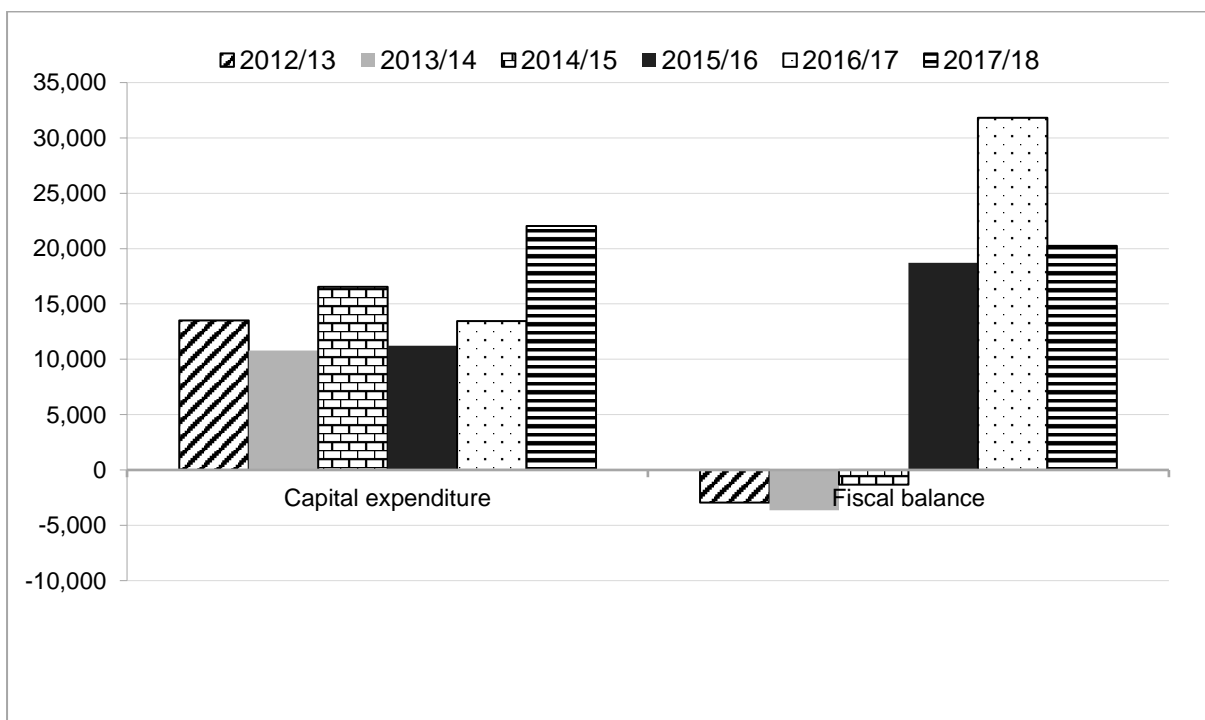


Figure 3.3 shows a time series of capital expenditure for 2012/13 to 2017/18 and the Government's fiscal balance, which is the net operating balance minus capital expenditure plus depreciation. Expenditure on capital projects has risen, rising from an average of \$13.6 million from 2012/13 to 2014/15, to \$15.6 million over the last three years. This reflects expenditure on a number of large capital projects, such as renewable energy in the Pa Enua, Te Mato Vai and Tereora College.

Figure 3.3: Fiscal balance, as at June (\$'000)



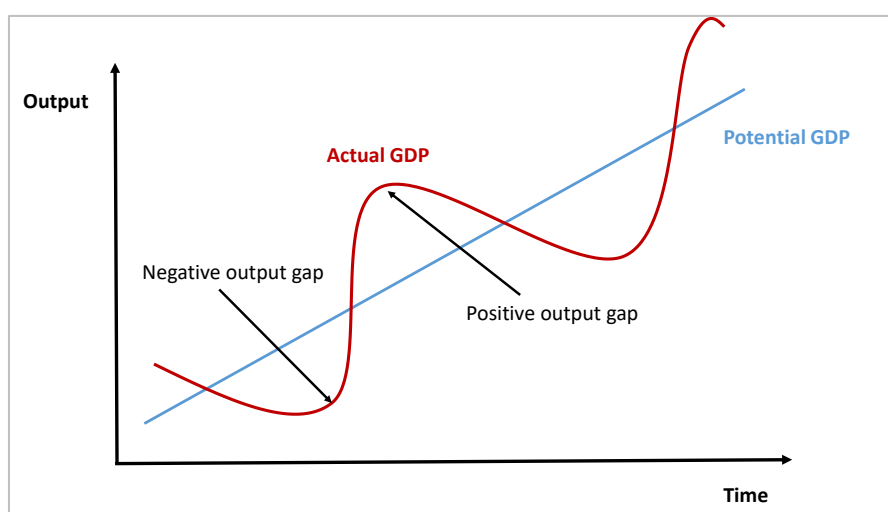
While the fiscal balance of \$20.3 million in 2017/18 is 36 per cent less than the \$31.8 million in 2016/17, the real story lies in the change over the last several years. The fiscal balance has risen from an average of -\$2.6 million from 2012/13 to 2014/15, to \$23.6 million over the last three years.

3.2 Where are we in the economic cycle? The output gap

The Cook Islands position in the economic or business cycle can be established by measuring the output gap – that is, the gap between potential economic output and observed output – measured in terms of GDP.

The output gap is a measure of the overall level of slack in the economy (see Figure 3.4). A positive output gap means the economy is operating above full capacity. If maintained for an extended period of time, this leads to the build-up of inflationary pressure. A negative output gap means that there is spare capacity, or slack, in the economy due to weak demand for goods and services. An extended period under this situation can lead to deflation and economic recession.

Figure 3.4 Stylised output gap example



Source: RBNZ (2018).²

Following the Keynesian model, when faced with a positive output gap and the potential for the economy to overheat, governments may consider implementing contractionary fiscal policy – in particular decreasing government expenditure. In contrast, expansionary fiscal policy is often the remedy when dealing with a negative output gap – that is, an increase in government expenditure to stimulate economic demand.

The Government has undertaken a preliminary analysis of the Cook Islands output gap using a range of econometric techniques, information on which is available on the Ministry of Finance and Economic Management website.³

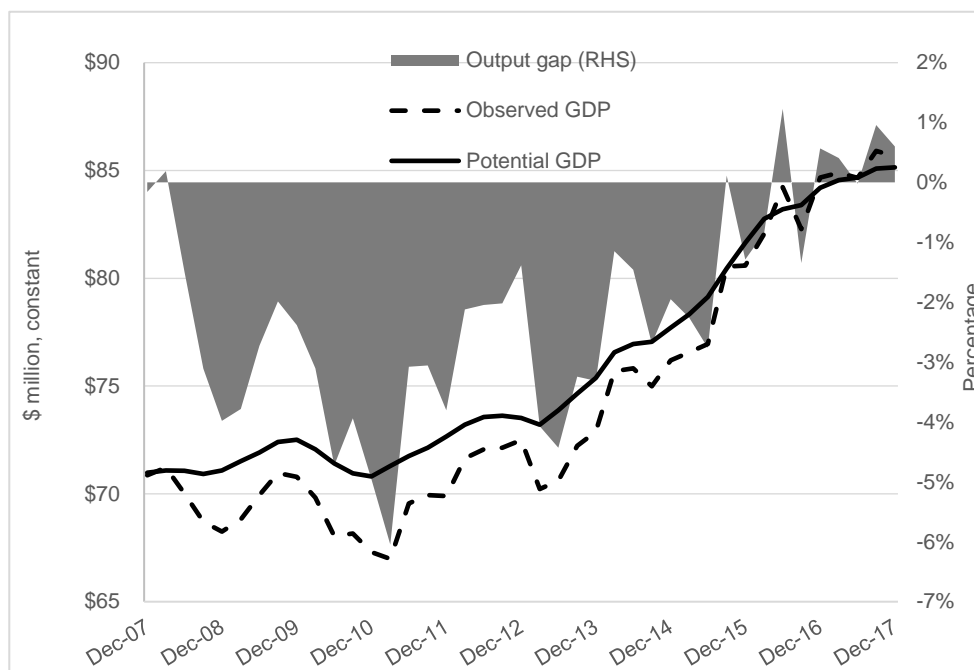
The key conclusion from MFEM’s preliminary analysis in Figure 3.5, is that the Cook Islands is currently confronting a positive output gap. While there is no evidence of overheating showing up in the CPI data at present – see Section 6.4 for more detail – should the positive output gap continue for an

² *Monetary Policy Statement, May 2018*. Reserve Bank of New Zealand, Wellington. May 2018.

³ For more information, see *Estimating the output gap in the Cook Islands – preliminary analysis: Working Paper No. 18/2*, available at: <http://www.mfem.gov.ck/economics>.

extended period of time, capacity constraints such as labour and skills shortages are likely to strengthen, resulting in inflationary pressure.

Figure 3.5: Output gap, multivariate Kalman filter estimate⁴



Source: MFEM analysis.

The implication of this preliminary result is that a contractionary fiscal stance should be considered moving forward in an effort to avoid further overheating the economy, and at the same time limit any potential for government expenditure to crowd out private investment. Further analysis of the Cook Islands output gap and the implications for fiscal policy will be undertaken as part of the development of the Medium-term Fiscal Framework, and implemented in the 2019/20 Budget.

3.3 Fiscal strategy

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

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

The current fiscal strategy is guided by the fiscal responsibility provisions in Part III of the *Ministry of Finance and Economic Management Act 1995-96* (MFEM Act),⁵ and a number of supporting fiscal responsibility ratios (FRRs) arising out of the 1998 Manila Agreement with the Asian Development Bank and subsequent reviews. The FRRs establish the key parameters for fiscal management and ongoing budget development:

⁴ The output gap is calculated as a percentage of potential output.

⁵ Available at: <http://www.mfem.gov.ck/mfem-legislation>.

- **Net operating balance > 0 (in surplus)** – this target ensures that the Government is able to afford the operational expenditure required to perform the functions of Government from its own revenue streams.
- **Fiscal balance +/- 2 per cent of Gross Domestic Product (GDP)** – this target ensures that Government does not over extend itself financially. If the fiscal balance is in deficit this must be financed through lending or the use of cash reserves.
- **Debt servicing < 5 per cent of revenue** – ensures the ability of Government to service its debt obligations from revenue collected.
- **Net debt < 35 per cent of GDP** – ensures the level of debt relative to national income, controls the overall level of debt taken on by Government.
- **Cash reserves > 3 months of operating expenditure** – ensures that cash is available to act as a buffer in the case of a liquidity shortage or a natural disaster that impacts the collection of revenue.
- **Tax revenue < 25 per cent of GDP** – ensures Government limits the diversion of resources away from the private sector.
- **Personnel expenditure < 40 per cent of revenue** – controls the expansion in the size of the public sector.

While the FRRs have been reported in the budget historically and are used to guide budget appropriations for the current budget year and two forward years, a clear fiscal strategy has not previously been outlined at the beginning of the budget process, which has served to decrease the application of the FRRs and medium-term fiscal planning. Proposed improvements to the fiscal planning process to be implemented from the 2019/20 Budget are outlined below. It is expected that these changes will help to improve the linkages between economic management and fiscal planning.

3.3.1 Medium-term fiscal and budget frameworks

The Government now believes that the design of the current fiscal strategy and the FRRs may have the potential to encourage Government expenditure to be pro-cyclical, that is, when the economy is growing strongly, the Government receives strong revenues and spends these, which further increases economic growth. Evidence suggests that over the long-term this can raise macroeconomic volatility, depress investment in real and human capital, hamper growth and harm those on low incomes.⁶

To address these concerns, the Government has committed to strengthening the strategic focus of its expenditure and tax decisions by incorporating a more robust medium-term perspective that takes into account interactions with the economy. To this end, a Medium-term Fiscal Framework (MTFF) will be developed as part of the 2019/20 budget cycle. Once developed, the framework will include three key pieces of information; macroeconomic indicators for the medium-term, including forecasts for expenditure and revenue, fiscal targets and an analysis of fiscal risks.

An assessment of macro-economic indicators, and the development of revised fiscal targets will be crucial in providing guidance on the role that the Government should be playing in the medium-term. A key aim of the MTFF will be to smooth Government expenditure over the course of the economic

⁶ See IMF (2016), *Procyclical Fiscal Policy: Shocks, Rules and Institutions – A View from Mars*, available at: <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Procyclical-Fiscal-Policy-Shocks-Rules-and-Institutions-A-View-From-Mars-18789>.

cycle so that in the case where economic growth slows, the Government will be able to maintain its current level of expenditure over the short-term, despite lower revenue collections. This approach will help deliver macroeconomic stability, encourage private investment and entrench low public debt.

In addition, to complement the new fiscal approach, the Government aims to strengthen its current Medium-term Budget Framework (MTBF) by developing agency expenditure ceilings for the budget year plus three forward years. It is expected that this will ensure that agencies have the ability to plan their operations over the forward estimates and that consideration is given to the additional demands on agencies over that period.

The Government aims to develop the MTF and the MTBF in time to implement the new approach for the 2019/20 budget.

3.3.2 Interim fiscal strategy for 2018/19

In 2018/19 the Government will implement an interim fiscal strategy, prior to the development of the Medium Term Fiscal Framework. During this period the Government will focus on balancing; the economic impact of a mildly expansionary fiscal policy, the need for sufficient operating funds for core Government agencies and the current state of a number of key pieces of national infrastructure.

As such, operating expenditure is expected to expand by \$10.7 million in the 2018/19 fiscal year, although only \$5 million of this is recurrent. Capital expenditure is expected to remain steady at \$44 million in 2018/19 before decreasing in the forward estimates, with a focus on completing current projects before committing to new expenditure.

Despite the increase in operating expenditure, strong revenue growth is expected to result in improvements in the fiscal balance to a deficit of 1.9 per cent of GDP up from the deficit of 4 per cent of GDP anticipated at the time of the 2017/18. The Government is now on track to achieve fiscal balance in 2019/20, one year earlier than planned.

The mild adjustments to expenditure reflect a fiscally responsible budget which pursues improvements to the productive capacity of the Cook Islands economy in the medium to long-term, thus increasing 'potential GDP' in future years.

3.4 Budget Policy Statement 2018/19

The 2018/19 Budget Policy Statement, set out Chapter 4 of the 2017/18 Half-year Economic and Fiscal Update, identified the following goals from the National Sustainable Development Plan 2016–2020 as funding priorities for 2018/19:⁷

- Goal 4: Sustainable management of water and sanitation;
- Goal 5: Build resilient infrastructure and Information Communications Technologies to improve our standard of living;
- Goal 8: Ensure inclusive and equitable quality education and promote life-long learning opportunities;
- Goal 10 Achieve food security and improved nutrition, and increase sustainable agriculture

⁷ See: http://www.mfem.gov.ck/images/2018_Cook-Islands_Half-Year-Economic-and-Fiscal-Update.pdf.

- Goal 11 Promote sustainable land use, management of terrestrial ecosystems, and protect biodiversity;
- Goal 15: Ensure a sustainable population promoting development by Cook Islanders for Cook Islanders; and
- Goal 16: Promote a peaceful and just society and practice good governance with transparency and accountability.

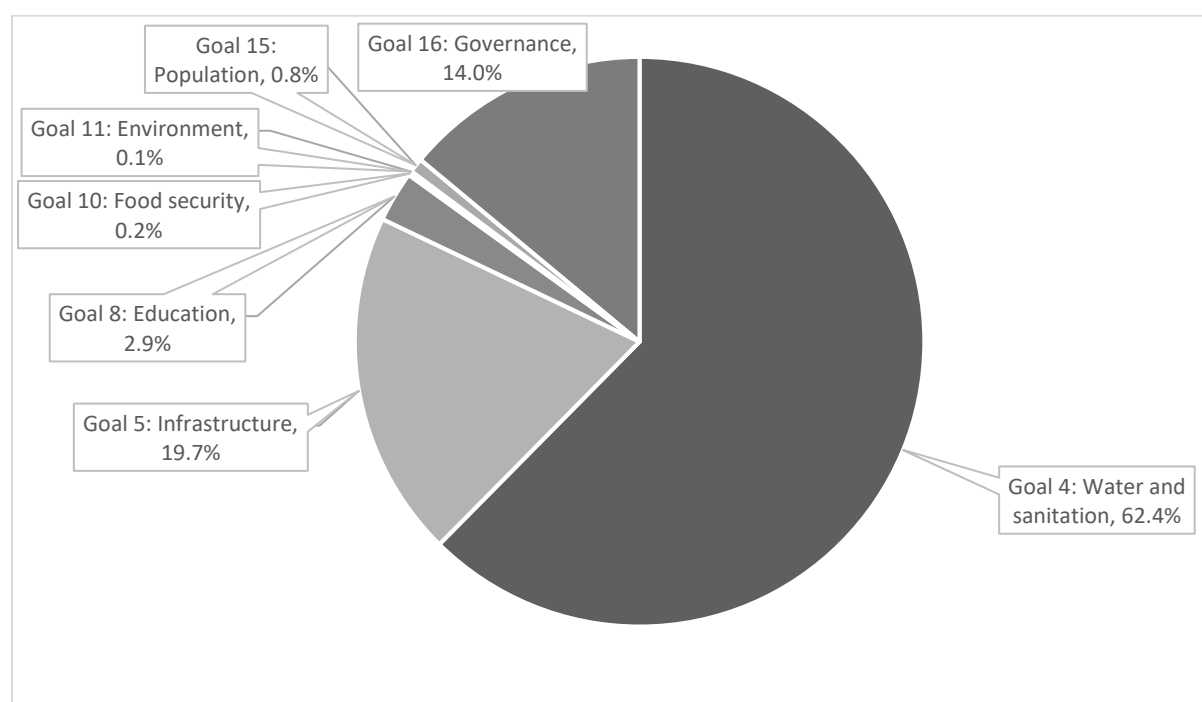
A summary of the new expenditure initiatives by priority goal is outlined below in Table 3.1.

Table 3.1 Summary of operating and capital initiatives (\$'000)

Summary of New Initiatives	2018/19	2019/20	2020/21	2021/22	Total
Water and sanitation	26,367	16,056	14,000	5,000	61,423
Infrastructure	8,315	24,442	12,364	6,650	51,770
Education	1,217	413	310	250	2,190
Food security and nutrition	84	0	0	0	84
Environment	23	23	23	23	92
Sustainable population	347	72	172	72	663
Governance	5,900	2,817	2,653	2,403	13,773
Total BPS expenditure decisions	42,253	43,822	29,522	14,398	129,996

The Government expects to spend a total of \$42.3 million on its priority goals in 2018/19, 76 per cent of total new expenditure. Figure 3.6 shows the proportion of total expenditure by priority goal. The majority of initiatives target three goals; goal 4, goal 5 and goal 16. The focus on goals 4 and 5 are largely the result of legacy capital projects which are mid-construction or project planning, such as Te Mato Vai and the Manatua Submarine Cable. Goal 16 initiatives include improvements to Government processes, such as the Financial Management Information System, and increased government capacity.

Figure 3.6 Summary of expenditure by goal, 2018/19



3.5 Assumptions underlying the economic and fiscal projections

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

3.5.1 Economic assumptions

Introduction

The Government has used two models to forecast GDP – an econometric time series model for GDP production and a bottom-up component approach for GDP expenditure.

The Cook Islands Statistics Office publishes current price and real price (2006 base year) estimates of GDP on quarterly basis, using the production approach. GDP production estimates are disaggregated by major industry classifications, including institutional sectors. The latest data from the Statistics Office is for the December quarter 2017. In addition to GDP production, MFEM produces GDP estimates based on the expenditure national accounting measure.

For the purposes of this annual budget exercise, MFEM has produced estimates of both GDP production and GDP expenditure for 2017/18, and forecasts for the 4-year forward budget period from 2018/19 to 2021/22.

The aggregate and component outputs of the two GDP models are presented in Chapter 6.

GDP production model

A time series multivariate ARIMA model was used to forecast aggregate GDP production, in real terms. A combination forecasting method has been adopted, utilising a simple average of five quarterly time series models, one multivariate and four univariate. Nominal forecasts are then derived by applying an implicit GDP price deflator, constructed using an import price index over the forward period. For more detailed information on the time series model, see *Cook Islands time series economic forecasting model: Working Paper No. 18/1*, available on the MFEM website.⁸

GDP expenditure model

A bottom-up approach is used to forecast nominal GDP expenditure. This relies on estimates of public sector consumption and investment (including aid assistance), net merchandise trade, total tourism spending, domestic investment, and domestic consumption. The aggregate GDP expenditure estimate is ex-post adjusted to match aggregate nominal annual GDP production forecasts.

Services exports, or tourism expenditure, is the largest single component of the expenditure forecasts. First, international arrivals are forecast using an econometric time series model using data from the Customs and Immigration database of arrivals and departures. The arrivals forecasts, by country of origin, are presented in Chapter 6. Second, average visitor expenditure is estimated, based on an estimated average number of days (about 8 days), multiplied by average daily expenditure (about \$300 per day). This information is estimated from quarterly survey data. Total tourism expenditure is then calculated by multiplying the number of arrivals by the average expenditure.

Public consumption is the second largest single item and is estimated using the personnel (compensation of employees) and operating (use of goods and services) appropriation for both Government and aid expenditure. Public investment is also a significant component of the model, and is estimated based on capital plans over the forecast period, including ODA investment, for which a

⁸ Available at: <http://www.mfem.gov.ck/economics>.

smoothing approach is taken to reflect assumed delays and rollovers. Private (domestic) consumption is estimated based on consumption patterns observed through the VAT data series.

Gross fixed investment is estimated using imports of machines, transport and equipment, the value-added by the construction sector, and a component of donor funded capital projects.

Data

The key data sets used for the two models are:

- Real and nominal GDP – quarterly data to December 2017;
- Trade, imports and exports – quarterly data to June 2018;
- CPI – quarterly index data to June 2018;
- International arrivals – Customs and Immigration monthly data to June 2018;
- Building approvals – quarterly data to June 2018;
- Government revenue and expenditure – annual data to June 2018;
- A range of international commodity and other price indices.

Key economic indicator assumptions

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

- 2.6 per cent in 2017/18
- 2.6 per cent in 2018/19
- 2.3 per cent in 2019/20
- 1.9 per cent in 2020/21
- 1.9 per cent in 2021/22.

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

- 0.4 per cent in 2017/18
- 1.0 per cent in 2018/19
- 1.6 per cent in 2019/20
- 1.5 per cent in 2020/21
- 1.5 per cent in 2021/22.

3.5.2 Fiscal assumptions

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

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

4 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.

Table 4.1 GFS Statement

Statement of Government Operations	2017/18 Actual	2018/19 Budget	2019/20 Projection	2020/21 Projection	2021/22 Projection
REVENUE	231,510	238,808	220,793	206,977	202,966
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	37,126	36,176	36,248	37,228
EXPENSE	161,224	179,252	170,241	163,092	153,532
Compensation of employees	54,878	61,114	60,767	60,813	60,913
Use of goods and services	47,327	63,624	54,765	48,085	38,622
Depreciation	13,212	13,882	13,882	13,882	13,882
Interest	2,063	2,367	2,263	2,088	1,891
Subsidies	15,484	16,213	15,638	15,638	15,638
Grants	-	-	-	-	-
Social benefits	18,865	19,841	21,075	21,075	21,075
Other expense	9,394	2,211	1,851	1,511	1,511
NET OPERATING BALANCE	70,286	59,556	50,552	43,885	49,434
<i>Plus</i> NON CASH APPROPRIATIONS					
Depreciation	13,212	13,882	13,882	13,882	13,882
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	83,498	73,438	64,434	57,767	63,316
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	63,065	81,925	58,561	29,210	11,835
Gross transactions in Non-Financial Assets	76,277	95,807	72,442	43,092	25,717
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	(13,212)	(13,882)	(13,882)	(13,882)	(13,882)
NET (BORROWING)/LENDING	20,433	(8,487)	5,873	28,556	51,481
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	22,122	(11,454)	13,861	24,891	41,764
Domestic Transactions	22,122	(11,454)	13,861	24,891	41,764
Foreign Transactions	-	-	-	-	-
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	(1,009)	2,395	(8,059)	3,293	8,896
Domestic Transactions	-	-	-	-	-
Foreign Transactions	(1,009)	2,395	(8,059)	3,293	8,896
NET CASH FINANCING TRANSACTIONS	21,113	(9,059)	5,802	28,184	50,660
<i>Statistical discrepancy with financial statements</i>	681	(572)	(72)	(372)	(821)

4.1 GFS Net Operating Balance

The GFS net operating balance is the balance of operating revenues less operating expenditure by the Government and its development partners. The GFS net operating balance for 2018/19 is \$59.6 million.

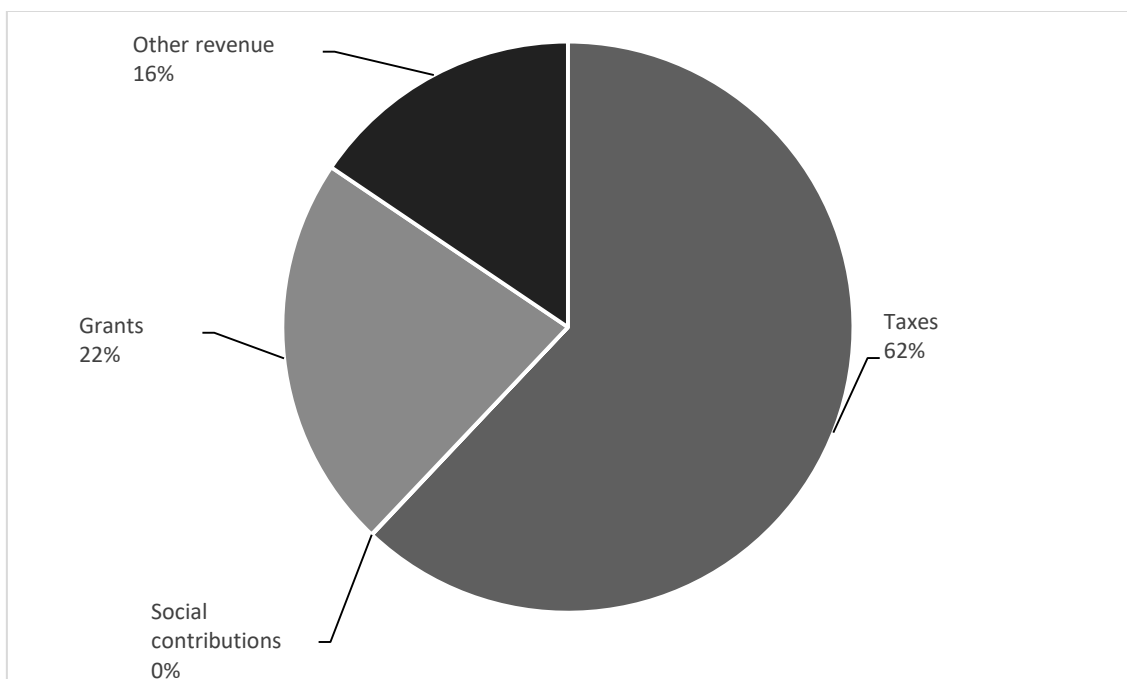
Going forward, changes in expenditure and revenue estimates are predicted to result in a \$50.6 million operating balance in 2019/20, \$43.9 million in 2020/21, and \$49.4 million in 2021/22.

Across all years, the large net operating balance is 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.

4.1.1 GFS operating revenue

As shown in Figure 4.1, operating revenues are made up of taxation receipts (62 per cent in 2018/19), grants from other governments (22 per cent) and other revenues, which include 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.

Figure 4.1: GFS operating revenue, 2018/19 (percentage)



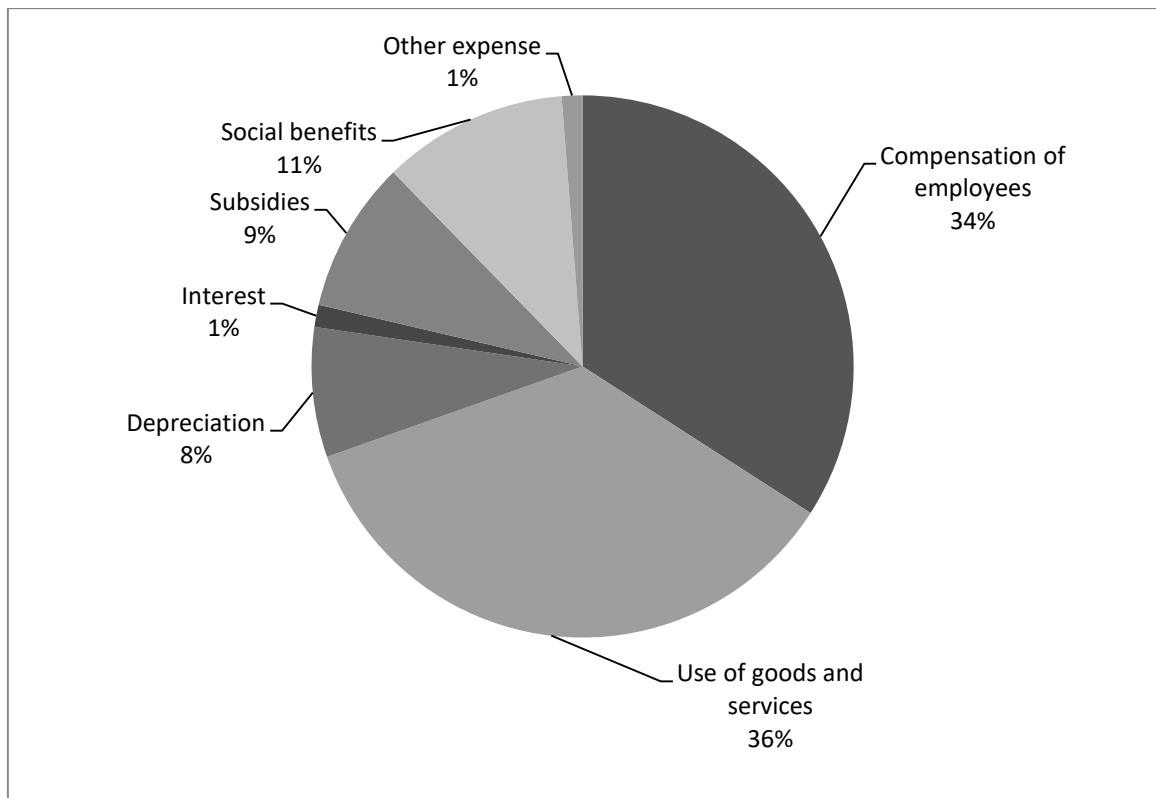
GFS Operating revenues in 2019/20 were estimated total \$220 million, of which \$154 million is expected to be collected in taxes alone.

In 2020/21, operating revenue is expected to reach \$206 million, with tax revenue estimated to be \$160 million. The estimated decrease in operating revenues from 2019/20 is due to a decrease in foreign grant revenues.

4.1.2 GFS Operating Expenditure

As shown in Figure 4.2, 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).

Figure 4.2: GFS operating revenue, 2018/19 (percentage)



Total operating expenditure is expected to increase to \$179.3 million in 2018/19, an increase of \$18 million on the actual expenditure in 2017/18. In addition to new expenditure, this increase is also due to the reclassification of a number of expenditure items from capital to operating. Operating expenditure is estimated to decrease over the forward estimates, predominantly due to the expected decline in foreign aid grants which provide for expenditure classified as ‘use of goods and services’.

4.2 GFS Non-Operating Items

Cash Transactions in Non-Financial Assets outlines the transactions relating to capital, the details of which are outlined in Chapter 9. This spending includes 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 \$81.9 million in 2018/19 following lower than anticipated actuals in 2017/18. Delays in large purchases of non-financial assets, mainly in infrastructure (renewable energy, Te Mato Vai, Manatua Submarine Cable and others) have resulted in 2017/18 funding being spread across 2018/19 and 2019/20.

4.2.1 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 \$8.5 million in 2018/19, serviced by a combination of cash and debt financing. The net borrowing requirement increases over the forward period as loans are drawn down, such as for the Manatua Submarine Cable.

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.

4.3 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 4.2 classifies the Budget to the sub-functional level for both Cook Islands Government spending and ODA.

Table 4.2 Classification of Functions of Cook Island Government 2018/19 Budget

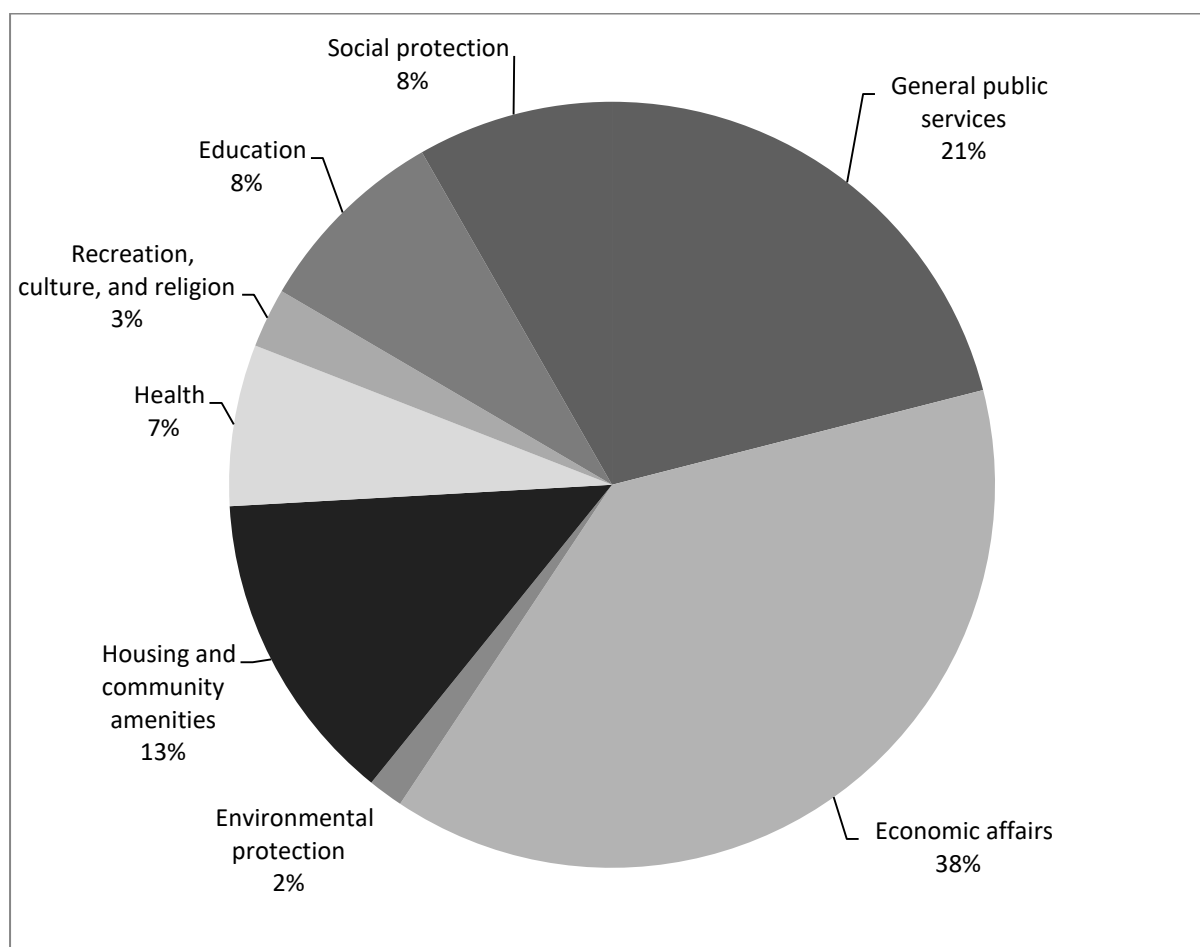
Function of Government	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Cook Islands Government (CIG) Expenditure					
General public services	33,816,346	38,279,267	39,070,114	37,158,193	36,059,463
Executive and legislative organs, financial and fiscal affairs, external affairs	23,362,308	25,795,837	28,725,409	28,578,488	27,576,758
Foreign economic aid	0	0	0	0	0
General services	8,026,346	9,545,060	7,509,415	6,009,415	6,109,415
Basic research	0	0	0	0	0
R&D General public services	0	230,000	230,000	140,000	140,000
General public services	364,738	340,960	341,993	341,993	341,993
Public debt transactions	2,062,953	2,367,410	2,263,297	2,088,297	1,891,297
Transfers of a general character between different levels of Government	0	0	0	0	0
Defence	0	0	0	0	0
Public order and safety	7,740,511	8,911,752	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
Fire protection services	0	0	0	0	0
Law courts	2,008,257	3,024,885	1,865,795	1,865,795	1,865,795
Prisons	796,837	877,941	877,941	877,941	877,941
Economic affairs	59,082,671	58,997,666	64,984,606	52,657,300	46,443,300
General economic, commercial, and labour affairs	10,304,687	14,413,303	27,683,146	17,132,146	12,418,146
Agriculture, forestry, fishing, and hunting	10,169,670	3,534,131	3,510,077	3,510,077	3,510,077
Fuel and energy	9,389,206	7,478,555	1,836,355	1,586,574	1,586,574
Mining, manufacturing, and construction	539,127	1,343,105	1,794,049	1,794,049	294,049
Transport	6,474,656	9,821,691	7,894,973	6,368,448	6,368,448
Communication	298,855	291,797	291,797	291,797	291,797
Other industries	0	0	0	0	0
Hotel and Restaurants	0	0	0	0	0
Tourism	21,403,715	21,668,182	21,527,308	21,527,308	21,527,308
Multi-purpose development projects	0	0	0	0	0
R&D Economic affairs n.e.c.	382,755	326,901	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	3,670,085	10,421,142	10,421,142	8,421,142
Waste management	635,614	671,554	668,168	668,168	668,168
Waste water management	273,977	1,650,000	8,400,000	8,400,000	8,400,000
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	33,336,602	16,084,102	13,783,882	6,783,882
Housing development	0	0	0	0	0
Community development	0	600,000	250,000	0	0
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	6,013,988	5,570,876	5,520,656	5,520,656
Health	15,070,497	17,056,124	15,784,976	15,784,976	15,784,976

Function of Government	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Medical products, appliances, and equipment	2,389,925	2,136,261	1,692,800	1,692,800	1,692,800
Outpatient services	2,232,298	1,957,485	1,957,485	1,957,485	1,957,485
Hospital services	8,991,076	11,340,217	11,023,780	11,023,780	11,023,780
Public health services	195,000	195,000	195,000	195,000	195,000
R&D Health	0	0	0	0	0
Health n.e.c.	1,262,198	1,427,161	915,911	915,911	915,911
Recreation, culture, and religion	2,195,020	5,525,810	1,982,573	2,082,573	1,982,573
Recreational and sporting services	419,603	618,066	318,066	418,066	318,066
Cultural services	1,735,697	4,862,744	1,619,507	1,619,507	1,619,507
Education	22,171,479	20,860,305	20,570,422	20,557,422	20,557,422
Pre-primary and primary education	471,602	0	0	0	0
Secondary education	2,099,459	247,000	13,000	0	0
Postsecondary non-tertiary education	0	0	0	0	0
Tertiary education	1,757,100	1,864,325	1,864,325	1,864,325	1,864,325
Education not definable by level	13,105,996	15,663,434	15,576,867	15,509,367	15,509,367
Education n.e.c.	4,737,322	3,085,546	3,116,230	3,183,730	3,183,730
Social protection	20,210,377	20,838,404	21,815,024	21,475,024	21,475,024
Sickness and disability	366,800	366,800	366,800	366,800	366,800
Old age	12,169,659	12,455,538	12,632,459	12,632,459	12,632,459
Survivors	0	0	0	0	0
Family and children	5,344,801	5,821,567	6,879,200	6,879,200	6,879,200
Unemployment	0	0	0	0	0
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
R&D Social protection	0	0	0	0	0
Social protection n.e.c.	2,236,362	2,101,744	1,843,810	1,503,810	1,503,810
Total CIG Expenditure	173,651,779	207,476,016	198,331,894	181,539,447	165,126,717
Official Development Assistance (ODA) Expenditure					
General public services	7,322,860	14,702,910	11,819,959	9,156,087	0
Executive and legislative organs, financial and fiscal affairs, external affairs	0	0	0	0	0
Foreign economic aid	0	0	0	0	0
General public services	0	0	0	0	0
Public debt transactions	0	0	0	0	0
Transfers of a general character between different levels of Government	0	0	0	0	0
Economic affairs	42,615,210	37,546,821	18,277,730	1,361,032	30,303
General economic, commercial, and labour affairs	0	0	0	0	0
Agriculture, forestry, fishing, and hunting	0	0	0	0	0
Fuel and energy	0	0	0	0	0
Mining, manufacturing, and construction	0	0	0	0	0
Transport	0	0	0	0	0
Communication	0	0	0	0	0
Environmental protection	148,110	75,758	75,758	0	0
Waste management	0	0	0	0	0
Waste water management	0	0	0	0	0
Pollution abatement	0	0	0	0	0
Protection of biodiversity and landscape	0	0	0	0	0
R&D Environmental protection	0	0	0	0	0
Environmental protection n.e.c.	0	0	0	0	0
Housing and community amenities	5,000	151,515	0	0	0
Housing development	0	0	0	0	0
Community development	0	0	0	0	0
Housing and community amenities n.e.c.	0	0	0	0	0
Health	298,974	116,753	11,074	11,074	0
Medical products, appliances, and equipment	0	0	0	0	0

Function of Government	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Outpatient services	0	0	0	0	0
Hospital services	0	0	0	0	0
Education	50,000	50,000	50,000	0	0
Education not definable by level	0	0	0	0	0
Social protection	124,719	0	0	0	0
Sickness and disability	0	0	0	0	0
Social protection n.e.c.	0	0	0	0	0
Total ODA Expenditure	50,564,873	53,453,757	30,259,520	10,553,193	30,303
TOTAL PUBLIC EXPENDITURE	224,216,652	260,929,773	228,591,415	192,092,640	165,157,020

Figure 4.3 classifies the combined Cook Islands Government and ODA spending in the 2018/19 Budget at the 10 main functional levels.

Figure 4.3: Classification of Functions of Cook Island Government 2018/19 Budget



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

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

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

5 Fiscal Update

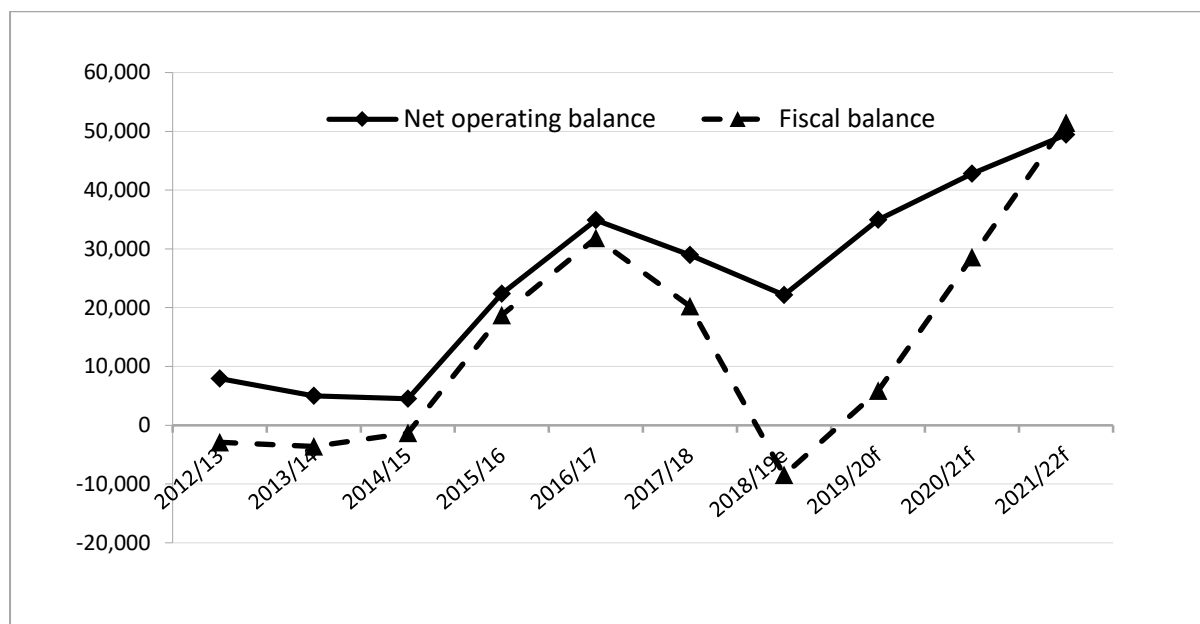
5.1 Overview

Table 5.1 Fiscal Indicators Summary

	2016/17 Actual	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Statement of Financial Performance						
Taxation Revenue (\$m)	125.4	140.6	148.2	154.3	160.1	165.6
Social Contributions (\$m)	0.0	0.0	0.1	0.1	0.1	0.1
Other Revenue (\$m)	41.2	40.4	37.1	36.2	36.2	37.2
Total Operating Revenue (\$m)	166.6	180.9	185.4	190.5	196.4	202.9
Total Operating Revenue Percentage of GDP	39.4	41.7	41.6	41.8	42.3	42.8
Tax Revenue Percentage of GDP	29.6	32.4	33.2	33.8	34.5	35.0
Total Cyclical Revenue (\$m)	32.5	27.8	25.0	26.8	26.9	28.0
Total Cyclical Revenue Percentage of GDP	7.7	6.4	5.6	5.9	5.8	5.9
Total Structural Revenue (\$m)	134.2	153.2	160.3	163.7	169.5	175.0
Total Structural Revenue Percentage of GDP	31.7	35.3	36.0	35.9	36.5	36.9
Personnel (\$m)	51.6	55.7	62.5	61.6	61.6	61.7
Percentage of Total Revenue	31.0	30.8	33.7	32.3	31.4	30.4
Percentage of Structural Revenue	38.5	36.4	39.0	37.6	36.4	35.3
Total Operating Expenditure (\$m)	131.7	152.0	163.2	155.6	153.6	153.5
Percentage of GDP	31.1	35.0	36.6	34.1	33.1	32.4
Percentage of Operating Revenue	79.1	84.0	88.0	81.7	78.2	75.6
Cash Operating Expenditure*	120.8	138.6	148.7	141.0	139.5	139.5
Operating Balance (\$m)	34.9	29.0	22.2	34.9	42.8	49.4
Percentage of GDP	8.2	6.7	5.0	7.7	9.2	10.4
Capital Expenditure	13.4	21.9	44.5	42.9	28.1	11.8
Depreciation	10.4	13.3	13.9	13.9	13.9	13.9
Non-Operating Balance (\$m)	-19.0	-21.6	-47.7	-35.7	-32.3	-21.6
Fiscal Balance surplus/deficit (\$m) *	31.8	20.4	-8.5	5.9	28.6	51.5
Percentage of GDP	7.5	4.70	-1.9	1.3	6.1	10.9
Statement of Financial Position (\$m)						
Assets (\$m)	284.0	372.6	421.4	475.5	514.8	552.9
Liabilities (\$m)	132.4	136.1	143.3	148.5	142.0	131.6
Crown Balance (\$m)	151.6	236.4	278.2	327.0	372.8	421.3
Percentage of GDP	35.8	54.4	62.4	71.7	80.2	88.9
Cash & Equivalents (\$m)	80.4	102.5	91.1	104.9	129.8	171.7
Cash & Equivalents (months coverage)	8.0	8.9	7.3	8.9	11.2	14.8
Statement of Borrowings (\$m)						
Gross Debt end of FY (\$m)	97.8	103.4	138.8	125.6	119.3	109.0
Excluding Contingency Loan	94.2	129.6	124.9	111.7	106.5	97.4
Percentage of GDP	23.1	23.8	31.1	27.6	25.7	23.0
Net Crown Debt, end of FY (\$m)	79.2	85.3	117.9	104.3	98.3	89.1
Percentage of GDP	18.7	19.6	26.4	22.9	21.2	18.8
Loan Repayment Reserves Held (\$m)	18.6	18.1	20.9	21.3	21.0	19.9
Net Debt Servicing (\$m)	18.9	10.3	7.3	7.4	9.3	10.0
Percentage of Total Revenue	11.3	5.8	3.9	3.9	4.7	4.9
Percentage of Structural Revenue	14.1	6.8	4.5	4.5	5.5	5.7
Development Partner Support (\$m)						
Grants (\$m)	25.4	50.6	53.5	30.3	10.6	0.0
Percentage of GDP	6.0	11.6	12.0	6.6	2.3	0.0
Memo item: Nominal GDP (\$m)	423.3	434.3	445.8	455.9	464.7	473.6

The 2018/19 Budget has been developed in the context of strong economic growth and similarly strong fiscal actuals in recent years. As outlined in Chapter 3, this Budget aims to be mildly expansionary, with growth in Government operating expenditures. Despite this, strong growth in operating revenues are expected to result in strong operating surpluses averaging 8.1 per cent over the budget and forward years (Figure 5.1).

Figure 5.1: Fiscal balance, 2012/13 to 2021/22 (percentage)



At the same time, capital expenditure has remained steady in the 2018/19 Budget when compared with the 2017/18 budget estimates, with \$44.5 million of capital expected in 2018/19, which slowly decreases to \$11.8 million in 2021/22. This, together with strong operating surpluses, is expected to result in improvements to the fiscal balance over the forward estimates, from a deficit of 1.9 per cent in 2018/19, to a surplus of 10.9 per cent in 2021/22.

Total operating revenue as a percentage of GDP is expected to remain constant over the forward estimates, at around 42 per cent. While at the same time, operating expenditure is expected to decrease to from 37 per cent of GDP in 2018/19 to 32 per cent in 2021/22. Expenditure on personnel is expected to decrease as a percentage of both total and structural revenue over the forwards, as estimated expenditure remains constant against the backdrop of growing revenues.

Strong fiscal balances over the forward estimates are expected to result in unprecedented cash reserves by 2021/22, far outstripping the fiscal responsibility ratio requirements. In the coming year the Government will look to allocate some of these funds to a 'buffer fund' to ensure that they are available should an unexpected economic downturn take place.

Due to the high cash levels, no new loans have been committed to in the 2018/19 Budget. Drawdowns of some existing commitments have been delayed due to project delays, which has resulted in a shift in the debt profile over the forward estimates. Net debt is now expected to peak at 26 per cent of GDP in 2018/19 before decreasing to 21 per cent in 2021/22.

In terms of fiscal policy and macroeconomic stability, the 2018/19 Budget reflects the fiscal responsibility principles as outlined in the MFEM Act:

- ensuring that unless Crown debt is at prudent levels, operating expenses will be less than operating revenues (i.e. Government will run an operating surplus);
- achieving and maintaining levels of Crown net worth that provides a buffer against factors which may impact adversely on net worth in the future;

- prudently managing the fiscal risks facing the Crown; and
- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

5.1.1 Movements since the 2017/18 PEFU

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 5.2 shows the movements from the 2017/18 Budget to the 2018/19 Budget, which are explained in greater detail below.

Table 5.2 Reconciliation of Operating Statement

Reconciliation of Operating Revenue and Expense between 2017/18 PEFU and 2018/19 Budget				
Statement of Government Operations	2017/18	2018/19	2019/20	2020/21
Operating balance as at 2017/18 Budget	13538	11978	13596	22146
Revenue				
Revenue Parameter Changes	6,481	20,355	23,816	23,488
Adjustments to:				
Value Added Tax (VAT)	3,231	7,533	10,736	12,629
Income tax	2,404	3,646	3,438	890
Import levies	-1,129	687	1,127	1,658
Company tax	2,131	8,121	7,803	7,692
Departure tax	-199	-139	108	-181
Withholding tax	42	508	604	801
Other Revenue Changes	710	12,630	13,575	13,685
Other revenue	-2,209	4,220	5,166	5,276
Trading Revenue	1,334	679	679	679
Dividend	1,621	0	0	0
Core Sector support	-36	7,730	7,730	7,730
Total Revenue Changes to 2018/19 Budget	7,191	32,984	37,392	37,174
Expenditure				
Expenditure Decisions by Government	532	10,693	4,925	4,983
Technical adjustments	0	1,348	1,348	1,348
Reclassifications of expenditure	0	1,892	1,852	2,396
Parameter changes	-8,755	8,874	7,916	7,764
Total Expenditure Changes to 2018/19 Budget	-8,223	22,807	16,041	16,491
OPERATING BALANCE as at 2018/19 Budget	28,952	22,155	34,946	42,829
Capital Expenditure	21,871	44,519	42,949	28,149
Depreciation	13,343	13,876	13,876	13,876
FISCAL BALANCE - 2018/19 BUDGET	20,424	-8,487	5,873	28,556

Table 5.2 shows the change in estimates of operating revenue and expenditure since the Pre-Election Economic and Fiscal Update (PEFU). As can be seen, large upward revisions have been made to

revenue estimates since the PEFU. This is largely due to upward revisions in taxation revenue estimates, which have tended to be overly conservative in the past few budgets as can be seen in the upward revision in 2017/18, and the inclusion of core sector support from New Zealand in 2018/19 and over the forward estimates.

The Government has increased its appropriation of operating expenditures in the 2018/19 Budget for the budget and the forward estimates. Operating expenditure adjustments are predominantly comprised of expenditure decisions by Government, however these do peak in 2018/19 at \$22.8 million, before decreasing significantly to \$16 million in 2019/20 as one-off expenditures end.

At the time of the last official update to the financial estimates in April 2018 for the Pre-election Economic and Fiscal Update (PEFU), it was anticipated that the 2018/19 operating balance would be in surplus of \$12.0 million. After updating revenue and economic forecasts, the estimated operating budget surplus has increased significantly to \$22.2 million for 2018/19. Operating surpluses have similarly been revised upwards for the forward estimates.

5.2 Revenue

Total operating revenue in 2018/19 is estimated to reach \$185.4 million; consisting of \$148 million in tax revenue and \$37 million in non-tax revenue. These estimates include the impact of the following policy changes or initiatives committed to by Government:

- Tax Amnesty package granted by Government in 2017/18 to clear additional debts paid by tax payers. Many tax payers are now under payment arrangements with the Revenue Management Division to pay core taxes.

Total revenue changes are reflected in Table 5.2. Overall movements since the release of the PEFU indicate that tax revenue will increase over the forward years from 2018/19 to 2020/21. While the accounting system is currently using accrual accounting, tax revenue has yet to shift from cash accounting to accrual accounting. As taxes are being accounted on a cash basis, this results in revenue generated being accounted for in the year received rather than the year it applies to. As such, the impact of the tax amnesty is still expected to be felt over the forward estimates as tax payers continue to make payments towards their outstanding core tax debt.

The tax amnesty, together with strong economic growth and high 2017/18 actuals, have resulted in upward revisions to the revenue forecasts over the forward estimates.

Income tax is expected to be \$28 million in 2018/19, \$3.6 million higher than previously forecast. Income tax is forecast to continue to increase over the forward estimates, albeit at a slower pace than seen in recent years. Company tax is estimated to increase to around \$23.2 million in 2018/19, an upward revision of \$3.5 million. This too is expected to slowly increase over the forward estimates, as shown in Table 5.3.

Table 5.3 Operating revenue, 2016/17 to 2021/22 (\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Value Added Tax (VAT)	58,531	63,509	68,124	72,405	76,376	80,059
Income tax	24,386	28,689	28,866	29,089	29,311	29,534
Company tax	16,155	21,760	23,190	23,848	24,506	25,164
Import levies	14,335	14,165	14,159	14,246	14,334	14,421
Withholding tax	1,757	1,842	2,508	2,704	2,901	3,097
Departure tax	10,234	10,623	11,307	11,990	12,674	13,358
Other Revenue	41,231	40,358	37,201	36,251	36,323	37,303
Total Operating Revenue	166,629	180,945	185,354	190,533	196,424	202,936

The 15 per cent withholding tax applies to dividends generated by local companies and land payments received which are subsequently repatriated overseas. This item was not forecast in previous budgets,

however, with withholding tax receipts consistently at around \$1 to \$2 million, a decision has been made to estimate withholding tax at \$2.5 million in 2018/19, which is expected to increase to \$3.1 million in 2021/22.

VAT is expected to reach \$68.1 million in 2018/19, an upward revision of \$7.5 million. With constant economic growth anticipated, VAT is expected to continue to grow in line with economic movements, reaching \$80.1 million in 2021/22.

Departure Tax estimates have been revised downwards slightly, however it is still expected to be higher than 2017/18 actuals, at \$11.3 million in 2018/19 with increases continuing over the forward estimates.

Import and excise-equivalent duties have been revised upwards by \$0.7 million as imports of goods continue to increase slightly.

5.3 Expenditure

Changes in expenditure are made up of three broad types of changes, parameter changes, policy changes, reclassifications and technical changes. Following the PEFU there have been significant changes in expenditures, predominantly expenditure decisions on behalf of the Government.

As shown in Table 5.4, total operating expenditure in 2018/19 is estimated to reach \$163.2 million, an increase of \$11.2 million on the 2017/18 actual spend. This increase is largely the result of new spending initiatives in the 2018/19 Budget, together with some minor parameter and classification changes. The new expenditure initiatives being pursued by Government in the 2018/19 Budget aim to address the 2018/19 National Sustainable Development Plan priority goals while continuing to build capacity within Government.

Table 5.4 Operating expenditure, 2016/17 to 2021/22(\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Personnel	47,307	50,437	56,162	56,171	56,217	56,317
Operating	20,376	20,199	20,934	20,442	20,507	20,507
Administered Payments	27,698	33,587	44,482	36,475	34,545	34,545
Depreciation	4,338	4,783	5,208	5,208	5,208	5,208
POBOC	23,087	24,850	25,127	26,210	26,211	26,210
Other Operating Expense	8,940	18,137	11,286	11,081	10,907	10,709
Total Operating Expenditure	131,746	151,993	163,199	155,587	153,595	153,496

Key new expenditure initiatives include:

Increase in the Eligibility age for the Child Benefit

Government has committed to increasing the beneficiary age for child benefit from 0 – 12 years to 0-14 years in 2018/19 and from 0-16 years from 2019/20 onwards. In recent consultations on the Cook Islands children's policy, it was expressed that parents of children aged 12-16 are facing considerable financial constraints.

Te Maeva Nui Celebration

Our culture is celebrated every year by our Cook Islands people on Rarotonga and in the Pa Enuā. In the 2018/19 year, funding was approved to assist with the transportation of shipping and flying people of the Pa Enuā to Rarotonga to enjoy this celebration together. In addition to the transportation, funding was required to ensure that the operations of the event ran smoothly.

Increase in the Pa Enea Funding Model

Since the implementation of the Pa Enea Funding Model, the total pool of funds has not increased. In the 2018/19 Budget, Government has increased this pool by \$280,000 based on a review carried out by MFEM together with ICI. This increase will assist the Pa Enea in achieving their Island Government Outputs. Further adjustments to the Pa Enea Funding Model are expected in the 2019/20 Budget.

The Budget also includes technical adjustments to the budget baselines reflecting: an update to the Funding Model for the Pa Enea. Refer to Chapter 8 for a more detailed description of the new initiatives, technical adjustments and other expenditures in 2018/19 and forward years.

5.4 Capital budget

Total capital spending, from both the Cook Islands Government and donor sources in 2018/19 is estimated to reach \$81.9 million.

The Cook Islands' Government (CIG) funded capital expenditure will be funded by the Crown's cash reserves, and loans which have already been agreed to as per the Loan Repayment Act.

The capital expenditure by the CIG is planned at \$44.5 million in 2018/19, as shown in Table 5.5. 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 our people.

Table 5.5 Capital expenditure, 2016/17 to 2021/22 (\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Capital Expenditure	13,441	21,871	44,519	42,949	28,149	11,835
Total Capital Expenditure	13,441	21,871	44,519	42,949	28,149	11,835

As presented in the 2017/18 HYEPU, the Government is committed to improving the fiscal balance going forward. Decisions made around infrastructure this year factored in the local capacity to deliver and complete projects, reinforcing proper planning and improving the fiscal position of Government. With all this considered, the Government made a slight reduction to capital expenditure from 2017/18 Budget estimates.

Refer to the capital expenditure chapter (Chapter 9) for a detailed analysis of all capital projects for 2018/19 to 2021/22. This includes all capital projects funded through the Cook Islands Government, loans and other commitments.

5.5 Fiscal Responsibility Ratios

To limit the role of Government budgets on fiscal and macroeconomic stability, the government of the day must operate within the fiscal responsibility principles outlined in the Ministry of Finance and Economic Management Act 1995/96 as outlined in Section 5.1.

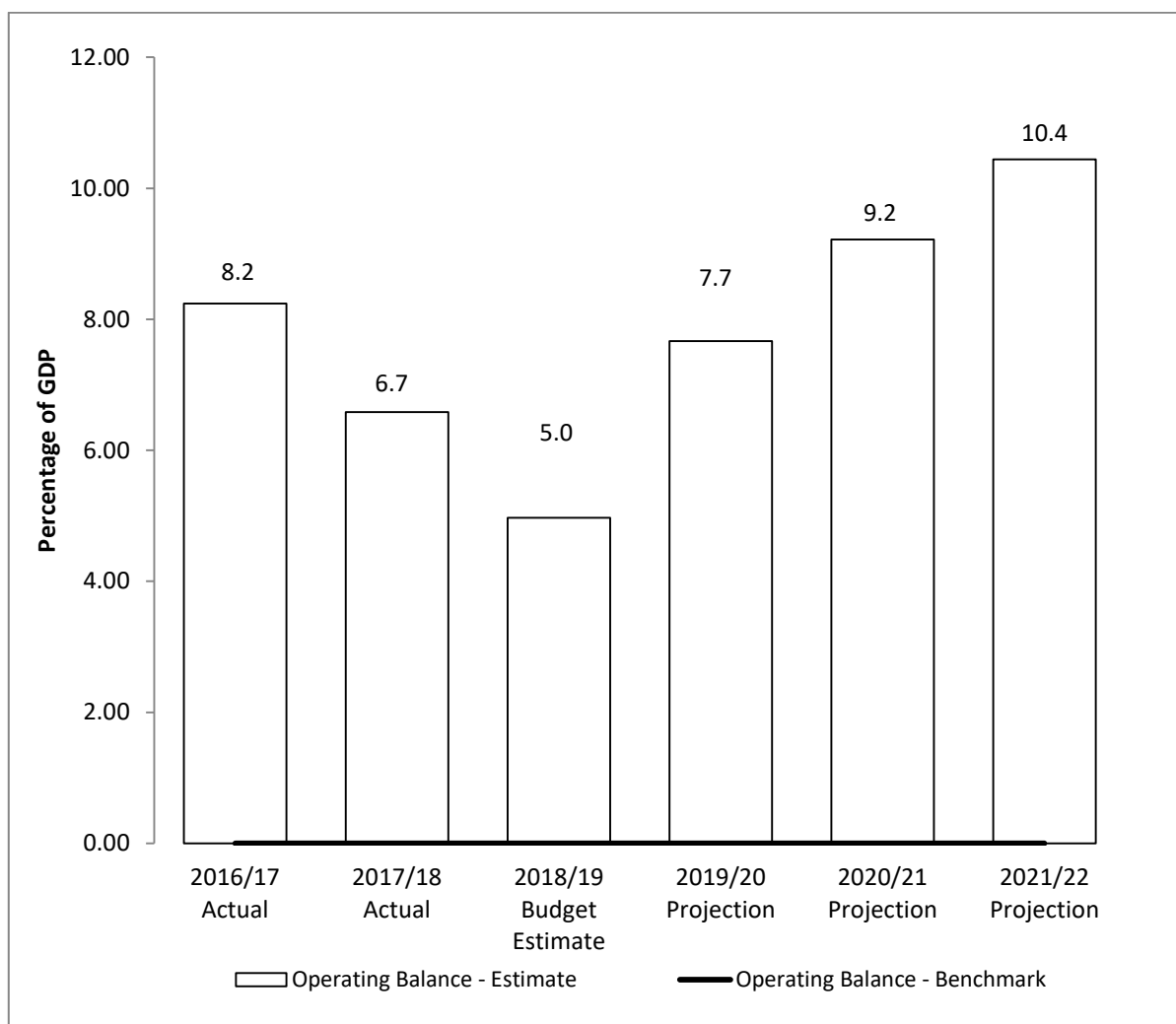
The Ministry of Finance and Economic Management (MFEM) has quantified these principles through the Fiscal Responsibility Ratios (FRR) as reported in the 2018/19 Budget. The current performance, and expected performance, of each of the FRRs is discussed below.

5.5.1 Net operating balance to GDP

Maintaining a positive operating balance indicates that Government is able to afford the operational costs of performing the functions of government from its own revenue streams. The Government has set a benchmark of running an operating surplus in each Budget. As illustrated in Figure 5.2, it is anticipated that Government has an operating surplus to GDP of 5 per cent in 2018/19.

Going forward, changes in expenditure and revenue estimates are predicted to result in operating surpluses of 7.7 per cent in 2019/20, 9.2 per cent in 2020/21, and 10.4 per cent of GDP in 2021/22.

Figure 5.2: Operating balance to GDP, 2016/17 to 2021/22

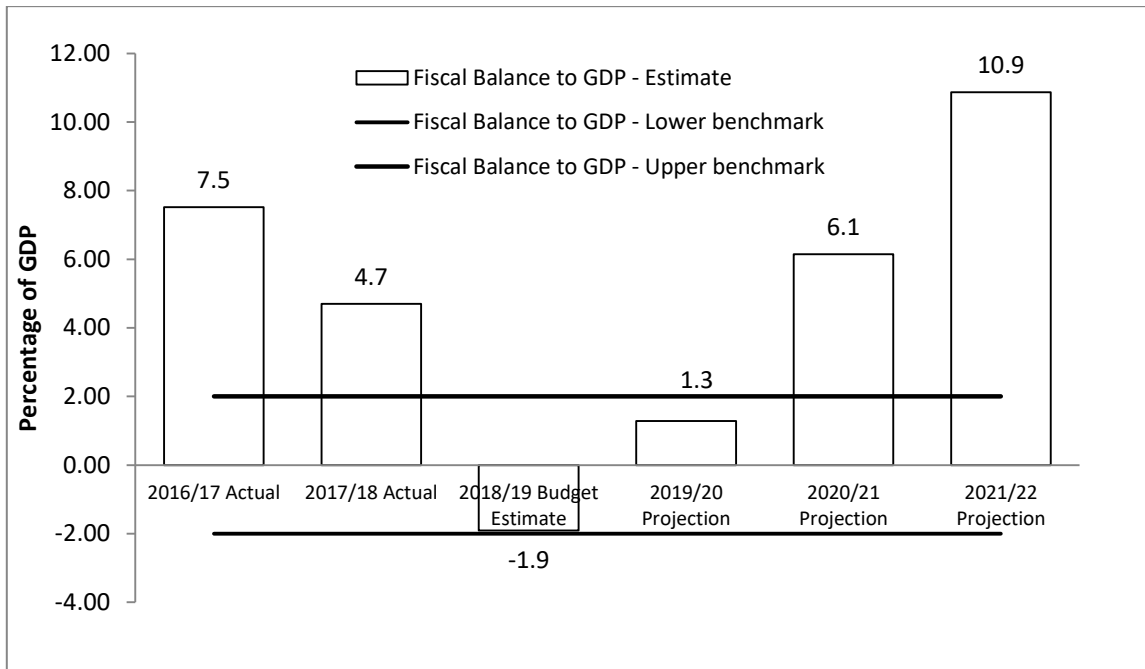


5.5.2 Fiscal balance to GDP

The fiscal balance is the operating balance less net capital expenditure (total capital expenditure less depreciation). Where the fiscal balance is in deficit, it must be serviced through lending or a drawdown of reserve funds. The benchmark is set to be maintained within ± 2 per cent of GDP to ensure that Government does not accumulate debt too quickly, and taken together with the debt servicing to total revenue and net debt to GDP ratios, ensures that debt is managed and taken on within sustainable levels.

As Figure 5.3 illustrates, the Government's fiscal balances for 2018/19 and 2020/21 fall within the agreed ratio, with the remaining two years of the forward period exceeding the upper bound.

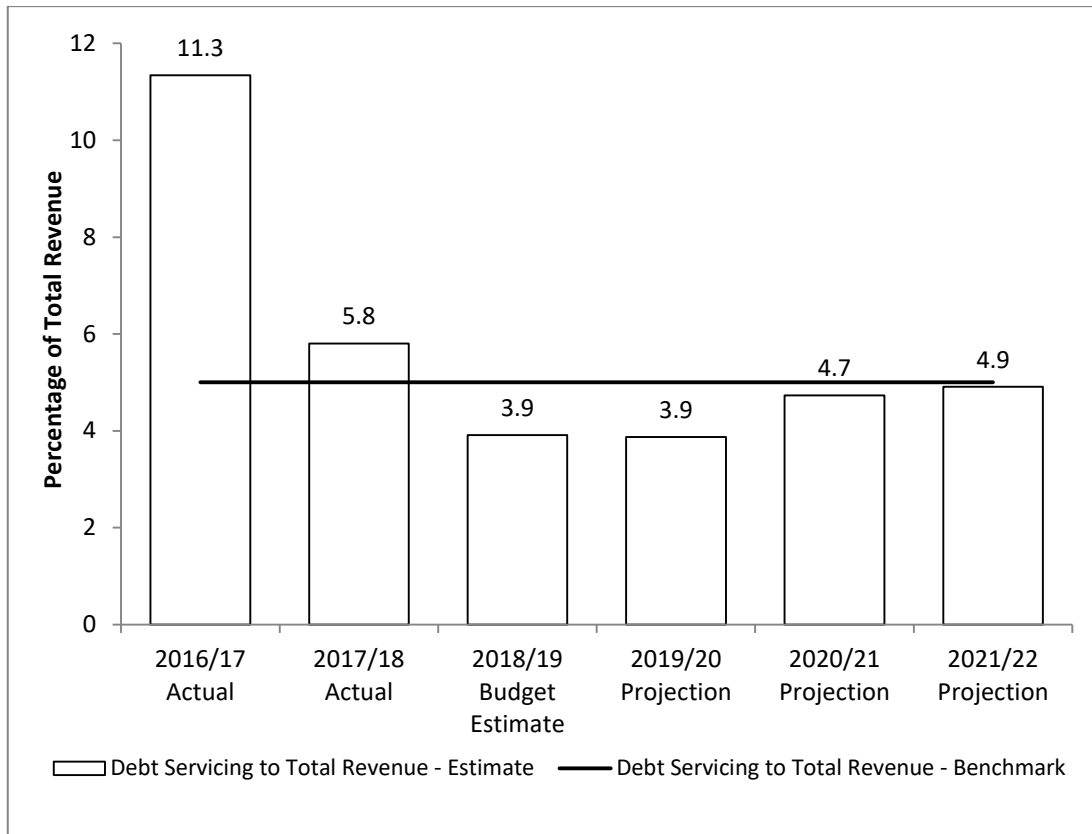
Figure 5.3: Fiscal balance to GDP, 2016/17 to 2021/22



5.5.3 Debt servicing to revenue

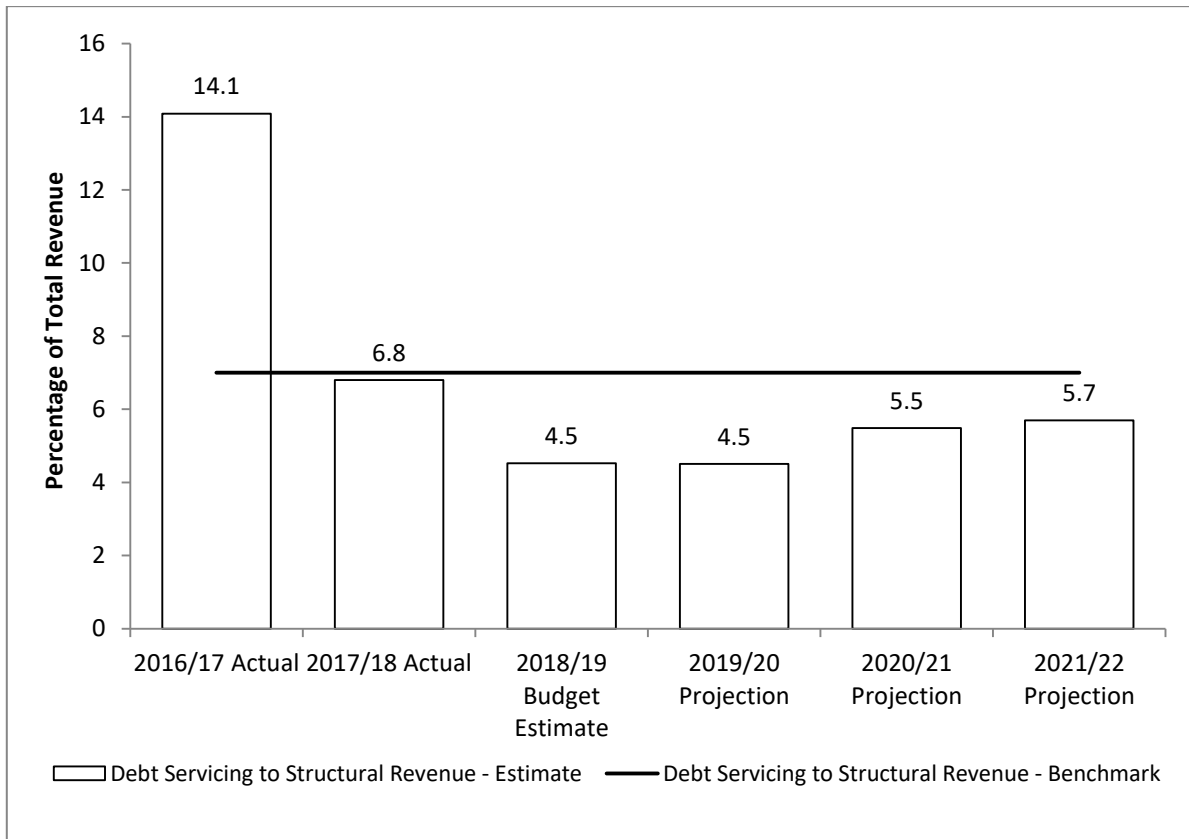
Debt servicing to total revenue measures the ability of Government to service its debt obligations from revenue collected. Debt servicing includes both interest and principle. The figure shown below represents the debt servicing payment as a per cent of GDP going out of the Loan Repayment Fund (LRF), 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 5.4: Debt servicing to revenue, 2016/17 to 2021/22



It is useful to compare debt servicing with structural revenue to form an opinion of the Government's ability to meet debt obligations in the longer term. This is displayed below, using the same structural revenue definition as above. When considering debt servicing to structural revenue we must adjust the benchmark level, as structural revenue is, by definition, smaller than total revenue.

Figure 5.5: Debt servicing to structural revenue, 2016/17 to 2021/22

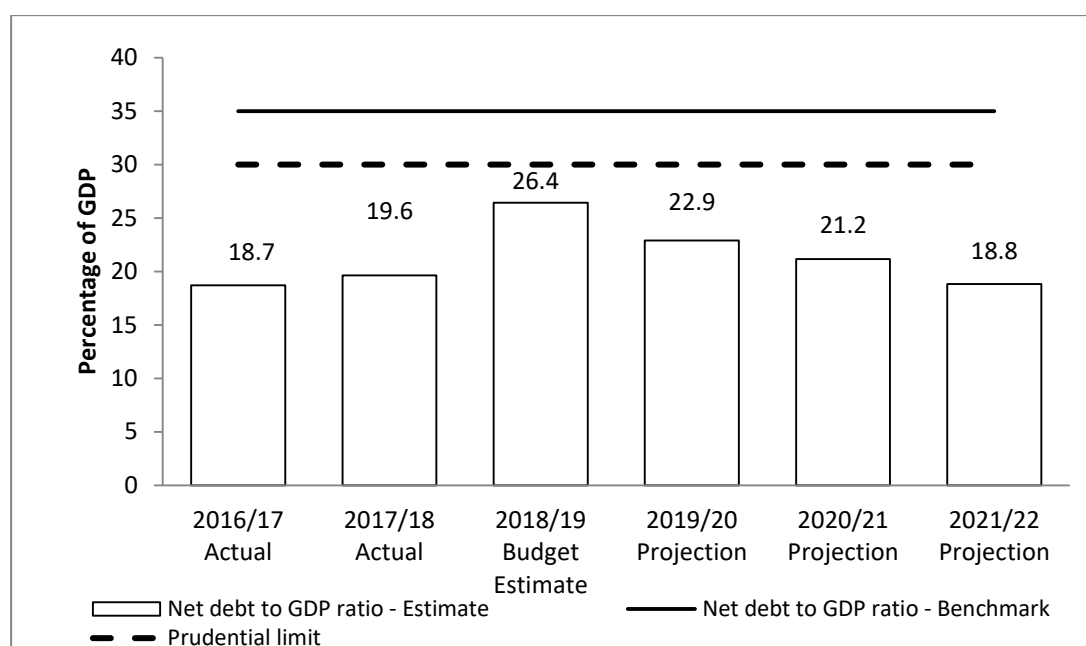


5.5.4 Net debt to GDP

Net debt (taken here to be gross debt obligations, net of the funds in the LRF) to GDP measures the level of debt relative to national income, and is intended to control the overall level of debt taken on by Government, including SOE’s. The limit agreed to by Government is to maintain net debt within 35 per cent of GDP. This would represent total borrowings of around \$156.0 million in 2018/19. The Government remains well within the net debt benchmark.

Figure 5.6 also shows a 30 per cent debt target that the Government is committed to staying below (this would be equivalent to approximately \$133.7 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 26.4 per cent, well within the debt benchmarks set.

Figure 5.6: 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.

There is a question of the appropriateness of the five per cent debt servicing to revenue level and whether it is in fact too low. The net debt servicing to total revenue ratio controls the servicing of debt, which includes interest and principal payments. It primarily ensures that there are sufficient means to service debt from the operating revenue. Taken together with the tax revenue envelope, this ratio measures how much debt servicing is crowding out other components of Government spending.

An independent assessment undertaken by the ADB in 2013 concluded that the five per cent debt servicing to revenue ratio was likely too conservative and inconsistent with the debt to GDP ratio constraint. The review noted that a more reasonable and consistent ratio of debt servicing to revenue would be 10 per cent.

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

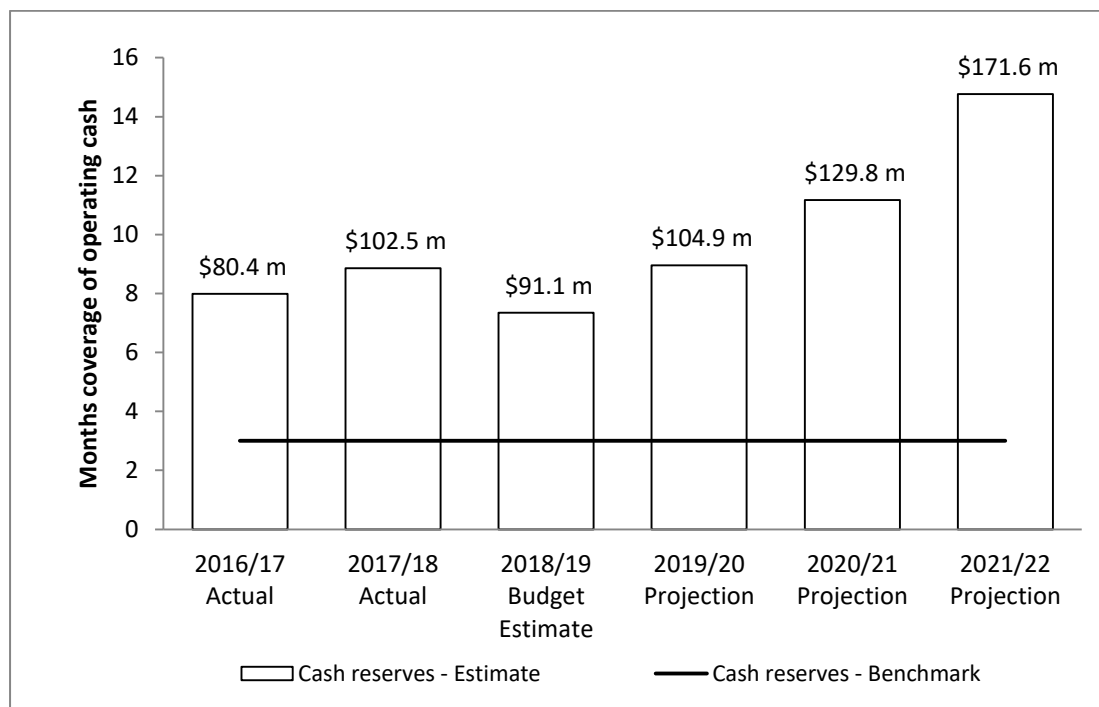
The LRF Act 2014 requires MFEM to analyse and report to the Parliament and the public on the impact of new borrowing in the context of the Government’s lending policy, including the amortisation schedule, the impact on debt service burden of the Government over the life of the loan, and an assessment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

5.5.5 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 this scenario. A prudent level of cash reserves is considered to be three

months of operating expenditure, which is shown in Figure 5.7. It shows that the Government is currently in a strong position to support any liquidity shortage when required.

Figure 5.7: Cash reserves to operating expenditure, 2016/17 to 2021/22



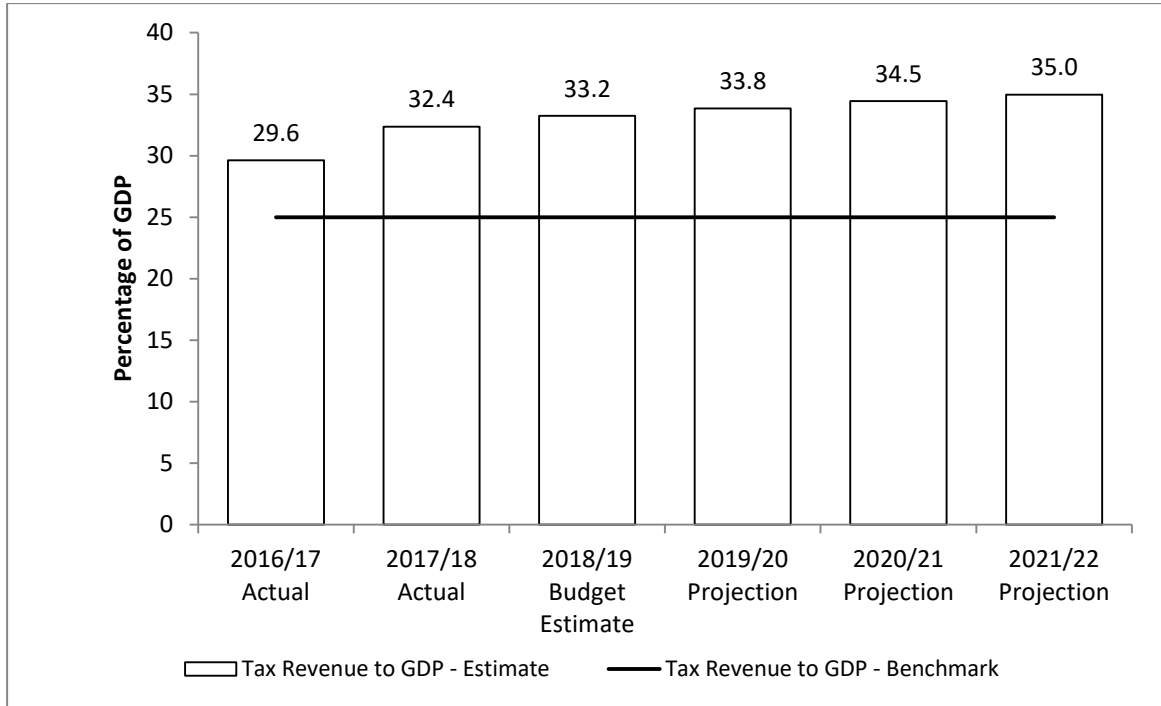
5.5.6 Tax revenue to GDP

This ratio establishes boundaries on the collection of revenue and ensures that Government limits the diversion of resources away from the private sector. The benchmark that current and previous governments have agreed to work within is to maintain collections to within 25 per cent of GDP. The expected performance against this benchmark is illustrated in Figure 5.8.

Current forecasts estimate that the Government has exceeded the benchmark at 33.2 per cent in 2018/19, increasing to 35 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.

As above in the case of net debt servicing, further work will be undertaken on assessing the adequacy of the tax revenue fiscal responsibility ratio as part of the medium-term fiscal framework to be developed during the 2018/19 year.

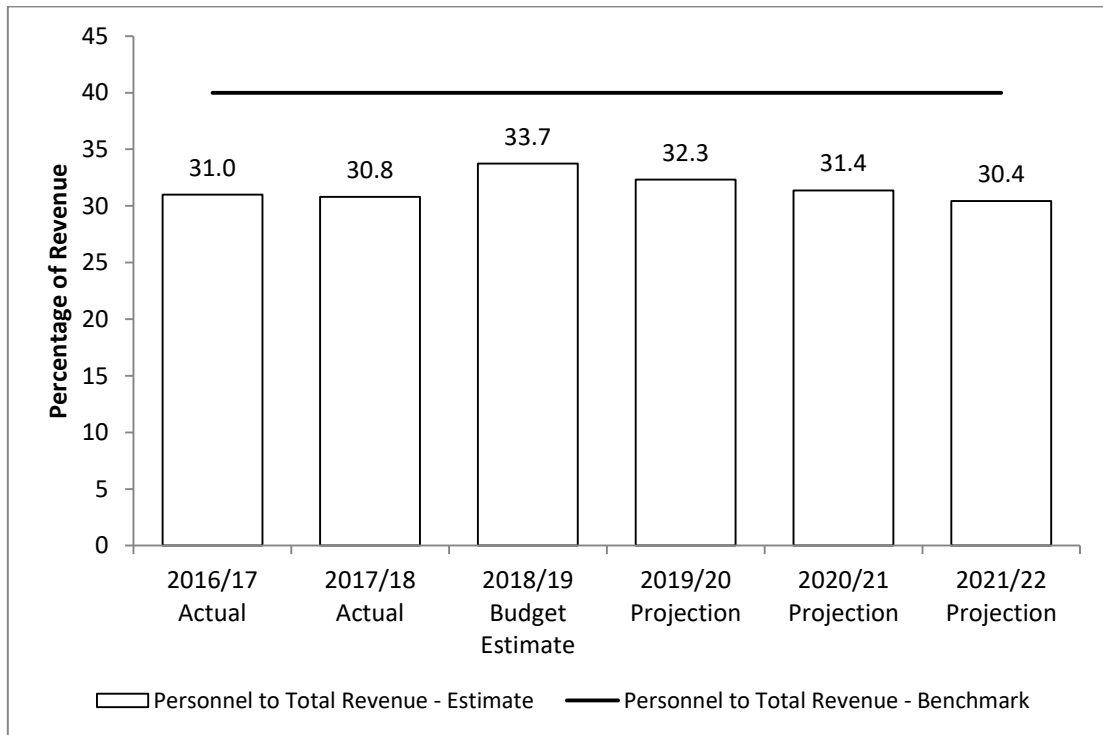
Figure 5.8: Tax revenue to GDP, 2016/17 to 2021/22



5.5.7 Personnel expenditure to revenue

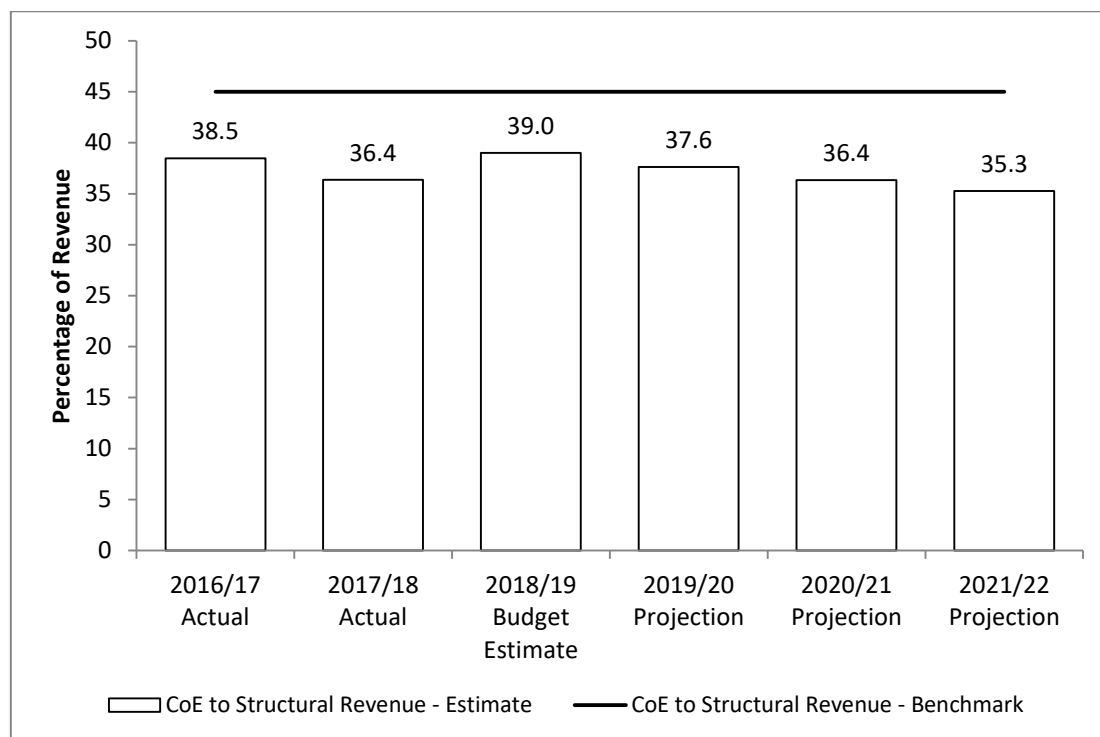
This ratio is aimed at controlling expansion in the size of the public sector. The benchmark that current and previous governments agreed to work within is maintaining the expenditure on personnel within 40 per cent of total revenues. As is illustrated in Figure 5.9, this target is currently being achieved.

Figure 5.9: Personnel expenditure to total revenue, 2016/17 to 2021/22



However, as personnel spending is a structural spending component, and some of the revenue included in the ratio for Figure 5.9 is not structural in nature, it is useful to consider the ratio shown in Figure 5.10 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.⁹

Figure 5.10: Compensation of Employees to Structural Revenue, 2016/17 to 2021/22



Part of the ongoing public financial management improvements will be to identify a more suitable ratio than the current Personnel-to-Revenue measure, and Figure 5.10 offers a different perspective on the challenge of maintaining fiscal sustainability, with a benchmark ratio of 45 per cent used as an indicator.

5.6 Economic and fiscal risks

5.6.1 Introduction

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

- shocks to macroeconomic variables, such as economic growth, commodity prices, interest rates, or exchange rates; and
- calls on contingent liabilities, obligations triggered by an uncertain event, including:
 - explicit liabilities – those defined by law or contract, such as debt guarantees; and

⁹ 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.

- implicit liabilities – moral or expected obligations for the Government, based on public expectations or pressures, such as bailouts of banks or public sector entities.¹⁰

The Government subscribes to the IMF’s Public Expenditure and Financial Accountability (PEFA) program which provides a framework for strengthening public financial management systems using a range of quantitative indicators to measure performance.¹¹

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

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

PEFA indicator 14 requires governments to undertake sensitivity analysis on its fiscal and economic forecasts.

This section considers the key risks to the Government’s fiscal forecasts set out in this chapter, and the economic forecasts set out in Chapter 6. Sensitivity analysis is then applied, using a range of scenarios, to estimate the likely impact of a number of the key risks.

5.6.2 Sources of risk

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

Global economic risks

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

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

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

Domestic capacity risks

As discussed in Chapter 3, the evidence suggests that the Cook Islands economy is currently performing above its potential capacity – that is we are facing a positive output gap. There are already

¹⁰ IMF (2009), *Fiscal risks: sources, disclosure, and management*. IMF Fiscal Affairs Department. See: <https://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf>.

¹¹ See: <https://pefa.org/>. The Cook Islands Government was assessed in October 2015.

signs of capacity constraints appearing in the labour and housing markets. Should these constraints tighten over the forward period, thanks to higher than expected tourist arrivals, for example, this could impact on the economic forecasts by constraining the Government’s ability to execute its capital program due to the lack of skilled construction labour.

Natural disasters

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

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

A destructive weather event, such as a cyclone, would have a significant impact on the outlook for Cook Islands economy, and severely impact our fiscal position. The ADB, in its 2016 report on a loan proposal for the Cook Islands Disaster Resilience Program, notes that the Cook Islands has periodically experienced major cyclones that have caused substantial economic damage and loss of life (see Table 5.60).¹²

Table 5.6 Significant cyclones in the Cook Islands

Year	Name	Category	Estimated losses (\$m)	Estimated losses (% of GDP)
1987	Sally	2	24.6	51.6
1997	Martin	3	7.5	7.6
2005	Meena	4	10.0*	5.5
	Nancy	4		
	Olaf	5		
	Percy	5		
2010	Pat	2	7.8	3.2

* Combined estimated losses for all four cyclones in 2005.

To mitigate the economic risk posed by natural disasters, the Government has put in place a range of structures to reduce its financial exposure to disaster risk, including:

- establishing a disaster emergency trust fund in 2017;
- taking out insurance coverage under the Pacific Catastrophe Risk Assessment and Financing Initiative for cyclones, with a 1-in-10-year probability of occurrence with payout based on the assessed severity of a specific cyclone; and
- arranging a Disaster Recovery Mechanism loan from the Asian Development Bank (ADB) of \$13.5 million, which will only be triggered and drawn down in the event of a catastrophe.

Contingent liabilities

The Government’s contingent liabilities are summarised in Table 5.7.

¹² ADB (2016). *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan Cook Islands: Disaster Resilience Program*, Project Number: 50212-001. November 2016.

Table 5.7 Quantifiable contingent liabilities, as at 30 June

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

Guarantees and indemnities

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

Uncalled capital

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

Legal proceedings and disputes

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

Financial liabilities relating to Island Governments

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

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

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

State-owned enterprises

The Cook Islands Government has a number of State-owned Enterprises (SOEs) under the management of the Cook Islands Investment Corporation (CIIC). The key SOEs are the Airport Authority, Bank of the Cook Islands, the Ports Authority and Te Aponga Uira (electricity). CIIC has also recently established two new subsidiary companies, To Tatou Vai Limited (water and sanitation) and Avaroa Cable Limited (Manatua cable project). More information SOEs is provided in Chapter 13.

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

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

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

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

More detail on the current loans held by SOEs is provided in Chapter 11.

5.6.3 Economic sensitivity analysis

Three potential economic scenarios are summarised below, with their likely impacts on GDP in 2018/19 shown in Table 6.1:

- **Scenario 1: Decline in visitor arrivals** – this scenario models the impact of a 10 per cent drop in arrivals in 2018/19 on the national economy – as compared to the 6.2 per cent increase assumed in the forecasts. This scenario assumes an external shock, such as an economic recession in New Zealand, as the catalyst for reduced tourism numbers.
- **Scenario 2: Continued strong tourism growth** – in this scenario, we assume a 10 per cent increase in arrivals in 2018/19, and project the impact of this continued increase in tourist numbers on GDP.
- **Scenario 3: Increase in imports** – Scenario 3 models the impact of higher than expected imports in 2018/19, a 10 per cent increase over 2017/18.

Table 5.8 Sensitivity analysis – economic forecasts

Scenario	Nominal 2018/19 GDP (\$m)	Impact on nominal 2018/19 GDP (%)	2018/19 growth rate – nominal
Budget forecast	445.8		2.6%
1: Low tourism growth	443.3	-0.6%	2.0%
2: Stronger tourism growth	446.3	0.1%	2.7%
3: Higher imports	446.2	0.1%	2.7%

5.6.4 Fiscal sensitivity analysis

Operating expenditure and revenue risk

Three fiscal scenarios have been modelled to assess the impact of changes in forecast Government expenditure and revenue in 2018/19 on key fiscal responsibility ratios:

- **Scenario A: Increase in operational expenditure** – this scenario shows the net operating balance and fiscal balance of the Government spending 10 per cent more than the \$163.2 million forecast for 2018/19.
- **Scenario B: Lower operational expenditure** – this scenario shows the net operating balance and fiscal balance of the Government spending 10 per cent less than the \$163.2 million forecast for 2018/19.

- **Scenario C: Lower tax revenue** – this scenario shows the net operating balance, fiscal balance and tax revenue to GDP ratio of the Government collecting 10 per cent less revenue than the \$185.4 million forecast for 2018/19.

Table 5.9 Sensitivity analysis – fiscal forecasts

Scenario	Operating balance to GDP ratio	Fiscal balance to GDP ratio	Tax revenue to GDP ratio
Budget forecast	5.0	-1.9	33.2
A: Higher operational expenditure	1.3	-5.6	
B: Lower operational expenditure	8.6	1.8	
C: Lower tax revenue	1.6	-5.2	29.9

Crown debt risks

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

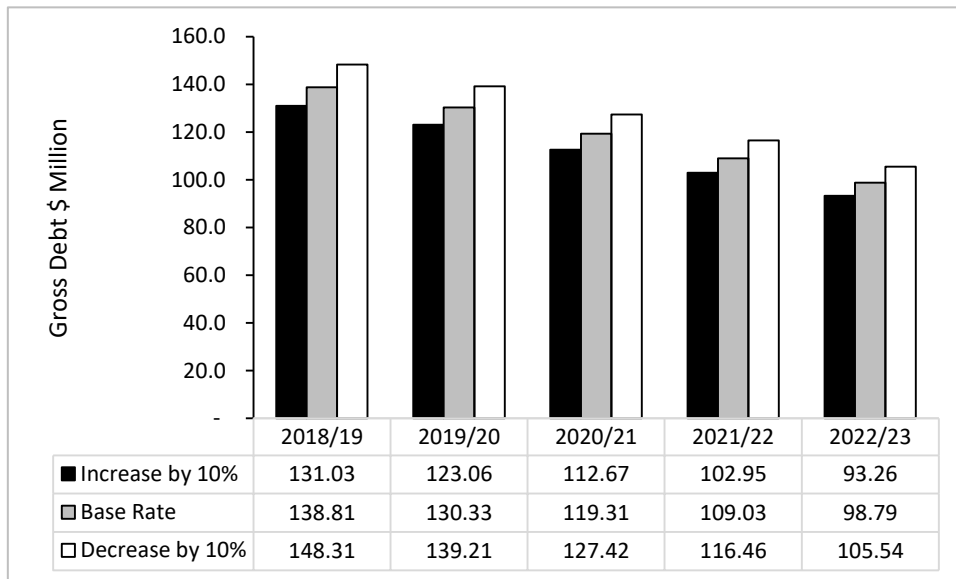
The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation by the NZD to determine the impact on the gross borrowings and the debt servicing cost.

Table 5.10 Exchange rates assumptions used in 2018/19 Budget, +/- 10 per cent

Foreign currency	-10%	Budget assumption rate	+10%
EUR	0.513	0.570	0.627
USD	0.594	0.660	0.726
RMB	4.230	4.70	5.170
SDR	0.428	0.475	0.523

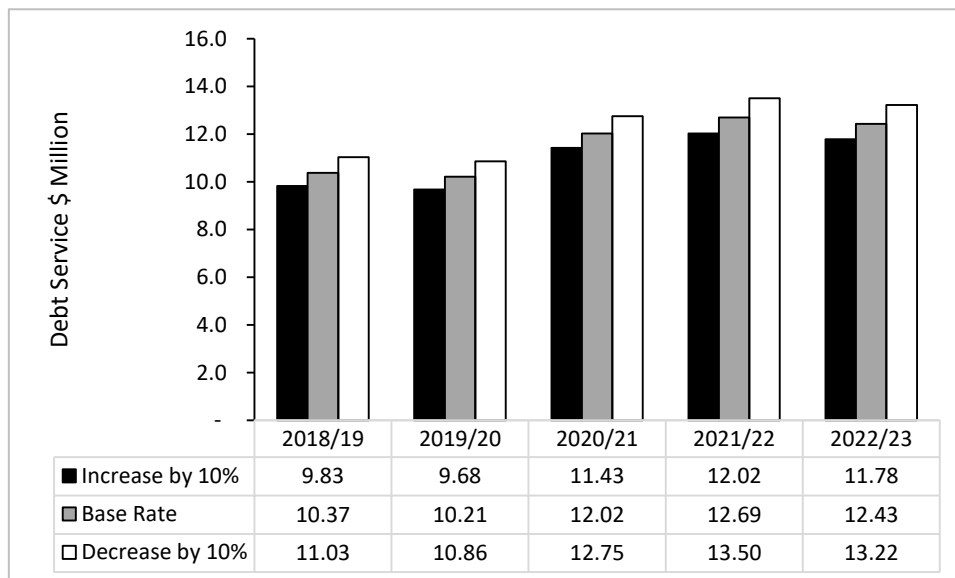
If the relevant NZD exchange rates were to depreciate by 10 per cent against foreign currencies, Crown debt as at the end of the June 2019 year would increase by an estimated \$9.50 million compared to a decrease of \$7.78 million if the NZD were to appreciate by 10 per cent. This illustrates that the Crown’s gross debt level is more adversely sensitive to depreciation of the NZD.

Figure 5.11: Sensitivity of direct Crown gross debt to NZD movements



A 10 per cent decrease in the foreign currency value of the NZD would increase debt servicing costs to the LRF by \$0.66 million in the 2018/19 year.

Figure 5.12 Sensitivity of Crown debt servicing costs to NZD movements



6 Economic Update

6.1 Summary

6.1.1 Performance

The Cook Islands economy has experienced a strong run of real economic growth in recent years, averaging 3.7 per cent per year over the period 2011/12 to 2016/17, thanks to unprecedented tourism arrivals and higher levels of public and private capital investment.

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

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

Government capital expenditure, including on a number of large signature projects such as renewable energy in the Pa Enua and Te Mato Vai, has risen from an average of \$13.6 million from 2012/13 to 2014/15, to \$15.7 million over the last three years.

This strong economic performance may result in the graduation of the Cook Islands from the Organisation for Economic Cooperation and Development's (OECD) Official Development Assistance (ODA) eligibility list in early 2019. Work is currently being undertaken by the Statistics Office to develop comprehensive balance of payments data, which will be used to determine the Cook Islands' Gross National Income for the last three years. This data will be used by the OECD to determine whether the Cook Islands has reached the level of economic development required to graduate to 'high income status'.

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

6.1.2 Outlook

In summary, the outlook for Cook Islands economy is positive, albeit at lower levels than seen in recent years, with real GDP growth expected to average 1.7 per cent per year. This is due to continue, with slower growth in tourism – as the number of beds reaches capacity – and a slowdown in investment, both public and private.

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

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

Table 6.1 provides a summary of the key indicators for the budget appropriation year and the three forward years of the 2018/19 budget cycle.

Table 6.1 Summary of economic indicators

	2017/18	2018/19	2019/20	2020/21	2021/22
	Est	Proj	Proj	Proj	Proj
Economic activity					
Nominal GDP (\$'000)	434,306	445,808	455,868	464,696	473,630
Percentage change (YOY)	2.6	2.6	2.3	1.9	1.9
Real GDP (at constant 2006 Prices, \$'000)	341,542	349,331	355,272	360,705	365,888
Percentage change (YOY)	1.8	2.3	1.7	1.5	1.4
Inflation (CPI)					
Percentage change (YOY)	0.4	1.0	1.6	1.5	1.5
Construction/capital investment					
Commercial building approvals (\$'000)	7,968	7,968	7,968	7,968	7,968
Residential building approvals (\$'000)	11,993	12,073	12,073	12,073	12,073
Public works (\$'000) (includes dev partners)	35,747	28,252	21,631	21,035	18,008
Productive sector indicators					
Visitor arrivals	164,800	172,048	176,282	179,171	181,173
Percentage change (YOY)	6.2	4.4	2.5	1.6	1.1
Estimated visitor expenditure (\$'000)	321,515	334,942	338,782	335,095	344,658
Pearl exports (\$'000)	122	122	122	122	122
Fish exports (\$'000)	3,266	3,266	3,266	3,266	3,266
External sector					
Merchandise trade balance (\$'000)	-179,270	-183,581	-189,034	-193,658	-197,933
Services trade balance (\$'000)	312,543	331,161	336,428	334,076	343,639
Exchange rate (USD/NZD average)	0.71	0.66	0.68	0.70	0.70

6.2 The global economy

6.2.1 Economic growth

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

New Zealand

The Reserve Bank of New Zealand's (RBNZ) Monetary Policy Statement August 2018 reports annual GDP growth of 2.7 per cent in the March 2018 quarter, down from over four per cent in mid-2016. The lower GDP growth is largely due to a softening of growth in residential investment which is expected to weigh on household spending going forward. The RBNZ reports that inflation remains below the two per cent target mid-point, but note that there are signs of inflationary pressure rising.

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

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

Australia

The Reserve Bank of Australia's (RBA) Statement on Monetary Policy May 2018 reports that Australian GDP growth, supported by accommodative domestic monetary policy and a positive international outlook, is expected to be just above 3 per cent in both 2018 and 2019. The RBA notes that this will reduce spare capacity, with the unemployment rate forecast to decline to about 5 per cent by the end of 2020. As the labour market tightens, the RBA expects wages growth and inflation, at 2.1 per cent in the June 2018 quarter, to increase gradually.

Conditions in the Australian housing market have eased. Australian Bureau of Statistics figures show that residential property prices fell 0.7 per cent in the March 2018 quarter, led by the first quarterly price decline in Melbourne for five-and-a-half years and the first annual slide in Sydney in six years. Concerns are also being raised about the impact on the housing market of the transition of about \$360 billion of interest only loans to interest and principal loans over the next three years. In addition, three of the big four Australian banks, recently raised their standard mortgage rates despite the RBA keeping the cash rate steady at 1.5 per cent for the last two years.

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

Looking forward, the RBA highlighted risks to global financial markets from the increasing levels of trade protectionism, particularly for trade-exposed economies. The United States started the ball rolling raising tariffs on US\$34 billion of imports from China in early July, adding a further US\$16 billion in August. China responded with tariff increases on a similar value of imports from the United States. More recently, in September 2018, the US added another \$200 billion of tariffs on Chinese goods. The United States has also increased tariffs on steel and aluminum imports from almost all economies. The European Union, Canada and Mexico have responded with tariff increases on a wide range of US imports. The RBA noted that intensification of protectionist measures could materially weaken the investment outlook and weigh on confidence and financial market conditions more generally.

United States

The International Monetary Fund's (IMF) World Economic Outlook April 2018 expects United States GDP growth to rise from 2.3 percent in 2017 to 2.9 percent in 2018, before moderating slightly to 2.7 percent in 2019. This reflects stronger than expected activity in 2017, firmer external demand, the expected macroeconomic impact of the December 2017 tax reform (especially the lower corporate tax rates) and higher public spending following the February 2018 bipartisan budget agreement.

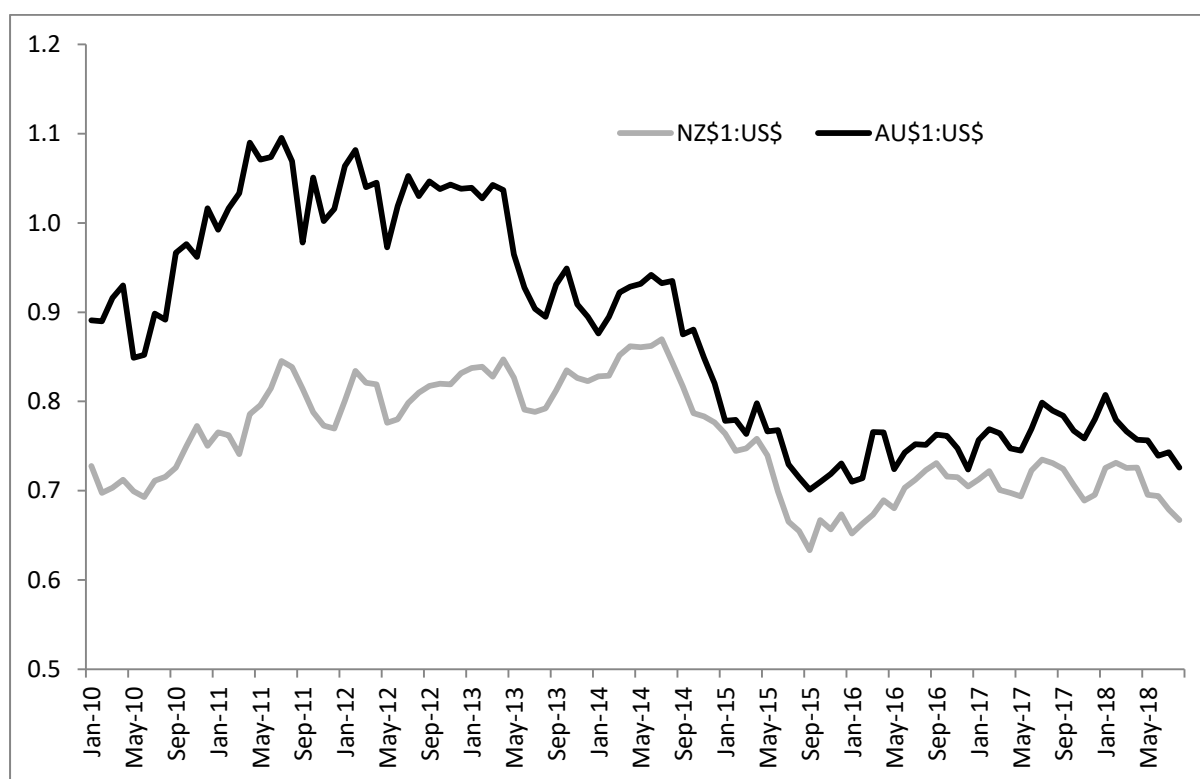
In June 2018, the US Federal Reserve (the Fed) raised its target benchmark rate, for the seventh time since 2015, to 1.75 – 2 per cent, the highest level since 2008. The tighter monetary policy reflects the

recovery in the US economy. In its August 2018 meeting, the Fed maintained the target federal funds rate at this level. In arriving at its decision, the Fed cited the need to maintain an accommodative monetary policy to support the strong labour market conditions and a sustained return to 2 per cent inflation.

The RBA Governor, Philip Lowe, in a recent speech in Perth, raised concerns about a material lift in inflation in the United States. The Governor noted that the US is experiencing a large fiscal stimulus at a time when the economy is at full employment and is growing quickly, past experience suggesting this could lead to inflation increasing significantly. He further noted that financial markets are heavily discounting this possibility, which means that if it did take place it would come as a surprise, with repercussions for markets and the real economy.

Rising US interest rates have led to a broad-based appreciation of the US dollar, including against commodity currencies such as the Australian and New Zealand dollars. Figure 6.1 shows the steep decline in the New Zealand dollar from 73.5 cents in August 2017 to 67 cents in August 2018.

Figure 6.1: US dollar exchange rate, New Zealand and Australia



Asia Pacific

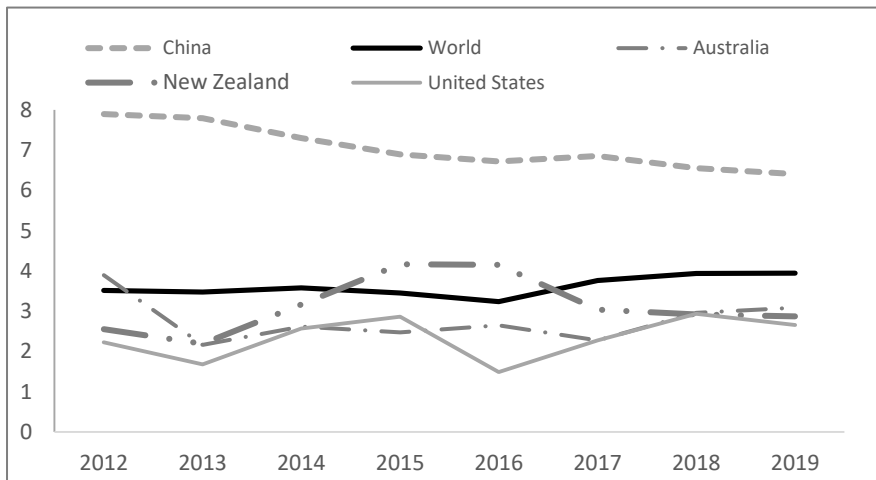
The Asian Development Bank (ADB), in its July 2018 Asian Development Outlook Supplement, expects regional GDP to rise by 6.0 per cent in 2018 and 5.9 per cent in 2019, the same rate as envisaged in its April outlook. The ADB notes that the rise in protectionist trade measures from the US and countermeasures from China and other countries poses a clear downside risk to the outlook for developing Asia. The ADB expects economic growth in the Pacific of 2.2 per cent in 2018, accelerating to 3.0 per cent in 2019, due to an expected rebound in Papua New Guinea and stable or improved economic performance in most of the smaller Pacific economies.

Global

The IMF increased its global growth estimate for 2017 to 3.8 per cent in its April 2018 World Economic Outlook, the fastest growth since 2011 (see Figure 6.2). This strong result was due to increased

investment spending in advanced economies and an end to declining investment in some commodity-exporting emerging market and developing economies.

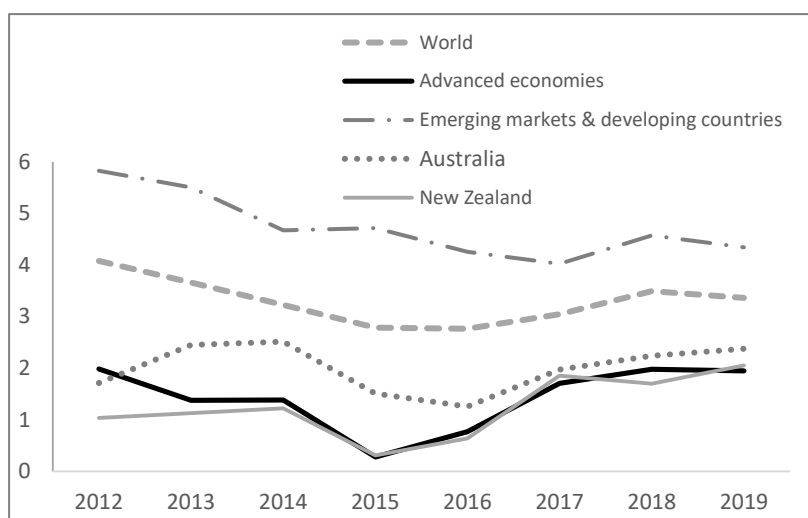
Figure 6.2: IMF GDP growth estimates, selected countries



In its July 2018 update, the IMF maintained its outlook for global growth to reach 3.9 percent in 2018 and 2019, but with risks to the outlook mounting, including rising oil prices, escalating trade tensions and market pressures on the currencies of some economies with weaker fundamentals.

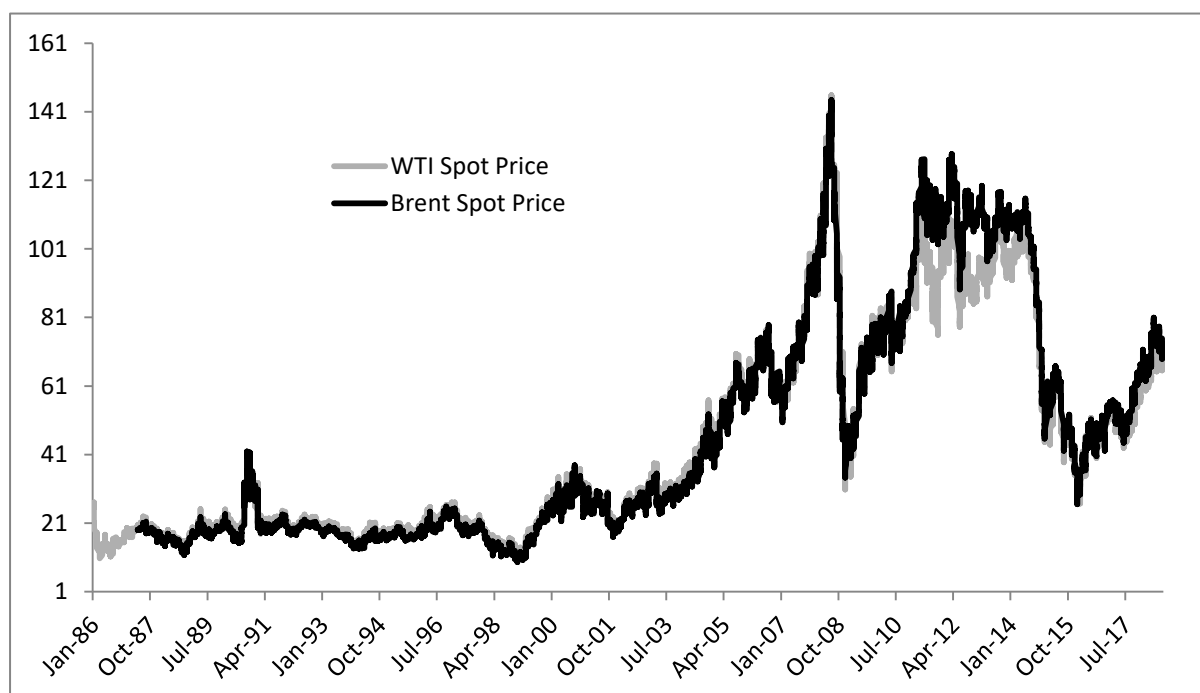
Growth in the global economy is expected to have a positive impact on the Cook Islands' economy through increased tourism, although it does pose a risk of increased inflation. The IMF expects headline inflation to pick up over the near term due to stronger demand putting upward pressure on commodity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

Figure 6.3: IMF inflation estimates, selected groupings and countries



Oil prices have been on the rise since 2016, increasing from around US\$26 per barrel in January 2016 to about \$70 per barrel in August 2018, as shown in Figure 6.4. The IMF expects prices to start moderating in 2019 to about US\$58 per barrel, further moderating to about US\$54/barrel by 2022.

Figure 6.4: Daily oil spot prices, 1986 to 2018, US\$/barrel



6.3 Cook Islands Gross Domestic Product

6.3.1 GDP production

The Cook Islands has experienced positive real GDP growth since 2011/12, as shown in Figure 6.5, recording 1.7 per cent growth in 2016/17, the most recent complete financial year for which observed GDP production data is available.

Figure 6.5: Real GDP growth, annual percentage change

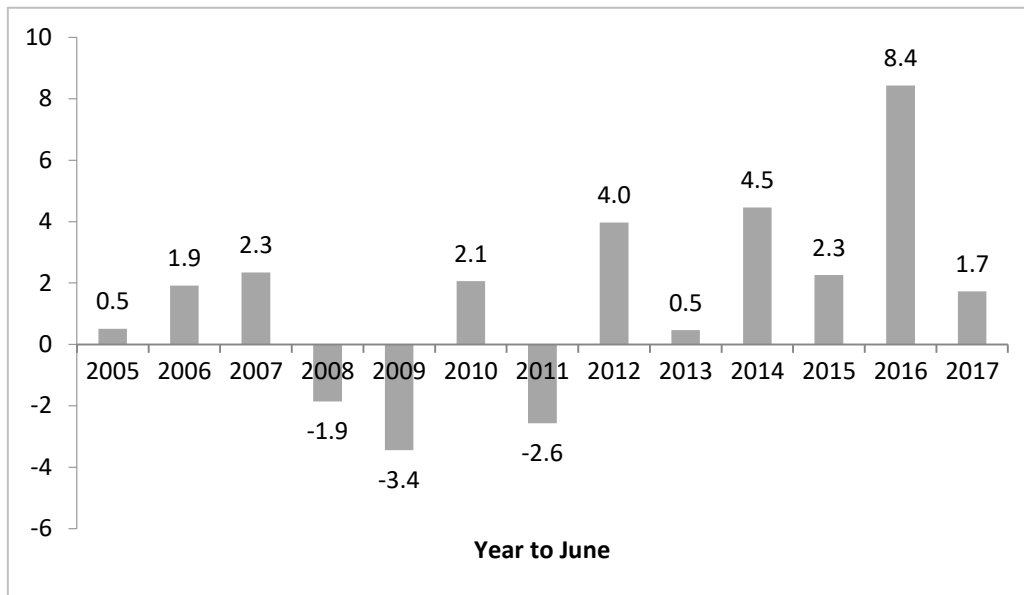
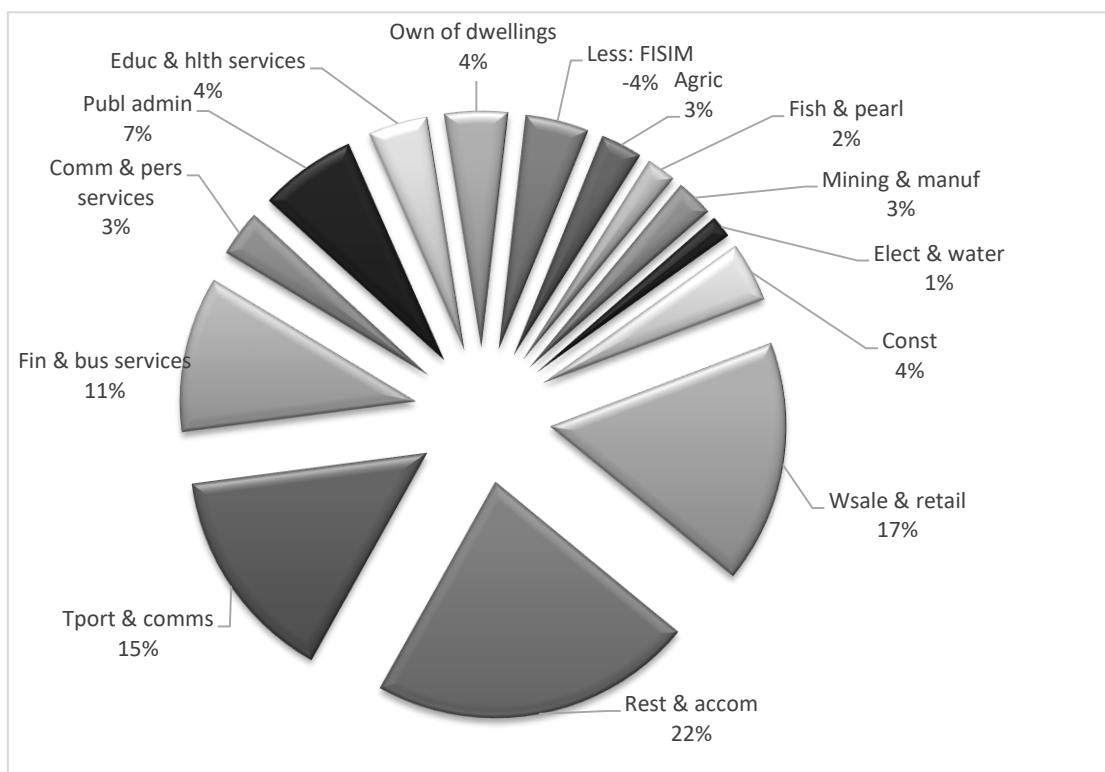


Figure 6.6 shows the breakdown of the Cook Islands economy by industry in 2016/17. The economy is dominated by the tertiary or services sector, with the three largest tertiary industries, restaurants and accommodation, wholesale and retail trade and transport and communications, accounting for more than half of total economic output.

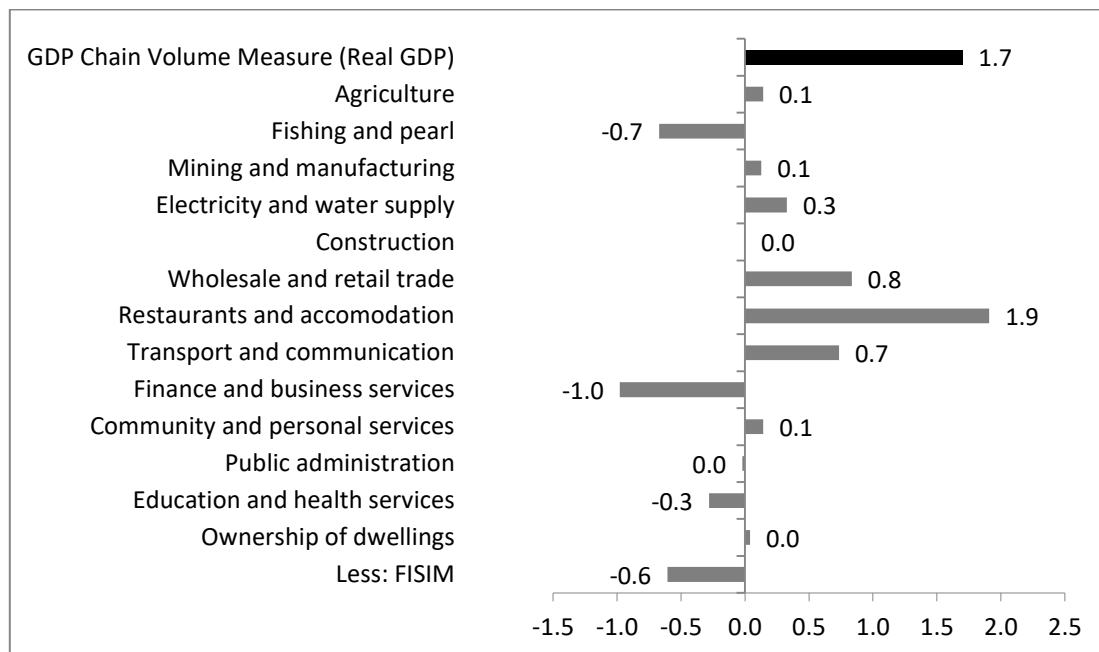
Figure 6.6: Cook Islands economy by industry, 2016/17



In 2016/17, high tourist arrivals drove strong growth in the economy, with the tertiary sector contributing 2.4 percentage points to economic growth. The strongest contributions were from restaurants and accommodation (1.9 percentage points), wholesale and retail trade (0.8 percentage

points) and transport and communication (0.7 percentage points). Finance and business services and education and health services contracted in 2016/17. During this period, restaurants and accommodation grew by 8.4 per cent to \$82 million, transport and communication grew by 4.9 per cent to \$52 million and wholesale and retail trade grew by 4.6 per cent to \$63 million.

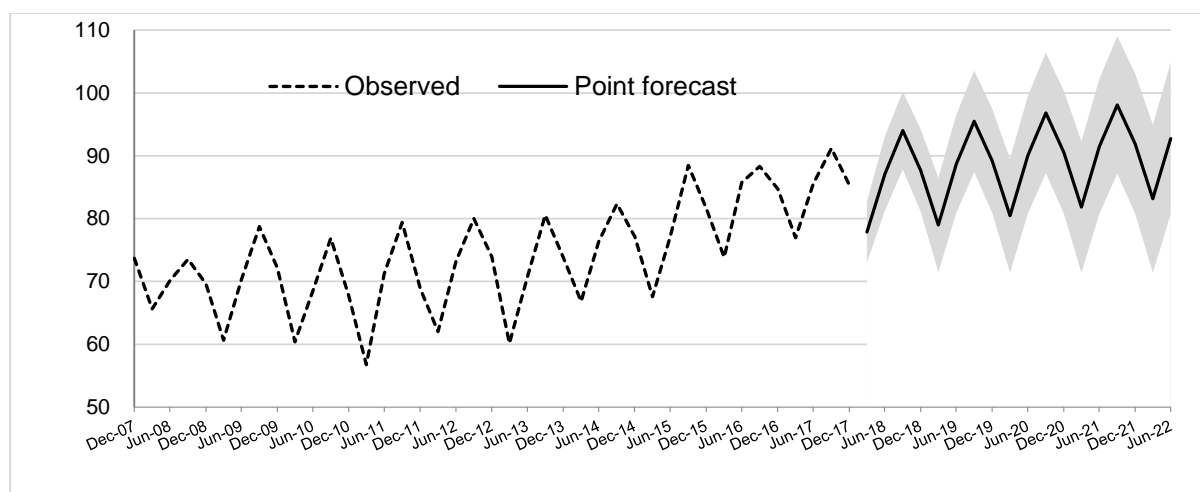
Figure 6.7: Contribution to 2016/2017 real growth (percentage point)



The secondary sector, which includes construction, electricity and manufacturing, contributed 0.5 percentage points to growth, while the primary sector, agriculture and fishing contracted, with a negative 0.5 percentage point contribution.

Observed and forecast quarterly real GDP from December 2007 to June 2022 is shown in Figure 6.8. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the point forecast time series.

Figure 6.8: Observed and forecast real GDP, quarterly (\$m)



Aggregating GDP quarterly forecasts into financial years, the forecast percentage change over the forward budget period compared to recent years is shown in Figure 6.9. A growth rate of 1.8 per cent is estimated in 2017/18, with growth forecast to rise to 2.3 per cent in 2018/19, before falling to

1.4 per cent by the final year of the forward budget period. Average annual growth over the 4-year forward period is forecast at 1.7 per cent.

Figure 6.9: Annual change in real GDP (percentage)

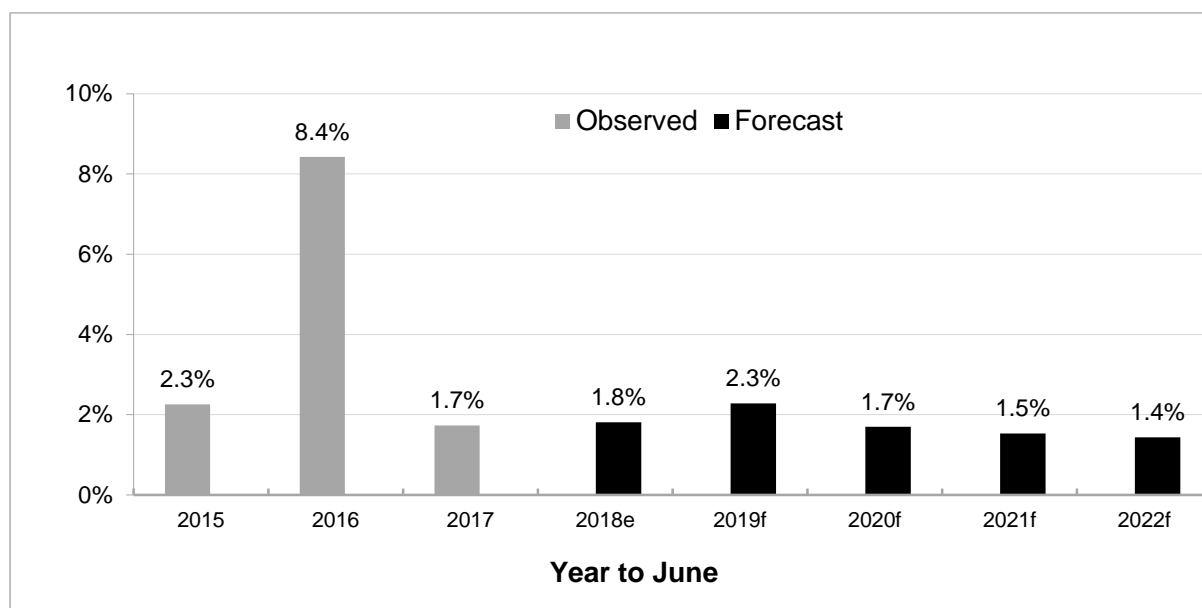
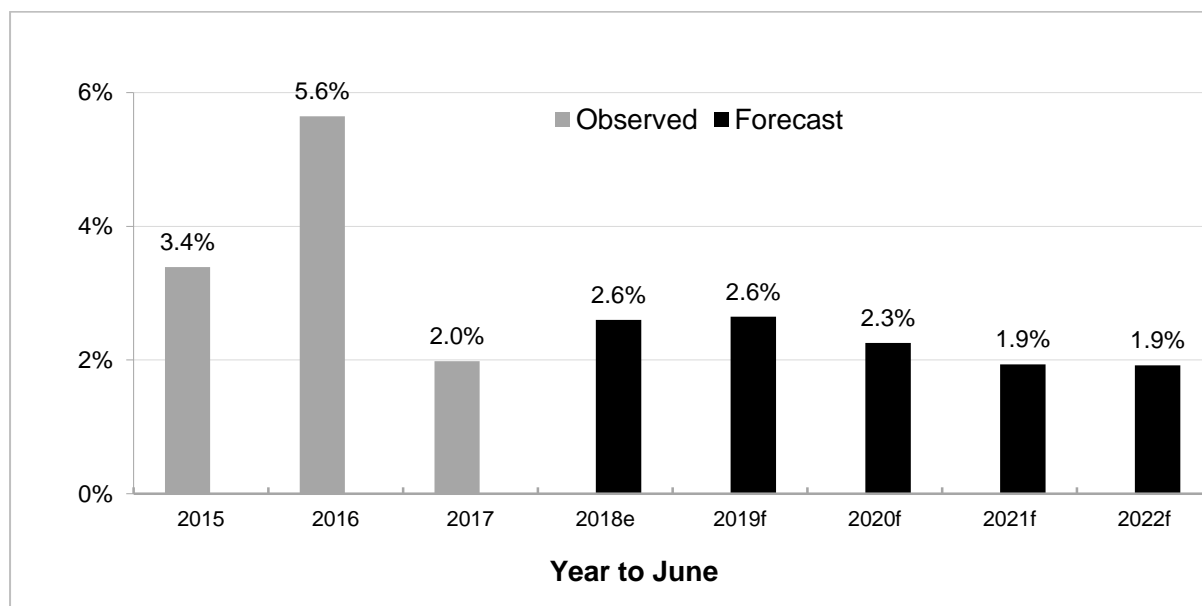


Figure 6.10 shows the forecast percentage change for nominal GDP. A growth rate of 2.6 per cent is estimated in 2017/18, with growth forecast to fall from 2.6 per cent in 2018/19 to 1.9 per cent by the final year of the forward budget period. Average annual growth over the 4-year forward period is forecast at 2.2 per cent.

Figure 6.10: Annual change in nominal GDP (percentage)



6.3.2 GDP expenditure

When assessing the economy using the expenditure approach, MFEM estimates that exports of goods and services contributed 2 percentage points to total nominal growth of 2.6 per cent in 2017/18. Exports are expected to contribute 2 percentage points to growth in 2018/19, falling steadily to 1.4 per cent by 2021/22, due to weaker expected growth in tourism arrivals.

Consumption is estimated to contribute 1.5 percentage points to growth in 2017/18. This comprises 0.7 and 0.8 percentage points from public and private consumption, respectively. Consumption is expected to contribute 1.5 percentage points to economic growth in 2018/19, before falling steadily to about 1.1 percentage points by 2021/22.

Gross fixed investment (public and private) is estimated to contribute 0.5 percentage points in 2017/18. This is expected to remain steady for the next few years as a result of delays in a number of public capital projects, before falling to about 0.3 percentage points in 2021/22.

Imports and imported components of capital expenditure are estimated to have detracted 1.4 percentage points from nominal growth in 2017/18, remaining at a similar level in 2018/19. The negative impact is expected to moderate over the out years to about 1 percentage point as the major donor funded projects wind down.

Table 6.2 provides a summary of the estimated and forecast GDP expenditure from 2017/18 to the end of the budget forecast period, and its major components.

Table 6.2 Nominal GDP Expenditure summary (\$'000)

	2017/18	2018/19	2019/20	2020/21	2021/22
Consumption expenditure	248,095	255,781	264,500	272,587	280,088
<i>Government</i>	117,045	117,045	117,045	117,045	117,045
<i>Private</i>	131,050	138,736	147,455	155,542	163,043
Gross fixed investment	88,530	88,435	85,941	83,400	83,945
Machines, transport and equipment	51,689	53,899	55,441	56,073	56,332
Construction	16,956	15,515	15,801	16,087	16,373
Donor funded gross fixed investment	19,885	19,021	14,698	11,240	11,240
Net exports	97,682	101,592	105,428	108,710	109,598
<i>Exports of goods and services</i>	326,070	339,496	343,336	339,649	349,213
Goods	4,555	4,555	4,555	4,555	4,555
Services	321,515	334,942	338,782	335,095	344,658
<i>Imports of goods and services</i>	228,388	237,905	237,908	230,940	239,615
Goods	183,824	188,135	193,589	198,213	202,487
Donor funded gross fixed investment	19,885	19,021	14,698	11,240	11,240
Imported component of CIG capex	15,706	26,968	27,268	20,468	24,870
GDP expenditure	434,306	445,808	455,868	464,696	473,630

6.3.3 GDP summary

In summary, as shown in Table 6.3, nominal and real GDP growth is expected to remain positive in the coming years, albeit at lower levels, due to continued but slower growth in tourism and investment, both public and private. While high levels of construction are also expected to contribute to economic

growth, the resulting increase in the value of machinery imports and the import of services will likely offset the growth in construction.

Table 6.3 Annual GDP growth summary

	2017/18e	2018/19f	2019/20f	2020/21f	2021/22f
Nominal GDP growth (%)	2.6	2.6	2.3	1.9	1.9
Real GDP growth (%)	1.8	2.3	1.7	1.5	1.4
Implicit GDP deflator (percentage change)	0.8	0.4	0.5	0.4	0.5

6.4 Consumer price index

Inflation in the Cook Islands is measured by the consumer price index (CPI), which is reported on a quarterly basis by the Cook Islands Statistical Office. Aggregate inflation has fallen steadily since about 2011/12, from 2.8 per cent per year then, to minus 0.1 per cent in 2016/17. In 2017/18, CPI is estimated to have risen slightly to an average of 0.4 per cent over the year (Figure 6.11).¹³

Figure 6.11: CPI, year average, 2005/06 – 2017/18 (percentage change)

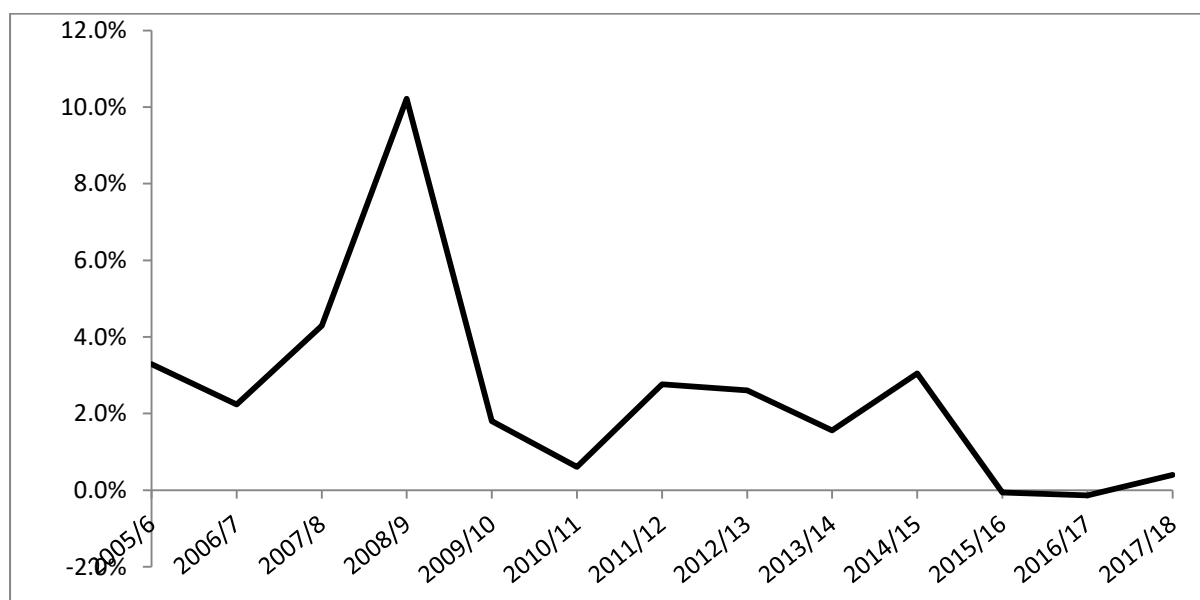
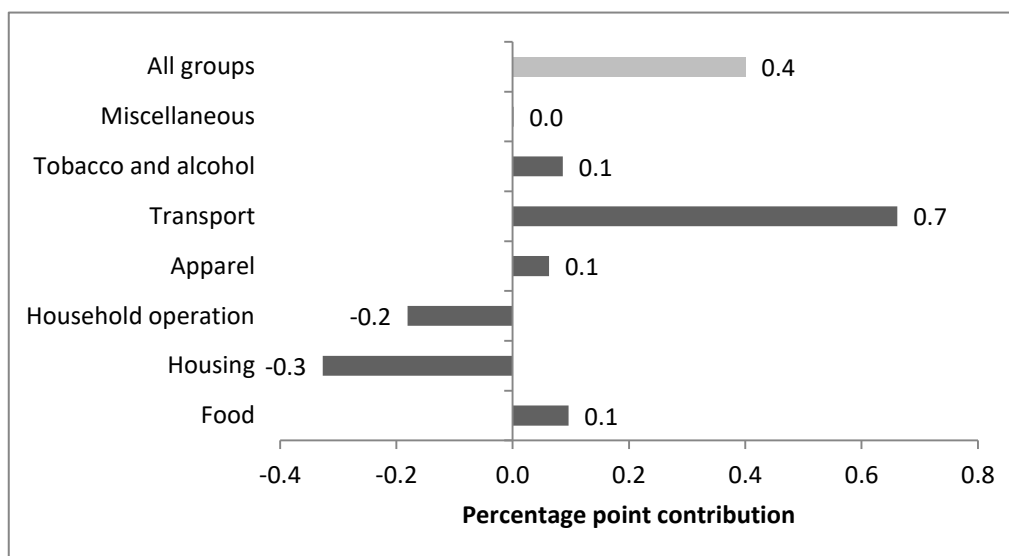


Figure 6.12 shows the contribution to aggregate inflation in 2017/18 by major category. The key driver of the increase was the transport category at 0.7 percentage points, with the household operation and housing categories partially offsetting this rise with falls of -0.2 and -0.3 percentage points, respectively.

¹³ Note that when comparing the June quarter 2018 CPI to the June 2017 quarter, that is a year on year rather than average across the year measure, the CPI for the June quarter 2018 was 0.2 per cent lower.

Figure 6.12: Contribution to 2017/18 average inflation (percentage point)



The rise in transport costs reflects a recovery in the price of oil, as shown earlier in Figure 6.4. While increased competition in flights from New Zealand to the Cook Islands have helped to keep ticket prices low, the rising oil price has affected the cost of overseas travel, as well as the price of fuel and oil in the Cook Islands. Together, the overseas travel and motor fuel and oil sub-categories account for 40 per cent of the transport category weighting in the aggregate CPI measure.

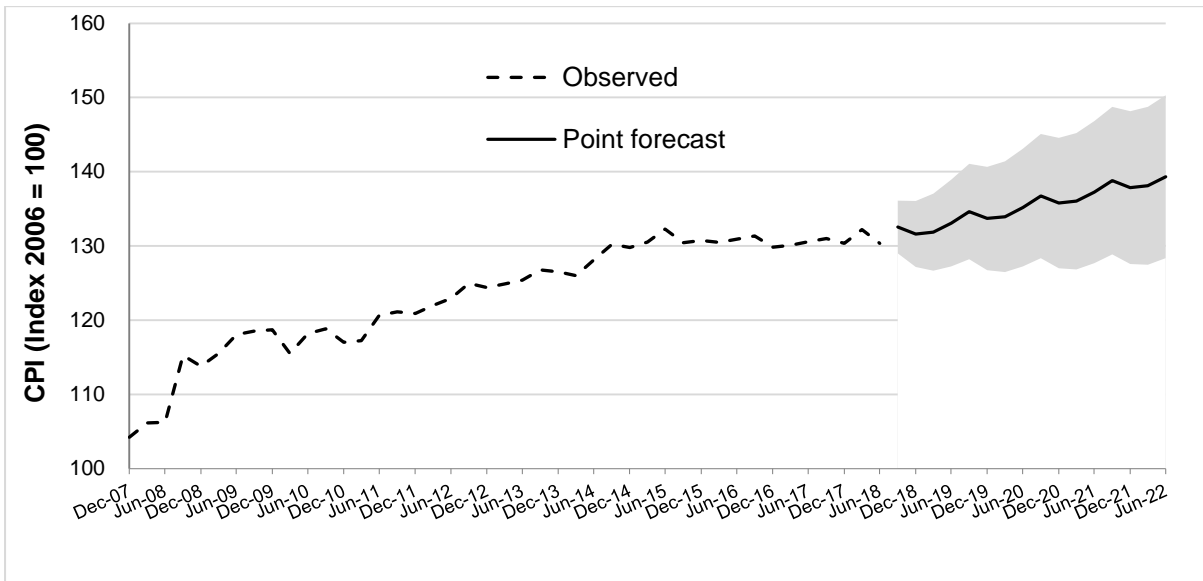
The decrease in the housing category is entirely due to a fall in the rent and mortgages sub-category, despite limited housing supply due to an increase in the use of private homes for short-term tourist accommodation and increased demand for long-term rental accommodation from larger tourism operators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

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

The IMF forecasts improvements in the US economy and a tightening of interest rates going forward both of which are likely to cause the US dollar to strengthen. As such, it is expected that the value of the New Zealand dollar will decrease somewhat over the forward period. This, together with the expectation that global inflation will increase to around 2 per cent in 2018, is expected to push domestic inflation up over the medium-term (through increased costs of imports). Additional demand in the local housing market also has the potential to reverse the deflation currently seen in the housing cost category. In contrast, the expectation that the global price of petroleum and industrial items will slow in 2018 should weaken inflationary pressures from the transport category.

Observed and forecast quarterly CPI from December 2007 to June 2022 is shown in Figure 6.13. A 95 per cent high and low confidence interval has also been computed and is displayed as the shaded area either side of the point forecast time series.

Figure 6.13: CPI, quarterly index, 2007 to 2022



Overall, as shown in Figure 6.14 and Table 6.4, inflation is expected to pick up to 1 per cent in 2018/19 before rising further to about 1.5 per cent per year over the forward budget period on the back of increased pressure from imported inflation and a tightening local housing market.

Figure 6.14: Annual average change in CPI (percentage)

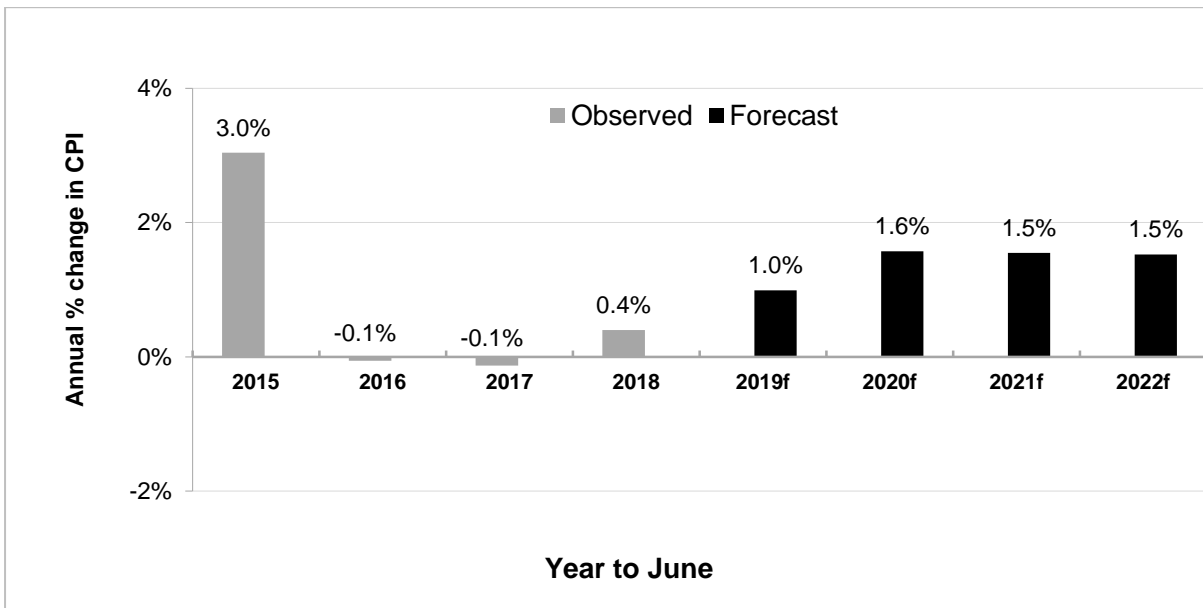


Table 6.4 Annual CPI forecast summary

	2017/18	2018/19f	2019/20f	2020/21f	2021/22f
CPI average annual index	131.0	132.3	134.4	136.4	138.5
CPI average annual percentage change	0.4%	1.0%	1.6%	1.5%	1.5%

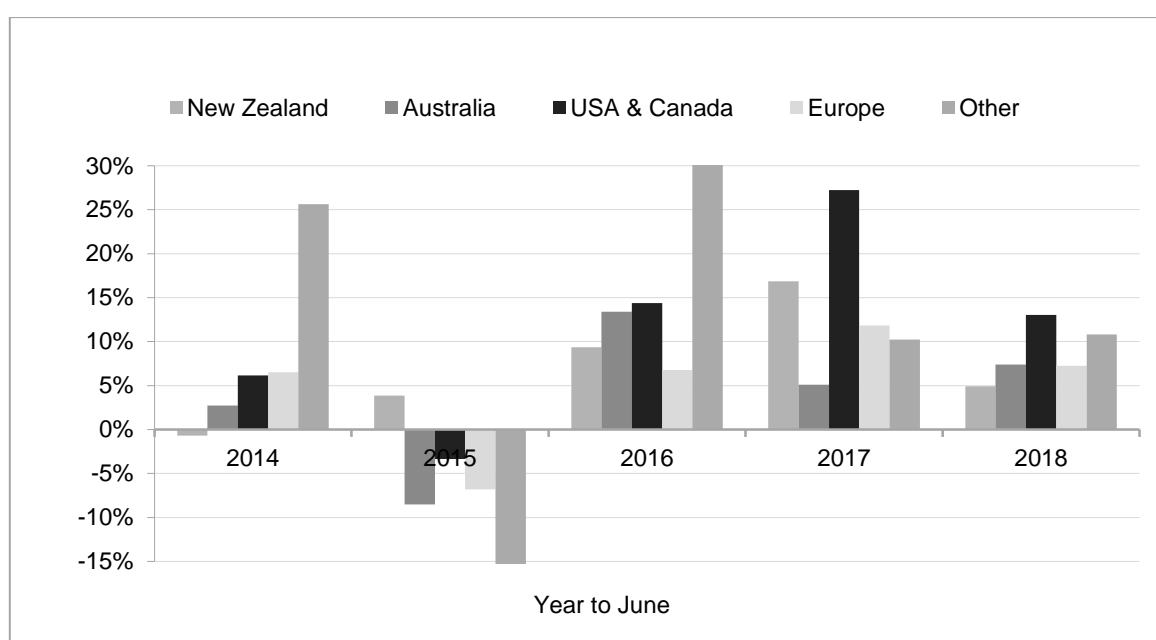
6.5 Tourism

6.5.1 Aggregate tourist arrivals

Continued strong growth in tourist arrivals in 2017/18 has ensured that tourism remains the key driver of economic activity in the Cook Islands. After contracting by 0.9 per cent in 2014/15, the tourism market saw growth of 11 per cent in 2015/16, and 15 per cent in 2016/17. 2017/18 saw lower, but still strong, growth. In the year to June 2018, total visitor arrivals in the Cook Islands reached 164,800, 6 per cent higher than the 155,230 visitors recorded in the year to June 2017.

While New Zealand visitors still dominate the raw numbers, the USA and Canada recorded the highest visitor growth rate in the year to June 2018, with a 13 per cent rise on the previous year's 10,100 visitors to 11,418 (see Figure 6.15). Tourist arrivals from Europe and New Zealand have also grown strongly, at 7.2 and 4.9 per cent, respectively.

Figure 6.15: Visitor arrivals, country of residence (annual percentage change)



Total arrivals for 2018/19 are forecast to be about 172,000, 4.6 per cent higher than the 164,800 seen in 2017/18. As can be seen in Figure 6.16 and Table 6.5, growth is expected to moderate further to 2.5 per cent in 2019/20, before reaching a more sustainable 1.1 per cent by 2021/22.

Figure 6.16: Total visitor arrivals, quarterly, 2008 to 2022

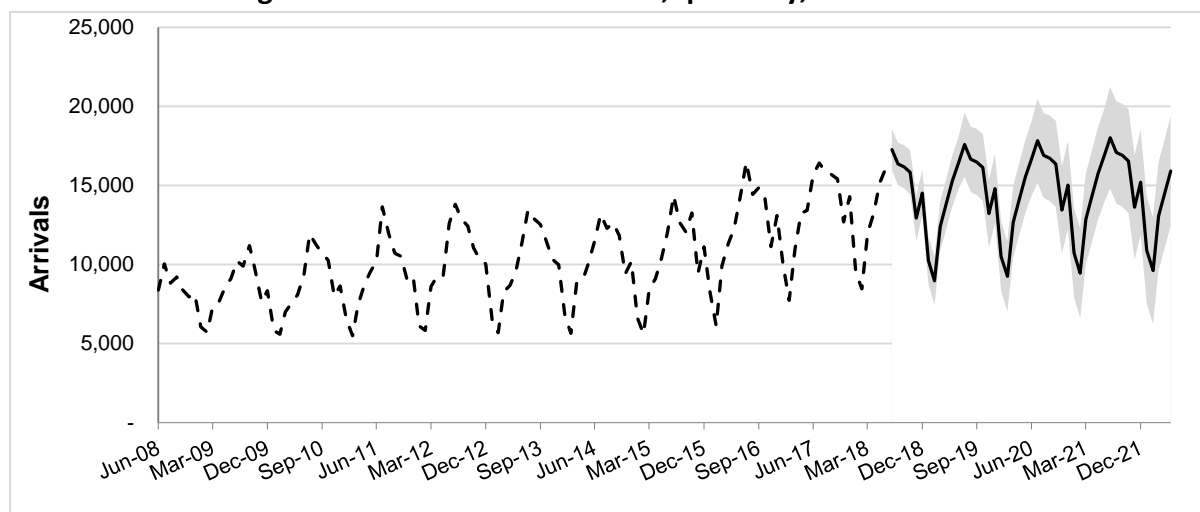


Table 6.5 Estimated total arrivals, quarterly, 2016/17 to 2021/22

Quarters	2016/17	2017/18	2018/19f	2019/20f	2020/21f	2021/22f
September	45,770	47,977	50,068	50,812	51,000	51,000
December	38,464	42,389	43,913	45,163	46,209	46,870
March	28,661	29,949	32,407	33,537	34,492	35,297
June	42,335	44,485	45,660	46,770	47,470	48,006
Annual total	155,230	164,800	172,048	176,282	179,171	181,173

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

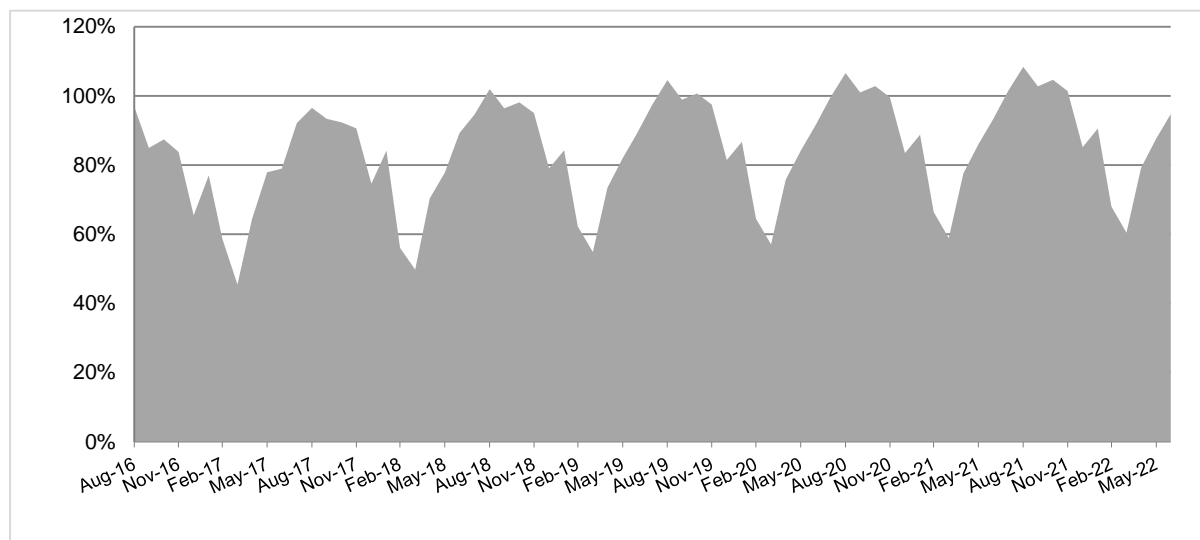
Limited accommodation and infrastructure impact upon the ability of the Cook Islands to carry higher tourist numbers. They also impact upon the tourism industry’s ability to target high value tourists. Recent growth in building approvals for tourist accommodation will increase accommodation capacity. In addition, there has been a large increase in holiday home rentals through online sales such as Airbnb, with 306 rentals listed in August 2018. However, the increase in holiday home availability does not address the shortage in high quality accommodation, thus failing to diversify the market in that respect. Furthermore, the growth in holiday houses places greater pressure on the long-term housing market in Rarotonga, which can in turn have negative implications for resident population numbers.

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

As Table 6.5 indicates, the September quarter (July to September) is the busiest time for tourists, with numbers expected to reach their maximum assumed capacity in this quarter by 2018/19. Figure 6.17 highlights the capacity limitations being experienced in the Cook Islands, by month. During 2018/19, maximum capacity is expected to be reached in the month of July, with more than 90 per cent capacity

expected to be reached during a further 4 months. This situation worsens in 2019/20 with maximum capacity expected to be reached during 2 months of the year, rising to 4 months the following year.

Figure 6.17: Tourism capacity utilisation, monthly, 2016 to 2022



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

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

6.5.2 Major markets

Introduction

The major tourism markets for the Cook Islands are New Zealand with 67 per cent of total arrivals in 2017/18, followed by Australia with 16 per cent and Europe and the USA and Canada at 7 per cent each. Other markets including Asia and French Polynesia make up the remaining 3 per cent. Table 6.6 shows the aggregate tourist arrivals forecasts broken down by major market.

Table 6.6 Estimated total tourism numbers, by major market, 2016/17 to 2021/22

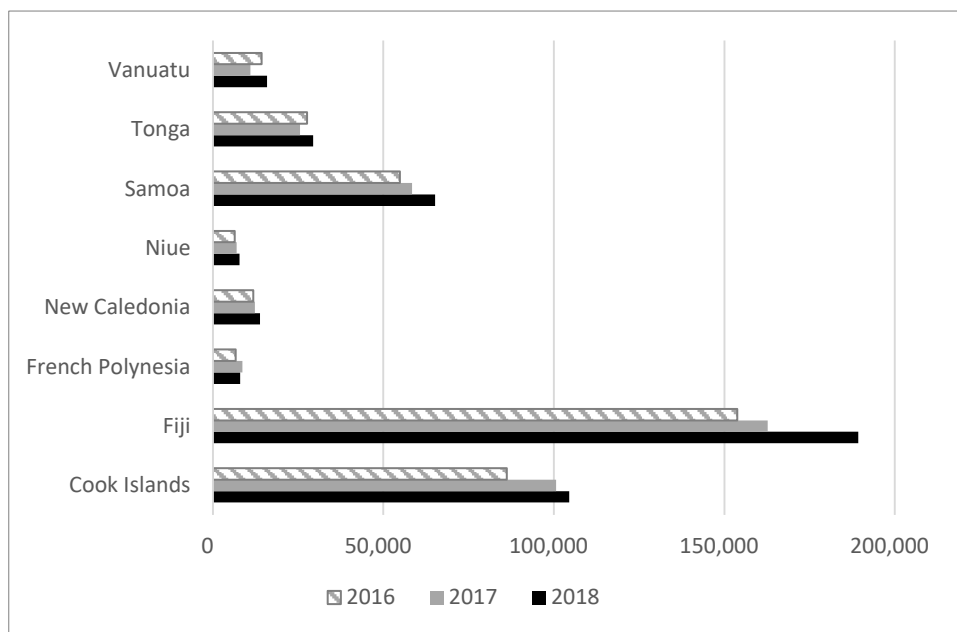
Markets	2016/17	2017/18	2018/19f	2019/20f	2020/21f	2021/22f
New Zealand	105,072	110,227	115,254	118,286	120,174	121,277
Australia	24,578	26,398	26,883	27,283	27,600	27,871
USA & Canada	10,100	11,418	11,739	12,072	12,375	12,659
Europe	11,122	11,928	13,306	13,648	13,958	14,244
Other	4,358	4,829	4,866	4,994	5,064	5,121
Total	155,230	164,800	172,048	176,282	179,171	181,173

New Zealand

Strong growth in the New Zealand market in 2017/18 saw New Zealand visitors continuing to make the strongest contribution to tourist arrival numbers. New Zealand arrivals reached 110,227 in 2017/18, a 4.9 per cent increase over 2016/17.

Growth in tourism numbers from New Zealand is consistent with the general growth in New Zealand outward tourists to the Pacific, which has increased steadily in recent years. Over the past ten years, New Zealand arrivals have grown an average of about 6 per cent a year. The Cook Islands is receiving an increasingly larger share of New Zealand tourists to Oceania, rising from 5.2 per cent in 2015/16 to 6.3 per cent in 2017/18, behind Australia and Fiji.

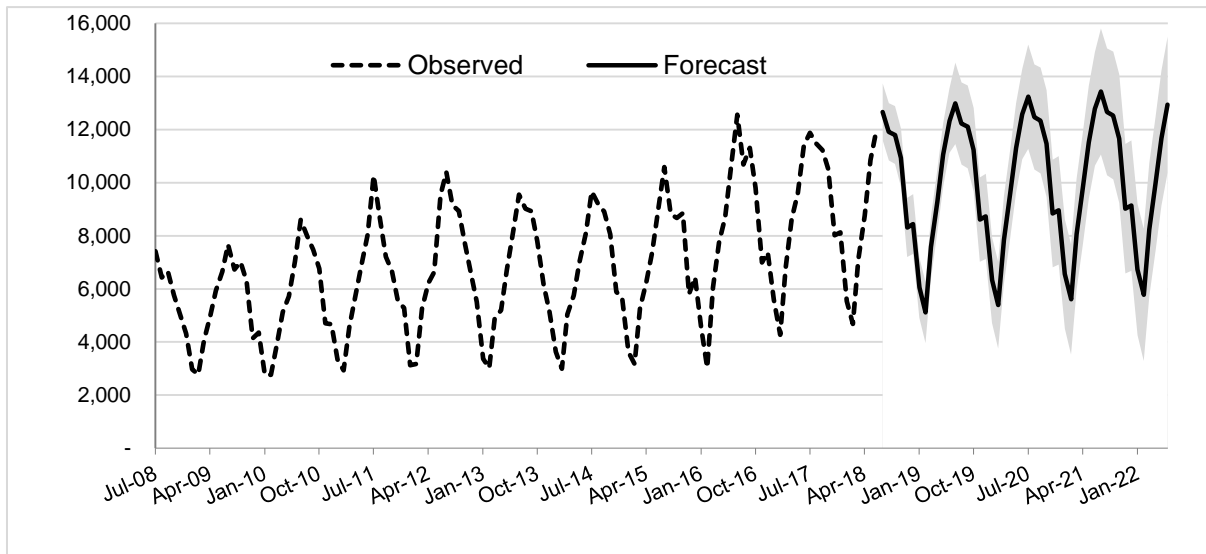
Figure 6.18: New Zealand Pacific outbound tourist numbers, by destination



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

Arrival numbers for New Zealand visitors to the Cook Islands are expected to continue to increase going forward, but at slower rates than in recent years (see Figure 6.19). Growth is projected to be 4.6 per cent in 2018/19, before slowing down to around 0.9 per cent by 2021/22. Total New Zealand arrivals are expected to rise from about 115,254 to 121,277 over this period.

Figure 6.19: New Zealand arrivals, quarterly, 2008 to 2022



Australia

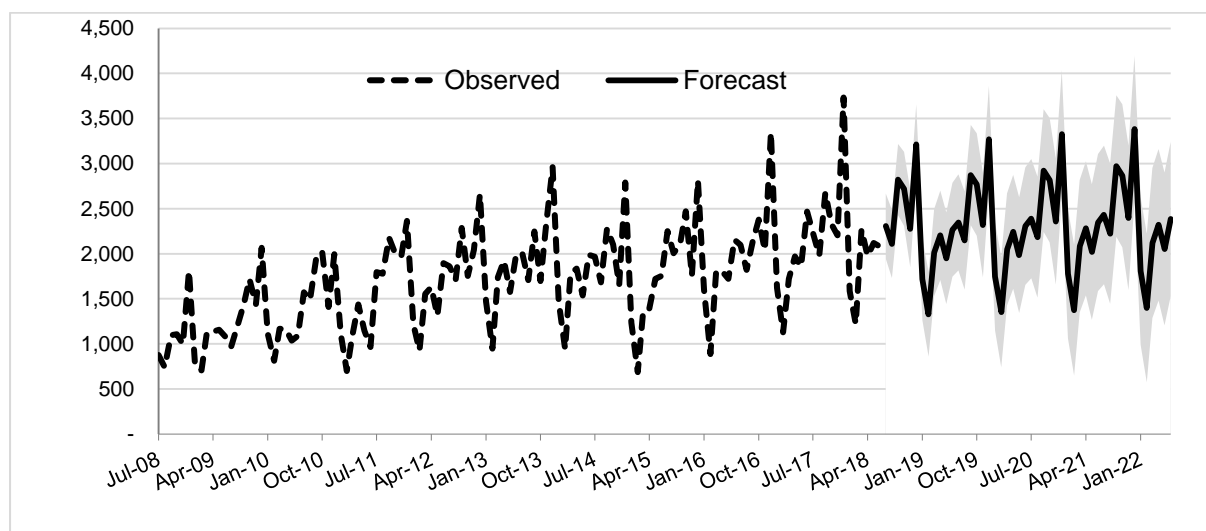
Australia is the second largest tourism market for the Cook Islands. After experiencing a 9 per cent decrease in arrivals in 2014/15, visitor numbers recovered with an increase of about 13 per cent in 2015/16, followed by a further rise of 5 per cent in 2016/17.

In light of this, the Australian market has seen an increase in visitor numbers of 7.4 per cent in 2017/18, rising from 24,578 to 26,398.

The Cook Islands has seen significant growth in Australian visitors over the past ten years, with growth averaging about 9 per cent per year. This is off the back of strong growth in Australian outbound tourism (5.5 per cent from May 2017 to May 2018) and the increase in flights from New Zealand to Rarotonga which has increased interconnection options from Australian cities. Tourism Australia forecasts that outbound tourist numbers will continue to grow in Australia, increasing by 4 per cent to 10.5 million in 2017–18, and by 4.2 per cent to 10.9 million in 2018–19.

Arrival numbers for Australian visitors to the Cook Islands are expected to moderate going forward. Growth is projected to be 1.8 per cent in 2018/19, dropping to about 1 per cent by 2021/22 (see Figure 6.20). Australian visitors are expected to increase from about 26,398 to 27,871 over this period.

Figure 6.20: Australia arrivals, quarterly, 2008 to 2022



Other markets

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

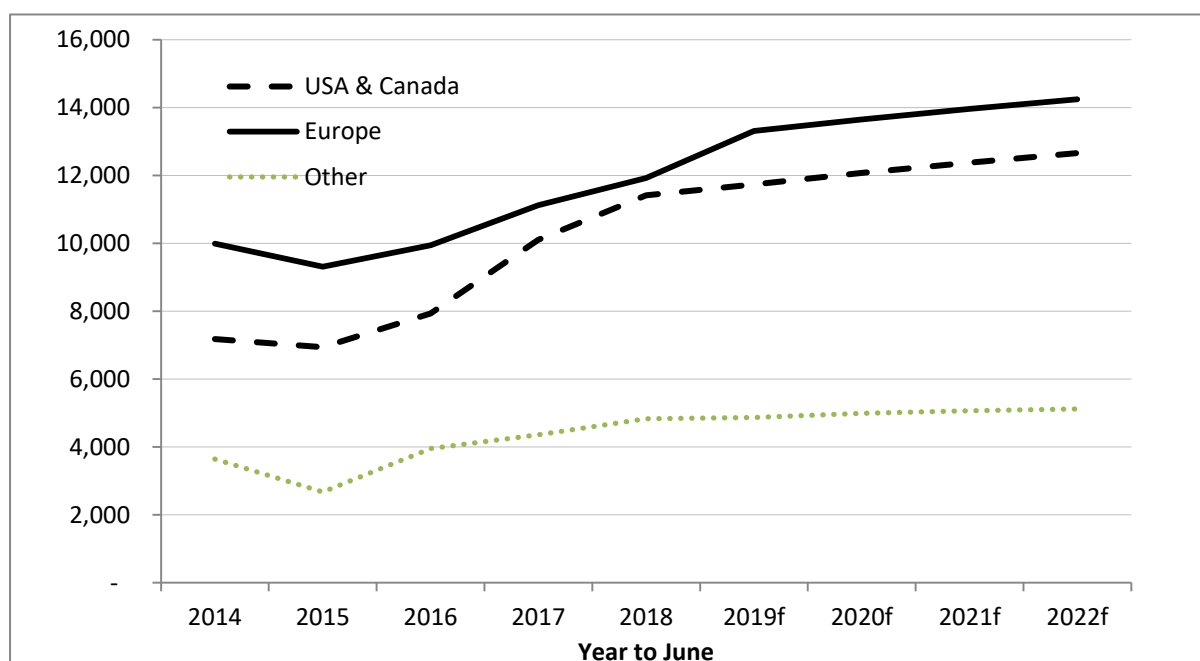
Arrivals from the United States increased by 9.3 per cent in 2017/18, to 8,131 from 7,436. Growth in 2018/19 is projected to be lower at 2.4 per cent and then expected to fall further to about 1.2 per cent. As with the United States, there has been strong growth in Canadian visitors in the past two years, albeit from a low base. Growth in 2015/16 was 9.9 per cent, followed by 23.4 per cent in 2017/18. Arrivals rose from 2,664 to 3,287 in the year to June 2018. Growth is expected to remain strong over the medium term, averaging about 5 per cent per year over the forward budget period.

The prospects for the North American market have been bolstered by the recent extension of the contract for the underwritten airline route between Los Angeles and Rarotonga. Moreover, a strengthening US dollar should have a positive impact on tourist numbers.

Visitor numbers from Europe grew by 6.8 per cent in 2015/16, 11.8 per cent in 2016/17 and 7.2 per cent in 2017/18. Growth is expected to remain high over the medium-term, averaging about 4.6 per cent per year.

The strong growth in arrivals from Asia in recent years slowed in 2017/18. Arrivals increased by 31.5 per cent in 2015/16, 27.6 per cent in 2016/17, with 2017/18 growth of only 2.5 per cent. Average growth of about 3.7 per cent per year is expected over the forward budget period. After a strong increase of 23.7 per cent in visitors from French Polynesia in 2017/18, growth is expected to contract going forward.

Figure 6.21: Other major markets arrivals, 2014 to 2022



6.6 Housing and construction

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

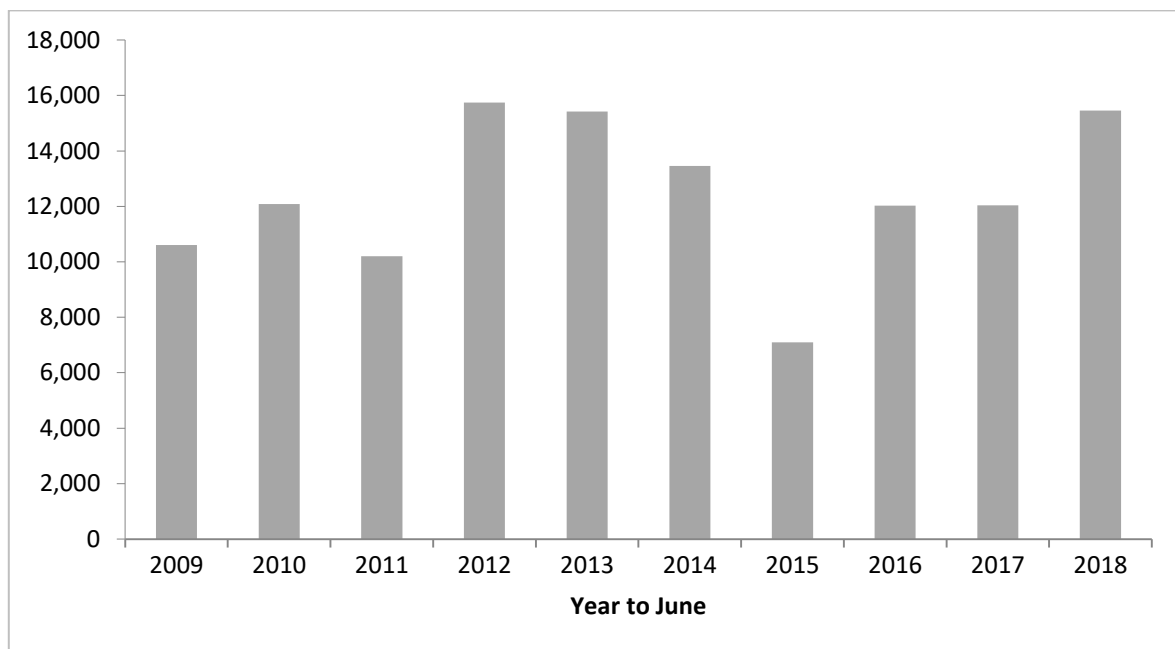
In 2015/16 residential approvals increased by 166 per cent to \$15.4 million. In 2016/17, residential approvals fell by 23 per cent to \$11.9 million, and remained steady in 2017/18, increasing by just 1 per cent to \$12 million. Anecdotal evidence, together with the significant growth in residential approvals

during a period of strong tourism growth, suggest that a large share of these residential approvals is for holiday houses, rather than residential living.

Commercial building approvals rose significantly in 2015/16 and 2016/17, at 55 and 366 per cent, respectively, peaking at \$24.5 million. This was largely due to a number of large community projects such as Apii Nikao and Tereora College, with both undertaking major redevelopment. Commercial approvals fell by 67 per cent to \$8 million in 2017/18, although still at a historically high level.

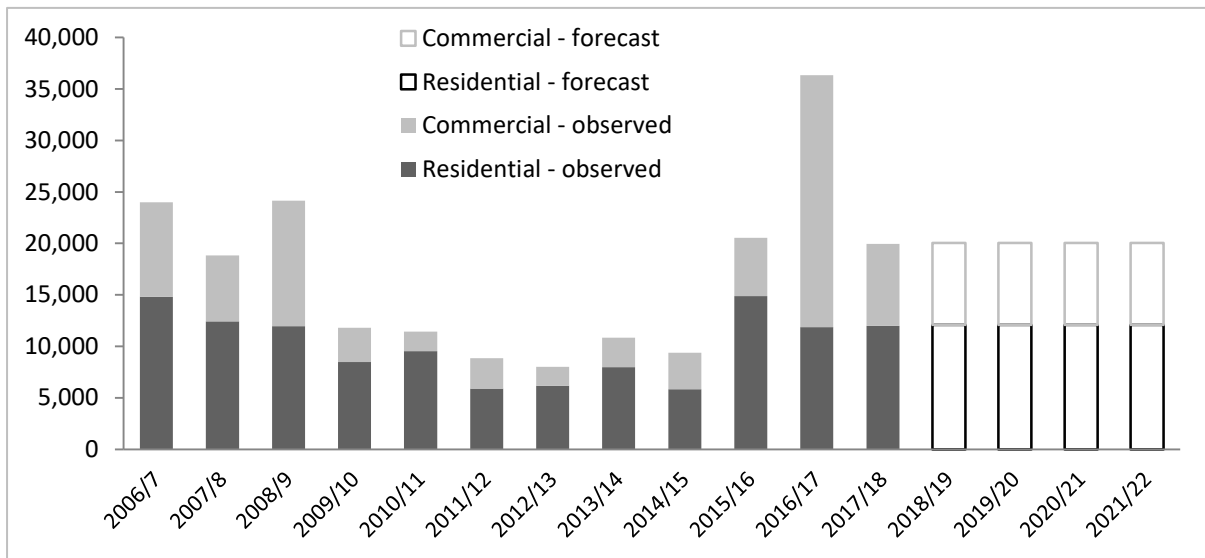
The unprecedented level of the value of building approvals in recent years is reflected in the performance of the construction sector of the Cook Islands economy. The construction sector's contribution to GDP, shown Figure 6.22, has risen from \$7.1 million in 2014/15 to an estimated \$15.5 million in 2017/18.

Figure 6.22: Construction sector contribution to real GDP, 2008 to 2018 (\$'000)



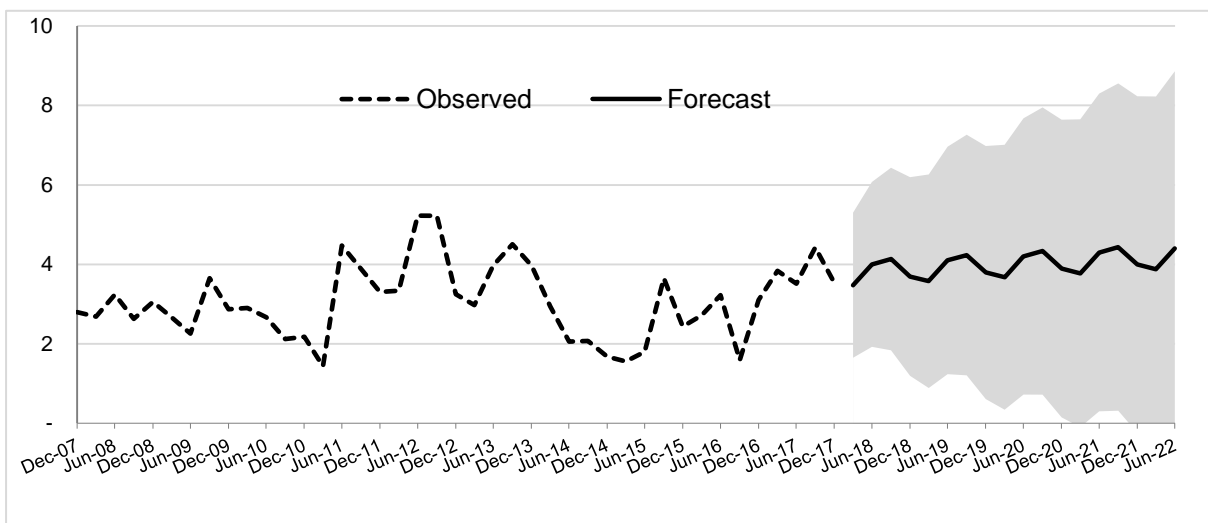
Going forward it is expected that both residential and commercial building approvals will stay at similar levels to those seen in 2017/18, reflecting the expected level of construction activity to service the tourism market (see Figure 6.23).

Figure 6.23: Value of building approvals, 2006/07 to 2020/21, \$'000



The expected level of building approvals over the forward budget period is reflected in the steady state medium-term forecast for the construction sector as a whole shown in Figure 6.24.

Figure 6.24: Construction sector forecast, 2007 to 2022 (\$ million real)



6.7 Marine resources

6.7.1 Fishing

The main benefit to the Cook Islands Government from fishing activities is revenue from treaty arrangements, license fees and the sale of catch quotas. The provisional revenue estimate for 2017/18 is \$10.6 million.

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

A significant portion of revenue comes from the purse seine fishery, where the Cook Islands has

been assigned a total of 1,250 fishing days for the 2018 calendar year by the Western Central Pacific Fisheries Commission (WCPFC).

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

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

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

For the 2018 calendar year, the average price for a fishing day is expected to be between \$12,500 to \$13,500 dollars, depending on exchange rates which affect the US Treaty; and the EU fisheries partnership. Projected fisheries revenue for 2018/2019 is about \$10 million. The sources of revenues include:

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

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

Fishing activities

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

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

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

The total commercial catch for all vessels was 19,334 MT in 2015, a decrease from 21,466 in 2014. This is entirely driven by a decrease in the longline catch.

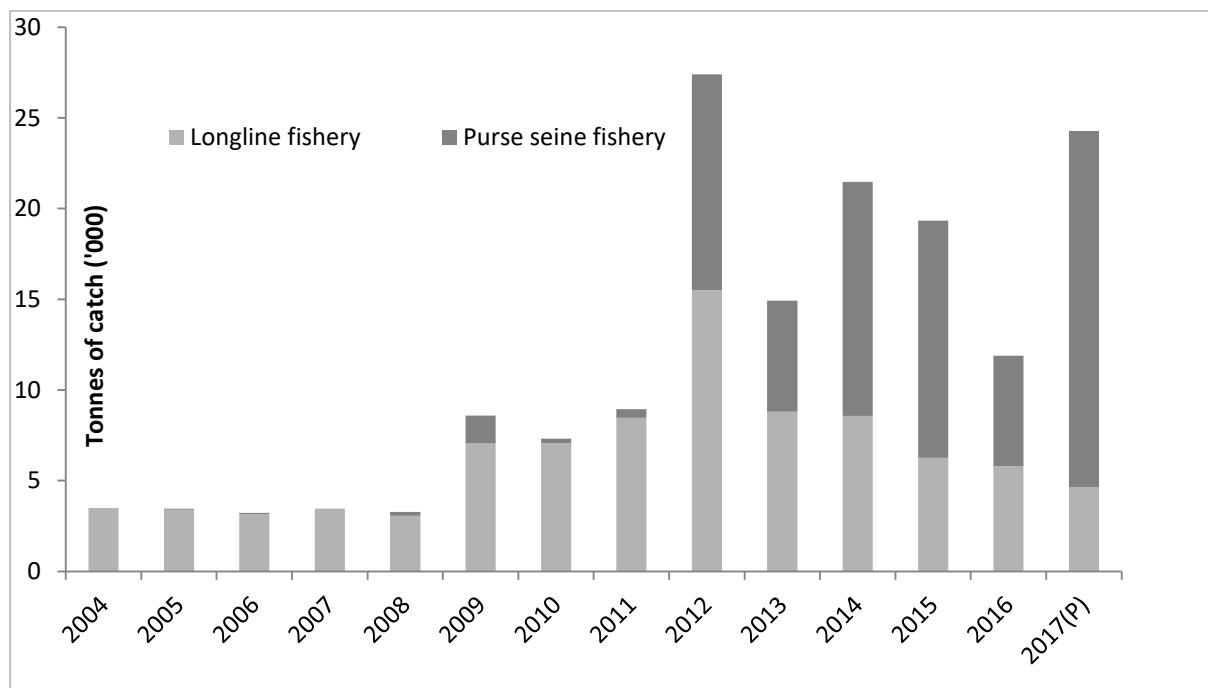
In 2016, the Government of the Cook Islands approved a quota management system for two longline fisheries tuna species. This was implemented through the Marine Resources (Large Pelagic Longline

Fishery and Quota Management System) Regulations 2016 (QMS) which came into force on 1 January 2017, by placing a quota limit on the Albacore (ALB) and Bigeye Tuna (BET) fisheries in Cook Island waters.

The QMS Regulations placed a commercial quota limit or total allowable commercial catch (TACC) and total allowable catch (TAC) for each of the species being;

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

Figure 6.25: Fishery catch in the Cook Islands EEZ (MT)



The Cook Islands also supports a small local fishery of artisanal and fishing game operators. In 2015, 142 MT was caught by local fishers, with an estimated catch of 140 MT in 2017 for the Southern group. Albacore and yellow fin tuna together accounted for around 80 per cent of species caught by long line in 2017, with a decrease in yellow fin in 2016 compared to 2015 (Table 6.7). With the increase in purse seining, Skipjack was the most caught species overall in 2017, approximately 17,492 MT which accounts for 72 per cent of the total catch.

Table 6.7 Fishery catches in the Cook Islands EEZ by species (MT)

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

In 2017, a total of 101 licensed vessels were managed by the MMR. These include 54 long liners, 38 purse seiners, 2 high seas trawlers and 8 bunker vessels. In addition there were 265 local artisanal and game charter fishing boats reporting catches to the MMR (Table 6.8).

Table 6.8 Number of active fishing vessels

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

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

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

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

One domestic commercial fishing company, with three Cook Islands' flagged vessels, operates in the southern Cook Islands waters, and offloads its fresh catch at Rarotonga for sale in the domestic market and to be exported. For Cook Island domestic vessels that unload in Rarotonga, 286 MT was unloaded in 2017 compared to 179MT in 2016. The volume of exports increased from 15 to 25 MT over this period.

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

Table 6.10 Catch landed at Avatiu Port (MT)

	2013	2014	2015	2016	2017
Cook Islands flagged vessels					
Fresh catches offloaded	105	194	188	179	286
Fresh catches to be exported by airfreight	15	23	115	125	25
Chinese flagged vessels					
Frozen by-catch sold locally	23	18	0	0	0
Frozen catches to be exported by sea freight	121	1,882	363	399	0
Total	264	2,117	666	703	311

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

In 2017, the Ministry of Marine Resources (MMR) in conjunction with Secretariat of the Pacific Community (SPC) held an introductory Training workshop in Avarua. The workshop was targeted for MMR outer-islands Fisheries Officers. The workshop trained officers for the integration of coastal monitoring and data collection methods and the streamlining of this process through the use of E-reporting mediums, such as the android 'Tails' application developed by the SPC.

MMR anticipates improved coverage in artisanal data collections with the introduction of reporting initiatives such as the Pacific Community (SPC) 'Tails' application, which is designed to synchronise artisanal catch data to the database automatically from mobile devices. A significant outcome of this is that the technology can operate with limited internet connectivity and provides a solution to the problems of geographic isolation that is experienced on many islands.

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

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

6.7.2 Black pearls

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

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

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

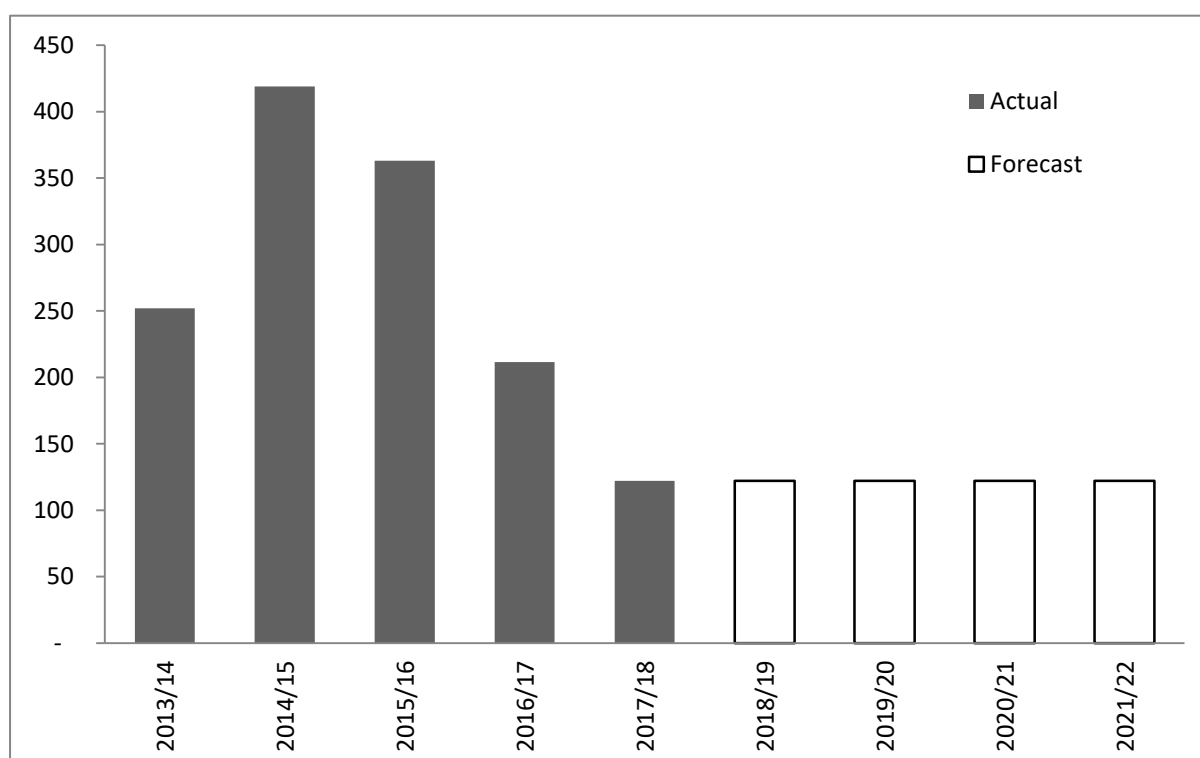
The total levels of production based on seeding and harvest reports submitted by farmers to MMR indicate that annual production levels average just below 200,000 farmed oysters (Table 6.11). Data for 2016 was incomplete at the time of writing.

Table 6.11 Pearl production, 2009-2016

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

In 2017/18, the value of pearl and pearl shell exports fell to \$122,000, down from \$211,000 in 2016/17 (Figure 6.26).

Figure 6.26: Pearl exports, 2012/13 -2021/22 (\$'000)

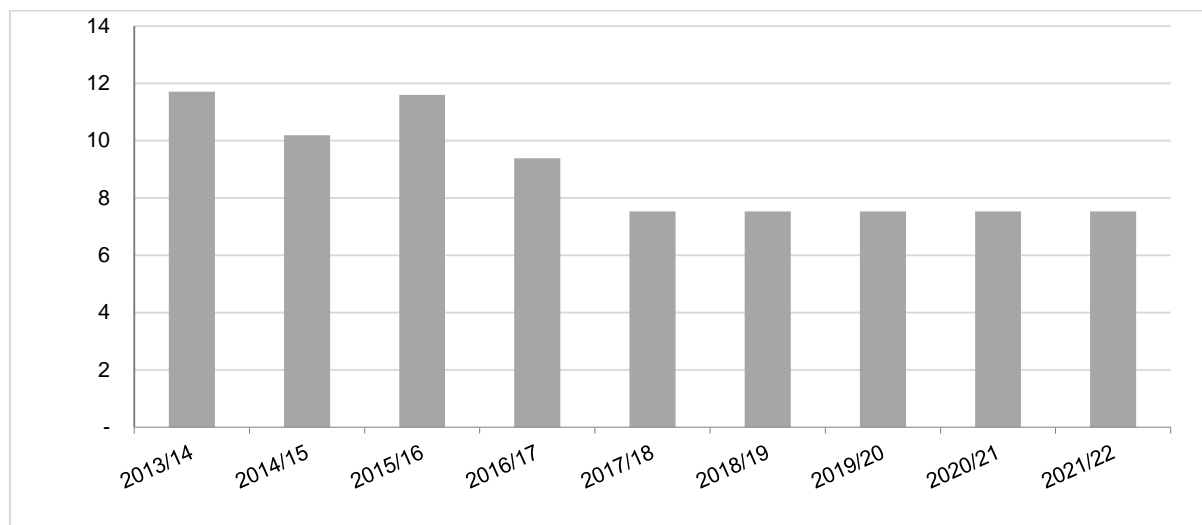


6.7.3 Economic contribution

The Fishing and Pearl sector accounted for 2.8 per cent of real GDP in 2016/17, and is estimated to account for about 2 per cent in 2017/18. The sector contracted by 19 per cent in 2016/17 from

\$11.6 million to \$9.4 million in real terms. A further contraction is expected in 2017/18, falling to about \$7.5 million. The outlook for the sector over the budget forecast period is steady, as shown in Figure 6.27 .

Figure 6.27: Fishing and pearl contribution to GDP, annual, 2013/14 to 2021/22 (\$m real)



6.7.4 Water quality monitoring

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

Regular water quality monitoring is undertaken on the islands of Rarotonga, Aitutaki and Manihiki due to the tourism industry on Rarotonga and Aitutaki and the pearl industry on Manihiki. Water parameters are analysed, reported and graded against three standards of reference: bacterial count, water clarity (combination of suspended solids and chlorophyll a) and nutrient concentration. Monthly reports are then disbursed to key stakeholders and other interested groups to help advise and guide management decisions. In Manihiki, these monthly reports are essential for advising pearl farmers when water conditions are, or are not, suitable for farming activities.

Water quality checks suggest that the overall quality of water is improving in Muri, possibly as a result of better sanitation and new building regulations, however spikes of poor water quality do occur. The health of Muri lagoon is crucial to the success of the tourism sector.

Similar tests in Manihiki between 2015 and 2018 highlight incidents of poor bacterial conditions amongst relatively good water quality in Manihiki. Such information is vital to maintaining a healthy and sustainable pearl industry within the lagoon.

Figure 6.28: Rarotonga and Aitutaki streams

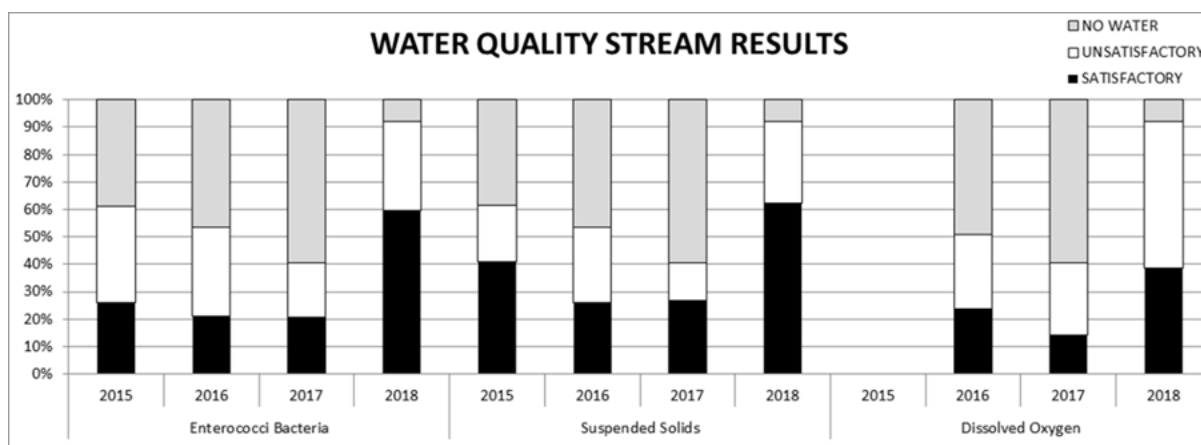


Figure 6.28 shows the data for Rarotonga and Aitutaki Streams combined. The results show that since 2017 there has been a 40 per cent improvement in the bacteria levels, and that the availability of water has improved from 60 per cent no water in 2017 to 10 per cent no water in 2018.

MMR assesses the lagoon water on Rarotonga, Aitutaki and Manihiki based on three main variables – bacteria levels, water clarity and dissolved oxygen percentage. The data shows satisfactory results for bacteria, with the majority over 90 per cent. Water clarity (suspended solids) shows variable results, while dissolved oxygen levels show some improvement in 2018 over the previous year.

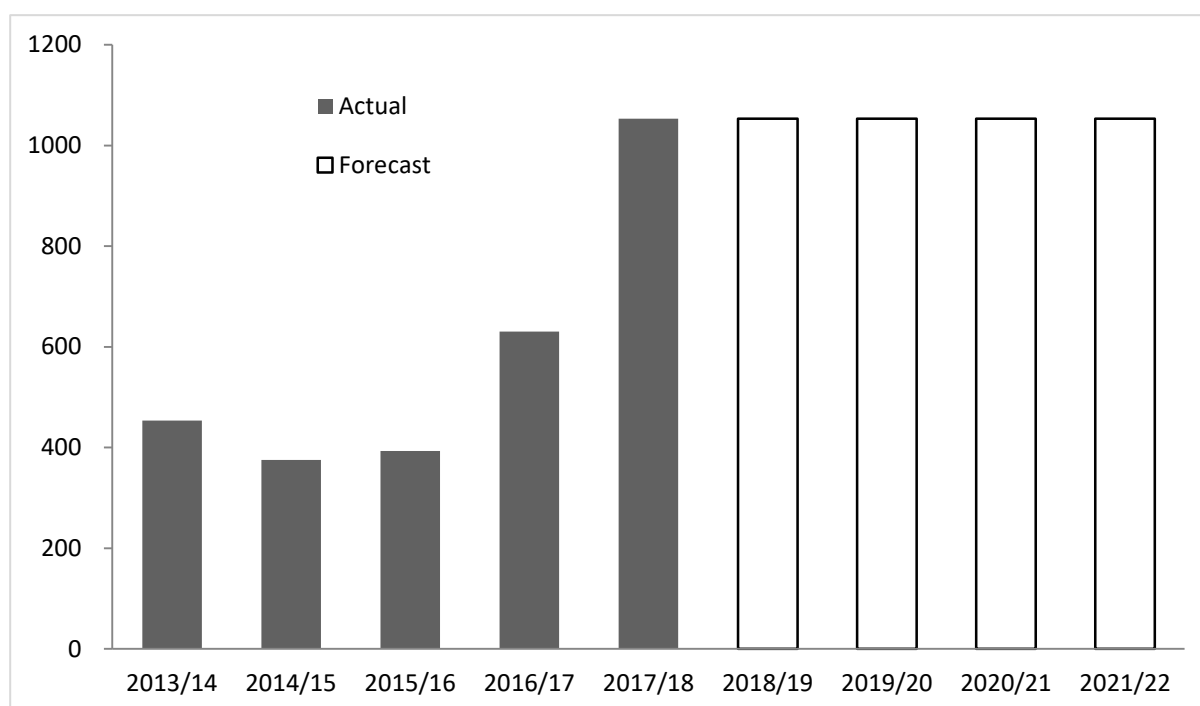
6.8 Agriculture

The Agricultural sector accounted for 3.1 per cent of real GDP in 2016/17, and is estimated to account for 3.2 per cent in 2017/18. The sector grew by 4.7 per cent in 2016/17 from \$9.9 million to \$10.4 million in real terms. Further growth is estimated for 2017/18, rising by 3.1 per cent to \$10.7 million.

This growth was underpinned by a significant expansion in agricultural exports in 2016/17 and 2017/18, following a decrease in 2015/16. Noni Juice remains the main export commodity product from the Cook Islands, with the primary export markets in Japan, China and, more recently, South Korea. Minor export volumes of processed agricultural products such as virgin coconut oil, vanilla extracts, A-grade vanilla beans and Tamanu seed oil extracts are some of the new export products that are increasing in demand.

Total agricultural exports, almost entirely comprised of Nono, rose from \$630,000 in 2016/17 to just over \$1 million in 2017/18, an increase of 67 per cent (see Figure 6.29).

Figure 6.29: Agriculture exports 2013/14 to 2021/22 (\$'000)



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

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

Domestic hydroponic and summer vegetable production continues to grow, bridging the gap in fruit and vegetable supply value chains during the 'production off-season'. There has also been an increase in the number of hydroponics and summer house facilities on Rarotonga, Aitutaki and Northern Pa Enua. The Ministry of Agriculture is also investing in vanilla shade houses to boost production of this high value crop for export and the local market.

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

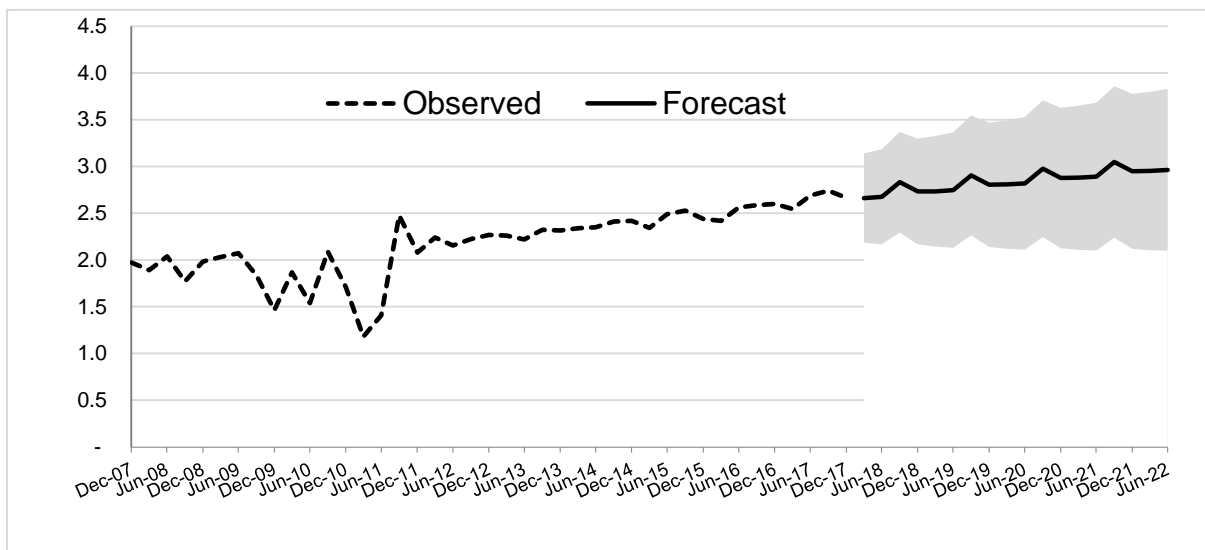
The Cook Islands has considerable potential for increased demand in local agricultural production (products such as drinking coconuts, coffee and cocoa, root crops, ornamentals, tropical fruits, vegetables, honey production, processing and value adding products, including handicraft products). Despite this potential, there are a number of constraints that limit growth in the agriculture sector:

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

The MOA is establishing better data systems to ensure that more robust information and resources are available to help the ministry and farmers better understand the various challenges and trends in the agricultural industry. An example of this is the Agriculture Market Bulletin that the MOA publishes on a monthly basis. The bulletin utilises data collected from the main Punanga Nui market to inform vendors, farmers and consumers of the types of fresh produce sold by value, price and weight to enable producers to better meet consumer demand at the best price.

A steady economic outlook for the agriculture sector is expected over the budget forecast period, as shown in Figure 6.30.

Figure 6.30: Agriculture contribution to GDP, quarterly, 2007 to 2022 (\$ million real)



6.9 Goods imports and exports

6.9.1 Goods imports

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

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

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

Looking forward, import growth is expected to moderate from 2018/19, averaging about 2.4 per cent per year, for two reasons (see Figure 6.31). The first relates to the maturation of the current large capital projects, which will reduce the importation of machines, transport and equipment. The second is the expected slowdown in the growth of tourism arrivals which should drive lower growth in the importation of food and live animals. Looking further ahead, once the Masterplan for Mei Te Vai Ki Te Vai is finalised, and accurate expenditure forecasts are known, imports are expected to increase.

Figure 6.31: Value of total goods imports, quarterly, 2007 to 2022 (\$'000)

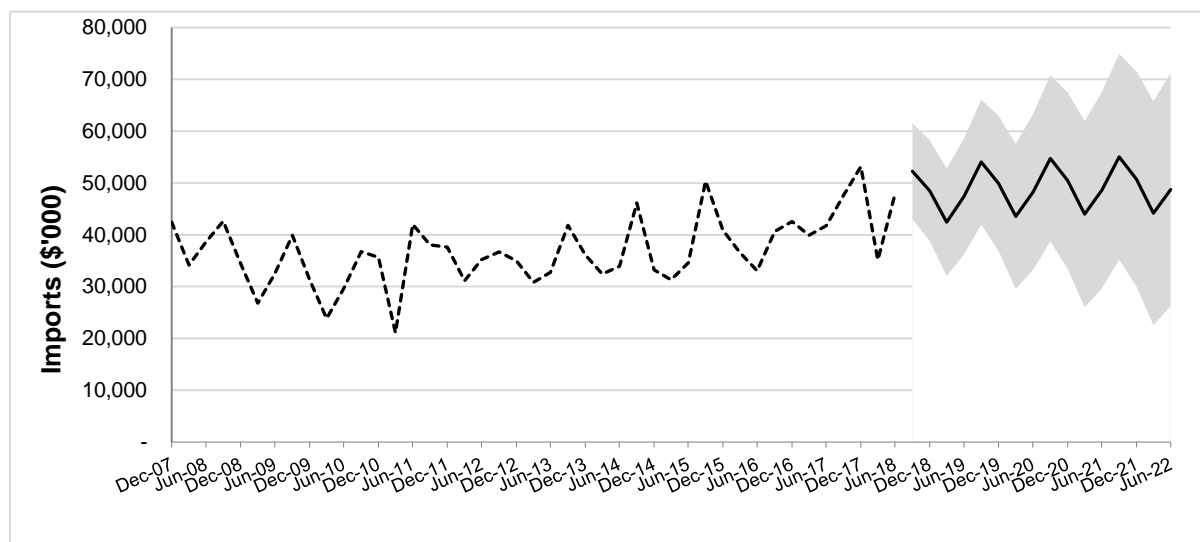
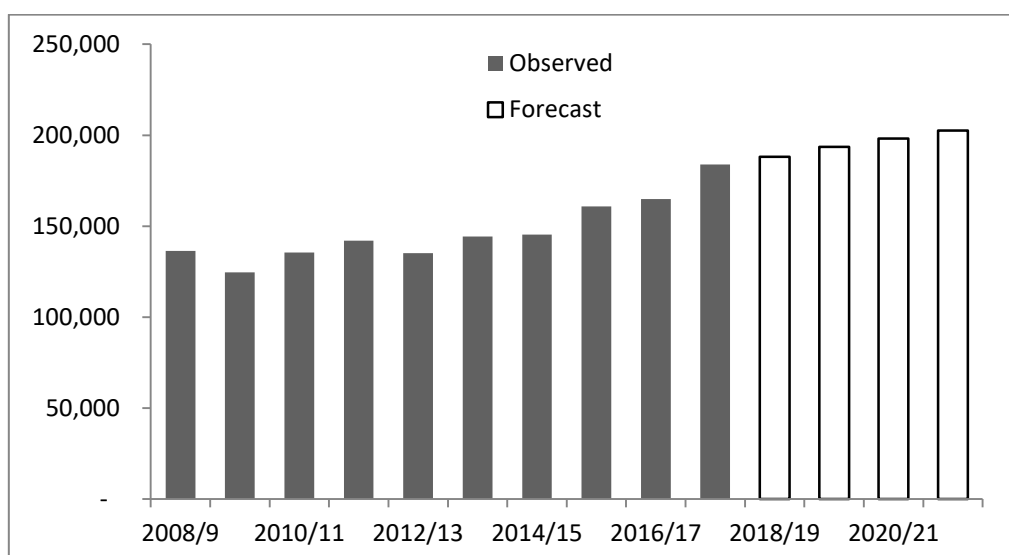


Figure 6.32 shows the projected annual value of total goods imports over the forward budget period.

Figure 6.32: Value of total imports, annual, 2008/09 to 2021/22 (\$'000)

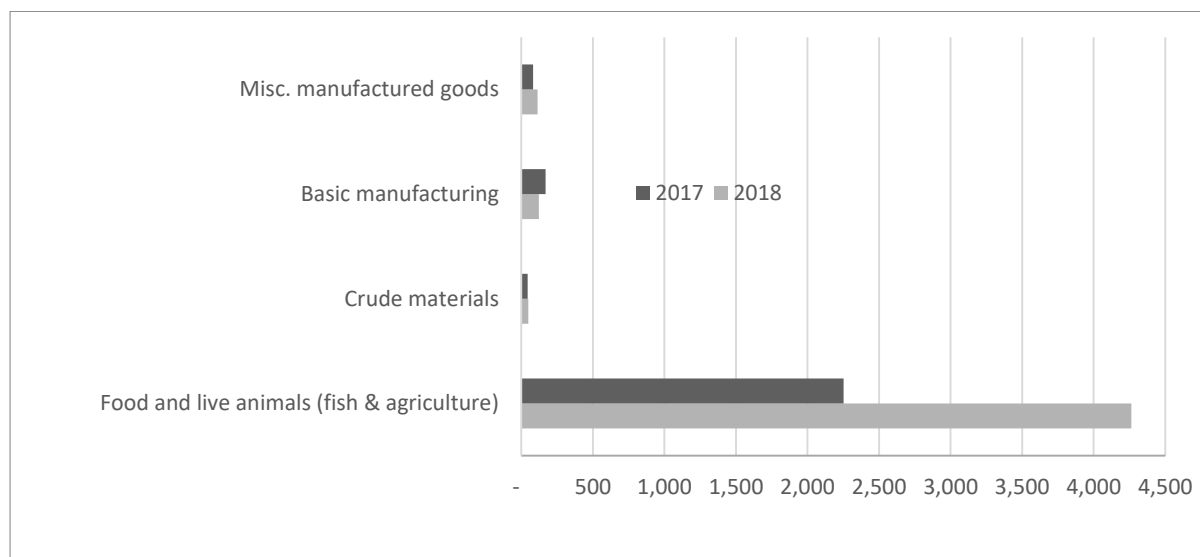


6.9.2 Goods exports

The value of goods exports from the Cook Islands are in the process of being revised to remove the value of fisheries exports from the Cook Islands EEZ. The numbers provided here are early estimates of the changes. Even after these revisions, fresh and chilled fish dominate the goods exports figures.

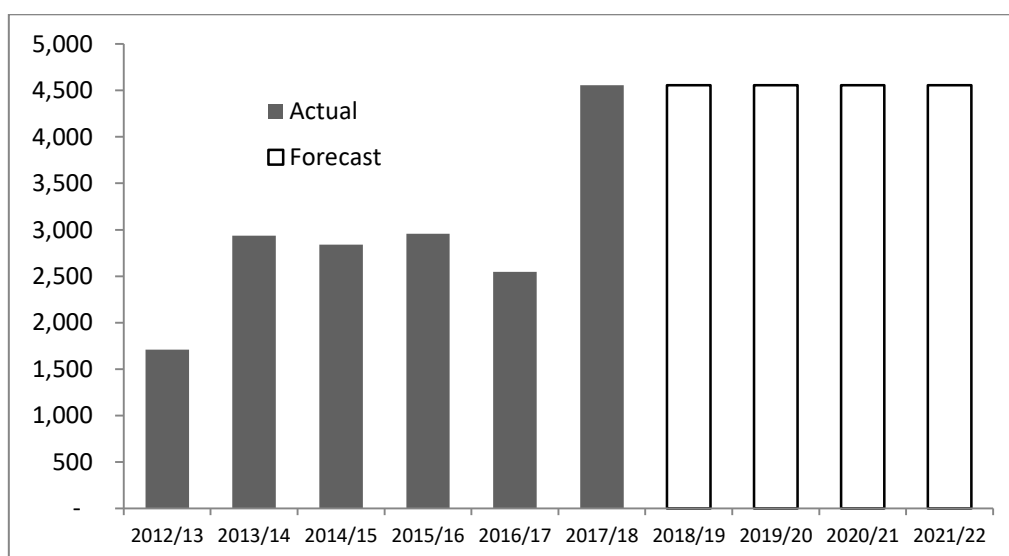
Total goods exports performed strongly in 2017/18, increasing by 79 per cent to \$4.6 million. This growth is largely attributed to growth of 90 per cent in the export value of fresh and chilled fish (see Figure 6.33). Manufactured goods exports also increased, by 39 per cent, albeit from a low base, to \$114,000 from \$82,000. Basic manufacturing exports fell by 28 per cent from \$170,000 to \$122,000.

Figure 6.33: Major goods exports, 2016/17 to 2017/18 (\$'000)



Looking forward, the value of goods exports is expected to remain steady, as shown in Figure 6.34. The forecast values should be treated with caution until the fisheries adjustments are finalised.

Figure 6.34: Total goods exports 2012/13 to 2021/22 (\$'000)

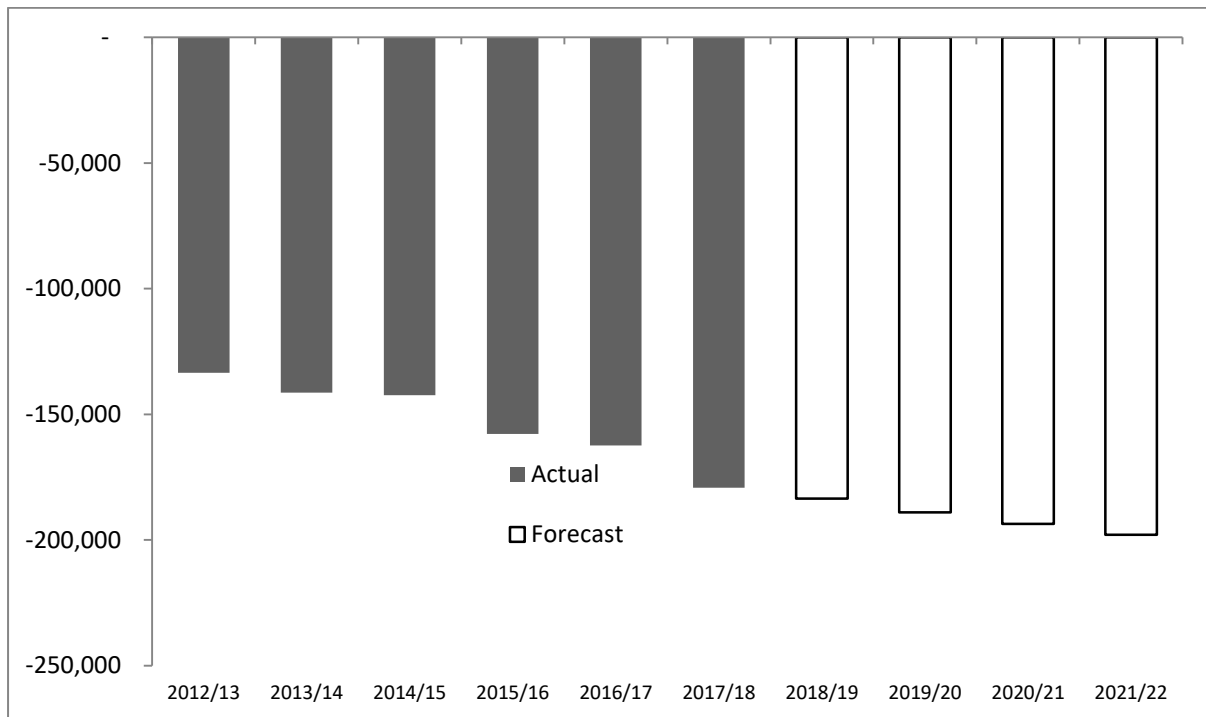


6.9.3 Merchandise balance of trade

Due to the strong growth in imports, a negative merchandise balance of \$179.3 million is estimated for 2017/18, an increase from the negative \$162.3 million in 2016/17. Looking forward, the trade

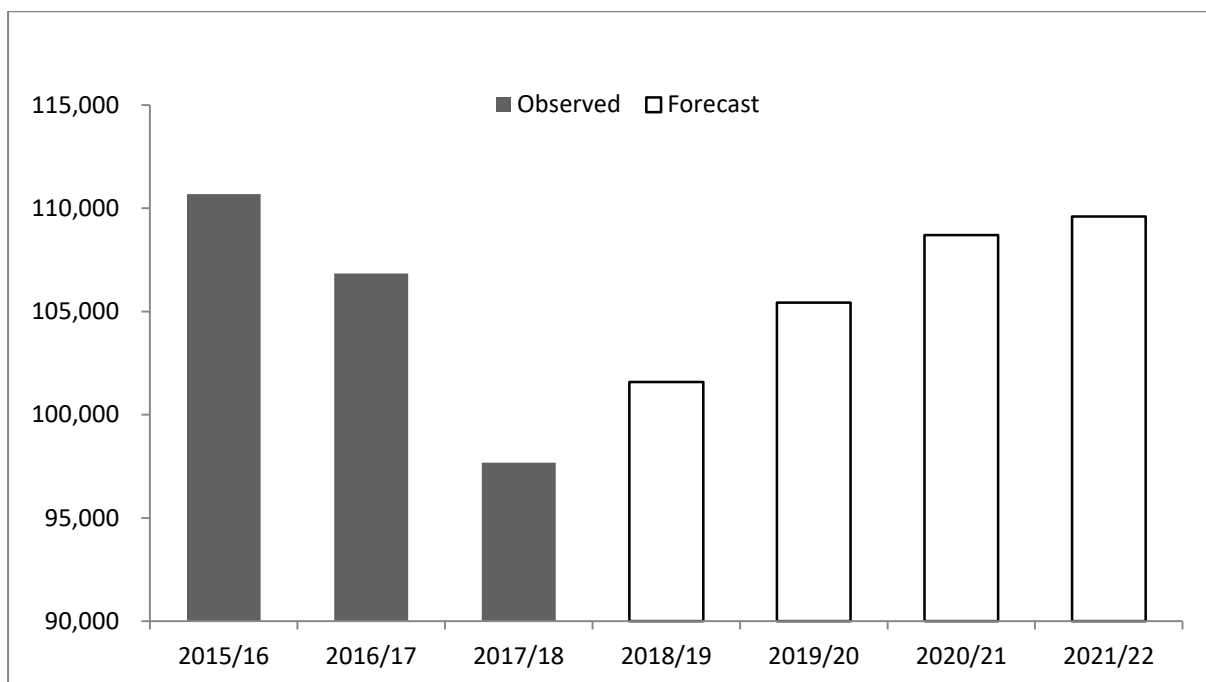
balance is expected to slowly deteriorate reflecting the moderate growth in imports and stable exports outlook.

Figure 6.35: Balance of trade (goods) 2012/13 to 2021/22 (\$'000)



Despite the increasingly large deficit in the merchandise trade balance, the overall trade balance is highly positive due to healthy services exports from the tourism industry. The balance fell marginally in 2017/18 from \$119.8 million to \$113.5 million as a result of the growth in imports. Looking forward, as shown in Figure 6.36, the overall trade surplus is expected to improve over the budget forecast period in line with growth in tourism spending.

Figure 6.36: Overall balance of trade, 2015/16 to 2021/22, (\$'000)

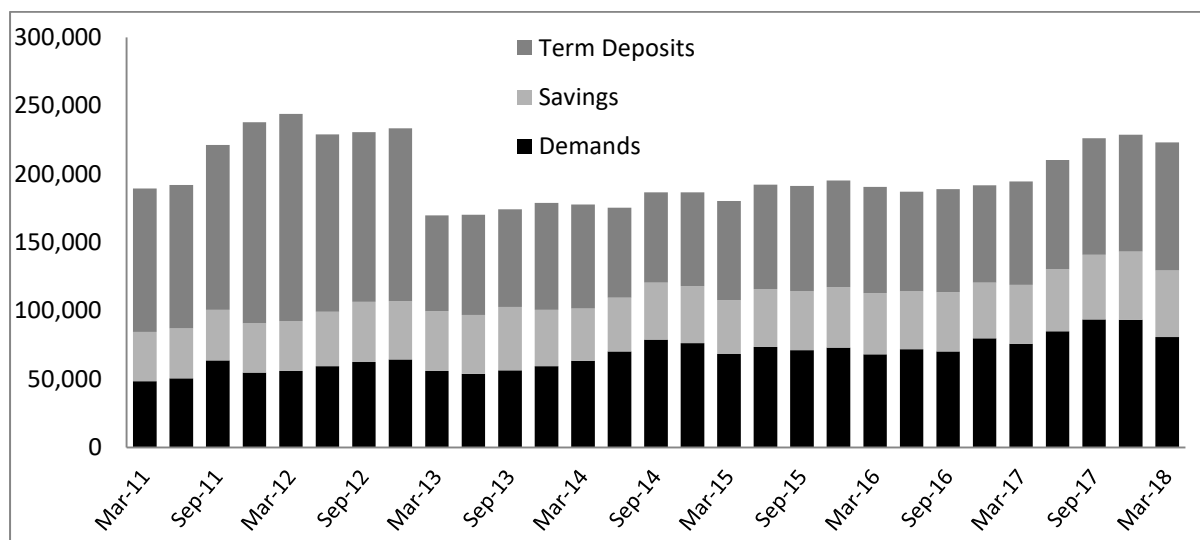


6.10 Banking and finance

6.10.1 Deposits

Total deposits in Cook Islands banks in March 2018 when compared to March 2017 rose by 15 per cent from \$194.6 million to \$223 million. The key driver of this increase, about 63 per cent, was a steep rise in term deposits, from \$75.8 million to \$93.6 million. A significant portion of the increase in deposits is a result of an increase in Government cash reserves resulting from the Government's underspend of appropriated funds.

Figure 6.37: Total value of bank deposits, March 2011 to March 2018 (\$'000)

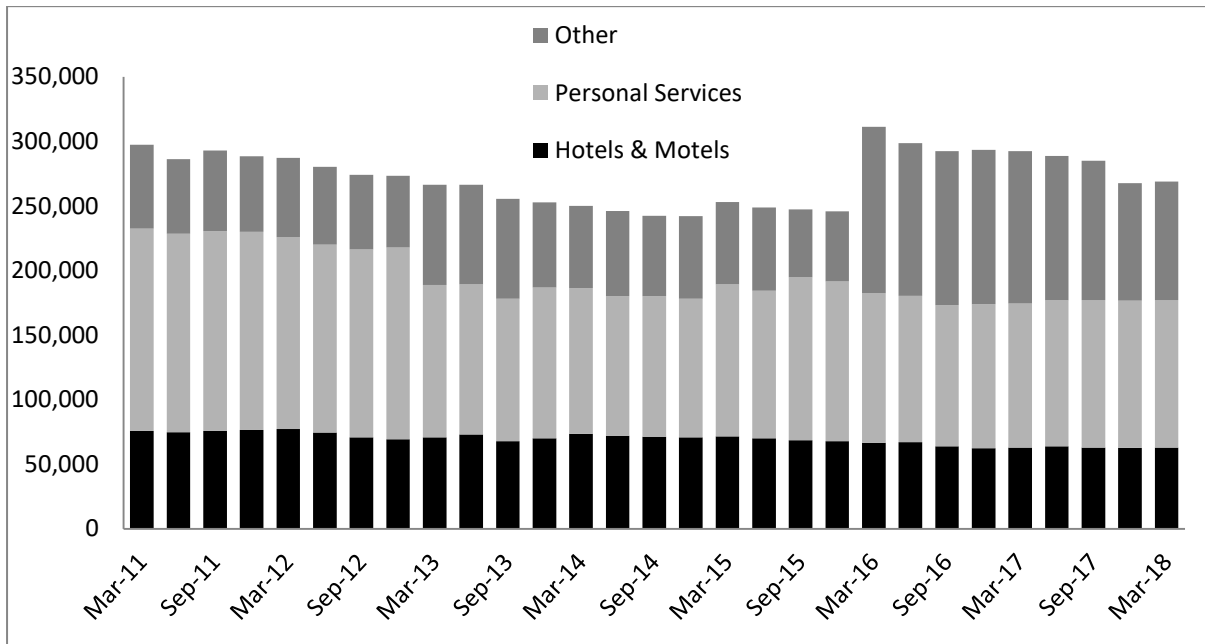


6.10.2 Loans

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

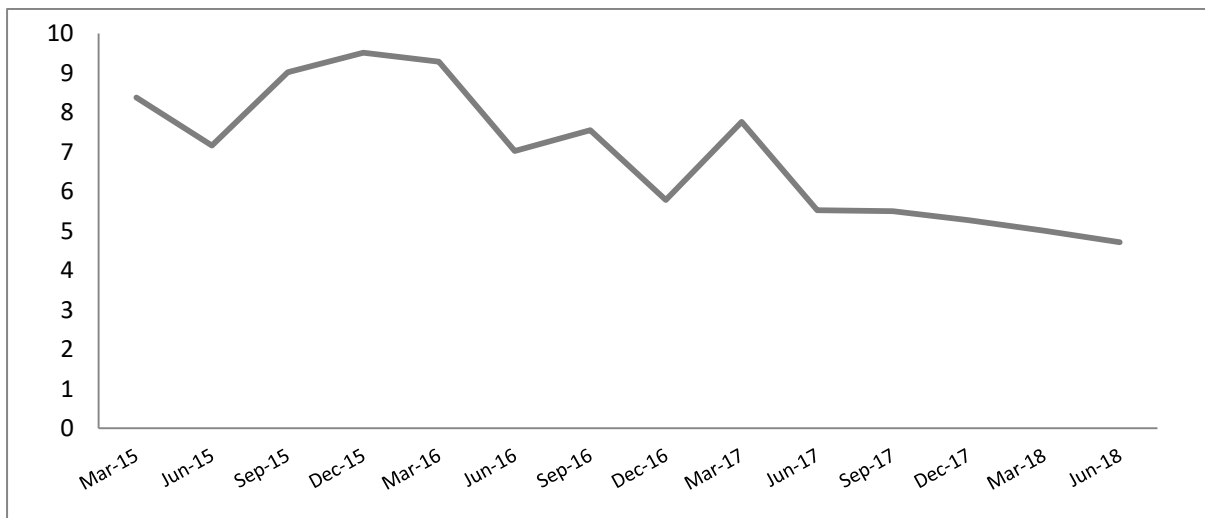
Total lending by Cook Islands banks in March 2018, when compared to March 2017, fell by 8 per cent from \$292.3 million to \$268.9 million (see Figure 6.38). Agriculture and fishing, Hotels and motels, Transport and communications, Personal services and Other categories all recorded increases, but not enough to offset a substantial fall in the Finance and business category. Finance and business loans fell by 48 per cent from \$61.3 million in March 2017 to \$31.9 million in March 2018.

Figure 6.38: Total value of bank loans, March 2011 to March 2018 (\$'000)



In June 2018, the proportion of non-performing loans (loans that are longer than 90 days due) to total gross lending continued its declining trend, falling to 4.7 per cent from 5.5 per cent in the same quarter of 2017 (see Figure 6.39).

Figure 6.39: Non-performing loan ratio, March 2015 to June 2018



6.11 Financial services industry

The financial services industry, defined as trustee companies, banks, insurance companies and money exchangers, employs about 262 staff, accounting for approximately 5.3 per cent of total employment in the Cook Islands.¹⁴

¹⁴ Based on surveys conducted in February 2017 and February 2018 by the Financial Services Development Authority. The employment rate is estimated using the number of active Cook Islands National Superannuation Fund members as a proxy for total employees in the Cook Islands, which was 4,906 as at March 2018.

The financial services industry is expected to pay net fees of \$1.3 million for services undertaken in 2018/19. The estimated value is affected by changes in US dollar exchange rates, as registration fees are generally denominated in US dollars. This estimate does not include revenue generated by company and value added taxes in relation to the financial services industry, nor does it include miscellaneous revenue generated by the Financial Supervisory Commission.

The industry continues to comply with international regulatory standards and is now considered to be a world leader. At the end of 2013, numerous amendments to existing industry legislation were enacted to address areas of improvement highlighted in the Cook Islands' 2012 OECD Global Forum Phase One Peer Review. The Phase Two Peer Review took place in May 2014 and a positive report was adopted at the Global Forum's session in early 2015. The next Global Forum review is scheduled for the second half of 2019.

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

The Cook Islands has now completed its second mutual evaluation with the Asia Pacific Group on Money Laundering (APG) after an 18-month process. The Mutual Evaluation Report (MER) was adopted by the APG with a planned publication date in September 2018. In 2018, the Cook Islands has further improved and is now rated top in the world for Technical Compliance, achieving Largely Compliant and above in respect of 38 of the 40 FATF Recommendations, in relation to implementing international regulatory standards. The recent MER report is a significant achievement for the Cook Islands.

There has been an increase in the number of trust registrations which is expected to increase the number of entity registrations and generated fees. Foundation registrations continue to increase but are still relatively small in number. Captive Insurance is the newest service, with legislation passed in June 2013. The first Captive registration occurred in April 2015 and slow growth is anticipated given the nature of the global captive industry. The International Trusts Act is in the process of being reviewed and updated. Focus continues on promotion of the Cook Islands in Asia, particularly for trusts, foundations, and companies.

Like other international financial service centers, the Cook Islands financial services industry still faces challenges, such as the international bank “de-risking” environment and international scrutiny. The industry continues to improve in implementing international standards and was chosen by international bodies, such as the World Bank, as the jurisdiction of choice to establish the Pacific Catastrophe Risk Insurance Facility in 2016.

7 Revenue

7.1 Total revenue

Total Crown revenue (including ODA) is estimated to reach \$246.5 million in 2018/19. This revenue comprises:

- taxation revenue: \$148.2 million
- Cook Islands Government (CIG) non-tax revenue: \$37.2 million. In the table below, revenue from fishing and motor vehicle dealers is captured under non-tax revenue (despite being described as indirect taxation later on in this chapter).
- Core Sector Support from New Zealand: \$7.7 million
- Official Development Assistance (ODA): \$53.5 million

Table 7.1 provides total revenue amounts (including ODA) as classified by the IMF Government Financial Statistics Manual 2001.

Table 7.1 Total GFS Revenue 2017/18 to 2021/22 (\$'000)

	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Budget	Estimate	Projected	Projected
Taxes	140,587	148,153	154,282	160,101	165,633
Core Sector Support	7,730	7,730	7,730	7,730	7,730
ODA Grants ¹⁵	50,565	53,454	30,260	10,553	30
Other Revenue ¹⁶	40,358	37,201	36,251	36,323	37,303
Total Crown Revenue	239,240	246,538	228,523	214,707	203,098

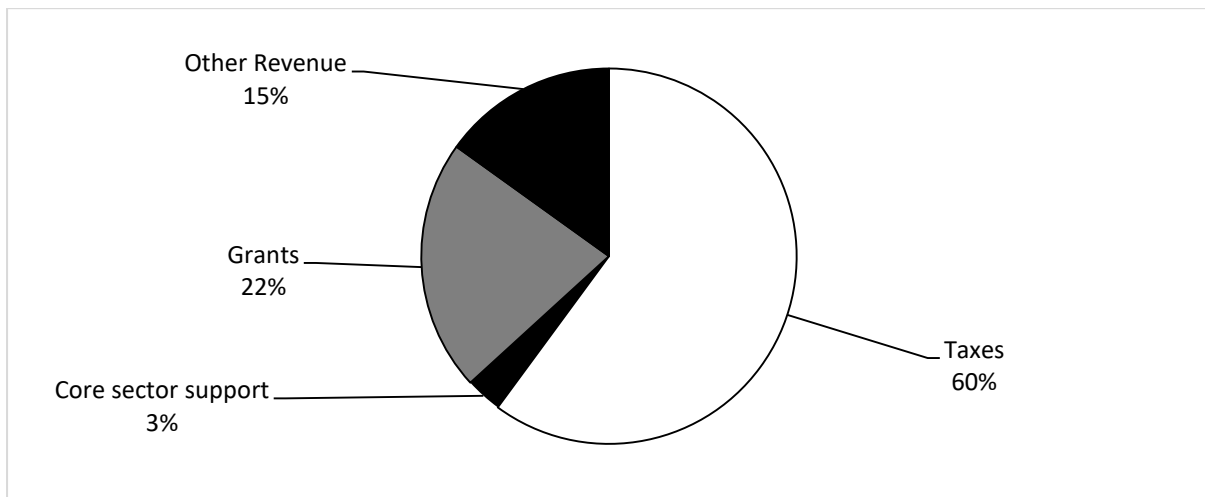
As illustrated in Figure 7.1, total Crown revenue in 2018/19 and the outer years consists mainly of general taxation, which comprises 63 per cent of total revenue, with a significant, but declining contribution from Official Development Assistance grants.

The remaining revenue is from sources such as the sales of goods and services, dividends from SOE's, fines and interest on deposits held by Government.

¹⁵ Excludes core sector support.

¹⁶ Includes social contributions for employee liability and trading revenue.

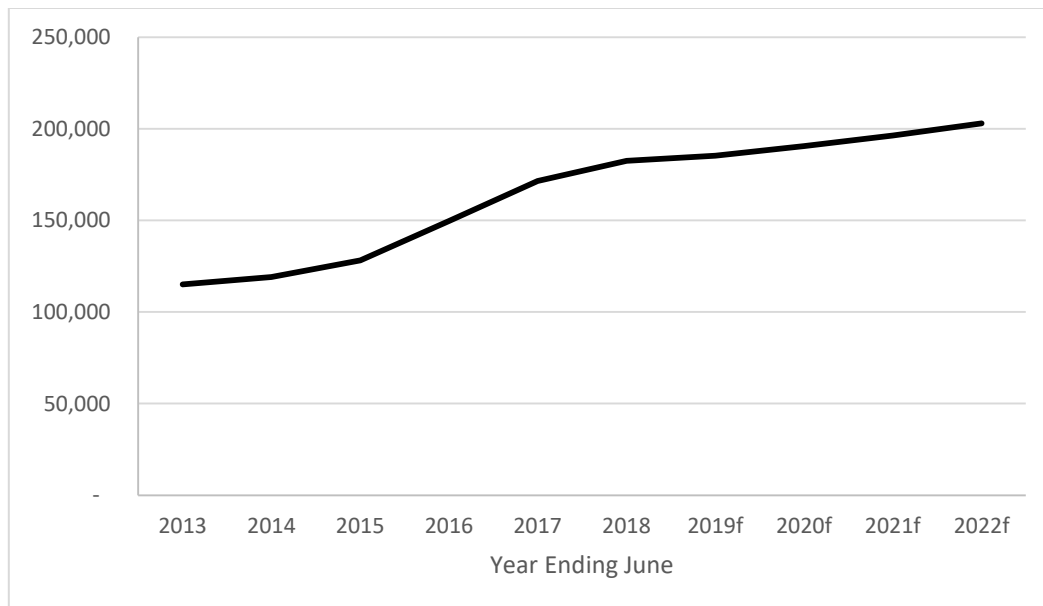
Figure 7.1: Total Crown revenue, 2017/18 – 2021/22 (\$'000)



7.2 Operating revenue

Steady growth in operating revenue is expected in 2018/19 and the forward years. This is following large increases since 2015/16. The steep increase in operating revenue in 2015/16 was largely the result of a new higher support modality aid program negotiated between the Government and New Zealand. This resulted in core budget funds being provided to the Cook Islands. Following this, growth in operating revenue has largely been the result of economic growth which has generated additional sales and profit margins. Operating revenue continues to increase over the forward estimates, however at a much slower rate.

Figure 7.2: Operating revenue, 2012/13 to 2017/18 (\$'000)



7.3 Revenue initiatives for 2018/19

Changes in the estimates of underlying revenue are made up of two types, parameter adjustments and policy decisions. Parameter adjustments result from factors outside of the immediate control of the Government, whereas policy decisions reflect the direct impact of the Government's decisions.

The Government has not made any revenue policy decisions in the 2018/19 Budget, as such, Table 7.2 only shows the parameter adjustments to revenue for 2018/19 and the forward years.

Table 7.2 Changes to Revenue Estimates since 2017/18 PEFU (\$'000)

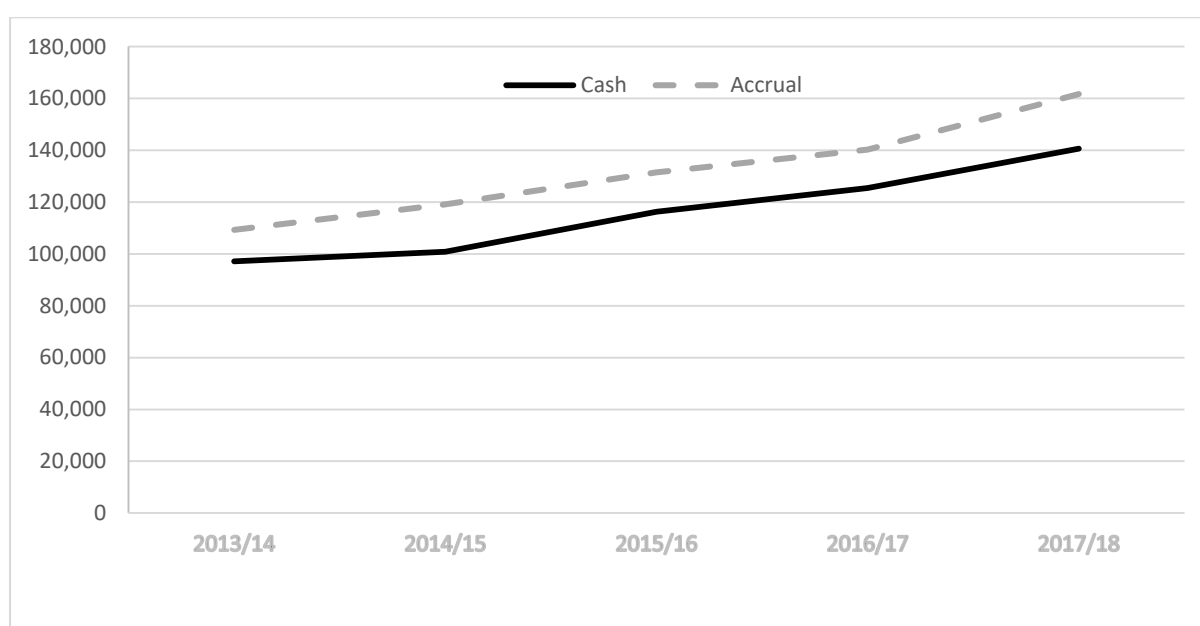
Reconciliation of Operating Revenue	2018/19 Budget	2019/20 Projected	2020/21 Projected	2021/2022 Projected
Tax parameter adjustments	20,355	23,816	23,488	29,020
VAT	7,533	10,736	12,629	16,313
Income tax	3,646	3,438	890	1,112
Company tax	8,121	7,803	7,692	8,350
Import levies	687	1,127	1,658	1,745
Withholding tax	508	604	801	997
Departure tax	-139	108	-181	502
ROBOC adjustments	11,950	12,896	13,006	13,987
Financial Services Levy	-262	-262	-262	-262
FSC Return of Excess	143	143	143	143
Instant Fines	40	30	-	-
Fishing Licences	-1,695	2,000	2,000	6,305
Fisheries - US Treaties (purse sein)	3,305	3,305	3,305	-
Fishing Fines	2,500	-	-	-
Numismatics	-	50	50	50
Border Management Fees	-120	-120		
Drivers Licences	100	100	120	100
Interest on balances	310	-	-	-
Interest on loans to subsidiaries	115	136	136	136
Foreign Investment Fees	1	1	1	1
Liquor Licencing	10	10	10	10
Circulating Currency - Coins	-226	-226	-226	-226
Motor Vehicle Dealers	-2	-2	-2	-2
Core Sector Support	7,730	7,730	7,730	7,730
Trading Revenue Adjustments	719	719	719	719
ICI	60	60	60	60
Justice	200	200	200	200
MFEM	351	351	351	351
Police	108	108	108	108
Total Revenue Changes	33,024	37,432	37,214	43,726

7.4 Taxes

Taxes are classified either as direct or indirect taxation. Direct taxation reflects taxes which are imposed directly on the individual, household, property or business, for example, income taxation. Indirect taxes are normally imposed through an indirect method, usually through a transaction, for example, the value-added tax (VAT).

Taxation revenues in the Cook Islands are currently accounted for on a cash basis. Figure 7.3 shows the difference between the cash actuals being reported and the total taxation being accrued to each year, as at September 2018. This shows that forecasting revenue using the reported cash figures does not adequately take into account historical taxation revenue, affecting the quality of the revenue forecasts. Further work will be undertaken on improving revenue forecasts for the 2019/20 Budget. In the interim, the decision has been made to be less conservative than in the past when forecasting taxation revenue.

Figure 7.3: Historical total tax revenue, accrued vs cash, 2013/14 to 2017/18 (\$'000)



7.4.1 Direct taxation

Direct taxation, which includes company tax, income tax and withholding tax, totaled \$52.3 million in 2017/18. Going forward, this is expected to increase by 4.3 per cent in 2018/19, 2.0 per cent in 2019/20 and 1.9 per cent in 2020/21 and 2021/22.

All three taxes (income, company and withholding) contribute to the forecast increases in direct taxation. Income tax is expected to total \$28.9 million in 2018/19 representing a slight increase of \$0.2 million from 2017/18. From 2018/19, growth in income tax is expected to be relatively moderate as it closely mirrors the projected activity in the real economy.

Company tax is expected to reach \$23.2 million in 2018/19 representing a slight increase of \$1.4 million from the \$21.8 million actuals reported in the 2017/18 financial year. Company taxes are expected to increase over the forward years as economic growth continues.

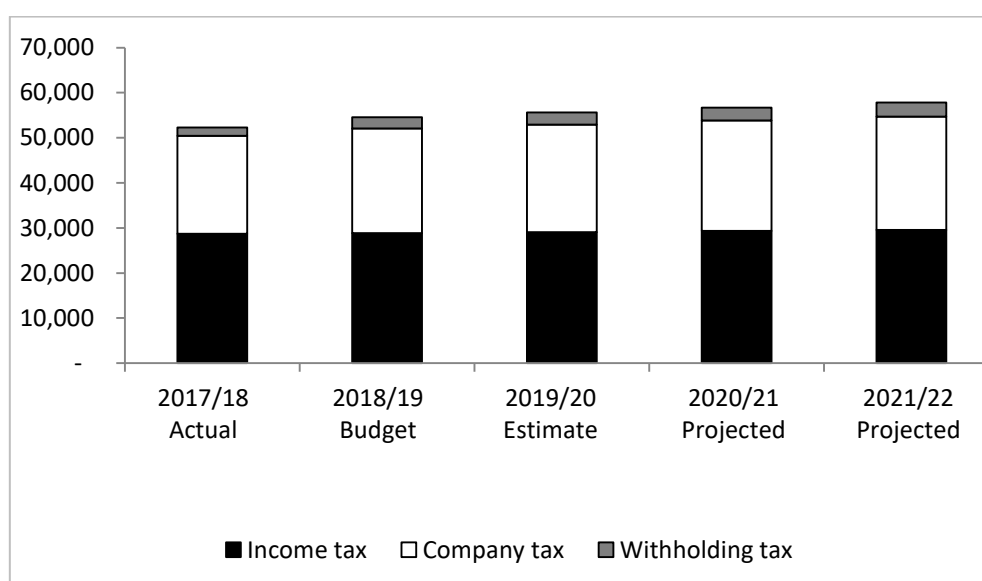
Withholding tax is forecast to be \$2.5 million in 2018/19, increasing to \$3.1 million by 2021/22.

Table 7.3 Total direct taxation 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Income tax	28,689	28,866	29,089	29,311	29,534
Company tax	21,760	23,190	23,848	24,506	25,164
Withholding tax	1,842	2,508	2,704	2,901	3,097
Total Direct Taxation	52,290	54,564	55,641	56,718	57,795

As can be seen in Figure 7.4, income tax contributes the majority of direct taxation revenue, comprising 55 per cent of revenue received in 2017/18. However, it is anticipated that company tax will increase its contribution to direct taxation over the forward estimates, resulting in the contribution of income tax decreasing to 51 per cent by 2021/22.

Figure 7.4: Total direct taxation 2018/19 Budget, (\$'000)



7.4.2 Indirect taxation

Indirect taxation, which includes VAT, departure tax, import levies, motor vehicle registration, and motor vehicle dealers and fisheries revenue, is expected to increase by 5 per cent in 2018/19. Indirect taxation is anticipated to continue increasing in the forward years.

VAT collections are expected to increase in 2018/19 and over the forward estimates, following on from strong growth in recent years. This growth is largely the result of the strong economic growth seen in recent years.

Departure Tax is estimated to be \$11.3 million in 2018/19, representing an increase of \$0.7 million on the \$10.6 million collected in 2017/18. This is due to higher estimated visitor arrivals and the annual increase in departure taxes of 2 per cent.

Import and excise-equivalent duties are estimated to remain constant in 2018/19 and in the forward years.

Motor Vehicle Registration is estimated to be \$875,000 in 2018, representing no change on the estimates provided at the time of the 2017/18 budget. Motor Vehicle registration is expected to remain constant over the forward estimates. Motor Vehicle Dealers is also estimated to remain constant over the years representing no change from the amount estimated for 2017/18.

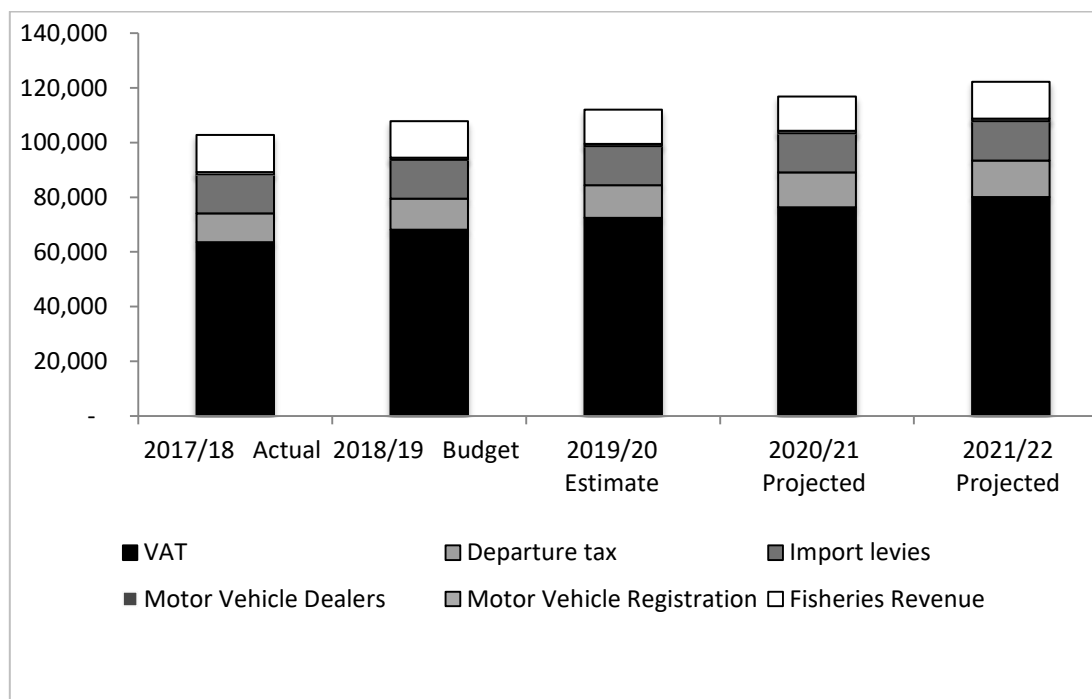
Fisheries Revenue is estimated to total \$13.3 million in 2018/19, a slight decrease on the revenue received in 2017/18. This is largely due to expectations of decreases in fishing licences and days purchased through the US Treaty. These decreases are largely offset by the expectation of a large fisheries fine. Fisheries licences are expected to recover from 2019/20 and the remainder of the forward years.

Table 7.4 Total indirect taxation 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
VAT	63,509	68,124	72,405	76,376	80,059
Departure tax	10,623	11,307	11,990	12,674	13,358
Import levies	14,165	14,159	14,246	14,334	14,421
Motor Vehicle Dealers	3	3	3	3	3
Motor Vehicle Registration	922	875	875	875	875
Fisheries Revenue	13,507	13,310	12,505	12,505	13,505
<i>Fisheries - US Treaties</i>	<i>4,890</i>	<i>4,505</i>	<i>4,505</i>	<i>4,505</i>	<i>1,200</i>
<i>Fisheries - Catch Revenue</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Fishing Fines</i>	<i>-</i>	<i>2,500</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Fishing Licences</i>	<i>8,617</i>	<i>6,305</i>	<i>8,000</i>	<i>8,000</i>	<i>12,305</i>
Total Indirect Taxation	102,729	107,777	112,024	116,766	122,221

Figure 7.5 highlights the large contribution that VAT makes to indirect taxation, comprising 61.8 per cent of collections in 2017/18. This is expected to increase over the forward estimates to 65.5 per cent.

Figure 7.5: Total Indirect Taxation 2017/18 to 2021/22



7.4.3 Social contributions

Social contributions are receipts from either employers (on behalf of their employees) or from employees (directly) that secures entitlement to social benefits for the contributors, their dependents,

or their survivors, in the case of workplace liability. The contributions may be compulsory or voluntary. The revenue classified under this category is the Employers Liability Insurance.

Employer liability is estimated to be \$75,000 in 2018/19, an increase of \$75,000 from the actual reported for the 2017/18 financial year.

Table 7.5 Social contributions 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Employer Liabilities	0	75	75	75	75
Total	0	75	75	75	75

7.4.4 Grants

Grants are transfers received from other governments or international organizations, otherwise known as Official Development Assistance (ODA). Full details on ODA are contained in the Official Development Assistance chapter of this Budget Book.

Table 7.6 Grants 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Current grants from foreign governments ¹⁷	9,541	16,048	14,648	9,492	30
Capital grants from foreign governments	41,024	37,406	15,612	1,061	0
Total	50,565	61,184	30,260	10,553	30

7.4.5 Interest

Total interest revenue is estimated to reach \$2.9 million in 2018/19, representing a slight decrease of \$0.6 million on the \$3.5 million observed in 2017/18. Interest received is expected to stabilise at \$2.6 million over the forward estimates.

Table 7.7 Total interest 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Interest on Government Deposits	2,360	2,050	1,740	1,740	1,740
Interest on loans to subsidiaries	1,158	830	830	830	830
Total	3,518	2,880	2,570	2,570	2,570

7.4.6 Dividends

Total dividends to the Crown are estimated to reach \$1.8 million in 2018/19. This represents a decline on the estimated 2017/18 actual, mainly due to a reduction in the dividends paid by Bluesky.

¹⁷ Excludes core sector support.

The Ports Authority has indicated that it will not be able to provide the Crown with a dividend in the medium term due to earnings being dedicated towards repayment of the ADB loan which funded the upgrade of the Avatiu International Harbour.

The Airport Authority has also indicated that there are no dividends anticipated due to loan commitments and other expenses.

The Bank of the Cook Islands (BCI) dividend is estimated to increase, from \$248,000 in 2017/18 to \$284,000 in 2018/19. BCI Dividends are expected to increase in the forward years.

The Government's shareholding in Bluesky's Cook Islands operations (representing 40 per cent ownership) is expected to provide a consistent dividend of \$1.2 million in 2018/19 and over the forward years.

Te Aponga Uira's dividend is estimated to remain constant in 2018/19 from the 2017/18 actuals, and expected to remain constant in the forward years.

Table 7.8 Total dividends 2018/19 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Bluesky	2,720	1,150	1,150	1,150	1,150
Banana Court	10	10	10	10	10
Bank of the Cook Islands	248	284	410	491	491
Te Aponga Uira	255	255	255	255	255
SOE Extraordinary Dividend	60	60	60	60	60
Airport Authority	-	-	-	-	-
Total	3,293	1,759	1,885	1,967	1,967

7.4.7 Administrative Fees

A number of administrative fees are collected by agencies of Government. These include regulatory charges which are returned to the crown and trading revenue which is retained by agencies.

Table 7.9 Administrative fees 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Financial Services Commission	262	0	0	0	0
FSC Return of Excess	0	143	143	143	143
Immigration Fees	927	860	860	860	860
IMO Subscription - Maritime Cook Islands	90	66	66	66	66
Tattslotto Grants	172	120	120	120	120
Censorship Fees	3	4	4	4	4
Permits	27	24	24	24	24
Drivers Licences	214	200	200	220	200
Research Fee	1	2	2	2	2
Shipping Registration	224	268	268	268	268
International Shipping Licence	10	10	10	10	10
Liquor Licensing	75	70	70	70	70
Upper Air Management Agreement	545	746	746	746	746
Total Trading Revenue	7,503	6,848	6,848	6,848	6,848
Total	10,053	9,361	9,361	9,381	9,361

Total administrative fees are estimated to be \$9.4 million in 2018/19 and are made up of:

- The Financial services levy estimate has been revised down to zero for 2018/19 and the outer years due to a change in policy whereby revenue received by the Commission would not be returned to the Crown every quarter, however Government is allowing the Commission to retain these funds to be put back into the regulation and supervision of the finance industry.
- \$143,000 in revenue is expected to be received in 2018/19 and in the forward years for the return of excess at FSC.
- Immigration fees - \$860,000 in revenue is estimated to be received in 2018/19 representing a \$67,000 decrease from the \$927,000 actuals received in 2017/18. The increase in actuals for 2017/18 was due to the strengthening of current immigration systems which resulted in an increase in the collection of outstanding fees, at the same time as the country has seen an increase in the number of migrant workers.
- Driver's License – In 2017/18, \$214,000 in revenue was received compared to the estimated \$70,000. This is due to the increase in visitor arrivals, the increased sale of warrant of fitness booklets and also amendments made to the transport regulations. It is anticipated that a high number of visitors will visit the Cook Islands in the 2018/19 and the outer years, as such revenue has been forecast at \$200,000 over this period.
- Permits - \$24,000 in revenue is estimated to be received in 2018/19 representing no change to the 2017/18 estimates. Although revenue is expected to remain constant over the outer years, the importation of ammunition and firearms has decreased due to policies implemented in 2014 for all firearm users to go through a licensing course.
- Tattslotto Grants - \$120,000 in revenue is estimated to be received in 2018/19 representing no change to the 2017/18 estimates.
- Censorship Fees - \$4,000 in revenue is estimated to be received in 2018/19, a \$1,000 increase on the \$3,000 received in 2017/18. Total fees are anticipated to remain unchanged in the outer years.
- Research fees are estimated to increase slightly in 2018/19 to \$1,500 from the \$1,470 actuals received in June 2017/18. Fees are anticipated to remain unchanged in the outer years.
- Shipping Registration - \$276,000 in revenue is estimated to be received in 2018/19. June actuals received to date for 2017/18 are \$224,000. Revenue for the last quarter of 2017/18 is expected to be received in the subsequent financial year, and will be accrued back to the 2017/18 period.
- International Shipping License - \$10,000 is estimated to be received in 2018/19 and the forward years, representing no change from the 2017/18 estimates.
- Liquor License - \$70,000 in revenue is estimated to be received in 2018/19 representing an upward revision from the initial \$60,000 projected during the 2017/18 budget. The Ministry of Transport anticipates increases to its collection of fees associated with certificates; including renewal of these certificates obtained by General Managers.

- Upper Air Space Management - \$746,000 in revenue is estimated to be received in 2018/19. June actuals received to date for 2017/18 are \$545,000. Revenue for the last quarter of 2017/18 is expected to be received in the subsequent financial year, and will be accrued back to the 2017/18 period.
- Ministry Trading Revenue - \$6.8 million in revenue is estimated to be received in 2018/19. Trading Revenue provides a means of recovery for operational costs incurred in delivering services. A number of agencies have increased their Trading Revenue estimates in the 2018/19 Budget as follows:
 - ICI \$60,000
 - MFEM \$350,840
 - Justice \$200,000
 - Police \$108,362

7.4.8 Incidental sales by non-market establishments

In order to maintain the level of Cook Islands coins in circulation, higher amounts need to be produced each year and distributed. As the face value of the coins is greater than the cost to produce, there is some revenue to the Crown. This is augmented by the sale of commemorative coins. The total amount of coin-related revenue is shown in the table below with constant revenue estimates from 2018/19 to 2021/22.

Table 7.10 Incidental sales by non-market establishments 2018/19 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Circulating Currency - Notes & Coins	638	650	650	650	650
Numismatics	511	400	450	450	450
Total	1,149	1,050	1,100	1,100	1,100

7.4.9 Fines, penalties and forfeits

Court service fines are paid by offenders as an enforcement of court orders. Court service fines are estimated to remain at \$50,000 from 2018/19 onwards as projected in the 2017/18 budget. Court service fines reported were slightly lower than anticipated in 2017/18, a decrease to \$45,746 from the estimated \$50,000. This is due to a delayed enforcement of the court orders resulting in unpaid fines by offenders.

Actual instant fines collected were higher than expected at \$107,010, a large increase on the estimated \$20,000 for 2017/18. This was the result of an increase in road safety campaigns targeting visitors and residents between the ages 16-25 years old. Instant fines have been revised upwards to \$80,000 in 2018/19 before decreasing to \$40,000 in 2020/21, as these road safety campaigns are expected to continue going forward.

Table 7.11 Fines, Penalties and forfeits 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Court Services	46	50	50	50	50
Instant Fines	107	80	70	40	40

Total	153	130	120	90	90
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7.4.10 Miscellaneous and unidentified revenue

Foreign investment fees are for applications from non-Cook Islanders or firms outside of the Cook Islands who wish to buy or start up business here in the Cook Islands. The application for Foreign Investment is a set fee of \$750. Actual fees for foreign applications received and approved was approximately \$3,275 higher than forecast in 2017/18. Foreign Investment Fees were revised upward to \$27,000 in 2018/19 and in the forward years from the estimated \$25,725, as it is anticipated that there will be increases in applications for foreign investment.

Table 7.12 Miscellaneous and unidentified revenue 2017/19 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projected	2021/22 Projected
Foreign Investment Fees	29	27	27	27	27
Total	29	27	27	27	27

8 Expenditure

8.1 Total expenditure

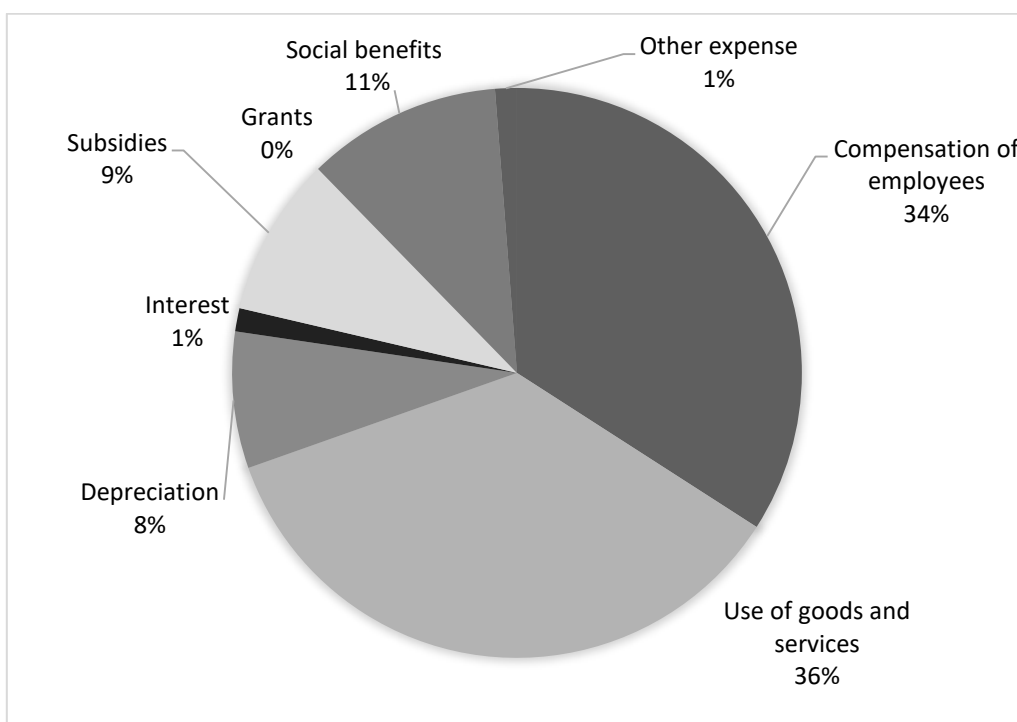
Total operating expenditure is estimated to come in at \$179.3 million in 2018/19. After excluding the expenditure of ODA funds of \$16.0 million, Crown operating expenditure is anticipated to be \$163.2 million in 2018/19, an increase of \$11.5 million compared to the 2017/18 Actuals. Expenditure beyond 2018/19 is expected to slowly decrease to \$153.5 million.

Table 8.1 Total GFS expenditure from 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Projection	2020/21 Projection	2021/22 Projection
Compensation of employees	54,878	61,114	60,767	60,813	60,913
Use of goods and services	47,327	63,624	54,765	48,085	38,622
Depreciation	13,212	13,882	13,882	13,882	13,882
Interest	2,063	2,367	2,263	2,088	1,891
Subsidies	15,484	16,213	15,638	15,638	15,638
Grants	0	0	0	0	0
Social benefits	18,865	19,841	21,075	21,075	21,075
Other expense	9,394	2,211	1,851	1,511	1,511
Gross Expenditure	161,224	179,252	170,241	163,092	153,532
Less Current ODA	9,541	16,048	14,648	9,492	30
Underlying Expenditure	151,683	163,204	155,593	153,600	153,502

Operating expenditure refers to expenditure on the delivery of Government's core outputs by the public service. Operating expenditure is predominately made up of use of goods and services (36 per cent), compensation of employees (34 per cent), social benefits (11 per cent), subsidies (9 per cent), and depreciation (8 per cent).

Figure 8.1: Total GFS expenditure 2018/19 (transactions affecting net worth)



Compensation to Employees

Expenditure on compensation of employees is estimated to be \$61.1 million in 2018/19, a \$6.2 million increase from the estimated 2017/18 level of \$54.9 million.

Use of Goods and Services

An estimated \$63.6 million is estimated to be spent on the use of goods and services in 2018/19, which represents an increase of \$16.3 million from the estimated outcome for 2017/18. Use of goods and services is expected to decrease significantly over the forward estimates, this is in part due to the expected decline in the receipt of foreign aid funds for operating activities.

Consumption of Fixed Capital

Total depreciation for 2018/19 is estimated to be \$13.9 million, an increase of \$0.7 million on the 2017/18 actuals. This is mainly driven by technical adjustments made to Agency depreciation baselines.

Debt Servicing Payments

Debt interest contributions to the Loan Reserve Fund (LRF) are estimated to be \$2.4 million in 2018/19, an increase from the \$0.3 million in 2017/18 due to changes in exchange rates. As the current stock of debt is expected to decline over the forward years, the level of interest expense on the current debt stock also declines.

Readers should refer to the Debt chapter for more information; it also includes the estimated movements in the LRF over the next four years.

8.2 Operating expenditure

Figure 8.2 shows a steady increase in operating expenditure during 2012/13 to 2016/17, before seeing stronger levels of growth in 2017/18 and the estimates for 2018/19. Following this, operating expenditure is expected to decline over the forward estimates.

Figure 8.2: Historical and forecast operating expenditure, 2012/13 to 2021/22 (\$'000)

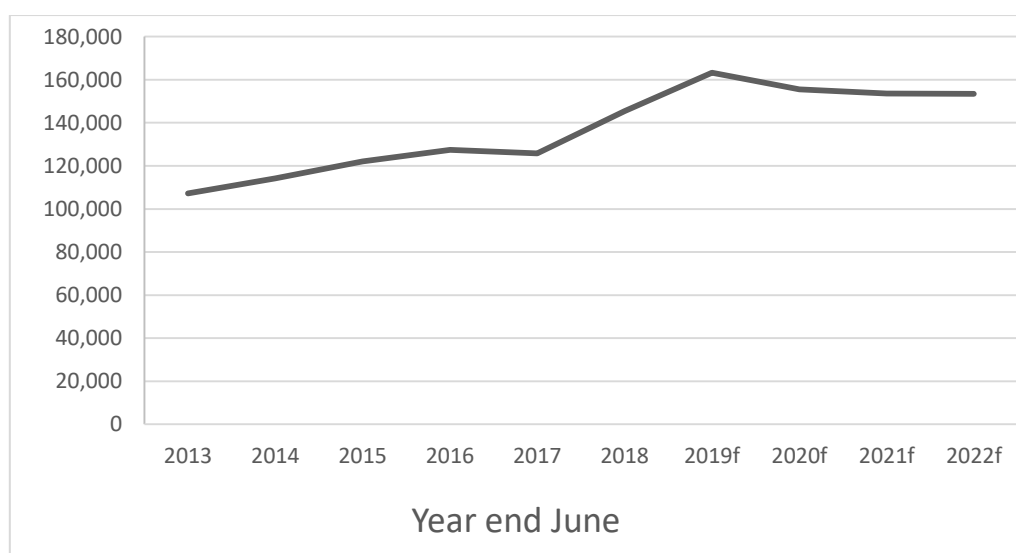


Table 8.2 provides a detailed breakdown of operating expenditure in 2017/18, 2018/19 and over the forward estimates. Ministry outputs have increased significantly in 2018/19, this is in part due to underspends seen in 2017/18, together with additional appropriated expenditure in 2018/19. The additional funding provided for Ministry outputs is largely one-off funding, with expenditure expected to decrease from \$127.4 million in 2018/19 to \$120 million in 2019/20. Administered payments are

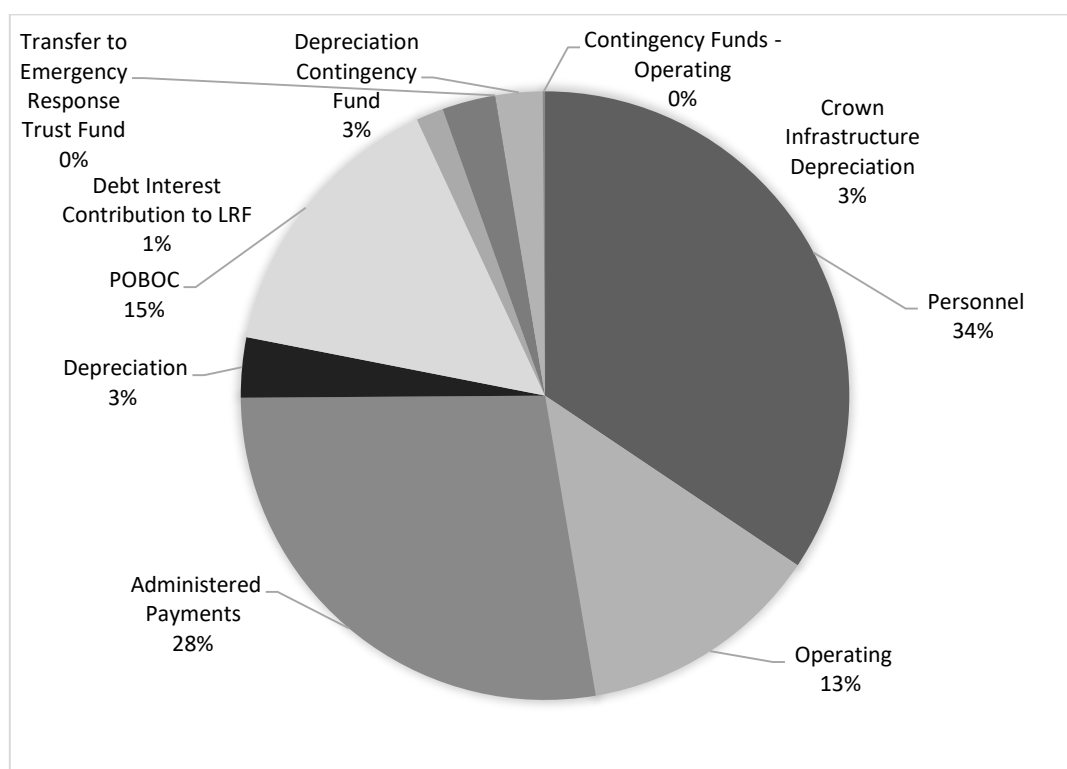
the largest contributor to the growth, increasing from \$33.6 million in 2017/18 to \$45 million in 2018/19, before decreasing to \$38 million in 2019/20.

Table 8.2 Total operating expenditure 2017/18 to 2021/22 (\$'000)

	2017/18 Actual	2018/19 Budget	2019/20 Projection	2020/21 Projection	2021/22 Projection
Operating Expenditure					
Ministry Outputs	109,006	127,428	119,953	118,133	118,233
<i>Personnel</i>	50,437	56,162	56,171	56,217	56,317
<i>Operating</i>	20,199	21,085	20,593	20,567	20,567
<i>Administered Payments</i>	33,587	44,974	37,981	36,141	36,141
<i>Depreciation</i>	4,783	5,208	5,208	5,208	5,208
POBOC	24,850	24,485	24,497	24,499	24,497
Provisional for Doubtful Debts	6,781	0	0	0	0
Debt Interest Contribution to LRF	2,063	2,367	2,263	2,088	1,891
Asset Management (CIIC)	0	0	0	0	0
Crown Infrastructure Depreciation	4,603	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	50	50	50	50	50
Depreciation Contingency Fund	3,957	4,066	4,066	4,066	4,066
<i>Chinese Equipment</i>	663	663	663	663	663
<i>Rarotonga Water Network</i>	694	803	803	803	803
<i>Northern Pa Enea Renewable Energy System</i>	400	400	400	400	400
<i>Southern Pa Enea Renewable Energy System (excl. Aitutaki)</i>	1,200	1,200	1,200	1,200	1,200
<i>Other Assets</i>	1,000	1,000	1,000	1,000	1,000
Contingency Funds - Operating	1,036	200	100	100	100
Total Operating Expenses	152,347	163,199	155,531	153,539	153,440

As can be seen in Figure 8.3, personnel expenditure is the largest contributor to operating expenditure at 34 per cent, followed by administered payments and Payments on Behalf of the Crown (POBOCs).

Figure 8.3: Total operating expenditure 2018/19 (transactions affecting net worth)



8.3 Changes to expenditure from the 2017/18 PEFU

Since the 2017/18 PEFU, there has been a change to the estimated level of expenditure due to technical adjustments, reclassification in the treatment of some payments, variations in parameters, as well as Government decisions.

The following table shows the change attributable to each category, with the largest impacts coming from Government decision making.

Table 8.3 Expenditure changes since the 2017/18 PEFU (\$'000)

Expenditure Changes	2018/19	2019/20	2020/21	2021/22
Operating Expenditure as at 2018/19 Budget				
Expenditure Decisions by Government	10,693	4,925	4,983	4,983
Technical adjustments – Expense	1,348	1,348	1,348	1,348
Reclassifications of expenditure	1,892	1,892	1,852	1,852
Parameter Adjustments	8,874	7,916	7,916	7,916
Total Operating Expenditure	22,807	16,041	16,041	16,099

8.4 New expenditure initiatives

The Government has approved new operating expenditure totaling \$11 million in 2018/19, and expenditures totaling up to 5.8 million from 2019/20 to 2021/22. A summary of the new initiatives is provided in the table below.

Table 8.4 Summary of operating expenditure initiatives 2018/19 to 2021/22 (\$'000)

Summary	2018/19	2019/20	2020/21	2021/22	Total
All Ministries, Crown Agencies	140,227	140,227	140,227	140,227	560,908
Ministry of Agriculture	84,000	0	0	0	84,000
Cook Islands Audit Office	52,000	52,000	52,000	52,000	208,000
Cook Islands Investment Corporation	200,000	0	0	0	200,000
Crown Law Office	1,189,090	0	0	0	1,189,090
Ministry of Cultural Development	3,036,499	65,000	65,000	65,000	3,231,499
Ministry of Corrective Services	150,000	150,000	150,000	150,000	600,000
Ministry of Education	374,800	354,800	264,800	204,800	1,199,200
Ministry of Health	707,000	333,000	333,000	333,000	1,706,000
Infrastructure Cook Islands	700,000	50,000	50,000	50,000	850,000
Ministry of Internal Affairs	1,016,250	1,786,500	1,786,500	1,786,500	6,375,750
Ministry of Justice	120,000	120,000	120,000	120,000	480,000
Ministry of Foreign Affairs	228,902	468,152	615,882	614,152	1,927,088
Ministry of Finance and Economic Management	1,341,000	436,000	436,000	436,000	2,649,000
Ministry of Marine Resources	37,000	0	0	0	37,000
National Environment Services	23,000	23,000	23,000	23,000	92,000
Office of the Public Service Commissioner	227,569	227,569	227,569	227,569	910,276
Office of the Prime Minister	45,000	45,000	45,000	45,000	180,000
Parliamentary Services	426,000	240,000	240,000	240,000	1,146,000
Ministry of Transport	0	55,000	55,000	55,000	165,000
Ministerial Support Offices	455,568	393,377	393,377	393,377	1,635,699
Total Expenditure from Decisions	10,553,905	4,939,625	4,997,355	4,935,625	25,426,510

Note: These initiatives provide funding in operating expenditures only. Further expenditure is outlined below and in the Capital and ODA chapters.

8.4.1 All Ministries, Crown Agencies, Island Administrations

Due to the timing of the elections, there was no Parliamentary authority for expenditure by Government in 2018/19 and that expenditure had to be accommodated through 3/12ths of the

2017/18 Appropriation Act noting that all Government expenditures can only be supported through Article 70(3) of the Constitution.

Funding has been sought through the 3/12ths Appropriation to fund various expenditures in 2018/19 as outlined below. Some of the legally required amendments such as the Minimum wage and GSF adjustment have also been funded through this.

Minimum Wage and Salary Adjustment

On the 16th of April 2018, the Employment Relations (Minimum rate of pay) Regulations 2018 was signed by His Excellence the Queen's Representative to approve the increase of the minimum wage rate for all Government employees from \$7.00 to \$7.25 per hour. This change took effect on the 1st of July 2018. The minimum wage provides funds for all Government employees that are currently earning less than \$7.25 per hour to receive a salary increase to that amount.

Agency	2018/19	2019/20	2020/21	2021/22	Total
Ministry of Finance and Economic Management	1,825	1,825	1,825	1,825	7,300
Ministry of Health	716	716	716	716	2,864
Cook Islands Police Service	913	913	913	913	3,652
Office of the Prime Minister	5,475	5,475	5,475	5,475	21,900
Aitutaki	456	456	456	456	1,824
Atiu	2,738	2,738	2,738	2,738	10,952
Penrhyn	8,213	8,213	8,213	8,213	32,852
Pukapuka	2,714	2,714	2,714	2,714	10,856
Palmerston	913	913	913	913	3,652
Rakahanga	8,213	8,213	8,213	8,213	32,852
Mitiaro	19,488	19,488	19,488	19,488	77,952
Mauke	1,369	1,369	1,369	1,369	5,476
Mangaia	10,231	10,231	10,231	10,231	40,924
Nassau	3,360	3,360	3,360	3,360	13,400
Manihiki	9,581	9,581	9,581	9,581	38,324
Total Minimum Wage and Salary Adjustment	76,204	76,204	76,204	76,204	304,816

GSF Adjustment

The New Zealand Government Superannuation fund employer's contribution increased from 15 per cent to 16 per cent on the 1st of July 2018. All Cook Islands Government public servants on this scheme will be entitled to the increase.

Measure	2018/19	2019/20	2020/21	2021/22
GSF Adjustment	64,023	64,023	64,023	64,023
Total cost	64,023	64,023	64,023	64,023

8.4.2 Ministry of Agriculture

Pa Enea Capacity Development Program

The Ministry set the foundation of this framework in 2017, with the aim of building collaborative partnerships with the Pa Enea Island Government Councils. The Pa Enea Capacity Development Program aims to build capacity to enable opportunities to meet supply and demand for agricultural product in the Outer Islands.

Funding was provided for the Island Government training portion of this project to allow the program to be fully established before potentially providing additional funds for capacity building of Pa Enea farmers.

Measure	2018/19	2019/20	2020/21	2021/22
Pa Enea Capacity Development Programme	84,000	0	0	0
Total cost	84,000	0	0	0

8.4.3 Cook Islands Audit Office

Operating Budget Shortfall

Trading Revenue of \$52,000 was removed during the 2017/18 budget process due to Audit outsourcing services previously provided to Te Aponga Uira and the Airport Authority. This in turn reduced Audit's operating appropriation going forward. Government has provided funding to increase Audit's operating baseline in order to assist with the basic operations of the Agency.

Measure	2018/19	2019/20	2020/21	2021/22
Operating Budget Shortfall	52,000	52,000	52,000	52,000
Total cost	52,000	52,000	52,000	52,000

8.4.4 Cook Islands Investment Corporation

Corporate Strengthening Programme

Funding has been provided in the interim to support the Corporate Strengthening Program that CIIC undertook in December of last year, which involved the separation of CIIC into two distinct operations – one to manage government assets and the other to manage SOEs.

Measure	2018/19	2019/20	2020/21	2021/22
Corporate Strengthening Programme	200,000	0	0	0
Total cost	200,000	0	0	0

8.4.5 Crown Law

Pacific Islands Law Officers Network (PILON)

The Cook Islands will meet its obligations to the PILON, by hosting the annual meeting in October - November 2018. Initiatives which have beginnings at PILON are the Family Protection and Support Act 2017, the inclusion of cybercrime offences in the Crime Bill, the Cook Islands contribution to the policy for vulnerable witnesses in court cases, and work to raise awareness and address corruption by public officials. The budget provided is to cover the costs of the venue, catering, entertainment, and transport. The Australian government will meet the travel, accommodation and per diem costs of delegates attending the meeting.

Measure	2018/19	2019/20	2020/21	2021/22
Pacific Islands Law Officers Network	30,000	0	0	0
Total cost	30,000	0	0	0

Arbitration Case

Funds will be provided for litigation costs to which details have been withheld on the grounds identified in section 18 (a) and 8 (2)(i) of the Official Information Act (OIA) 2008.

Measure	2018/19	2019/20	2020/21	2021/22
Arbitration Case	1,159,090	0	0	0
Total cost	1,159,090	0	0	0

8.4.6 Ministry of Cultural Development

Te Maeva Nui 2018

This year's Te Maeva Nui included participants and families from the outer islands as well as New Zealand and Australia.

Additional funds were provided to the Ministry of Cultural Development (MOCD) in 2018/19 to charter the vessels Nivanga from Tuvalu and Tahiti Nui from Tahiti to assist with the Northern Group transportation to Rarotonga. The costs for each cultural team and the running of the event is subsidized by the MOCD with a baseline of \$722,500 appropriated every year.

Measure	2018/19	2019/20	2020/21	2021/22
Te Maeva Nui 2018	2,971,499	0	0	0
Total cost	2,971,499	0	0	0

Operating Budget Shortfall

Similar to Audits situation, total Trading Revenue of \$65,000 was removed during the 2017/18 budget process due to an anticipated decrease in sales of DVDs of cultural performances that were previously held. This in turn reduced MOCD's operating baseline going forward. Funding has been re-appropriated into MOCD's operating baseline from 2018/19 in order assist the Ministry carry out its basic operations.

Measure	2018/19	2019/20	2020/21	2021/22
Operating Budget Shortfall	65,000	65,000	65,000	65,000
Total cost	65,000	65,000	65,000	65,000

8.4.7 Ministry of Corrective Services

Establishment of the Ministry of Corrective Services

The Cook Islands Government is currently in the process of establishing a new Ministry for Corrective Services with the intention of transiting output deliverables from the Ministry of Justice. The Probation and Prison Services key policy objectives, work deliverables, measures and indicators will shift from the Ministry of Justice Business Plan (2018/19) to be utilized by the new Ministry in the first year of operations to ensure continuity. The Ministry of Justice Strategic Plan will also be adopted for the first year until such time as the Ministry of Corrective Services has developed its own Strategic Plan.

Funding of \$150,000 has been made available to fund the newly appointed HOM and new positions as well as any operational costs incurred by the Ministry. There is still much work to be done prior to the formal establishment of the Ministry.

Measure	2018/19	2019/20	2020/21	2021/22
Establishment of the Ministry of Corrective Services	150,000	150,000	150,000	150,000
Total Cost	150,000	150,000	150,000	150,000

8.4.8 Ministry of Education

Centre of Excellence in Information Technology (CEIT)

A MOU has been signed between the Cook Islands Government and the Government of India to develop a Centre of Excellence in Information Technology (CEIT) at the University of the South Pacific in the Cook Islands.

The development of the project is now underway in conjunction with OPM, Foreign Affairs and the Indian High Commission in Suva. Space has been made available at USP Cook Islands to accommodate the Centre and office space for two lecturers from India on a two year posting.

A local person has been identified to work alongside the lecturers from India and to take over Directorship of the Centre when the Indian officials leave. Funding for this initiative will be provided for a period of 3 years.

Measure	2018/19	2019/20	2020/21	2021/22
Centre of Excellence in Information Technology	150,000	150,000	60,000	60,000
Total cost	150,000	150,000	60,000	60,000

Remedial Programs

This proposal is to support the personnel cost of a suitable pool of remedial tutors (teacher aides with specific training in reading and mathematics recovery) who can work across a number of schools supporting remedial programs. The highest numbers are required in Rarotonga and Aitutaki. Operational costs are provided in the first year to allow for specific training and the purchasing of suitable resources. There will not be ongoing operational costs, as tutors will be developing required resources.

Measure	2018/19	2019/20	2020/21	2021/22
Remedial Programs – Personnel	160,000	140,000	140,000	140,000
Total cost	160,000	140,000	140,000	140,000

Operating Budget Shortfall

Total funding of \$64,800 has been re-appropriated into the Ministry of Education’s operating baseline after being removed during the 2016/17 budget process. With the provision of these funds, this will enable the Ministry to carry out its basic operations.

Measure	2018/19	2019/20	2020/21	2021/22
Operating Budget Shortfall	64,800	64,800	64,800	64,800
Total cost	64,800	64,800	64,800	64,800

8.4.9 Ministry of Health

Pharmacy Stock Management System maintenance cost

“mSupply” is a piece of New Zealand developed software designed to assist with pharmaceutical inventory management. The Cook Islands secured funding for the installation of the software, training of staff and the purchase of laptops from the Australian Government. The funding provided by the Cook Islands Government will cover required system maintenance costs.

Measure	2018/19	2019/20	2020/21	2021/22
Pharmacy Stock Management System	13,000	13,000	13,000	13,000
Total cost	13,000	13,000	13,000	13,000

Operating Overspend

Funding has been approved to top up the operational fund for the Ministry of Health in order for the Ministry to meet its basic operational needs for the 2018/19 financial year. This was due to funds being used through 3/12ths of the Ministry of Health’s appropriation to finance previous expenses incurred by the Ministry through operations (accounts payable) and administered payments (patient referrals and pharmaceuticals) in 2017/18.

Measure	2018/19	2019/20	2020/21	2021/22
Operating Overspend	374,000	0	0	0
Total Cost	374,000	0	0	0

Increase in the Pharmaceuticals Administered Payments Fund

Additional funding of \$200,000 has been provided to increase the Pharmaceutical Administered Fund going forward. Additional funds are required to enable better health outcomes and to prevent a shortage of important medical supplies going forward.

Measure	2018/19	2019/20	2020/21	2021/22
Pharmaceuticals	200,000	200,000	200,000	200,000
Total cost	200,000	200,000	200,000	200,000

Specialist Positions

Funding of \$100,000 was provided to the Ministry of Health for the top up of the Paediatrician and Anaesthetist salary through the approval of Executive Order from Cabinet during the 2017/18 financial year. Funding has been provided to continue to cover the additional personnel costs for these Specialist positions. Furthermore, additional funding of \$20,000 has been made available to top up the Surgeon's salary going forward.

Measure	2018/19	2019/20	2020/21	2021/22
Paediatrician	50,000	50,000	50,000	50,000
Anaesthetist	50,000	50,000	50,000	50,000
Surgeon	20,000	20,000	20,000	20,000
Total cost	120,000	120,000	120,000	120,000

8.4.10 Infrastructure Cook Islands

Bridges and Drainage

Government has made available funds to cover maintenance costs associated with the Bridges and Drainage Capital Project under Infrastructure Cook Islands. Rarotonga has approximately 76 bridges within its transport network. Historically these assets have not been suitably maintained. This, coupled with the increased use and vehicle loads on this infrastructure, has resulted in the deterioration of these assets.

Measure	2018/19	2019/20	2020/21	2021/22
Bridges and Drainage maintenance costs	600,000	600,000	600,000	600,000
Total Cost	0	0	0	0

Outer Islands Special Projects Unit

\$50,000 will be made available to finance personnel costs associated with the Outer Islands Special Projects Unit that has been approved to be shifted from the Prime Minister's Office to Infrastructure Cook Islands to allow for better coordination between ICI and the Outer Islands Governments in terms of project and program delivery. The structure of this shift is yet to be finalised.

Measure	2018/19	2019/20	2020/21	2021/22
Outer Islands Special Projects Unit	50,000	50,000	50,000	50,000
Total Cost	50,000	50,000	50,000	50,000

Road Asset Management

Funding has been set aside for the 2018/19 financial year to finance the preparatory work for the Road Asset Management. An initial Road Asset Management plan was produced by contractors for Rarotonga's road corridor network. Funding is also provided within this appropriation for road safety signage.

Measure	2018/19	2019/20	2020/21	2021/22
Road Asset Management	650,000	0	0	0
Total Cost	650,000	0	0	0

8.4.11 Ministry of Internal Affairs

Coordinator for Children's National Policy

Funding has been provided for the Social Policy and Services division of the Ministry of Internal Affairs for a position to provide effective coordination of national activities and action plans of the National Children's Policy.

Measure	2018/19	2019/20	2020/21	2021/22
Coordinator for Children's National Policy	37,050	37,050	37,050	37,050
Total cost	37,050	37,050	37,050	37,050

Family Protection and Support Manager

Funding has been provided for the Family Protection and Support Manager to carry out the new responsibilities required under Part 4 of the Family Law Bill relating to Care and Protection. This position will also assist in the development of internal policies and regulations pertaining to the new legislation and support and monitor the new Family Group Conference process.

Measure	2018/19	2019/20	2020/21	2021/22
Family Protection and Support Manager	37,050	37,050	37,050	37,050
Total cost	37,050	37,050	37,050	37,050

CISNOC Grant

Funding of \$300,000 has been provided to CISNOC to assist with team preparation to qualify for the South Pacific Games in June 2019.

Measure	2018/19	2019/20	2020/21	2021/22
CISNOC	300,000	0	0	0
Total cost	300,000	0	0	0

Child Benefit Age Extension

The Government will increase the age of the child benefit from 0-12 to 0-16 over a period of 2 years. This aligns benefits with the legal requirement that children attend school until the age of 16 and recognises the high cost of student fees and learning materials in the senior years.

For the 2018/19 financial year, the child benefit age will extend to under 14 years, taking effect on 1 October 2018. Additional funding will be provided in 2019/20 to accommodate a further extension to under 16 years.

Measure	2018/19	2019/20	2020/21	2021/22
Child Benefit Age Extension	642,150	1,712,400	1,712,400	1,712,400
Total cost	642,150	1,712,400	1,712,400	1,712,400

8.4.12 Ministry of Justice

Continuation for Land Digitisation

The initial purpose of this initiative was to address the ongoing issues surrounding the backlog of land records by employing additional staff to assist in clearing the backlog and digitizing all land records over a two year period. With funding coming to an end in the 2017/18 financial year, additional funding has been provided to continue funding these positions and expand the scope to include the Pa Enuu.

Measure	2018/19	2019/20	2020/21	2021/22
Continuation for Land Digitisation	120,000	120,000	120,000	120,000
Total cost	120,000	120,000	120,000	120,000

8.4.13 Ministry of Foreign Affairs and Immigration

Establishment of a Cook Islands High Commission in Fiji

The Cook Islands has economic ties to Fiji through goods, communications and transportation links. By establishing a Cook Islands mission in Fiji, this will increase the Cook Islands' influence within the region and expand trade and economic opportunities in, and with, the main regional hub. Funding of \$25,000 has been provided in 2018/19 to enable MFAI to set up office space for the Cook Islands High Commission, followed by an increase in funding in the outer years as the office becomes fully operational.

Measure	2018/19	2019/20	2020/21	2021/22
CI High Commission Office in Fiji – Personnel	0	160,000	250,000	250,000
CI High Commission Office in Fiji – Operating	25,000	90,000	146,000	146,000
Total Cost	25,000	250,000	396,000	396,000

2x Senior Immigrations Officers

In order to address the pressures on immigration to deliver fast and efficient services, funding has been provided to allow MFAI to fund two Senior Immigration Officers to undertake the regulatory functions of Immigration and Border Security.

Measure	2018/19	2019/20	2020/21	2021/22
2x Senior Immigrations Officers	72,000	72,000	72,000	72,000
Total cost	72,000	72,000	72,000	72,000

Senior Management Salary Adjustment

Additional funds have been made available to enable MFAI to adequately remunerate staff at the Senior Management level.

Measure	2018/19	2019/20	2020/21	2021/22
Senior Management Salary Adjustment	23,852	23,852	23,852	23,852
Total cost	23,852	23,852	23,852	23,852

Representative to UN Organisations

The ongoing challenge for the Cook Islands in its engagement within the international community is its relatively limited resources and its remote geographical location which has an impact on the effectiveness of the Ministry of Foreign Affairs efforts to develop and maintain Cook Islands interest abroad.

In order for the Cook Islands to continue to foster a closer working relationship with UN organisations, and strengthen existing arrangements, Government has provided funding to maintain and continue work in this space.

Measure	2018/19	2019/20	2020/21	2021/22
Representative to UN Organisations	60,000	60,000	60,000	60,000
Total cost	60,000	60,000	60,000	60,000

International Ombudsman Institute - Subscription

The International Ombudsman Institute (IOI), founded in 1978, is an international organisation that facilitates the cooperation of more than 150 offices of Ombudsmen. In addition to its periodic conferences, the IOI encourages the exchange of information on regional and international levels. This has enabled the office to access international training programs and technical assistance that fall under the auspices of the IOI and APOR.

Measure	2018/19	2019/20	2020/21	2021/22
International Ombudsman Institute	1,280	1,280	1,280	1,280
Total cost	1,280	1,280	1,280	1,280

Pacific Islands Forum Secretariat Membership Contribution

In order to continue meeting the commitment to fund ongoing operations of the Pacific Islands Forum Secretariat (PIFS), additional funding will need to be provided following an increase in required contributions. PIFS members have agreed to revise the percentage allocated to each country in order to reduce New Zealand and Australia's contribution to the budget from 72 per cent to 49 per cent.

Measure	2018/19	2019/20	2020/21	2021/22
Pacific Islands Forum Secretariat Membership Contribution	45,040	61,020	61,020	61,020
Total Cost	45,040	61,020	61,020	61,020

Noumea Convention - Subscription

The Cook Islands is a Party to the Convention for the Protection of Natural Resources and Environment of the South Pacific Region and Protocols (Noumea Convention). The Noumea Convention is a comprehensive, umbrella agreement for the protection, management and development of the marine and coastal environment of the South Pacific Region. The annual subscription fee has not been paid since 2013 and the Cook Islands has arrears amounting to US\$1,323.

Measure	2018/19	2019/20	2020/21	2021/22
Noumea Convention	1,730	0	1,730	0
Total cost	1,730	0	1,730	0

8.4.14 Ministry of Finance and Economic Management

Vaka Marumaru Atua

The Vaka Marumaru Atua caught fire on 2 September 2017 causing significant damage to the starboard hull of the accommodation compartment and at the core of the vaka. The Cook Islands voyaging society have been fundraising to help with the rebuild of the vaka. Through Marumaru Atua, the Cook Islands Voyaging society aims to educate young people to ensure the legacy of traditional sailing and navigation is promoted, as well as caring for the environment through traditional practices.

The funding provided by the Cook Islands Government will help with the rebuild of Vaka Marumaru Atua.

Measure	2018/19	2019/20	2020/21	2021/22
Vaka Marumaru Atua	275,000	0	0	0
Total cost	275,000	0	0	0

Post-Tax Amnesty Work

The purpose of this Administered Payment is to build momentum generated by the Tax Amnesty. This involves continuously embedding effective debt management practices and improving on the day-to-day operations and functionality of the Revenue Management System (RMS). This one-off funding will be used to fund system improvements, and short-term additional staff to help implement the debt management work plan.

Measure	2018/19	2019/20	2020/21	2021/22
Post-Tax Amnesty Work	500,000	0	0	0
Total Cost	500,000	0	0	0

8.4.15 Crown

Top up to the Contingency Fund

It is anticipated that the current funding for the 2018/19 will be fully expended. Therefore \$100,000 will be set aside to top up the contingency fund for the 2018/19 financial year.

Measure	2018/19	2019/20	2020/21	2021/22
Top up to the Contingency Fund	100,000	0	0	0
Total Cost	100,000	0	0	0

Asian Infrastructure Investment Bank (AIIB) Membership

The Asian Infrastructure Investment Bank (AIIB), is a new multilateral development bank with a mission to improve social and economic outcomes in Asia and beyond. AIIB's primary focus is investment in sustainable infrastructure and other productive sectors. AIIB has been designed on the successes of existing multilateral development banks such as the Asian Development Bank and the World Bank as well as experiences from successful private business practice.

The Cook Islands membership will be confirmed once the first instalment of paid in shares are made.

Measure	2018/19	2019/20	2020/21	2021/22
AIIB Membership	30,500	30,500	30,500	30,500
Total Cost	30,500	30,500	30,500	30,500

Management of Civil List by Shared Services

Funding has been set aside to finance the financial services and support that Shared Services will now be providing for Parliament's Civil List POBOC going forward.

Measure	2018/19	2019/20	2020/21	2021/22
Management of Civil List by Shared Services	12,000	12,000	12,000	12,000
Total Cost	12,000	12,000	12,000	12,000

Economic Utilities Regulator

Funding will be provided from the 2019/20 financial year to finance a multi-sector Public Utilities Regulator for the Cook Islands for the telecommunications, electricity and water and sewerage utility sectors. This will ensure efficient, fair and transparent pricing of the telecommunications, electricity and water and sewerage services provided to customers. The Utilities Regulator would also foster competition, where feasible and appropriate, in the long term interests of Cook Islands consumers, and ensure the financial sustainability of utility service providers.

Measure	2018/19	2019/20	2020/21	2021/22
Economic Utilities Regulator	0	100,000	100,000	100,000
Total Cost	0	100,000	100,000	100,000

Price Tribunal Officer

Government has approved funding to finance the Senior Advisor Consumer Protection position that will be shifted under the Ministry of Finance. Funding for the current position will remain within the Ministry of Internal Affairs appropriation to allow for the continuation of non-Price Tribunal responsibilities undertaken by the Senior Advisor Consumer Protection. The movement of the Price Tribunal will allow for improved alignment between the Price Tribunal and the Economics Unit.

Measure	2018/19	2019/20	2020/21	2021/22
Price Tribunal Officer	30,000	30,000	30,000	30,000
Total Cost	30,000	30,000	30,000	30,000

Increase to Price Tribunal sitting fees

In addition to the movement of the functions of Price Tribunal to the Ministry of Finance, additional funding will be provided to increase the Price Tribunal sitting fees going forward to allow all three members to be from the private sector.

Measure	2018/19	2019/20	2020/21	2021/22
Price Tribunal Administered Payment	15,000	15,000	15,000	15,000
Total Cost	15,000	15,000	15,000	15,000

Deputy Statistician

The position of Deputy Government Statistician is mandated in the Statistics Act 2016 and was created to focus on strategic management, organisational development and survey implementation. Through this position, the Statistics Office is looking to: enhance stakeholder engagement and user-producer dialogue at the strategic and operational levels; redesign the organisational structure and performance management systems to reflect the changing needs of the end user and to address the increasing demand for timely, quality statistics.

Measure	2018/19	2019/20	2020/21	2021/22
Deputy Statistician	48,500	48,500	48,500	48,500
Total Cost	48,500	48,500	48,500	48,500

Special Investigative and Prosecution Services

Our justice system is created to recognise the rule of law, which is a fundamental mechanism for the sustainable development of our country. For this purpose, additional funds are being made available to increase government support in ensuring any special investigation relating to suspected cases of money laundering are undertaken well.

Measure	2018/19	2019/20	2020/21	2021/22
Special Investigative and Prosecution Services	200,000	70,000	70,000	70,000
Total Cost	200,000	70,000	70,000	70,000

Cook Islands Government Vehicle and Travel Insurance

Funding has been provided to cover costs associated with the Government vehicle and travel insurance schemes for the whole of government. The motor vehicle insurance provides comprehensive and third party coverage for all government registered vehicles and the travel insurance scheme provides insurance coverage for all government employees and Ministers travelling on official business at any given time.

Measure	2018/19	2019/20	2020/21	2021/22
CIG Vehicle and Travel Insurance	100,000	100,000	100,000	100,000
Total cost	100,000	100,000	100,000	100,000

8.4.16 Ministry of Marine Resources

15th Forum Fisheries Ministerial Meeting

Funding was covered through the 3/12ths appropriation for the hosting of Foreign Fisheries Conference (FFC) that was undertaken by the Forum Fisheries Agencies (FFA) members in July 2018.

The FFC meeting is the paramount decision-making organ within the Forum Fisheries Committee and is the conduit for reporting and exchange of information between the FFA and Forum Leaders. Forum Fisheries Ministers are therefore inherently responsible for all high level matters and are directly accountable to Forum Leaders on the implementation of the regional fisheries commitments and other decisions made by the Ministers.

Measure	2018/19	2019/20	2020/21	2021/22
15 th Forum Fisheries Ministerial Meeting	37,000	0	0	0
Total cost	37,000	0	0	0

8.4.17 National Environment Services

Support for Suwarrow National Park

Additional funds have been provided to the National Environment Services to assist with the various services that are being delivered by the National Park Rangers on behalf of multiple agencies in Rarotonga. Due to the rising cost of transportation and supplies, the operating funds previously provided to support the Suwarrow National Park have become insufficient.

Measure	2018/19	2019/20	2020/21	2021/22
Suwarrow National Park	10,000	10,000	10,000	10,000
Total Cost	10,000	10,000	10,000	10,000

Aitutaki Office Operational Costs

Recently the NES office in Aitutaki underwent renovations, with the replacement of electrical wiring and outfitting of appliances and fixtures. The office was in need of renovations due to the serious damage that the office endured during Cyclone Pat resulting in officers working from their homes until the office was fixed or an alternative office space was secured. Funding has been provided to cater for the operational costs of the office.

Measure	2018/19	2019/20	2020/21	2021/22
Aitutaki Office Operational Costs	13,000	13,000	13,000	13,000
Total Cost	13,000	13,000	13,000	13,000

8.4.18 Office of the Public Service Commissioner

Increase in the HOMs Salaries Administered Payment

In order to support the professional development of the Heads of Ministries (HOMs) and to ensure that they are adequately compensated, an increase in the HOMs Salaries Administered Payment has been provided. Furthermore, additional funding has been provided to cover relocation costs.

Measure	2018/19	2019/20	2020/21	2021/22
HOMs Salaries – Administered Payment	227,569	227,569	227,569	227,569
Total cost	227,569	227,569	227,569	227,569

8.4.19 Office of the Prime Minister

Strengthening the CPPO Office

There is a critical need to strengthen the functioning of the CPPO. CPPO should be at the centre of developing the country priorities with the core role of providing effective and relevant policy advice, however it has been unable to do this effectively with the current resource allocation.

In order for CPPO to achieve its work program, funding will be provided to accommodate the Director of CPPO position in order for the office to continue to strengthen its processes through the promotion and demonstration of technically sound policy practice.

Measure	2018/19	2019/20	2020/21	2021/22
Strengthening the CPPO Office - Personnel	10,000	10,000	10,000	10,000
Strengthening the CPPO Office - Operating	5,000	5,000	5,000	5,000
Total Cost	15,000	15,000	15,000	15,000

Investing in Public Service Communications

Funds have been provided to the Office of the Prime Minister to invest in Public Service Communications. As the Agency is responsible for the management of government policy, Cabinet determined that funding to ensure effective communication on government policy would be best placed with OPM.

Measure	2018/19	2019/20	2020/21	2021/22
Investing in Public Service Communication	30,000	30,000	30,000	30,000
Total Cost	30,000	30,000	30,000	30,000

8.4.20 Cook Islands Parliamentary Services

Ui Ariki Day

As the paramount chiefs of the Cook Islands, the House of Ariki holds an important place in society. Funding has been provided to the House of Ariki to cover costs associated with the Ui Ariki Day event that has been held every first Friday of the month of July.

Measure	2018/19	2019/20	2020/21	2021/22
House of Ariki – Ui Ariki Day	50,000	50,000	50,000	50,000
Total Cost	50,000	50,000	50,000	50,000

Member of Parliament's 3 month's Severance Pay

\$166,000 was sourced fund the 3 month's severance pay of 3 outgoing Ministers during the 2018 elections held in August. In accordance to the Civil List Order 2004/18, it is a requirement through legislation that funding be made available in the event that a Member of Parliament loses their seat during an election.

Measure	2018/19	2019/20	2020/21	2021/22
MP's 3 month's Severance Pay	166,000	0	0	0
Total Cost	166,000	0	0	0

37th CPA Australia and Pacific Regional Conference

\$20,000 will be provided to Parliamentary Services operating budget to cover costs associated with the hosting of the 37th CPA Australia and Pacific Conference that will be held from 22-24 October in Rarotonga.

Measure	2018/19	2019/20	2020/21	2021/22
37 th CPA Australia and Pacific Regional Conference	20,000	0	0	0
Total Cost	20,000	0	0	0

Top up of Civil List POBOCs

Funding has been set aside, in anticipation of a recommendation pending from the Remuneration Tribunal for the top up of the Civil List Personnel and MP Travel and Allowances POBOCs.

Measure	2018/19	2019/20	2020/21	2021/22
Civil List Personnel	90,000	90,000	90,000	90,000
MP Travel and Allowances	100,000	100,000	100,000	100,000
Total Cost	190,000	190,000	190,000	190,000

8.4.21 Ministry of Transport

Director of Civil Aviation

A salary increase has been provided for the Director of Civil Aviation from 2019/20 onwards. During 2018/19 this will be funded through the Core Sector Support before shifting back to the Ministry of Transport in 2019/20. The additional funds are required to ensure that the Ministry of Transport can effectively undertake the regulatory functions of civil aviation and establish long term sustainability in the Aviation Division.

Measure	2018/19	2019/20	2020/21	2021/22
Director of Civil Aviation	0	55,000	55,000	55,000
Total cost	0	55,000	55,000	55,000

8.4.22 Ministerial Support Office

Ministerial Support Office baseline reimbursement

Funding was approved through the 3-12ths allocation to reimburse 3 Ministerial Support Offices for the 2018/19 financial year. Funds were utilized to settle severance payments made to outgoing staff of those offices as well as outstanding operating expenses.

Measure	2018/19	2019/20	2020/21	2021/22
Ministerial Offices baseline reimbursement	62,191	0	0	0
Total Cost	62,191	0	0	0

Increase in Ministerial Support Office's appropriations

In order to adequately fund these Offices, a top up is required by the following amounts:

Measure	2018/19	2019/20	2020/21	2021/22
Minister Vainetutai Toki-Brown	92,293	92,293	92,293	92,293
Minister Robert Tapaitau	58,231	58,231	58,231	58,231
Minister George Angene	91,881	91,881	91,881	91,881
Minister Vaine Mokoroa	90,053	90,053	90,053	90,053
Minister Mark Brown	60,919	60,919	60,919	60,919
Total Cost	393,377	393,377	393,377	393,377

8.5 Technical adjustments

Table 8.10 Total Expenditure 2018/19 to 2021/22 (excludes ODA) (\$000)

Description	2018/19	2019/20	2020/21	2021/22	Total
Depreciation Adjustments to Agency Appropriation	997	997	997	997	3,990
Other Technical Adjustments	679	679	679	679	2,716
Technical Adjustments	1,676	1,676	1,676	1,676	6,704

Depreciation Adjustments to Agency Appropriations

A review of the Depreciation estimates for each Agency was undertaken during the 2017/18 financial year due to the large discrepancies between amounts budgeted and the actuals reported at the end of each fiscal year. Adjustments to the depreciation estimates are being made to account for corrections made to several agency appropriations as well as to reflect the movement of assets in the fixed asset register.

Measure	2018/19	2019/20	2020/21	2021/22
Cook Islands Audit Office	-5,678	-5,678	-5,678	-5,678
Office of the Prime Minister	22,970	22,970	22,970	22,970
Cook Islands Police Services	791,326	791,326	791,326	791,326
Business Trade Investment Board	-4,500	-4,500	-4,500	-4,500
Cook Islands Pearl Authority	-3,303	-3,303	-3,303	-3,303
Cook Islands Tourism Corporation	5,000	5,000	5,000	5,000
Ministry of Education	228,636	228,636	228,636	228,636
Ministry of Culture	-30,000	-30,000	-30,000	-30,000
Head of State	-7,000	-7,000	-7,000	-7,000
Total Cost	997,451	997,451	997,451	997,451

Other Technical Adjustments

Similar to the adjustments made for depreciation, as a result of the review undertaken earlier in the year, a number of adjustments have been made and are reflected in this amount. These are associated with Trading Revenue baselines of a few Ministries indicating an increase in Trading Revenue estimates in 2018/19 and the forward years.

Measure	2018/19	2019/20	2020/21	2021/22
Ministry of Finance and Economic Management	350,840	350,840	350,840	350,840
Total Cost	350,840	350,840	350,840	350,840

8.6 Reclassification of expenditure

Transfer of fee paid to Bancorp to Administered Payment

To ensure that the proper processes are followed, funds have been transferred out of the Loan Reserve Fund into an Administered Payment, created for the purpose of paying a set fee for the provision of debt advisory services to the Ministry of Finance.

Measure	2018/19	2019/20	2020/21	2021/22
Debt Advisory Fee	60,000	60,000	60,000	60,000
Total Cost	0	0	0	0

Transfer of the Public Sector Strengthening to various Ministries

Funding from the Public Sector Strengthening under OPM will be transferred to the Ministry of Justice, ICI, Ministry of Health and the Ministry of Corrective Services for the financing of new positions as part of the capacity assessment that was undertaken during the 2017/18 financial year.

Measure	2018/19	2019/20	2020/21	2021/22
Public Sector Strengthening – OPM	-600,000	-600,000	0	0
Ministry of Justice	118,218	118,218	118,218	118,218
Infrastructure Cook Islands	239,900	239,900	239,900	239,900
Ministry of Health	75,000	75,000	75,000	75,000
Ministry of Corrective Services	152,458	152,458	152,458	152,458
Total Cost	14,424	14,424	585,576	585,576

Transfer of Oxygen Plant fee to Health's Operating baseline

Funding of \$30,000 has been made available to the Ministry of Health for the acquisition of a service contract for the oxygen plant that was purchased and installed in August 2016 under the Administered Fund of the Ministry. This has since been transferred into the Ministry's operating baseline for better reporting going forward.

Measure	2018/19	2019/20	2020/21	2021/22
Oxygen Plant Administered Payment	-30,000	-30,000	-30,000	-30,000
Ministry of Health Operating Baseline	30,000	30,000	30,000	30,000
Total Cost	0	0	0	0

Transfer of Ministries Personnel to Shared Services

The Shared Services team provides central financial services and support to Government and its Agencies, including Payroll, Procurement and Financial Management Support. Currently, Shared Service performs these financial services for the Ministries of Internal Affairs, Culture, Justice, Transport, SBMA and as of 2018/19, the Civil List. Therefore identified funding will be transferred from these respective Ministries Operating appropriations to finance the financial functions performed by Shared Service.

Measure	2018/19	2019/20	2020/21	2021/22
Total Transfer from Ministries to MFEM	93,000	93,000	93,000	93,000
Internal Affairs	-25,000	-25,000	-25,000	-25,000
Ministry of Culture	-25,000	-25,000	-25,000	-25,000
Ministry of Justice	-25,000	-25,000	-25,000	-25,000
Ministry of Transport	-12,000	-12,000	-12,000	-12,000
Seabed Minerals Authority	-6,000	-6,000	-6,000	-6,000
Total Cost	0	0	0	0

Ministry Salary Adjustments

During the 2017/18 Budget, funds were set aside to cover instances where funding appropriated may not cover the required salary adjustment. The transfer is to ensure that the salary changes are correctly appropriated.

Measure	2018/19	2019/20	2020/21	2021/22
Salary Adjustment Administered Fund	-150,000	0	0	0
Ministry of Culture	18,250	18,250	18,250	18,250
Office of the Ombudsman	718	718	718	718
Ministry of Agriculture	2,756	2,756	2,756	2,756
Crown Law Office	281	281	281	281
Head of State	1,578	1,578	1,578	1,578
Ministry of Education – Private School	82,682	82,682	82,682	82,682
Total Cost	106,265	106,265	106,265	106,265

Transfer from TMV Capital to DCD Personnel

This is a transfer of funding for an existing position from the Te Mato Vai capital budget to DCD's personnel budget within MFEM. This is to ensure full monitoring of total DCD personnel expenditure. The Project Manager contracted for this project is a full time position based within DCD responsible for Te Mato Vai and Mei Te Vai Ki Te Vai.

Measure	2018/19	2019/20	2020/21	2021/22
TMV Capital Budget	-56,000	-56,000	0	0
DCD Personnel appropriation	56,000	56,000	0	0
Total Cost	0	0	0	0

Shift from Operating to Administered Payment – Border Management System

\$20,250 was moved into RMD's operating budget within MFEM from the Border Management System Administered Fund to assist with the maintenance costs for the Revenue Management System. This has now been shifted back into the Administered Fund for 2018/19 and the outer years.

Measure	2018/19	2019/20	2020/21	2021/22
RMD Operating appropriation	-20,250	-20,250	-20,250	-20,250
Border Management System Administered Fund	20,250	20,250	20,250	20,250
Total Cost	0	0	0	0

Split between USP Contributions and the Centre of Excellence in Information Technology

Additional funding will be sourced from the USP Subscriptions Administered Payment under Education to assist with the operational costs of the Centre over the 3 year period.

Measure	2018/19	2019/20	2020/21	2021/22
USP Contributions Administered Payment	-80,000	-80,000	-80,000	-80,000
Centre of Excellence in Information Technology	80,000	80,000	80,000	80,000
Total Cost	0	0	0	0

Transfer of Civil Aviation Administered Payment to Ministry of Transport

Funding associated with the Director of Civil Aviation Administered Fund will be shifted back to the Ministry of Transport in 2019/20 going forward.

Measure	2018/19	2019/20	2020/21	2021/22
Transfer from Ministry of Finance	0	-56,000	-56,000	-56,000
Transfer to Ministry of Transport	0	56,000	56,000	56,000
Total Cost	0	0	0	0

Transfers made to OPSC's Appropriation

Funding associated with the CEO's salary will now be shifted into OPSC's appropriation as part of the restructure exercise that the Agency has undertaken.

Measure	2018/19	2019/20	2020/21	2021/22
HOM's Salaries Administered Payment	-85,000	-85,000	-85,000	-85,000
OPSC's Appropriation	85,000	85,000	85,000	85,000
Total cost	0	0	0	0

Road and Water maintenance Transferred to Administered Payment

For proper accounting purposes, funds associated with the Road and Water maintenance have been removed from the capital schedule and re-appropriated into an Administered Payment Fund as this relates to the operational expenses of the two projects rather than the purchasing of actual capital items.

Measure	2018/19	2019/20	2020/21	2021/22
Capital Budget Appropriation	-1,130,000	1,130,000	1,130,000	1,130,000
Road Maintenance – Administered Payment	500,000	500,000	500,000	500,000
Water Maintenance – Administered Payment	630,000	630,000	630,000	630,000
Total Cost	0	0	0	0

8.7 Parameter adjustments

Increase in the Pa Enea Funding formula

The Pa Enea Funding Model aims to determine the appropriate level of cash funding to each of the Outer Islands Governments. The system was first introduced in the 2012/13 budget to ensure a fairer level of basic service delivery. In the 2017/18 financial year, a review of the funding formula was undertaken, particularly focusing on the funding provided for each parameter, as inflation had not previously been considered. While the full review is not yet complete, a determination has been made to increase the total funding formula cap by 4 per cent to go some way in considering inflation in the

Pa Enea since 2012/13. It is anticipated that further changes will be made going forward once the review of the funding model is complete.

Measure	2018/19	2019/20	2020/21	2021/22
Increase in the Pa Enea Funding formula	280,000	280,000	280,000	280,000
Total Cost	280,000	280,000	280,000	280,000

Core Sector Support Funding

Funding associated with the Core Sector Support, provided by New Zealand came to an end in 2017/18. Negotiations between the Cook Islands and New Zealand are in process to ensure continuity of the portion for this fund for the Ministries of Education, Health and Tourism.

Measure	2018/19	2019/20	2020/21	2021/22
Core Sector Support Funding	7,730,487	7,730,487	7,730,487	7,730,487
Total Cost	7,730,487	7,730,487	7,730,487	7,730,487

8.8 Payments on Behalf of the Crown (POBOC)

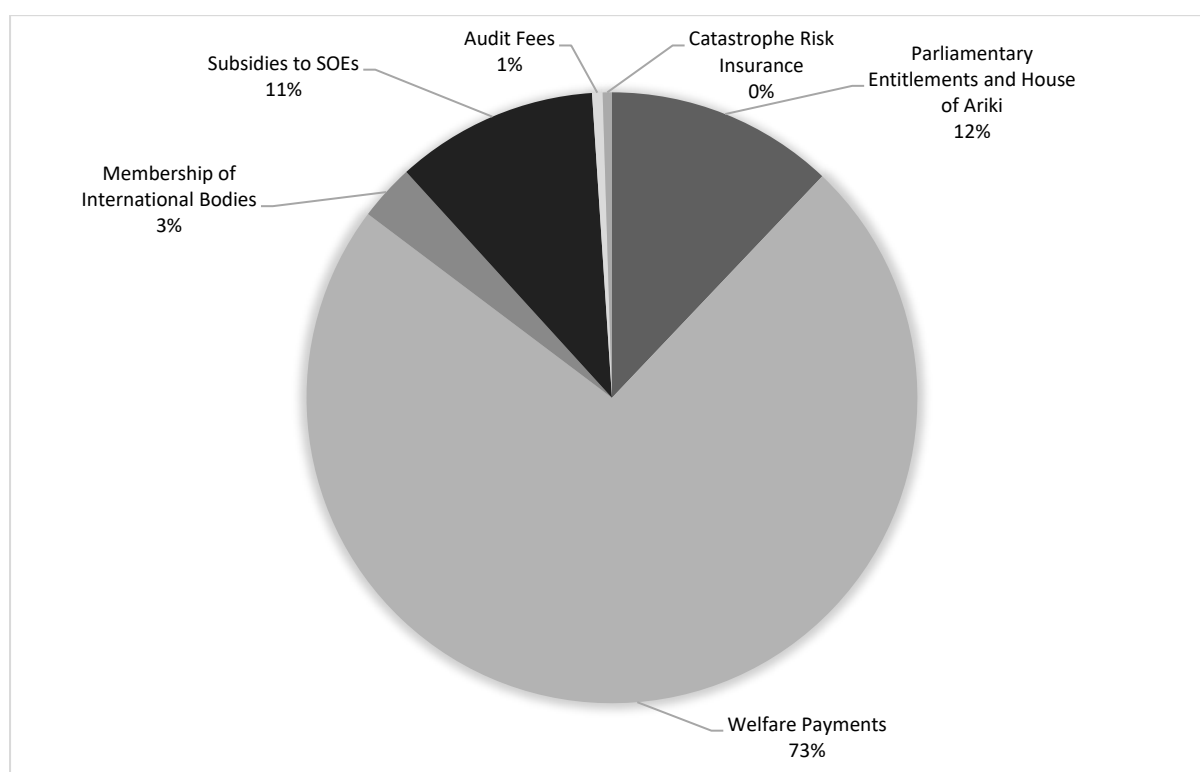
A breakdown of the key areas of POBOC expenditure can be seen below.

Table 87.13 POBOC Summary 2018/19 – 2021/22 (\$000)

POBOCS	2018/19	2019/20	2020/21	2021/22	Total
Parliamentary Entitlements and House of Ariki	2,999	2,999	2,999	2,999	11,999
Welfare Payments	18,157	19,391	19,391	19,391	76,330
Membership of International Bodies	737	751	753	751	2,992
Subsidies to SOEs	2,658	2,658	2,658	2,658	10,632
Audit Fees	138	138	138	138	552
Catastrophe Risk Insurance	121	121	121	121	484
Total POBOCS	24,810	26,058	26,060	26,058	102,986

As is evident in Figure 8.4 and Table 7.13, welfare payments comprise the majority of POBOCs at 73 per cent. This is followed by Parliamentary Entitlements and House of Ariki. More detail on each of the POBOCs with significant value is provided below.

Figure 8.4: POBOC Summary for 2018/19



8.8.1 Parliamentary Entitlements and House of Ariki

Civil List

The Civil List Legislation governs the funding for Parliament and the Executive branch of Government. This funding allows the Government to go about day to day business, including holding sittings, and representing the Cook Islands domestically and abroad.

Note that these figures include the new appropriation for the increase in the Civil List Personnel and the MPs Travel and Allowances POBOCs.

POBOC	2018/19	2019/20	2020/21	2021/22
Civil List Personnel	2,101,461	2,101,461	2,101,461	2,101,461
Parliamentary Sitting	120,000	120,000	120,000	120,000
Constituency Visits	170,200	170,200	170,200	170,200
QR Travel and Allowance	109,000	109,000	109,000	109,000
MP Travel and Allowance	141,000	141,000	141,000	141,000
Total Cost	2,641,661	2,641,661	2,641,661	2,641,661

Parliamentary Superannuation

This funding enables the Parliamentary Services to carry out its legal requirements of covering costs associated with the Cook Islands and New Zealand, if any, Superannuation of all Members of Parliament.

POBOC	2018/19	2019/20	2020/21	2021/22
Parliamentary Superannuation	180,000	180,000	180,000	180,000
Total Cost	180,000	180,000	180,000	180,000

House of Ariki

As the paramount chiefs of the Cook Islands, the House of Ariki holds an important place in society. This POBOC allows funding for general operations and events to be held, as well as a stipend to recognise the contribution to society made by the Ariki.

POBOC	2018/19	2019/20	2020/21	2021/22
House of Ariki	178,337	178,337	178,337	178,337
Total Cost	178,337	178,337	178,337	178,337

8.8.2 Subsidies to SOEs

Subsidies to State-owned Enterprises (SOEs)

In order to provide equitable basic services for all Cook Islanders, the Government provides a subsidy to SOEs involved in the provision of these services to cover the non-commercially viable aspects of their business, which is considered a social responsibility.

POBOC	2018/19	2019/20	2020/21	2021/22
Bank of the Cook Islands	120,000	120,000	120,000	120,000
Airport Authority	2,047,997	2,047,997	2,047,997	2,047,997
Ports Authority	110,099	110,099	110,099	110,099
Te Aponga Uira	380,000	380,000	380,000	380,000
Total Cost	2,658,096	2,658,096	2,658,096	2,658,096

8.8.3 Social Assistance

Table 8.14 Welfare Payments

	2018/19	2019/20	2020/21	2021/22
Welfare Payments POBOC	18,156,712	19,390,741	19,390,741	19,390,741
Welfare Payments Administered Payments	983,393	983,918	983,918	983,918
Total	19,140,105	20,374,659	20,374,659	20,374,659

These pensions and allowances support and protect the most vulnerable members of our society through the provision of legislated welfare benefits. The split between POBOC and Administered Payments is to recognise ongoing payments, such as pensions and the Destitute and Infirm Payment (DIP), and one-off or short-term payments such as funeral allowances and Christmas bonuses.

The payments are aimed at assisting the disadvantaged, the elderly, disabled and young families to meet the cost of basic needs such as food, shelter and clothing.

Table 8.5 Welfare Benefits (POBOC and Administered)

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
1 Old Age Pension	12,455,538	12,779,459	12,779,459	12,779,459
2 Child Benefit	4,665,774	5,575,882	5,575,882	5,575,882
3 Newborn Allowance	200,000	200,000	200,000	200,000
4 Destitute and Infirm Persons Payment	528,000	528,000	528,000	528,000
5 Government-funded Paid Maternity Leave	150,000	150,000	150,000	150,000
6 Caregiver's Allowance	356,400	356,400	356,400	356,400
7 Carer Order Payment	10,400	10,400	10,400	10,400
8 Christmas Bonus	277,793	278,318	278,318	278,318
9 Funeral Allowance	170,000	170,000	170,000	170,000
10 Power Subsidy	79,200	79,200	79,200	79,200

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
11 Special Assistance	100,000	100,000	100,000	100,000
12 Bank of Cook Islands Transaction Fees	147,000	147,000	147,000	147,000
Total	19,140,105	20,374,659	20,374,659	20,374,659

Table 8.6 Details on Welfare Payments

Legislated Welfare Payments	Payment Rate	Beneficiaries 2017/18 Estimate	Beneficiaries 2018/19 Budget	Assumptions
Child Benefit (monthly)	100	3,352	4,011	The number of eligible children up to age 14 is expected to increase the budget for this payment. The age of eligible children will increase from 12 to 14 in October 2018. The rate for the child benefit increased from \$66 per month to \$100 in 2017
New Born Allowance*	1,000	200	200	The number of births eligible for this payment is expected to increase slightly due to a change in the legislation
Old Age Pension - 60 to 69 years of age (monthly)	500	1,065	1077	The number of pensioners in this age group continues to increase slightly based on actuals.
Old Age Pension - 70 years of age and over (monthly)	660	747	757	The number of pensioners in this age group is expected to increase slightly.
Destitute and Infirm Persons Payment (monthly)	200	220	220	A slight increase in the number of people receiving these payments based on current trends.
Non-legislated Welfare Payments				
Caregiver's Allowance (monthly)	165	160	180	The number of people that will qualify for caregiver's allowance is likely to increase due to an ageing population and an increase in disability due to NCDs.
Christmas Bonus*	50	5,536	5,576	A slight increase in the total number of beneficiaries receiving a welfare payment in December 2018.
Funeral Allowance*	2,400	70	70	The number of old age beneficiaries expected to receive funeral assistance is expected to remain stable.
Power Subsidy (quarterly)	66	300	300	Estimated number of pensioners receiving the power subsidy is expected to remain stable.
Other Payments				
Government-funded Paid Maternity Leave**	1,740	80	86	The number of births by working women in the private sector is expected to remain stable, however the payment has increased due to an increase in the minimum wage to \$7.25

Note: some payments are not made on a monthly basis.

*The New Born Allowance, Christmas Bonus and Funeral Assistance are paid on each occurrence. The Funeral Allowance is now paid at two rates: \$2,400 is paid to Cook Islands welfare and pension recipients, and \$1,200 is paid to eligible Cook Islanders receiving the NZ Superannuation.

8.9 Welfare Payments

8.9.1 Legislated Entitlements

The Welfare Act 1989 provides for five types of welfare payments:

1. New Born Allowance - a lump sum payment at the birth of a child;

2. Child Benefit
3. Old Age Pension
4. Destitute Payment
5. Infirm Relief

The Employment Relations Act 2012 provides for the Government Funded Paid Maternity Leave payment.

Child Benefit

The Child Benefit is provided to parents, or guardians, of eligible children under the age of 12. The eligible age for the Child Benefit will be extended to children under the age of 14 years as of 1 October 2018. A further extension to children under the age of 16 years will be made in the 2019/20 financial year.

The rate of the payment increased on 1 July 2017 from \$66 to \$100 per month and is paid in two monthly instalments on the 1st and the 16th of each month. This payment was raised from \$40 to \$50 per month in 2002 and to \$60 in 2003. On 1 March 2014, it was increased by 10% to \$66 as part of the tax reform package.

New Born Allowance

The Newborn Allowance is provided as a lump sum payment to mothers on the birth of a child in the Cook Islands. The legislation was amended in 2016 to provide for births in New Zealand by mothers normally resident in the Cook Islands. The rate of the payment is \$1,000. This was raised from \$200 to \$300 in 2004 and to the current rate in November 2010. Applications for payment must be made within six months of the birth of the child.

Old Age Pension

The Old Age Pension is a taxable payment provided to eligible Cook Islanders from the age of 60.

For those aged between 60 and 69, the rate of payment is \$500 a month. For those aged 70 and over, the rate of payment increased from \$650 a month to \$660 a month on 1 July 2016. Payments are paid in two monthly installments on the 1st and the 16th of each month.

Destitute and Infirm Payment

The Destitute and Infirm Payment is a working age payment provided to Cook Islanders that are unable to permanently support themselves by their own means or labour and includes persons with dependents where such dependents are unable, through infirmity or age, to support themselves by their own means and labour.

Eligibility for payment is determined by a committee appointed by the Minister of Internal Affairs and continued eligibility is reviewed every three months in the first year of payment.

On 1 March 2014, the rate was increased by 10% to \$165 as part of the 2013 tax reform package. It is paid in two monthly installments on the 1st and the 16th of each month. In the 2016/17 Budget the rate was lifted to \$200, from 1 July 2016.

Government Funded Paid Maternity Leave payment

The Government Funded Paid Maternity Leave Payment is a payment to assist private sector employers in meeting paid maternity leave obligations for working women who give birth. The rate is set at the minimum wage based on 40 hours per week for six weeks and was set in 2012 at \$250 per week. On 1 July 2018 the minimum wage increased from \$7.00 to \$7.25 increasing the maternity leave payment to \$290 per week for six weeks.

The payment is paid in one lump sum to employers of eligible women who are then expected to pass on the payment, in accordance with usual income payment arrangements. The payment is subject to

income tax. This payment is not made to women in the Public Service as Government provides six weeks maternity leave to employees through agency appropriations.

8.9.2 Non-legislated Welfare Payments

In addition to payments made under the Welfare Act and the Employment Relations Act, the Government has provided executive authority for the payment of five additional welfare payments or allowances:

1. Caregiver's allowance
2. Christmas bonus
3. Funeral allowance
4. Power subsidy, and
5. Special assistance

Caregiver's Allowance

The Caregiver's Allowance is provided to people that are required to provide substantial day to day care to elderly Cook Islanders or people with permanent disabilities who have high care needs and do not have the capacity to access care. The rate of payment was increased by 10 per cent from \$150 per month to \$165 per month as part of the tax reform package. It is paid in two monthly instalments on the 1st and the 16th of each month.

Christmas Bonus

A Christmas Bonus of \$50 is an extra payment expected to be paid out to all eligible beneficiaries in December as a contribution from the Government to assist with costs at that time of the year.

Funeral Allowance

A funeral allowance is provided to families on the death of a person receiving a welfare payment, to assist with funeral costs. The rate for the Old Age Pension is \$2,400. A new rate was introduced in 2015/16 for eligible Cook Islanders who receive the NZ Superannuation but reside in the Cook Islands of \$1,200.

Power Subsidy

A power subsidy may be provided, subject to an income test, for beneficiaries of the aged, destitute or infirm relief payment. People receiving an overseas old age pension are not entitled to this benefit regardless of their total income. The rate of subsidy was increased by 10 per cent from \$60 per quarter to \$66 per quarter as part of the tax reform package. The subsidy is provided directly to Te Aponga Uira to offset the power bills of eligible Rarotonga based beneficiaries and directly to individuals for eligible beneficiaries in the Pa Enuā.

Special Assistance

Special assistance may be provided on a case by case basis and subject to an income and asset test to very elderly beneficiaries and people with severe disabilities to improve accessibility and mobility.

Bank of Cook Islands Transactions

Welfare benefits are paid directly into approved Bank of Cook Islands accounts at a transaction charge of \$1 per transaction. It is estimated that in general each beneficiary account will be paid twice per month.

9 Cook Islands Capital Expenditure

9.1 Introduction

The Government's capital plan for 2018/19 and the forward budget years is split between two funding sources. The first is direct funding from the Government, utilising previous years' underspending, cash reserves, and loans that the Crown has sole discretion over. The second is Official Development Assistance (ODA) funding from a number of development partners, with New Zealand being the major contributor. A significant number of capital projects are jointly funded by the Government and its partners.

Table 9.1 shows the total capital expenditure appropriation for 2018/19 and estimates for the forward period, by source.

Table 9.1 Total capital expenditure, (\$ million)

Funding source	2017/18 Actual	2018/19 Budget	2019/20 Projected	2020/21 Projected	2021/22 Projected
Cook Islands Government	21.8	44.5	42.9	28.1	11.8
ODA	41.0	37.4	15.6	1.1	0
Total capital expenditure	62.8	81.9	58.5	29.2	11.8

This chapter provides further detail on the Government's portion of the capital plan. Chapter 16 describes the ODA capital (and operating) expenditure budget.

9.2 Summary

The Cook Islands capital expenditure appropriated for the 2018/19 Budget amounts to \$44.5 million. The Capital Schedule (Plan) is intended to inform readers about projects that have been appropriated in the 2018/19 year and other projects earmarked from 2019/20 to 2021/22.

The Government has made a concerted effort in this budget to acknowledge capacity constraints that have restricted the Government's ability to complete its ambitious capital project in recent years. This has been evidenced by continual carry forwards of capital funds from one budget year to the next. For example, capital expenditure of \$15.4 million was carried forward from 2016/17 into 2017/18, which had the effect of increasing the capital budget from \$44.9 million at the time of the 2017/18 Budget to \$60.3 million in the HYEPU.

As a result, the priority investment areas reflected in the 2018/19 Budget remain largely unchanged since the 2017/18 Budget, with a focus on further progressing current capital projects prior to engaging in new works. Funds have been appropriated to Road Asset Management, Pa Enea Cyclone Centres, Bridges and Drainage, renewable energy and Te Mato Vai in 2018/19. The Manatua Submarine Cable remains a high priority for the Government, although delays in the project have shifted out the expenditure profile. This project will be implemented alongside other significant projects such as Mei Te Vai Ki Te Vai and the Vaikapuangi Building. These major projects have been spaced over the forward period to ensure we have the absorptive capacity to fully implement and complete them, with a total Capital Projects budget of \$44.5 million for 2018/19 and \$42 million for 2019/20. These projects are all expected to contribute to improving the quality of life in the Cook Islands and increasing the productive capacity of the economy.

The remainder of this chapter provides details on the capital expenditure appropriation, by Government agency.

9.3 Office of the Prime Minister

Table 9.2 Capital projects, OPM (\$)

Island	Project/Programme	2017/18 Actual	2018/19 Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Aitutaki	Aitutaki Renewable Energy Project	325,814	2,474,185	0	0	0
National	Government IT Network	40,000	40,000	40,000	40,000	40,000
National	Southern Group Renewable Energy Project – loan component	6,817,000	3,163,939	0	0	0
National	Renewable Management Project Management and Support	246,809	250,000	250,000	0	0
National	Manatua Submarine Cable (loan component)	0	2,00,000	15,265,000	4,714,000	0
Total		7,429,623	7,928,124	15,555,000	4,754,000	40,000

Aitutaki Renewable Energy Project – Phase 1

Total funding of \$2.8 million has been appropriated across the 2017/18 and 2018/19 years to extend the national renewable energy project to Aitutaki. The aim is to reduce the island's diesel consumption by 245,000 litres a year by supporting at least 24 per cent of energy consumption from renewable energy sources. Of the \$2.8 million, a 10 per cent payment was made in 2017/18 to commence this work with the remainder of the work taking place in the 2018/19 financial year.

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

Government IT Network

The whole of government (including a number of Island Governments) IT network is provided an annual fund of \$40,000 for ongoing implementation and maintenance of the centralised Government Information Technology network.

Renewable Energy Project – loan component

The goal of the Renewable Energy Program Support is to establish a solid foundation for renewable energy sector development and operations in the Cook Islands. The focus has been to complete the Southern Group following completion of the Northern Group. With the end of this project approaching, this remaining funds have been appropriated to cover the remaining payments of the

Southern Group Renewable Energy Project as scheduled for installation and other services. Some of this cost is for Retention purposes.

Renewable Energy Management Project

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

This management team will continue to oversee the remaining work required for the Southern Renewable Energy Project, including Aitutaki.

Manatua Submarine Cable (loan component)

The Government is proceeding as planned with the implementation of the Manatua Cable project, a four country partnership between the Cook Islands, Niue, French Polynesia and Samoa. The new submarine cable will link Samoa and French Polynesia with branches to Niue and the Cook Islands. This will enable two primary gateways to the global internet for the Cook Islands. The Cook Islands participation in the Manatua project is a response to the public wanting better connectivity and pricing for capacity.

The Manatua Cable will service Aitutaki and Rarotonga, where the majority of the population, commercial activity and social services are concentrated. Satellite solutions for the rest of the Pa Enea will complement the fiber optic connection provided by Manatua. A mix of the submarine cable and satellite will provide the Cook Islands flexibility, resilience and redundancy offered by both systems.

The four countries of the Manatua Consortium entered into an international treaty in April 2017. The project has been developed in partnership with all four governments. An international competitive bidding process was opened in February 2018. The cost for the supply of the entire Manatua cable system provided by bidders ranged from \$45 - \$54 million, which will be divided amongst the four owners of the cable. Tyco Electronics Subsea Communications has been awarded preferred status following the bid evaluation process.

The Cook Islands is covering the costs of the Manatua Cable through a loan facility from the ADB and a grant from New Zealand. These funds will cover costs of the cable, the cable landing stations, project administration and initial transit capacity.

9.4 Cook Islands Investment Corporation

Table 9.3 Capital projects, CIIC (\$)

Island	Project/Programme	2017/18 Actual	2018/19 Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	0	0	250,000	0	0
Rarotonga	Apii Nikao	471,602	0	0	0	0
Rarotonga	Nukutere Rebuild	0	530,000	0	0	0
Rarotonga	Tereora College Redevelopment Stage 1	2,099,459	130,000	0	0	0
Rarotonga	Vaikapuangi Government Building	0	204,495	5,000,000	5,000,000	4,000,000
Pukapuka	Hospital Reconstruction	0	500,000	0	0	0
Rarotonga	Te Mato Vai – Stage 1: road and pipeline easement & stage 2 land acquisition for water intakes	0	650,000	0	0	0
Rarotonga	China Building Repair	0	340,000	0	0	0
Rarotonga	TMV Titikaveka Backroad Rehabilitation	0	127,000	0	0	0
		2,571,061	2,481,495	5,250,000	5,000,000	4,000,000

Nukutere Rebuild

\$530,000 is approved as the Government's contribution to assist the College in building a new classroom block to replace the one that was destroyed by arson in 2013. The construction of the new classroom block will be project managed by CIIC's Special Project's Unit.

Tereora College Redevelopment Project – Stage 1

The Prime Minister of the Cook Islands Hon. Henry Puna, along with the Prime Minister of New Zealand, Rt. Hon. Jacinda Ardern, officially opened the new Student Research & Administration and Technology Blocks at Tereora College in March 2018. The majority of the \$14 million project was funded by New Zealand (as a gift from the government and people of New Zealand presented to the Cook Islands during the 50th Constitution celebrations) to the Cook Islands. This project was managed by CIIC's Special Projects Unit (SPU). The project completion process includes a defects liability period which flows through to this financial year. The only remaining cost is the contractor's final retention payment of \$130,000 which is due in January 2019.

Vaikapuangi Project

The Vaikapuangi project has been extended to embrace a whole of government approach for the centralisation of Government services in Rarotonga. A study is being undertaken in 2018/19 to assess the social and economic impacts of the various options for a whole of government facility. Though this means that the implementation of the project could be delayed, it will ensure that this investment

represents the best possible value for money and that the level of public services offered by Government will improve over the long term.

Pukapuka Hospital

The existing Pukapuka hospital was constructed over 60 years ago using limestone and concrete. Following a successful tender process in June 2018 for the supply and delivery of materials for the Pukapuka Hospital renovation project, it is anticipated project mobilisation will commence soon after the passing of the 2018/19 Budget in close cooperation and collaboration with the local community. The new hospital will be purpose built to improve health services and standards for the people of Pukapuka.

China Building Repair

The Ministry of Justice building, National Police Headquarters and Bluesky Sports Arena (formerly Telecom Sports Arena) were constructed in 2004, 2006 and 2009 respectively by way of grant and concessional loans from the People's Republic of China (PRC). The buildings require various repairs and improvements, some of which have been addressed by the Cook Islands Government. The current funding of \$340,000 is approved to replace the roller door at the Sports Arena building.

9.5 Infrastructure Cook Islands

Table 9.4 Capital projects, ICI (\$)

Island	Project/Programme	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projection	2021/22 Projection
Atiu	Atiu Airport Runway Stabilisation	100,647	0	267,525	0	0
Atiu	Atiu Road Improvement Programme	6,531	250,000	0	0	0
Rarotonga	Avatiu Valley Stream embankment	0	394,396	0	0	0
Rarotonga	Bridges & Drainage	165,496	1,299,000	1,259,000	0	0
Various	Manea Games Upgrade	20,995	0	0	0	100,000
National	HV Transport Trailer	96,927	0	0	0	0
National	Bitumen Truck	202,331	0	0	0	0
Mangaia	Mangaia Road Improvement Programme	192,135	0	0	0	0
Mangaia	HIAB (includes man cage & fork)	75,241	0	0	0	0
Mangaia	Central Water Project	10,744	0	0	0	0
Mangaia & Palmerston	Cargo Barge Repair	13,466	0	0	0	0
Mitiaro	Mitiaro Water Upgrade	77,862	382,000	0	0	0
National	Pa Enea Cyclone Centre	89,813	1,050,000	1,500,000	1,500,000	0
Various	Outboard Motor Replacement program	83,709	0	0	0	0
Penrhyn	Omoka Harbour Upgrade	0	250,000	0	0	0

Island	Project/Programme	2017/18 Actual	2018/19 Budget	2019/20 Estimate	2020/21 Projection	2021/22 Projection
Pukapuka	Pukapuka Airport terminal buildings upgrade	75,241	13,500	0	0	0
Rarotonga	Rarotonga Road Asset Management	1,166,818	2,000,000	2,000,000	2,000,000	2,000,000
Mangaia	Tamarua Water Project	116,087	133,913	0	0	0
Mangaia	Mangaia Road Improvement	192,135	0	0	0	0
Rarotonga	Tip Truck	54,397	0	0	0	0
Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	9,480	140,500	0	0	0
Manihiki	Manihiki Airport Terminal 0 construction	86,795	0	0	0	0
National	Pa Enea Machinery Shelters	42,460	0	0	0	0
Pukapuka	Yato Cargo Shed Upgrade	7,850	0	0	0	0
Rarotonga	Rutaki Foreshore Rock Revetment	117,155	0	0	0	0
Rarotonga	Muri Road Widening	39,398	287,665	0	0	0
Rarotonga	Tereora Drainage Improvement	0	117,000	13,000	0	0
Rarotonga	Road Network Maintenance	723,543	0	0	0	0
Aitutaki	Aitutaki Road Improvement	863,153	226,000	0	0	0
Aitutaki	Establishing new Water Galleries	49,279	418,376	0	0	0
Rarotonga	Culverts	0	600,000	0	0	0
	Total	4,487,553	7,562,350	5,039,525	3,600,000	2,000,000

Pa Enea Road Improvement Programme – Atiu

The people of Atiu have identified this as a priority to provide ease of access between other key infrastructure such as the airport and harbour. Infrastructure Cook Islands, together with the Atiu Island Government, will deliver this project in a systematic manner. The proposed road improvements will be for 12 km x 5 m wide road sealing which will include preparation works, roadside drainage and application of two coats of chip seal.

Bridges and Drainage

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

After the heavy rainfall this year, the Punanga nui Bridge has been identified as the priority in 2018/19, with the Empire Bridge shifted to 2019/20.

Mitiaro Water Upgrade

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

Water is pumped to an elevated reservoir tank and gravity-fed to the wider Mitiaro community. There are several issues with the water supply system including high salinity, water wastage through leakage, a highly corroded reservoir tank and platform stand, and issues with the catchment and storage of rainwater tanks.

The objective of the Mitiaro Water Upgrade is to address current problems and plan for a long-term efficient water supply system. Additional work will be undertaken on improving or replacing existing water infrastructure to the required levels of service, including options to improve water supply resilience through identification of alternative sources.

Omoka Harbour

Limited maintenance of Penrhyn's Omoka harbour has resulted in it becoming critical and subject to collapse if no further improvement is made. The funding appropriation for 2018/19 will commence the harbour rehabilitation project.

Pa Enea Cyclone Centre Programme

The Northern Pa Enea are prone to cyclones, as such it is the Government's priority to improve resilience in the Pa Enea to the effects of climate change. The design for the Palmerston cyclone centre is now complete and it is anticipated that construction will commence shortly. It is expected that a similar design will be rolled out across the remaining Northern Pa Enea. These projects will be delivered in conjunction with Government agencies and the respective island administrations to ensure the delivery of a multi-purpose structure to service the needs of the Pa Enea communities.

Rarotonga Road Asset Management

The Rarotonga roading network dates back to the Ara Metua, which runs around most of Rarotonga. This 29 km long, paved road is believed to be at least 1,200 years old. This asset has significantly deteriorated due to limited expenditure and lack of regular maintenance. The asset management plan sets the minimum level of standard for our road network and sets out how the road condition should be assessed.

This funding will address the identified high risk areas first, with work to address the less critical areas to follow. Planned and completed inspections of the road network on Rarotonga has identified a number of sites that have high traffic flows, modes of failure and public and user safety, to determine

the critical areas around Rarotonga that need improvements. This funding will be used in conjunction with operating funds that have been appropriated in the 2018/19 Budget.

Tamarua water project

Mangaia has faced water shortages during prolonged periods of drought. Mangaia has three main villages, Oneroa, Ivirua and Tamarua, which rely on stream surface water and rainwater for water supply.

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

Tukao Passage widening project

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

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

Muri road widening

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

Establishing new water galleries for Aitutaki

All of Aitutaki's water supply is derived from groundwater sources. Existing sources are nearing their safe yields. In 2013 a drought in Aitutaki caused the Island Government to re-think its position with regards to the water security of its residents. The strategy involves the establishment of two new galleries and the re-development of an existing one to take pressure off the existing six galleries. This will allow for better water access for the wider public including the island's commercial growers. To facilitate this, Aitutaki Island Government intends to establish new water galleries for Vaitupa, Tautu and Vaipae. A new water gallery construction is scheduled for construction in the village of Tautu in 2018.

Aitutaki Road Improvement

The road reconstruction and road sealing program on Aitutaki began in 2017/18 with 35 kms of roads completed. There remains about 5 km of roads to be reconstructed and sealed in 2018/19.

Tereora Drainage

The design and construction of the storm water drainage for Tereora will take place this year to improve the storm water catchment. The scope of works includes improvements to the Tereora College storm water network and diversion of existing storm water flows from the upper catchment via a new pipe network. This project will improve the operation of the existing storm water networks by improving the storm water capacities of the network and reducing storm water volumes utilising the existing Tereora College drainage system.

Rarotonga Culverts

There are a number of existing drainage culverts which have been inspected during the last 6 months and a significant proportion of these have been found to be in a poor state requiring either significant maintenance or replacement. This funding will assist with the replacement of culverts in Nikao and other areas prone to ongoing flooding issues in the future.

9.6 Ministry of Finance and Economic Management

Table 9.5 Capital projects, MFEM (\$)

Island	Project/Programme	2017/18	2018/19	2019/20	2020/21	2021/22
		Actual	Estimate	Projection	Projection	Projection
Rarotonga	FMIS purchase and implementation	124,619	644,011	259,336	0	0
Rarotonga	Te Mato Vai 0 Rarotonga Water Upgrade (incl. China loan)	4,849,292	23,750,000	9,000,000	7,000,000	0
Rarotonga	AEOI IT System	378,347	121,653	0	0	0
Rarotonga	Mei Te Vai Ki Te Vai	173,977	250,000	7,000,000	7,000,000	5,000,000
Total		5,526,235	24,765,664	16,259,336	14,000,000	5,000,000

Financial Management Information System (FMIS)

The FMIS supports the standardisation and integration of a centralised database accessible by Government agencies. Phase 1 - planning stage has come to an end, and the project has now progressed to phase 2 – system configuration.

Te Mato Vai – Rarotonga Water Upgrade

Te Mato Vai has now progressed to stage 2 of the project. Stage 2 will establish a new pipe network and significantly upgrade 10 of the island's 12 water intake sites, introducing new treatment and storage facilities to manage demand more effectively. The contract for the design and construction of Stage 2 was awarded to McConnell Dowell in August 2017. McConnell Dowell mobilised by the end of 2017, with construction now underway. Construction at the Turangi and Avana intake sites has commenced, as well as trunk main upgrades at Papua. The aim is to complete all Stage 2 construction in 2020. Further information including Stage 1 and Stage 2 works can be sourced from www.tematovai.com.

AEOI IT System

The Cook Islands is committed to an automatic exchange of information (AEOI). This information technology system will enable financial institutions to securely provide information to the Revenue Management Division. As at June 2018 the IT solution had been partially implemented. Implementation of IT system will be finalised in 2018/19.

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

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

9.7 Ministry of Health (MOH)

Table 9.6 Capital projects, MOH (\$)

Island	Project/Programme	2017/18 Actuals	2018/19 Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
National	Fund prioritised by Health for Technical Equipment	306,895	275,000	275,000	275,000	275,000
Rarotonga	Medical Service Bed End Panels	281,146	78,252	0	0	0
Rarotonga	Ambulance	2,202	147,798	0	0	0
Rarotonga	Hospital Incinerator	1,882	217,411	0	0	0
	Total	592,125	718,461	275,000	275,000	275,000

Funds to be prioritised by Health for Technical Equipment

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

Medical Service Bed End Panels

The remaining funds from 2017/18 have been re-appropriated to cover the costs of implementing the final phase of the purchase that includes the purchase and installation of beds, medical service bed end panels including gas lines and a wireless patient call system. These installations are required for the medical, maternity, surgical and paediatric wards of the Rarotonga Hospital.

Ambulance for Rarotonga Hospital

The purchase of a second ambulance aims to benefit the Cook Island population, as well as to complement the ambulance fleet at the hospital. Current ambulance provision comprises one brand new ambulance (funded by MFAT-NZ through the partnership funding with the Ministry of Health in 2015) and two second-hand, aged ambulances (one operational with the second used as spare parts).

The Ministry of Health has gone out to tender, with the purchase of the ambulance expected to take place this year.

Incinerator for Rarotonga Hospital

The effective management of clinical waste and proper disposal of all medical waste is important for the health and safety of the community and environment. Three incinerators are currently being shipped to Rarotonga, these are earmarked for Mauke, Mangaia and Rarotonga. The remaining funds from 2017/18 have been re-appropriated to allow for the extension of the foundation for the incinerator and supply and install fencing. This will improve the management and treatment of healthcare waste and ensure that the MOH maintain best practice for disposal.

9.8 Ministry of Agriculture

Table 9.7 Capital projects, MOA (\$)

Island	Project/Programme	2017/18	2018/19	2019/20	2020/21	2021/22
		Actual	Estimate	Projection	Projection	Projection
Rarotonga	Vanilla Shade Houses	71,871	30,091	0	0	0

Vanilla Shade Houses

This project focuses on investing in vanilla production for Rarotonga and selected Pa Enuā, with the aim of achieving economic growth and sustainable livelihoods. The project involves the construction of eight new shade house structures and plantings for identified sites around Rarotonga and the Southern Pa Enuā. The remaining funds from 2017/18 have been re-appropriated to this financial year to complete the outstanding shade houses.

9.9 Ministry of Education

Table 9.8 Capital projects, MOE (\$)

Island	Project/Programme	2017/18	2018/19	2019/20	2020/21	2021/22
		Actual	Estimate	Projection	Projection	Projection
National	Fund to be prioritised by Education	340,592	110,000	110,000	110,000	110,000

Funds to be prioritised by Education

Similar to the Ministry of Health, the Ministry of Education receives an annual appropriation of \$110,000 for capital expenditure across all schools. This funding meets the requirements of replacement plans for computers, photocopiers, other multi-media items, desks, chairs and other classroom furniture.

10 Tax Exemptions (Expenditure)

10.1 Introduction

A key element of fiscal transparency is the analysis and management of tax expenditures. Tax expenditure in broad terms, is a tax provision that deviates from a benchmark tax system.

Tax expenditures may take a number of forms: exclusions, exemptions, allowance, deductions, credits, preferential tax rates, or tax deferrals. Tax holidays and tax free zones are tax expenditures subject to specific time periods or geographical areas.

To identify what a tax expenditure is, a normative or a benchmark tax structure must be established. In the case of the Cook Islands, the benchmark tax structure is the existing tax regime as governed by the following Acts:

- *Income Tax Act 1997;*
- *Value Added Tax Act 1997;*
- *Customs Revenue and Border Protection Act 2012;* and
- *Customs Tariff Act 2012.*

10.2 Import duty

Concession on fuel to the outer islands

Fuel to all outer islands is free of duty except Aitutaki where the rate is 15 cents per litre on petrol and 5 cents per litre on diesel. These concessions are estimated to cost around \$600,000 in 2018/19.

The rate for Rarotonga is 28 cents per litre on petrol and 22 cents per litre on diesel.

Concessions for returning Cook Islanders

All duties are waived for returning Cook Islanders who have been away for more than three years and are returning to live in the Cook Islands for the next two years.

The estimated cost to revenue of the concession provided in 2018/19 is estimated to be \$450,000.

Concessions for non-Cook Islanders

All duties are waived for non-Cook Islanders who have been away for more than three years and are arriving to live in the Cook Islands for the next three years.

The estimated cost to revenue of the concession provided in 2018/19 is estimated to be \$60,000.

Duty free jet fuel

There is no duty payable on jet fuel and aviation kerosene supplied to jet propelled aircraft.

10.3 Income tax

Deductions allowed in respect of donations to charitable organisations

Charitable donations are deductible from taxable incomes at the marginal rate of one's income. The minimum donation is \$200 and the maximum donation is \$5,000 per annum.

The estimated cost to revenue of this deduction provided is \$250,000 based on past rebate claims and deductions made.

Income of the Queen's Representative

The income of the Queen's Representative is tax exempt. The cost of this exemption is estimated to be \$30,000 per year.

Pensions arising from disability or from services provided in respect of any war

All 'war pensions' and allowances paid to persons who served in a war or were injured during any service in the armed forces of any nation are exempt of income tax.

Income from approved superannuation funds

Incomes derived by either the New Zealand Government Superannuation Fund or by a superannuation fund approved by the Collector are exempt from tax.

Income derived by charitable organisations

All income derived by charitable organisations are exempt of tax. There are an estimated 30 to 40 charitable organizations in any given year.

Income derived by promoters of amateur sports

All income derived in the promotion of amateur sport is exempt of tax.

Income derived under a government approved supplementary scheme

Incomes derived by teachers and other employees approved by Government under a supplementary scheme are exempt of tax. This applies only to the supplementary income received, not the income paid by the Cook Islands Government.

Income derived by consular and diplomatic personnel

Income derived by consular and diplomatic personnel are exempted under the Diplomatic Privileges and Immunities Act 1968.

It is estimated that this concession costs around \$100,000 a year, but this is offset somewhat by the reciprocal treatment of Cook Islands diplomatic staff based in New Zealand being exempt from New Zealand taxation.

Income derived from a foreign source in the context of international foreign aid

Income derived in the context of foreign aid, paid by a non-resident to a non-resident employer is exempt of tax.

95 per cent of incomes derived upon retirement

Where an individual retires from employment, only 5 per cent of the retirement payment is subject to tax.

10.4 Value-added tax

The following are exempt of value-added tax (VAT):

- Financial services.
- Attendance dues paid to private schools.
- Goods imported by non-profit and religious organisations, schools and for disaster relief are exempt of VAT upon importation. The estimated cost of providing this exemption in 2018/19 is estimated to be \$100,000.
- Goods imported by the Queen's Representative and New Zealand High Commission are exempt of VAT upon importation. The estimated cost to revenue of the concession provided in 2018/19 is estimated to be \$20,000.

11 Crown Debt and Net Worth

11.1 The Loan Repayment Fund (LRF)

In February 2014, the Parliament of the Cook Islands passed the *Cook Islands Loan Repayment Fund (LRF) Act 2014* formally creating a Loan Repayment Fund (LRF). The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilized for anything outside of debt servicing requirements.

The LRF Act ensures a framework for the prudential management of all sovereign debt and the timely allocation of money from the Budget for debt servicing. Since its enactment, the LRF has become the official means by which the Cook Islands Government (Crown) manages its debt portfolio.

Table 11.1 reconciles the initial balance transferred into the LRF fund of \$16.10 million when the LRF Act came into effect and the LRF was established.

Table 11.1 LRF reconciliation

Debt Reserve Working	Transfer In	Transfer Out	LRF Balance	SOEs Debt	Authority
2000-01 transfer to reserve	2,000	0	2,000		Appropriation
2001-02 transfer to reserve	3,197	0	5,197		Appropriation
2002-03 transfer to reserve	3,489	0	8,686		Appropriation
2003-04 transfer to reserve	3,313	0	11,999		Appropriation
2004-05 transfer to reserve	3,313	0	15,312		Appropriation
2005-06 transfer to reserve	1,706	0	17,018		Appropriation
2006-07 transfer to reserve	1,529	0	18,547	22,390	Appropriation
2007-08 transfer to reserve	1,287	0	19,834	23,497	Appropriation
2008-09 transfer to reserve	1,100	0	20,934	21,018	Appropriation
2009-10 transfer to reserve	1,100	0	22,034	18,465	Appropriation
2010-11 loan repayment	0	1,529	20,505	17,365	Appropriation
2011-12 loan repayment	0	1,429	19,076	16,177	Appropriation
2012-13 loan repayment	0	1,529	17,547	14,591	Appropriation
2013-14 loan repayment	0	1,335	16,212	13,391	Appropriation
2014-15 loan repayment	6,111	6,227	16,096	12,192	LRF Act 2014

The initial balance transferred into the LRF in 2014/15 of \$16.10 million was tagged to service \$12.19 million of State Owned Enterprises' (SOE) debt held by the Crown at the time. The LRF will continue to service those loans as illustrated under the 'Repayment of Prepaid SOE debt' section of the LRF Statement (see Table 11.2). The annual contribution into the LRF will therefore be the overall debt servicing net of prepaid SOE debt.

The net contributions into the LRF are smoothed in order to reduce the volatility to the Crown's cash reserves from new debt obligations and exchange rate shocks. The contribution is calculated at the start of each financial year as mandated by Section 7(1) of the LRF Act, using the estimated average debt servicing requirements for the next five years, i.e. current plus four forward years.

Figure 11.1 demonstrates that payments made into the LRF do not match the debt servicing profile until 2020/21 (excluding interest revenue) due to the smoothing effect of LRF contributions.

In the 2018/19 Budget, the appropriations shown in Schedule 4 represent the net contribution into the LRF of \$9.36 million in the 2018/19 fiscal year.

Figure 11.1 LRF smoothing effect

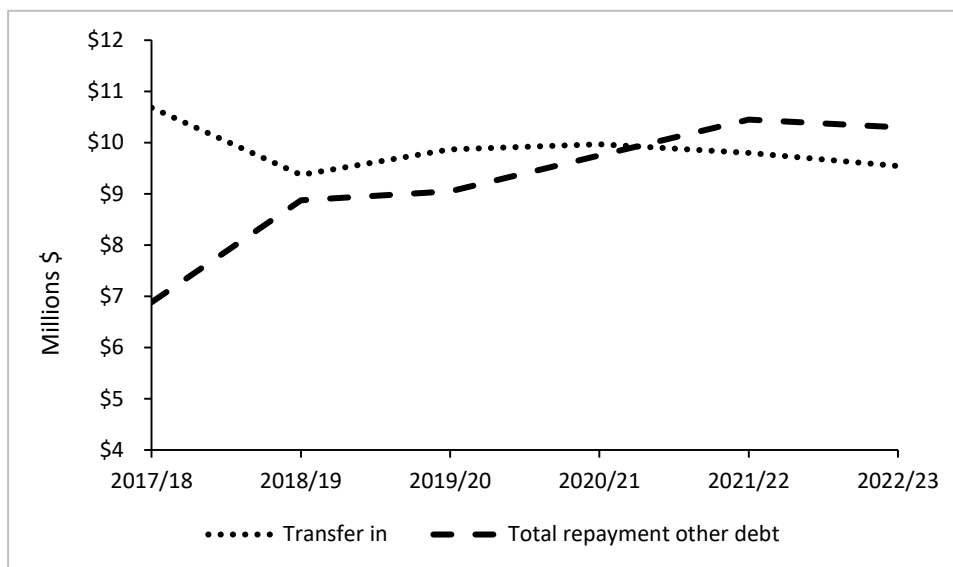


Table 11.2 illustrates the movements in the LRF since its establishment. The figures do not include any provisions related to the Disaster Recovery Mechanism (DRM) loan from the Asian Development Bank (ADB), which will only be triggered and drawn down in the event of a catastrophe.

Table 11.2 Loan Repayment Fund Statement (NZ\$'000)

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Opening LRF balance	18,639	21,277	20,922	21,263	21,018	19,905
Contribution to LRF principle	8,619	6,995	7,594	7,882	7,907	7,846
Contribution to LRF interest	2,063	2,367	2,263	2,088	1,891	1,696
Transfer in	10,682	9,362	9,857	9,970	9,798	9,542
Interest earned (avg 2%)	373	426	418	425	420	398
Total transfer in	11,055	9,787	10,275	10,395	10,219	9,940
Repayment of SOE debt						
Principal	1,368	1,113	788	757	756	679
Interest	102	94	84	73	65	58
Total repayment from LRF	1,470	1,207	872	830	821	737
Repayment of other debt						
Principal	4,440	6,445	6,418	7,251	8,140	8,192
Interest	2,446	2,430	2,585	2,500	2,309	2,107
Total repayment other debt	6,886	8,875	9,002	9,751	10,449	10,299
Other service fees	60	60	60	60	60	60
LRF stock balance	21,277	20,922	21,263	21,018	19,905	18,749

The payments into the LRF will fall in a stepped manner as the current loan stock is repaid. Equally, payments into the LRF will rise as new loans are approved, committed and drawn down.

The transfers from the LRF for principal and interest obligations are the estimated debt servicing requirements at the time of the Budget and will be subject to foreign exchange rate and debt drawdown variations.

11.2 Gross debt owed by the Crown

Total gross debt owed by the Crown as at 30 June 2019 is estimated to be \$104.88 million, which does not include \$33.93 million in committed but yet to be disbursed loans. The undisbursed loans relate to \$19.98 million for the Undersea Broadband Cable loan and \$13.95 million for the DRM loan, which is only triggered and drawn down in the event of a catastrophe.

Two loans from the Government of France, denominated in EUR, will be fully repaid during the 2018/19 year.

Table 11.3 Gross debt by Crown estimated to 30 June 2019 (\$ million)

	Direct debt	SOE debt	Gross debt
Loans committed and drawn	70.89	33.98	104.88
Loans committed but not drawn	33.93		33.93
Total commitment	104.82	33.98	138.81

The \$33.98 million of loans held on behalf of/and by SOEs include a \$2.94 million commercial loan taken directly by the Airport Authority to fund an upgrade to the Instrument Landing System (ILS) for Rarotonga Airport.

11.2.1 Exchange rate assumptions

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

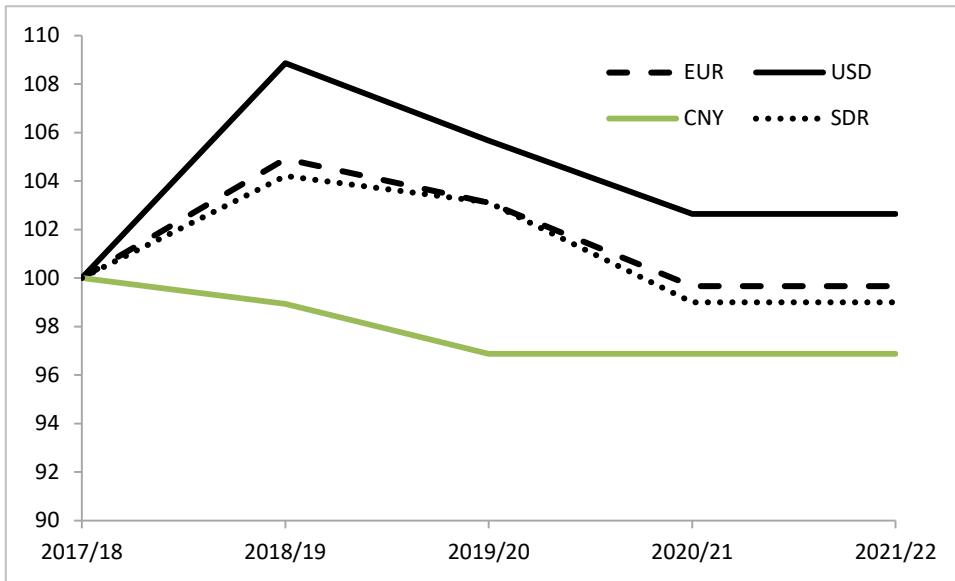
Table 11.4 Exchange rate assumptions, 2018/19 to 2021/22

Currency	2018/19	2019/20	2020/21	2021/22
EUR	0.5700	0.5800	0.6000	0.6000
USD	0.6600	0.6800	0.7000	0.7000
RMB	4.7000	4.8000	4.8000	4.8000
SDR	0.4750	0.4800	0.5000	0.5000

The NZD fell substantially in the 2017/18 fiscal year due to evidence of slowing New Zealand economic growth and the narrowing, and eventual elimination, of New Zealand's interest rate advantage over the United States. The NZD fell despite New Zealand maintaining near record high terms of trade, inward migration and inbound tourist numbers.

The reasons for the NZD's fall are expected to linger but not worsen, which will likely keep the NZD below recent levels for some time.

Figure 11.2 Assumed changes in major exchange rates (indices: 2017/18 = 100)



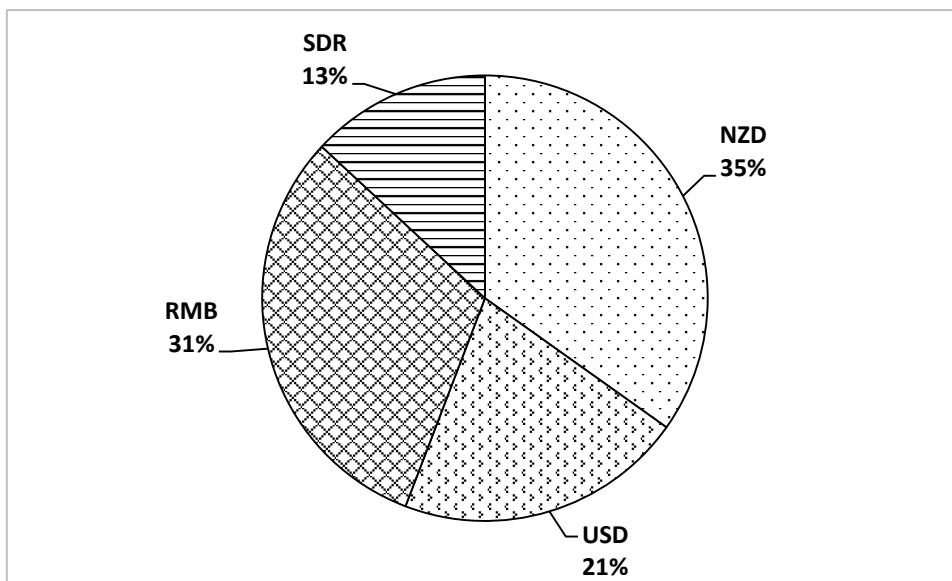
11.3 Gross debt by currency

11.3.1 Debt held directly by the Crown

Directly held Crown debt, that is debt not held by or on behalf of SOEs, was \$85.14 million at the end of 2017/18 and is estimated to be \$104.82 million at the end of 2018/19, including \$33.93 million in committed but yet to be disbursed loans.

Directly held Crown debt is mainly denominated in NZD foreign currencies with 35 per cent of debt in local currency (NZD). Of the remaining 65 per cent denominated in foreign currencies, 31 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 11.3.

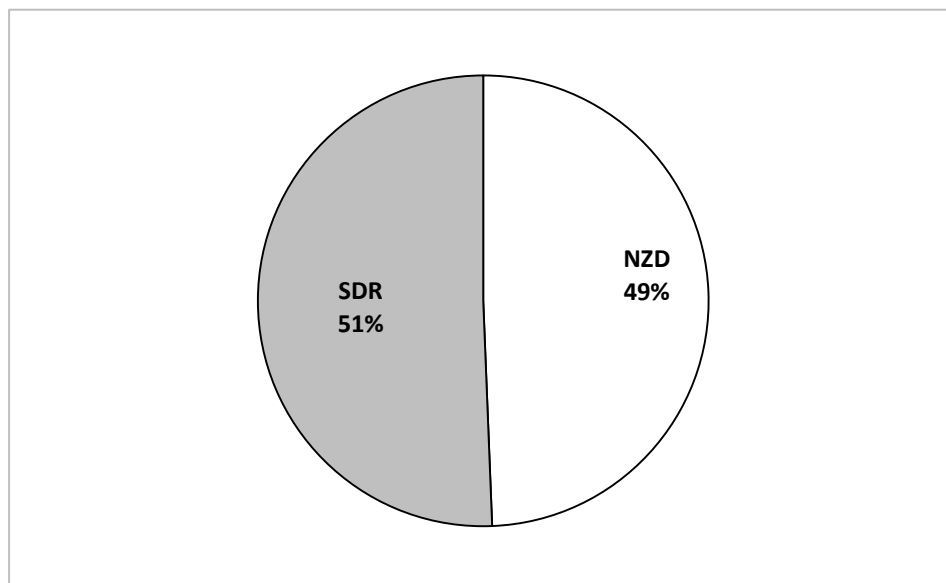
Figure 11.3 Projected composition of direct Crown debt as at 30 June 2019, by currency



11.3.2 Debt held on behalf of SOEs

Debt held by Crown on behalf of and by SOEs, estimated to be \$33.98 million at the end of 2018/19, is evenly denominated with 51 per cent in SDR and 49 per cent in NZD, as shown in Figure 11.4.

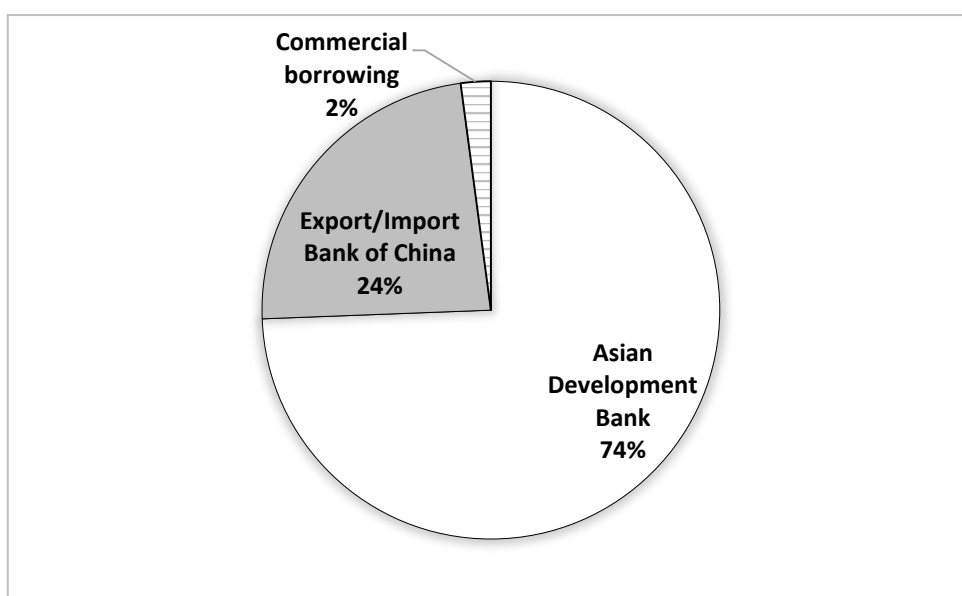
Figure 11.4 Projected Composition of SOE Debt as at 30 June 2019, by currency



11.4 Gross debt by lender

11.4.1 Overall gross debt

Figure 11.5 Gross Crown debt estimates, by lender

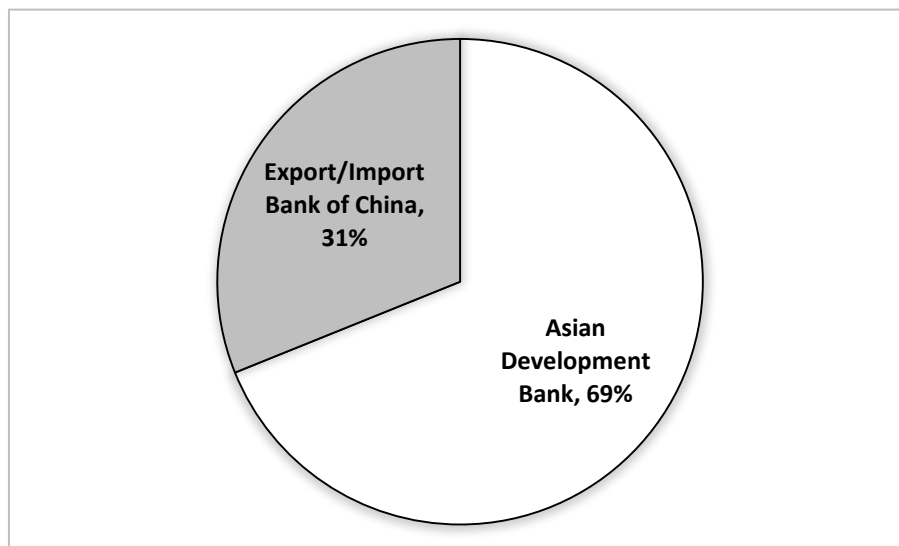


Overall gross committed debt of \$138.81 million estimated to the end of June 2019 is mainly held by the ADB with 74 per cent, followed by the Export/Import Bank of China (EXIM Bank) with 24 per cent and two per cent held by commercial financial institutions.

11.4.2 Debt held directly by the Crown

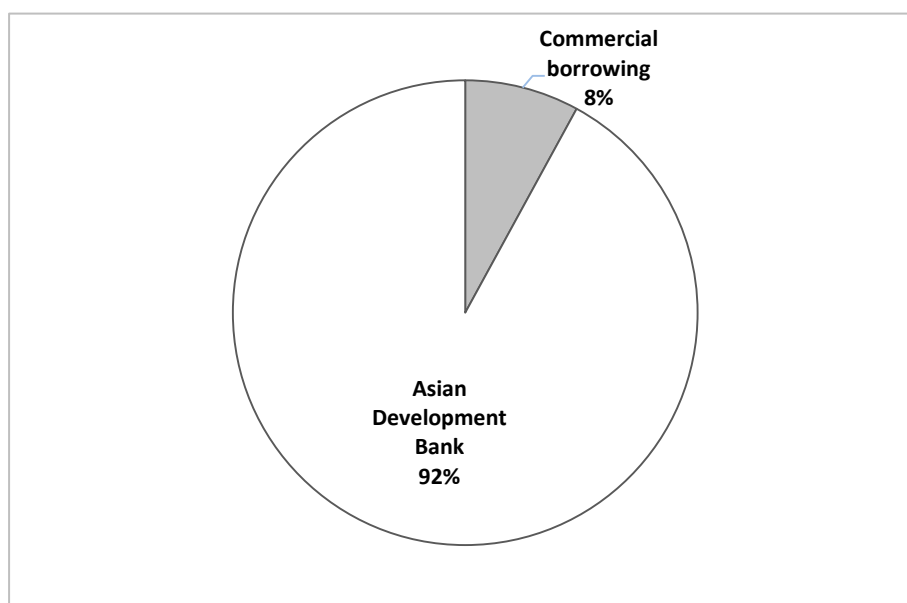
Direct gross debt is estimated to be \$104.82 million and is held by two key lenders, the ADB and the EXIM Bank. As illustrated in Figure 11.6, 69 per cent of the Crown's direct debt is from the ADB compared to 31 per cent from the EXIM Bank.

Figure 11.6 Gross Direct Crown Debt Estimates by Lender



11.4.3 Debt held on behalf of SOEs

Figure 11.7 SOE Debt Estimates by Lender

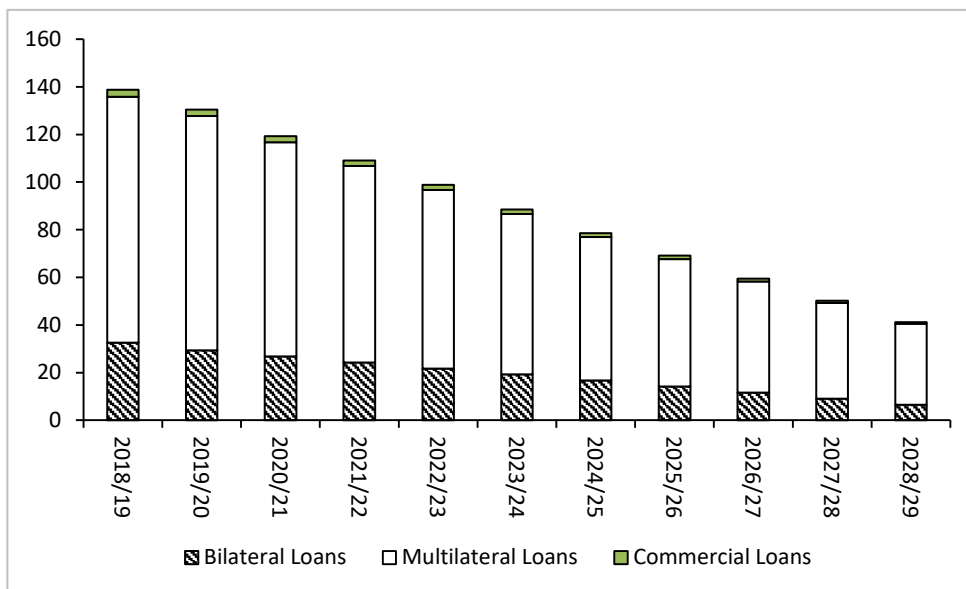


Estimated debt of \$33.98 million held on behalf of, and by SOEs is overwhelmingly held by the ADB (92 per cent), with only the Rarotonga Airport ILS loan (8 per cent) coming from commercial sources.

11.5 Gross debt by source

Figure 11.8 summarises the debt profile of existing loan agreements over the next 10 years, divided between 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.

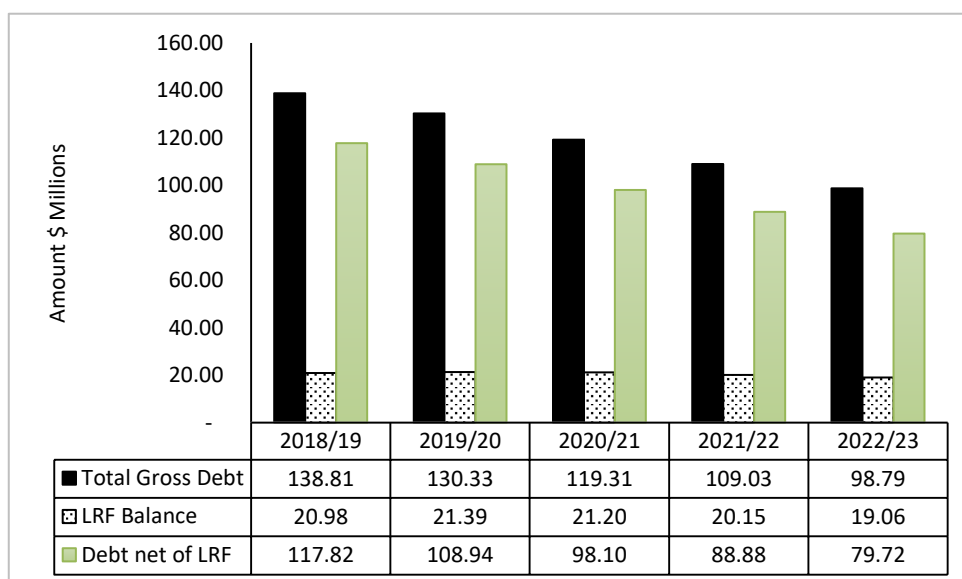
Figure 11.8 Gross Crown debt estimates by source (\$ million)



11.6 Crown debt burden

Total gross Crown debt gradually reduces in the outer years on the assumption that principal is repaid and the Crown does not undertake new loans.

Figure 11.9 Cook Islands overall debt burden



11.7 Status of Government loans

Table 11.5 shows the estimated balance of each loan at the end of the 2018/19 fiscal year. The total of currently drawn down loans (\$104.88 million) is the estimated direct liability in the Crown's balance sheet. However, the Crown is committed to an additional \$33.93 million loan related to the Undersea Broadband Cable of \$19.98 million, which is currently being utilised, and the DRM loan (\$13.95 million) that will only be utilised and disbursed in the event of a catastrophe.

The Undersea Broadband Cable, called the Manatua Cable project, is supported and funded by the borrowing from the ADB (\$USD15.0 million) and grant by the New Zealand Government (NZD\$15 million).

Table 11.5 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	9,233
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	23,370
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				104,876
Loans committed but not drawn				
ADB 3479 - Disaster Risk Management	TBC	NZD 13,950	TBC	13,950
ADB - Loan for Undersea Broadband Cable	Pending signing	USD 15,000	2031	19,979
Total Loans committed but not drawn				33,929
Total Loans Commitment by the Crown				138,805

*These loans have been converted to NZD

11.8 Net debt

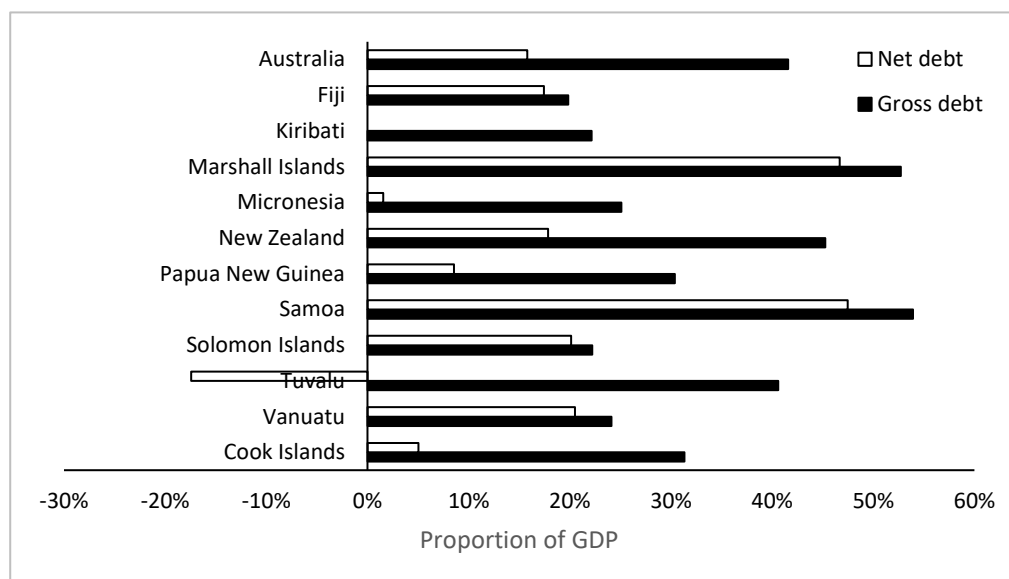
The internationally accepted definition of net debt is total gross debt (all public sector debt and currency on issue) less total financial assets corresponding to those debt instruments (this means like for like, for example cash). Under this definition, the Crown's net debt position would only be \$30.92 million or about 7 per cent of GDP at the end of the 2018/19 year.

Table 11.6 Net debt, 30 June 2019

Net debt calculations	\$ million
Gross Debt + Currency on Issue = (\$138.8 million) + (\$4.1 million)	142.91
Less Financial Assets (Cash reserves and Loan Repayment Fund)	111.98
Net debt	30.92

International comparisons of net debt are made on the basis of the international definition of net debt. On this basis, the Crown's gross debt profile sits in the upper-mid-range of Pacific nations, including Australia and New Zealand.

Figure 11.10 Regional comparison of public debt profiles¹⁸



However, for the purpose of prudent fiscal management, the Crown excludes cash reserves and currency issued from the net debt definition. On that basis, the Crown's 'Net Debt' is equivalent to total gross debt net of the LRF (the difference between the total gross debt and funds held in the LRF).

Net debt under this more conservative definition is estimated to be \$117.88 million (27 per cent of GDP) by the end of June 2019.

¹⁸ The data for Australia (obtained from the IMF) is Federal Government only, and the levels of debt for all levels of government would be higher than presented.

11.9 Debt headroom

Table 11.7 Current borrowing statement (\$ million)

Current Statement	2018/19	2019/20	2020/21	2021/22	2022/23
Gross Crown Debt	138.81	125.61	119.31	109.03	98.79
Direct Crown Debt	90.87	84.38	76.97	69.71	62.46
SOE debt	33.98	31.99	29.55	27.69	25.86
Contingent (Disaster) debt	13.95	13.95	12.79	11.63	10.46
... net of LRF	117.88	104.35	98.29	89.13	80.04
... net of LRF, as percentage of GDP	27%	23%	21%	19%	17%
Loan Repayment Fund Held	20.92	21.26	21.02	19.91	18.75
Gross Debt Servicing	10.37	10.16	12.02	12.69	12.43
Direct Crown Debt	7.25	7.38	9.30	9.96	9.78
SOE debt	2.83	2.50	1.29	1.31	1.26
Contingent (Disaster) debt	0.29	0.29	1.44	1.42	1.39
Net Debt Servicing	7.25	7.38	9.30	9.96	9.78
... as percentage of Total Revenue	4.06%	4.02%	4.90%	5.29%	5.19%

Table 11.7 assumes full draw down of the DRM loan during the 2018/19 fiscal year, which would occur only if a disaster occurs. Figure 11.11 illustrates the projected levels of net Crown debt to GDP against the fiscal responsibility threshold. It shows net Crown debt to GDP at 26 per cent, well within the fiscal responsibility ratio threshold of 35 per cent.

Figure 11.11 Net debt to GDP target, as at June 2019

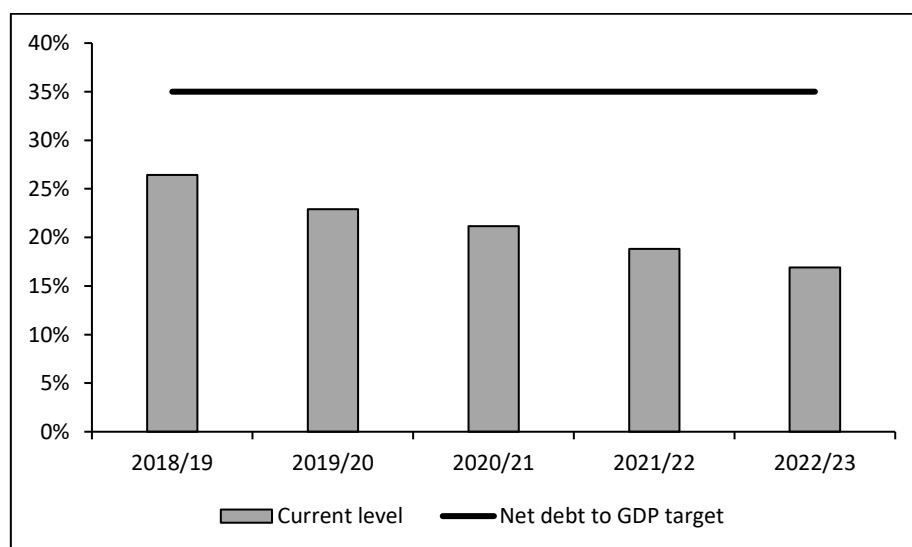
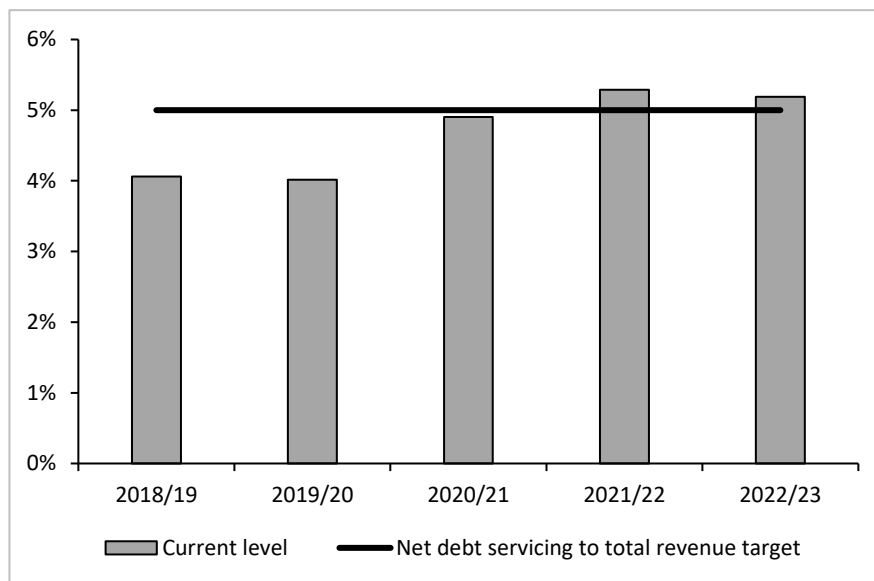


Figure 11.12 illustrates Crown's net debt servicing to total revenue, the requirement is for net debt servicing to total revenue target to be less than five per cent.

The current estimated debt servicing to total revenue to the end of 2018/19 is within the required threshold at four per cent, however, it is estimated to surpass this requirement by 2021/22 due to the grace period terms of the Undersea Broadband Cable loan lapsing and principal repayments commencing.

Figure 11.12 Net debt servicing to total revenue target as at June 2019



11.10 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.

The Airport Authority has also indicated that it is considering further borrowings in the next 18 months to expand the passenger terminal facility at Rarotonga International Airport. This is currently estimated to cost an additional \$16.0 million.

Te Aponga Uira

TAU is anticipating \$31.20 million of capital spending in the next four years predominantly to replace the Cross Island Feeder cables network. Work is also expected to be undertaken in the 2018/19 and forward years on achieving the renewable energy targets with grants totalling \$20.11 million to be received. Funding for these projects is likely to be from cash reserves.

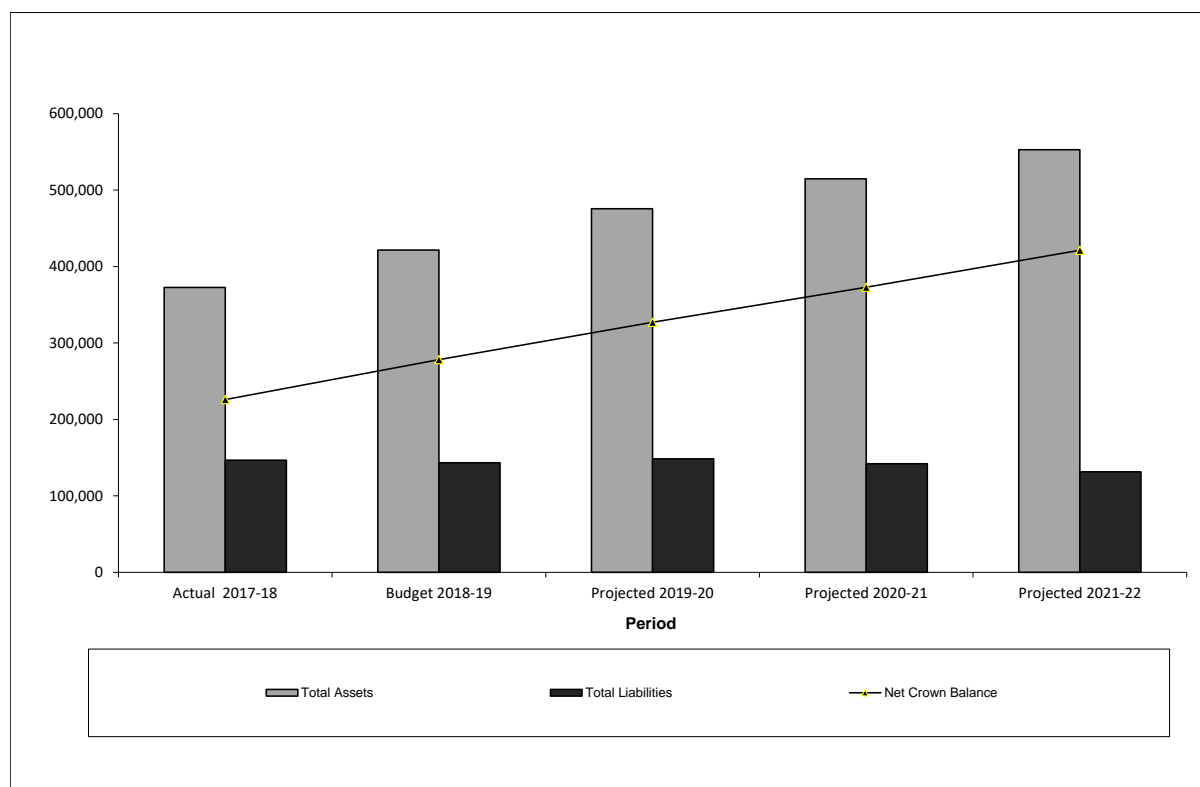
Ports Authority

The Ports Authority would not commit to any further borrowings until its current loan commitment to the ADB (2019: \$22.36 million) is fully paid or substantially reduced to a level that it can demonstrate the ability to service such additional borrowings.

11.11 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 11.13 Net Worth 2017/18 to 2021/22, (\$'000)



The estimated net worth of the Crown as at June 2019 has increased from the 2017/18 actuals of \$225.91 million to \$278.16 million. This is a net movement of \$52.25 million. This net movement is caused from an increase in total Crown assets from increased capital growth in plant, property and equipment and a decrease in Crown liabilities from gross borrowings.

The Crown's net worth is expected to increase in the outer years from 2017/18 as long as there is an estimated operating surplus.

12 National Sustainable Development Plan 2016-2020

Our vision. Our goals. Our responsibility.



*‘To enjoy the highest quality of life consistent with the aspirations of our people
in harmony with our culture and environment’*

12.1 Background to the NSDP

Our Te Kaveinga Nui journey started in 2007 after widespread consultation across the Cook Islands. The first National Sustainable Development Plan (NSDP) 2007-2011 defined our common goals and identified pathways towards achieving them. The NSDP 2011-2015 built upon the progress made over the previous five years, through strengthened partnership and collaboration. The NSDP 2016-2020 is the third iteration that articulates the Cook Islands’ development goals, reflecting the priorities of our people across each sector. These 16 development goals guided decision makers in setting the budget priorities for the 2017-18 Budget Policy Statement.

12.2 Purpose of the NSDP

The purpose of the NSDP is to set national goals, the expected results and effective strategies to guide policy decisions over the medium term in order to realize the 2020 Development Outcomes that aim to deliver on Te Kaveinga Nui National Vision. The NSDP goals demonstrate an approach that brings together social, economic and environmental priorities underpinned by good governance, culture and effective partnerships.

12.3 The Weave; Our Goals. Our Responsibility.

The weave was developed to reflect the interrelated nature of the goals. We cannot achieve a goal in isolation. Partnership and collaboration are critical to the successful achievement of each goal; we cannot hope to have a resilient economy (Goal 2) without economic equity (Goal 1), a sustainable population (Goal 15) and good governance (Goal 16).

It is important to recognize that these goals are our shared responsibility, and Government, private sector, NGOs and Cook Islands residents all play an important role in achieving them. These are “Our Goals. Our Responsibility”.

12.4 Measuring our progress – a scorecard for development

The NSDP has since evolved over time to improve the outcome based indicators and strengthen the monitoring and evaluation framework that enables us to effectively measure our progress. Each year the Office of the Prime Minister will publish an Indicator Report which is presented to Parliament and the general public. This annual report will detail the status of each goal; where we are ‘on track’, ‘of concern’, and ‘off track’.

The first annual Indicator Report (2016-2017) was released in March 2018 and reflects on the status of 66 indicators which measure progress towards achieving the 16 goals in the NSDP by 2020.

Results show progress is 'on track' with a number of national goals including improving welfare and increasing economic growth; ICT access; energy security; and education. A number of indicators show a positive trend relating to biosecurity; marine protected areas; climate change resilience; democracy; and public financial management.

Indicators with 'of concern' status range from rates of non-communicable diseases and mental health; tertiary/vocational education achievement; gender pay disparity and the low number of women in politics; recycling efforts in the pā enua; hazardous waste management and sanitation systems; ensuring water quality and supply; biodiversity; population; land management; justice accessibility and law and order.

Some programs are currently in progress to address some of the indicators that are 'of concern', including Te Mato Vai and Mei te Vai Ki te Vai to improve water quality and supply.

A lack of data remains an ongoing challenge in measuring progress towards achievement of the 2020 NSDP goals, as there are a number of indicators where data is limited or not available. Twelve indicators relating to nine goals have yet to be reported on. In some cases further analysis will be needed once more comprehensive information is available from the Household Income and Expenditure Survey (HIES) 2016 and the Census 2016.

Figure 12.1: The Cook Islands development goals identified in the NSDP 2016 - 2020



12.5 Expenditure by Budget Policy Statement 2018/19 goal

This section sets out estimated expenditure, operating and capital, over the budget year and forward period by priority NSDP goal as set out in the Budget Policy Statement 2018/19.

12.5.1 Goal 4: Sustainable management of water and sanitation

Safe drinking water and good sanitation are basic necessities for sustaining health and economic prosperity within any community. This year the Government is allocating \$26.4 million to projects focused on managing, developing and improving water and sanitation in the Cook Islands. Te Mato Vai is the largest project in this goal, comprising \$23.8 million of funding in 2018/19, for the development of potable water. In the forward years as the Te Mato Vai project heads towards completion, funding is expected to commence for Mei Te Vai Ki Te Vai, to address sanitation issues in the Muri Lagoon.

It is expected that these projects not only have a positive impact on the quality of life of Cook Islanders, but also on the environment and the tourism industry.

Table 12.1 Goal 4 total expenditure, 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
Mitiaro Water Upgrade	382,000				382,000
Tamarua Water Project	133,913				133,913
Establishing new water galleries	418,376				418,376
Culvert	600,000				600,000
Te Mato Vai	23,750,000	9,000,000	7,000,000		39,750,000
Contracts Manager: Te Mato Vai & Mei Te Vai Ki Te Vai Projects	56,000	56,000			112,000
Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	650,000				650,000
Mei Te Vai Ki Te Vai	250,000	7,000,000	7,000,000	5,000,000	19,250,000
TMV Titikaveka Backroad Rehabilitation	127,000				127,000
TOTAL	26,367,289	16,056,000	14,000,000	5,000,000	61,423,289

12.5.2 Goal 5: Build resilient infrastructure and ICT to improve our standard of living

In order to meet our environmental, economic and social needs it is essential to ensure that our infrastructure is built to standard and that it is fit to meet our ambitious development aspirations. This includes reliable connectivity and access to the internet and the media, which are highly correlated with educational and economic opportunities.

This year the Government will be spending \$8.3 million on infrastructure and ICT projects to improve the standards of living and ensure further economic development. This will increase significantly in 2019/20, as the Manatua Cable project commences construction.

Table 12.2 Goal 5 total expenditure, 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
Road Asset Management	650,000				650,000
Bridges and Drainage	600,000	600,000	600,000	600,000	2,400,000
Avatiu Valley Stream Embankment	394,396				394,396
Vaikapuangi Government Building - design	204,495				204,495
Vaikapuangi Government Building - construction		5,000,000	5,000,000	4,000,000	14,000,000
China Building Repair	340,000				340,000
Atiu Airport Runway Stabilisation		267,525			267,525
Atiu Road Improvement Programme	250,000				250,000
Bridges & Drainage	1,299,000	1,259,000			2,558,000
Road Asset Management	2,000,000	2,000,000	2,000,000	2,000,000	8,000,000
Pukapuka Airport terminal buildings upgrade	13,500				13,500
Aitutaki road Improvement Programme	226,000				226,000
Muri Road Widening	287,665				287,665
Outer Island Special Projects Unit	50,000	50,000	50,000	50,000	200,000
Manatua Polynesian Cable (loan component)	2,000,000	15,265,000	4,714,000		21,979,000
TOTAL	8,315,056	24,441,525	12,364,000	6,650,000	51,770,581

12.5.3 Goal 8: Ensure inclusive and equitable quality education and promote life-long learning opportunities

It is crucial for us to maintain high standards of education as it is the key driver of economic development and prosperity. The focus of Government projects spans supporting educational needs of the youngest member of our society in the development of their abilities to read and write to helping older students gain a tertiary qualification. This is achieved by the means of encouraging students to participate in educational activities, making education available, feasible and affordable.

In 2018/19 additional funds of \$1.2 million will be provided to further develop education in the Cook Islands.

Table 12.3 Goal 8 total expenditure 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
Centre of Excellence in Information Technology	150,000	150,000	60,000		360,000
Remedial Learning Programmes	140,000	140,000	140,000	140,000	580,000
Remedial Learning Programmes	20,000				20,000
Fund to be Prioritised by Education	110,000	110,000	110,000	110,000	440,000
Tereora Drainage Improvement	117,000	13,000			130,000
Nukutere Rebuild	530,000				530,000
Tereora College Redevelopment Stage 1	130,000				130,000
TOTAL	1,217,000	413,000	310,000	250,000	2,190,000

12.5.4 Goal 10: Achieve food security and improve nutrition, and increase sustainable agriculture

One of the Government's targets is to decrease the country's reliance on the imported goods. This can be achieved through promotion of import substitution and expansion of the local agricultural sector. Consuming local produce will help the industry expand and reduce economic leakage.

It is also essential to understand the importance of biosecurity and take all the appropriate measures to ensure healthy and abundant harvests.

In 2018/19 additional funding of \$84,000 will be provided to encourage sustainable agriculture.

Table 12.4 Goal 10 total expenditure, 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
Pa Enuu Capacity development	84,000				84,000
TOTAL	84,000				84,000

12.5.5 Goal 11: Promote sustainable land use, management of terrestrial ecosystems, and protect biodiversity

The Cook Islands is surrounded by two million square kilometres of ocean which is home to a large number of unique and diverse species. This year the Government allocated additional funds of \$23,000 for the protection of the ecosystem and biodiversity. This funding will continue over the forward estimates.

Table 13.5 Goal 11 total expenditure 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
Support for Suwarrow National Park	10,000	10,000	10,000	10,000	40,000
Aitutaki Office Setup	13,000	13,000	13,000	13,000	52,000
TOTAL	23,000	23,000	23,000	23,000	92,000

12.5.6 Goal 15: Ensure a sustainable population, engaged in development for Cook Islanders

Prevention of population declines in the Cook Islands is a key focus for the Government. The economy is highly reliant on the population to provide to the market, services and overall support. Therefore, it is essential to ensure that every citizen is satisfied, engaged, and financially secure.

In order to achieve these targets, the Government is allocating \$347,000 in 2018/19, with recurrent funding of \$72,000 remaining over the forward estimates.

Table 12.6 Goal 15 total expenditure 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
Senior Immigration Officer	72,000	72,000	72,000	72,000	288,000
Vaka Marumaru Atua	275,000				275,000
Manea Games Upgrade			100,000		100,000
TOTAL	347,000	72,000	172,000	72,000	663,000

12.5.7 Goal 16: Promote a peaceful and just society and practice good governance with transparency and accountability

In order to maintain peace and economic prosperity it is essential to maintain a fair, reliable and transparent governance system.

This is done by ensuring that people have access to justice institutions in a fair and timely manner. The Government is also determined to reduce domestic violence, motor vehicle accidents, support effective corrective services, improve public service performance, improve sustainable public financial management and provide the public with more confidence in the mechanisms of good governance.

Funding of \$5.9 million will be provided to projects aligned to Goal 16 in 2018/19. This slowly decreases over the forward estimates to \$2.4 million in 2021/22.

Table 12.7 Goal 16 total expenditure 2018/19 to 2021/22

Description	2018/19	2019/20	2020/21	2021/22	Total
GSF 1% increase	65,000	65,000	65,000	65,000	260,000
Minimum Wage Increase	76,204	76,204	76,204	76,204	304,816
Operating budget increase	52,000	52,000	52,000	52,000	208,000
Operating Baseline shortfall - cover trading revenue	64,800	64,800	64,800	64,800	259,200
Operating budget increase - cover trading revenue	65,000	65,000	65,000	65,000	260,000
Pacific Island Law Officers Network (PILON)	30,000				30,000
Arbitration Case	1,159,090				1,159,090
MP 3 month Severance Pay	166,000				166,000
International Ombudsman Institute	1,280	1,280	1,280	1,280	5,120
Pacific Islands Forum Secretariat Membership Contribution	45,040	61,020	61,020	61,020	228,100
Pharmacy Stock Management System Maintenance Cost	13,000	13,000	13,000	13,000	52,000
Ministry of Corrective Services	150,000	150,000	150,000	150,000	600,000
Deputy Statistician	48,500	48,500	48,500	48,500	194,000
Strengthening CPPO Office	10,000	10,000	10,000	10,000	40,000
Strengthening CPPO Office - Operating adjustment	5,000	5,000	5,000	5,000	20,000
Establishment of a Cook Islands High Commission in Fiji		160,000	250,000	250,000	660,000
Establishment of a Cook Islands High Commission in Fiji	25,000	90,000	146,000	146,000	407,000
Management of Civil list by Shared Service	12,000	12,000	12,000	12,000	48,000
Ministerial baseline reimbursement	50,078				50,078
Contingency	100,000				100,000
Communications Strategy	30,000	30,000	30,000	30,000	120,000
Minister Vainetutai Toki-Brown	92,293	92,293	92,393	92,293	369,172
Minister Robert Tapaitau	58,231	58,231	58,231	58,231	232,924
Minister George Angene	91,881	91,881	91,881	91,881	367,524
Minister Vaine Mokoroa	90,053	90,053	90,053	90,053	360,212
Minister Mark Brown	60,919	60,919	60,919	60,919	243,676
Cook Islands Representative to UNESCO, WHO, ILO, AND OHCHR (CEDAW, CRC, CRPD)	60,000	60,000	60,000	60,000	240,000
Corporate strengthening program	200,000				200,000
FMIS purchase and implementation	644,011	259,336			903,347
Capital Distribution Fund	762,609	300,000	250,000		1,312,609
Outer Islands Small Capital Fund	110,000	110,000	110,000	110,000	440,000
Special Financial Advisory	200,000	70,000	70,000	70,000	410,000
Post Tax Amnesty Work	500,000				500,000
Vaka Maintenance Capital Projects	50,000	50,000	50,000	50,000	200,000
AEOI IT System	121,653				121,653
Civil List Personnel (associate ministers)	90,000	90,000	90,000	90,000	360,000
Civil List - MP Travel	100,000	100,000	100,000	100,000	400,000
Salary Adjustment – MFAI	23,852	23,852	23,852	23,852	95,408
CIG Travel Insurance	100,000	100,000	100,000	100,000	400,000
37 th CPA Australia and Pacific Region Conference	20,000				20,000
HOMs Salaries	227,559	227,559	227,559	227,559	910,276
AIB Membership	30,500	30,500	30,500	30,500	122,000
Government IT Network	40,000	40,000	40,000	40,000	160,000
Continuation for Land Digitization	120,000	120,000	120,000	120,000	480,000
TOTAL	5,961,533	2,878,428	2,715,092	2,465,092	14,020,165

13 State-owned Enterprises

13.1 CIIC

The Cook Islands Investment Corporation was established in 1998 through the *Cook Islands Investment Corporation Act 1998* at a time when the country was responding to the severe national financial crisis and was driven by the need to downsize and rationalize functions. The Act explicitly states the two functions of CIIC are:

- Management of statutory entities; and
- Facilitate the disposal of assets.

Since the crisis, the economy has rebounded with sustained steady growth which has shifted the emphasis of CIIC's mandate from "disposal" to "development and management" thus necessitating the need for a significant review of CIIC's institutional arrangements.

The vision for CIIC is "the effective and efficient public assets that improve the wellbeing of Cook Islands people"

- 'effective and efficient' meaning well-managed and operated assets consistent with modern commercial practices and good governance principles;
- 'public assets' which include Crown and leased land, Government houses and buildings, infrastructure and utilities such as the ports and airports of Rarotonga and Aitutaki, Te Aponga Uira Power Authority and Aitutaki Power Supply, the Bank of the Cook Islands together with investments in reticulated water and sanitation, Avaroa Cables, Punanga Nui Market and Seabed mineral assets; and
- 'improve the well-being' meaning adding value to the lives of Cook Islands people and meeting Government's social policy objectives.

13.1.1 Developments and investment

Current Milestones

Tereora College Reconstruction

The Prime Minister of the Cook Islands Hon. Henry Puna, along with the Prime Minister of New Zealand, Rt. Hon. Jacinda Ardern, officially opened the new Student Research & Administration and Technology Blocks at Tereora College on Thursday the 8th March 2018. The major part of the \$14 million project was funded by New Zealand (as a gift from the government and people of New Zealand presented to the Cook Islands during the 50th Constitution celebrations) and Cook Islands Government and was managed by CIIC's Special Projects Unit (SPU).

Vaikapuangi Centralized Government Offices Project

The Vaikapuangi project has been extended to embrace a whole of government approach for the centralisation of Government services in Rarotonga. A study is being undertaken in 2017/18 towards this end, which will assess the social and economic impacts of the various options for a whole of Government facility. Though this means that the implementation of the project could be delayed, it will ensure that this investment represents the best possible value for money and that the level of public services will improve over the long term.

Construction of Apii Nikao

The PM of the Cook Islands, Hon. Henry Puna, along with the Ambassador for the People's Republic of China to the Cook Islands Her Excellency Wu Xi, opened Apii Nikao School on Friday the 04th of May 2018. The school can cater for 500 students. The Specials Project Unit managed this project. The project cost approximately \$15m and was funded predominantly by the Chinese Government.

Outstanding Land Rent Reviews

The Legal and Land Division of CIIC has diligently worked to resolve the majority of historical land rental and warrant matters on Rarotonga and Aitutaki, most of which had been outstanding for over 30 years. These land matters relate to land that the Crown has the right to occupy (lease) or land that was taken by warrant, and CIIC has made it a priority to address these long standing issues in ensuring that CIIC continue their partnerships with landholder going forward in good faith and the Government continue the historical partnerships that have allowed the Government to provide services for the public. Each land matter requires in-depth research, extensive consultation and negotiation with landowners.

Strengthening Corporate Governance

CIIC has put in place a formal development program for its directors working with the New Zealand Institute of Directors to develop essential governance training. Alongside director development the CIIC has invested in executive development with the hosting of its first executive education program of its kind with faculty from the Oxford Business School Negotiations program in the Pacific.

Shared Services

In efforts to improve efficiencies, improve performance and lower the cost of utilities to Cook Islanders the CIIC in conjunction with its subsidiaries are looking at opportunities to share services in areas such as human resource management, ICT, finance and other areas. An example of this is the likely integration of TAU and the new water authority's billing and finance systems as well as other potential synergies between TAU and Water Utility.

Upcoming Milestones

Asset Management

Crown assets and their efficient management is a significant responsibility, both operationally and financially, across Government agencies. CIIC has recently recruited a dedicated Asset Management Officer and secured significant technical assistance from New Zealand Government. CIIC will be launching in 2018/19 a comprehensive program in asset management (AM) across the country aimed at mainstreaming the management of public assets within the next two years.

Aitutaki Solar

Aitutaki Power Supply (APS) is a subsidiary of CIIC. APS, with the OPM's Renewable Energy Team, will be installing a solar farm beside the APS power station. The first stage of this project is expected to be completed by the end of 2018 and is expected to generate approximately 30% of Aitutaki's electricity demand.

Avaroa Cable Limited

A subsidiary of CIIC, Avaroa Cable Limited is managing the Cook Islands Manatua cable project on behalf of the Cook Islands Government. The project will bring faster and more affordable internet to the Cook Islands. The project is funded by a New Zealand Government grant and an ADB loan. The Manatua Submarine Cable will link Samoa and French Polynesia and includes spurs to the Cook Islands (Rarotonga and Aitutaki) and Niue. The project is expected to be concluded by late 2020. There will

be significant work undertaken over the next 2 years (including the construction of landing stations, policy, pricing) to bring this project to fruition.

To Tatou Vai

A subsidiary of CIIC, To Tatou Vai (TTV) Limited will be managing water and sanitation on behalf of the Cook Islands. TTV will acquire the water and sanitation assets in the near future. This includes the recently concluded Te Mato Vai Stage 1 works and the recently commenced Stage 2 works incorporating the upgrade of 10 intakes around Rarotonga. CIIC has established a Board to manage this entity and TTV are currently recruiting a CEO.

13.2 Airport Authority

The Airport Authority manages the airports on the islands of Aitutaki and Rarotonga. Its functions are to establish, improve, maintain, operate and manage airports, services and facilities in connection with the operations of any airport or the operation of aircraft engaged in civil aviation.

13.2.1 Developments and investments

Developments for the 2018/19 financial year include further runway strengthening work, acquiring the land needed for a runway end safety area, master plan development, runway shoulder asphalt rejuvenation, storm water system upgrade, upgrading transformers, electrical switch gears and other electrical systems, and reclamation of land for Aitutaki runway strip.

13.2.2 Social contributions costs and dividends

The Airport Authority has a number of community service obligations and social contributions costs, shown in Table 13.1.

Table 13.1 Social contribution costs

	Budget
	2018/19
The Provision of Fire Service to the Rarotonga Community	67,323
The provision of a rent free VIP lounge to government	48,246
Net contribution to government	115,569

The Airport Authority expects to pay a small dividend in this financial year. It projects this amount to be about \$50,000 and will be determined by the performance of the Airport Authority and the final profit made.

13.3 Bank of the Cook Islands (BCI)

The Bank of the Cook Islands Holding Corporation (the Corporation) was established under the *Bank of the Cook Islands Act 2003* to assume all rights and obligations of the Cook Islands Development Bank (CIDB) and the Post Office Savings Bank. Section 4 of the Act sets out the functions of the Corporation, as follows:

- To establish the Bank of the Cook Islands Ltd in accordance with the Act and to exercise the Corporation's rights and powers and to perform its obligations and duties in relation thereto.
- To establish CIDB Former Loans Limited in accordance with the Act and exercise the Corporation's right and powers and to perform its obligations and duties thereto (now dissolved).

- To establish Development Finance Limited in accordance with the Act and to exercise the Corporation’s rights and powers and to perform its obligations and duties in relation thereto.
- To manage any assets vested in the Corporation.
- To undertake any other matters prescribed in the Act.

The Bank of the Cook Islands Limited (BCI) was registered under the *Companies Act 1970-71* in March 2004 with the objective of providing banking services throughout the Cook Islands. BCI is fully licensed as required by the *Banking Act 2011* and operates in compliance with the requirements of the *Financial Supervisory Commission Act 2003* and the *Financial Transaction Reporting Act 2017*.

The Crown’s investment in BCI as at 30th June 2017 was \$17.6 million.

13.3.1 Developments and investments

The resources required to achieve the performance targets of BCI are internally generated. Allowance has been included for provision by the Crown of social obligation costs in relation to BCI’s delivery of banking services to communities outside of Rarotonga. Also in accordance with shareholder expectations and capital expenditure plans, BCI has implemented a constant dividend payout ratio based on a fixed per cent of net profit after tax achieved in each financial year.

BCI’s medium and long term fixed asset investment program includes maintenance and upgrading of core operating assets, and investment in new products and services, while ensuring a sustainable financial structure. Consideration is given to the risks from short and medium term changes to the forecast operating environment including economic conditions, competition, changing customer behavior and expectations, and technological developments.

Table 13.2 Social contribution costs and dividends

	2016/17 Actual	2017/18 Actual	Budget 2018/19
Dividend	229,000	337,000	248,000
Social Obligation of providing banking services*	120,000	120,000	120,000
Net contribution to government	109,000	217,000	128,000

* Note the CIG funds the social obligation of BCI.

13.4 Ports Authority

The Cook Islands Ports Authority (CIPA) is a Crown owned statutory corporation established in 1995. The principal objectives of the Authority are to promote, encourage and operate a commercially viable and efficient business in the country’s supply chain and develop growth opportunities from its asset base which include Crown land and buildings, wharves, port facilities, tug boats, barges, plant and equipment, storage sheds and open storage space.

CIPA is the sole sea port services provider maintaining and operating the Port of Avatiu, the alternative Cruise Ship Tender landing in Arorangi, and the Port of Arutanga in Aitutaki. CIPA serves the cross-border supply chain needs of most of the Cook Island’s trade goods.

13.4.1 Social contributions costs and dividends

The CIPA continues to accommodate the Government’s community service obligations (CSO’s). The following table estimates the costs incurred by CIPA for Rarotonga and Aitutaki in the provision of CSO’s.

Table 13.3 Community Service Obligations

	2016/17	2017/18 Estimate	2018/19 Budget
Rarotonga			
Recurring	56,526	49,023	49,493
Approved Waived Port Charges	881	3,463	1,000
Aitutaki			
Approved waived Charges	2,800	3,315	2,629
Total Community Service Obligation Cost	60,207	55,801	53,122

Ports Authority notes the Shareholder's desire to receive dividends and will use its best endeavours to accommodate that desire within the constraints imposed by the significant scale of loans that have had to be taken out to provide facilities to enable modern international ships to call at Rarotonga, and the Directors' obligations to act in accordance with their statutory duties and in the best interests of the Company.

As a result of these financial pressures, no dividend is envisaged and Ports Authority must take its cash flow commitments into consideration, specifically its obligations to pay interest and loan capital repayments, prior to being able to pay dividends.

Table 13.4 Cook Islands Ports Authority operating summary

	2017/18	2018/19 Budget	2019/20
Revenue	3,665,010	3,867,986	3,933,623
Expenses	3,466,365	3,805,485	3,660,191
Operating profit before foreign exchange	198,645	62,501	273,432

13.5 Te Aponga Uira

The primary function of Te Aponga Uira (TAU) is the provision of electricity to the people of Rarotonga in a reliable, safe and economical manner. The generation of electricity is predominantly diesel based however with the announcement of the national renewable energy target, TAU's investment plans have been adjusted to increase the contribution of renewable energy to reach that target. As a result, there will be a transition from the diesel based system to a renewable based system. This may include a transformation of how customers and the utility interact and will be reflected in the products and tariffs TAU offers to residents of Rarotonga aligned to its primary function.

13.5.1 Developments and investments

There will be ongoing investments in both the infrastructure associated with achieving the national renewable energy (RE) target and general infrastructure.

Funding has been secured from GEF, GCF and PEC for 5MW/13MWh in battery storage systems and 1.4 MW in PV panels. TAU will need to spend \$7.3 million, within the next two years to fund the support infrastructure which is required at the same time as the storage systems. TAU has progressed the tender of its control and communications system being the core infrastructure needed to increase renewable contributions on Rarotonga beyond its current levels. The GEF battery storage system is intended for commissioning within the next quarter whilst the GCF battery storage system is intended for commissioning within the next 12 months.

From a commercial end, TAU has progressed a review of its existing customer tariffs with a view to expanding its product offers and utilizing price signals that encourage the achievement of the renewable energy goals in partnership with the private sector suppliers and customers.

TAU also needs to continue investing in its general infrastructure and will progressively do so over the course of the next few years. Over 2017/18 TAU has completed an entire upgrade to its companywide IT system. TAU has also completed a planned upgrade to 3.5km of aged 11kV cable along with three new sectionalizes as part of its plan to replace manually operated switchgear. In the course of the next 12 months at least \$6.2 million will need to be spent on the construction of a replacement office building, the installation of a new firefighting system and ventilation at the power station, network upgrades as well as investment in smart technology infrastructure. TAU expects to meet the required financing out of its cash reserve.

13.5.2 Social contribution costs and dividends

TAU's social obligations include the provision and maintenance of street/amenity lights and uneconomic network extensions, the cost of which is summarized in Table 13.5.

TAU has consistently met the dividend requirements of the Shareholder over the years. However, given the above investment requirements, TAU will focus on building its reserve to prevent the need for borrowing as much as possible. TAU was invoiced for a \$370,000 special dividend during the 2017-18 financial year to the Cook Islands Investment Corporation. As such, that is the extent of dividends committed for the 2017-18 financial year.

Table 13.5 Social contributions costs and dividends

	2017/18	2018/19	2019/120
Dividend	370,000	370,000	270,000
Uneconomic Power Lines	50,000	100,000	100,000
Other social responsibility costs – street and amenity lighting – new lights and maintenance including operational costs.	380,000	380,000	380,000
Total Contribution to Government	800,000	850,000	750,000

14 Public Sector Staffing

14.1 Introduction

The Cook Islands is a constitutional monarchy within the Realm of New Zealand, with Her Majesty Queen Elizabeth II as Head of State. The *Cook Islands Constitution Act 1964* established the Westminster system of government in the Cook Islands and provides for various constitutional posts which include: the Queens Representative; Speaker of Parliament, Cabinet (six Ministers of the Crown), Chief Justice and Justices of the Peace, Members of Parliament, House of Ariki, Ombudsman, Public Expenditure Review Committee and the Public Service Commissioner.

The *Public Service Act 2009* identifies 13 Public Service Departments under the authority of the Public Service Commissioner and recognises all other agencies as State Services. The *Public Service Amendment Act 2015/16* requires all agencies to provide an Annual Report to the Public Service Commissioner. Over the last two financial years, the 13 Public Service Departments have continued to provide Annual Reports to the Commissioner, for summation in the Commissioner’s consolidated Annual Report to Parliament for each fiscal period ended 30 June.

The Aitutaki Power Supply and Punanga Nui Market were two entities that we absorbed under the management umbrella of the Cook Islands Investment Corporation in 2016 and 2017 respectively.

Figure 14.1: Cook Islands Public Sector

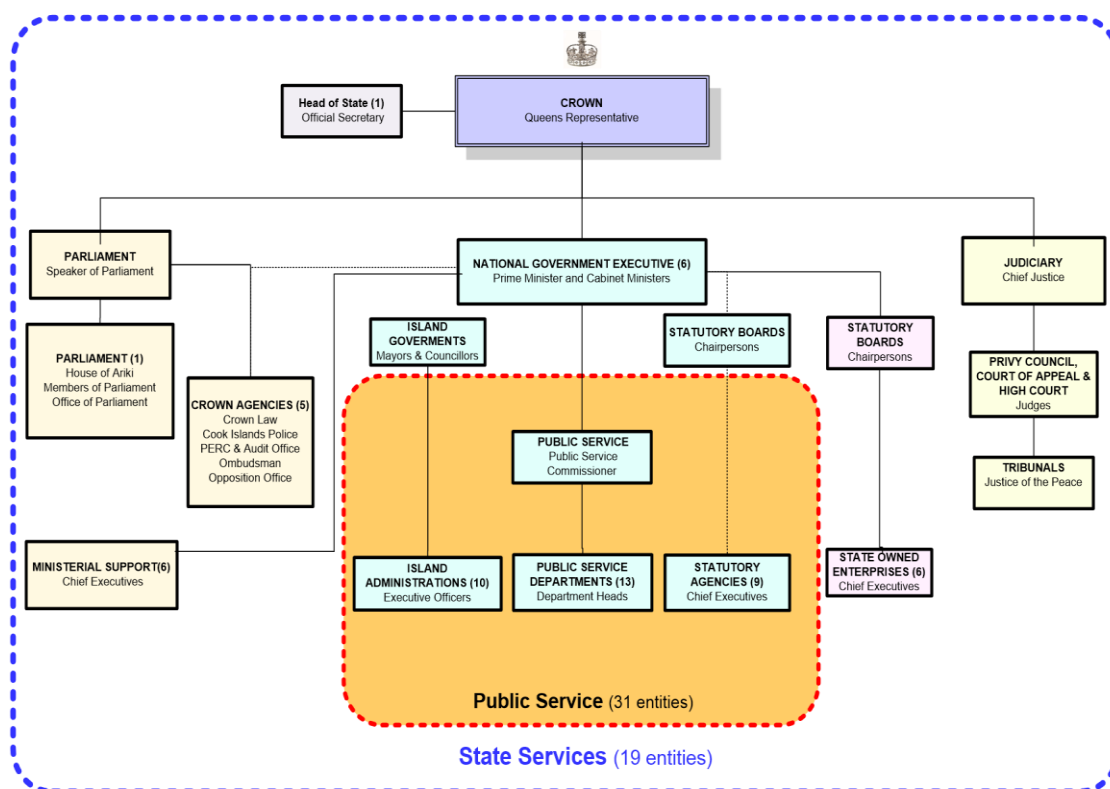


Table 14.1 Public Sector Agencies

Public Service (13)	Island Governments (10)	Crown Agencies (7)
Ministry of Agriculture	Aitutaki	Head of State
Ministry of Cultural Development	Atiu	Office of the Ombudsman
Ministry of Education	Mangaia	PERC and Cook Islands Audit Office
Ministry of Foreign Affairs and Immigration	Manihiki	Cook Islands Police
Ministry of Finance and Economic Management	Mauke	Crown Law Office
Ministry of Health	Mitiaro	Opposition Office
Ministry of Justice	Palmerston	Parliamentary Services
Ministry of Internal Affairs	Penrhyn	
Infrastructure Cook Islands	Pukapuka/Nassau	Ministerial Support Offices (6)
Ministry of Marine Resources	Rakahanga	
Ministry of Transport	Statutory Agencies (8)	State Owned Enterprises (6)
Office of the Prime Minister	Business Trade and Investment	Bank of the Cook Islands
Office of the Public Service Commissioner	Pearl Authority	Cook Islands Airport Authority
	Seabed Minerals Authority	Cook Islands Ports Authority
	Tourism Corporation	Te Aponga Uira o Tumutevarovaro
	Financial Supervisory Commission	Cook Islands Investment Corporation*
	Financial Services Development Authority	Cook Islands Government Property Corporation
	National Environment Service	
	Natural Heritage	

* Includes staff from the Punanga Nui Market and Aitutaki Power Supply

14.2 Public sector employee numbers

Table 14.2 Employee summary by groupings

Agency	Female	Male	Total 30 June 2018	Total 30 June 2017
Public Service	637	410	1047	1015
Crown/Statutory Agencies	113	126	239	239
Island Administrations	78	311	389	418
Island Councils	12	14	26	29
Parliament	11	39	50	47
Ministerial & Opposition Support Offices	141	164	305	293
State Owned Enterprises	992	1064	2056	2041
Total	637	410	1047	1015

Source: HRMIS (except FSC and SOEs which provided their agency numbers at 10 August 2018)

Overall there has been a slight increase in the total number of full time equivalent (FTE) employees from 2017 with an increase of 15 FTEs. The Public Service Departments represent 51 per cent of all FTEs, followed by Island Government employees at 19 per cent, State Owned Enterprises (SOEs) at 15 per cent and Crown/Statutory Agencies at 12 per cent. The increases in FTEs have been in the Public Service and State Owned Enterprises. Pa Enuu FTEs decreased over the period, while all other groups remained relatively the same.

The breakdown of employees by gender across agencies is shown in the tables below.

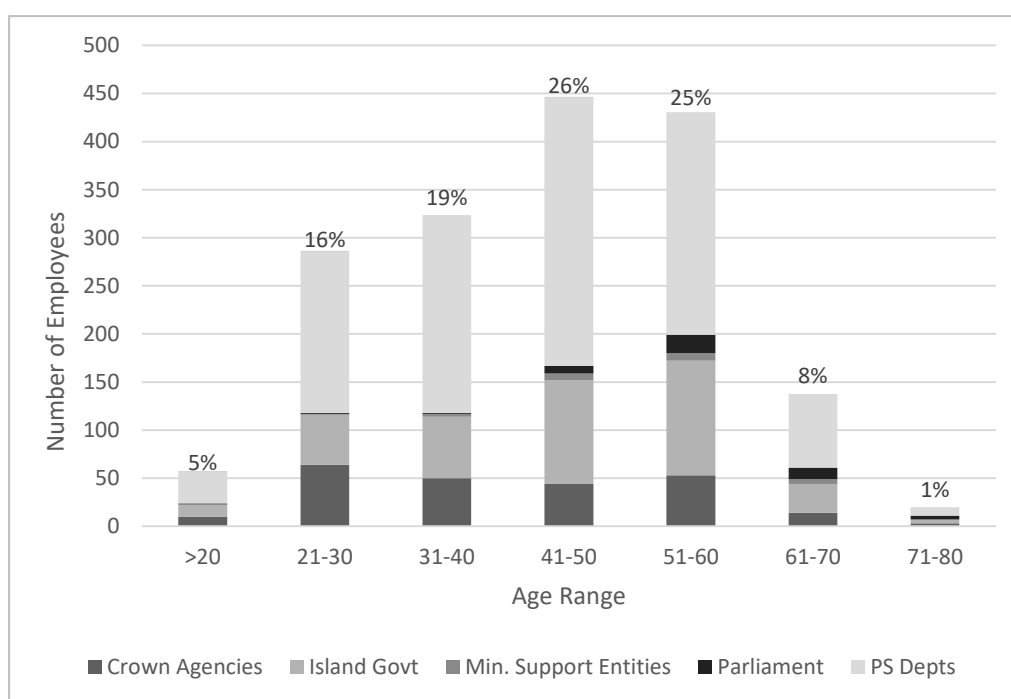
Table 14.3 Employees by Agency and Gender

Agency Names	Female	Male	Total
Public Service Departments			
Infrastructure Cook Islands	10	49	59
MFEM - Te Mato Vai	3	2	5
Mins of Agriculture	8	20	28
Mins of Cultural Development	12	7	19
Mins of Education	241	73	314
Mins of Finance and Economic Management	64	35	99
Mins of Foreign Affairs and Immigration	18	6	24
Mins of Health	181	95	276
Mins of Internal Affairs	22	11	33
Mins of Justice	38	40	78
Mins of Marine Resources	13	31	44
Mins of Transport	3	14	17
Office of the Prime Minister	19	26	45
Office of the Public Service Commissioner	5	1	6
Public Service Total	637	410	1047
Crown and Statutory Agencies			
Audit Office	13	7	20
Business Trade Investment Board	8	3	11
Cook Islands Pearl Authority	3	1	4
Cook Islands Police Department	36	80	116
Cook Islands Seabed Mineral Co.	2	1	3
Crown Law Office	8	1	9
Financial Service Development	1	1	2
Head of State	1	2	3
National Environment Services	10	16	26
Natural Heritage		1	1
Ombudsman Office	4	1	5
Parliamentary Services	7	3	10
Public Expenditure Review Committee Audit		3	3
Tourism Cook Islands	20	6	26
Crown/Statutory Agencies Total	113	126	239
Island Governments			
Aitutaki Island Government	7	49	56
Atiu Island Government	7	40	47
Mangaia Island Government	4	44	48
Manihiki Island Government	9	31	40
Mauke Island Government	6	31	37
Mitiaro Island Government	11	17	28
Nassau Island Government	5	10	15
Palmerston Island Government	4	7	11
Penrhyn Island Government	3	24	27
Pukapuka Island Government	18	36	54
Rakahanga Island Government	4	22	26
Island Governments Total	78	311	389

14.3 Public sector age profile

Figure 14.2 shows the age distribution of employees across the Public Sector. In terms of age distribution, the majority (70 per cent) of employees are in the age range of 31 to 60 years. Island Governments generally have a higher number of employees and councillors in older age brackets (51-70 years). Overall, there is a slight increase in the number of 20-29 year olds and a 2 per cent reduction of employees in the 60+ age group. The reduction in the 60+ age group was predominantly due to the Government Voluntary Retirement Policy introduced in July 2015. Approximately 105 public servants retired over the 12 month period to June 2016, with a further six retiring by June 2017. The policy remains in place with funding from agency budgets.

Figure 14.2: Public sector age profile



Source: HRMIS - Not stated includes: SOEs and the Financial Supervisory Commission.

14.4 Public sector remuneration profile

The remuneration data displayed in Table 14.4 shows that around 67 per cent of employees earn less than \$40,000 per year, with the largest cohort of employees receiving salaries in the \$10,000 to \$20,000 range from the Public Service and Island Governments. For Island Governments, part-time work is more commonly paid within the \$11,000 to \$16,000 annual salary range. Island Mayors, Deputy Mayors and Councillors receive sitting allowances of between \$1,000 and \$8,000 per year.

Just over 3 per cent of Public Service employees earn over \$60,000 per year compared to 9 per cent of Crown/Statutory Agency employees earning over the same threshold.

Table 14.4 Salary ranges

Salary range	Public Service	Crown Agencies	Island Govt.	Ministerial			Total
				Support Offices	Parl	SOE	
>10,000					12		12
10,000 - 20,000	243	59	260	5	2		569
20,001 - 30,000	213	81	32	7	1		334
30,001 - 40,000	376	51	5	3			435
40,001 - 50,000	94	20	8	4	17		143
50,001 - 60,000	35	8	1	3	7		54
60,001 - 70,000	13	6		2			21
70,001 - 80,000	9	4					13
80,001 - 90,000	6	2		1	6		15
90,001 - 100,000	2	3		1	3		9
100,001 +	10	5			1		16
Not Stated	46		83		1	305	435
Grand Total	1047	239	389	26	50	305	2056

Source: HRMIS.

14.5 Public sector strengthening – Our journey to excellence

14.5.1 Introduction

The Cook Islands Government Public Sector Strategy 2016–2025 has three key areas of focus: people, structures and systems to achieve the Government’s vision for Public Service Excellence.

The Strategy recognises the need for innovative transformation specific to the Cook Islands context to ensure the public service can deliver and support the achievement of our National Sustainable Development Plan. The Strategy outlines public sector strengthening in three key phases:

- Phase 1 – Preparing for change (2016 to 2018)
- Phase 2 – Implementing change (2018 to 2025)
- Phase 3 – Sustaining change (2025 onwards).

14.5.2 Phase 1 achievements to date

People

- Establishment of a comprehensive Human Resource Management (HRM) policy framework for the public sector which includes a robust remuneration framework that incorporates a pay structure, national labour market remuneration surveys, job evaluations and career pathways;
- Establishment of a cohesive performance management system that rewards exemplary performance and provides for performance improvement plans;
- Use of a centralised Human Resource Management Information System (HRMIS) to improve the accuracy of HR statistics to inform planning, and streamline payroll and leave administration functions for all public sector agencies (except SOEs and Financial Supervisory Commission);
- Establishment of a Public Service-wide Employee Engagement Survey since May 2014 to gauge the engagement of staff in their work and the success of agencies;
- Establishment of a Voluntary Retirement Policy as an inducement policy for employees over 60 years to retire and be acknowledged for their years of service;

- Establishment and delivery of a successful Public Service Induction program that has been delivered to over 1,100 public servants in the last two years to strengthen understanding of the role of public servants and how the machinery of Government operates;
- Establishment of a 40+ member HR taskforce from the public and private sectors as accredited job evaluators to evaluate all public sector jobs and critique HRM policies;
- Establishment of leadership and HR training programs through USP and the Cook Islands Tertiary Training Institute (CITTI) with 19 senior public servants completing a Post Graduate Diploma in Public Sector Management, 58 public servants completing a NZ Certificate in First Line Management, 21 public servants completing leadership training and 22 public servants completing training to gain an HR Award by the end of 2018.

Structures

- Completion of four Agency Capacity Assessments to strengthen their capacity to effectively deliver core functions through strong organisational management

Systems

- Establishment of over 36 agencies (1,500 public servants) on a centralised ICT network to ensure better communication and connectivity across the sector
- Continued progress made with online tax lodgments for VAT, PAYE, personal income tax, Company tax and withholding tax.
- Progressing phase 1 of the financial management information system (FMIS) for the whole of government to strengthen financial reporting and accountability.

15 The Pa Enea

This chapter outlines central Government spending in the Pa Enea. It aims to provide clarity on financing appropriated to the Pa Enea Island Governments, including the funding which is directed through the budgets of other agencies and development partners.

15.1 The Pa Enea Funding Model

The purpose of the model is to determine central Government spending in Pa Enea. More specifically, the model outlines the minimum required spending and additional funding for economic development of the islands.

This system was first introduced in the 2012/13 Budget to ensure fair and transparent funding of the outer islands and since then it has proved to be effective. The model also takes into account the unique challenges of each island and allows adequate funding for the delivery of public services. This funding forms the Island Government's cash appropriation (net appropriation not including depreciation), with trading revenue forming an additional source of revenue that the Island Governments can use for local development.

The Funding Model may suggest a different level of funding compared to the current allocation (either higher or lower). Assuming no change in the total funding to the Outer Islands, each island administration will only have its operational funding adjusted toward the suggested allocation by a maximum of three per cent in a given Budget year, although the recent changes have been closer to one per cent. This ensures that increases and, more importantly, decreases suggested through the model are iterative, rather than a stepped 'jump'.

Table 15.1 summarises the major cost factors used in the Funding Model. These cost factors were determined based on relevance and reliability. The Funding Model does not include depreciation (as this is a non-cash item and is not appropriated to agencies or Island Governments), capital spending (which goes through the Infrastructure Committee process), or agency spending (which is determined within the individual budgets of those agencies).

Table 15.1 Cost factors of the 2017 Pa Enea Funding Model

Factor/Output	Parameter	Basis for costing
<u>Administration</u>	Population as per the Census	3 staff per island, plus 1 additional administrative staff per 250 residents, up to an additional 3
<u>Councils</u>	The number and wages of councillors, Ui Ariki and Aronga Mana as per the <i>Outer Islands Local Government Act 2012/13</i>	Base salary, plus top-up payment based on island tier as determined by OPM
<u>Infrastructure</u>		
Water	Population as per the Census	\$250 per person
Road maintenance		
<i>Sealed</i>	Kilometres of road	\$4,897.55 per km
<i>Unsealed</i>	Kilometres of road	\$7,372.50 per km
Maintenance (of machinery and vehicles)	Schedule of Regular Capital Needs	3-7% of asset replacement value, as determined by the Infrastructure Committee
Airstrip	Length of runway	\$58,254.17 per km
Waste Management	Population as per the Census	\$56.40 per person; \$26,920 fixed cost
Ligherage (unloading of boats)	Island Administrations to cost recover	Nil
Beautification	Per km of road	\$2,300 per km
Building maintenance	Funding and services provided through the Cook Islands Investment Corporation	Nil
<u>Energy (electricity generation)</u> (excl. Aitutaki)	Estimation of generation cost <i>minus</i> estimated trading revenue from appropriate usage charges Separately averaged per person usage across of the Northern Group and the Southern Group	A cost of 90-95 cents per kWh A charge of 60 cents per kWh to local users Average consumption in the Northern Group (incl. Palmerston) Average consumption in the Southern Group (excl Aitutaki)
<u>Other costs</u> ¹	Varies by island	Operational costs for inter-motu ferries (\$3,000 for Manihiki, \$6,000 for Penrhyn)

In 2018 a number of changes were made to the value of infrastructure parameters. The maintenance price of a sealed kilometre of road has decreased by \$1,602.45, while the maintenance price of an unsealed kilometre of road has increased by \$872.5. The cost of airstrip maintenance has decreased by \$11,746 per kilometre. Waste management prices dropped by \$54 per person, however a fixed cost of \$26,920 was added to consider those costs faced by all Pa Enea, regardless of population level. Road beautification prices have increased by \$1,000 per kilometre of road.

A major change to the Funding Model in 2015 was the inclusion of a 'Schedule of Regular Capital Needs'. This schedule is a series of rules that outline what the regular ongoing needs are for all islands in relation to major capital items (items valued more than \$3,000). It takes a small but significant step towards formalising the relationship between the central and island governments in the provision of critical services. In particular, it outlines what Island Governments are expected to keep in working order, and what the central Government will prioritise to replace/provide through the capital budget. For operational budgets, the schedule also provides the basis for determining maintenance needs so they can be adequately covered by the Funding Model.

The Funding Model also includes a 10 per cent modifier on operating expenses to account for the remoteness of the Northern Group and Palmerston. This was estimated on the average cost of landed diesel on island as a proportion of total operating costs (not including personnel). This number is

halved to 5 per cent for energy operating costs as all the Northern Group have access to renewable energy systems; this dramatically reduces the need for importing diesel and oils, and shifts the burden of costs to the capital replacement budget (which is borne by the central Budget).

15.2 2018/19 Pa Enea Funding Model results

In 2018/19 the total funding pool for the Pa Enea has increased by \$280,000 to a total of \$7.3 million. This increase in the 2018/19 year is to factor in the increased costs of inputs since the introduction of the model in 2012/13, as it does not automatically adjust for inflation. This funding is estimated to cover basic service needs for the outer islands.

These figures exclude the trading revenue generated by the Island Governments outside of estimated energy revenues and the increase in the minimum wage and employment liability insurance.

Approximately 64.1 per cent of the total funding given to the Island Governments goes to the Southern Group (excluding Palmerston) and 35.9 per cent goes to the Northern Group and Palmerston. As background, 75 per cent of the population of the Pa Enea live in the Southern Group excluding Palmerston. The mild preference of the Funding Model to give proportionally more funding to the remote and less populous islands is due to the fixed cost parameters (such as administration and asset maintenance) that are independent of population, and the premium given to shipping costs to the more remote islands.

A summary of the Funding Model results are provided in Figure 15.1.

Figure 15.1: Allocation of total funding across Island Governments

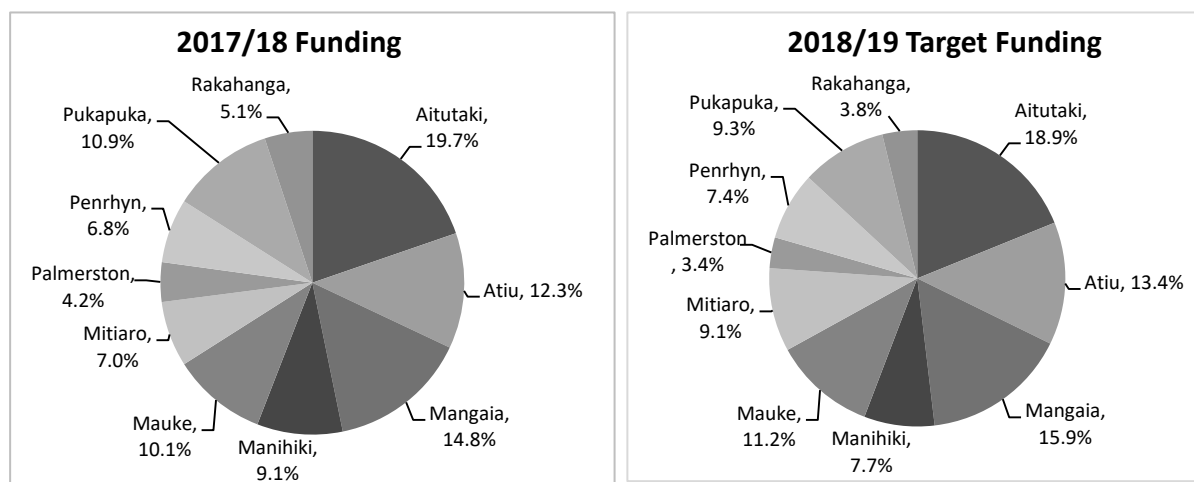


Table 15.2 Pa Enea Funding Model results for 2018/19 (\$)

	2017/18 Budget Cash Funding	Current percentage of total Cash Funding	Formula Results			2018/19 Cash Funding
			Minimum Cash Funding	Target percentage of total Cash Funding	Adjustment towards target	
Aitutaki	1,356,576	19.3%	1,534,153	18.9%	65,638	1,422,214
Atiu	886,111	12.6%	1,088,797	13.4%	45,860	931,971
Mangaia	1,052,648	15.0%	1,290,685	15.9%	54,384	1,107,032
Manihiki	628,485	9.0%	624,497	7.7%	6,847	635,332
Mauke	699,799	10.0%	908,741	11.2%	37,900	737,699
Mitiaro	506,114	7.2%	741,626	9.1%	30,316	536,430
Palmerston	294,824	4.2%	273,803	3.4%	2,553	297,377
Penrhyn	495,617	7.1%	604,368	7.4%	25,491	521,108
Pukapuka	751,660	10.7%	756,180	9.3%	8,509	760,169
Rakahanga	349,183	5.0%	309,133	3.8%	2,502	351,685
Total	7,021,017		8,131,983	100.0%	280,000	7,301,017

For the complete appropriation of each Island Government, refer to Schedule 1 of the Appropriation Bill or the relevant section of Budget Book 2.

15.3 Other agency support targeting the Pa Enea

The funding provided for the Pa Enea is not only limited to that distributed via the Pa Enea Funding Model. In addition to Island Government appropriations, Rarotonga-based agencies and development partners also mobilise significant resources to assist communities in the Pa Enea. Much of this assistance is crucial for the well-being of local communities. This is especially true in the case of major capital works and heavy machinery.

Assistance to the Pa Enea is not a mandated requirement for financial reporting, so survey methods are necessary to determine estimated levels of support. Table 15.3 summarises the estimated assistance given by each agency to the Pa Enea.

Table 15.3 Estimated agency expenditure in the Pa Enea (\$'000)

	2018/19 Budget Estimate			
	Operational	Personnel	Trading Revenue	Capital
Ministry of Agriculture	84			
Ministry of Health	631	1,318	10	7
Ministry of Education	296	3,901	0	80
Infrastructure Cook Islands	200	50	0	2,864
Official Development Assistance ¹	10,359	0	0	12,591
Cook Island Police Service	42	358	3	19
Internal Affairs	11	36	0	0
Cook Island Investment Corporation	0	0	0	500
Ports Authority	172	141	0	0
Airport Authority	163	181	0	0
National Environment Service	33	187	5	10
Office of the Prime Minister	0	140	0	7,890
Ministry of Finance	500	0	0	110
Total	12,491	6,262	18	24,071
Social Welfare	5,871	0	0	0
Scholarships / Other Education	273	0	0	0
Total	18,635	6,312	18	24,071

¹ Official Development Assistance (ODA) is delivered through numerous agencies, both local and foreign. Figures of ODA spending are at best a good estimate as the funding is split between Pa Enea and Rarotonga. For more information refer to the ODA chapter.

Note: Due to the close integration of Pa Enea support in general agency programs, this data should be taken as an estimate only.

15.3.1 Ministry of Agriculture

The Ministry has been appropriated \$84,000 in 2018/19 to work in partnership with Southern Group Pa Enea Island Governments. This aims to build capacity to enable opportunities to meet supply and demand for agricultural product in the Pa Enea.

15.3.2 Ministry of Health

The Ministry of Health allocates personnel funding for health positions held in the Pa Enea. These positions can include nurses, doctors and dentists. The Ministry of Health contributes to the operational costs of the hospitals and health centres in the Pa Enea. Non Communicable Disease promotional activities that include or are held in the Pa Enea are covered through the \$195,000 provided by Government for the NCD initiative. In addition to this, patients who are required to be referred from the Pa Enea to Rarotonga and on to New Zealand for health issues are covered through the patient referral program that is administered by the Ministry of Health at the cost of \$740,000. All costs are funded by the Cook Islands Government, and are not included above.

In addition to this, the Ministry of Health estimate operating expenditure of \$631,000 with \$1,318,000 allocated to personnel.

15.3.3 Ministry of Education

Outside of social welfare payments, the Ministry of Education is the single largest contributor to operational funding in the Pa Enea. For 2018/19, the Ministry anticipates personnel costs of \$3.9 million with an additional \$296,000 for ongoing operational expenditure at a school level. These costs include text books, stationery, property, teacher salaries and other expenses.

The Ministry is also responsible for scholarship and support payments for students from the Pa Enea studying in Rarotonga (\$273,000), and funding Tekaaroa School in Aitutaki (in addition to all schools except that on Palmerston).

The Ministry also anticipates spending approximately \$80,000 on small capital items, in addition to its regular capital purchases. All Pa Enea schools are included in replacement plans for ICT including printers and copiers as well as school furniture.

15.3.4 Infrastructure Cook Islands (ICI)

ICI has been appropriated \$2.9 million for capital projects in the Pa Enea during 2018/19. This investment will mainly be dedicated towards infrastructure such as the Airport Runway Stabilisation in Atiu, cyclone shelters in the Northern Group and Harbour and Water Upgrades. Further information is provided in the Capital Chapter.

In addition to this, \$200,000 is appropriated under ICI for Outer Islands Equipment Repairs of Unanticipated Breakdowns and \$50,000 is appropriated for the Outer Islands Special Project Unit.

Table 15.4 Estimated ICI capital projects in the Pa Enea (\$'000)

Island	PROJECT/PROGRAMME	2018/19	2019/20	2020/21
		Budget Estimate	Projection	Projection
Atiu	Atiu Airport Runway Stabilisation	0	268	0
Atiu	Atiu Road Improvement Programme	250	0	0
Mitiaro	Mitiaro Water Upgrade	382	0	0
Penrhyn	Omoka Harbour Upgrade	250	0	0
Pukapuka	Airport Terminal building upgrade	13.5	0	0
Mangaia	Tamarua Water Project	134	0	0
Aitutaki	Establishing water galleries	418	0	0
Aitutaki	Road Improvement Program	226	0	0
Manihiki	Tukao Passage Widening	140.5	0	0
Pa Enea	Manea Games	0	0	100
Pa Enea	Cyclone Centre	1,050	1,500	1,500
CIG funded Infrastructure Cook Islands		2,864	1,768	1,600

15.3.5 Official Development Assistance

ODA is an important element of Government spending. For 2018/19, efforts have been made to the estimate the ODA component of agency spending under the banner of the executing agency. Total ODA is estimated at \$57 million for 2018/19, a considerable portion of which will be invested in Pa Enea development. Chapter 17 has more detail on specific ODA projects, with Chapter 9 outlining all capital spending.

Following on from the previous year, the roll out of Southern Renewable Energy Program is estimated at around \$2.6 million for 2018/19. Donor funding for the Manatua Cable is included in the estimate for 2018/19 as this benefits Aitutaki.

15.3.6 Cook Islands Police Service

Police estimates operating expenditure of \$400,000 in the Pa Enea during 2018/19 of which \$358,000 is allocated to personnel. The main expense is the salaries of the officers stationed on each island in the Pa Enea.

Furthermore, in 2018 year Pa Enea police services are expected to receive motor vehicle replacements with an estimated value of \$19,000.

15.3.7 Ministry of Internal Affairs

Total welfare payments to the Pa Enea in 2018/19 are estimated to be \$5.87 million. Full details of the breakdown between the various islands and categories are shown in Table 15.5. The amounts presented do not include the welfare benefits received by beneficiaries on Palmerston, as these benefits are paid into accounts held in the Rarotonga branch of the Bank of the Cook Islands.

In addition to this, the Ministry of Internal Affairs estimate operating expenditure of \$11,000 and \$36,000 allocated to Internal Affairs staff working in the Pa Enea.

Table 15.5 Estimated Social Welfare Payments in the Pa Enea for 2018/19 (\$'000)

	Aitutaki	Mangaia	Atiu	Mauke	Mitiaro	Pukapuka	Penhyn	Manihiki	Rakahanga	Total
Old Age Pension 60+	750	358	223	190	124	120	26	83.7	52.4	1,926
Old Age Pension 70+	875	361.6	261	198	132	163.6	71.4	91	40	2,193
Child Benefit	525	101	114	39	52.5	206	92.5	72.5	25	1,227
Newborn Allowance	41	4	3	1	1	11	1	1	1	64
Destitute Benefit	0.6	0.2	0.5	0.1	0.1	0	1	0	0	2.5
Infirm Benefit	3.3	1.3	1	0.8	0.2	0.7	0.2	0.2	0.3	8
Maternity Leave	34.8	0	0	0	0	0	0	0	0	34.8
Caregivers	35	22.7	14.4	22.7	18.6	39	12.4	6	4	175.3
Christmas Bonus	34.75	10	9.1	5.35	4.5	11.55	4.8	4.4	1.95	86.45
Funeral Allowance	28.8	19.2	14.4	4.8	4.8	4.8	4.8	9.6	2.4	93.6
Power Subsidy	6.6	3.96	2.64	2.64	2.64	2.64	2.64	2.64	2.64	29.04
Special Assistance	10	5	0	0	0	10	5	0	0	30
Total	2,345	887	643	464	340	570	221	271	130	5,871

15.3.8 Cook Islands Investment Corporation (CIIC)

CIIC anticipates capital spending of around \$500,000 in the Pa Enea during 2018/19. The major project for this year is the Hospital Reconstruction in Pukapuka.

Table 15.6 Estimated CIIC capital projects in the Pa Enea (\$'000)

Island	PROJECT/PROGRAMME	2017/18 Estimate	2018/19 Budget Estimate	2019/20 Projection
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	0	0	250
Pukapuka	Hospital Reconstruction	0	500	0
CIG funded Cook Islands Investment Corporation		0	500	250

15.3.9 The Ports and Airport Authorities

The Ports Authority manage assets on Aitutaki, to a value of \$172,000 in operation expenses and \$141,000 in personnel.

In addition, the total cost estimate for Aitutaki Airport is \$861,408 which includes personnel cost of \$181,029, depreciation cost of \$517,133 and repair and maintenance of \$163,246.

15.3.10 National Environment Service (NES)

NES estimates expenditure of \$187,000 on environment officers in the Pa Enea including Suwarrow during 2018/19, with operational expenditure of \$33,000 and trading revenue of \$5,000.

15.3.11 Office of the Prime Minister (OPM)

OPM provide resources to assist with development in the Pa Enea, including delivery of the Pa Enea renewable energy projects with support for the Southern Group installations (\$2.5 million in capital expenditure for Aitutaki) and \$3.2 million to complete the remaining work for Southern Group Renewable Energy project. An appropriation is also made for the monitoring of installations in the Southern Group, at \$250,000.

In addition, general support will be provided to the Pa Enua by OPM through the Manatua Submarine Cable project (loan component) that will be implemented at \$2 million in 2018/19. The Manatua Submarine Cable will improve connectivity, providing more reliable and affordable broadband connections on Rarotonga and the Pa Enua. In addition, with the majority of the Pa Enua on the centralised ICT system, \$40,000 has been provided to OPM to ensure the implementation and maintenance of the network including the Pa Enua.

15.3.12 The Ministry of Finance and Economic Management (MFEM)

MFEM manages the small capital fund \$110,000 for the Island Governments to make funding requests, although this funding is accounted for in each islands' appropriation. MFEM also has two finance officers dedicated to the financial reporting of each island. \$500,000 is also available for a shipping subsidy to the Pa Enua which commenced in 2018.

15.3.13 Total agency expenditure in the Pa Enua

Table 15.7 represents total funding provided to Pa Enua.

The level of investment by the Government in the Pa Enua is significant by any measure, representing the importance of the Pa Enua to the Cook Islands Government.

Table 15.7 Total Central Government expenditure in the Pa Enua (\$'000)

Island	Government Support through Agencies	Fiscal transfer from Central Government	Welfare transfers	Total current public spending
Aitutaki	6,659	1,648	2,345	10,652
Atiu	982	1,148	642.77	2,773
Mangaia	1,091	1,382	887.35	3,360
Manihiki	632.5	779	270.95	1,682
Mauke	424	959	463.94	1,847
Mitiaro	692	656	340.23	1,688
Palmerston	37	347		384
Penrhyn	692	638	221.42	1,552
Pukapuka/Nassau	1352.5	977	569.8	2,899
Rakahanga	267	431	129.7	828
Suvarrow	40	-	-	
General Support	28,116	-	-	28,116
Total Pa Enua	40,985	8,965	5,871	55,781

Note: The welfare benefit payments received by beneficiaries in Palmerston is not reflected in this table as these are paid to beneficiaries accounts at the BCI branch in Rarotonga. Also note that trading revenue is not shown here as that revenue is generated on-island, and hence not transferred from the central budget.

15.4 The Pa Enua economic context

15.4.1 Introduction

The Cook Islands are spread across 1.8 million square kilometres of ocean, making the economic integration of the Pa Enua with Rarotonga and global markets a challenge. This requires novel solutions, substantial levels of subsidisation, or both. By Pacific standards, Rarotonga is a small and remote market, with the islands of the Pa Enua being even smaller and even more remote. Over the past 40 years, the economic prospects of the Pa Enua have been further eroded by continued depopulation.

This does not mean that economic development is impossible – it simply means that the Pa Enua face development challenges that need to be acknowledged, and are separate from those faced in Rarotonga. There are examples of successful businesses and initiatives in the Pa Enua that have significantly benefitted their local communities, as well as activities that have capitalised on the booming tourist growth in Rarotonga (such as parrotfish from Palmerston and on-travel to Aitutaki).

The general challenges of transport, poor local infrastructure and poor access to labour, are almost universal, but this section attempts to summarise any recent economic developments unique to each particular island. Reliable data makes full analysis difficult, but highlights the need for economic reporting in the Pa Enua as a general issue.

15.4.2 Aitutaki

Aitutaki remains the Pa Enua leader in the tourism sector. On average, the island welcomes 84 per cent of all the visitors traveling to the Pa Enua. Last year 36,691 people (including locals) traveled to Aitutaki. Increases in the Rarotonga tourism sector positively contribute to the Aitutaki tourism as around 20 per cent of visitors travel on to Aitutaki.

Last year the Aitutaki Road Sealing Program was further progressed, with only around 5 kilometres remaining to be sealed, leading to a positive impact on businesses, individuals and the tourism industry on the island, although lack of accommodation still remains an issue. According to estimates there are around 200 available rooms on Aitutaki of which only a few can be classified as “family-friendly”.

Capital funds have been appropriated in the 2018/19 Budget to undertake further work on the Aitutaki water galleries to ensure that the infrastructure on the island is sufficient to handle the increased number of tourists visiting the island.

15.4.3 Atiu

Atiu receives around 5 per cent of all the visitors travelling to Pa Enua. This year the island has experienced an increase in the number of arrivals. The rise in the visitor numbers can in part be attributed to Air Rarotonga’s direct flight from Aitutaki to Atiu, currently four links a week. Atiu Airport Runway stabilization will commence in 2019/20 and will further benefit the tourism sector.

Atiu’s geography is very different from Rarotonga or Aitutaki, with untouched jungle and a diverse number of bird species, allowing it to attract adventure travelers.

The Atiu Road Improvement Program will be an ongoing project for 2018/19 with total financing of \$250,000. Better infrastructure will benefit communities, aid in local economic development and ensure that Atiu has adequate infrastructure to support increased tourist arrivals.

15.4.4 Mangaia

Total arrivals (including locals) to Mangaia in 2017 were recorded at 2,198. The island accounts for 4 per cent of all travelers to the Pa Enua.

Mangaia has benefited from development partner assistance in the form of coolers and ice making machine for the local fishing club. While fishing catch fluctuates between months, most of the catch never reaches storage facilities as it is sold on the wharf or presold to waiting customers. There are plans for the local fishing club and school to teach school children about fishing from an early age.

A quarry site at Karanga Nui has become operational to maintain the main coastal roads to an acceptable standard.

This year ICI is undertaking a water supply improvement project in Tamarua Village with total Government funding of \$250,000. The project includes the construction of a new intake structure, a

rising main from the new intake and two 25,000 litre water storage tanks. Once the project is complete the existing intake on the Vaitatei will be shut down.

Mangaia has made progress in agriculture in recent years, with produce now being shipped to Rarotonga for sale. This is expected to be further supported by the PEARL project (see Chapter 16).

15.4.5 Manihiki

Manihiki is also known as the “island of pearls” since Pearl farming continues to be the leading local economic development industry. Fishing is one of the major activities although the catch is mostly for local consumption.

Last year the Manihiki Lagoon Clean-Up Project was successfully completed. Seven pearl farmers have already applied to the island government to expand into the cleaned farm areas. The immediate economic benefit of the project was the approximately \$100,000 put into the Manihiki economy through wages, rentals and purchases by the contractors. Nearly \$27,000 worth of equipment was given to the Manihiki Island Government and \$5,000 worth of equipment handed over to community and staff.

While the clean-up was focused on the pearl farms, improving the lagoon had wider benefits as the lagoon is an important source of food for the Manihiki Community.

This year the Government has appropriated \$140,500 in funding for the Tukao Passage Widening project which is focused on improving safe access to and from the Manihiki Lagoon.

15.4.6 Mauke

Prior to the 2013 drought, the availability of ground water on the island was sufficient for irrigation purposes and production of vegetables for the Rarotonga market. However, following the drought, the sector is in the process of recovering. Further support to agriculture is expected through the PEARL project.

Mauke is participating in the Southern Group Renewable Energy Program. The island has completed the civil work array of the project and is soon to transfer to solar energy. The station is part of the Southern Renewable Energy Project financed by grants from the European Union and Global Environment Facility, Japan’s Pacific Community funds and loans from the Asian Development Bank.

The recent construction of the harbour at Taunganui is aiding in improving cargo handling and shipping services on the island. This allows to ensure safe, efficient and reliable transportation of the goods and people, thereby fostering economic growth and prosperity for the Mauke.

15.4.7 Mitiaro

In the past years around 2 per cent of all the outer island visitors chose to travel to Mitiaro. In 2017, 946 people visited the island, which is the highest number in the last 10 years.

In 2016/17 the Government expressed concern with some of Mitiaro’s water galleries. Corroded platforms, water wastage through leakage, deteriorating community rain water tanks posed a high risk to the local community. The Government has appropriated \$382,000 in 2018/19 to improve water quality in Mitiaro.

15.4.8 Palmerston

The construction of the Palmerston Cyclone Shelter Project is expected to commence in October 2018, when the materials arrive on the island. This new cyclone center will provide secure shelter to the residents during adverse weather conditions.

Palmerston's local economy is largely reliant on the fishing sector, with large volumes of fish being shipped to Rarotonga for sale. There are, however, fears of over-fishing in the lagoon, which warrants an investigation into the sustainable level of fishing in Palmerston.

15.4.9 Penrhyn

Diving and harvesting natural pearls or pipi on Penrhyn has been a key source of local income, often involving whole family units. There are two overseas buyers involved in the industry and working directly with the community. The economic returns from harvesting pipi have resulted in a decline in the production of woven handicrafts. There is concern over current harvesting practices and the future sustainability of the pipi may be under threat. In response, the council have placed a temporary ban on pipi harvesting which will be lifted as soon as the population improves.

Fishing is generally reserved for family consumption, with little excess for sale or export to Rarotonga. While shellfish like paua or clams present opportunities for the islanders, the harvesting of it is locally regulated to ensure sustainability, thus restricting revenue from this resource to specific times of the year. There are concerns around the seashell food population based on indications of an increase in coral bleaching which affects clam populations.

In June 2018, water shortages in Penrhyn reached critical levels. A total of 200,000 litres of clean water was sent to the island from Rarotonga in the first quarter of this fiscal year. This included the shipment of four 25,000 litre water tanks.

In 2018/19, ICI will undertake work to restore and upgrade Omoka Harbour, with project funding of \$250,000.

15.4.10 Pukapuka and Nassau

Pukapuka is one of the most remote islands on earth. Due to limited air connections the island is unlikely to become a major tourist destination in the near future. The Government is, however, proposing to conduct some airport terminal upgrades at an estimated cost of \$13,500.

Economic activity is low with food production for local consumption being the mainstay. Due to the remoteness of the island, shipping costs from Rarotonga are high. The Government has introduced a pilot subsidy on some voyages to the Northern Islands with a requirement to reduce freight charges.

In addition, an estimated funding of \$500,000 was allocated by the Government for the reconstruction of the Pukapuka hospital.

Nassau is located 88 km from Pukapuka. The Government is proposing to construct cyclone shelters on the two sister islands. This will be programed by ICI.

Nassau is currently undergoing an EU-GIZ ACSE Northern Island Water Project Phase II which aims to improve the island's capacity to collect, store and manage water resources. Similar developments are being carried out in Penrhyn and Palmerston.

15.4.11 Rakahanga

Unlike most of the other Pa Enea islands, Rakahanga is unsuitable for pearl farming. Although the island benefits from fishing activities and abundant vegetation. Every January the island hosts a tuna fishing contest. On average the boats return with 200 or more fish a day.

Last year the island's five village communities received one outboard motor each, which together with the recent shipment of freezers, is assisting in fishing activities.

The island generates extra revenue for the residents by engaging in dried fish production.

16 Official Development Assistance

16.1 Summary

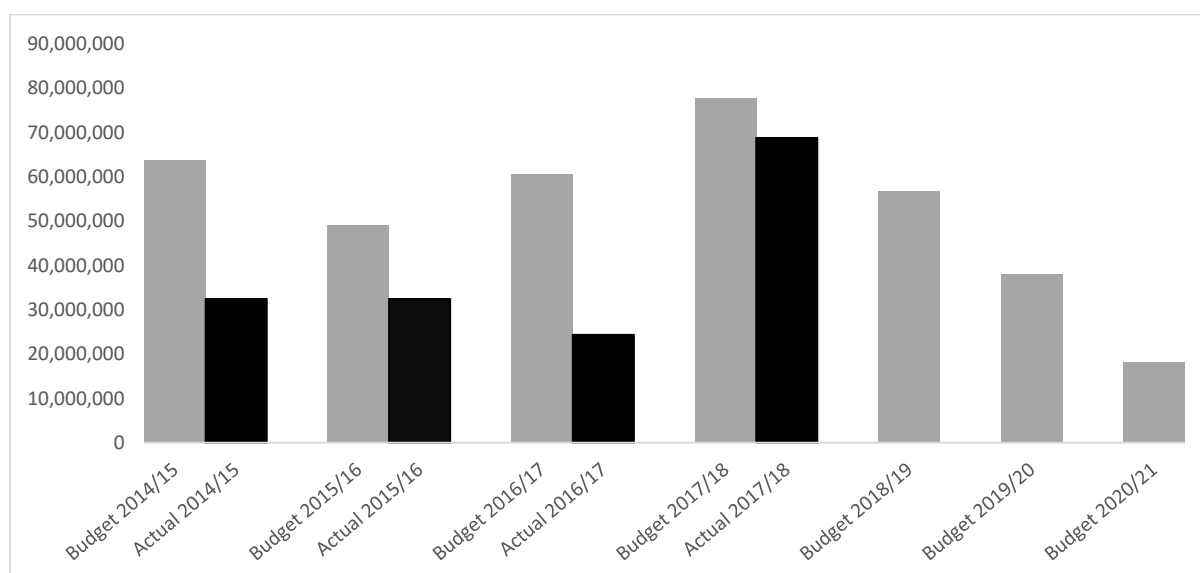
Introduction

The Official Development Assistance (ODA) chapter highlights ODA projects and their contributions to Government priorities. This chapter should be read in conjunction with the capital chapter as only ODA-funded infrastructure projects are detailed here.

Actual expenditure for ODA in 2017/18 was \$58 million of the \$77 million estimated in Budget 2017/18, a conversion rate of around 75 per cent. Total expenditure was predominantly driven by the implementation of large infrastructure projects such as Te Mato Vai, Mei Te Vai Ki Te Vai, the Renewable Energy Project as well as the completion of the Tereora College phase 1 and Apii Nikao School rebuild projects.

Figure 16.1 shows actual expenditure of ODA funds from 2014/15 to 2017/18, and budgeted for 2018/19 and the forward estimates. Expenditure in 2014/15 and 2015/16 was similar, with a slight drop the following year due to expenditure on large infrastructure projects planned for 2016/17 being implemented in 2017/18. 2017/18 saw the largest expenditure of ODA funds for the Cook Islands to date.

Figure 16.1: Cook Islands ODA actual and estimated expenditure, 2014/15 – 2020/21



The ODA estimate for 2018/19 is \$61.1 million and is mostly comprised of the following major infrastructure projects:

- New Zealand Triennium Grants estimated at \$7.7 million towards Core Sector Support;
- Te Mato Vai (TMV) and Mei Te Vai Ki Te Vai (MTVKTV) estimated at \$7.7 million to be funded through the remaining balance of New Zealand grants received at the end of last financial year;
- Manatua Submarine cable project estimated at \$10 million; and
- Renewable Energy at \$12 million.

New Zealand has committed \$50 million towards the bilateral program for the next three years. Negotiations on priorities and the design of individual Grant Funding Arrangements are currently underway and were not confirmed at the time of publishing the annual budget. It is important to note that New Zealand support will continue to be allocated towards existing priorities such as the Core

Sector Support (CSS – Health, Tourism, Education and strengthening public sector initiatives) and Sanitation. The estimated budget towards CSS has been based on the previous baseline which has been pre-approved by New Zealand in anticipation of a finalised Grant Funding Arrangement.

The Cook Islands Government also contributes to ODA-funded projects through its Capital budget contribution, human resources, operational budgets and taxation exemptions which have not been highlighted in past Budgets. For the financial year 2017/18, an estimated \$8.7 million in foregone taxation revenue was provided for project implementation, where taxation duties were exempted as part of project delivery. This has been provided through an ODA exemption on imported materials for projects, as well as exemptions on value-added tax for purchases of goods and services.

The above investments highlight the Government's continued commitment to its National Sustainable Development Plan (NSDP) 2016-2020 'Te Kaveinga Nui', with a majority of ODA directed towards, but not limited to:

- Goal 4 - Sustainable management of water and sanitation;
- Goal 5 - Building resilient infrastructure and ICT to improve our standard of living; and
- Goal 6 - Improving access to affordable, reliable, sustainable, modern energy and transport.

CIG will continue with its ambitious development agenda in the coming financial year with the continuation of infrastructure implementation and assessing the implications of ODA graduation.

ODA graduation

In 2017 the Organisation for Economic Co-operation and Development's (OECD) Development Advisory Committee (DAC) began the process to determine if the Cook Islands will graduate to a high-income country status by reviewing its Gross National Income (GNI) for the last 3 years against the benchmark set by the World Bank. Under the DAC rules, once the Cook Islands has graduated, aid provided to it by external donors will no longer be accorded the status of Official Development Assistance. A decision regarding the Cook Islands' eligibility will be made in early 2019.

The Government has established a working group and commissioned technical assistance to address the validity of the Cook Islands' ODA graduation. A technical team was engaged to produce a work paper which was presented to the OECD in 2017. The paper highlights concerns about using Gross Domestic Product (GDP) as a proxy for GNI. Based on this, the Cook Islands was granted an extension until early 2019 to provide GNI data. Technical assistance is currently assisting with the development of the relevant data to present to the OECD.

In the interim, the Cook Islands will continue working through appropriate diplomatic channels to maintain its current relationships with its development partners to discuss potential impacts of graduation on ODA-funded programs.

Cook Islands Core Sector Support

The Core Sector Support (CSS) Grant Funding Arrangement (GFA) valued at \$20.1 million that was allocated over 2016/17 to 2017/18 has come to an end. The goal of the support is to enhance the Cook Islands self-sufficiency by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform. The arrangement is a trial of performance-based budget support funding modality. The GFA goal aligns with our (recently-signed) Joint Commitment for Development (JCFD) objectives of improving economic growth, strengthening human capacity, and enhancing overall economic self-sufficiency. The Government is currently in negotiations with the NZ Government to confirm the priorities for the next triennium. The CSS GFA is the preferred modality to implement bilateral funds with NZ and the recent evaluation has re-confirmed that the arrangement has achieved the Government's desired results.

Adaption Fund

The Ministry of Finance and Economic Management (MFEM) was accredited to the Adaptation Fund in 2016. Since receiving accreditation, the ministry has been working with the Office of the Prime Minister to develop a project proposal under the Adaptation Fund. The project proposal was submitted to the Adaptation Fund board for consideration in May 2018 and was successfully approved at the value of US\$3 million over three years. The Cook Islands is the first Pacific nation to receive such funds directly. Previously, resources from the Adaptation Fund have been delivered via international multilateral organisations such as UNDP.

Cook Islands National Te Tarai Vaka (TTV) Activity Management System Simplified

The Government has had in place, since 2014, an Activity Management System (AMS) originally intended to strengthen governance and management of aid effectiveness at all levels. The driving factor for prioritising the establishment of this single, streamlined AMS was the Cook Islands bid to obtain National Implementing Entity (NIE) accreditation status to access climate finance. The “Te Tarai Vaka” (TTV) AMS was officially adopted by CIG through cabinet endorsement in September 2015. TTV is designed as a single framework incorporating other existing national systems to ensure transparent and accountable expenditure and reporting of donor funding. This project aims to further streamline national systems with capacity building to enable increased use of the TTV by government and its development partners towards ownership of development results.

A revised TTV has now been launched on the MFEM website with simplified TTV processes and further alignment to other mechanisms within the machinery of government. This includes the development of user friendly visual signpost for navigating through TTV and required use of other national systems. This includes project concepts to conform to the national sustainable development plan and other national and sector strategies. Project planning and monitoring inclusive of environment impact assessments in the *Environment Act 2003*.

A key finding of the review is lack of streamlined approval processes for ODA and CIG programs, at the national and political levels. Clarity is required as this impacts program planning, implementation and reporting where there is no clear guidance as to when programs are needed for the attention of the National Sustainable Development Commission, Infrastructure Committee, Budget Committee and such before going to Cabinet.

Upskilling of the main users of TTV through practical training is in progress for key TTV users and nine agencies, including MFEM, received training in December 2017 and April 2018. It is important that ongoing training for the new activity management system is embedded to ensure active application of TTV processes, concepts and principles. The goal is to strengthen skills in the area of planning, risk management, monitoring and evaluation, and results framework.

Green Climate Fund – Seeking National Implementing Entity Status

A proposal has been submitted by the Development Coordination Division (DCD) to the Green Climate Fund Board seeking accreditation to the Green Climate Fund (GCF). The accreditation to the Adaptation fund has played a vital role in the GCF accreditation application as it enabled the Government to apply under the fast-tracked approach. If the accreditation to the GCF is successful, it will allow the Cook Islands Government to get direct access to climate change funding. This will allow in-country management and delivery of climate change adaptation and mitigation priorities as aligned with our national strategies, with the use of GCF resources. The last Board meeting did not approve any of the agenda items and MFEM’s NIE accreditation was consequently not considered and has been deferred to the next board meeting scheduled in October 2018.

The Cook Islands has been successful in accessing readiness support from the GCF towards the strengthening of the National Designated Authority, however the funding for this support came to an end in August 2017. MFEM, in partnership with the Office of the Prime Minister (OPM), have submitted a second readiness support proposal to address three main outcomes:

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

In addition, the Cook Islands has been successful in accessing \$12 million from the Green Climate Fund to finance greater battery storage in Rarotonga. This is a significant achievement and is the first funded project that the Cook Islands has been supported by the Green Climate Fund through the support of the Asian Development Bank (ADB).

16.2 Cook Islands ODA Budget by development partner

A list of our current development partners and their estimated contributions over the forward years is provided in Table 16.1. It should be noted that forward year estimates are premature as there are currently very few signed and endorsed agreements that go beyond the 2018/19 financial year. A further review of these numbers will occur through the analysis of the impact of ODA graduation.

Table 16.1 Cook Islands ODA Budget by development partner 2018/19 – 2020/21 (\$)

Development partner	2018/19	2019/20	2020/21	Total
Asian Development Bank	1,000	50,000	50,000	101,000
Australia	31,414	11,074	11,074	53,562
China	2,560,232			2,560,232
EU-German Development Cooperation	206,000			206,000
European Union	3,454,756	2,694,130	294,365	6,443,251
FAO	460,000			460,000
Forum Fisheries Agency	266,667	266,667	266,667	800,001
Global Environment Facility	3,277,300	1,940,954		5,218,254
Green Climate Fund	9,520,305	9,520,305		19,040,610
India	105,000			105,000
Japan	3,551,898	425,000	300,000	4,276,898
Multilateral Fund	810,000			810,000
New Zealand	34,697,500	21,665,500	16,725,500	73,088,500
Other	100,000	100,000	100,000	300,000
Secretariat of the Pacific Community	11,074	11,074	11,074	33,222
UN Adaptation Fund	1,500,000	1,000,000	500,000	3,000,000
UNDP	376,551	75,758		452,309
UNESCO	50,000	25,000	25,000	100,000
WHO	204,545	204,545		409,090
Grand total	61,184,242	37,990,007	18,283,680	117,457,929

Figure 16.2 shows total expenditure against the budgeted amount for the 2017/18 financial year, by development partner. This highlights significant underspends against some budgeted providers.

Figure 16.2: ODA Budget by development partner, 2017/18 budget vs actual

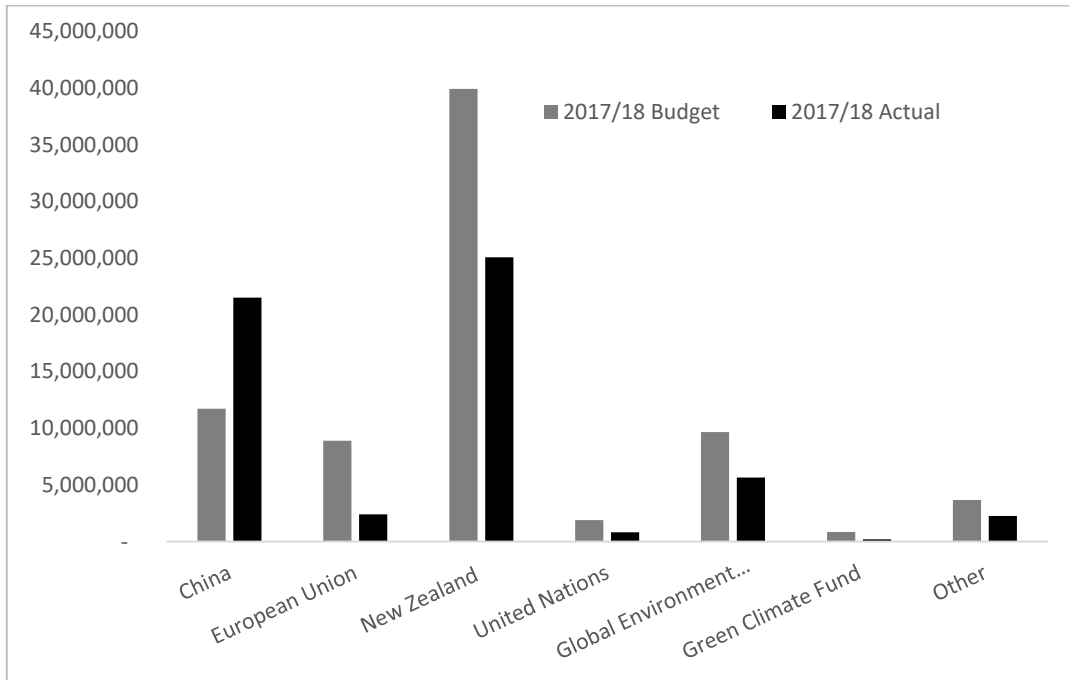
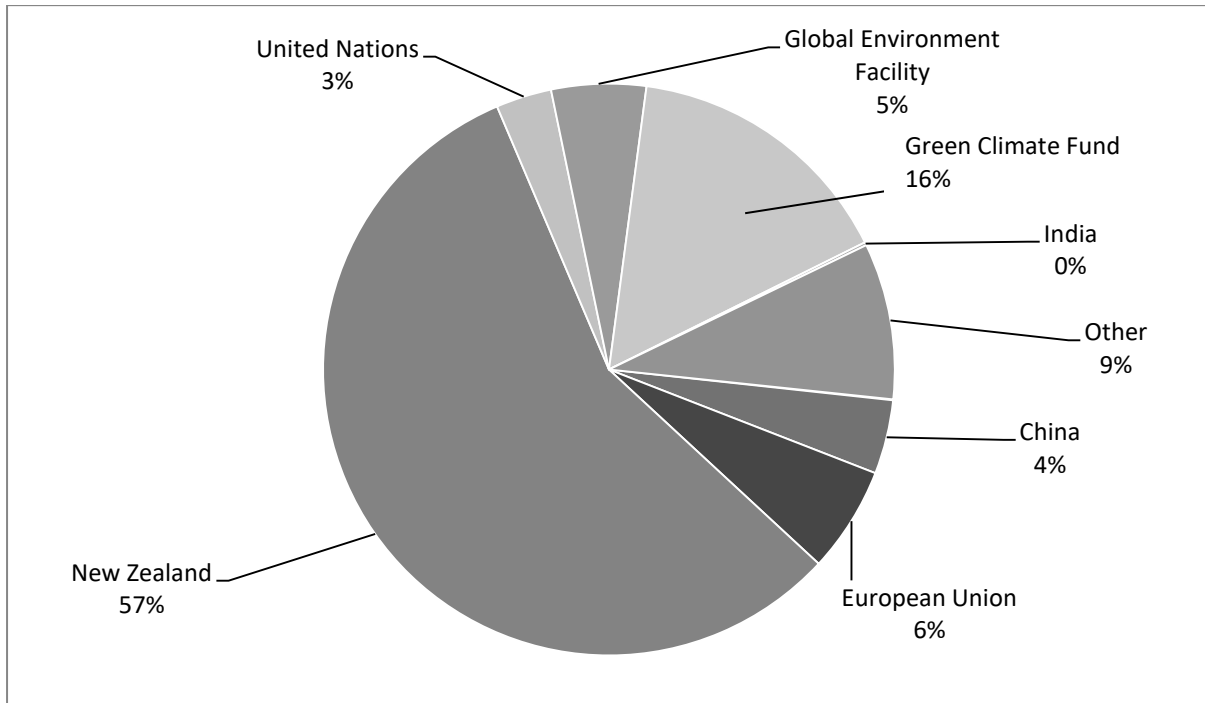


Figure 16.3 demonstrates the budget allocation for 2018/19 based on donor contributions. New Zealand is our largest partner contributing 57 per cent of our total budget, followed by the Green Climate Fund at 16 per cent, the European Union at 6 per cent and the Global Environment Facility at 5 per cent.

Figure 16.3: Cook Islands ODA Budget by Development Partner Budget 2018/19



Further details on key ODA activities are provided below, including the capital initiatives budget.

16.3 Ministry of Finance and Economic Management

E-Government TA Support

	2018/19	2019/20	2020/21	2021/22
Recurrent	1,000	50,000	50,000	0

The Government recognizes the potential of ICT and its ability to deliver Government services to its people. It improves Government processes, empowers and connects people to information and services and it promotes good governance. The output of this work will be in 2 streams:

1. A report consisting of a complete scoping of the current situation of ICT in Government with recommendations towards the necessary developments (infrastructure, hardware/software, organization structure, human resource, policies/legislations) for the implementation of e-Government with a piloted set of recommended services to demonstrate its capability.
2. Pilot implementation of the recommended services that includes the establishment of the necessary requirements (infrastructure, hardware/software, organization structure, human resource, policies/legislations). Indicative program implementation timeline is from March 2018 to November 2021.

Manatua Submarine Cable (ICT cable) – New Zealand Grant

	2018/19	2019/20	2020/21	2021/22
Capital	10,000,000	4,890,000	0	0

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

The Government of New Zealand are providing a grant of \$15 million to the Cook Islands Government to support the project. The bidding process following ADB's procurement guidelines commenced on 31 January 2018 and the bid was opened on 16 March 2018. Three reputed cable implementation vendors responded to the RFP with a price below the initial estimated cost. Tyco Electronics Subsea Communications has been selected as the preferred supplier. The Consortium is now working through the contracting process. It is anticipated that the Manatua cable will go live in 2020.

India Grant Fund

	2018/19	2019/20	2020/21	2021/22
Recurrent	105,000	0	0	0

The official handover ceremony of grant funding between the Government of India was held in February 2017, represented by his Excellency, Vishvas Sapkal, High Commissioner of India and the Government of the Cook Islands, Prime Minister Honourable Henry Puna and Honourable Mark Brown, Minister of Finance.

A total of \$964,000 was granted for 16 approved grass roots projects in the 2016/17 Round. The main focal area of the grant funding from the Government of India is to support, promote, and/or develop social, economic and/or cultural and development cultural, economic and social development and sustainability. An additional prerequisite was the alignment to Te Kaveinga Nui Framework National Sustainable Development Plan 2016-2020.

The 2016/17 round addressed a variety of grass root community areas such as agriculture and fisheries development, disability support, sports development, assistance to community halls and clinics, road safety and infrastructure.

Out of the 16 approved projects, 11 have been successfully completed to date. The remaining 5 projects are still being implemented and progress reports are provided as per Grant Funding Arrangement requirements. It is envisaged that these projects will be completed before the next round of funding begins in the latter half of 2018.

General Budget Support- European Development Fund

	2018/19	2019/20	2020/21	2021/22
Recurrent	1,439,637	2,105,400	0	0

The 10th cycle of funding (EDF10) has now concluded with the focus moving to the 11th cycle (EDF11). EDF11 will continue with the incentivised budget support, allocating funding using national systems until the year 2020 with the Cook Islands priority remaining on improving the Sanitation Sector. The Cook Islands submission under the 11th EDF funding cycle was approved by the EU Commission. The focus of this submission is on upgrading commercial facility sewage systems on Aitutaki and Rarotonga to meet the *Public Health (Sewage and Wastewater Treatment and Disposal) Regulations 2014* standards. The implementing agency for this program is the Ministry of Health with support from the Development Coordination Division of MFEM.

Cook Islands Core Sector Support

The budget support type modality (Core Sector Support GFA) is progressing well and is the preferred modality to implement the Cook Islands development program going forward. The budgeted figures are based on the previous Core Sector Support GFA. Once negotiations are complete, changes may be made to the estimates.

The CSS Program includes direct budget support to the Ministry of Education, Cook Islands Tourism and the Ministry of Health. The investment is provided to improve indicators that directly relate to the NSDP of the Cook Island. The Cook Islands has appropriated the extension of support for health, education, tourism, and public financial management strengthening. This continues to demonstrate an endorsement and confidence in national systems, simplifies our bilateral and development relationship, and allows us to focus on outcomes and results.

The triennium funding from New Zealand ended in June 2018 and the new triennium funding for the next three years has been confirmed at \$50 million. Based on previous years the Cook Islands has received approximately \$45 million over three years towards the bilateral program and this has also been supplemented by the transformational funds (Tereroa College, submarine cable) which sit outside the bilateral envelope. There has been a significant shift away from project support. Going forward, should the governments of the Cook Islands and New Zealand negotiate a new higher support modality for the next forward aid program, rather than focusing on a project-level oversight with multiple contracts for each project, the new agreement shall shift program oversight to the policy level through an annual high-level dialogue. The funding agreement should be focused on programs at a larger scale compared to the smaller programs we have funded under the previous development programs.

China Grant Fund

	2018/19	2019/20	2020/21	2021/22
Recurrent expenses	2,560,232	0	0	0

The renovations project, intended for public buildings in Rarotonga namely the Indoor Sports Arena, Ministry of Justice, and Police Headquarters marks the last of the China-funded Grant projects for the Cook Islands.

CIIC hosted two technical assistance teams from China in September 2017. The two teams conducted technical and structural inspections on the three buildings that will undergo renovations. The preliminary results from these inspections were discussed and signed off between CIIC and the China working groups. Based on the preliminary inspections, the new proposed budget for this project has

been revised to approximately \$10,146,898 million. The renovations project is to be funded through the Economic and Technical Cooperation Grant funded by the People’s Republic of China (PRC).

The Implementation Agreement for this project was finalised and signed in October 2017. Furthermore, on the 7 December 2017, the Government of the Cook Islands and Peoples Republic of China Government signed the Grant Agreement for CNY¥30,000,000, to fund the renovations project.

Although expenditure of \$7,586,666 was recorded for this project in the 2017/18 (based on the Financing Agreement), this project has since been suspended until further notice. The amount reflected in the budget is the balance of the grant funds remaining.

Discussions between government and PRC Government continue to establish funding assistance.

Aid Effectiveness

	2018/19	2019/20	2020/21	2021/22
Recurrent	100,000	100,000	100,000	100,000

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used to support the implementation of official development assistance policy. The program currently contributes to several projects including the following: annual meeting of development partners, development of Te Tarai Vaka, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software and support project development in the areas of climate finance.

Pacific Parliamentary Development Project - UNDP

	2018/19	2019/20	2020/21	2021/22
Recurrent	75,758	75,758	0	0

The Pacific Parliamentary Development Project (PPDP) aims to increase women’s political participation, increase Parliament’s capacity to engage and respond to key development issues and mainstream gender across the project. This initiative is being funded and directly managed by UNDP, with an indicated funding of US\$50,000 for 2018/19, as well as further support over three to four year duration. This project will be a partnership between Cook Islands Parliamentary Services, Ministry of Internal Affairs and UNDP, Pacific Centre. Initiatives planned for this period include capacity development for new members of Parliament and progressing caucus for women in Parliament and participation in programs for Commonwealth Parliamentarians.

Disaster Resilience for Small Pacific Islands (RESPAC Cook Islands) – UNDP

	2018/19	2019/20	2020/21	2021/22
Recurrent	151,515	0	0	0

Cook Islands Meteorological Service (CIMS) at the Ministry of Transport is directly responsible for execution of this program with UNDP as the implementing agency. The aim of the program is that all data collected at the Cook Islands manual and automated weather stations are seamlessly integrated into in the CLIDE database to allow for more in-depth analysis and the creation of early warning tool. With this capacity, it is also expected that CIMS will play a lead role in improved dissemination of accurate climate information to other sectors, in particular, aviation, tourism, agriculture and pearl farming.

Economic and Social Sector Programme 2018 – Japanese Machinery and Equipment

	2018/19	2019/20	2020/21	2021/22
Recurrent	2,000,000	0	0	0

As a key outcome from the recent Pacific Islands Leaders Meeting (PALM) with the Government of Japan, the 2018 Japan Economic and Social Development Programme has been approved and signed off for the Cook Islands.

The purpose of the 2018 grant is to enhance support of public sector agencies efforts primarily towards infrastructure rehabilitation. The basis for finalisation of the approved list was the capital goods/equipment list submitted by public sector agencies to MFEM for 2018/19 capital goods bids and previous request for capital goods direct with DCD for ODA support.

Co-financing on the part of Government includes exemptions of relevant import VAT taxes in accordance with the VAT Act 1997 for approved ODA imports. Cook Islands Government financial procedures and procurement processes will be adhered to.

New Zealand Volunteers Services Abroad (NZVSA) – New Zealand

	2018/19	2019/20	2020/21	2021/22
Recurrent	160,000	0	0	0

This is a program directly managed by NZVSA for the purposes of sending skilled New Zealanders to the Cook Islands to share their experience and knowledge directly with public sector agencies. There has been an increase in volunteers assigned to the public sector agencies.

For this period, VSA together with the Government aim to ensure that assignments are locally identified, locally relevant, and locally delivered. The VSA goal is to transfer skills and knowledge so that the changes achieved during an assignment remain sustainable after a volunteer returns to New Zealand.

Pacific Agreement on Closer Economic Relations Plus (PACER Plus)

	2018/19	2019/20	2020/21	2021/22
Recurrent	20,340	0	0	0

PACER Plus is a regional development-centred trade agreement which covers trade in goods (rules of origin and verification procedures, customs procedures, biosecurity measures, and standards and conformance), services, investment, temporary movement of natural persons, development and economic cooperation, institutional arrangements, transparency, and consultation and dispute settlement. Schedules of commitments cover tariffs, services, investment and movement of natural persons.

The Australian Department of Foreign Affairs and Trade, as a part of the PACER Plus Readiness Package, committed AU\$25,000 to each signatory of the Agreement in order for these countries to carry out PACER Plus outreach and consultations. Of the 11 signatories, only Kiribati and Tonga have accessed their total amount – Cook Islands is the only other country to have utilized a portion of its funding allocation. The grant was accessed last year for a 3 day outreach program in Rarotonga. Tentative plans for Pa Enea visits and training, and translation of the pertinent parts or a summary PACER Plus Agreement into Cook Islands Maori.

Additionally, the Cook Islands have also accessed technical assistance for a legislative review to identify gaps in existing legislation likely to prevent implementation of Pacer Plus. Funding confirmed for legislative review work is confirmed for AU\$417,000 of the total AU\$7.7 million allocated for assistance to signatories.

Te Mato Vai (TMV)

	2018/19	2019/20	2020/21	2021/2022
Capital	3,400,000	0	0	0

The Te Mato Vai project continues to progress with Stage 2 works which will focus on improving storage and introducing treatment to provide our people with clean and reliable drinking water. For more information relating to the Te Mato Vai project, please visit the website www.tematovai.com.

A balance of \$3.4 million from the previous triennium is yet to be spent due to timing issues relating to the transfer of funding. Negotiations with New Zealand on future funding for TMV are ongoing.

Mei Te Vai Ki Te Vai (MTVKTV)

	2018/19	2019/20	2020/21	2021/2022
Capital	4,360,000	0	0	0

The Mei Te Vai Ki Te Vai project is steadily advancing since work began in January 2017. A roadmap has been developed in consultation with key stakeholders that takes into account relevant actions in regards to governance, legislation, policy and regulation, finance and funding, and environment and health. Project leadership is under discussion and will take into account the absorptive capacity of key agencies, in particular CIIC, and the recently established crown corporate entity To Tatou Vai.

A balance of \$4.36 million from the previous triennium is yet to be spent for MTVKTV. This is being re-appropriated in this financial year, while negotiations are ongoing with New Zealand for the allocation of the next triennium. For more information please visit our website www.vaikitevai.com

Pa Enea Action for Resilient Livelihoods (PEARL)

The Cook Islands aims to use the funds to strengthen national and local capacity to reduce climate change risks, establish climate resilient water management instruments through an approach that involves communities and to revitalize agricultural production systems. The intention is to support greater food security and protect livelihoods in Pa Enea, particularly islands in the northern group, which comprises seven low-lying, sparsely populated, coral atolls and sand cays.

The Project is made up of the 3 components:

1. Strengthening disaster risk governance to manage disaster risk and enhancing disaster preparedness for effective response to “Build Back Better” in recovery, rehabilitation and reconstruction
2. Integrated water security management planning and implementation
3. Revitalised agricultural production systems strengthening island food sources and livelihoods in the Pa Enea

The first tranche of funding has been received by the adaptation fund and the project will commence with an inception workshop scheduled for October 2018. MFEM are in the process of recruiting staff to fill the roles of the National Implementing Entity unit within DCD and project staff to implement the project within OPM.

16.4 Ministry of Health

World Health Organisation Technical Cooperation Biennium Budget

	2018/19	2019/20	2020/21	2021/22
Recurrent	204,545	204,545	0	0

Biannual funding to the Cook Islands is for human resource development, including fellowships aligned to the Clinical Workforce Development Plan.

The ongoing focus is also on activities targeting non-communicable diseases, vaccine preventable diseases, mental health, violence and injuries, nutrition, promoting health through life-course, environmental health, health information systems, preparedness, surveillance and responses.

Western Pacific Multi-country Integrated HIV/TB program - UNDP

	2018/19	2019/20	2020/21	2021/22
Recurrent	55,679	0	0	0

UNDP is the Principal Recipient for the Multi-Country Western Pacific Integrated HIV/TB Programme. It aims to improve the coverage and quality of HIV/TB prevention, treatment and care in 11 participating Western Pacific countries. The HIV activities includes strengthening Mobile HIV testing and counselling initiative, continuation of the Counselling and Testing program. The TB activities include monitoring and evaluation of policies implemented in hospitals and centres, training of community volunteers, community awareness and training of health staff on contact tracing.

Small Health Grants

	2018/19	2019/20	2020/21	2021/22
Recurrent	50,000	0	0	0

MOH has also noted during the past three years that there other small grants received on an adhoc basis with all other small grants from other potential development partners declared here.

16.5 Ministry of Marine Resources

Project Development Fund - US Fisheries Treaty

	2018/19	2019/20	2020/21	2020/21
Recurrent	236,364	236,364	236,364	0

The US Multilateral Treaty for Fisheries includes an annual allocation under the economic assistance package of US\$150,000 for Pacific Island party development projects in support of fisheries. The funds are held in trust by the Treaty secretariat at the Forum Fisheries Agency in Honiara and administered by the Ministry of Marine Resources.

Multiyear (Fisheries) Policy Support - EU Partnership

	2018/19	2019/20	2020/21	2021/22
Recurrent	486,459	588,730	294,365	0

This Sustainable Fisheries Partnership Agreement (SFPA) includes an annual fisheries sector contribution of EUR 350,000 by the European Commission under the 4 year protocol. The sectoral support component of the SFPA will be utilised to supplement the Ministry of Marine Resources budget appropriations and Business Plan through the implementation of the Multiannual Sectoral Programme. This program is currently in its second year of implementation and to date approximately NZ\$1 million has been received.

16.6 National Environment Services

Protecting biodiversity and enhancing ecosystem functions through “Ridge to Reef” approach in the Cook Islands

	2018/19	2019/20	2020/21	2021/22
Recurrent	1,084,003	1,712,028	0	0

The Mid Term Review was conducted in November 2017 and the UNDP also completed its’ Project Implementation Review with an overall rating of ‘moderately unsatisfactory’ highlighting key areas for improvement. The UNDP Internal Control Audit of the National Environment Services was completed by the Cook Islands National Audit Office in February 2018.

Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands

	2018/19	2019/20	2020/21	2021/22
Recurrent	281,831	0	0	0

The primary objective of this project is to develop and implement a National Access and Benefit Sharing (ABS) Legal Framework, build National Capacities and support an ABS Agreement based on Traditional Knowledge and a Public-Private Partnership.

A UNDP mission to the Cook Islands was held in late February to appraise and provide technical assistance to the ABS project team.

An outcome for this mission was to identify what needed to be in place in order to present strong justification for the project to be extended after its end date of 5 July 2018. The project continues to operate as a decision from UNDP is still pending.

16.7 Infrastructure Cook Islands

Regional Ridge to Reef Project Testing the Integration of Water, Land, Forest & Coastal Management

	2018/19	2019/20	2020/21	2021/22
Recurrent	75,758	75,758	0	0

This regional program supports 14 Pacific Small Island Developing States (PSIDS) to maintain and enhance ecosystem goods and services (provisioning, regulating, supporting and cultural) through integrated approaches to land, water, forest, biodiversity and coastal resource management that contribute to poverty reduction, sustainable livelihoods and climate resilience. It represents a global test case of the GEF in the implementation of a multi-focal area and multi-agency approach to the sustainable development of PSIDS. The project will provide support to participating countries in areas of coordination, capacity building, technical assistance, and monitoring and evaluation.

In light of critical water resource and sanitation issues facing PSIDS, this project aims to deliver support to the Muri lagoon through the development of improved sewage and sanitation management. This support will use integrated management approaches and the development of on-site pilot programs to manage sewage and sanitation.

Non Project Grant Aid – Palmerston Cyclone Centre

	2018/19	2019/20	2020/21	2021/22
Recurrent	1,040,398	0	0	0

This project will improve security and resilience of the island community, by delivering a structurally sound, safe, reliable, durable cyclone shelter that will provide protection from extreme weather

events and also provide for post disaster recovery. The contract for construction has been awarded and is expected to commence in October 2018.

16.8 Office of the Prime Minister (OPM)

Green Climate Fund Readiness

	2018/19	2019/20	2020/21	2021/22
Recurrent	360,000	360,000	0	0

Accreditation to the fund

The Government applied for accreditation in the area of “Grants” at the “small scale” funding modality which allows access of funds up to US\$50 million. Through the GCF secretariat and GCF accreditation panel reviews, the recommendations and feedback demonstrate that MFEM have a strong accreditation application and that accreditation is likely.

A decision will be made at the next GCF board meeting in October 2018.

Develop a National Climate Change Policy

A review of the existing climate change policies and the Paris Agreement and its Decisions is currently being undertaken to inform the new National Climate Change Policy to be developed.

As there is no single policy relating to climate, activity managers have been guided by a combination of linkages to other policies and plans and by the requirements of international funding agencies. The main elements of the Cook Islands approach to climate change were listed and evaluated against the Paris Agreement.

As a precursor to beginning the drafting of the new national climate change policy, a discussion policy discussion paper was drafted for limited circulation. The aim of the paper is to obtain consensus on the general direction of the new policy before getting in to the detail of the policy. This was provided to the Director of the Climate Change Office.

Develop a Cook Islands GCF Country Programme

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

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

The SRIC project officially ended on 30th May 2018. All outstanding payments to suppliers for the remaining projects are not finalized and complete. A completion report is currently in draft with the final version scheduled to be complete and circulated to stakeholders in August 2018.

The United Nations team commissioned a terminal evaluation which took place in June 2018. The terminal evaluation consultant spent a considerable amount of time on Rarotonga working closely with SRIC stakeholders and the Office of the Prime minister to conduct the final review. The consultant also had the opportunity to visit Aitutaki and Mangaia to sight and witness projects on ground. The first draft of the evaluation report has been circulated for review. The report is positive and demonstrates the success of the SRIC program. The final draft will be circulated in August 2018 for a final round of comments and feedback.

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

	2018/19	2019/20	2020/21	2021/22
Recurrent	389,448	153,169	0	0

The Cook Islands Third National report is progressing slowly due to funding tranche request delays

The Third National Communications (TNC) project has only received one tranche of funds for the year 2017 which has delayed work for 2018.

Project coordinator with Climate Change officer has prepared the necessary program extension documents and is currently waiting on approval from the United Nations Environment Programme Nairobi office. The TNC work plan for 2018-2019 has been revised and budget has been reallocated

TNC expected completion date was December 2017 however an extension to June 2019 has been requested.

Renewable Energy (Southern Group)

European Union (via Asian Development Bank)

	2018/19	2019/20	2020/21	2021/22
Capital	1,528,660	0	0	0

Phase 1 subproject implementation on the islands of Atiu, Miitaro, Mauke and Mangaia are financed through the grant provided by the European Union and the loan. Completion timeline for these projects is end of September 2018.

Global Environment Facility (via Asian Development Bank)

	2018/19	2019/20	2020/21	2021/22
Capital	1,062,097	0	0	0

Additional financing from the Global Environment Facility will be utilized to install a 1.0 MW and 4.0 MWh BESS to the existing solar PV array at the Rarotonga Airport. It will help manage load shifting and curtailment to provide firm output and will allow 2.0 MW of additional solar PV installation.

Green Climate Fund – Renewable Energy Battery Storage (via Asian Development Bank)

	2018/19	2019/20	2020/21	2021/22
Capital	9,160,305	9,160,305	0	0

The second additional financing received from the Green Climate Fund will be used to install three units of BESS with a total preliminary capacity of 3.0 MW and 12.0 MWh, which will provide (i) load shifting to offset renewable generation at the planned 6.0 MW solar PV facilities in Rarotonga, and (ii) grid-stabilization to manage the impact of fluctuations in generation on the grid, so as to permit more renewable energy generation to be integrated while maintaining power quality and system reliability. This will help reduce fossil fuel consumption and enhance the level of energy security on the island. This grant is anticipated to be processed through the budget over two fiscal years, commencing in 2018/19 through to 2019/20.

A tender process was commissioned for the supply of the battery energy storage systems for this project. The tender process is almost complete. The Tender evaluation team have completed their evaluation report for consideration by tender committee. Once the approval is received, TAU will be able to award the tender based on the tender evaluation report and will engage the services through contractual agreements.

The project is currently tracking well against the timeline dates and milestones.

Northern Water Project (Phase 2)

	2018/19	2019/20	2020/21	2021/22
Capital	206,000	0	0	0

This project aims to improve the resilience of Penrhyn, Nassau and Palmerston to natural disasters, including drought proofing by increasing their capacity to collect, store and manage their water resources. A total amount of EUR 400,000 was provided for this project.

The implementation stage of the project has been delayed due to setbacks in securing and transportation of the project materials to the Northern Group Islands. A request to EU-GIZ was made for a no cost extension to the project extending the completion date to 30 March 2019.

A handover ceremony is scheduled for October 2018 which will be attended by the EU Ambassador.

16.9 Cook Islands Red Cross Society

Global Environment Facility – Small Grants Programme

	2018/19	2019/20	2020/21	2021/22
Recurrent	384,164	0	0	0

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

Operational Phase 5 approved projects and the Operational Phase 6 (OP6) country program strategy (Jul 2017 – Jun 2018) are being implemented. OP6 aims to “effectively support creation of global environmental benefits and the safeguarding of global environment through community and local solutions that complement and add value to national and global level action”. The focus of support for community based organised activities are on conservation of biodiversity, waste management, prevention of land degradation, capacity building and awareness programs to address climate change through community based support. OP6 budget funds of US\$0.2million have been allocated to the Cook Islands.

17 Schedules

17.1 Statement of Fiscal Responsibility (Operating)

Operating Statement (\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Operating Revenue						
Taxation Revenue	125,398	140,587	148,153	154,282	160,101	165,633
Other Crown Revenue	22,108	18,313	17,982	17,217	17,207	18,188
Trading Revenue	7,585	7,503	6,848	6,848	6,848	6,848
Interest on Loans to Subsidiaries	1,286	1,158	830	830	830	830
Dividends	382	3,293	1,759	1,885	1,967	1,967
Interest on Balances	2,140	2,360	2,050	1,740	1,740	1,740
Core Sector Support	7,730	7,730	7,730	7,730	7,730	7,730
Total Operating Revenue (excluding Bonus)	166,629	180,945	185,354	190,533	196,424	202,936
Performance Based Budget Support - Bonus Payment	1,877	120	0	0	0	0
Total Operating Revenue (including Bonus)	168,506	181,065	185,354	190,533	196,424	202,936
Operating Expenditure						
Ministry Outputs	99,720	109,006	126,786	118,296	116,477	116,577
Personnel	47,307	50,437	56,162	56,171	56,217	56,317
Operating	20,376	20,199	20,934	20,442	20,507	20,507
Administered Payments	27,698	33,587	44,482	36,475	34,545	34,545
Depreciation	4,338	4,783	5,208	5,208	5,208	5,208
POBOC	23,087	24,850	25,127	26,210	26,211	26,210
Airport Authority subsidy	0	0	0	0	0	0
Airport Authority Capital	0	0	0	0	0	0
Bank of the Cook Islands - social assistance subsidy	0	0	0	0	0	0
Provisional for Doubtful Debts	0	6,781	0	0	0	0
Cook Islands Primary Schools 50 year Saver	0	0	0	0	0	0
Public Sector Strengthening	0	0	0	0	0	0
Ports Authority - subsidy	0	0	0	0	0	0
Te Aponga Uira - social assistance subsidy	0	0	0	0	0	0
Debt Interest Contribution to LRF	1,710	2,063	2,367	2,263	2,088	1,891
Asset Management (CIIC)	0	0	0	0	0	0
Crown Infrastructure Depreciation	3,682	4,603	4,603	4,603	4,603	4,603
Transfer to Emergency Response Trust Fund	604	50	50	50	50	50
Depreciation Contingency Fund	2,362	3,957	4,066	4,066	4,066	4,066
Chinese Equipment	663	663	663	663	663	663
Rarotonga Water Network	299	694	803	803	803	803
Northern Pa Enea Renewable Energy System	400	400	400	400	400	400
Southern Pa Enea Renewable Energy System (excl. Aitutaki)	0	1,200	1,200	1,200	1,200	1,200
Other Assets	1,000	1,000	1,000	1,000	1,000	1,000
Contingency Funds - Operating	582	682	200	100	100	100
Contributions to CISWF	0	0	0	0	0	0
Total Operating Expenses	131,746	151,993	163,199	155,587	153,595	153,496
Operating Surplus/(Shortfall) (excluding Bonus)	34,883	28,952	22,155	34,946	42,829	49,440
Operating Surplus/(Shortfall) (including Bonus)	36,759	29,072	22,155	34,946	42,829	49,440

17.2 Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement (\$'000)

	2016/17 Actual	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Reductions in Net Borrowings						
Loan Disbursements	-600	-6,817	-5,164	-15,265	-4,714	0
Principal repayment	4,897	5,808	7,559	7,206	8,007	8,896
	4,297	-1,009	2,395	-8,059	3,293	8,896
Capital Expenditures						
Ministries and Outer Islands (Including CIIC Capital)	13,441	21,871	44,519	42,949	28,149	11,835
Infrastructure Capital Investment in SOEs	0	0	0	0	0	0
Airport Authority	0	0	0	0	0	0
Te Aponga Uira	0	0	0	0	0	0
Contingency Funds - Capital Expenditure	50	0	0	0	0	0
	13,491	21,871	44,519	42,949	28,149	11,835
Foreign Aid						
Receipts	-25,404	-50,565	-53,454	-30,260	-10,553	0
Expenditure	25,404	50,565	53,454	30,260	10,553	0
	0	0	0	0	0	0
Other Committed Considerations						
Transfer to Reserve Trust Fund	627	703	741	771	801	828
ADB Share Capital	0	0	0	0	0	0
Disaster Response Fund	604	50	50	50	50	50
	1,231	753	791	821	851	878
Total Non-Operating balance	-19,019	-21,615	-47,705	-35,711	-32,293	-21,609
To be Funded by						
Operating Surplus	34,883	28,952	22,155	34,946	42,829	49,440
Depreciation	10,382	13,343	13,876	13,876	13,876	13,876
of which: R.E. Capital Replacement	400	1,600	1,600	1,600	1,600	1,600
Unencumbered Cash Reserves	-2,243	-31,243	2,261	-23,018	-34,433	-51,555
Contribution to Loan Reserve Fund	8,603	10,682	9,362	9,857	9,970	9,798
Economic Recovery Support Program	206	0	0	0	0	0
Transfer to Emergency Response Trust Fund	604	50	50	50	50	50
	52,434	21,615	47,705	35,711	32,293	21,609
Net Surplus/Shortfall	33,415	0	0	0	0	0

17.3 Schedule 1 – Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	892,063	168,643	0	22,181	1,082,887	90,535	992,352
Audit (PERCA)	943,072	120,180	0	21,000	1,084,252	60,700	1,023,552
Crown Law	604,344	144,101	1,189,090	5,983	1,943,518	0	1,943,518
Cultural Development	643,307	168,783	3,708,999	66,655	4,587,744	110,000	4,477,744
Business Trade and Investment Board	442,783	232,576	0	4,500	679,859	23,380	656,479
Education	11,842,096	3,562,242	4,084,964	641,000	20,130,302	0	20,130,302
Environment	855,776	171,724	82,241	30,381	1,140,122	35,000	1,105,122
Finance and Economic Management	4,036,975	641,939	14,746,750	128,530	19,554,194	954,341	18,599,853
Financial Services Development Authority	241,541	177,906	0	9,868	429,315	0	429,315
Foreign Affairs	1,400,854	607,151	10,000	77,726	2,095,731	28,000	2,067,731
Head Of State	171,148	34,080	23,000	8,057	236,285	0	236,285
Health	10,195,124	3,142,925	1,846,870	886,814	16,071,733	350,000	15,721,733
Infrastructure Cook Islands	2,075,717	343,351	3,125,000	241,596	5,785,664	315,626	5,470,038
Internal Affairs	1,096,527	121,085	2,856,393	17,265	4,091,269	6,000	4,085,269
of which: Welfare Payments - Allowances			983,393				
Justice	1,834,618	399,371	337,000	131,447	2,702,436	700,000	2,002,436
Corrective Services	100,000	50,000	0	0	150,000	0	150,000
Marine Resources	1,213,318	358,125	337,000	95,000	2,003,443	28,000	1,975,443
Ombudsman	234,268	61,840	0	5,822	301,930	0	301,930
Parliamentary Services	490,352	91,193	62,000	24,579	668,124	0	668,124
Pearl Authority	218,836	234,688	0	25,000	478,524	0	478,524
Police	3,132,254	461,724	405,000	1,009,948	5,008,926	201,783	4,807,143
Prime Minister's Office	1,287,801	271,849	343,000	59,039	1,961,689	0	1,961,689
Public Service Commission	486,227	81,447	1,372,885	79,293	2,019,852	0	2,019,852
Tourism Corporation	1,753,020	2,756,016	5,072,000	36,500	9,617,536	352,000	9,265,536
Transport	529,203	135,964	0	39,047	704,214	36,000	668,214

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Cook Islands Investment Corporation	1,141,950	3,298,194	4,879,439	371,189	9,690,772	2,455,943	7,234,829
Cook Islands Seabed Minerals Authority	173,965	111,940	0	7,200	293,105	0	293,105
Capital Funds Committee- Administered by MFEM	0	0	0	0	0	0	0
Total Ministries, Crown & Statutory Agencies	48,037,137	17,949,036	44,481,631	4,045,620	114,513,424	5,747,308	108,766,116
Ministerial Support							
Prime Minister	301,696	109,773	0	11,100	422,569	0	422,569
Deputy Prime Minister	260,784	81,289	0	7,927	350,000	0	350,000
Minister Vaine Mokoroa	121,200	163,300	0	5,500	290,000	0	290,000
Minister Vainetutai Toki-Brown	189,994	101,838	0	11,162	302,994	0	302,994
Minister Robert Tapaitau	204,072	97,993	0	11,504	313,569	0	313,569
Minister George Angene	172,000	131,628	0	12,000	315,628	0	315,628
Leader Of Opposition	154,185	48,200	0	6,800	209,185	0	209,185
Total Ministerial Support Offices	1,403,931	734,021	-	65,993	2,203,945	-	2,203,945
Outer Islands							
Aitutaki	1,187,369	384,505	0	143,884	1,715,758	67,829	1,647,929
Atiu	809,982	423,851	0	138,561	1,372,394	224,319	1,148,076
Mangaia	904,134	574,349	0	204,700	1,683,183	301,000	1,382,183
Manihiki	652,271	151,824	0	92,200	896,295	117,501	778,794
Mauke	683,462	210,853	0	178,983	1,073,297	113,853	959,444
Mitiaro	587,374	73,172	0	55,200	715,746	58,900	656,846
Palmerston	260,135	66,058	0	42,000	368,193	20,599	347,594
Penrhyn	487,796	161,948	0	62,407	712,151	74,000	638,151
Pukapuka-Nassau	765,876	143,936	0	140,553	1,050,365	73,695	976,670
Rakahanga	383,232	59,746	0	37,829	480,807	49,336	431,471
Outer Islands Capital Fund-Administered by MFEM	0	0	0	0	0	0	0
Total Outer Islands	6,721,632	2,250,241	-	1,096,316	10,068,189	1,101,032	8,967,157
Gross Total	56,162,700	20,933,298	44,481,631	5,207,929	126,785,558	6,848,340	119,937,218

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

Administering Ministry	POBOC	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Compensation of Employees				
Finance & Economic Management	Parliamentary Superannuation	180,000	180,000	0
Audit	Transfer of PERC Salaries and Administration Costs	42,500	42,500	0
Parliamentary Services	Civil List - Personnel	2,011,461	2,267,961	256,500
Parliamentary Services	House of Ariki	178,337	228,420	50,083
	Compensation of Employees POBOCs	2,412,298	2,718,881	306,583
Use of Goods and Services				
Audit	Audit Fees	95,600	95,600	0
Justice	General Elections, Petitions and By-Elections	0	0	0
Parliamentary Services	Civil List - Constituency Visits	170,200	170,200	0
Parliamentary Services	Parliamentary Sitting Expenses	120,000	120,000	0
Parliamentary Services	QR Travel and Allowances (local and overseas)	109,000	109,000	0
Parliamentary Services	MP Travel and Allowances (local and overseas)	41,000	141,000	100,000
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	0
	Use of Goods and Services POBOCs	599,261	699,261	100,000
Subsidies				
Finance & Economic Management	Apex - Profit Guarantee	750,000	0	(750,000)
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	0
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099	110,099	0
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	0
	Subsidies POBOCs	3,408,096	2,658,096	(750,000)
Social Assistance				
Internal Affairs	Welfare Payments	17,353,517	18,156,712	803,195
	Social Assistance POBOCs	17,353,517	18,156,712	803,195
Other Expense				
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	0
Finance & Economic Management	CICC Mission Training Center Construction Grant	600,000	0	(600,000)
Finance & Economic Management	CIG Insurance	0	100,000	100,000
Foreign Affairs	International Subscriptions	625,667	673,717	48,050
	Other Expenses POBOCs	1,346,361	894,411	0
Grand Total		25,119,533	25,127,361	459,778

17.5 Schedule 3 – Cook Islands Capital Spending

	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Cook Islands Government Capital programs (see Schedule 6 for details)	44,904,336	44,518,794	-385,542
Total Capital spending	44,904,336	44,518,794	-385,542

17.6 Schedule 4 – Official Development Assistance

	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Operating or recurrent expenditure	28,053,720	16,047,701	-12,006,019
Capital Project Expenditure	41,338,420	37,406,056	-3,932,364
Total Official Development Assistance	69,392,140	53,453,757	-15,938,383

17.7 Schedule 5a – Other Expenses and Financing Transactions

Category of Expense	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Contingency Funds - Operating	100,000	200,000	100,000
Crown Infrastructure Depreciation	4,602,897	4,602,500	- 397
Provisional for Doubtful Debts	0	0	0
Transfer to Emergency Response Trust Fund	50,000	50,000	0
Transfer to Reserve Trust Fund	592,044	740,767	148,723
Depreciation Contingency Fund	3,957,454	4,065,734	108,280
Total Other Expenses	9,302,395	9,659,001	356,606

17.8 Schedule 5b – Loan Reserve Fund Appropriation

Category of Appropriation	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Contribution to LRF - Principal	8,618,817	6,995,000	-1,623,817
Contribution to LRF - Interest	2,062,953	2,367,000	304,047
Total Contribution to LRF	10,681,769	9,362,000	-1,319,769

17.9 Summary

Category of Payment	2017/18 Budget Estimate	2018/19 Budget Estimate	Variance
Schedule 1 - Ministry Outputs (Gross Operating)	113,846,920	126,785,558	12,938,638
Schedule 2 - POBOCs	25,119,533	25,127,361	7,828
Schedule 3 - CIG Capital Expenditure	44,904,336	44,518,794	-385,542
Schedule 4 - Official Development Assistance	69,392,140	53,453,757	- 15,938,383
Schedule 5a - Other Expenses and Financing Transactions	9,302,396	9,659,001	356,605
Schedule 5b - Loan Reserve Fund Appropriations	10,681,769	9,362,000	-1,319,769
TOTAL APPROPRIATION	273,247,094	268,906,471	-4,340,624

17.10 Schedule 6 – Capital Schedule

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection	4-Year 2018/19 - 2021/22
Ministry of Agriculture				71,871	30,091	0	0	0	30,091
	Rarotonga	Vanilla Shade House	CIG	71,871	30,091	0	0	0	30,091
Cook Islands Investment Corporation				2,571,061	2,481,495	5,250,000	5,000,000	4,000,000	16,731,495
	Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	CIG	471,602	0	0	0	0	0
	Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	CIG	0	0	250,000	0	0	250,000
	Rarotonga	Nukutere Rebuild	CIG	0	530,000	0	0	0	530,000
	Pukapuka	Government House	CIG	0	0	0	0	0	0
	Pukapuka	Pukapuka Hospital Reconstruction	CIG	0	500,000	0	0	0	500,000
	Rarotonga	Tereora College Redevelopment Stage 1	CIG	2,099,459	130,000	0	0	0	130,000
	Rarotonga	Vaikapuangi Government Building - design	CIG	0	204,495	0	0	0	204,495
	Rarotonga	Vaikapuangi Government Building - construction	CIG	0	0	5,000,000	5,000,000	4,000,000	14,000,000
	Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	CIG	0	650,000	0	0	0	650,000
	Rarotonga	TMV Titikaveka Backroad Rehabilitation	CIG	0	127,000	0	0	0	127,000
	Rarotonga	China Building Repair	CIG	0	340,000	0	0	0	340,000
	Rarotonga	Arenikau Water Storage tank	CIG	0	0	0	0	0	0
Education				340,952	110,000	110,000	110,000	110,000	440,000
	National	Fund to be Prioritised by Education	CIG	340,952	110,000	110,000	110,000	110,000	440,000
Health				592,125	718,461	275,000	275,000	275,000	1,543,461
	National	Fund to be Prioritised by Health for Technical Equipment	CIG	306,895	275,000	275,000	275,000	275,000	1,100,000
	Rarotonga	Medical Service Bed End Panels	CIG	281,146	78,252	0	0	0	78,252
	Rarotonga	Ambulance	CIG	2,202	147,798	0	0	0	147,798
	Rarotonga	Hospital Incinerator	CIG	1,882	217,411	0	0	0	217,411
Infrastructure Cook Islands				4,487,553	7,562,350	5,039,525	3,600,000	2,000,000	18,201,875
	Atiu	Atiu Airport Runway Stabilisation	CIG	100,647	0	267,525	0	0	267,525
	Atiu	Atiu Road Improvement Programme	CIG	6,531	250,000	0	0	0	250,000
	National	Bitumen truck	CIG	202,331	0	0	0	0	0
	Rarotonga	Bridges & Drainage	CIG	165,496	1,299,000	1,259,000	0	0	2,558,000
	Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	CIG	13,466	0	0	0	0	0
	Various	Pa Enua Cyclone Centre	CIG	89,813	1,050,000	1,500,000	1,500,000	0	4,050,000
	Rarotonga	Avatiu Valley Stream embankment	CIG	0	394,396	0	0	0	394,396
	Rarotonga	Road Asset Management	CIG	1,166,818	2,000,000	2,000,000	2,000,000	2,000,000	8,000,000
	Mangaia	Mangaia Road Improvement Programme	CIG	192,135	0	0	0	0	0

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection	4-Year 2018/19 - 2021/22
	Mangaia, Atiu, Mauke	HV Transport Trailer	CIG	96,927	0	0	0	0	0
	Mangaia	HIAB (includes man cage & fork)	CIG	75,241	0	0	0	0	0
	Mangaia	Central water project	CIG	10,744	0	0	0	0	0
	Manihiki	Manihiki Island Airport Terminal - construction	CIG	86,795	0	0	0	0	0
	Mauke	Medium Genset (42kVA)	CIG	0	0	0	0	0	0
	National	Manea Games Upgrade	CIG	20,995	0	0	100,000	0	100,000
	Mitiaro	Mitiaro Water Upgrade	CIG	77,862	382,000	0	0	0	382,000
	Penrhyn	Slasher	CIG	0	0	0	0	0	0
	Penrhyn	Omoka Harbour Upgrade	CIG	0	250,000	0	0	0	250,000
	Pukapuka	Pukapuka Airport terminal buildings upgrade	CIG	75,241	13,500	0	0	0	13,500
	Pukapuka	Yato Cargo Shed Upgrade	CIG	7,850	0	0	0	0	0
	Rarotonga	Tereora Drainage Improvement	CIG	0	117,000	13,000	0	0	130,000
	Rarotonga	Rutaki Foreshore Rock Revetment	CIG	117,155	0	0	0	0	0
	Rakahanga	Large boat outboard motor	CIG	83,709	0	0	0	0	0
	Aitutaki	Aitutaki road Improvement Programme	CIG	863,153	226,000	0	0	0	0
	Mangaia	Tamarua Water Project	CIG	116,087	133,913	0	0	0	133,913
	Rarotonga	Tip Truck	CIG	54,397	0	0	0	0	0
	Pa Enea	Pa Enea Machinery Shelters	CIG	42,460	0	0	0	0	0
	Rarotonga	Road Network Maintenance	CIG	723,543	0	0	0	0	0
	Manihiki	Tukao Passage Widening, Improving safe access to and from the Manihiki Lagoon	CIG	9,480	140,500	0	0	0	140,500
	Rarotonga	Muri Road Widening	CIG	39,398	287,665	0	0	0	0
	Aitutaki	Establishing new water galleries	CIG	49,279	418,376	0	0	0	418,376
	Rarotonga	Culvert	CIG	0	600,000	0	0	0	600,000
Internal Affairs				45,000	50,000	50,000	50,000	50,000	200,000
	Rarotonga	Vaka Maintenance Capital Projects	CIG	45,000	50,000	50,000	50,000	50,000	200,000
Ministry of Finance and Economic Management				5,526,235	24,765,664	16,259,336	14,000,000	5,000,000	59,903,347
	National	Banking payments system	CIG	0	0	0	0	0	0
	Rarotonga	FMIS purchase and implementation	CIG	124,619	644,011	259,336	0	0	903,347
	Rarotonga	Te Mato Vai - Rarotonga Water Upgrade	CIG	4,849,292	23,750,000	9,000,000	7,000,000	0	39,750,000
	Rarotonga	AEOI IT System	CIG	378,347	121,653	0	0	0	0
	Rarotonga	Water & Sanitation Programme (WASP)	CIG	173,977	250,000	7,000,000	7,000,000	5,000,000	19,250,000
Justice				200,000	0	0	0	0	200,000
	Rarotonga	Online Business Registry	CIG	200,000	0	0	0	0	200,000
Office Of Prime Minister				8,018,290	7,928,124	15,555,000	4,754,000	40,000	28,277,124
	Atiu	Atiu Power Distribution	CIG	418,449	0	0	0	0	0
	Pa Enea	Renewable Energy - Capital works	CIG	6,817,217	3,163,939	0	0	0	3,163,939
	National	Government IT Network	CIG	40,000	40,000	40,000	40,000	40,000	160,000

MINISTRY	Island	PROJECT/PROGRAMME	Funding Source	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection	4-Year 2018/19 - 2021/22
	Aitutaki	Aitutaki Renewable Energy Project	CIG	325,815	2,474,185	0	0	0	2,474,185
	National	Renewable Management Project Management and Support	CIG	246,809	250,000	250,000	0	0	500,000
	National	Manatua Polynesian Cable (loan component)	CIG	0	2,000,000	15,265,000	4,714,000	0	21,979,000
MINISTRY TOTAL				21,683,087	43,646,185	42,538,861	27,789,000	11,475,000	125,527,393
Capital Funds Administered BY MFEM				187,650	872,609	410,000	360,000	360,000	2,002,609
	National	Capital Distribution Fund		97,391	762,609	300,000	250,000	250,000	1,562,609
	Pa Enea	Outer Islands Small Capital Fund		90,259	110,000	110,000	110,000	110,000	440,000
		<i>Aitutaki</i>		15,818	16,000	16,000	16,000	16,000	64,000
		<i>Atiu</i>		11,686	12,000	12,000	12,000	12,000	48,000
		<i>Mangaia</i>		5,370	12,000	12,000	12,000	12,000	48,000
		<i>Manihiki</i>		-	10,000	10,000	10,000	10,000	40,000
		<i>Mauke</i>		9,500	10,000	10,000	10,000	10,000	40,000
		<i>Mitiaro</i>		7,609	8,000	8,000	8,000	8,000	32,000
		<i>Palmerston</i>		8,639	10,000	10,000	10,000	10,000	40,000
		<i>Penrhyn</i>		11,844	12,000	12,000	12,000	12,000	48,000
		<i>Pukapuka-Nassau</i>		12,000	12,000	12,000	12,000	12,000	48,000
		<i>Rakahanga</i>		7,793	8,000	8,000	8,000	8,000	32,000
GRAND TOTAL				21,870,737	44,518,794	42,948,861	28,149,000	11,835,000	127,530,002

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

	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Taxation Revenue					
Value Added Tax (VAT)	63,509,000	68,123,873	72,404,735	76,375,706	80,059,222
Income tax	28,688,816	28,865,883	29,088,612	29,311,342	29,534,072
Company tax	21,760,000	23,190,214	23,848,029	24,505,844	25,163,659
Import levies	14,164,518	14,159,131	14,246,319	14,333,508	14,420,696
Withholding tax	1,841,603	2,507,561	2,704,157	2,900,753	3,097,349
Departure tax	10,623,158	11,306,796	11,990,434	12,674,072	13,357,711
Total	140,587,094	148,153,458	154,282,287	160,101,226	165,632,709
Other Crown Revenue					
Financial Services Levy	261,743	0	0	0	0
FSC Return of Excess	0	143,000	143,000	143,000	143,000
Immigration Fees	927,000	860,000	860,000	860,000	860,000
IMO Subscription - Maritime Cook Islands	90,000	66,000	66,000	66,000	66,000
Court Services	45,746	50,000	50,000	50,000	50,000
Instant Fines	107,010	80,000	70,000	40,000	40,000
Fishing Licenses	8,617,159	6,305,125	8,000,000	8,000,000	12,305,000
Fisheries Catch Revenue	0	0	0	0	0
Fisheries - US Treaties (purse seine)	4,890,095	4,504,500	4,504,500	4,504,500	1,200,000
Fishing Fines	0	2,500,000	0	0	0
Research Fee	1,470	1,500	1,500	1,500	1,500
Permits	26,916	24,000	24,000	24,000	24,000
Dividends	3,293,000	1,759,352	1,884,952	1,966,552	1,966,552
Banana Court - dividend	10,000	10,000	10,000	10,000	10,000
Bank of the Cook Islands - dividend	248,000	284,000	409,600	491,200	491,200
Ports Authority - dividend	0	0	0	0	0
Punganga Nui Market - dividend	0	0	0	0	0
Te Aponga Uira - dividend	255,000	255,352	255,352	255,352	255,352
Extraordinary SOE Dividend	60,000	60,000	60,000	60,000	60,000
Telecom Cook Islands (Bluesky) - dividend	2,720,000	1,150,000	1,150,000	1,150,000	1,150,000
Numismatics	511,000	400,000	450,000	450,000	450,000
Border Management Fees	0	0	0	0	0

	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Drivers Licenses	214,000	200,000	200,000	220,000	200,000
Motor Vehicle Registration	922,000	875,000	875,000	875,000	875,000
Interest on balances	2,360,000	2,050,000	1,740,000	1,740,000	1,740,000
Interest on loans to subsidiaries	1,158,000	830,000	830,000	830,000	830,000
Foreign Investment Fees	29,000	27,000	27,000	27,000	27,000
Upper Air Management Agreement	545,000	746,000	746,000	746,000	746,000
Shipping Registration	224,000	268,259	268,259	268,259	268,259
International Shipping License	10,000	10,000	10,000	10,000	10,000
Liquor Licensing	75,000	70,000	70,000	70,000	70,000
Tattslotto Grants	172,000	120,000	120,000	120,000	120,000
Censorship Fees	3,000	4,000	4,000	4,000	4,000
Circulating Currency - Coins	638,000	650,000	650,000	650,000	650,000
Employer Liabilities	0	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	3,000	3,000	3,000	3,000	3,000
Justice Unclaimed Rental Monies	0	0	0	0	0
Core Sector Support	7,730,400	7,730,487	7,730,487	7,730,487	7,730,487
Public Sector Strengthening-processes and systems MFEM	0	0	0	0	0
Total Other	32,854,539	30,352,223	29,402,698	29,474,298	30,454,798
Total Crown Receipts - excluding Bonus Payment	173,441,633	178,505,681	183,684,985	189,575,524	196,087,506
Performance Based Budget Support - Bonus Payment	120,267	0	0	0	0
Total Crown Receipts - including Bonus Payment	173,561,900	178,505,681	183,684,985	189,575,524	196,087,506

17.12 Schedule 8a – Administered Payments

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

Administering Ministry	Administered Payment	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Head Of State	Domestic Hosting Entertainment	13,480	15,000	15,000	15,000	15,000
Head Of State	QR Social Responsibility Fund	4,840	8,000	8,000	8,000	8,000
Health	Hosting of the 2017 Pacific Health Ministers' Meeting	83,000	0	0	0	0
Health	Pharmaceuticals	867,800	867,800	867,800	867,800	867,800
Infrastructure Cook Islands	Outer Islands Equipment Repairs of Unanticipated Breakdowns	196,929	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	Waste Management	494,000	545,000	545,000	545,000	545,000
Infrastructure Cook Islands	Water Maintenance	0	500,000	500,000	500,000	500,000
Infrastructure Cook Islands	Road Maintenance	0	630,000	630,000	630,000	630,000
Infrastructure Cook Islands	Road Asset Management	0	650,000	0	0	0
Infrastructure Cook Islands	Bridges and Drainage Maintenance	0	600,000	600,000	600,000	600,000
Internal Affairs	Lease extension	72,000	72,000	72,000	72,000	72,000
Internal Affairs	Vaka Maintenance	400,890	400,000	400,000	400,000	400,000
Parliamentary Services	Pacific Legislatures for Population and Governance (PLPG)	52,000	52,000	52,000	52,000	52,000
Parliamentary Services	Special Select Committee	66,399	10,000	10,000	10,000	10,000
Cultural Development	Te Kopapa Reo Maori Board	12,220	15,000	15,000	15,000	15,000
Prime Minister's Office	Social Responsibility Fund	243,000	243,000	243,000	243,000	243,000
Prime Minister's Office	Undersea Fibreoptic Cable	33,600	0	0	0	0
Police	Search and Rescue	18,220	20,000	20,000	20,000	20,000
Police	Serious Crime Investigations	48,850	50,000	50,000	50,000	50,000
Police	Te Kukupa - Biannual Slipping	0	150,000	0	0	0
Police	Te Kukupa - Fuel Contribution	140,000	140,000	140,000	140,000	140,000
Police	Youth Program	694	45,000	45,000	45,000	45,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	5,400,000	5,072,000	4,922,000	4,922,000	4,922,000
Foreign Affairs	Returned Services Association	3,283	5,000	5,000	5,000	5,000
Prime Minister's Office	Community Support Fund	96,930	100,000	100,000	100,000	100,000
Environment	E - Waste & Whitewear Collection	15,060	0	0	0	0
Parliamentary Services	Remuneration Tribunal Committee	3,150	0	0	0	0
Crown Law	Pacific Islands Law Officers Network (PILON)	0	30,000	0	0	0
Marine Resources	15th Forum Fisheries Ministerial Meeting	0	37,000	0	0	0
	Use of Goods and Services Administered Payments	12,350,502	19,329,433	12,947,405	11,357,405	11,357,405
Subsidies						
Education	University of the South Pacific Contribution	241,130	205,000	205,000	205,000	205,000
Finance and Economic Management	Air New Zealand - Subsidies	11,466,710	12,000,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	76,927	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enea	39,720	45,000	45,000	45,000	45,000
Finance and Economic Management	Asian Infrastructure Investment Bank (AIIB) Membership	0	30,500	30,500	30,500	30,500

Administering Ministry	Administered Payment	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
	Subsidies Administered Payments	11,824,487	12,780,500	12,780,500	12,780,500	12,780,500
Social Assistance						
Education	Government Funded Scholarships	487,981	660,400	660,400	660,400	660,400
Health	Patient Referrals	900,000	550,000	550,000	550,000	550,000
Health	Nursing School	278,049	234,070	234,070	234,070	234,070
Health	NCD Fund	195,000	195,000	195,000	195,000	195,000
Health	Oxygen Plant	30,000	0	0	0	0
Internal Affairs	Welfare Payments - Allowances	695,360	983,393	983,918	983,918	983,918
Justice	Legal Aid	0	40,000	40,000	40,000	40,000
	Social Assistance Administered Payments	2,586,390	2,662,863	2,663,388	2,663,388	2,663,388
Other Expense						
Cook Islands Investment Corporation	Establishment and implementation of a water utility for Rarotonga	100,000	1,400,000	1,400,000	1,400,000	1,400,000
Education	Private School Funding	2,147,027	2,229,709	2,229,709	2,229,709	2,229,709
Marine Resources	Fisheries Development Facility	199,188	200,000	200,000	200,000	200,000
Marine Resources	Fisheries Development Facility in the Pa Enea	98,570	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	220,000	520,000	220,000	220,000	220,000
Internal Affairs	SIF - Cook Islands Government Contribution	1,115,230	881,000	621,000	281,000	281,000
Finance and Economic Management	2017 Baseline Funding for Conduct of the National Census	13,711	0	0	0	0
Finance and Economic Management	Conduct of a Labour Force Survey	0	100,000	0	0	0
Finance and Economic Management	Production of new currency, transportation and sale of old coins	68,170	350,000	350,000	350,000	350,000
Finance and Economic Management	Marumaruatua	0	275,000	0	0	0
Finance and Economic Management	Economic Utilities Regulator	0	0	100,000	100,000	100,000
	Other Expenses Administered Payments	3,961,896	6,055,709	5,220,709	4,880,709	4,880,709
Grand Total		33,587,183	44,481,631	36,475,128	34,545,128	34,545,128

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

Administering Ministry	POBOC	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Compensation of Employees						
Finance and Economic Management	Parliamentary Superannuation	125,000	180,000	180,000	180,000	180,000
Audit (PERCA)	Transfer of PERC Salaries and Administration Costs	35,400	42,500	42,500	42,500	42,500
Parliamentary Services	Civil List - Personnel	2,031,180	2,267,961	2,101,961	2,101,961	2,101,961
Parliamentary Services	House of Ariki	229,954	228,420	228,420	228,420	228,420
Compensation of Employees POBOCs		2,421,534	2,718,881	2,552,881	2,552,881	2,552,881
Use of Goods and Services						
Audit (PERCA)	Audit Fees	0	95,600	95,600	95,600	95,600
Justice	General Elections, Petitions and By-Elections	0	0	0	0	0
Parliamentary Services	Civil List - Constituency Visits	90,028	170,200	170,200	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	84,307	120,000	120,000	120,000	120,000
Parliamentary Services	MP Travel and Allowances (local and overseas)	331,231	141,000	141,000	141,000	141,000
Parliamentary Services	QR Travel and Allowances (local and overseas)	106,356	109,000	109,000	109,000	109,000
Prime Minister's Office	Local Government Election	0	0	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	0	63,461	63,461	63,461	63,461
Use of Goods and Services POBOCs		611,923	699,261	699,261	699,261	699,261
Subsidies						
Finance and Economic Management	Apex - Profit Guarantee	618,070	0	0	0	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	120,000	120,000	120,000
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997	2,047,997	2,047,997	2,047,997	2,047,997
Cook Islands Investment Corporation	Ports Authority - subsidy	0	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	0	380,000	380,000	380,000	380,000
Subsidies POBOCs		2,786,067	2,658,096	2,658,096	2,658,096	2,658,096
Social Assistance						
Internal Affairs	Welfare Payments	17,682,100	18,156,712	19,390,741	19,390,741	19,390,741
Social Assistance POBOCs		17,682,100	18,156,712	19,390,741	19,390,741	19,390,741
Other Expense						
Finance and Economic Management	Pacific Catastrophe Risk Insurance	0	120,694	120,694	120,694	120,694
Finance and Economic Management	CICC Mission Training Centre Construction Grant	650,000	0	0	0	0
Foreign Affairs	International Subscriptions	698,800	673,717	687,967	689,697	687,967
Finance and Economic Management	CIG Insurance	0	100,000	100,000	100,000	100,000

	Other Expenses POBOCs	1,348,800	894,411	908,661	910,391	908,661
Grand Total		24,850,424	25,127,361	26,209,640	26,211,370	26,209,640

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

Creditor	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Asian Development Bank (ADB)					
Principal	4,292	4,645	4,663	5,464	6,353
Interest	2,024	1,832	2,043	1,999	1,851
Total Debt Servicing to ADB	6,316	6,477	6,706	7,463	8,204
People's Republic of China (China)					
Principal	933	2,597	2,543	2,543	2,543
Interest	727	691	626	575	524
Total Debt Servicing to China	1,660	3,288	3,169	3,118	3,067
France					
Principal	582	317	-	-	-
Interest	6	1	-	-	-
Total Debt Servicing to France	588	318	-	-	-
Gross Debt Servicing	8,564	10,083	9,875	10,581	11,271
Interest revenue on Loan Reserve Fund	378	2,832	2,497	1,286	1,310.00
Net Debt Servicing	8,186	7,251	7,378	9,295	9,961

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

Transaction	2017/18 Actual	2018/19 Budget Estimate	2019/20 Projection	2020/21 Projection	2021/22 Projection
Opening Balance in LRF	18,639	21,278	20,923	21,263	21,018
<i>Transfer into LRF by Government</i>	<i>10,682</i>	<i>9,362</i>	<i>9,857</i>	<i>9,970</i>	<i>9,798</i>
Contribution to LRF - Principal	8,619	6,995	7,594	7,882	7,907
Contribution to LRF - Interest	2,063	2,367	2,263	2,088	1,891
Interest earned by LRF	373	426	418	425	420
Total inflows	11,055	9,787	10,275	10,395	10,219
Total Principal Paid out of LRF	5,808	7,559	7,206	8,007	8,896
Total Interest Paid out of LRF	2,548	2,524	2,669	2,573	2,375
Service Fees					
Total outflows	8,356	10,142	9,875	10,641	11,271
Closing balance of LRF	21,338	20,923	21,323	21,017	19,966

17.16 Schedule 10 – Official Development Assistance Schedule

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

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

Programs/Projects by Agency	Development Partner	2017/18 Actuals	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22
WHO Biennium Budget Support	WHO	353,408	204,545	204,545	0	0
Western Pacific Multi-country Integrated HIV/TB program - UNDP	UNDP	75,531	55,679	0	0	0
Small Health Grants	Australia	0	50,000	0	0	0
Ridge to Reef	Global Environment Facility	945,689	1,084,003	1,712,028	0	0
Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	Global Environment Facility	427,969	281,831	0	0	0
National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP)	Global Environment Facility	76,209	0	0	0	0
Monitoring of Ozone Depletion Substance	Multilateral Fund	0	0	0	0	0
Renewable Energy Grant (Southern Group)	European Union	1,501,750	1,528,660	0	0	0
Renewable Energy Grant (Southern Group)	Global Environment Facility	3,923,313	1,062,097	0	0	0
Renewable Energy Grant (Southern Group)	Green Climate Fund	0	9,160,305	9,160,305	0	0
Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	Global Environment Facility	80,835	389,448	153,169	0	0
SPC EU GCCA PSIS Projects	European Union	0	0	0	0	0
ACP-EU Building Resilience and Safety in the Pacific	European Union	0	0	0	0	0
Green Climate Fund Readiness	Green Climate Fund	215,000	360,000	360,000	0	0
PEC Fund - PV Mini Grids	Japan	70,785	0	0	0	0
Pa Enua Action for Resilient Livelihoods (PEARL)	UN Adaptation Fund	748,236	1,500,000	1,000,000	500,000	0
Northern Water Project Phase 2	EU-German Development Cooperation	308,331	206000	0	0	0
GEF Small Grants Programme	Global Environment Facility	164,825	384164	0	0	0
Total NZD Funding		50,564,873	53,453,757	30,259,520	10,553,193	30,303

17.17 Schedule 11 – Comparative Analysis of Ministry Appropriations

Ministry	2017/18 Budget Estimate			2018/19 Budget Estimate		
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation
Agriculture	1,038,963	90,535	948,428	1,082,887	90,535	992,352
Audit (PERCA)	1,031,208	60,700	970,508	1,084,252	60,700	1,023,552
Crown Law	1,105,632	0	1,105,632	1,943,518	0	1,943,518
Cultural Development	1,600,565	110,000	1,490,565	4,587,744	110,000	4,477,744
Business Trade and Investment Board	681,669	23,380	658,289	679,859	23,380	656,479
Education	20,489,729	0	20,489,729	20,130,302	0	20,130,302
Environment	1,211,036	35,000	1,176,036	1,140,122	35,000	1,105,122
Finance and Economic Management	18,975,242	603,500	18,371,742	19,554,194	954,341	18,599,853
Financial Services Development Authority	428,112	0	428,112	429,315	0	429,315
Foreign Affairs	1,952,782	28,000	1,924,782	2,095,731	28,000	2,067,731
Head Of State	240,175	0	240,175	236,285	0	236,285
Health	14,631,300	350,000	14,281,300	16,071,733	350,000	15,721,733
Infrastructure Cook Islands	3,104,060	295,626	2,808,434	5,785,664	315,626	5,470,038
Internal Affairs	4,249,350	6,000	4,243,350	4,091,269	6,000	4,085,269
Justice	2,448,173	500,000	1,948,173	2,702,436	700,000	2,002,436
Marine Resources	2,008,089	28,000	1,980,089	2,003,443	28,000	1,975,443
Ombudsman	287,357	0	287,357	301,930	0	301,930
Parliamentary Services	736,103	0	736,103	668,124	0	668,124
Pearl Authority	480,591	0	480,591	478,524	0	478,524
Police	4,043,829	93,421	3,950,408	5,008,926	201,783	4,807,143
Prime Minister's Office	2,515,934	0	2,515,934	1,961,689	0	1,961,689
Public Service Commission	1,795,665	0	1,795,665	2,019,852	0	2,019,852
Tourism Corporation	9,931,634	352,000	9,579,634	9,617,536	352,000	9,265,536
Transport	712,582	36,000	676,582	704,214	36,000	668,214
Cook Islands Investment Corporation	9,402,833	2,455,943	6,946,890	9,690,772	2,455,943	7,234,829
Cook Islands Seabed Minerals Authority	298,161	0	298,161	293,105	0	293,105
Capital Funds Committee- Administered by MFEM	45,000	0	45,000	0	0	0
Total Ministries	105,445,772	5,068,105	100,377,667	114,363,424	5,747,308	108,616,116
Ministerial Support						
Prime Minister	422,049	0	422,049	422,569	0	422,569
Deputy Prime Minister	291,081	0	291,081	350,000	0	350,000
Minister Vaine Mokoroa	200,947	0	200,947	290,000	0	290,000
Minister Vainetutai Toki-Brown	197,607	0	197,607	302,994	0	302,994

Ministry	2017/18 Budget Estimate			2018/19 Budget Estimate		
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation
Minister Robert Tapaitau	231,769	0	231,769	313,569	0	313,569
Minister George Angene	198,119	0	198,119	315,628	0	315,628
Leader Of Opposition	209,185	0	209,185	209,185	0	209,185
Total Ministerial Support Offices	1,750,757	0	1,750,757	2,203,945	0	2,203,945
Outer Islands						
Aitutaki	1,649,476	67,828	1,581,648	1,715,758	67,829	1,647,929
Aitutaki Power Supply	0	0	0	0	0	0
Atiu	1,331,029	224,318	1,106,711	1,372,394	224,319	1,148,076
Mangaia	1,618,363	301,000	1,317,363	1,683,183	301,000	1,382,183
Manihiki	881,086	117,500	763,586	896,295	117,501	778,794
Mauke	1,033,535	113,853	919,682	1,073,297	113,853	959,444
Mitiaro	666,009	58,899	607,110	715,746	58,900	656,846
Palmerston	365,099	20,599	344,500	368,193	20,599	347,594
Penrhyn	678,348	74,000	604,348	712,151	74,000	638,151
Pukapuka-Nassau	1,035,191	73,695	961,496	1,050,365	73,695	976,670
Rakahanga	469,698	49,336	420,362	480,807	49,336	431,471
Outer Islands Capital Fund-Administered by MFEM	27,500	0	27,500	0	0	0
Total Outer Islands	9,755,334	1,101,028	8,654,306	10,068,189	1,101,032	8,967,157
Gross Total	116,951,862	6,169,133	110,782,730	126,635,558	6,848,340	119,787,218

17.18 Schedule 12 – Output Analysis

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Agriculture	1,045,831	1,082,886	1,003,762	1,003,762	1,003,762
Crop Research & Development	382,755	326,901	326,901	326,901	326,901
Bio0Security Management	325,698	326,737	326,737	326,737	326,737
Livestock Development	69,000	69,000	69,000	69,000	69,000
Policy & Projects	92,555	92,555	92,555	92,555	92,555
Corporate Services	175,823	267,693	188,569	188,569	188,569
Audit (PERCA)	1,080,413	1,228,030	1,232,932	1,232,932	1,232,932
Consolidated Financial Statements of Government	163,651	128,515	133,417	133,417	133,417
Ministries, Outer Island Administration, SOEs and Other Crown Agencies	575,588	606,462	606,462	606,462	606,462
Special Reviews and Investigation and Performance Audits	266,967	317,822	317,822	317,822	317,822
Corporate Services	74,207	175,231	175,231	175,231	175,231
Cook Islands Investment Corporation	7,543,621	12,348,868	11,044,429	9,544,429	9,544,429
Effective Asset Management	4,735,624	5,688,228	4,583,789	3,083,789	3,083,789
Effective Management of public assets by SOEs	2,537,997	6,190,640	6,190,640	6,190,640	6,190,640
Corporate Services	270,000	470,000	270,000	270,000	270,000
Crown Law	1,012,076	1,943,518	757,058	757,058	757,058
Legal Advisory	193,882	311,542	281,542	281,542	281,542
Litigation	660,028	1,470,995	311,905	311,905	311,905
Legislative Drafting	158,166	160,981	163,611	163,611	163,611
Cultural Development	1,735,697	4,587,744	1,619,507	1,619,507	1,619,507
Cultural Identity	1,066,166	3,949,247	977,748	977,748	977,748
Cultural Heritage	341,280	297,920	297,920	297,920	297,920
Cultural Governance	328,251	340,577	343,839	343,839	343,839
Business Trade and Investment Board	681,620	679,860	682,163	682,163	682,163
Business Support	147,427	153,017	153,017	153,017	153,017
Maximising Trade Opportunities	112,986	102,323	102,323	102,323	102,323
Foreign Direct Investment (FDI) Participation	111,018	111,018	111,018	111,018	111,018
Regulation & Compliance	78,804	78,804	78,804	78,804	78,804
Finance & Administration Support	231,385	234,697	237,000	237,000	237,000

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Education	18,617,485	20,130,304	20,074,421	19,984,421	19,984,421
Taku Ipukarea Kia Rangatira	1,203,586	479,018	479,018	501,518	501,518
Learning and Teaching	2,479,209	2,086,595	2,066,595	2,089,095	2,089,095
Learning and the Community	1,248,171	639,203	639,203	661,703	661,703
Infrastructure and Support	13,097,126	15,848,434	15,761,867	15,604,367	15,604,367
Corporate Services	589,393	1,077,054	1,127,738	1,127,738	1,127,738
Environment	1,014,704	1,140,122	1,144,565	1,144,565	1,144,565
Advisory & Compliance	326,458	352,842	352,842	352,842	352,842
Island Futures	277,182	315,497	315,497	315,497	315,497
Corporate Services	411,064	471,783	476,226	476,226	476,226
Finance and Economic Management	18,335,981	19,954,888	18,664,608	18,608,608	18,608,608
Fiscal Advice	13,567,991	14,158,531	13,524,251	13,524,251	13,524,251
Fiscal and Economic Management	1,048,580	1,721,201	1,721,201	1,721,201	1,721,201
Taxation	2,517,530	3,006,002	2,506,002	2,506,002	2,506,002
Statistics	398,355	587,451	487,451	487,451	487,451
Development Coordination	388,881	481,702	425,702	369,702	369,702
Corporate Services	414,644	0	0	0	0
Foreign Affairs	3,736,238	2,832,909	3,078,549	3,226,279	3,224,549
Pacific and Regional Affairs and Trade	657,476	458,565	683,565	829,565	829,565
International Affairs Including Protocol and Diplomatic services	681,403	428,956	428,956	428,956	428,956
United Nations and International Treaties	561,330	409,743	409,743	409,743	409,743
Immigration Services	554,857	402,940	402,940	402,940	402,940
Corporate Services	1,281,172	1,132,706	1,153,346	1,155,076	1,153,346
Head Of State	234,606	236,285	237,163	237,163	237,163
Administrative Support	234,606	236,285	237,163	237,163	237,163
Health	14,756,421	16,071,733	15,744,046	15,744,046	15,744,046
Community Health Services	2,427,298	2,160,485	2,160,485	2,160,485	2,160,485
Hospital Health Services	11,036,925	12,484,087	12,667,650	12,667,650	12,667,650
Funding & Planning	1,292,198	1,427,161	915,911	915,911	915,911
Infrastructure Cook Islands	3,013,578	5,785,664	5,105,169	5,105,169	5,205,169

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Corporate Services	679,182	798,398	780,299	780,299	880,299
Regulatory Services	245,841	260,491	242,392	242,392	242,392
Planning & Design	448,344	1,160,584	1,162,485	1,162,485	1,162,485
Civil Works	502,555	1,841,441	1,193,342	1,193,342	1,193,342
WATSAN	1,137,656	1,724,750	1,726,651	1,726,651	1,726,651
Internal Affairs	21,359,348	22,247,982	22,927,848	22,587,848	22,587,848
Welfare Division	18,667,357	19,433,227	20,668,814	20,668,814	20,668,814
Social Policy Division	1,405,035	1,250,556	991,589	651,589	651,589
Labour & Consumer Division	246,238	231,431	232,464	232,464	232,464
Civil Division	120,051	124,317	125,350	125,350	125,350
Corporate Services Division	920,667	1,208,450	909,630	909,630	909,630
Justice	2,523,533	2,702,436	2,710,704	2,710,704	2,710,704
Court & Tribunal Services	702,162	842,067	842,067	842,067	842,067
Land Administration	452,185	430,281	430,281	430,281	430,281
Registry Services	244,687	216,643	216,643	216,643	216,643
Prison Services	534,198	661,961	661,961	661,961	661,961
Probation Services	262,640	215,981	215,981	215,981	215,981
Corporate & ICT Services	327,661	335,504	343,772	343,772	343,772
Marine Resources	1,896,378	2,003,443	1,972,619	1,972,619	1,972,619
Offshore Fisheries	264,925	338,178	303,177	303,177	303,177
Pearl Industry Support	342,828	345,965	336,189	336,189	336,189
Inshore Fisheries and Aquaculture	734,032	788,754	775,291	775,291	775,291
Policy and Legal Services	93,167	119,456	116,044	116,044	116,044
Corporate Services	461,426	411,090	441,917	441,917	441,917
Ombudsman	276,694	301,929	290,355	290,355	290,355
Investigations	74,372	82,131	82,131	82,131	82,131
Special Reviews	68,891	82,191	69,470	69,470	69,470
Corporate Services	50,880	53,312	54,459	54,459	54,459
Education and Advocacy	41,568	42,148	42,148	42,148	42,148
Regional and International Relations	40,983	42,147	42,147	42,147	42,147
Parliamentary Services	3,510,930	3,704,703	3,521,261	3,521,261	3,521,261
Services to Parliament (Civil list, Legislative Service PLPG & HOA & Koutu Nui)	3,263,318	3,392,128	3,226,128	3,226,128	3,226,128

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Finance and Corporate Services	247,612	312,575	295,133	295,133	295,133
Pearl Authority	399,262	478,524	479,575	479,575	479,575
Marketing	147,387	194,772	195,321	195,321	195,321
Industry Development	56,611	64,055	64,306	64,306	64,306
Management & Support Services	195,264	219,697	219,948	219,948	219,948
Police	4,935,417	5,008,926	4,875,199	4,875,199	4,875,199
Crime Prevention & Policing operations	3,963,427	3,706,810	3,719,503	3,719,503	3,719,503
Maritime Policing	669,448	933,418	785,697	785,697	785,697
Enabling & Support Services	302,542	368,697	369,999	369,999	369,999
Prime Minister's Office	1,971,127	1,961,690	1,967,812	1,967,812	1,967,812
Cabinet Services & Government Representative	449,245	463,271	463,271	463,271	463,271
Central Policy & Planning Office	383,341	254,997	254,997	254,997	254,997
Island Governance	207,239	239,827	239,827	239,827	239,827
National Information, Communications & Technology Office	298,855	291,797	291,797	291,797	291,797
Renewable Energy Development Division	101,135	119,811	119,811	119,811	119,811
Emergency Management Cook Islands	124,430	141,066	141,066	141,066	141,066
Climate Change Cook Islands	125,659	147,809	147,809	147,809	147,809
Marae Moana	281,223	303,112	309,234	309,234	309,234
Public Service Commission	1,793,298	2,019,852	1,992,943	1,992,943	1,992,943
Policy and Planning	201,041	260,936	263,027	263,027	263,027
Human Resource Management	1,592,257	1,673,916	1,644,916	1,644,916	1,644,916
Corporate Services	0	85,000	85,000	85,000	85,000
Tourism Corporation	9,886,287	9,617,536	9,476,662	9,476,662	9,476,662
Destination Sales & Marketing	8,391,254	6,397,007	6,247,007	6,247,007	6,247,007
Destination Development	712,711	2,356,711	2,356,711	2,356,711	2,356,711
Corporate Services	782,322	863,818	872,944	872,944	872,944
Transport	701,311	704,214	818,032	818,032	818,032
Civil Aviation	89,366	94,194	205,194	205,194	205,194
Maritime Transport	108,655	110,270	110,270	110,270	110,270
Meteorological Service	363,016	337,680	337,680	337,680	337,680
Finance & Administration	140,274	162,070	164,888	164,888	164,888

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Financial Services Development Authority	427,118	429,315	430,571	430,571	430,571
Develop Cook islands financial Service Industry	427,118	429,315	430,571	430,571	430,571
Cook Islands Seabed Minerals Authority	281,849	293,105	294,049	294,049	294,049
Effective Seabed Minerals sector	222,571	229,429	229,429	229,429	229,429
Stakeholder Engagement	19,869	20,000	20,000	20,000	20,000
Corporate Services	39,409	43,676	44,620	44,620	44,620
OUTER ISLANDS					
Aitutaki	1,606,578	1,695,760	1,702,498	1,697,642	1,697,642
Island Council	83,228	83,869	83,869	83,869	83,869
Finance & Administration	210,911	361,344	351,469	346,613	346,613
Infrastructure	1,060,553	995,288	995,288	995,288	995,288
Agriculture	93,550	93,549	93,549	93,549	93,549
Women, Youth, Sport, Culture	31,782	35,155	55,154	55,154	55,154
Waste Facility	126,554	126,554	123,168	123,168	123,168
Aitutaki Power Supply	0	322,968	0	0	0
Electricity Supply	0	322,968	0	0	0
Atiu	1,266,238	1,372,394	1,382,041	1,391,392	1,391,392
Agriculture	131,036	131,036	131,035	131,035	131,035
Infrastructure	444,139	464,256	476,566	476,566	476,566
Energy	311,548	372,355	372,355	372,355	372,355
Corporate	286,338	311,569	308,907	318,258	318,258
Island Council	93,178	93,178	93,178	93,178	93,178
Mangaia	1,671,913	1,683,183	1,693,997	1,705,820	1,705,820
Agriculture	152,929	153,158	153,158	153,158	153,158
Tourism & Community Development	50,646	50,646	50,646	50,646	50,646
Infrastructure Amenities	528,669	461,990	461,990	461,990	461,990
Public Utilities	602,904	616,341	616,341	616,341	616,341
Finance & Administration	263,071	327,354	338,168	349,991	349,991
Island Council	73,694	73,694	73,694	73,694	73,694

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Manihiki	899,500	896,295	890,327	885,665	885,665
Gender, Youth & Sports	92,448	11,906	11,906	11,906	11,906
Infrastructure	378,985	341,699	338,565	338,565	338,565
Energy	151,160	202,906	199,773	199,773	199,773
Finance and Administration	157,994	220,870	221,169	216,507	216,507
Island Council	78,501	78,502	78,502	78,502	78,502
Agriculture	40,412	40,413	40,413	40,413	40,413
Mauke	993,697	1,073,296	1,080,529	1,088,513	1,088,513
Infrastructure	305,833	393,677	393,677	393,677	393,677
Energy	287,418	245,388	245,388	245,388	245,388
Water	81,307	81,575	81,575	81,575	81,575
Finance & Administration	165,318	207,651	214,884	222,868	222,868
Corporate Services	74,735	74,321	74,321	74,321	74,321
Gender & Development	13,555	13,555	13,555	13,555	13,555
Island Council	65,530	57,130	57,130	57,130	57,130
Mitiaro	585,434	715,747	721,053	727,056	727,056
Island Administration	82,601	226,871	228,260	234,264	234,264
Island Council	49,173	49,623	49,623	49,623	49,623
Social & Economic Growth	12,749	12,865	12,865	12,865	12,865
Infrastructure	269,652	284,604	288,092	288,092	288,092
Energy	129,220	98,922	99,351	99,351	99,351
Agriculture	42,039	42,862	42,862	42,862	42,862
Palmerston	356,975	368,193	365,378	363,102	363,102
Island Administration	91,850	107,490	104,675	102,399	102,399
Agriculture	20,409	13,203	13,203	13,203	13,203
Education	113,932	113,932	113,932	113,932	113,932
Energy	20,612	20,611	20,611	20,611	20,611
Infrastructure	71,420	74,205	74,205	74,205	74,205
Island Council	38,752	38,752	38,752	38,752	38,752
Penrhyn	716,277	712,151	717,236	722,778	722,778
Island Support Services/Council	176,262	212,111	210,365	215,907	215,907
Community & Protocol	62,000	62,000	62,000	62,000	62,000
Infrastructure & Climate Change	428,015	388,040	394,871	394,871	394,871
Economic Development	50,000	50,000	50,000	50,000	50,000

Ministry	2017/18	2018/19	2019/20	2020/21	2021/22
Pukapuka and Nassau	897,541	1,050,364	1,043,239	1,037,730	1,037,730
Administration	138,934	239,816	234,594	229,085	229,085
Agriculture	49,117	49,709	49,709	49,709	49,709
Energy	86,852	109,783	108,648	108,867	108,867
Infrastructure	485,663	514,086	513,318	513,098	513,098
Island Council	105,969	105,964	105,964	105,964	105,964
Women, Culture, Youth & Sport	31,006	31,006	31,006	31,006	31,006
Rakahanga	382,303	480,808	477,471	474,755	474,755
Agriculture	27,985	27,975	27,738	27,738	27,738
Marine	33,041	82,931	82,230	82,230	82,230
Beautification	58,141	57,609	57,081	57,081	57,081
Infrastructure	69,312	87,485	86,881	86,881	86,881
Energy	27,872	40,656	40,419	40,419	40,419
Island Administration	113,230	129,148	128,564	125,848	125,848
Island Council	52,722	55,004	54,558	54,558	54,558
MINISTERIAL SUPPORT	1,646,894	2,203,945	2,141,754	2,141,754	2,141,754
Prime Minister	395,322	422,569	422,569	422,569	422,569
Deputy Prime Minister	287,156	350,000	350,000	350,000	350,000
Minister Vainetutai Toki Brown	175,336	290,000	290,000	290,000	290,000
Minister Robert Tapaitau	189,097	302,994	290,000	290,000	290,000
Minister George Angene	214,503	313,569	290,000	290,000	290,000
Minister Vaine Mokoroa	190,928	315,628	290,000	290,000	290,000
Leader of the Opposition	194,551	209,185	209,185	209,185	209,185
OTHER FUNDING - ADMINISTERED BY MFEM	0	0	0	0	0
Capital distribution fund - depreciation only	0	0	0	0	0
Outer Islands small capital fund - depreciation only	0	0	0	0	0
TOTAL APPROPRIATIONS	133,471,204	151,748,601	144,361,525	142,543,939	142,642,209

18 Financial Statements

18.1 Statement of Financial Performance

For the year ending 30 June

	Actual 2017/18 ('000)	Budget 2018/19 ('000)	Projected 2019/20 ('000)	Projected 2020/21 ('000)	Projected 2021/22 ('000)
Revenue					
Taxation revenues	140,588	148,153	154,282	160,101	165,633
<u>Other revenue</u>					
Revenue on behalf of the Crown	26,163	25,714	24,948	24,938	25,918
Sale of goods and services	7,503	6,848	6,848	6,848	6,848
Interest	3,518	2,880	2,570	2,570	2,570
Dividends	3,293	1,759	1,885	1,967	1,967
Total Revenue	181,065	185,354	190,533	196,424	202,936
Expenditure					
Appropriations to agencies	109,006	127,428	119,953	118,133	118,233
Payments on behalf of Crown	24,850	24,485	24,497	24,499	24,497
Debt-servicing interest	2,063	2,367	2,263	2,088	1,891
Infrastructure depreciation	4,603	4,603	4,603	4,603	4,603
Depreciation contingency fund-renewable energy	1,600	1,600	1,600	1,600	1,600
Other expenditure	10,224	2,716	2,615	2,616	2,615
Total Expenditure	152,347	163,199	155,531	153,539	153,440
NET OPERATING SURPLUS / (DEFICIT)	28,718	22,155	35,002	42,885	49,496

18.2 Statement of Financial Position

As at 30 June

	Actual 2017/18 ('000)	Budget 2018/19 ('000)	Projected 2019/20 ('000)	Projected 2020/21 ('000)	Projected 2021/22 ('000)
Assets					
Cash and equivalents	102,514	91,060	104,920	129,811	171,575
Loan reserves	21,338	20,923	21,323	21,017	19,966
Trust accounts	20,166	20,957	21,778	22,629	23,507
Inventory	1,620	1,458	1,312	1,181	1,063
Tax receivables	35,628	29,384	25,344	25,164	25,039
Debtors and other receivables	9,311	8,845	8,403	7,960	7,539
Advances to SOEs	28,010	26,897	26,108	25,352	24,596
Plant, property, and equipment	153,972	221,898	266,332	281,666	279,624
Total Assets	372,559	421,422	475,520	514,779	552,908
Liabilities					
Creditors and other payables	19,662	17,696	15,926	14,334	12,901
Trust liabilities	23,625	23,625	23,625	23,625	23,625
Borrowings	103,365	101,937	108,935	104,006	95,110
Total Liabilities	146,652	143,258	148,486	141,965	131,636
Net Crown Balance	225,907	278,164	327,034	372,814	421,272

18.3 Statement of Cashflows

For the Year Ending 30 June

	Actual 2017/18 ('000)	Budget 2018/19 ('000)	Projected 2019/20 ('000)	Projected 2020/21 ('000)	Projected 2021/22 ('000)
Cashflows from Operating Activities					
<u>Cash provided from:</u>					
Taxation and levies	151,381	141,910	150,242	159,921	165,508
Collection of tax arrears	-10,793	6,244	4,040	180	125
Sale of goods and services	7,503	6,848	6,848	6,848	6,848
Interest	3,518	2,880	2,570	2,570	2,570
Dividends	3,293	1,759	1,885	1,967	1,967
Other income	26,605	26,157	25,391	25,359	25,918
Foreign Aid Income	50,565	53,454	30,260	10,553	30
	<u>232,072</u>	<u>239,251</u>	<u>221,236</u>	<u>207,398</u>	<u>202,966</u>
<u>Cash applied to:</u>					
Appropriations to agencies (less depn)	104,223	122,567	114,745	112,925	113,025
Payments on behalf of Crown	24,850	24,485	24,497	24,499	24,497
Debt-servicing interest	2,063	2,367	2,263	2,088	1,891
Building maintenance	0		0	0	
Other expenditure	7,867	250	149	150	149
Foreign Aid Expense	9,541	16,048	14,648	9,492	30
	<u>148,544</u>	<u>165,717</u>	<u>156,302</u>	<u>149,154</u>	<u>139,593</u>
Net Operating Activity Cashflows	83,528	73,534	64,934	58,244	63,373
Cashflows from Investing Activities					
<u>Cash provided from:</u>					
	0	0	0	0	0
<u>Cash applied to:</u>					
Capital expenditure	21,871	44,397	42,699	28,149	11,835
Capital expenditure Foreign Aid	41,024	37,406	15,612	1,061	0
Advances to Subsidiaries	0	0	0	0	0
	<u>62,895</u>	<u>81,803</u>	<u>58,311</u>	<u>29,210</u>	<u>11,835</u>
Net Investing Activity Cashflows	-62,895	-81,803	-58,311	-29,210	-11,835
Cashflows from Financing Activities					
<u>Cash provided from:</u>					
Cash drawn into the loan reserves					
Loans drawn down	6,817	5,164	15,265	4,715	0
Cash drawn from loan reserves	0	0	0	0	0
	<u>6,817</u>	<u>5,164</u>	<u>15,265</u>	<u>4,715</u>	<u>0</u>
<u>Cash applied to:</u>					
Loan reserves	5,808	7,559	7,206	8,007	8,896
Other reserves	2,986	791	821	851	878
	<u>8,794</u>	<u>8,349</u>	<u>8,027</u>	<u>8,858</u>	<u>9,774</u>
Net Financing Activity Cashflows	-1,976	-3,185	7,238	-4,143	-9,774
Net cash movements	22,122	-11,454	13,861	24,891	41,764
Add: Opening Cash and Equivalents	80,392	102,684	91,230	105,090	129,981
Closing Cash and Equivalents	102,684	91,230	105,090	129,981	171,745

18.4 Statement of Borrowings

For the Year Ending 30 June

	Actual 2017/18 ('000)	Budget 2018/19 ('000)	Projected 2019/20 ('000)	Projected 2020/21 ('000)	Projected 2021/22 ('000)
Total Gross Borrowings	103,365	101,937	108,935	104,006	95,110
Assets Held Against Borrowings:					
Advances to subsidiaries	28,010	26,897	26,108	25,352	24,596
Loan reserves	21,338	20,923	21,323	21,017	19,966
Total Assets Held Against Borrowings	49,348	47,820	47,431	46,369	44,562
Net Borrowings of the Government	54,016	54,118	61,504	57,637	50,548

19 Statement of Accounting Policies

There have been no changes since the Half Year Economic and Fiscal Update 2014/15. There are no major changes to accounting policies anticipated in the foreseeable future.

19.1 Basis of preparation

19.1.1 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

19.1.2 Statement of compliance

These financial statements in Chapter 17 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).

19.1.3 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.

19.2 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.

19.2.1 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.

19.2.2 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.

19.2.3 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.

19.2.4 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.

19.2.5 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

19.2.6 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.

19.2.7 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.

19.2.8 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.

19.2.9 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.

19.2.10 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.

19.2.11 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.