

The Cook Islands Government (CIG) preliminary financial outcome for the quarter ended 31 March 2022 is now available.

EXECUTIVE SUMMARY

1. Fiscal Balance of General Government

March 2022 Quarter	Budget YTD (\$'000)	Actual YTD (\$'000)	Variance (\$'000)
Operating Revenue	126,828	129,947	-3,119
Operating Expenditure (excludes Depreciation)	155,963	141,011	14,952
Net Operating Balance	-29,135	-11,064	-18,071
<i>Add Depreciation</i>	10,436	5,619	4,816
<i>Less Capital Expenditure</i>	26,851	15,216	11,635
Fiscal Balance	-45,550	-20,660	-24,889

Fiscal Balance

General Government's net fiscal balance for the quarter ended 31 March 2022 improved by \$24.9 million compared to the budget estimate of \$45.6 million shortfall. Higher revenue collections of \$3.1 million, contributed to the improvement in Government's net fiscal balance in addition cost savings in Operating Expenses (of \$15 million), Depreciation (of \$4.8 million) and Capital Expenditure (of \$11.6 million).

Operating Statement

Total operating revenue collected was \$3.1 million higher than anticipated for the quarter ended 31 March 2022. This was primarily due to Vested Asset funds received from the Financial Supervisory Commission (FSC) of \$5 million which was not included in the original revenue forecasts for the financial year, followed by MMR fisheries revenue, EU Agreement of \$1.5 million, MFEM's circulation of currency - coins of \$0.5 million, and consolidated excess trading revenue of \$0.7 million from Government Agencies & Island Governments above budget estimates. These were offset against lower than anticipated taxation revenue collected of \$2.1 million compared to the 2021/22 budget estimates.

Direct taxation revenue, which consists of income tax, company tax, withholding tax, have been revised downwards due to the ongoing impacts of Covid-19 and tax measures implemented through the Economic Response Plan (ERP). Indirect taxation revenue which are VAT, departure tax, import duties, are expected to provide a steady increase in revenue collection from tourism volumes and overall imports.

Despite the official opening of the borders in January 2022 for the quarter ended, company tax and departure tax collected were considerably lower than their budget estimates. This was due to low business confidence from employers which reduced provisional tax collected and lower tourism numbers than expected. Other taxes such as VAT, import duties and withholding tax were on track against their budget estimates, while individual income tax collected was more than expected due to tax compliance activities and steady PAYE contributions from larger employers. With the announcement of additional flights and easing of travel restrictions for other countries in future, operating revenues are expected to trend upwards for Government.

Total operating expenditure adjusted for depreciation, for the quarter ended 31 March 2022 was lower than estimated by \$15 million. This was mainly due to underspends in Government Agencies and Island Governments operating and personnel budgets totalling \$5.2 million; as a result of unfilled vacancies and effective cost management practices.

Expenditure through the Administered Payments was also below budget by \$7.3 million primarily attributed to cost savings in Marketing Resources – Tourism Growth Strategy (of \$2.2 million), with all other Administered Payments below their respective budgets. In addition, POBOC expenditure saw cost savings of \$0.9 million for the quarter despite expenditure for POBOC Civil List-Personnel reporting an overspend (over by \$0.04 million).

Spending on ERP and ERR

Support Measure	Full Year Budget 2021/22 \$'000	Actual YTD 31 Mar 2022 (YTD) \$'000	Actual Vs Full Year Budget 2021/22 \$'000	Actual Vs Full Year Budget 2021/22 %
For Economic Response Plan (ERP) approved carry forward.				
Approved Carry Forward	352	352	-	100%
	352	352	0	100%
For Economic Recovery Roadmap (ERR) Budget.				
Operating	500	415	85	83%
Fees Free Programme	682	43	640	6%
Air Rarotonga Pa Enuu Subsidy	250	250	-	100%
SMART Grants (ERP Measure)	48	48	-	100%
Wage Subsidy	27,938	25,808	2,130	92%
Business Grants	9904	9,929	(25)	100%
Sole Trader Grants	802	710	92	89%
Unspent Funds Sitting in CINSF Account	1,304	1,304	-	100%
	41,428	38,507	2,922	93%
Total	41,781	38,859	2,922	93%

Total ERP & ERR Fully Year Budget:	\$	41,781
Total ERP & ERR Actual Spend YTD:	\$	38,859
Total Remaining Budget:	\$	2,922

Total spent for the quarter year to date was 93% against total ERP and ERR full year budget. This includes additional budget approved of \$7.9 million; transfers of \$5.5 million from the Airline Underwrite budget and \$2.4 million from the ERP budget respectively.

Costs associated includes further support to the Wage Subsidy, Business Grants and Sole Trader Grants which are expected to continue in the final quarter as the economy recovers. With the arrival of Covid-19 to the Cook Islands the isolation income support was introduced under ERR to provide income support to people unable to work due to Isolation and Quarantine Orders.

Unspent funds sitting in the Cook Islands National Superannuation Funds (CINSF) Bank Account are funds bulk funded by the Crown to CINSF to administer the Wage Subsidy, Business Grants and Sole Trader Grants. Any funds remaining are recalled by the Crown at the end of the financial year.

Capital Expenditure

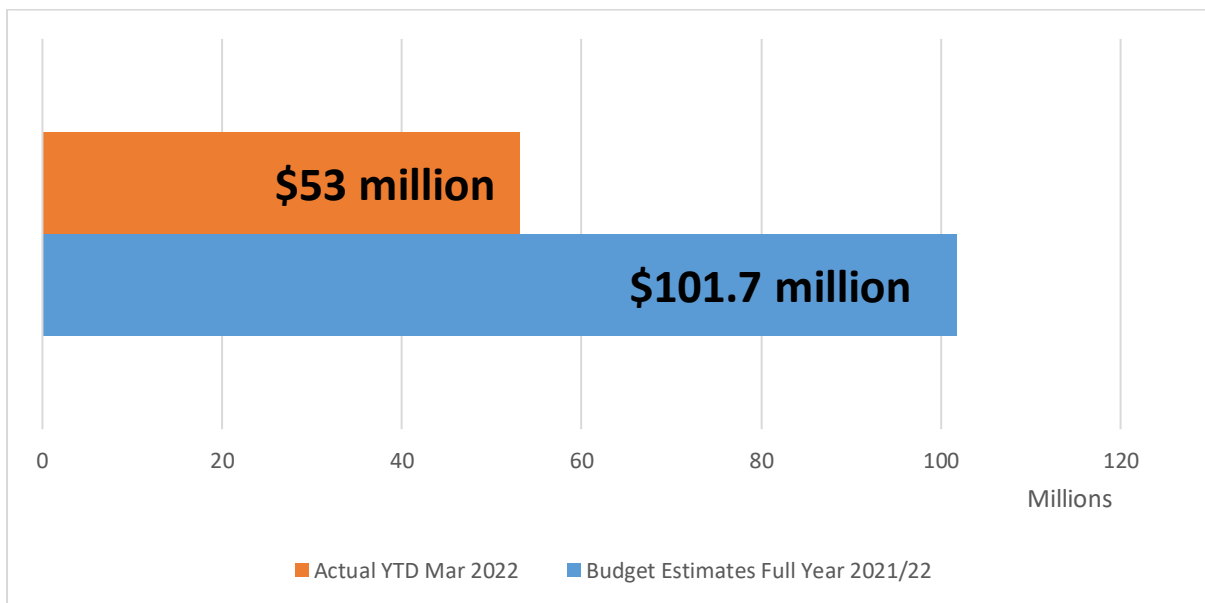
March 2022 Quarter	Budget YTD (\$'000)	Actual YTD (\$'000)	Variance YTD (\$'000)
Total Capital Expenditure	26,851	15,216	11,635
Total Capital Expenditure	26,581	15,216	11,635

Capital expenditure was lower than budgeted by \$11.6 million for the quarter ended 31 March 2022. In terms of the annual budget of \$37.8 million this was a low utilisation (of 40 per cent) in the third quarter, due to Government's incapacity to implement projects in a timely manner, with the ongoing Covid-19 pandemic affecting resourcing and logistical constraints. These factors have hindered our ability to implement scheduled projects planned on both Rarotonga and the Pa Enuu.

Capital projects with reported significant underspends for the quarter year to date includes:

- (ICI) Road Asset Management (\$3.2 million)
- (CIIC) Government Building Projects - CIIC (\$1.5 million)
- all other capital projects (\$1 million and below)

2. Official Development Assistance (ODA)



Total ODA budget, including General Budget Support (\$30.0 million) was \$91.7 million as reported in the 2021/22 budget estimates for the financial year. In the latest 2021/22 Half Year End Fiscal Update (HYEFU 21/22) in December 2021 total ODA budget increased to \$101.7 million with an additional \$20 million funded by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) acting through the New Zealand High Commission in Rarotonga. \$10 million of this additional funding was allocated to support immediate expenditure priorities through general budget support and the remaining balance identified to support programmes and initiatives to achieve the purpose under the Cook Islands Economic Recovery.

Total expenditure to 31 March 2022 is reported at \$53 million, representing a 52 per cent spend against the total ODA budget of \$101.7 million. This accounts for a 6 per cent increase in spend from previous quarter which was reported at \$47.3 million (47 per cent).

Total expenditure to date is predominantly driven by the implementation of the Economic Recovery Plan and Economic Recovery Roadmap as part of the Cook Islands COVID-19 response. Furthermore, large infrastructure projects such as Te Mato Vai remediation, Mei Te Vai Ki Te Vai and the Rarotonga Airport Refurbishment also contributed towards the reported conversion rate. Implementation of some capital projects such as the Renewable Energy Project for the Southern group islands were impacted by COVID-19, due to international border closures and travel restrictions.

A number of projects are yet to begin implementation due to delays in negotiations and approvals taking longer than anticipated. Most of these agreements have now been finalised with a number of projects commencing implementation in the final quarter.

3. Financial Position

General Cash Reserves

Cash Reserves General Government	Mar 22 YTD ('000)	Dec 21 YTD ('000)	Variance ('000)
Operational Bank Accounts	20,572	65,930	-45,358
Term Deposits and Trust Accounts	158,677	109,012	49,665
Total Cash Reserve Balance	179,249	174,942	4,307
<i>Less Total Claims on Cash Reserve</i>	117,772	84,662	33,110
<i>Less Other General Funds</i>	10,382	14,267	-3,885
Total Estimated Cash Reserve	51,095	76,012	-24,917

The general cash reserves for the quarter ended 31 March 2022 was estimated to be \$51.10 million, a reduction of \$24.9 million from December 2021 quarter, which includes:

- Carry forward amount of the \$55.54 million ADB Loan received towards end of December 2021 for ERP Support.
- Carry forward amount of the \$7.825 million Core Sector Support received towards end of November 2021 from NZ Government.
- Additional ROBOC Revenue received during the quarter.

Claims on Cash Reserve or committed funds relate to funds set aside for specific purposes which includes the Reserve Trust Fund, the Loan Repayment Fund (LRF), infrastructure trust and other trust accounts.

Other General funds are adjusted against cash reserves, which includes Government Department/Agencies Bank Accounts, Vat/Tax imprest and customs bonds account and other general reserves.

Crown Debt

	Mar 22 YTD (‘000)	Dec 21 YTD (‘000)
Total Gross Borrowings	224,025	227,073
Less Loan Repayment Fund	-16,905	-19,758
Net Borrowing by the Crown	207,120	207,315
<i>Less Avatiu Port Development & Avaroa Cable Ltd</i>	-35,120	-35,645
Net Borrowing by the General Government	172,000	171,670

The total gross debt by the Crown for March 2022 quarter was \$224.02 million, a reduction of \$3.05 million from the December 2021 quarter. The decrease in debt level was mainly due to loan repayments done during the quarter. General Government Net Debt for the third quarter ended 31 March 2022 was \$172.0 million, a slight increase of \$0.33 million from the December 2021 quarter.

Net Debt to GDP

Net Debt to GDP	Mar 22 YTD	Dec 21 YTD
	(‘000)	(‘000)
Net Borrowing by the Crown	207.12	207.31
Total GDP	487.20 (per 2021/22 Half Year Update)	487.20 (per 2021/22 Half Year Update)
Net Debt to GDP	42.51%	42.55%

The latest Net Debt as a percentage of GDP was 42.51% for the quarter ended 31 March 2022. This increase of net debt to GDP was anticipated due to the new debt fully drawn down in December 2021 to assist with the economic recovery program of \$55.54 million. Due to the extended economic impact of the pandemic, Government has been required to exercise the ‘Exit Clause’ previously laid out in the *Medium-term Fiscal Strategy 2019/20 – 22/23*, and establish new set of fiscal rules to reflect the changing needs of the economy. Consequently, the net debt rule has been modified from a threshold of net debt to GDP of 35% to 65% in order to allow Government debt headroom to access the funds needed to support and stimulate the economy.

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