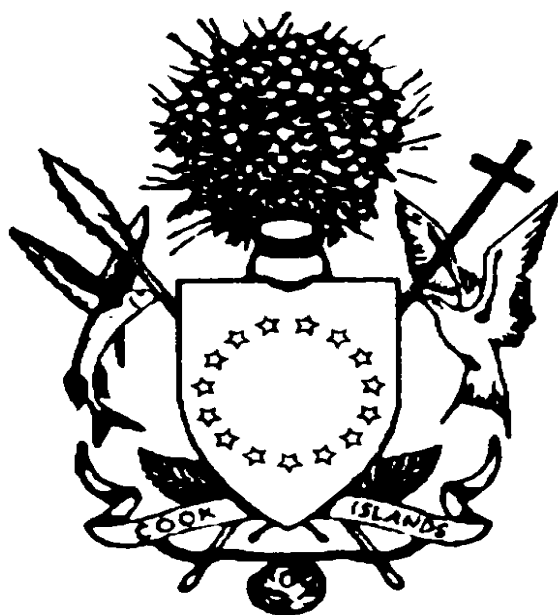

COOK ISLANDS GOVERNMENT
BUDGET ESTIMATES

2016/2017

Book 1
Appropriation Bill
Appropriations and Commentary



Hon. Mark Brown
Minister of Finance

June 2016

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

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10 June 2016

STATEMENT OF RESPONSIBILITY

I have read the Financial Secretary's Statement of Responsibility and concur with him regarding the preparation of the Budget Appropriation 2016/17.

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

I accept the overall responsibility for the integrity of the Budget Appropriation 2016/17 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'.

Honourable Mark Brown
Minister of Finance



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

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10 June 2016

STATEMENT OF RESPONSIBILITY

The Budget Appropriation 2016/17 has been produced in accordance with the *Ministry of Finance and Economic Management Act 1995/96* (the Act).

The 2016/17 Budget process involved the annual publication of the Budget Policy Statement in December 2015, 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 2016.

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 2017.

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 2016/17 appropriation to actual expenditure incurred in the period 1 July 2016 to 30 June 2017.

Subsections 6-7 limits any expenditure which may be charged to the 2015/16 appropriation to actual expenditure incurred up to 30 June 2016.

Subsection 8 limits any expenditure which may be charged to appropriations from years prior to 2015/16 to actual expenditure incurred up to 30 June 2016.

Hon. Mark Brown



Appropriation Bill 2016

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Schedule 1	Ministry Appropriations
Schedule 2	Benefits and Other Unrequited Expenses
Schedule 3	Borrowing Expenses and Debt Repayment
Schedule 4	Other Expenses
Schedule 5	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 2017 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 2016.

2 Application

This Act applies to the year ending on the thirtieth day of June 2017 ("the year").

Appropriation Bill 2016

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 **\$238,280,290**.
- (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 2017.
- (5) Payments that may be charged against any appropriation made by this Act after 30 June 2017 are limited to—
 - (a) self balancing journal entries to correct posting errors during the year ended 30 June 2017; or
 - (b) expenses incurred or payments due during the year ended 30 June 2017 for which a valid invoice was submitted before 30 June 2017, but for which a payment or payments to extinguish that liability in relation to that invoice had not been made by 30 June 2017.
- (6) The appropriations made in the Appropriation Act 2015 will lapse on 30 June 2016.
- (7) Payments that may be charged after 30 June 2016 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 2016; or
 - (b) Expenses incurred or payments due during the year ended 30 June 2016 for which a valid invoice was submitted before 30 June 2016, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2016.
- (8) Where in the period ended 30 June 2016, 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 2016, those appropriations will also lapse on 30 June 2016.
- (9) Payments that may be charged after 30 June 2016 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 2016; or
 - (b) expenses incurred or payments due during the year ended 30 June 2016 for which a valid invoice was submitted before 30 June 2016, but for which a payment or payments to extinguish the liability in relation to that invoice had not been made by 30 June 2016.

Appropriation Bill 2016

Section 3(2) and (3)

Schedule 1
Ministry Appropriations

Ministry	Gross						Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
	Personnel	Operating	Depreciation	Operating Appropriation	Trading Revenue ¹	Net Operating Appropriation					
Agriculture	868,653	84,643	22,182	975,477	90,535	884,942	0	0	0	975,477	884,942
Audit (PERCA)	895,440	110,180	26,678	1,032,298	112,700	919,598	0	138,100	0	1,170,398	1,057,698
Crown Law	493,054	144,100	5,983	643,137	0	643,137	0	0	0	643,137	643,137
Cultural Development	575,601	193,782	96,655	866,038	175,000	691,038	722,500	0	0	1,588,538	1,413,538
Business Trade and Investment Board	413,486	232,574	9,000	655,060	23,380	631,680	0	0	0	655,060	631,680
Education	11,015,475	3,497,101	412,364	14,924,940	0	14,924,940	3,932,682	0	448,000	19,305,622	19,305,622
Environment	802,683	148,724	30,381	981,788	35,000	946,788	82,241	0	0	1,064,029	1,029,029
Finance and Economic Management	2,849,359	575,939	128,530	3,553,828	503,500	3,050,328	11,454,650	1,800,694	6,907,728	23,716,900	23,213,400
Financial Services Development Authority	235,200	177,906	9,867	422,973	0	422,973	0	0	0	422,973	422,973
Foreign Affairs	1,182,596	542,151	77,726	1,802,473	20,000	1,782,473	10,000	660,166	0	2,472,639	2,452,639
Head Of State	165,168	34,080	15,057	214,305	0	214,305	15,000	0	0	229,305	229,305
Health	8,287,307	2,506,330	654,788	11,448,425	350,000	11,098,425	1,646,870	0	744,500	13,839,795	13,489,795
Infrastructure Cook Islands	1,707,670	303,351	241,596	2,252,617	295,626	1,956,991	745,000	0	9,870,556	12,868,173	12,572,547
Internal Affairs <i>of which: Welfare Payments - Allowances</i>	968,109	120,085	17,264	1,105,457	6,000	1,099,457	1,985,418 <i>982,418</i>	15,799,966	50,000	18,940,841 <i>982,418</i>	18,934,841 <i>982,418</i>
Justice	1,442,361	399,371	118,047	1,959,779	500,000	1,459,779	337,000	0	0	2,296,779	1,796,779
Marine Resources	1,110,833	348,125	95,000	1,553,958	18,000	1,535,958	300,000	0	500,000	2,353,958	2,335,958
Ombudsman	211,382	62,840	5,822	280,044	0	280,044	0	0	0	280,044	280,044
Parliamentary Services	472,676	71,192	24,579	568,447	0	568,447	52,000	2,591,148	0	3,211,595	3,211,595
Pearl Authority	208,493	234,688	24,778	467,959	0	467,959	0	0	0	467,959	467,959
Police	2,924,739	445,663	218,622	3,589,024	84,360	3,504,664	405,000	0	0	3,994,024	3,909,664
Prime Minister's Office	1,087,638	306,849	36,069	1,430,556	0	1,430,556	295,000	0	12,749,000	14,474,556	14,474,556
Public Service Commission	389,992	52,447	86,742	529,181	0	529,181	1,228,716	0	0	1,757,897	1,757,897
Tourism Corporation	1,692,930	2,716,116	21,500	4,430,546	352,000	4,078,546	5,500,000	0	0	9,930,546	9,578,546
Transport	500,607	135,964	39,047	675,618	36,000	639,618	56,000	0	0	731,618	695,618

¹ For Island Administrations, this includes transfers from cash reserves, less transfers to cash reserves

Appropriation Bill 2016

Ministry	Personnel	Operating	Depreciation	Gross			Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
				Operating Appropriation	Trading Revenue ¹	Net Operating Appropriation					
Cook Islands Investment Corporation	630,150	1,702,450	22,400	2,355,000	555,000	1,800,000	405,000	2,658,096	4,502,000	9,920,096	9,365,096
Cook Islands Seabed Minerals Authority	173,000	110,940	7,200	291,140	0	291,140	0	0	0	291,140	291,140
Capital Funds Committee- Administered by MFEM	0	0	45,000	45,000	0	45,000	0	0	239,900	284,900	284,900
Total Ministries	41,304,600	15,257,590	2,492,877	59,055,066	3,157,101	55,897,965	29,173,077	23,648,170	36,011,684	147,887,997	144,730,896
Ministerial Support											
Prime Minister	294,509	109,773	11,100	415,382	0	415,382	0	0	0	415,382	415,382
Deputy Prime Minister	131,000	85,372	11,503	227,875	0	227,875	0	0	0	227,875	227,875
Minister Mark Brown	196,455	81,613	6,802	284,870	0	284,870	0	0	0	284,870	284,870
Minister Kiriaua Turepu	123,907	56,931	11,162	192,000	0	192,000	0	0	0	192,000	192,000
Minister Nandi Glassie	102,585	78,415	12,000	193,000	0	193,000	0	0	0	193,000	193,000
Minister Albert Nicholas	69,500	117,000	5,500	192,000	0	192,000	0	0	0	192,000	192,000
Leader Of Opposition	148,000	48,200	6,800	203,000	0	203,000	0	0	0	203,000	203,000
Total Ministerial Support	1,065,956	577,304	64,867	1,708,127	-	1,708,127	-	-	-	1,708,127	1,708,127
Offices											
Outer Islands											
Aitutaki	1,090,176	385,526	143,884	1,619,586	91,201	1,528,385	0	0	494,440	2,114,026	2,022,825
Aitutaki Power Supply	266,800	1,595,744	348,789	2,211,333	1,900,943	310,390	0	0	63,000	2,274,333	373,390
Atiu	702,620	385,306	138,561	1,226,488	224,318	1,002,170	0	0	12,000	1,238,488	1,014,170
Mangaia	792,064	545,677	204,700	1,542,441	301,000	1,241,441	0	0	12,000	1,554,441	1,253,441
Manihiki	598,798	155,149	92,199	846,146	114,500	731,646	0	0	10,000	856,146	741,646
Mauke	621,873	195,959	178,982	996,813	108,853	887,960	0	0	10,000	1,006,813	897,960
Mitiaro	480,943	67,396	55,200	603,539	58,899	544,640	0	0	8,000	611,539	552,640
Palmerston	250,571	65,730	42,000	358,301	20,599	337,702	0	0	10,000	368,301	347,702
Penrhyn	374,999	188,194	52,407	615,600	83,904	531,696	0	0	12,000	627,600	543,696
Pukapuka-Nassau	695,579	145,115	140,552	981,246	73,695	907,551	0	0	12,000	993,246	919,551
Rakahanga	345,533	60,113	37,829	443,475	49,336	394,139	0	0	8,000	451,475	402,139
Outer Islands Capital Fund-Administered by MFEM	0	0	27,500	27,500	0	27,500	0	0	0	27,500	27,500
Total Outer Islands	6,219,958	3,789,908	1,462,602	11,472,468	3,027,248	8,445,220	-	-	651,440	12,123,908	9,096,660
Gross Total	48,578,029	19,637,286	4,020,346	72,235,661	6,184,349	66,051,312	29,173,077	23,648,170	36,663,124	161,720,032	155,535,683

Appropriation Bill 2016

Schedule 2 Benefits and Other Unrequited Expenses

Category of Benefit	2015/16 Budget Estimate	2016/17 Budget Estimate	Variance
Welfare Payments <i>including allowances</i>	16,967,788	16,782,384	- 185,404
Parliamentary Superannuation	180,000	180,000	0
Total Benefits and Other Unrequited Expenses	17,147,788	16,962,384	- 185,404

Schedule 3 Borrowing Expenses and Debt Repayment

Category of Expense	2015/16 Budget Estimate	2016/17 Budget Estimate	Variance
Contribution to LRF Principal	4,676,468	6,893,059	2,216,591
Debt Interest Contribution to LRF	2,246,275	1,710,050	-536,225
Total Borrowing Expenses and Debt Repayment	6,922,743	8,603,108	1,680,365

Schedule 4 Other Expenses

Category of Expense	2015/16 Budget Estimate	2016/17 Budget Estimate	Variance
Airport Authority	2,047,997	0	-2,047,997
Bank of the Cook Islands	120,000	0	-120,000
Te Aponga Uira	380,000	0	-380,000
Ports Authority	110,099	0	-110,099
Asset Management (CIIC)	1,798,000	0	-1,798,000
Contingency Funds - Capital Expenditure	50,000	0	-50,000
Contingency Funds - Operating	100,000	100,000	0
Crown Infrastructure Depreciation	2,920,397	3,682,397	762,000
Concessional Loan to Vanilla Farmers (BCI)	150,000	0	-150,000
Cook Islands Primary Schools 50 year Saver	230,000	0	-230,000
Public Sector Strengthening	672,000	0	-672,000
Official Development Assistance	49,115,200	60,660,588	11,545,388
ADB Renewable Energy Loan Expenditure	3,245,000	11,984,000	8,739,000
ADB Share Capital	0	0	0
Transfer to Emergency Response Trust Fund	50,000	603,858	553,858
Transfer to Reserve Trust Fund	514,570	548,172	33,602
Depreciation Contingency Fund	2,490,000	2,362,134	-127,866
Debt Interest Contribution to LRF	0	0	0
Total Other Expenses	63,993,263	79,941,149	15,947,886

Schedule 5 Summary

Category of Expense	2015/16 Budget Estimate	2016/17 Budget Estimate	Variance
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (<i>less the POBOCs in Schedule 2</i>)	131,912,181	144,757,648	12,845,467
Schedule 2 - Benefits and Other Unrequited Expenses	17,147,788	16,962,384	-185,404
Schedule 3 - Borrowing Expenses and Debt repayment	6,922,743	8,603,108	1,680,365
Schedule 4 - Other Expenses (<i>less loan expenditure</i>)	60,748,263	67,957,149	7,208,886
TOTAL APPROPRIATION²	216,730,975	238,280,290	21,549,315

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

Printed under the authority of the Cook Islands Parliament—2016.

² This amount differs from the 2015/16 Budget due to a technical adjustment to the accounting for loan drawdowns (previously double-counted)

3 Changes in the Reporting of Appropriations

As part of a broader strategy to reform and improve Public Financial Management (PFM), some changes to reporting will be made from the 2016/17 Budget onwards. These changes will provide greater transparency and allow readers to more easily understand where public money is being spent across government. This chapter outlines the new reporting structure, allowing for consultation and discussion before the changes are introduced in the Appropriation Bill 2017.

3.1 Introduction of Administered Payments

Over many Budget cycles, the amount of funding for specific purposes has grown, and with it, so have the number of Payments on Behalf of Crown (POBOCs). The original intent was for POBOCs to relate to payments that the Government was legally required to meet, but did not fall under a specific agency. The list of POBOCs now includes numerous payments which cover a more general definition of a 'specific purpose payment', many of which directly relate to the outputs of agencies. However, simply rolling these payments into agency budgets may not be appropriate, as there is a need for the delivery of specific services or costs that cannot be easily be transferred to other functions. The 2016/17 Budget is introducing a new expenditure category, entitled 'Administered Payments', which will address this.

The category of 'POBOCs' will be reserved for key commitments that are legally required of the Crown. Under proposed changes to the MFEM Act, it is intended that funds allocated to POBOCs cannot be moved to other areas of Government spending (including other POBOCs). This means that savings within one POBOC cannot be used to fund, for example, overspending on another POBOC.

Administered Payments will serve as a category of expenditure where government has provided funding to an agency for a particular purpose. These are accounted for in a similar fashion to POBOCs, however, they relate more directly to agency outputs. Unlike POBOCs, these funds are intended to be allowed to transfer across the outputs of Government with the approval of the Cabinet. For example, savings in the Administered Payment of Te Maeva Nui could be transferred to other cultural and community events or to the Ministry of Culture core budget.

The payments under these categories, along with the estimates across the forward years, are available at Schedule 8a (for Administered Payments) and 8b (for POBOCs). For the 2016/17 Budget, both categories will be treated as the currently understood POBOC policies and procedures (including in the Appropriation Bill 2016). The division between the two categories will be formally enacted in the Appropriation Bill 2017.

3.2 Changes to the Appropriation Bill Schedules

In addition to the introduction of Administered Payments, the intention is to re-format the presentation of the Appropriation Schedules to allow greater clarity to Parliament and the Public. The intention is to separately identify each appropriation schedule separately in the body of the Appropriation Bill, thereby isolating each schedule from the others; by law, funds will not be transferrable from one schedule to another without an Act of Parliament.

Schedule 1 – Agency Appropriations

As they directly relate to the delivery of agency outputs, Administered Payments are being included in Schedule 1 with the rest of agency outputs. POBOCs are moving to their own schedule (Schedule 2 – see below) as will capital spending (Schedule 3 – see below). Schedule 1 will now focus purely on the agency appropriations.

Other changes include two minor changes in terminology. The first of these is in the title of the Schedule 1, which changes from 'Ministry Appropriations' to 'Agency Appropriations', to reflect that

it contains information about Public Service Ministries, Crown and Statutory Agencies, Ministerial Support Offices and Island Administrations. The second change is that the non-capital funding appropriated to agencies will be titled 'Gross/Net Current Appropriations'. This encompasses Personnel, Operating, Administered Payment and Depreciation Appropriations and removes confusion between 'Operating appropriations' and 'Gross/Net Operating Appropriation'.

Schedule 1

Agency Budget Appropriations

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Agriculture	868,653	84,643	0	22,182	975,477	90,535	884,942
Audit (PERCA)	895,440	110,180	0	26,678	1,032,298	112,700	919,598
Crown Law	493,054	144,100	0	5,983	643,137	0	643,137
Cultural Development	575,601	193,782	722,500	96,655	1,588,538	175,000	1,413,538
Business Trade and Investment Board	413,486	232,574	0	9,000	655,060	23,380	631,680
Education	11,015,475	3,497,101	3,932,682	412,364	18,857,622	0	18,857,622
Environment	802,683	148,724	82,241	30,381	1,064,029	35,000	1,029,029
Finance and Economic Management	2,849,359	575,939	11,454,650	128,530	15,008,478	503,500	14,504,978
Financial Services Development Authority	235,200	177,906	0	9,867	422,973	0	422,973
Foreign Affairs	1,182,596	542,151	10,000	77,726	1,812,473	20,000	1,792,473
Head Of State	165,168	34,080	15,000	15,057	229,305	0	229,305
Health	8,287,307	2,506,330	1,646,870	654,788	13,095,295	350,000	12,745,295
Infrastructure Cook Islands	1,707,670	303,351	745,000	241,596	2,997,617	295,626	2,701,991
Internal Affairs	968,109	120,085	1,985,418	17,264	3,090,875	6,000	3,084,875
<i>of which: Welfare Payments - Allowances</i>			<i>982,418</i>				
Justice	1,442,361	399,371	337,000	118,047	2,296,779	500,000	1,796,779
Marine Resources	1,110,833	348,125	300,000	95,000	1,853,958	18,000	1,835,958
Ombudsman	211,382	62,840	0	5,822	280,044	0	280,044
Parliamentary Services	472,676	71,192	52,000	24,579	620,447	0	620,447
Pearl Authority	208,493	234,688	0	24,778	467,959	0	467,959
Police	2,924,739	445,663	405,000	218,622	3,994,024	84,360	3,909,664
Prime Minister's Office	1,087,638	306,849	295,000	36,069	1,725,556	0	1,725,556
Public Service Commission	389,992	52,447	1,228,716	86,742	1,757,897	0	1,757,897
Tourism Corporation	1,692,930	2,716,116	5,500,000	21,500	9,930,546	352,000	9,578,546
Transport	500,607	135,964	56,000	39,047	731,618	36,000	695,618
Cook Islands Investment Corporation	630,150	1,702,450	405,000	22,400	2,760,000	555,000	2,205,000
Cook Islands Seabed Minerals Authority	173,000	110,940	0	7,200	291,140	0	291,140
Capital Funds Committee- Administered by MFEM	0	0	0	45,000	45,000	0	45,000
Total Ministries, Crown & Statutory Agencies	41,304,600	15,257,590	29,173,077	2,492,877	88,228,143	3,157,101	85,071,042

Agency	Personnel	Operating	Administered Payments	Depreciation	Gross Current Appropriation	Trading Revenue	Net Current Appropriation
Ministerial Support							
Prime Minister	294,509	109,773	0	11,100	415,382	0	415,382
Deputy Prime Minister	131,000	85,372	0	11,503	227,875	0	227,875
Minister Mark Brown	196,455	81,613	0	6,802	284,870	0	284,870
Minister Kiriau Turepu	123,907	56,931	0	11,162	192,000	0	192,000
Minister Nandi Glassie	102,585	78,415	0	12,000	193,000	0	193,000
Minister Albert Nicholas	69,500	117,000	0	5,500	192,000	0	192,000
Leader Of Opposition	148,000	48,200	0	6,800	203,000	0	203,000
Total Ministerial Support Offices	1,065,956	577,304	-	64,867	1,708,127	-	1,708,127
Outer Islands							
Aitutaki	1,090,176	385,526	0	143,884	1,619,586	91,201	1,528,385
Aitutaki Power Supply	266,800	1,595,744	0	348,789	2,211,333	1,900,943	310,390
Atiu	702,620	385,306	0	138,561	1,226,488	224,318	1,002,170
Mangaia	792,064	545,677	0	204,700	1,542,441	301,000	1,241,441
Manihiki	598,798	155,149	0	92,199	846,146	114,500	731,646
Mauke	621,873	195,959	0	178,982	996,813	108,853	887,960
Mitiaro	480,943	67,396	0	55,200	603,539	58,899	544,640
Palmerston	250,571	65,730	0	42,000	358,301	20,599	337,702
Penrhyn	374,999	188,194	0	52,407	615,600	83,904	531,696
Pukapuka-Nassau	695,579	145,115	0	140,552	981,246	73,695	907,551
Rakahanga	345,533	60,113	0	37,829	443,475	49,336	394,139
Outer Islands Capital Fund-Administered by MFEM	0	0	0	27,500	27,500	0	27,500
Total Outer Islands	6,219,958	3,789,908	-	1,462,602	11,472,468	3,027,248	8,445,220
Gross Total	48,578,029	19,637,286	29,173,077	4,020,346	101,408,738	6,184,349	95,224,389

Schedule 2 – Payments on Behalf of Crown (POBOCs)

In line with the introduction of Administered Payments described above, the new Schedule 2 outlines the amount appropriated for each individual POBOC in the budget year, with a comparison to the previous appropriation. This change means that Parliament will now explicitly approve the individual appropriations for each POBOC, instead of the Bill containing only the total amount for POBOCs under each ministry. Any increase above the amount approved by Parliament would require an Executive Order or Supplementary Appropriation Bill.

Schedule 2

PAYMENTS ON BEHALF OF THE CROWN (POBOCs)

Administering Agency	POBOC	2016/17 Budget
Compensation of Employees		
Finance & Economic Management	Parliamentary Superannuation	180,000
Audit	Transfer of PERC Salaries and Administration Costs	42,500
Parliamentary Services	Civil List - Personnel	1,974,607
Parliamentary Services	House of Ariki	176,341
Compensation of Employees POBOCs		2,373,448
Use of Goods and Services		
Audit	Audit Fees	95,600
Justice	General Elections, Petitions and By-Elections	0
Parliamentary Services	Civil List - Operating Expenses	0
Parliamentary Services	Civil List - Constituency Visits	170,200
Parliamentary Services	Parliamentary Sitting Expenses	120,000
Parliamentary Services	QR & MP Travel and Allowances (local and overseas)	150,000
Prime Minister's Office	Local Government Election	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461
Use of Goods and Services POBOCs		599,261
Subsidies		
Finance & Economic Management	Apex - Profit Guarantee	1,500,000
Finance & Economic Management	FSC - subsidy to meet depreciation expenses	0
Cook Islands Investment Corporation	Airport Authority subsidy	2,047,997
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000
Cook Islands Investment Corporation	Ports Authority - subsidy	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000
Subsidies POBOCs		4,158,096
Social Assistance		
Internal Affairs	Welfare Payments	15,799,966
Social Assistance POBOCs		15,799,966
Other Expense		
Finance & Economic Management	Pacific Catastrophe Risk Insurance	120,694
Foreign Affairs	International Subscriptions	596,705
Other Expenses POBOCs		717,399
Grand Total		23,648,170

Schedule 3 – Cook Islands Government Capital Expenditure

Currently, capital funding can be transferred between projects being delivered by the same agency. However, the spread of capital projects between agencies is largely arbitrary and can create artificial barriers between different agencies responsible for delivering a single project. Often, this separation is based on who was allocated the relevant appropriation. The diversity of mandates across the public sector has also seen the emergence of non-ICI agencies taking the lead delivery of capital infrastructure projects such as the renewable energy project (OPM) or Te Mato Vai (MFEM). This is particularly the case where a project may cover several islands or several disciplines. There is also the common practice of project teams delivering a capital project – with the potential that these teams may be formed across agencies with the required skills. It follows then, that the appropriation should apply more to the project, and less to the agency (despite the accounting still being retained

with a key agency).

While it is likely that the structure of this schedule will change before the Appropriation Bill 2017, the current proposal is to appropriate for capital spending as a single line, due to the extensive list of capital projects.

Schedule 3

Cook Islands Capital Spending

	2016/17 Budget
Cook Islands Government Capital programs (see Schedule 6 for details)	36,663,124
Total Capital spending	36,663,124

Schedule 4 – Official Development Assistance (ODA)

To assist the reader to readily identify the amount of funding provided (in total) by donors, the new Schedule 4 will provide the total amount of ODA, broken into funding for current expenditure and capital expenditure.

Schedule 4

Official Development Assistance³

	2016/17 Budget
Capital project expenditure	44,577,755
Current expenditure	16,082,833
Total Borrowing Expenses and Debt Repayment	60,660,588

Schedule 5 – Other Expenses, Financing Transactions and Debt payments

Schedule 5 (previously a summary schedule) is intended to contain those appropriations used by the Crown to meet its financing obligations and other expenses.

Examples of other expense are items like top-ups to the Rolling Concessional Loan Fund (managed by BCI and BTIB) or ADB Share Capital (A periodic purchase of share capital to act as collateral for ADB lending programs). Financing transactions such as transfers to the Emergency Response Trust Fund are also included in Schedule 5a.

Debt servicing payments are currently grouped with other financing transactions, but it is proposed that they are separated slightly, befitting their importance in the public discussion of the Budget. Schedule 5b reports the appropriations needed to go to the Loan Reserve Fund in order to meet current and future debt obligations. This is broken down by principal and interest components.

Schedule 5a

Other Expenses and Financing Transactions

Category of Expense	2016/17 Budget
Contingency Funds - Capital Expenditure	0
Contingency Funds - Operating	100,000
Crown Infrastructure Depreciation	3,682,397
Concession Loan Fund - Top Ups	0
ADB Share Capital	0
Transfer to Emergency Response Trust Fund	603,858

³Excluding Budget Support, which is considered revenue and appropriated through agencies or POBOCs.

Category of Expense	2016/17 Budget
Transfer to Reserve Trust Fund	548,172
Depreciation Contingency Fund	2,362,134
Contributions to Cook Islands Sovereign Wealth Fund	0
Total Other Expenses	7,296,561

Schedule 5b

Loan Reserve Fund (LRF) Appropriations

Category of Appropriation	2016/17 Budget
Contribution to LRF - Principal	6,893,059
Contribution to LRF - Interest	1,710,050
Total Contribution to LRF	8,603,108

Summary

As before, the totals of Schedules 1 to 5 are then summarised in the following table, enabling easy reconciliation. This summary is not an additional appropriation schedule, and hence, it is appropriate to remove the 'schedule' nomenclature from its title. It only serves to consolidate the previously outlined schedules.

Summary

Category of Payment	2016/17 Budget
Schedule 1 - Agency Outputs (Gross Operating)	101,408,738
Schedule 2 - POBOCs	23,648,170
Schedule 3 - CIG Capital Expenditure	36,663,124
Schedule 4 - Official Development Assistance	60,660,588
Schedule 5a - Other Expenses and Financing Transactions	7,296,561
Schedule 5b - Loan Reserve Fund Appropriations	8,603,108
TOTAL APPROPRIATION	238,280,290

In future years, when there is a basis for this, the previous appropriation and variance will be included in each of these tables. The tables above will serve as the starting reference for the Appropriation Bill 2017.

3.3 Other Schedules

One of the requirements to improve the rating of the Cook Islands under the Public Expenditure Framework Assessment (PEFA) is to report projected expenditures by the function. The 2016/17 Budget takes steps to improve on this by reporting expenditure by output across the forward years in Schedule 12, and the Classifications of Functions of Government (COFOG) Table in Chapter 4. Further breakdown of detail is available in Budget Book 2.

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	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
REVENUE	178,921	203,438	175,863	157,202	148,238
Taxes	111,817	109,634	111,663	114,933	117,592
Social contributions	-	75	75	75	75
Grants	40,038	68,237	38,560	16,373	4,751
<i>Current</i>	19,461	23,660	19,108	5,963	4,651
<i>Capital</i>	20,577	44,578	19,451	10,410	100
Other revenue	27,066	25,491	25,565	25,821	25,821
EXPENSE	144,735	149,453	148,494	134,970	133,527
Compensation of employees	51,595	52,406	52,241	50,873	50,864
Use of goods and services	41,869	46,377	42,522	31,696	30,248
Depreciation	9,177	10,006	11,627	11,733	11,733
Interest	2,246	1,710	1,696	1,688	1,688
Subsidies	11,258	14,708	16,458	15,708	15,708
Grants	-	-	-	-	-
Social benefits	17,408	17,903	18,231	17,763	17,927
Other expense	11,182	6,343	5,719	5,509	5,359
NET OPERATING BALANCE	34,186	53,985	27,369	22,232	14,712
Plus NON CASH APPROPRIATIONS					
Depreciation	9,177	10,006	11,627	11,733	11,733
CASH SURPLUS/(DEFICIT) FROM OPERATING TRANSACTIONS	43,363	63,991	38,996	33,965	26,444
CASH TRANSACTIONS IN NONFINANCIAL ASSETS					
Net Cash Applied to the Acquisition of Fixed Assets	35,658	81,241	53,884	18,860	6,018
Gross transactions in Non-Financial Assets	44,835	91,247	65,512	30,593	17,751
Less Non Cash Transactions in Non-Financial Assets (Depreciation)	(9,177)	(10,006)	(11,627)	(11,733)	(11,733)
NET (BORROWING)/LENDING	7,706	(17,250)	(14,888)	15,105	20,426
CASH APPLIED TO THE NET ACQUISITION OF FINANCIAL ASSETS	4,613	(10,485)	(19,551)	9,087	10,432
Domestic Transactions	4,613	(10,485)	(19,551)	9,087	10,432
Foreign Transactions	-	-	-	-	-
CASH APPLIED TO THE NET INCURRENCE OF LIABILITIES	3,786	(6,681)	6,051	8,019	7,447
Domestic Transactions	-	-	-	-	-
Foreign Transactions	3,786	(6,681)	6,051	8,019	7,447
NET CASH FINANCING TRANSACTIONS	8,399	(17,166)	(13,500)	17,106	17,879
<i>Statistical discrepancy</i>	693	85	1,389	2,001	(2,547)

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 in 2015/16 is estimated to be a \$34.2 million.

Going forward, changes in expenditure and revenue estimates are predicted to result in a \$54.0 million operating balance in 2016/17, \$27.4 million in 2017/18, \$22.2 million in 2018/19 and \$14.7 million in 2019/20.

Across all years, the large net operating balance is due to grant funding and government revenues being channeled towards capital spending in both Crown funded and ODA funded 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 2016/17 and 2017/18. This is shown in the accumulation of cash reserves in 2015/16, and a drawdown of these reserves in 2016/17 and 2017/18.

4.1.1 GFS Operating Revenue

Operating revenues are made up of taxation receipts (62.5 per cent in 2015/16), grants from other governments (22.4 per cent) and other revenues, which include agency trading revenues, interest and dividend receipts (15.1 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.

GFS Operating revenues in 2015/16 were estimated to tally to \$178.9 million, of which \$111.8 million is expected to be collected in taxes alone.

For 2016/17, operating revenue is expected to reach \$203.4 million, driven largely by a significant increase in grant funding from other governments. Tax revenue is anticipated to be \$2.2 million lower than 2015/16, due to a one-off collection of withholding tax in 2015/16, more modest tourism growth going forward, and a fall in arrears collection.

4.1.2 GFS Operating Expenditure

Operating expenditure is made up of compensation of employees (35.6 per cent in 2015/16), use of goods and services (28.9 per cent), social benefits (12.0 per cent), subsidies (7.8 per cent), depreciation (6.3 per cent), other expenses (7.7 per cent), and interest expenses (1.6 per cent).

Total operating expenditure is expected to increase to \$149.5 million in 2016/17, a \$4.7 million increase on 2015/16, due largely to increases in use of goods and services (up \$4.5 million) and subsidies (up \$3.5 million), although this was partially due to the reclassification of some expenditure out of the 'other' expenditure category (which fell \$4.8 million).

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 schedule 6 (Capital) or Budget Book 3 (the Capital Book). This spending includes public works, purchase of plant and equipment and investments in ICT.

Total purchases of non-financial assets (excluding depreciation) will rise to an estimated \$81.2 million in 2016/17. Large purchases of non-financial assets, mainly in infrastructure (renewable energy, Te Mato Vai, and others) are spread across 2016/17 and 2017/18. In particular, this reflects significant construction activity over this period, with water, energy, and road infrastructure investment, two large school projects, and a new multi-agency government building.

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).

Consistent with the large capital works currently underway, the net borrowing requirement is \$17.3 million in 2016/17. This requirement is serviced by a combination of cash and debt financing, with net cash transactions contributing \$10.5 million and net debt finance (new loans minus repayments) contributing \$6.7 million.

This financing requirement falls to \$14.9 million in 2017/18, with much of this due to the

commencement of Stage 2 of the Te Mato Vai project. The net position of Government reverses in 2018/19 and 2019/20, with a significant accumulation of cash reserves in both years due almost exclusively to low levels of committed capital programs in those years. Debt principal repayments continue across all years.

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 2016/17 Budget

Function of Government	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Cook Islands Government (CIG) Expenditure					
General public services	35,561,516	32,672,839	37,906,324	31,944,148	31,202,968
Executive and legislative organs, financial and fiscal affairs, external affairs	31,660,713	27,976,320	32,479,187	26,531,399	26,440,005
General services	1,316,376	1,433,168	2,733,360	2,733,360	2,733,360
General public services	338,152	981,077	983,727	983,310	341,310
Public debt transactions	2,246,275	2,282,275	1,710,050	1,696,078	1,688,293
Public order and safety	5,647,757	5,864,757	5,723,357	5,751,691	5,601,691
Police services	3,894,023	3,994,023	3,844,023	3,994,023	3,844,023
Law courts	1,031,216	1,149,716	1,154,016	1,033,184	1,033,184
Prisons	722,518	721,018	725,318	724,484	724,484
Economic affairs	34,612,011	53,142,975	39,188,138	38,045,405	37,999,187
General economic, commercial, and labor	8,827,369	9,563,544	9,263,750	10,624,186	10,732,069
Agriculture, forestry, fishing, and hunting	3,973,326	3,962,081	3,769,230	3,768,605	3,767,667
Fuel and energy	5,358,956	16,161,396	3,504,706	3,302,163	3,299,000
Mining, manufacturing, and construction	314,000	291,140	291,140	291,140	291,140
Transport	287,034	3,454,376	204,120	204,120	204,120
Tourism	15,621,227	19,480,339	21,925,092	19,625,092	19,475,092
Economic affairs n.e.c.	230,099	230,099	230,099	230,099	230,099
Environmental protection	3,900,055	4,833,820	4,953,820	4,173,820	2,430,434
Waste management	207,353	246,554	226,554	126,554	123,168
Waste water management	2,630,673	3,023,237	3,663,237	2,983,237	1,243,237
Protection of biodiversity and landscape	352,591	387,036	387,036	387,036	387,036
R&D Environmental protection	-	500,000	-	-	-
Environmental protection n.e.c.	709,438	676,993	676,993	676,993	676,993
Housing and community amenities	14,127,453	19,627,592	30,853,117	10,004,115	9,752,896
Community development	1,911,468	420,000	485,000	250,000	-
Water supply	2,011,913	8,725,975	21,509,080	2,484,885	2,484,885
Street lighting	-	63,000	-	-	-
Housing and community amenities n.e.c.	10,204,072	10,418,617	8,859,037	7,269,230	7,268,011
Health	13,348,742	14,139,795	13,679,795	12,610,295	12,610,295
Medical products, appliances, and equipment	1,981,247	1,962,300	1,802,300	1,492,800	1,492,800
Outpatient services	-	-	-	-	-

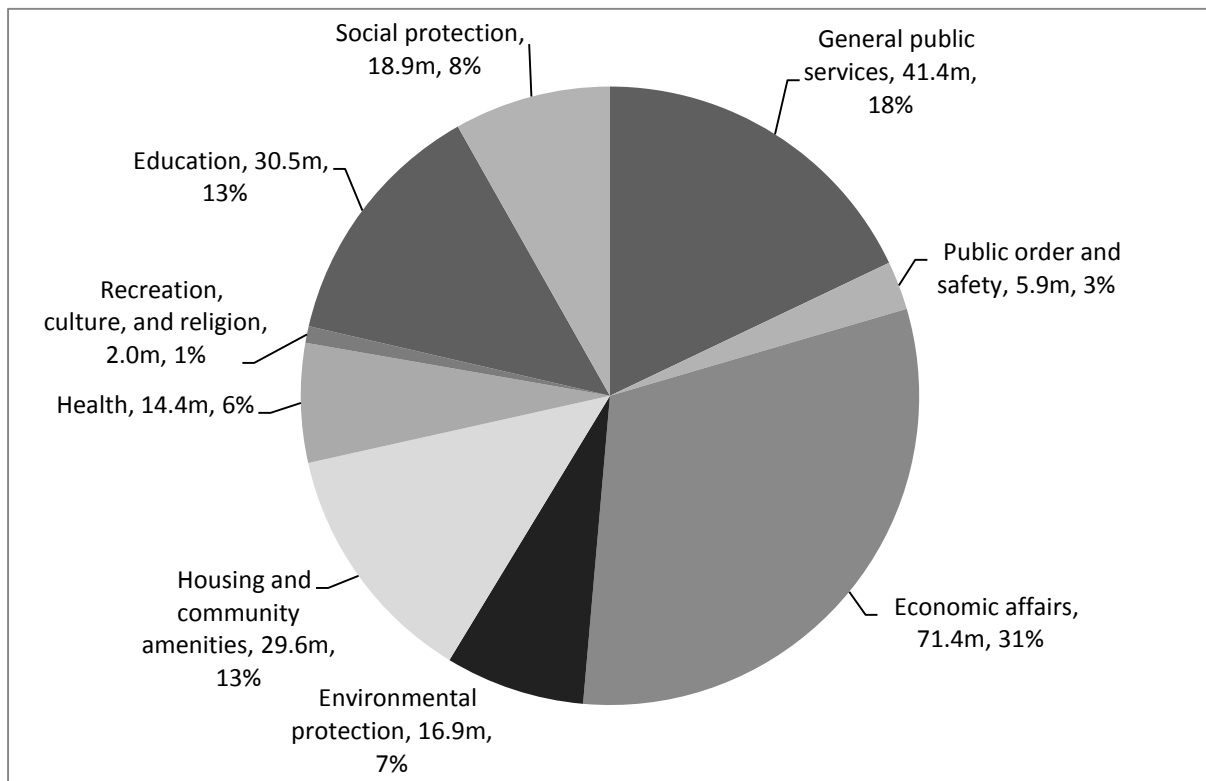
Function of Government	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Hospital services	8,474,859	8,890,237	8,590,237	7,830,237	7,830,237
Public health services	1,737,762	2,115,823	2,115,823	2,115,823	2,115,823
Health n.e.c.	1,154,874	1,171,435	1,171,435	1,171,435	1,171,435
Recreation, culture, and religion	1,542,718	2,007,873	1,907,873	1,906,873	2,006,873
Recreational and sporting services	321,181	419,335	319,335	319,335	419,335
Cultural services	1,221,537	1,588,538	1,588,538	1,587,538	1,587,538
Education	19,239,369	19,801,554	19,305,939	14,984,539	14,989,539
Pre-primary and primary education	250,000	384,000	-	-	-
Tertiary education	1,044,855	1,044,855	1,044,855	1,044,855	1,044,855
Education not definable by level	2,667,027	2,887,827	3,057,027	2,287,027	2,287,027
Education n.e.c.	15,277,487	15,484,872	15,204,057	11,652,657	11,657,657
Social protection	17,678,792	18,081,266	18,010,092	18,171,637	18,335,941
Sickness and disability	416,000	506,400	506,400	506,400	506,400
Old age	11,852,561	12,109,659	12,281,285	12,455,538	12,632,459
Family and children	3,341,286	3,393,307	3,380,032	3,366,824	3,353,682
Housing	87,210	79,200	79,200	79,200	79,200
Social exclusion n.e.c.	287,305	290,373	290,848	291,348	291,873
Social protection n.e.c.	1,694,430	1,702,327	1,472,327	1,472,327	1,472,327
Total CIG Expenditure	145,658,414	170,172,471	171,528,455	137,592,523	134,929,824
Official Development Assistance (ODA) Expenditure					
General public services	7,413,644	8,703,246	6,623,309	3,751,366	3,607,766
Executive and legislative organs, financial and fiscal affairs, external affairs	5,418,337	6,703,874	5,914,365	3,164,735	3,164,735
Foreign economic aid	1,995,307	1,999,371	708,944	586,630	443,030
Public order and safety	53,581	-	-	-	-
Police services	53,581	-	-	-	-
Economic affairs	15,490,742	18,239,642	1,084,279	5,428,788	478,788
Agriculture, forestry, fishing, and hunting	2,086,172	587,054	142,600	50,000	-
Fuel and energy	12,099,181	15,058,972	-	-	-
Mining, manufacturing, and construction	73,000	113,000	40,000	-	-
Transport	610,616	1,886,000	100,000	5,000,000	100,000
Hotel and Restaurants	389,773	307,692	305,344	303,030	303,030
Multi-purpose development projects	232,000	286,923	496,336	75,758	75,758
Environmental protection	2,938,621	12,018,628	5,892,476	1,183,102	64,286
Waste management	775,221	7,312,350	2,183,933	-	-
Waste water management	92,600	92,600	92,600	-	-
Protection of biodiversity and landscape	1,754,361	3,903,293	2,961,990	1,091,658	64,286
Environmental protection n.e.c.	316,439	710,385	653,953	91,444	-
Housing and community amenities	4,759,256	9,964,560	6,223,779	-	-
Housing development	146,500	146,578	-	-	-
Community development	-	-	3,400,000	-	-
Water supply	4,612,756	9,617,982	2,223,779	-	-
Housing and community amenities n.e.c.	-	200,000	600,000	-	-
Health	157,235	249,513	43,937	-	-
Outpatient services	-	11,025	-	-	-
Hospital services	7,438	-	-	-	-
Public health services	112,000	-	-	-	-
Health n.e.c.	37,797	238,488	43,937	-	-
Education	295,878	10,665,000	10,515,000	5,410,000	-
Pre-primary and primary education	-	4,765,000	4,765,000	5,410,000	-
Secondary education	200,000	5,750,000	5,750,000	-	-
Education n.e.c.	95,878	150,000	-	-	-
Social protection	1,352,090	820,000	600,000	600,000	600,000
Sickness and disability	72,050	100,000	-	-	-
Social protection n.e.c.	1,280,040	720,000	600,000	600,000	600,000
Total ODA Expenditure	32,461,047	60,660,588	30,982,781	16,373,255	4,750,840
TOTAL PUBLIC EXPENDITURE	178,119,461	230,833,059	202,511,236	153,965,778	139,680,664

Note: there is a small statistical discrepancy in the COFOG totals versus GFS, mainly stemming from the classifications of balance sheet transactions.

Chart 4.1 classifies the combined Cook Islands Government and ODA spending in the 2016/17

Budget at the 10 main functional levels.

Chart 4.1 Classification of Functions of Cook Island Government 2016/17 Budget



Economic affairs is by far the largest area of total public expenditure at 31 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 18 per cent of total public spending, with the Cook Islands Government administration costs being the main driver.

Education is the third largest area of spending at 13 per cent, driven mainly by the Cook Islands Government's own expenditures, but also the construction activity by the Chinese and New Zealand Governments at Apia Nikao and Tereora respectively.

Other major areas of spending are housing and community amenities (which includes general community infrastructure) at 13 per cent, social protection (social welfare) at 8 per cent, and environmental protection at 7 per cent.

5 Fiscal Update

5.1 Overview

Table 5.1 Fiscal Indicators Summary

	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Statement of Financial Performance					
Taxation Revenue (\$m)	111.8	109.6	111.7	114.9	117.6
Social Contributions (\$m)	0.0	0.1	0.1	0.1	0.1
Other Revenue (\$m)	34.6	33.1	33.1	25.8	25.8
Total Operating Revenue (\$m)	146.5	142.8	144.9	140.8	143.5
Total Operating Revenue Percentage of GDP	35.0	33.4	33.3	31.6	31.4
Tax Revenue Percentage of GDP	26.7	25.7	25.7	25.8	25.7
Total Structural Revenue Percentage of GDP	30.2	28.4	28.4	26.9	26.9
Personnel (\$m)	51.1	53.3	53.1	51.6	51.6
Percentage of Total Revenue	34.9	37.3	36.7	36.7	36.0
Percentage of Structural Revenue	40.5	44.0	43.0	43.1	42.0
Total Operating Expenditure (\$m)	130.6	133.5	137.1	129.1	129.0
Percentage of GDP	31.2	31.2	31.5	28.9	28.2
Percentage of Operating Revenue	89.2	93.5	94.6	91.7	89.9
Operating Balance (\$m)	15.9	9.3	7.8	11.7	14.5
Percentage of GDP	3.8	2.2	1.8	2.6	3.2
Capital Expenditure	15.1	36.7	34.4	8.5	5.9
Depreciation	8.9	10.1	11.4	11.4	11.4
Fiscal Balance surplus/deficit (\$m) *	9.7	-17.3	-15.2	14.7	20.0
Percentage of GDP	2.3	-4.1	-3.5	3.3	4.4
Statement of Financial Position (\$m)					
Assets (\$m)	632.7	711.5	745.5	767.9	778.9
Liabilities (\$m)	137.5	136.1	124.7	118.3	117.4
Crown Balance (\$m)	495.1	575.3	620.8	649.6	661.5
Percentage of GDP	118.4	134.6	142.8	145.6	144.7
Cash & Equivalents (\$m)	31.5	34.9	13.5	22.4	33.5
Cash & Equivalents (months coverage)	3.1	3.4	1.3	2.3	3.4
Statement of Borrowings (\$m)					
Gross Debt end of FY (\$m)	113.1	118.9	110.6	101.7	94.1
Percentage of GDP	27.0	27.8	25.4	22.8	20.6
Net Crown Debt, end of FY (\$m)	95.9	100.8	92.6	85.4	79.0
Percentage of GDP	22.9	23.6	21.3	19.1	17.3
Loan Repayment Reserves Held (\$m)	17.3	18.1	18.1	16.3	15.1
Net Debt Servicing (\$m)	6.5	7.7	8.5	10.1	9.4
Percentage of Total Revenue	4.4	5.4	5.9	7.2	6.5
Percentage of Structural Revenue	5.1	6.3	6.9	8.5	7.7
Development Partner Support (\$m)					
Grants (\$m)	32.5	60.7	31.0	16.4	4.8
Percentage of GDP	7.8	14.2	7.1	3.7	1.0
Memo item: Nominal GDP (\$m)	418.4	427.3	434.8	446.1	457.1

The Cook Islands fiscal strategy is established in an environment of continued uncertainty in the prospects for the global and regional economy. A conservative approach was adopted in developing the 2016/17 Budget, despite some unexpected short-term windfalls in the 2015/16 fiscal year. As the key driver is the economy, revenue sources with a closer link to tourism show the strongest growth, with large increases in Value-Added and Income Taxes reflecting the higher level of activity in 2015/16.

The Government continues to appropriate funding towards underwriting two long haul service routes between Rarotonga and Sydney, and Rarotonga and Los Angeles as a means of diversifying (for both market and seasonality) and increasing the number of tourists coming to the Cook Islands.

However, the amount appropriated for this purpose has been reduced in line with lower cost expectations driven predominately by lower global fuel prices in 2016.

Budget Policy Statement

The 2016/17 Budget was developed with the aim of providing public services to Cook Islanders and supporting growth in a constrained economic environment. The 2016/17 Budget Policy Statement, which identified the following goals from the new National Sustainable Development Plan (which was in draft form at the time) as priorities for 2016/17:

- Goal 1: Improve welfare, reduce inequity and economic hardship;
- Goal 2: Expand economic opportunities for all; improve economic resilience, and productive employment to ensure decent work for all;
- Goal 4: Sustainable management of water and sanitation;
- Goal 6: Improve access to affordable, reliable, sustainable energy and transport;
- Goal 8: Ensure inclusive and equitable quality education and promote life-long learning opportunities;
- Goal 12: Sustainable management of oceans, lagoons and marine resources;
- Goal 15: Ensure a sustainable population promoting development by Cook Islanders for Cook Islanders;
- Goal 16: Promote peaceful and just society and practice good governance promoting transparency and accountability.

A summary of the new expenditure initiatives for each of these goals is outlined below.

Table 5.2 Summary of New Operating Initiatives

Summary of New Initiatives	2016/17	2017/18	2018/19	2019/20	Total
Improving Welfare	138	138	138	138	551
Expanding Economic Opportunities	1,164	550	150	0	1,864
Sustainable water management	100	1,400	1,400	1,400	4,300
Energy and Transport	84	14	14	14	127
Education	89	174	160	160	584
Management of marine resources	120	-30	120	-30	180
Sustainable Population	30	30	30	30	120
Governance	1,397	1,484	1,264	1,264	5,410
Total Expenditure from Decisions	3,122	3,760	3,277	2,977	13,136

In addition to the measures outlined above, there is a significant volume of capital projects relating to the NSDP Goals. This capital spending is outlined in the Expenditure Chapter.

The 2016/17 Budget

The 2016/17 Budget includes priorities in the key themes highlighted in the BPS 2016/17. A summary table below demonstrates how Government has allocated new resources to the priority areas identified in the BPS. Each BPS priority is discussed in detail in Chapter 8 of the expenditure section.

The 2016/17 Budget classifies expenditure and revenue adjustments in the following categories;

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments;

- Reclassification of expenses; or
- Movements that occur outside of a decision referred to as parameter changes through no short term action by the government (For example, these would include depreciation, movements in welfare beneficiary numbers and reductions in the cost of the Air New Zealand underwrite stemming from lower fuel costs).

The last official update to the financial estimates at in the Half Year Economic and Fiscal Update (HYEFU) in December 2015, it was anticipated that the starting position for the 2015/16 was an operating deficit of \$0.179 million. After updating revenue and economic forecasts, including an analysis of revenue collected and expenditures to the end of April 2016, both the operating budget and the fiscal balances have improved significantly as result of various factors discussed below.

An operating surplus of \$9.3 million is anticipated for the 2016/17 financial year, with the primary cause of this being the large increases in tax revenue, coupled with reductions in key expenditure lines such as the Air New Zealand underwrite (due to lower fuel costs). This is a decrease from the estimated surplus of \$15.9 million in 2015/16, which was itself driven by higher than expected revenue collection as well as underspending in the underwrite as well as personnel costs. Significant operating surpluses are projected over the next three years as well, with \$7.8 million in 2017/18, \$11.7 million in 2018/19 and \$14.5 million in 2019/20.

However, due to the record levels of capital projects currently being undertaken by government, the fiscal balance remains in a large deficit position, with 2016/17 estimated to be \$17.3 million, following from the 2015/16 estimated surplus of \$9.7 million, which was primarily driven by capital underspends. As the profile of capital spending declines over the forward estimates, the fiscal balance improves to a smaller deficit of \$15.0 million in 2017/18, before fiscal surpluses of \$15.0 million in 2018/19 and \$20.0 million in 2019/20 are projected.

Table 5.3 Operating Budget Balance 2015/16 to 2019/20(\$000)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Est. Actual	Budget	Forecast	Forecast	Forecast
Operating Revenue	146,460	142,777	144,880	140,829	143,487
Operating Expenditure	130,578	133,515	137,100	129,144	129,013
Operating Balance	15,882	9,262	7,780	11,685	14,474

As demonstrated in the Quarterly Financial Reports, revenue collections have been significantly higher than expected in the 2015/16 year, owing to increased economic activity and some other one-off factors such as large withholding tax collections and improved arrears collection.

Non tax revenues have not experienced the same level of adjustment as tax revenues have, with a small moderation expected in fishing revenues, owing to a lower number of fishing days being sold being partially offset by an increase in the revenue associated with the Upper Air Management Agreement.

Table 5.4 Reporting of budget balance 2015/16 to 2019/20 (\$000)

	2015/16	2017/18	2017/18	2018/19	2019/20
Statement of Government Operations	Projected	Projected	Projected	Projected	Projected
NET GFS Operating Balance	34,186	53,985	27,369	22,232	14,712
GFS Operating Revenue	178,921	203,438	175,863	157,202	148,238
Remove ODA Revenue	32,461	60,661	30,983	16,373	4,751
Revenue, net of ODA	146,460	142,777	144,880	140,829	143,487
GFS Operating Expenditure	144,735	149,453	148,494	134,970	133,527
Remove ODA-funded operating expenditure	14,157	15,938	11,395	5,826	4,514
Expenditure, net of ODA spending	130,578	133,515	137,100	129,144	129,013

	2015/16	2017/18	2017/18	2018/19	2019/20
Statement of Government Operations	Projected	Projected	Projected	Projected	Projected
OPERATING BUDGET BALANCE⁴	15,882	9,262	7,780	11,685	14,474

In terms of fiscal policy and macroeconomic stability, the 2016/17 Budget reflects the fiscal responsibility principals 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 provide 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.

Movements from 2015/16 Budget

The following table shows the movements from the 2015/16 Budget to the 2016/17 Budget, which are explained in greater detail below.

Reconciliation of Operating Statement

Reconciliation of Operating Revenue and Expense between 2015/16 Budget and 2016/17 Budget

	All Values (\$'000)				
Statement of Government Operations	2015/16	2016/17	2017/18	2018/19	
Operating balance 2015/16 Budget June 2015	1,594	1,479	3,368	5,573	
Revenue					
Revenue Parameter Changes	8,904	5,764	7,039	8,288	
Adjustments to:					
Value Added Tax (VAT)	5,765	4,981	5,776	6,534	
Income tax	808	1,046	1,099	967	
Import levies	102	-788	-1,278	-1,938	
Company tax	-1,554	-1,113	-333	881	
Departure tax	1,469	1,638	1,775	1,844	
Withholding tax	2,313	0	0	0	
Other Revenue Changes	-2,758	-1,184	-950	1,250	
Fishing Fines	500	0	0	0	
ROBOCs	-1,675	323	564	820	
Trading Revenue	0	441	429	429	
Adjustment to Estimated Budget Support	-583	-948	-943	0	
Removal of Performance Bonus from baseline revenue	-1,000	-1,000	-1,000	0	
Total Revenue Changes to 2016/17 Budget	6,145	4,580	6,090	9,537	
Expenditure					
Expenditure Decisions by Government	3,354	3,122	3,760	3,277	
Executive Orders during 2015/16	3,354				
Decisions in 2016/17 Budget, by BPS Goal					
Improving Welfare		138	138	138	
Expanding Economic Opportunities		1,164	550	150	
Sustainable water management		100	1,400	1,400	
Energy and Transport		84	14	14	

⁴ The ODA amounts in this table have the revenue received from, and the expenditure related to, the Performance Based Budget Support included, which is a different treatment to the Statement of Operating in Chapter 16.

Statement of Government Operations	2015/16	2016/17	2017/18	2018/19
Education		89	174	160
Management of marine resources		120	-30	120
Sustainable Population		30	30	30
Governance		1,397	1,484	1,264
Technical adjustments	-4,967	-1,665	-1,6705	301
Reclassifications of expenditure	0	-1,321	279	387
Parameter changes	-6,530	-3,339	-691	-539
Total Expenditure Changes to 2016/17 Budget	-8,143	-3,203	1,678	3,425
OPERATING BALANCE 2016/17 Budget June 2016	15,882	9,262	7,780	11,685
plus New Zealand GFA Bonus Payment	1,000	1,000	1,000	0
OPERATING BALANCE (incl. bonus payment) - 2016/17 BUDGET	16,882	10,262	8,780	11,685
Capital Expenditure	15,080	36,663	34,443	8,450
Depreciation	8,899	10,065	11,679	11,784
FISCAL BALANCE - 2016/17 BUDGET	9,701	-17,336	-14,975	15,019
plus New Zealand GFA Bonus Payment	1,000	1,000	1,000	0
FISCAL BALANCE (incl. bonus payment) - 2016/17 BUDGET	10,701	-16,336	-13,975	15,019

5.2 Changes to Revenue

Total operating revenue in 2016/17 is estimated to reach \$142.8 million; consisting of \$109.6 million in tax revenue and \$33.2 million in non-tax revenue. These estimates include the impact of the following policy changes or initiatives committed to by Government in previous updates:

- five per cent indexation of the levies on tobacco, alcohol, and sweetened drinks;
- lowering the income tax rate for income between \$11,000 and \$30,000 from 18.5 per cent in 2015, to 17.5 per cent from 1 January 2016, and 17 per cent from 1 January 2017;
- The Revenue on Behalf of Crown (ROBOC) estimates, include anticipated revenue from a fishing agreement with the European Union, which is in the advanced stages of negotiation.

Table 5.5 Parameter Changes to Tax Revenue (\$000)⁵

	2015/16	2016/17	2017/18	2018/19	2019/20
VAT	5,476	4,500	5,061	5,486	6,953
Income tax	3,262	3,018	2,539	2,416	2,740
Company tax	-1,476	-956	-432	750	1,570
Import levies	87	-490	-640	-10	-295
Withholding tax	457	0	0	0	0
Departure tax	790	735	727	700	1,032
Total Changes in Taxation	8,596	6,807	7,255	9,342	12,000

Note: a negative number indicates a negative impact on the Budget (a decline in revenue)

Total revenue parameter changes are reflected in the table above. Overall movements indicate that tax revenue will be increased substantially from the estimates in the 2015/16 Half-Year Economic and Fiscal Update (HYEFU), with an increase of \$6.8 million in 2016/17.

⁵ Changes are as compared to the 2015/16 HYEFU

Income tax is expected to reach \$22.9 million in 2016/17, with company tax declining to around \$10.1 million. Company taxes are expected to decrease in 2016/17 due to the ability of new businesses in the economy to write off start-up costs, but this is expected to wash out over the forward years.

The 15 per cent withholding tax applies only on dividends generated by local companies which are subsequently repatriated overseas. This item cannot be reasonably forecast. As a result, no withholding tax income is forecast, but some revenue is expected to be collected from future transactions if and when they occur.

VAT is expected to reach over \$55.5 million in 2016/17, a \$0.5 million decrease on the estimated outcome for 2015/16 due to a reduction in arrears collections, which is partially offset by greater economic activity.

Departure Tax is estimated to be \$9.7 million in 2016/17, representing an increase of \$0.4 million on the \$9.3 million estimated outcome for 2015/16. This increase is due to an increase in visitor numbers, as well as the two per cent increase in the rate of departure tax to \$67.62. The two per cent increase is part of the annual indexation of departure tax to maintain the real value of the tax over time. The departure tax is competitive when compared to other destinations and source markets.

Import and excise-equivalent duties are estimated to fall to \$11.4 million in 2016/17, a decrease of \$0.7 million on the \$12.1 million estimated outcome for 2015/16. Import levies are expected to decrease due to the declining profile of investment forecasts, from historically high levels.

Movements in other revenues:

- Fisheries Revenue is estimated to be \$10.2 million in 2016/17. Fisheries revenue is composed of the revenue from both purse seine and long-line fishing, as well as Fishing Licences and is estimated to remain at this level in the forward years.
- The agreement between Maritime Cook Islands and the Government, under which MCI operates the Cook Islands Ship Registry, provides for a base fee and a turnover fee. The turnover fee becomes payable when the three year moving average of MCI's sales is positive. The growth factor for the forecast period is 5.5 per cent which is based on an approximately 35 per cent increase in the three year moving average of MCI's sales. In addition to these are further revenue adjustments to Interest on loans to subsidiaries from Ports Authority on the subsidiary loan taken with the Crown for the construction of the Avatiu harbour.
- Motor Vehicle Registration has been conservatively estimated to remain around \$0.9 million through the forecast period.

Other minor adjustments to other revenue include changes to trading revenues collected by various agencies and Island Administrations based in service delivery to the community and increased fees charged.

5.3 Changes to Expenditures

Changes in expenditure are made up of two broad types of changes, parameter changes and policy changes. Parameter changes are the result of factors outside of the immediate control of the Government, whereas policy changes reflect the impact of the Government's decisions, as well as technical and classification changes.

- Policy decisions leading to new initiatives undertaken by Government;
- Technical changes such as reclassification of expenditure; or

- Movements that occur outside of a decision, referred to as parameter changes through no short term action by the government (For example, these would include depreciation, changes to the level of the Air New Zealand underwrite due to a change in fuel costs, or movements in welfare beneficiary numbers).

Following recent months there has been significant changes in expenditures predominantly expenditure decisions on behalf of the Government.

Total operating expenditure for 2016/17 is estimated to reach \$133.5 million which represents a \$2.9 million increase, relative to the 2015/16 estimated spend. The key adjustments from 2015/16 to 2016/17 are an assumed increase in the amount of spending on the underwrite, and a reduction in the contributions to the Cook Islands Sovereign Wealth Fund (as no fishing fine revenue is forecast). Government has also committed to increasing the Emergency Response Fund to \$1.5 million, at a one-off cost of \$0.6 million. Major changes from previous iterations of the estimates for 2016/17 are a reduction in the estimated level of expenditure related to the underwrite, as well as lower beneficiary numbers for welfare payments.

It should be noted that a significant amount of assistance from New Zealand is now being incorporated into the budget as budget support, utilising and strengthening Cook Islands Government systems. The baselines in the 2016/17 Budget reflect the assumption of a continuation into 2016/17 and 2017/18 of the \$7.6 million funding under the 2015/16 Grant Funding Arrangement⁶ with New Zealand, which will go into key areas such as education, health, tourism development and strengthening public financial management and the overall public sector.

The 2016/17 Budget includes some of the following key expenditure changes:

- The Government is supporting measures to combat the educational inequity in the Pa Enua, through providing for additional positions with the Ministry of Education (MoE) to enable the MoE to undertake a Pa Enua Equity Programme, beginning in 2017.
- In order to further increase access for visitors to the Cook Islands, government, through the efforts of the Cook Islands Tourism Corporation, is supporting the Tourism sector to work with our airline partners to take advantage of opportunities in the sector.
- To better support some of the most vulnerable members of our community, government is increasing the Destitute and Infirm Payment to \$200 per month (from the current \$165 per month), as part of broader steps to address adequacy. Funding is also being made available to support the implementation of changes associated with the Family Law Bill.
- As maintenance of the increasing amount of machinery and equipment in the Pa Enua has been identified as an issue for development in the outer islands, government is increasing the funds available for maintenance, as well as embarking on a program to build machinery shelters to prolong the life of these assets.
- Whole of Government strategic policy will be strengthened with the addition of another policy officer to the Central Policy and Planning Office (CPPO) at the Office of the Prime Minister.
- In order to promote and preserve our Cook Islands culture and language, funding to support a policy or language officer at the Ministry of Cultural Development is being made available.
- A \$0.6 million top-up for the Emergency Response Fund, to bring the balance to \$1.5 million.

The Budget also includes technical adjustments to the budget baselines reflecting: an update to the

⁶ There is also a \$1 million incentive payment available if certain milestones are met, however this is not included in expected revenue.

Funding Model for the Pa Enuā; reclassification of some items; more up to date data being available; as well as adjustments to the outer year estimates as result of contracts and projects coming to an end.

Refer to the expenditure chapter (Chapter 8) for a more detailed descriptive of the new initiatives, savings, technical adjustments and other expenditures in 2016/17 and outer years.

Performance Based Budget Support Funding

The Performance Based Budget Support (PBBS) arrangement with New Zealand, provides for \$7.6 million in core funding from New Zealand, through the Cook Islands Government, for key sectors such as Education, Health and Tourism, as well as for strengthening public financial management and institutions. The details of how this funding is spent are described in the table below.

Table 5.6 Performance Based Budget Support

	2015/16 Est. Actual	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Funding received under PBBS	7,576,820	7,576,820	7,576,820	-	-
Less Fund held separately by NZ for projects	-700,000	-700,000	-700,000	-	-
<i>Ministry of Health</i>					
Operating Funding	760,000	760,000	760,000	-	-
<i>Ministry of Education</i>					
Private Schools	140,000	140,000	140,000	-	-
Personnel Funding	1,214,064	1,214,064	1,214,064	-	-
Operating Funding	2,245,936	2,245,936	2,245,936	-	-
Government Funded Scholarships	240,000	460,800	630,000	-	-
<i>Tourism Corporation</i>					
Growth Strategy	1,900,000	1,900,000	1,900,000	-	-
<i>Ministry of Finance and Economic Management</i>					
Public Sector Strengthening ⁷	376,820	156,020	-13,180	-	-
PBBS Expenditure through CIG agencies	6,876,820	6,876,820	6,876,820	-	-
Total Expenditure from PBBS Funding	7,576,820	7,576,820	7,576,820	-	-

5.4 Capital Budget – Cook Islands Government Expenditure

Total capital spending, from both the Cook Islands Government and donor sources in 2016/17 is now estimated to reach \$75.0 million, including significant rollovers of the deferred and delayed projects.

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

In the 2015/16 Budget, capital expenditure by the CIG was already planned for \$17.3 million in 2016/17. Between then and the 2016/17 Budget, due to additional projects being approved, cost changes, rollovers and delays in projects, there is now \$36.7 million planned for 2016/17. Some of the key projects government is working to implement are:

- Southern Renewable Energy Project
- Te Mato Vai water project
- Apii Nikao reconstruction
- Stabilisation of the Atiu Airport Runway
- Road sealing in Aitutaki, Mangaia and (in 2017/18) Atiu
- Cyclone Centre construction for Palmerston (2016/17), Nassau and Rakahanga (2017/18)

⁷ This is topped up by CIG

- Repair work for bridges and drainage on Rarotonga
- Reconstruction of the Pukapuka Hospital

Readers should refer to the capital plan in the 2016/17 Budget Book 3 for a detailed analysis of all capital projects for 2016/17 to 2019/20. This includes all capital projects funded through the Cook Islands Government, official development assistance, loans and other commitments.

Other Considerations:

Cash Reserves – Seed funding for the Sovereign Wealth Fund

A Sovereign Wealth Fund Bill is currently being drafted, with extensive community consultation to occur and legislation is anticipated to be tabled during 2017/18. The main purpose of the Fund is to safeguard any short term revenue gains from the natural capital endowments of the Cook Islands (such as revenues from seabed mineral extraction) to protect the net national assets for future generations. The Fund can also be used to smooth unexpected revenue gains by encouraging a long term accumulation of national savings.

In line with the spirit of the proposed policy, short term gains in revenue from fishing penalties (where a vessel has broken the rules surrounding fisheries management, and therefore degraded the value of the Cook Islands natural assets, namely, the fishery) or seizure of vested assets by the Financial Supervisory Commission (where a stock of private savings is unclaimed after a number of years) these revenues will be held in reserve until such time as the Sovereign Wealth Fund is operational. Once passed by Parliament, the funds held in reserve will be transferred to the new Sovereign Wealth Fund as seed funding.

**Table 5.7 Source of Initial Seed Funding for the Cook Islands Sovereign Wealth Fund
(\$'000)**

	2015/16 Est. Actual	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Vested Assets from the FSC	-	-	-	-	-
Fishing Penalties	500	-	-	-	-
Seabed Mining Revenues	-	-	-	-	-
Total Additions	500	-	-	-	-
Total Reserve	500	500	500	500	500

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 follows:

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

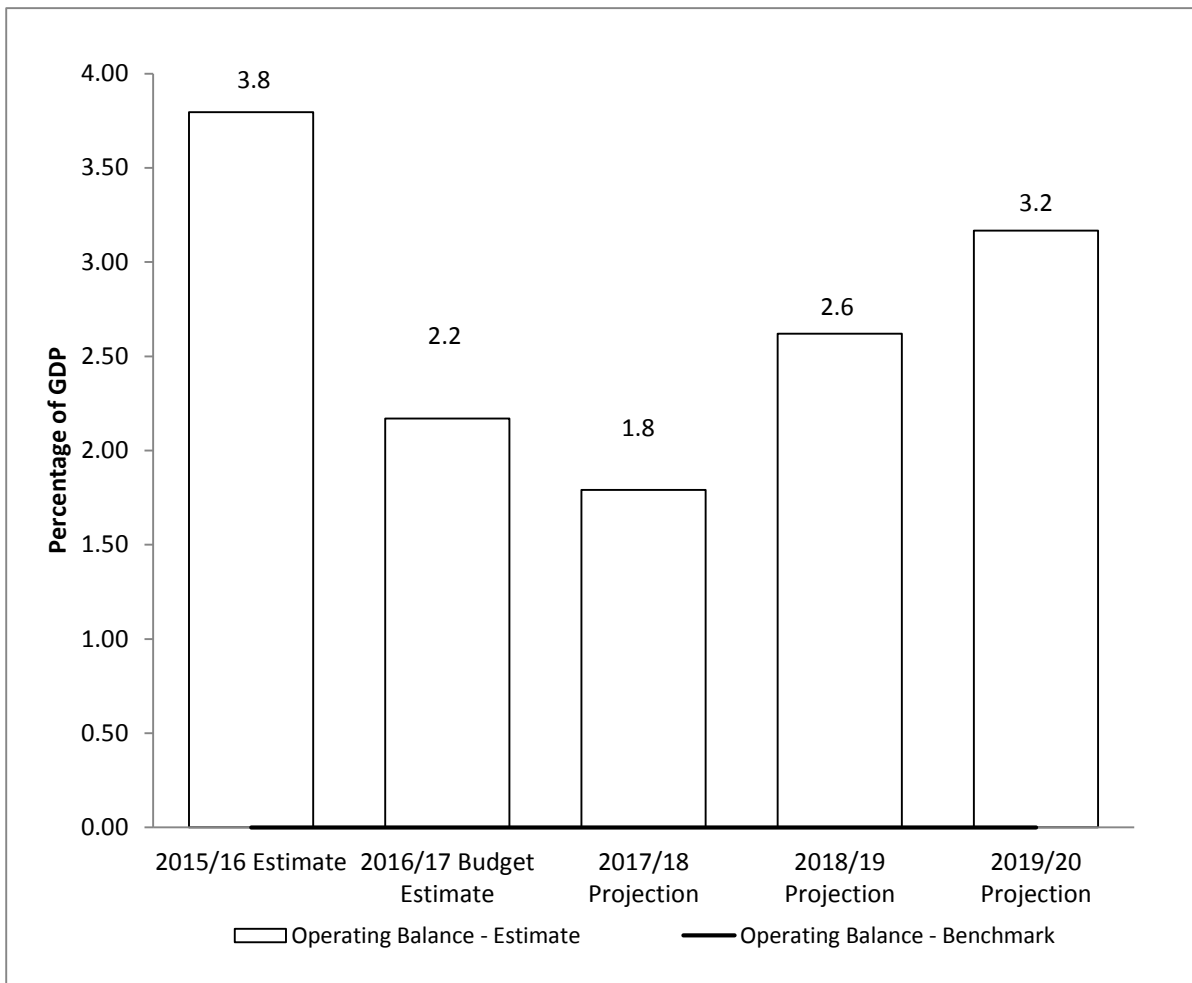
The Ministry of Finance and Economic Management (MFEM) quantifies these principles through the Fiscal Responsibility Ratios (FRR) as reported in the 2016/17 Budget. The current performance, and expected performance, of each of the FRR's are discussed below.

5.5.1 Net Operating Balance

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 below, it is anticipated that Government has an operating surplus of \$9.3 million for 2016/17.

Going forward, changes in expenditure and revenue estimates are predicted to result in an operating surplus of \$7.8 million in 2017/18, followed by \$11.7 million in 2018/19, and \$14.5 million in 2019/20.

Chart 5.1 Operating Balance 2015/16 to 2019/20

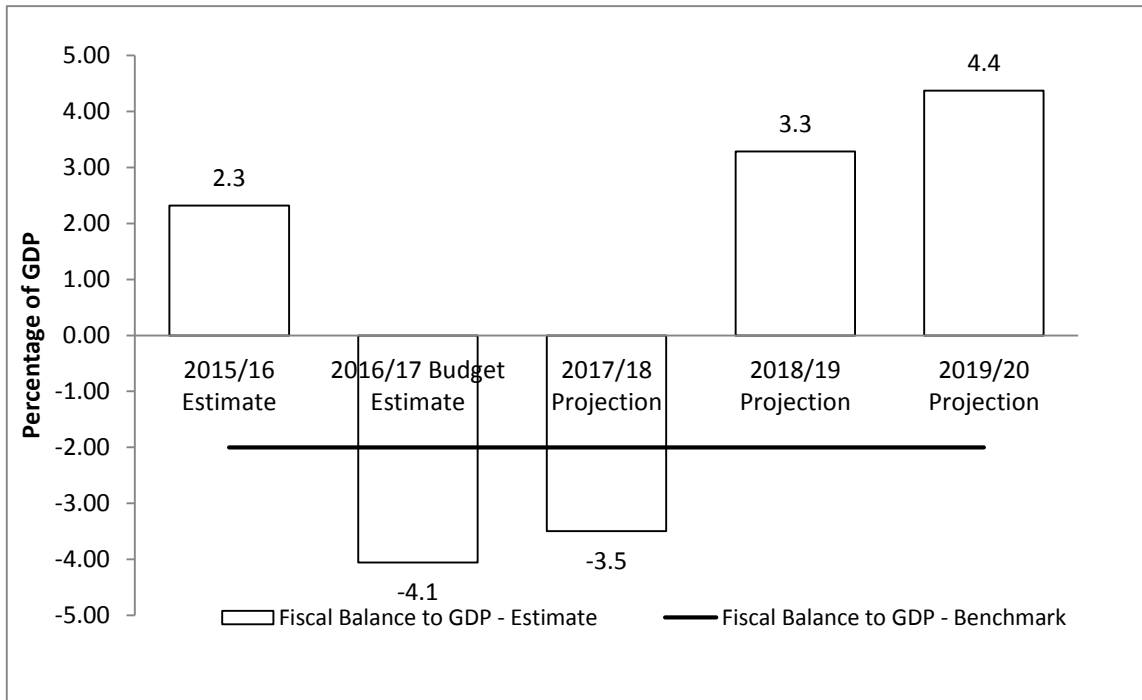


5.5.2 Fiscal Balance to GDP

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 the chart below illustrates, the Government breaches the fiscal balance in the short term due to large scale infrastructure projects which are financed by a combination of concessional lending and using cash reserves. This is expected to be a relatively short term trend due to the short term nature of the projects in question, as evidenced by declining fiscal deficits from 2016/17, and fiscal surpluses from 2018/19.

Chart 5.2 Fiscal Balance to GDP 2015/16 to 2019/20

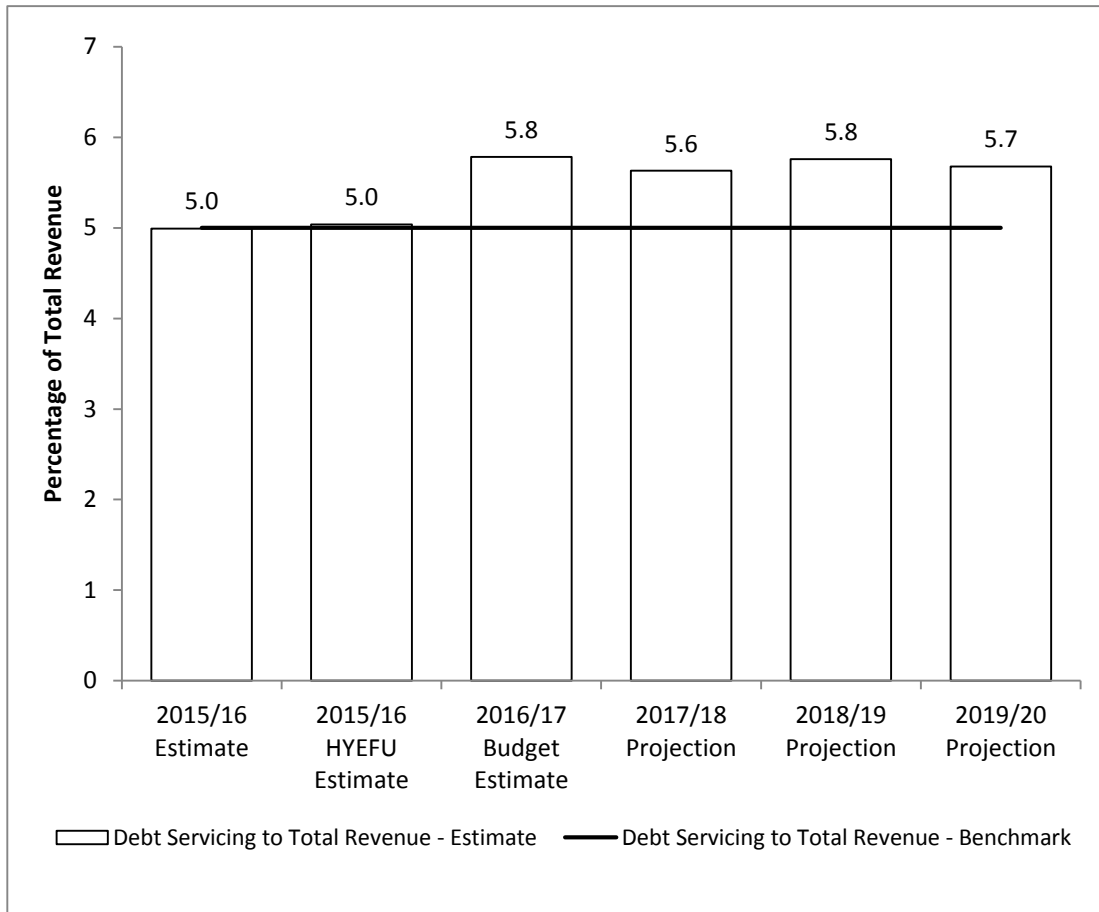


5.5.3 Debt Servicing to Revenue

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 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). The ratio of debt servicing over the short to medium term is breached from 2016/17 onward. Further details around debt sustainability can be found in the debt section below.

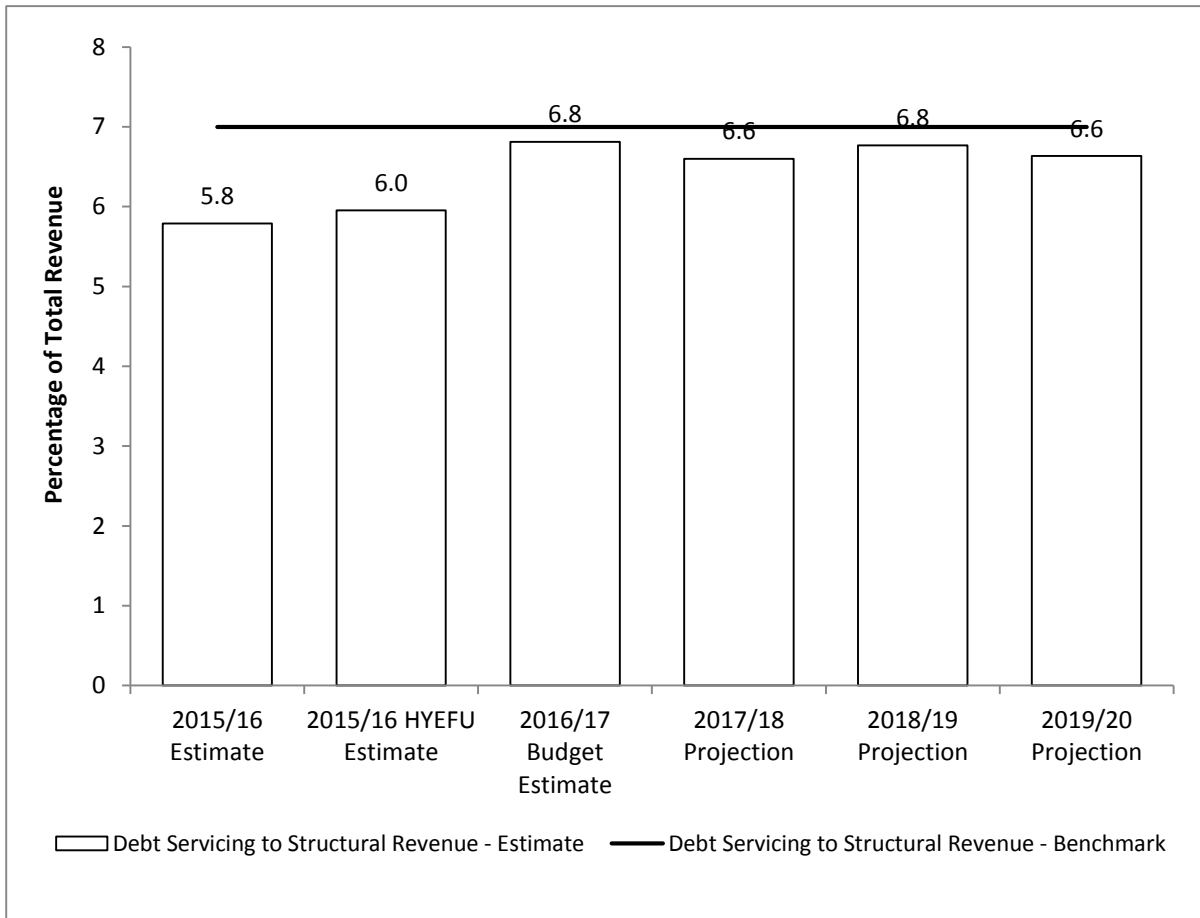
The large correction from the 2015/16 Budget presentation is due to an error in the Budget document where debt servicing was incorrectly calculated. This has since been corrected in the 2015/16 HYEUFU.

Chart 5.3 Debt Servicing to Revenue 2015/16 to 2019/20



As with personnel spending above, it is useful to compare debt servicing with structural revenue to form an opinion of 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.

Chart 5.4 Debt Servicing to Structural Revenue

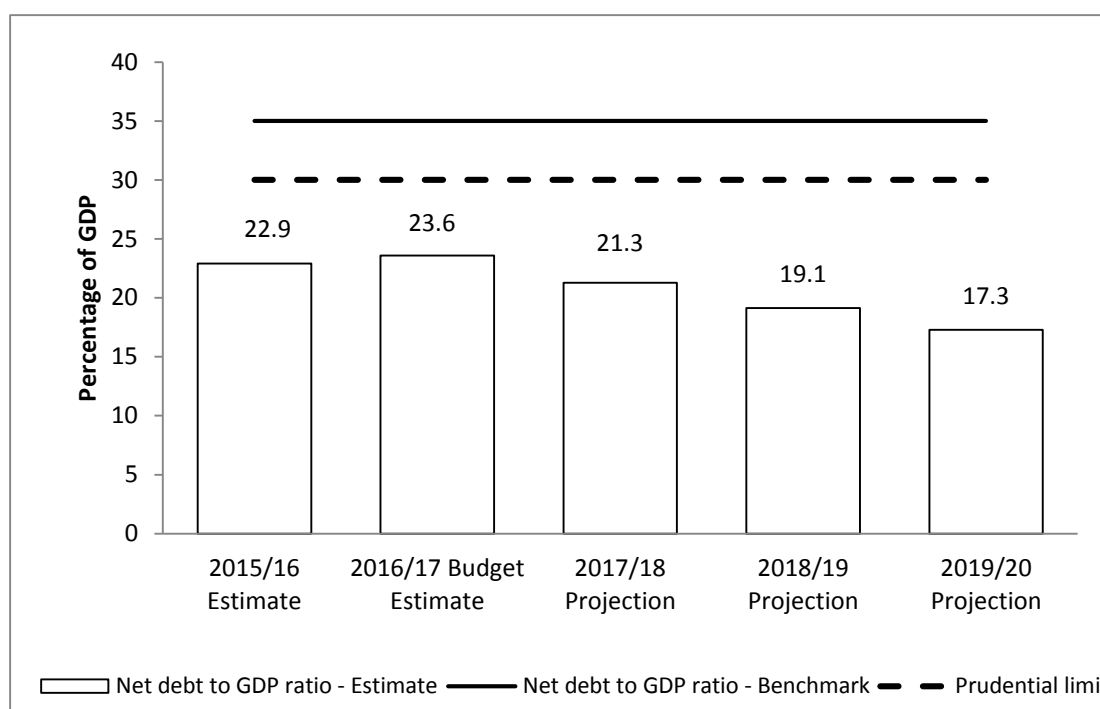


5.5.4 Net Debt to GDP

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 almost \$150 million estimated in 2016/17. The Government is well within the net debt benchmark over the short and medium term.

Shown in the graph below is also a 30 per cent debt target that the Government is committed to staying below (this would be equivalent to approximately \$128 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.

Chart 5.5 Net Debt to GDP Ratio 2015/16 to 2019/20



The Cook Islands has adopted a conservative approach towards the definition of 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 Cook Islands net debt position would be around \$72.2 million or 16.9 per cent of GDP in 2016/17.

Government is well within its fiscal responsibility ratio threshold of 35 per cent net Crown debt to GDP. However, the commitment for debt servicing to remain under 5 per cent of total revenue will be breached across the forward estimates.

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 will 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 Government lending policy, including the amortisation

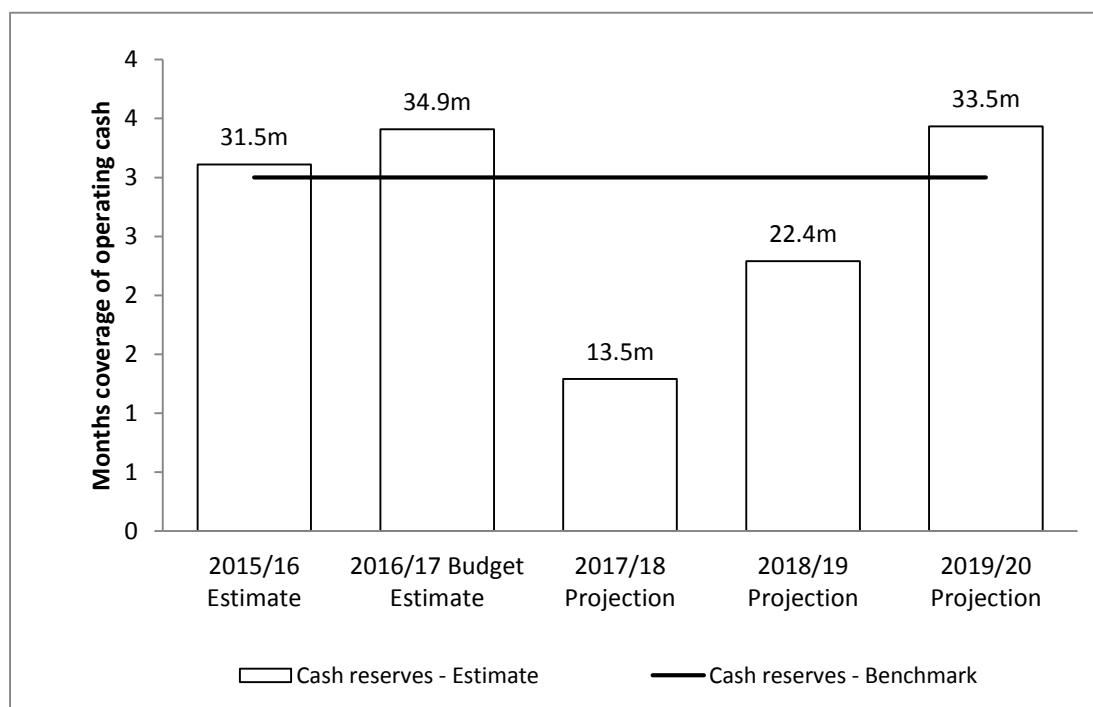
schedule, the impact on debt service burden of the government over the life of the loan, and an assessment of the sustainability of aggregate government debt. Reports should be made in advance of loan agreements being finalised.

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 the chart below.

In the medium term, this threshold is not satisfied, particularly in 2017/18, increasing the risk of cashflow difficulties in that year if there was a major disaster.

Chart 5.6 Months of Operational Expenditure covered by Cash Reserves



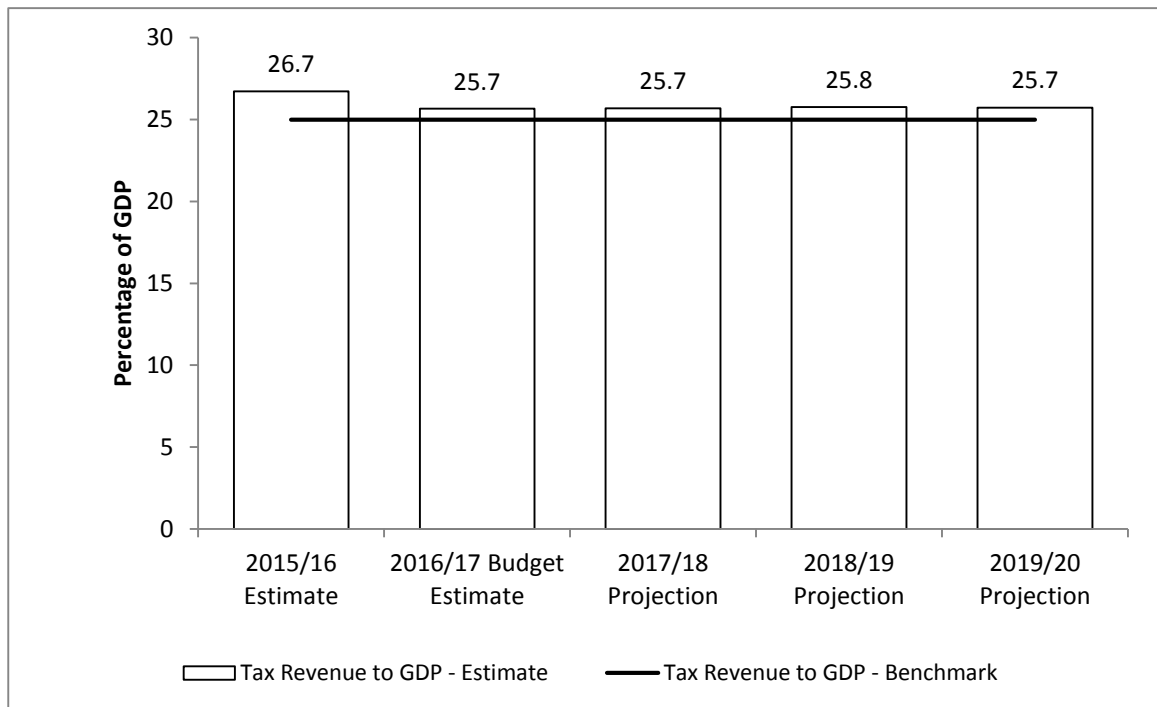
5.5.6 Tax Revenue to GDP

This ratio establishes boundaries on the collection of revenue and ensures 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 the chart below.

Current forecasts estimate that the Government has exceeded the benchmark by a very small margin (25.7 per cent in 2016/17) and will remain slightly above the target going forward. The reason for decline from the estimate in the 2015/16 HYEPU is largely due to significant upward revisions to both historical and forecast GDP.

However, the Government intends to further lower the income tax rate from 17.5 per cent in 2016 to 17 per cent from 1 January 2017, keeping the effective tax rate close to the 25 per cent target.

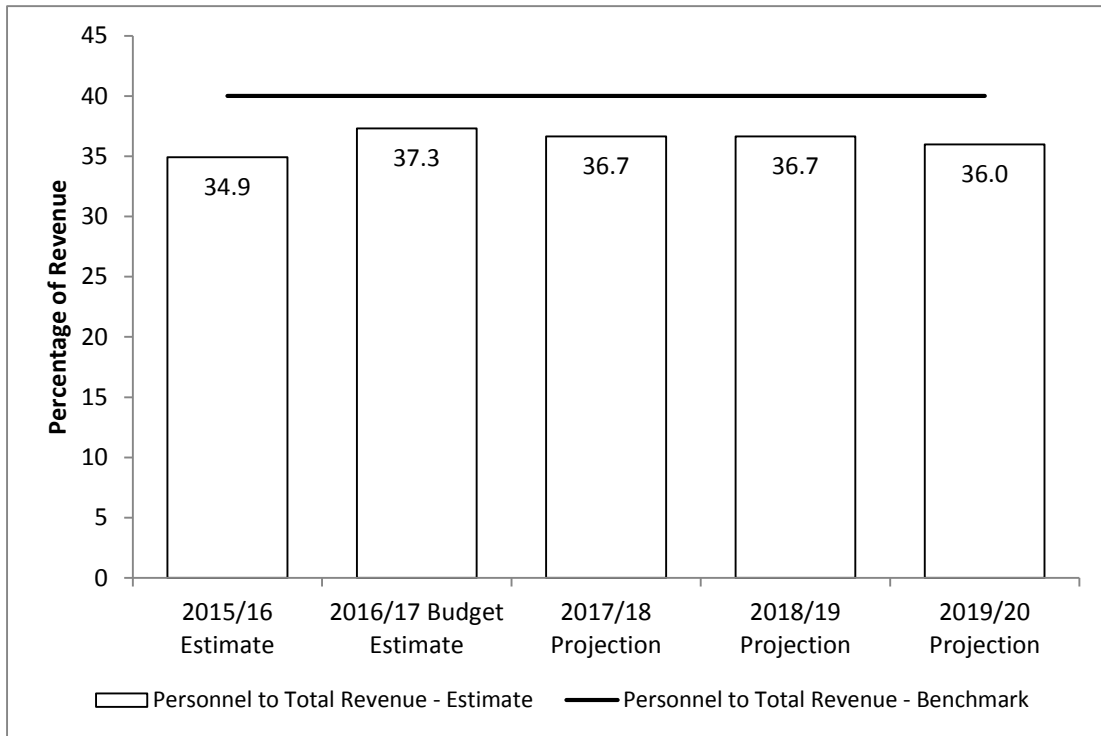
Chart 5.7 Tax Revenue to GDP 2015/16 to 2019/20



5.5.7 Personnel Expenditure to Revenue

This ratio is aimed at controlling the 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 Chart 5.8 below, currently this target is being achieved.

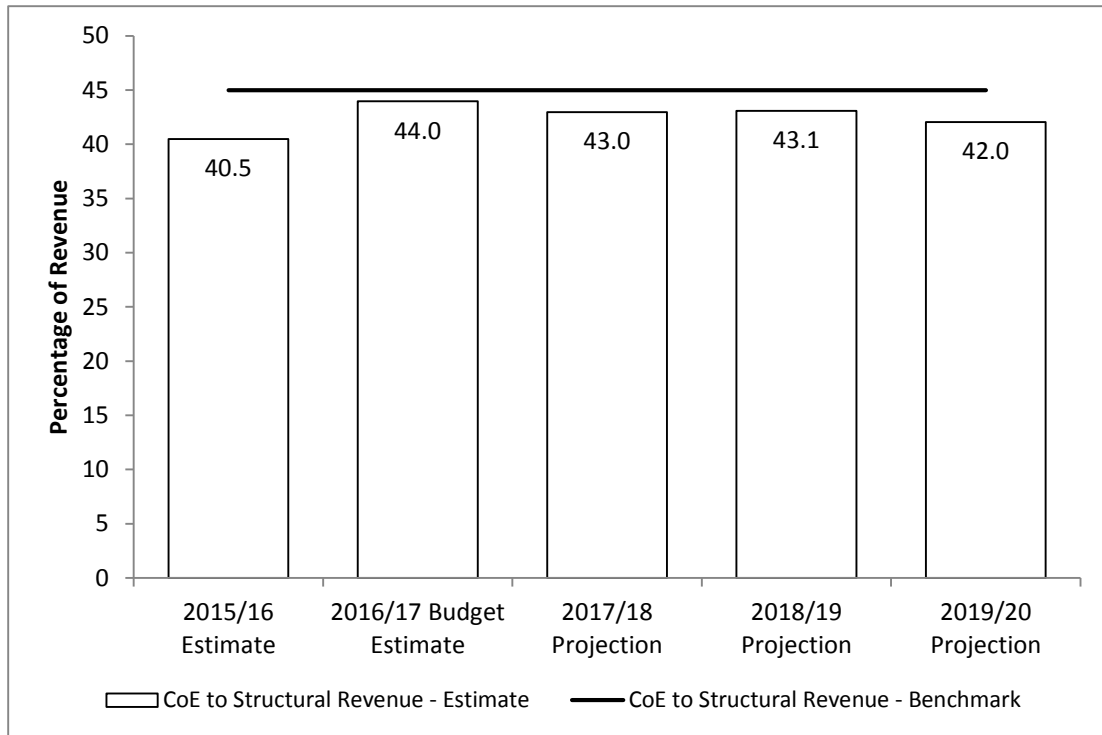
Chart 5.8 Personnel Expenditure to Total Revenue 2015/16 to 2019/20



However, as personnel spending is a structural spending component, and some of the revenue included in the ratio for Chart 5.8 is not structural in nature, it is useful to consider the ratio shown in Chart 5.9 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 revenue⁸.

⁸ 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.

Chart 5.9 Compensation of Employees to Structural Revenue - Estimate 2015/16 to 2019/20



Part of the ongoing public financial management improvements will be to identify a more suitable ratio than the current Personnel-to-Revenue measure, and Chart 5.9 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 Assumptions Underlying the Fiscal Projections

Various assumptions must be made to forecast government's fiscal performance and position in the outer years.

Operating Revenues are forecasted on the basis of recent trends in economic activity as well as one off considerations.

GDP data is updated to December 2015 (provisional estimates) and trade data is updated to the March quarter 2016; early, provisional data was available (not publicly released) in the final days of the forecasting process but is not included here – they will be included in future updates. The data sets used were those available as at 16 May 2016.

Nominal GDP is expected to grow by:

- 5.4 per cent in 2015/16
- 2.1 per cent in 2016/17
- 1.8 per cent in 2017/18
- 2.6 per cent in 2018/19
- 2.5 per cent in 2019/20

The general model used to forecast nominal economic growth is based on the expenditure national accounting measure and uses estimates of public sector consumption and investment (including aid assistance), net merchandise trade, total tourism spending, domestic investment, and domestic consumption.

Tourism expenditure is the largest single component of the forecasts, and is based on:

An average stay of 8.4 days for New Zealand arrivals, 8.9 for Australia, 8.2 for USA, 10.0 for Canada, 8.7 for Europe, 6.6 for Asia, and 7.9 for other markets. This data was collected from the Customs and Immigration database of arrivals and departures, which uses the passport numbers of visitors to determine how long an individual passport holder is in the country.

Average visitor spend of NZD 230-260.00 per day, which is estimated from quarterly visitor surveys and a CPI indexation of a basket of tourist services.

Public consumption is the second largest single item and is estimated based on the personnel and operating appropriation for both Government and aid spending. 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 smoothing approach is taken to reflect assumed delays and rollovers.

Government consumption expenditure is based on the Operating Estimates for 2015/16, Appropriation for 2016/17, and existing government policy and is expected to decline by 5.6% in 2015/16, before growing by 4.2% in 2016/17 and 1.6% in 2017/18.

Domestic (private) consumption is the next largest single item and is estimated based on consumption patterns as observed through the VAT series, along with expected inflation and population changes. The methodology derives a "consumption per head per day" metric and scales back to the full population.

Growth in prices measured through movements in the Consumer Price Index are projected based on global commodity prices and exchange rate movements as forecast by the IMF and World Bank (used to construct a 'Tradeables' series), as well as historical trends for non-tradeable components of the CPI basket. Growth in the CPI has been, and is expected to be:

- 0.4 per cent in 2015/16
- 1.6 per cent in 2016/17

- 1.5 per cent in 2017/18
- 1.6 per cent in 2018/19
- 1.4 per cent in 2019/20

Operating Expenditure movements in the outer years are based on actual commitments and are modeled through the Medium Term Budgeting Framework.

The level of borrowings is based on exchange rates provided by Bancorp, derived using Consensus Economics forecasts.

6 Economic Update

6.1 Introduction

The Cook Islands is a small open economy largely dependent on tourism, in which it has a natural comparative advantage. Tourism preferences and economic growth in the major tourist source market of New Zealand (and to a lesser extent, Australia) has a major impact on domestic economic performance. Any international developments affecting New Zealand will eventually impact on the Cook Islands. Not only is New Zealand the Cook Islands' largest trading partner, and main source of tourism, but changes in the New Zealand dollar will also impact on Cook Island domestic markets and inflation. After declines in 2014/15 (notably in Australian tourists), total arrivals have grown at near record levels over 2015/16. This growth occurred prior to the entry of Jetstar services, and could be due to a variety of demand-side factors, some of which are likely temporary. In addition, large capital works continue to be a driver for economic growth in the short to medium term, driving significant GDP growth over 2015/16. However, the completion of these projects will present challenges for maintaining the economic stimulus of construction activity in the longer term.

Despite being one of the most remote countries in the world, and one of the smallest (even by Pacific standards), the Cook Islands is one of the most prosperous countries per capita in the Pacific, behind New Zealand and Australia. The Cook Islands has enjoyed a sustained period of economic prosperity following the rapid growth of the tourism industry and a series of public sector reforms following the economic crisis of the mid-nineteen nineties. The economic dependency on tourism has benefitted the Cook Islands greatly. Despite this success, the lack of economic diversity or economies of scale make any progress fragile and reversible. Labour market constraints across various areas of the economy also present major limitations on economic growth; an issue that is worsened by continued depopulation.

In October 2015, the Asian Development Bank (ADB) released *The Cook Islands: Stronger Investment Climate for Sustainable Growth*, which recognised that some key challenges facing the Cook Islands are related to the strength of public sector performance, regulation around foreign investment, land reforms and improvements to core infrastructure services in terms of quality and sustainability. In terms of spending, the limited ability of the Government to sustain its large capital expenditures also presents a ceiling to how much fiscal stimulus can be provided if there is a downturn in tourism arrivals. Recent and upcoming investments by the Cook Islands Government and its donor partners (particularly New Zealand, the ADB, and China) will help address some of these infrastructure gaps, but improved asset management and some legislative reforms are needed to make best use of these investments.

The reliance on imports to support local consumption makes the Cook Islands extremely vulnerable to external price shocks – particularly in regards to fuel. Dramatic falls in global fuel prices have had the dual effect of reducing the domestic inflation rate (which was already low by historical standards) and reducing the cost of the underwritten long-haul services from Los Angeles and Sydney, freeing up significant government resources for 2016/17 capital spending. Global fuel prices, through their impact on the cost of transportation, remain the key risk to inflation, with World Bank forecasts predicting a partial recovery of oil prices over the coming years. Overall, cost of living in the Cook Islands is broadly comparable to New Zealand, with higher imported goods costs offsetting factors such as lower household costs (such as rent and utilities) and local transportation. With low forecast inflation going forward, it is unlikely that the relative cost of living position with New Zealand will change over the Budget estimate period.

Despite the large imbalance in goods trade, the Cook Islands enjoys a much larger surplus in services trade, owing to the significant contribution of estimated tourism receipts (which are counted as a service export).

6.2 Economic indicators and forecast summary

Tourist growth has been revised upward from the forecasts at the 2015/16 Budget due to higher than anticipated arrivals from most source markets. Growth in visitor arrivals is expected to increase 8.2 per cent in 2015/16, the strongest growth since 2010/11 due to strong growth out of New Zealand and Australia. After such stellar performance in 2015/16, the introduction of Jetstar is expected to consolidate these gains in 2016/17, with more modest arrivals growth of 1.9 per cent in 2016/17. Growth in arrivals is expected to stabilise at 1.9 per cent in 2017/18, with growth to slow from 2018/19 onwards, due to capacity constraints in the key months. The risks to tourism arrivals are generally stacked in favour of better than expected growth, with low fuel prices and increased inbound competition as key upside risks.

Expectations for global economic growth remain modest and varied, with mixed growth outlooks for the world's major economies and the Cook Islands' main trading partners. The April 2016 projections from the International Monetary Fund (IMF) predict the global economy to grow at 3.2 per cent in 2015/16, a 0.2 percentage point downward revision, and only slightly below the long term trend. The outlook for emerging economies is varied, with China and most of emerging Asia expecting strong growth rates, while many developing commodity exporters face severe economic conditions on the back of depressed commodity prices. Growth in major developed economies is also mixed. The United States economy continues to return to business-as-usual with growth in Europe remaining small, but positive, growth. Japan is facing significantly lower than expected growth driven by a particularly sharp drop in private consumption. Closer to home, Australia's is transitioning to more broad-based growth after declines in commodity exports, with household income and employment continuing to grow, albeit at slower rates than recent history. Our largest trading partner and source market for visitors, New Zealand, is in its 7th year of continuous growth, but future growth potential may be constrained by slower growth in China and weaker than expected dairy prices. The main upside risk for New Zealand is around the possibility of continuing strong migration inflows boosting domestic demand.

After falling to a record low of US\$25 per barrel in January 2016, oil prices are forecast by the IMF to stabilise between US\$40 and US\$50 per barrel. While low oil prices have generally had an adverse impact on oil dependant nations, global inflation has been depressed due to reduced transportation and import costs.

Inflation as measured by the Cook Islands Consumer Price Index (CPI) is estimated at a year-average 0.4 per cent in 2015/16 on the back of falls in oil prices. Going forward, the rate of inflation is projected to grow to 1.6 per cent per annum over 2016/17, as some rebound in the currently low global oil prices is expected. Domestically driven inflationary pressure is assumed to remain muted, with most inflation coming from imported sources.

Nominal GDP (which includes inflation) is now estimated to have increased by 5.4 per cent in 2015/16, a large upwards revision from the forecast of 0.3 per cent decline forecast at the time of the 2015/16 Half-year Economic and Fiscal Update. This is due to a significant revision in official GDP estimates by the Cook Islands Statistics Office, as well as significantly higher growth in tourism arrivals from December 2015 to April 2016.

Nominal GDP is expected to grow by 2.1 per cent in 2016/17, due to strong visitor arrival projections and continued government capital spending. Growth falls to 1.8 per cent in 2017/18 due to the completion of some capital projects, and slower tourism growth. A return to trend levels of growth for tourism sees GDP growth return to between 2 and 3 per cent from 2018/19 onwards.

As prices in the economy (as measured by the GDP deflator) are forecast to have decreased over 2015/16, real GDP (which removes inflation) is estimated to have grown by 6.2 per cent. This is due strong nominal GDP growth combined with large declines in oil prices (as oil prices generally have a much greater impact on the GDP deflator, as compared to CPI). Real GDP growth returns to 1.6 per

cent growth in 2016/17, due to price growth reducing nominal improvements. From 2017/18 onwards, real GDP growth is expected to converge on the projection of around 1 per cent growth.

As the final GDP data for 2015/16 is not available, the forecasting methodology has been applied to what data is available, using partial indicators where possible, to form the best estimates. New economic data became available after the finalisation of the forecasts presented here and will be included in future economic updates.

Table 6.1 Summary of Economic Indicators

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	Est.	Est.	Proj	Proj	Proj
Economic Activity					
Nominal GDP (\$'000)	418,364	427,310	434,809	446,109	457,107
<i>Percentage change (YOY)</i>	5.4	2.1	1.8	2.6	2.5
Real GDP (at Constant 2006 Prices, \$'000)	421,700	428,471	432,044	436,923	441,443
<i>Percentage change (YOY)</i>	6.2	1.6	0.8	1.1	1.0
Inflation					
<i>Percentage change (YOY)</i>	0.4	1.6	1.5	1.6	1.4
Construction/Capital Investment					
Commercial Building Approvals (\$'000)	3,554	3,554	3,554	3,554	3,554
Residential Building Approvals (\$'000)	5,605	5,395	5,192	4,997	4,810
Public Works (\$'000) (includes Dev Partners)	22,446	21,470	16,591	12,687	17,914
Productive Sector Indicators					
Visitor Arrivals	131,700	134,180	136,735	138,981	140,681
<i>Percentage change (YOY)</i>	8.2	1.9	1.9	1.6	1.2
Estimated Visitor Expenditures (\$'000)	275,872	280,621	290,424	300,081	308,241
Pearl Exports (\$'000)	301	301	301	301	301
Fish Exports (\$'000)	18,184	18,184	18,184	18,184	18,184
External Sector					
Merchandise Trade Balance (\$'000)	(131,229)	(130,232)	(126,586)	(123,746)	(127,248)
Services Trade Balance (\$'000)	275,872	280,621	290,424	300,081	308,241
Exchange Rate (USD/NZD Average)	0.6575	0.6300	0.6400	0.6600	0.6600
Financial Sector (at end of financial year)					
Government Net Debt Position (\$'000)	50,014	68,244	81,681	66,455	49,778
Private and Public Enterprise Deposits (\$'000)*	195,204	-	-	-	-
Private and Public Enterprise Loans (\$'000)*	245,772	-	-	-	-

* No attempt has been made to estimate public or private deposits or loans due to breaks in the data series

6.3 Gross Domestic Product (GDP)

Nominal GDP is estimated to have grown by 5.4 per cent in 2015/16, a significant upwards revision due largely to a six percentage point revision to historical GDP figure. Other factors include a dramatic increase in tourism arrivals heading into the 2016 calendar year (assumed to be due, in part, to Cyclone Winston in Fiji), continued support from public expenditure projects, and the 50th Anniversary celebrations. It's unclear whether the dramatic increases in tourism arrivals in 2015/16 will continue at the same rate, but with new inbound competition and capacity, we estimate that arrivals will retain all of the recent gains and continue to add modestly to the current record numbers. As a result, nominal GDP growth in 2016/17 is expected to be more muted, with the economy expected to grow a further 2.1 per cent.

The completion of some public capital projects in 2017/18 reduces growth to 1.8 per cent in that year, but the growth rate recovers to around 2½ per cent growth from 2018/19 onwards.

Recent GDP estimates and revisions highlight the sensitivity of the Cook Islands economy to relatively small changes in single industries or the implementation schedules of public capital projects. This is particularly important in the coming years, with our forecasts highly dependent on continued growth from New Zealand arrivals, modest fuel prices, and full implementation of the current capital infrastructure program across the forward years.

Table 6.2 GDP growth revisions

	2015/16		2016/17		2017/18	
	2015/16 HYEFU	2016/17 Budget	2015/16 HYEFU	2016/17 Budget	2015/16 HYEFU	2016/17 Budget
Nominal GDP growth (per cent)	0.5	5.4	2.6	2.1	0.7	1.8
Real GDP growth (per cent)	-1.2	6.2	1.4	1.6	-1.6	0.8
Implicit GDP deflator (percentage change)	1.7	-0.8	1.2	0.5	2.3	0.9

Due to the fall in oil prices, production prices (as measured by the GDP deflator) across the economy are expected to have fallen modestly in 2015/16. This results in Real GDP estimates exceeding nominal GDP growth forecasts in 2015/16; the real economy growing an estimated 6.2 per cent. Low oil price growth over the forward years keeps changes in the GDP deflator relatively muted, with real GDP growth falling to 1.6 per cent growth in 2016/17 and 0.8 per cent growth in 2017/18.

These forecasts remain dependent on a number of recent trends continuing. The key downside risks to GDP growth are:

- Poor budget execution of the current and projected public capital investment – in particular, any unexpected delays in the implementation of the renewable energy or water projects;
- The preferences of New Zealand and Australian tourists moving towards other competing tourism markets in the Pacific or Asia, or choosing to holiday within their respective countries;
- An economic slowdown in New Zealand and/or Australia;
- The domestic labour market failing to increase through a decline in migrant labour entering the Cook Islands to fill job vacancies, or Cook Islanders continuing to leave the local market;
- External price shocks to our major import categories (fuel or food supplied by New Zealand);
- Interest rate cuts by the Reserve Bank of New Zealand result in declines in the value of the New Zealand dollar, increasing Cook Islands import prices; and

- Any reductions in projected assistance from development partners stemming from the Cook Islands potential graduation from official development assistance.

On the upside, key risks are:

- Low global inflation, and particularly low New Zealand inflation, may continue for longer than expected;
- Increased competition in the airline industry leads to larger than anticipated increases in tourist arrivals, particularly in the shoulder and off seasons; and
- There may be new development projects or capital works come on line that are currently unbudgeted.

Chart 6.1 Real GDP at 2006/07 prices, 2005/06 to 2019/20 (\$'000)

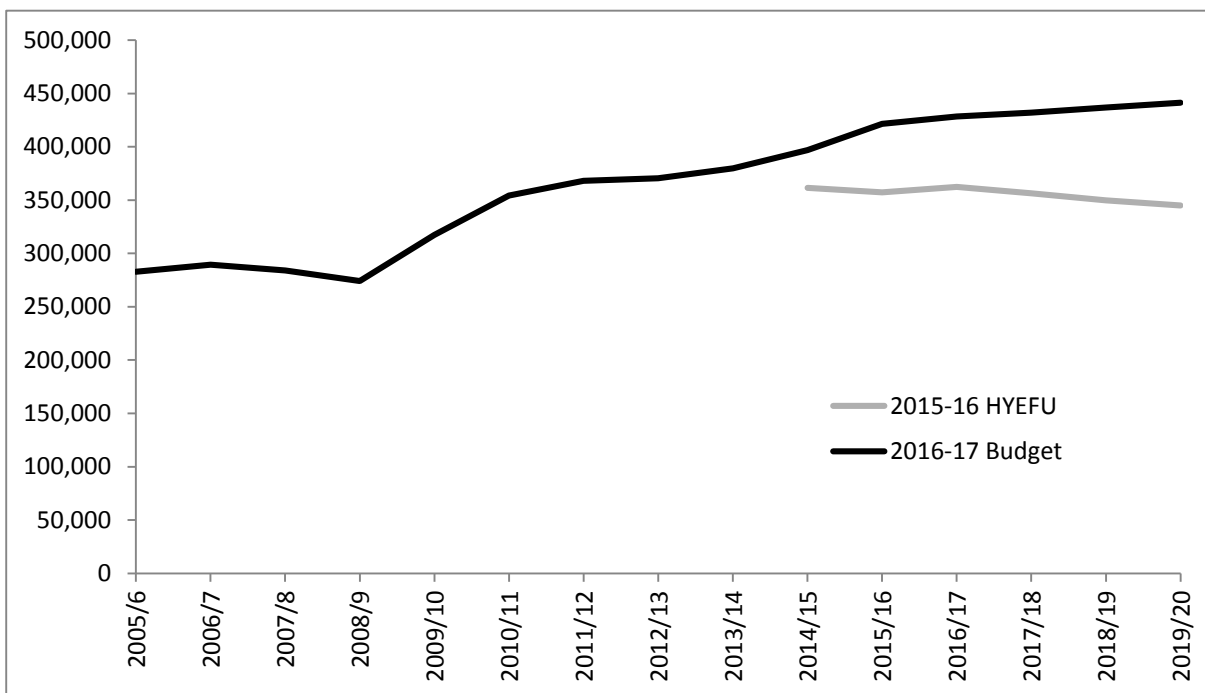
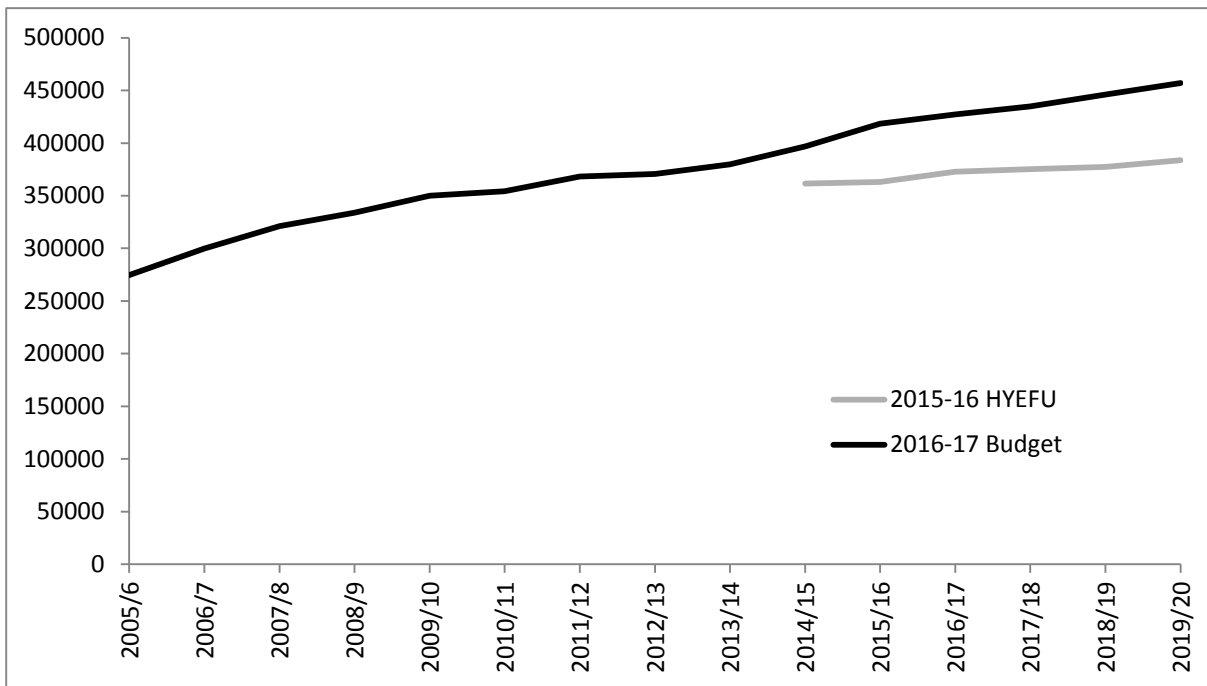


Chart 6.2 Nominal GDP at current prices, 2005/06 to 2019/20 (\$'000)



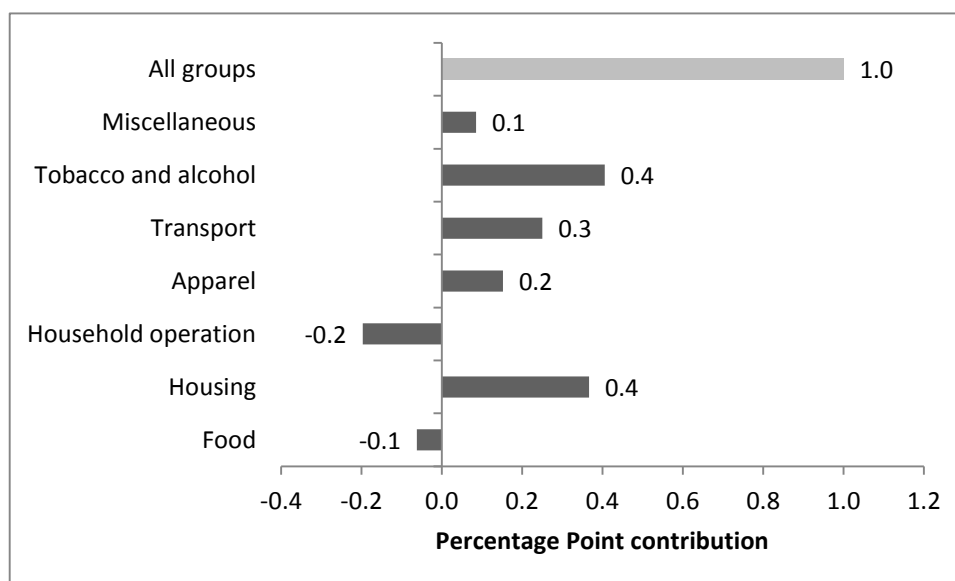
6.4 Consumer Price Index (CPI)

Inflation in the Cook Islands is measured by the Consumer Price Index (CPI), which is reported on a quarterly basis. Over the last ten years, the Cook Islands has enjoyed low and relatively stable inflation due to the use of the New Zealand dollar (NZD) as the national currency (with the exception of the dramatic increase in global fuel prices which drove inflation to 10.2 per cent in 2008/09).

Large falls in the price of oil, together with low inflation in New Zealand, have applied downward pressure on Cook Islands domestic inflation. At the time of publication, the most recent CPI data available was for the March quarter 2016, which showed that the CPI had fallen by 0.1 per cent when compared to the March quarter 2015 (that is, consumer prices had fallen slightly as compared to the same time last year). In year average terms (an average of the quarterly changes for a whole year), annual inflation was 1.0 per cent for the year ending March 2016.

Annual average inflation was largely driven by increases in alcohol and tobacco, and housing costs, which each contributed 0.4 percentage points to annual inflation. The increase in price of tobacco products was due to the planned increase to tobacco taxation, in a bid to reduce national consumption. Conversely, food prices and household operation applied downward pressure on inflation over the same period, contributing negative 0.1 and 0.2 percentage points respectively.

Chart 6.3 Contribution to March quarter 2016 year average inflation (percentage point contribution)

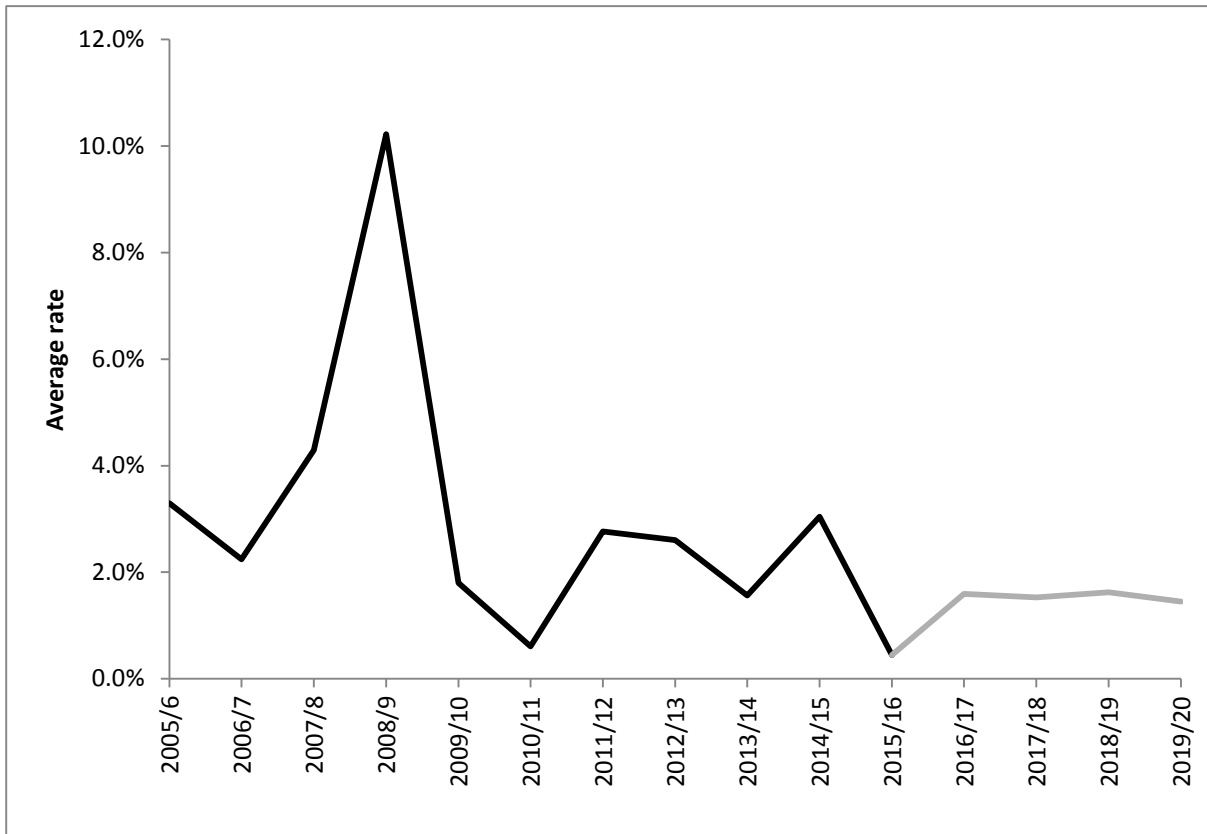


Annual average inflation for 2015/16 is expected to be 0.4 per cent due largely to declines in oil prices and weak inflation in New Zealand export prices. Going forward, the inflationary pressure brought on through the lower NZD is heavily offset through large declines in global fuel prices; however, the IMF suggests that the global oil price will slowly climb as global demand improves and oil producers limit supply. Reflecting this, annual average inflation in 2016/17 is estimated to be 1.6 per cent.

Inflation is then expected to stay relatively stable at around 1½ per cent from 2017/18 onwards due to muted growth in non-tradeable prices.

NZD/USD rates and oil prices are the main risks to the inflation outlook.

Chart 6.4 Consumer Price Index (CPI), year average, 2005/06 – 2019/20



6.5 Tourism

Tourism remains the largest industry in the Cook Islands, accounting for around 60 per cent of the economy. The Cook Islands experienced record tourism arrival numbers almost every year from 2001 to 2013/14. However, recent years have seen a consistent slowing of tourist growth. In 2010/11 and 2011/12, total visitor growth was 8.4 and 7.4 per cent, respectively. However, this slowed in 2012/13 and 2013/14 to 3.5 and 1.6 per cent, before a 0.9 per cent decline in 2014/15.

After declining in 2014/15, tourism arrivals in 2015/16 performed significantly better than expected. Total arrivals growth is projected to be 8.2 per cent in 2015/16, a significant rebound from the negative growth experienced in 2014/15 and the overall trend of declining arrivals growth since 2010/11. Of particular note, Australian arrivals declined 9.1 per cent in 2014/15, before recovering by an estimated 11.0 per cent in 2015/16, with much of this growth occurring in the latter half of the financial year. This turnaround was supported by strong estimated growth of 6.8 per cent out of New Zealand, resulting in much better than expected total arrivals than predicted at the time of the 2015/16 HYEPU.

However, the Cook Islands market share of outbound travellers from New Zealand and Australia has remained relatively stable over 2015/16, suggesting much of the Cook Islands recent growth in arrivals from these two markets is due to the general upsurge in outbound travellers to Pacific destinations. Other potential contributors to growth include adverse weather events in competitor markets and the 50th constitution celebrations in August 2015.

The unexpectedly strong arrivals in 2015/16 have resulted in upward revisions to the arrival forecasts for 2016/17 onwards. Arrivals are projected to grow by 1.9 per cent in 2016/17 and 2017/18, due to increased flight capacity into Rarotonga and maintaining market share out of Australasia. Arrivals growth is then projected to moderate to around 1 to 1½ per cent due to capacity constraints in the peak months and return to longer term travel patterns for key markets

New Zealand remains by far the largest market at with projected market share of total arrivals of 66 per cent in 2015/16, with Australia having a smaller, but significant share (17 per cent). Arrivals in the year to April 2016 are 8.3 per cent higher than the similar period in 2014/15, and the first ten months of 2015/16 (Jul-Apr) are 9.2 per cent higher than the same period last year. Unusually, growth has been particularly strong in the March 2016 quarter, with growth averaging 17.2 per cent over all source markets. Within this period, Australia arrivals have grown by an average of 30 per cent, which highly unusual for this market, as the majority of Australian travelers arrive in the Cook Islands in the last half of the calendar year.

The average stay is estimated at approximately eight days. The visitor stay is heavily influenced by the level of New Zealand and Australian arrivals and the month of travel. The average daily spend including accommodation is estimated at around \$240 per visitor (including children), but varies by travel month and by tourist source market.

A downside risk to the forecasts remains that the large number of arrivals in July and August caused other tourists to be shifted to alternative times, such as September and October. If this is the case, arrivals may experience slower growth in future years, as 2015/16 is artificially inflated (particularly for July and August). Offsetting this risk somewhat is that the increased competition and flight capacity into Rarotonga will continue to grow arrivals at record rates, and that persistently low fuel prices will continue to support the underwritten flight from Los Angeles and Sydney.

Chart 6.5 Total monthly visitor arrivals (12 month moving average) 2007-2020

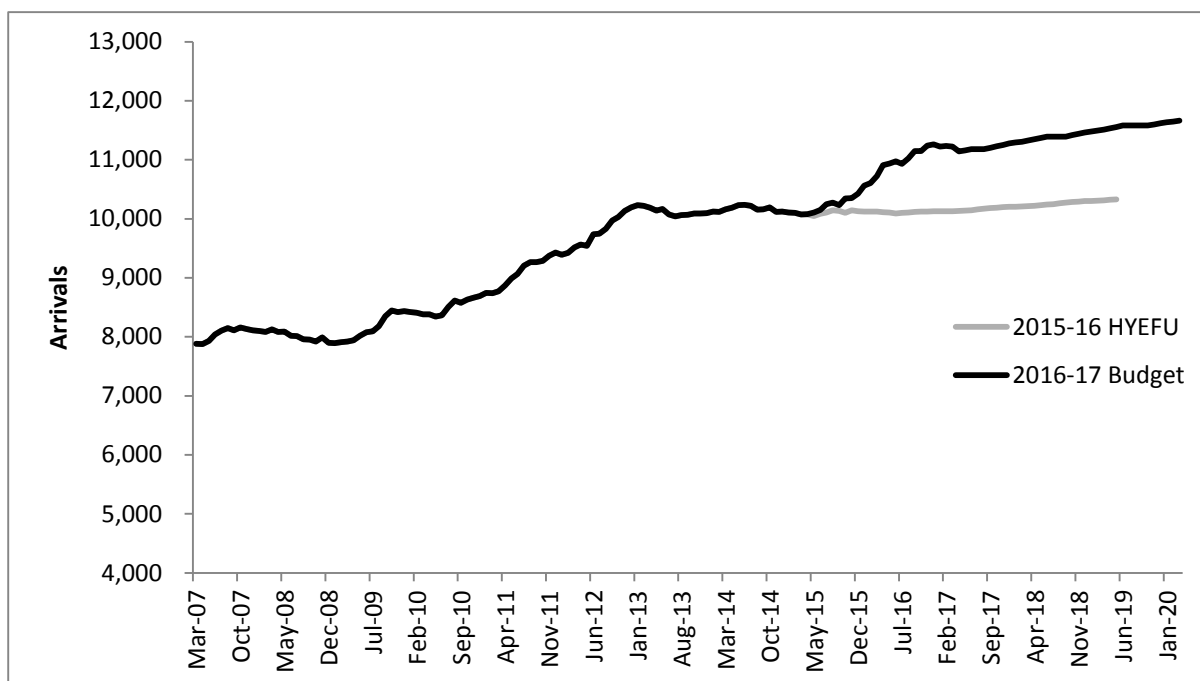


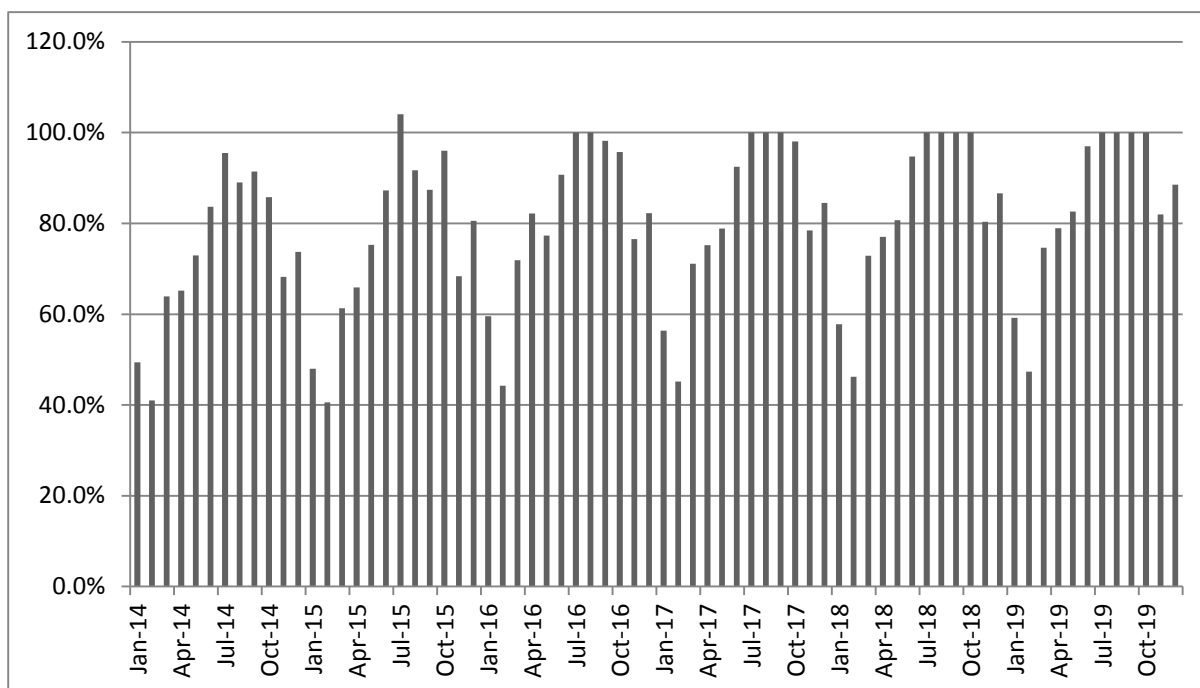
Table 6.3 Estimated total tourism numbers by quarter 2014/15 to 2019/20

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2014/15	38,102	31,435	20,694	31,541	121,772
2015/16	39,084	33,813	24,261	34,500	131,700
2016/17	41,200	35,100	23,800	34,000	134,200
2017/18	41,400	36,000	24,400	34,900	136,700
2018/19	41,400	36,900	25,000	35,700	139,000
2019/20	41,400	37,300	25,500	36,400	140,700

Historical arrivals data has proven the need for increased accommodation capacity on Rarotonga. The 50th constitutional celebrations held in July 2015 surpassed the previous arrivals high set during the Pacific Island leader’s forum in July 2012 by more than 1,000 visitors. However, many of the visitors directly involved in the celebrations stayed in informal accommodation (such as with family or in community halls). As such, July 2012 continues to be the benchmark for the maximum number of tourist arrivals that Rarotonga can be expected to reasonably accommodate in the absence of any capacity expansion. A presentation of the capacity utilisation is provided at the chart below.

As of the 2015/16 year, 8 months are above 10,000 total arrivals (with May and June predicted to comfortably reach this target), 7 of these months will exceed 11,000. To compare, as recently as 2009/10, only two months reached 10,000 (July and September), with only July reaching above 11,000 (it reached 11,917).

Chart 6.6 Tourism capacity utilisation by month – 2014 to 2020



Due to the upward revision in the arrival forecasts, capacity constraints are expected to be more binding than forecast in the 2015/16 HYEPU. In particular, due to the high number of arrivals in July 2015, expectations of future July arrivals are constrained by the imposed capacity limit.

If the significant growth in arrivals experienced in 2015/16 is to continue, the capacity of the tourism sector needs to expand (be it management capacity or additional room stock). The overall Tourism Corporation strategy of increasing arrivals in non-peak times may be able to increase the capital returns of the industry in the short term, thereby encouraging more investment, but increases in value offerings or capacity will be required to sustain growth in the longer term.

6.5.1 New Zealand

New Zealand continues to be the Cook Islands leading market for visitors, accounting for an estimated 66 per cent of the total market (or an estimated 87,800) in 2015/16.

Over the past ten years, New Zealand arrivals have grown an average of 7.0 per cent a year – a phenomenal level of growth with New Zealand arrivals almost doubling over that period (increasing by 94 per cent). Outbound tourism from New Zealand only grew 28.7 per cent over the ten years to 2015, an average of 2.6 per cent a year. This represents a large shift in New Zealand tourist preferences towards the Cook Islands over other destinations. This is supported by the results of the visitor survey in 2015 which estimates that 47 per cent of visitors from New Zealand are return visitors – an impressive achievement for the tourism industry of the Cook Islands.

However, with the exception of 2015/16, the past two years has seen the share of New Zealanders travelling to the Cook Islands as a proportion of travelers heading to Oceania (excluding Australia) declining, as New Zealand tourists revert back to trend on trips to Fiji. The Cook Islands’ share of New Zealand travelers in Oceania (not including Australia) peaked at 25 per cent of the market in 2011/12 and 2012/13, and fell to around 23 per cent in 2014/15.

After increasing by 2.4 per cent in 2014/15, New Zealand arrivals are expected to increase by 6.8 per cent in 2015/16, due to largely higher than expected arrivals in the December and March quarters. The increase in arrivals in the March quarter was especially encouraging, as this is typically a low period for New Zealand arrivals.

Arrivals in 2016/17 are forecast to grow by 2.3 per cent (closer to the growth of total New Zealand outbound travelers), supported by increased access and competition on flights coming from Auckland and Christchurch. From 2017/18, arrival growth from New Zealand is expected to fall to between 1 and 1 ½ per cent growth due to capacity constraints in Rarotonga and market diversion to other Pacific destinations (such as Fiji). These forecasts are based on recent performance of New Zealand arrivals in conjunction with overall New Zealand outbound tourism trends.

Chart 6.7 New Zealand monthly visitor arrivals (12 month moving average) 2007-2020

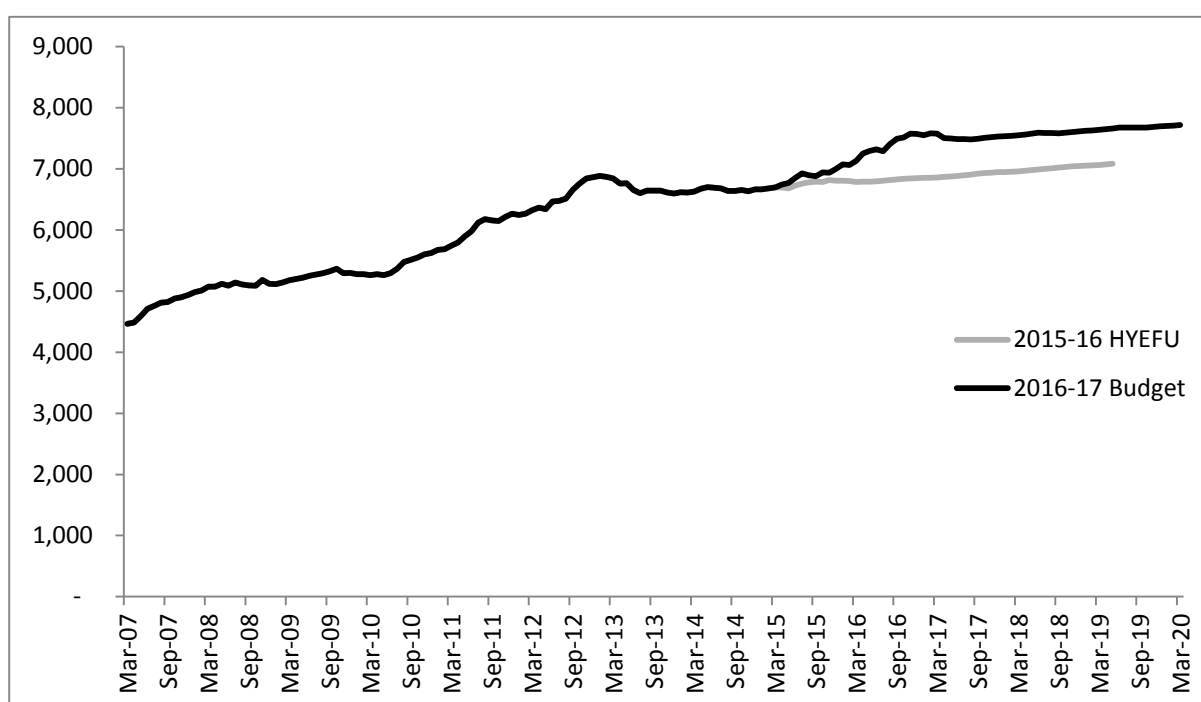


Table 6.4 Estimated New Zealand tourism numbers by quarter 2014/15 to 2019/20

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2014/15	27,788	19,625	12,061	22,743	82,217
2015/16	28,084	21,089	13,627	25,000	87,800
2016/17	30,100	22,000	13,700	24,000	89,900
2017/18	30,200	22,500	14,000	24,400	91,100
2018/19	30,100	22,900	14,300	24,900	92,100
2019/20	30,000	23,100	14,500	25,400	93,100

6.5.2 Australia

The Australian market is the second largest tourism market to the Cook Islands, accounting for approximately 17 per cent of the total market share.

Australia has been experiencing a boom in outbound tourism growth. In the last ten years Australian outbound tourism has grown by 97 per cent, an average of 7.0 per cent a year. To compare, Australian arrivals to the Cook Islands over the last ten years have increased 71 per cent, or an annual average of 6.1 per cent. While the growth in tourist arrivals from Australia has been impressive, the main driver of this appears to be the overall growth in Australian outbound tourists, rather than the Cook Islands increasing its market share. However, 2014/15 was a year of relatively slow growth for Australian outbound tourism, and this mirrors the experience of poor arrivals into the Cook Islands. Forecasts by Tourism Research Australia expect this slower growth of around 3 per cent in outbound travelers to continue for the next decade or so.

After growing an impressive 6.9 per cent in 2012/13 and a more modest 2.9 per cent in 2013/14, Australian arrivals into the Cook Islands declined significantly in 2014/15 – a fall of 9.1 percent. However, 2015/16 saw a strong recovery in Australian arrivals with arrivals growing by an estimated 11.0 percent. This reflects the very strong growth for Australian arrivals, especially in the March quarter 2016, which experienced a 30 per cent increase from the previous year. Similar to New Zealand – the March quarter is referred to as the ‘low season’ for Australian tourists, so growth during this period is preferred to growth during the last half of the calendar year, when capacity utilization is already high.

Growth is expected to continue in 2016/17, albeit at the slower pace of 5.2 per cent, supported by the introduction of Jetstar flights from most Australian capital cities. Arrivals are then expected to grow 4.5 per cent in 2017/18, before returning to a long term growth rate of approximately 2 to 3 per cent per annum from 2019/20 onwards.

While new connecting services from Jetstar have been factored into these forecasts, we are yet to see the impact of these routes for more than the first month (April 2016 was the first full month of operation), so our estimates may be conservative. Additionally, the expected change from a Boeing 767 to a Boeing 777/787 on the underwritten Sydney route presents a further opportunity to improve fare competitiveness and flight capacity with other destinations in the region (notably Fiji), especially if global fuel prices remain at their current lows.

Chart 6.8 Australia monthly visitor arrivals (12 month moving average) 2007-2018

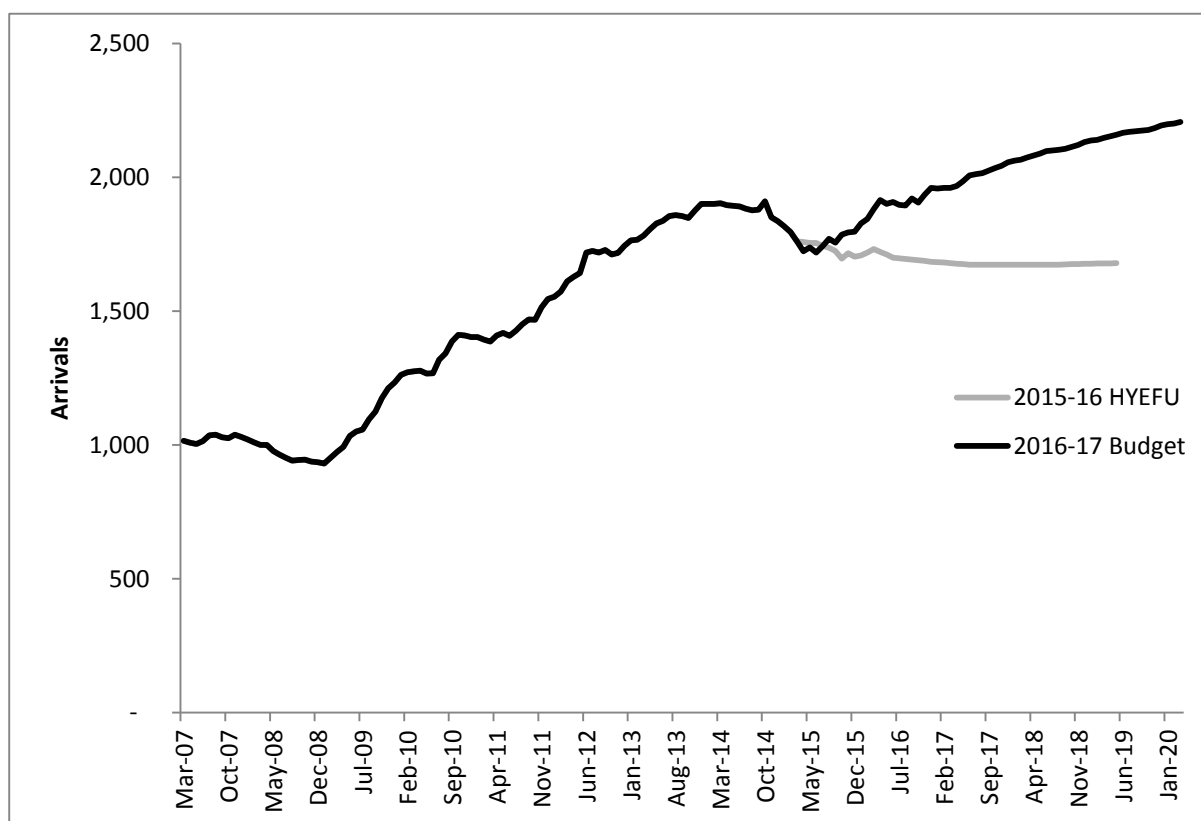


Table 6.5 Estimated Australian tourism numbers by quarter 2014/15 to 2019/20

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2014/15	5,927	6,548	3,286	4,866	20,627
2015/16	6,363	7,043	4,299	5,200	22,900
2016/17	6,500	7,500	4,300	5,800	24,100

2017/18	6,700	7,900	4,500	6,000	25,200
2018/19	6,800	8,200	4,700	6,300	26,000
2019/20	6,900	8,400	4,800	6,500	26,700

6.5.3 Other markets

Non-core markets remain relatively flat or declining, except for the United States, which has partially recovered in recent years, despite staying below the level of arrivals experienced in the early 2000s. Arrivals from other markets fell 4.9 per cent in 2014/15, offsetting any growth in 2013/14. This was mainly due to a large decrease in 'other' markets (those outside the US, Canada, Europe, Asia and French Polynesia), combined with some small declines in Canadian and European arrivals.

Arrivals from the United States and Canada are expected to grow by 8.6 and 10.8 per cent in 2015/16, respectively. Most of this growth comes from better than expected performance so far in the 2015/16 year, as well as the increases coming from a relatively low base. Moving forward, the continued economic recovery in North America is expected to support future growth in these markets.

Despite modest growth of an estimated 3.4 per cent in 2015/16, the European market is expected to continue its decline over the coming years, with slow economic growth across much of the region and intense competition from closer tropical and Mediterranean destinations. European arrivals are expected to decline 2.2 per cent in 2016/17 and remain relatively flat thereafter.

Despite recent growth, Asia and smaller markets continue to remain relatively minor contributors.

Key risks and opportunities in the non-Asian markets relate to the future of the underwritten route to Los Angeles. The significant increase in capacity and associated reduction in per-seat cost presents an opportunity to keep fares low and encourage greater arrivals from those markets. Low global fuel prices also help support the fiscal sustainability of the underwritten agreement.

Chart 6.9 Other major markets monthly arrivals (12 month moving average) 2007-2020

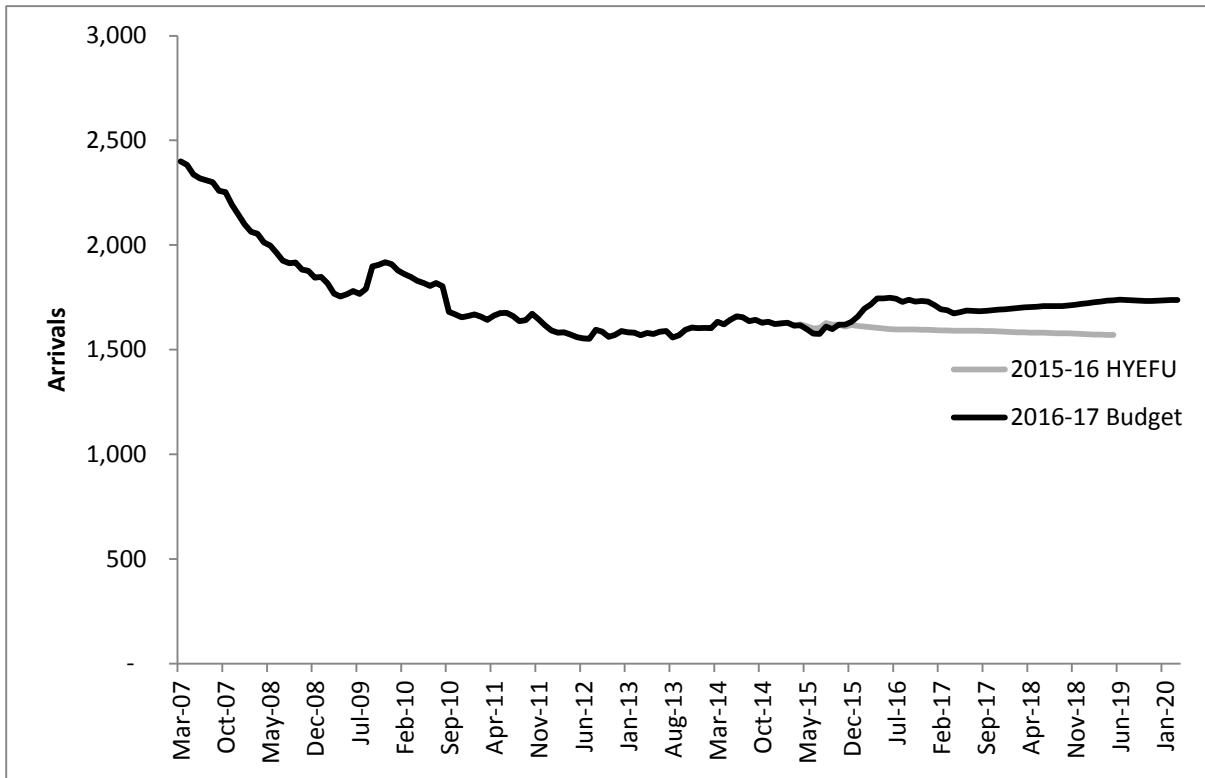


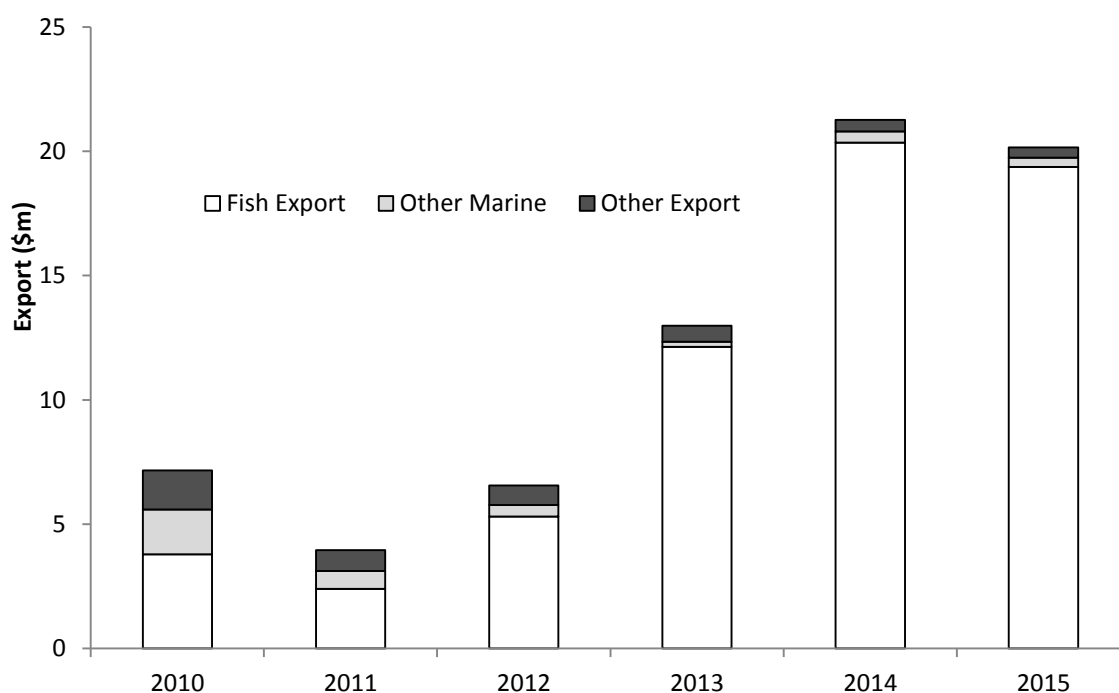
Table 6.6 Estimated tourism arrivals for other markets by quarter 2014/15 to 2019/20

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
2014/15	4,387	5,262	5,347	3,932	18,928
2015/16	4,637	5,681	6,335	4,300	21,000
2016/17	4,500	5,600	5,800	4,300	20,200
2017/18	4,500	5,700	5,900	4,400	20,500
2018/19	4,500	5,800	6,100	4,500	20,900
2019/20	4,500	5,800	6,100	4,500	20,900

6.6 Marine Resources

The Cook Islands' marine sector is predominantly made up of tuna fisheries. In 2015, national goods exports were \$20.2 million, with marine related exports accounting for 98 per cent of the goods total. Fish is the bulk of marine produce, at \$19.4 million. Other marine exports were \$0.049 million for live fish, \$0.194 million for black pearls, and \$0.158 million for mother of pearl shell products.

Chart 6.10 Fisheries exports 2010 to 2015, (\$m)



With much of the product shipped out of Rarotonga coming from foreign vessels, the main benefit to the Cook Islands economy from fishing activities continues to be the licensing revenue from treaties and fishing licenses. The provisional figures for revenue for 2015/16 are approximately \$13.8 million, consisting of:

- \$7.5 million revenue collected to April 2016; and
- \$6.3 million in anticipated revenue.

Revenue expectations are lower for 2016/17 due to the reduced number of Cook Island fishing days currently assigned to bilateral access agreements, and the low the price of landed tuna. Projected revenue for 2016/17 is \$10.2 million, consisting of;

- \$6.4 million from fishing days sold under the purse seine fishery;
- \$1.4 million from longline fishery;
- \$1.2 million from the catch tonnage assigned to purse seine fishery under the EU partnership; and
- \$1.2 million from US treaty payments.

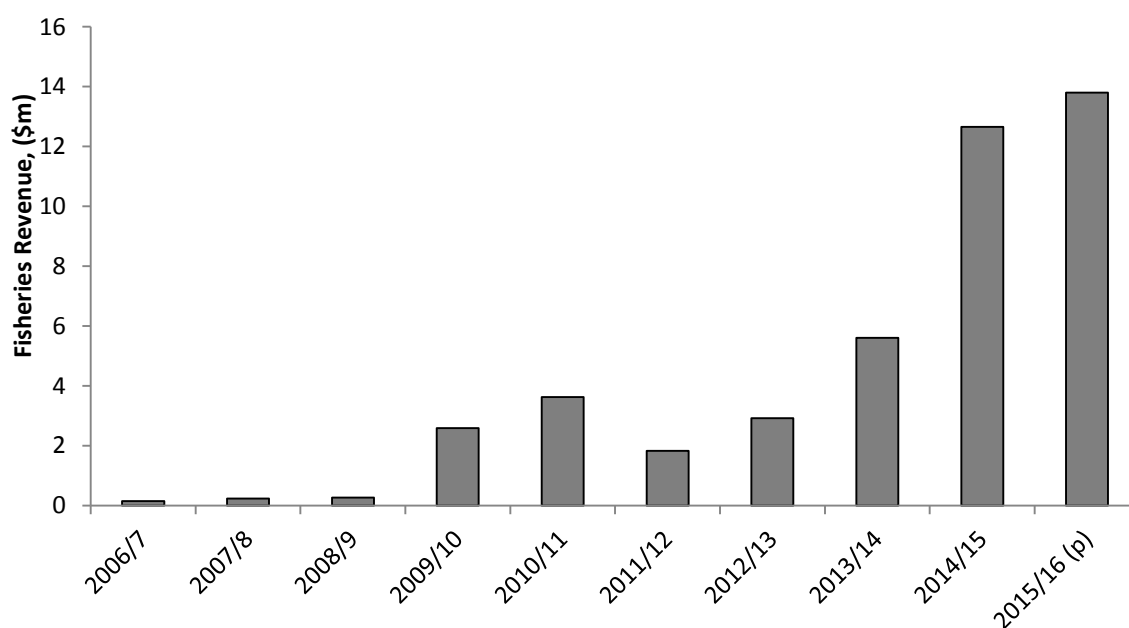
The growth in revenue has come from the purse seine fishery, where the Cook Islands has been assigned a total of 1,250 fishing days for the 2015 calendar year under the allocation provided by the Western Central Pacific Fisheries Commission (WCPFC). The purse seine fishery is likely to remain the

significant source of direct revenue for government. The Cook Island total allowable effort of 1,250 days equates to revenues of around \$15 million dollars per annum if it was fully utilised.

For the calendar year 2015 the Government entered into purse seine fishing access agreements with three fishing companies, in addition to the existing purse seine treaty with the US. Of these, two were Korean companies who are in joint partnership with the Government of Kiribati and the third is a privately owned New Zealand company. For 2015 calendar year a total of 930 fishing days were sold at an average price \$10,000 per day, but the 930 days were not fully utilised.

For the 2016 calendar year, the US treaty payments are expected to increase to an average price of \$16,000 per day, with 350 days committed so far. In addition, the government is negotiating an agreement with the European Union with an average price of \$16,000 per day for 158 days.

Chart 6.11 Fisheries revenue 2006/07 to 2015/16, (\$m)



6.6.1 Fishing

The Cook Islands EEZ is divided into a Northern and Southern fishery, with the majority of fishing taking place in the Northern fishery where the waters are more stable and productive. The main fishing grounds are from Penrhyn in the east to Pukapuka in the west, and north of Suwarrow.

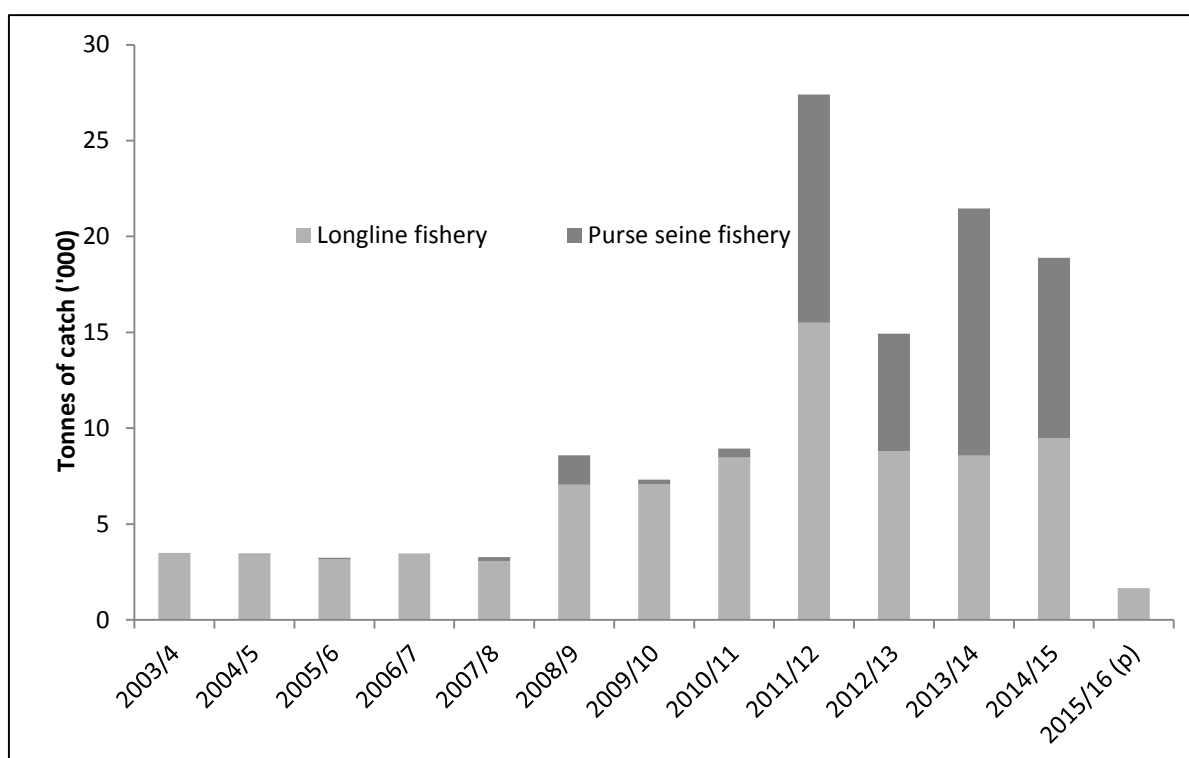
Traditionally, the Cook Islands EEZ has mainly been a long line fishery targeting albacore tuna, which is offloaded frozen to the cannery in Pago Pago where most of the long line fishing vessels are based.

The long line catches have increased steadily to a peak of 15,500 thousand tonnes in 2012 during exploratory fishing for bigeye tuna. In 2014/2015, catches from long lining declined to 9,490 tonnes as the fishery reverted back to its regulated albacore catches.

Purse seining has become increasingly important, expanding from around 1,000 tonnes in 2012, to 9,400 tonnes in 2014/2015.

The total commercial catch for all vessels in 2014/2015 was 21,466 tonnes (Chart 6.12)

Chart 6.12 Fishery Catch in the Cook Islands Exclusive Economic Zone (tonnes)



Albacore and yellow fin tuna were the major species caught by the long line fishery in 2014/2015 with increase in yellow fin compared to 2013/2014, attributed to El Nino like patterns. Skipjack tuna accounted for 92 per cent of the 2014/2015 purse seine catch, whilst bigeye tuna was two per cent of the total (Table 6.7).

Table 6.7 Fishery Catches in the Cook Islands EEZ by Species (tonnes)

	2013/2014			2014/2015			2015/2016 (p)	
	Longline	Purse Seine	Local	Longline	Purse Seine	Local	Longline	Purse Seine
Albacore	6,098	0	1	5,916	0	1.85	792	0
Bigeye	534	217	<1	983	204	0.11	210	73
Yellowfin	1,025	431	180	1,230	823	61.8	491	344
Skipjack	85	5,479	10	228	11,874	11.2	13	8,041
Other	927	0	80	780	0	70.1	150	0
Total	8,668	6,127	270	9,137	12,901	145.06	1,656	8,458

In 2015 there were a total of 89 vessels with licensing arrangements with the Cook Islands including 23 active licensed long liners, 62 purse seiners (including the US treaty fleet) and 4 Cook Island flagged vessels that operate exclusively on the high seas (Table 6.8). Only a portion of the licensed purse seiners will fish in the Cook Islands, and based on the number of the total number of active offshore fishing vessels managed by the Ministry of Marine Resources (MMR). In 2015 the catch data for the 301 local artisanal and game charter fishing boats was also reported (Table 6.8).

Table 6.8 Number of active fishing vessels

Licensed and active vessels	2012	2013	2014	2015
Offshore fishery				
Long liner	60	45	36	23
Purse seiner	16	17	18	24
Other commercial	4	4	5	4

Licensed and active vessels	2012	2013	2014	2015
Total	80	66	59	51
Local artisanal and game fishery		223	302	301

The estimated landed catch value for 2014 was \$79 million, an increase of around \$30 million compared to 2013. The increase mainly reflects a weakening of the NZD against the USD and JPY, as well as greater volumes arising from the purse seine fishery.

Albacore long line prices increased slightly from the lows experienced in 2013. However, purse seine skipjack tuna prices have reduced from the peaks observed in 2012 and 2013. The landed value for the local and artisanal catches (assuming an average price of \$8 per kilogram of round weight) is \$2 million dollars as demonstrated in Table 6.9.

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

Landed value	2012	2013	2014
Longline fishery	40	32	44
Purse seine fishery	25	15	33
Local artisanal and game fishery		2	2
Total	65	49	79

One domestic commercial fishing company (with two Cook Islands flagged vessels) operates in the southern Cook Islands waters, and offloads its fresh catch at Rarotonga. The catch is either sold locally or exported by airfreight. In 2015, 154 tonnes of fresh catch (provisional) was offloaded compared to 194 tonnes in 2014. The volume of air freight exported decreased from 23 tonnes in 2014 to just 10 tonnes in 2015.

In 2013 a Chinese owned fishing company based in Rarotonga with Chinese flagged vessels fishing in the Northern Fishery began offloading its frozen catch into Rarotonga for exported by sea freight. In 2014 1,822 tonnes were offloaded and in 2015, 363 tonnes were offloaded. The expenditure spent locally as result of the offloading operations includes items such as fuel, container charges, berthage, and local salaries.

Although there is potential for filleting and packaging super frozen tuna, little onshore processing of catch takes place in Rarotonga.

Table 6.10 Catch Landed into Avatiu port (tonnes)

	2013	2014	2015
Cook Islands flagged vessels			
Fresh catches offloaded	105	194	154
Fresh catches to be exported by airfreight	15	23	10
Chinese flagged vessels			
Frozen by-catch sold locally	23	18	0
Frozen catches to be exported by seafreight	121	1,882	363
Total	264	2,117	527

The Government is considering changes to long line fishery licenses in order to ensure that total catch remains within sustainable limits. The current regime does not limit the catches per license holder. The Government will look at developing a long line quota system to limit individual license holders to within a total allowable catch (TAC).

This approach will limit albacore catch to 9,600 tonnes, which is less than the peak catch of 10,000

tonnes caught in 2012. The albacore TAC is the catch limit which the Cook Islands has agreed to under the Tokelau agreement signed in December 2014 with other Pacific Island countries. A similar approach for bigeye will reduce the total catch to 2,500 tonnes of bigeye tuna, down from 3,000 tonnes caught in 2012.

The local fishery remains an important economic activity for game-charter operators, semi-commercial sales and subsistence fishing.

6.6.2 Pearls

Cook Islands pearls are sold on both domestic and international markets. The performance of the Cook Islands pearl industry is mainly assessed on the export trends due to the difficulty in quantifying the size of the domestic market. The value of exports declined from \$1.6 million in 2010 to \$0.142 million in 2013, before improving to \$0.364 million in 2014. In 2015, \$0.158 million of black pearls were exported.

The production base in terms of seeded oysters has remained relatively low, with around 10 active farmers and a further 14 farmers operating at minimal levels. Compliance with the Manihiki lagoon management plan (to improve environmental management and farming practices) is contributing to the improved quality of pearls being produced.

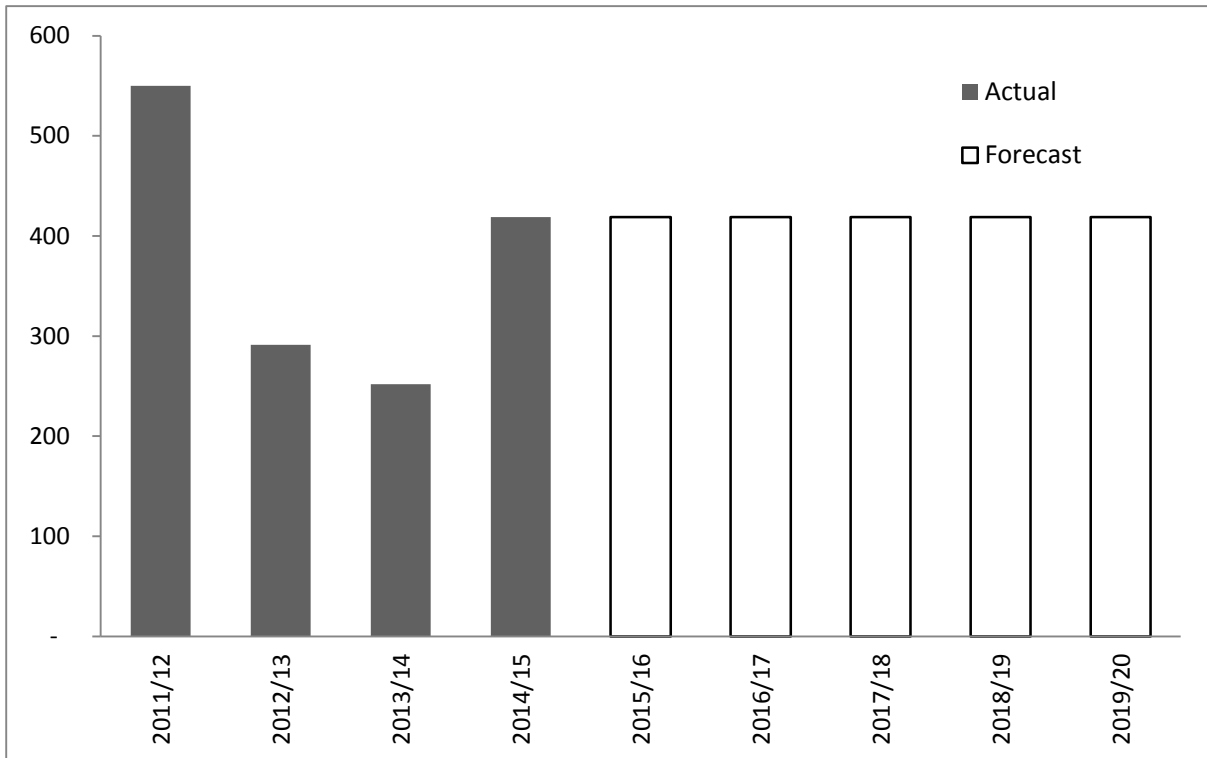
Declining export figures since 2009, but relatively stable production suggest that an increasing proportion of pearls are being sold on the domestic market where prices are better, and greater value added opportunities are available.

Higher levels of production are expected after new farming materials provided by the governments of New Zealand and China. Seeding and harvest records collected from pearl farmers indicate that in 2014 there was a sizable increase in the number of saleable pearls: 37,000 pearls compared to 19,000 pearls in 2013.

Table 6.11 Pearl production, 2009-2014

Year	Farmed shells	Seeded shells	Saleable pearls
2009	40,429	16,716	3,005
2010	77,544	61,351	11,182
2011	153,980	137,112	5,271
2012	239,333	207,576	13,199
2013	151,993	105,802	19,065
2014	198,575	120,916	37,169

Chart 6.13 Pearl Exports (including pearl shell) 2011/12 to 2019/20, (\$000)



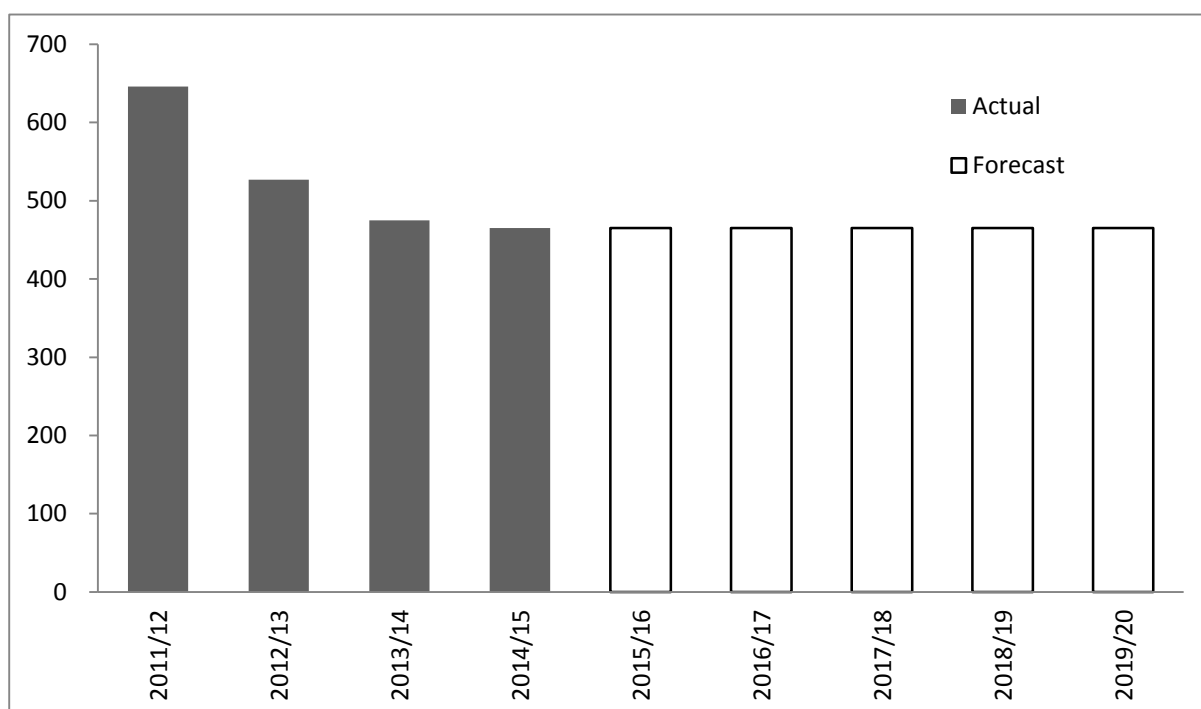
6.7 Agriculture

Over the past ten years, tourism and the associated demand for food has increased markedly, but imports of food items have not increased by as much as would be expected. This supports the case that local production is competitive with imports in terms of the price and quality of products that are currently being supplied.

The Agriculture sector accounted for 3.3 per cent of GDP in the year to September 2015, which is the same proportion as the previous year. Agricultural exports increased marginally across the same period.

The Cook Islands has considerable potential for increased local agricultural production (drinking coconuts, root crops, ornamentals, tropical fruits, vegetables, hydroponics vegetables, processing and value adding products, including handicraft products). However, there are numerous constraints that limit further growth in this sector including: labour shortages; relatively high local wages in other industries; low water supply; coordination failures in supply chains; land issues; higher financial returns in other industries; and high costs of transportation to get produce to markets (from the Outer Islands to Rarotonga, or from Rarotonga to abroad).

Chart 6.14 Agriculture Exports 2011/12 to 2019/20, (\$000)



The Ministry of Agriculture, in conjunction with the Business Trade and Investment Board, is investing in vanilla production and value adding for the local market, as well continuing programs for Noni production. Six thousand Noni seedlings are being raised to cater for farmers needs on Rarotonga and four thousand seedlings are being cultivated for the Outer Islands (Atiu, Mangaia and Mitiaro). In addition to these measures, the Ministry of Agriculture is providing support for the revitalisation of the coffee industry in Atiu and arranging supporting measures to export taro, pineapples and vegetables under the FAO Technical Corporation Program (TCP) 2015 to 2017.

With regards to domestic production, there has been a marked increase in the number of hydroponic and semi hydroponic, biological/organic, and aquaponic systems in Rarotonga, Atiu,

Mauke, Manihiki and Aitutaki for the supply of salad products. These products include lettuce, tomato, capsicums, herbs, spring onions, bok-choi and some other summer vegetables that cater for the high demands from the local restaurants, supermarkets and hotels. Together with household consumption, the size and growth in the tourism market suggests that there are still numerous opportunities to fill domestic demand requirements. The recent arrival of small agricultural machinery from China will further strengthen the local production and consistency of supplies.

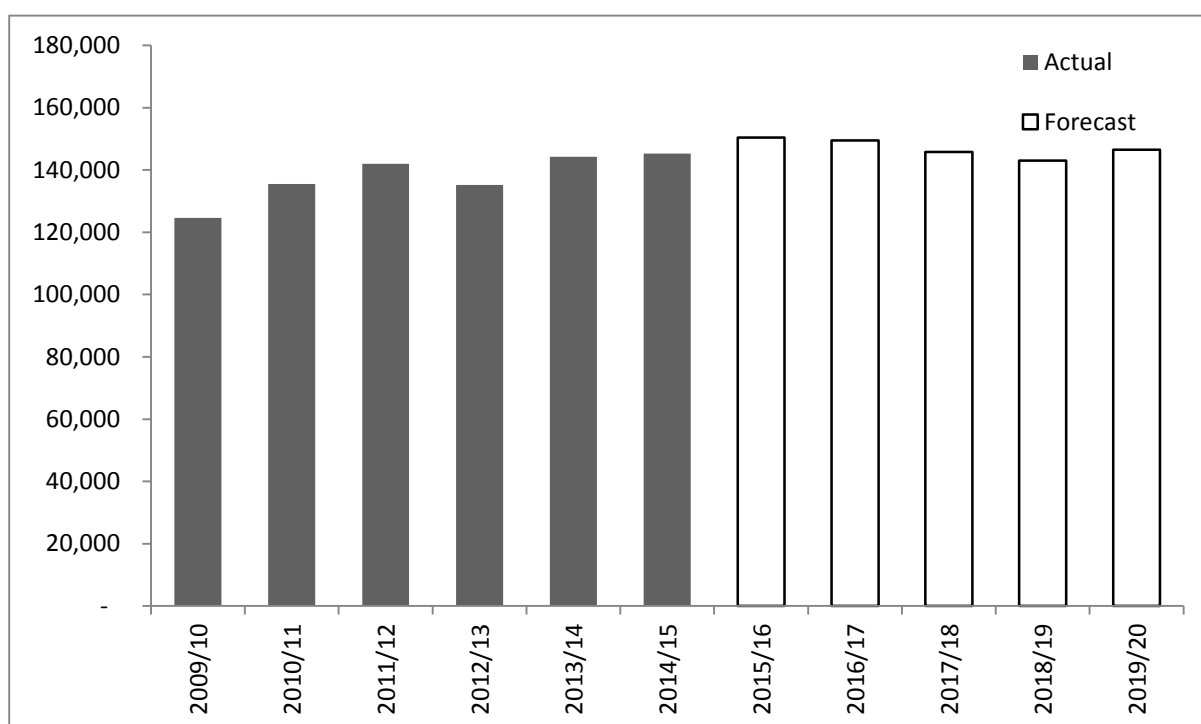
6.8 Goods Exports and Imports

6.8.1 Goods Imports

Import data through to December 2015 shows that imports increased by 7.9 per cent (\$11.5 million) from the year to December 2014. The increase in imports is driven mainly by a \$6.9 million (26.2 per cent) increase in machines, transport and equipment imports related to capital projects. Other sections that experienced growth include imports of chemicals (\$3.08 million or 38.7 per cent) miscellaneous manufactured goods (\$3.58 million or 24.5 per cent) and food & live animals (\$3.64 million or 10.4 per cent). Offsetting growth in imports has been the continually depressed global oil prices, which is reflected in the \$6.9 million (21.5 per cent) decrease in mineral & fuel imports.

Overall the stronger than expected growth in imports is thought to be driven mainly by spending on capital projects and the import of new vehicles into Rarotonga. New Zealand continues to be the dominate supplier of imports into the Cook Islands, accounting for approximately two-thirds of total imports.

Chart 6.15 Value of total imports 2008/09 to 2018/19, (\$'000)



For 2015/16, it is estimated that import leakage from the Cook Islands was approximately 40 per cent – or more simply, that for every dollar spent in the Cook Islands economy, 40 cents went to foreign production. This is an improvement from the 45 per cent experienced in 2014/15, but represents the Cook Islands heavy reliance on imported products to meet demand for locals and visitors alike.

Due largely in part to the absence of new capital projects in the outer years coupled with coupled with GDP growth over the same period, Import leakage is forecast to gradually fall below 40 per cent, reaching 35 per cent by 2019/20. The strong likelihood of new capital projects being brought online over the same period suggests significant upside risks to this estimate, as most large infrastructure spending tends to go to foreign companies.

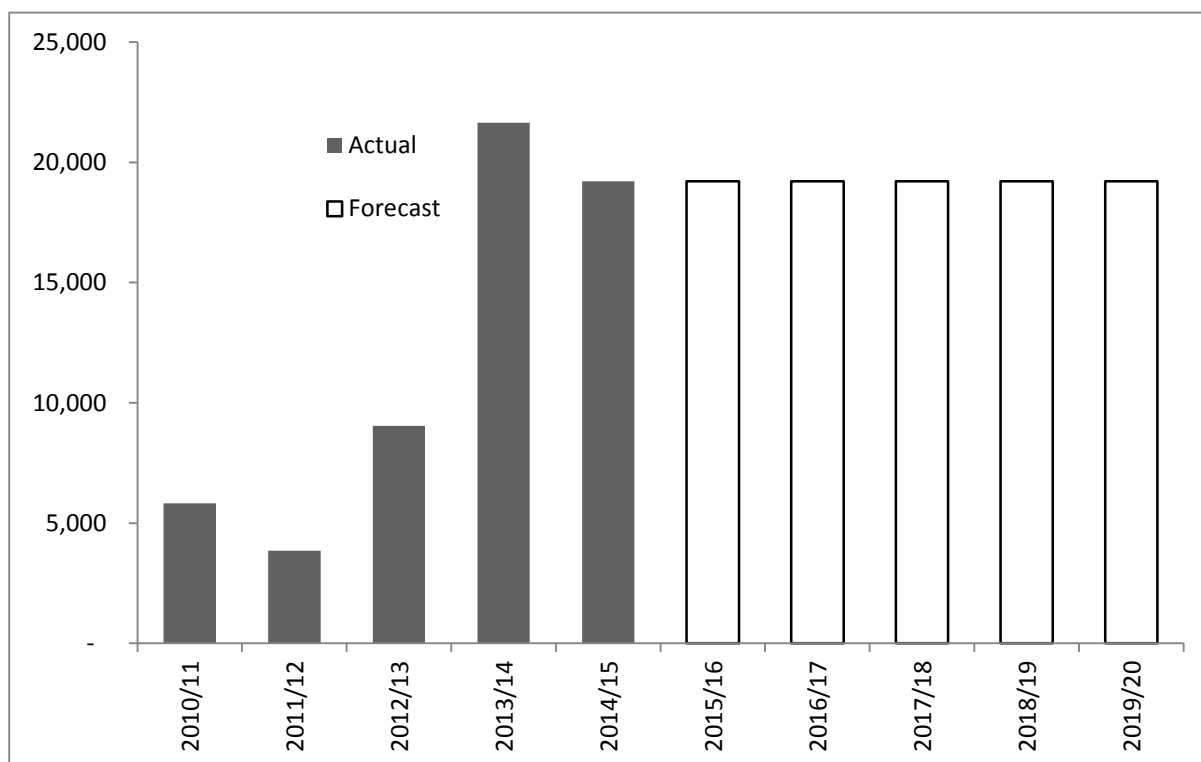
6.8.2 Goods Exports

Data for the year to December 2015 showed a decrease of 5.2 per cent in exports when compared with the same period a year earlier. This decrease is primarily driven by falls in fresh and chilled fish exports, with some small contributions from pearls and live fish. The decrease was partially offset by slight increases in Maire, Noni and pearl shell exports.

For 2015/16, it is estimated that for every dollar earned in the economy, over 70 cents is derived from foreign sources (although this is almost exclusively driven by tourism, with a small contribution from goods exports). This reflects the overwhelming reliance on tourism receipts for private sector production.

It is expected that total goods exports will remain largely unchanged in 2016/17 and across the forward years, although this depends heavily on the amount of fish transhipped through Avatiu harbor. If current fishing license arrangements are expanded, these forecasts will need to be revised to accommodate the additional fish exports.

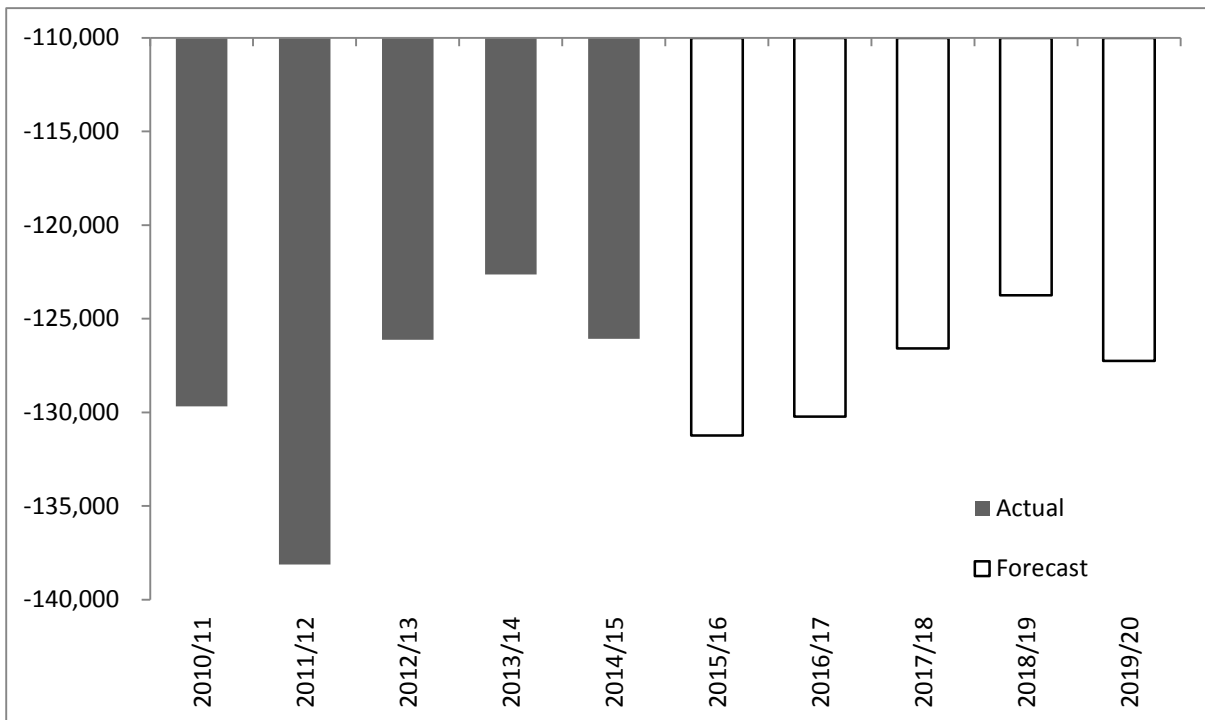
Chart 6.16 Total exports 2010/11 to 2019/20, (\$'000)



6.8.3 Merchandise Balance and Balance of Trade

A negative merchandise balance of \$131.2 million is estimated for 2015/16, decreasing slightly to a deficit of \$130.2 million in 2016/17. The slight improvement in merchandise trade balance is driven by a decrease in donor funded capital investment. With fewer new capital projects coming online from 2016/17 onwards, imports are projected to fall slightly on an annual basis due to less imported machinery and materials. Exports are assumed to stay stable over the same period. .

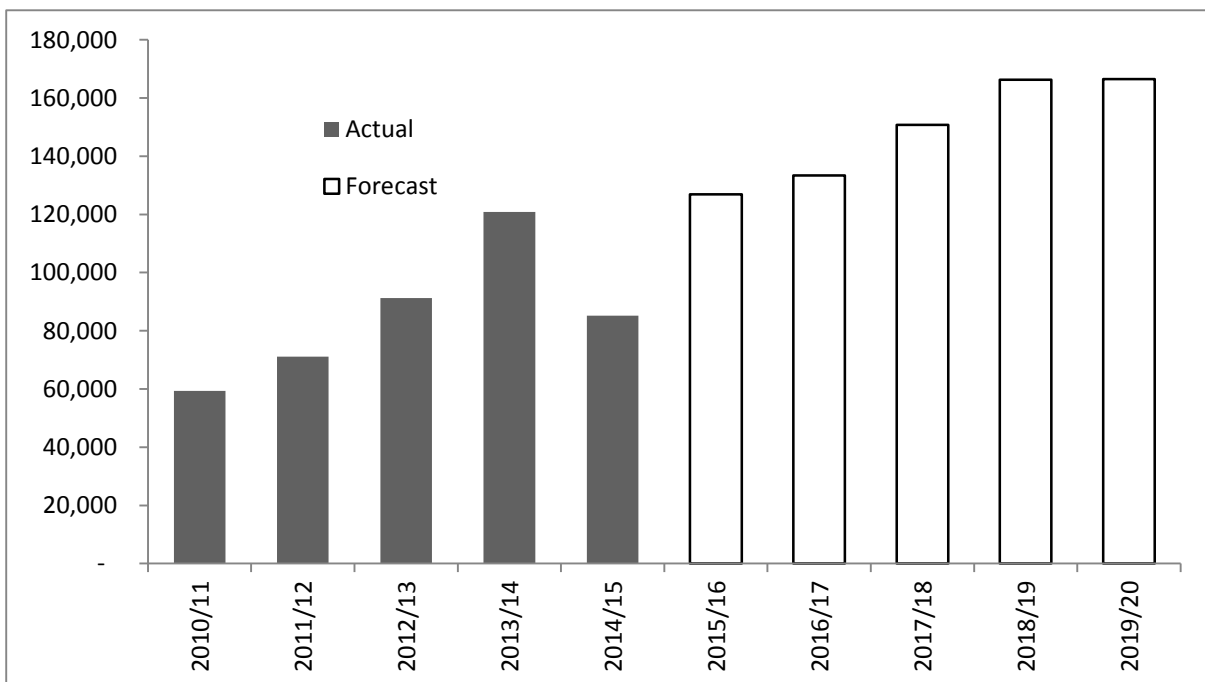
Chart 6.17 Balance of Merchandise (goods) Trade 2010/11 to 2019/20, (\$'000)



Tourism dominates the trade in services, with tourism spending estimated to reach \$275.9 million in 2015/16 and \$280.6 million in 2016/17. The forecast balance of trade in goods and services is an estimated surplus of \$126.9 million 2015/16, and \$133.4 million in 2016/17.

This trade surplus is expected to grow in line with growth in tourist spending. Growth in visitor spending is expected to be greater than growth in tourism related imports (such as food and beverages) over the forward years, which, barring a large increase in imports not directly attributed to tourism spending, is expected to maintain the countries positive balance of trade.

Chart 6.18 Overall Balance of Trade 2010/11 to 2019/20, (\$'000)



6.9 Banking and Finance

The Reserve Bank of Australia has concerns over the ongoing low-growth global environment which, despite low interest rates in much of the world, suggests that a large economic or monetary shock could be difficult for policymakers in key economies to address. China's slowing growth and the resultant implications for the Australian and New Zealand economies, especially in the context of depressed global commodity prices, represent a strong downside risk for those countries. Whilst Australian banks (which also dominate the New Zealand banking sector both through direct entry and subsidiaries) are somewhat insulated from the slowdown in China, concerns remain about their exposure to the housing sectors in New Zealand and Australia, and the dairy sector of New Zealand. Japanese and European banking systems are also facing significant downside risks resulting from anemic growth, weak profitability and a high level of non-performing loans. In the United States, the Federal Reserve recently began raising the federal funds rate; however, the pace of normalisation remains uncertain.

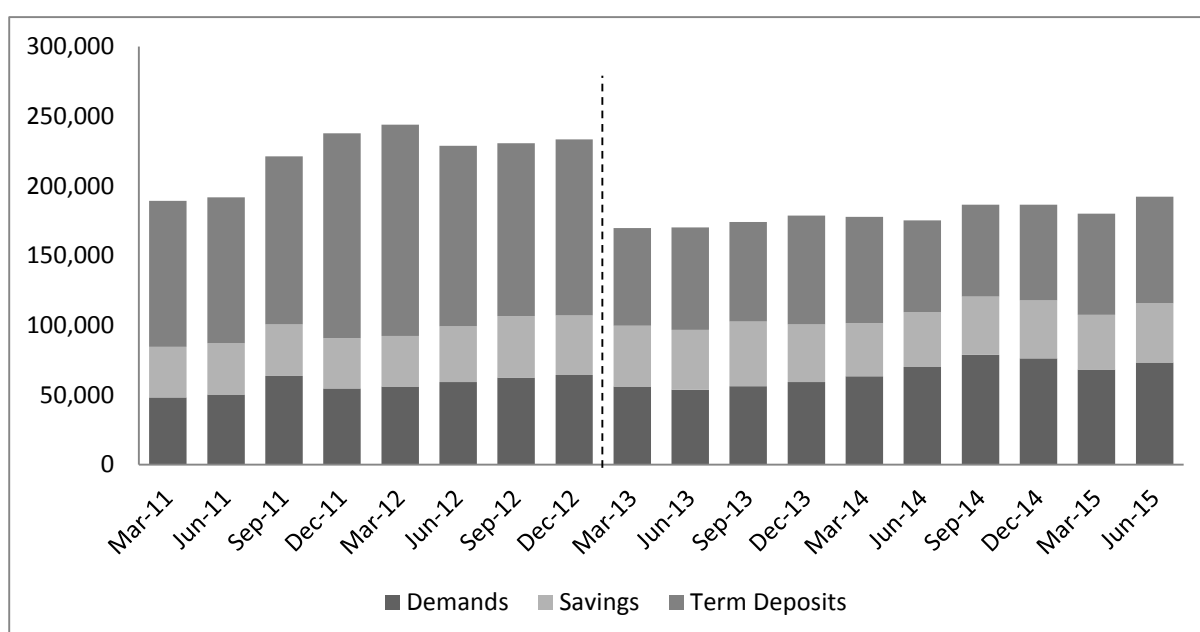
Domestically, the proportion of non-performing loans (NPL) to total gross lending has marginally increased from 6.9 per cent in March 2015 to 7.3 per cent in March 2016 - but the level is still well below the March 2013 level. The continually low level of NPLs should provide more space for domestic banks with greater confidence in their lending portfolios.

In regards to the recent banking review, Government has conducted a feasibility study of an interbank payments settlement system with the New Zealand financial market, the implementation of which is ongoing.

6.9.1 Deposits

Due to a revision in the historical series from the 2013 calendar year, it is difficult to make meaningful comparisons prior to 2013. This revision includes the re-classification of codes where balances owed to other banks have now been removed from term deposits and hence the dramatic decrease in reported deposits from December 2012 to March 2013. Total deposits increased \$2.9 million between June 2015 and Dec 2015, to a total of \$195.2 million. At \$117.2 million, non-term deposits are the third-highest on record (after the level of \$120.6 million recorded in September 2014).

Chart 6.19 Total Value of Deposits, March 2011 to June 2015, (\$'000)

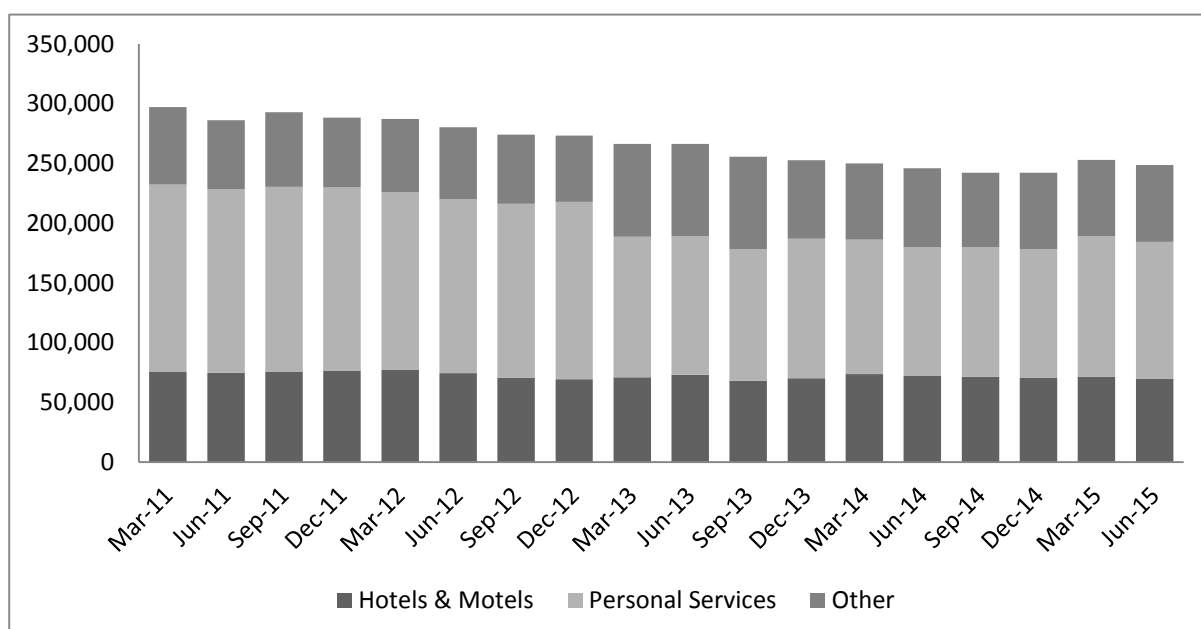


6.9.2 Loans

The overall total value of loans has been in a slow but steady decline since 2008, due largely to declines in personal credit. Despite a promising start to 2015, total loans in December 2015 were just 1.5 per cent higher than December 2014. Improvements in Personal Services loans (up 15.2 per cent, to 123.9 million) were partially offset by declines in lending to Hotels and Motels (down by 4.2 per cent, to a total of \$123.4 million) and other loans (down 15.3 per cent to \$54.2 million). The decline in other lending was largely borne by lending to retail and wholesale businesses (down 51 per cent to 7.2 million), and transport and communication sectors (down 45.0 per cent to \$5.6 million).

The on-going portfolio of non-performing loans (although significant progress has been made on reducing these loans), is expected to continue applying downward pressure on loan growth going forward. Demand for credit is also assumed to remain weak, with most industries showing little change (or small declines) in overall levels of credit in the past five years.

Chart 6.20 The Total Value of Loans, June 2011 to June 2015, (\$'000)



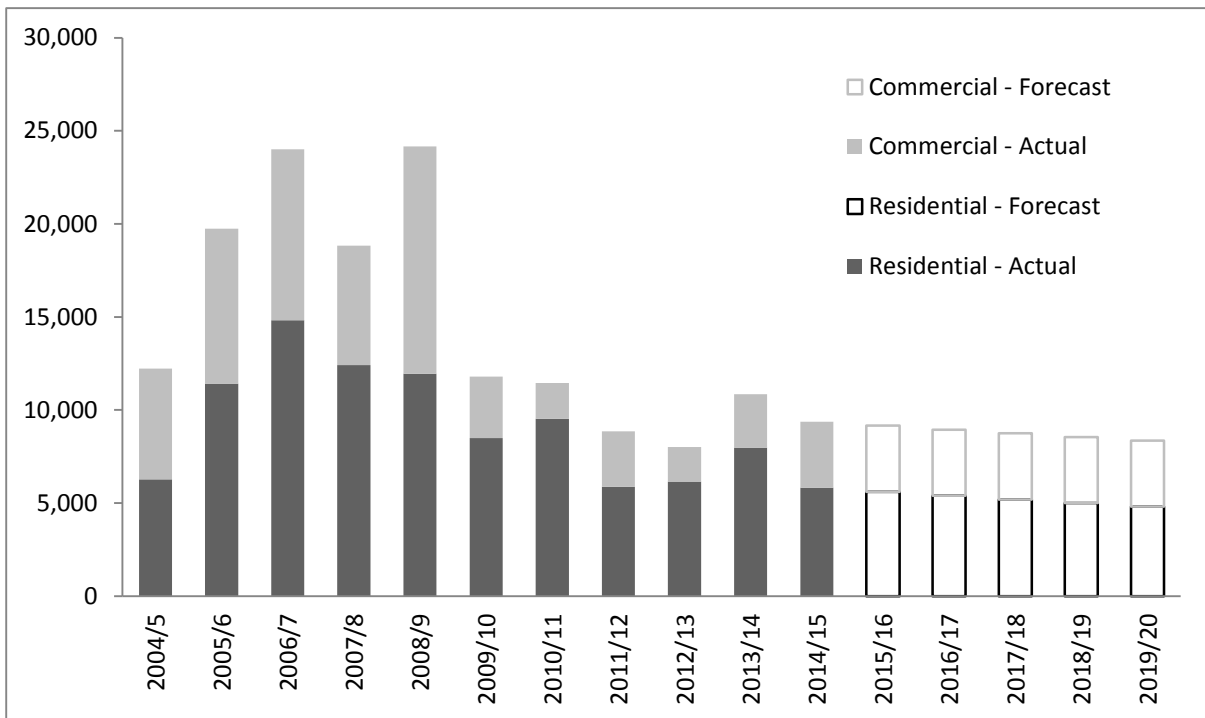
6.9.3 Housing and Construction

The value of building approvals has been in a steady decline since 2008/09, with 2014/15 being the notable exception. The value of residential building approvals has decreased by 29.5 per cent in the year to September 2015, to a total value of \$5.5 million in approvals.

Residential activity is currently projected to decline slowly over the forward years, continuing the profile of recent years after the June 2014 spike.

Commercial building approvals are not forecast due to their volatile nature and generally long lead in construction times.

Chart 6.21 Value of building approvals 2004/05 to 2019/20 (\$000)



6.10 Financial Services Industry

The financial services industry is estimated to collect fees of a net value of \$1.5 million for services undertaken in 2015/16. The estimated value is higher due to changes in USD exchange rates, as registration fees are generally denominated in USD.

There is a decline in trust registrations, which can be attributed in part to the closing of HSBC Trustee (Cook Islands) Limited. However, it is projected that the number of trust registrations will increase with the establishment of new trustee companies in the Cook Islands. T & F (Cook Islands) Limited is one such trustee company recently established in 2015, and the FSC is considering other new trustee company applications. Foundation registrations have increased exponentially but are still relatively small in number, and expected to continue growing. Captive Insurance is the newest service, with legislation passed in June 2013. The first Captive registration occurred in April 2015.

New products and services, as well as amended legislation for existing services, are part of the effort to grow and diversify client markets. 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. Promotion of Captive Insurance in the next year will be targeted to the Australian and New Zealand corporate markets, as well as to existing clients.

The industry continues to comply with international regulatory standards. At the end of 2013, numerous amendments to existing industry legislation were enacted to address areas of improvement highlighted in the country's 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. New legislation has also been passed to allow banks and trustee companies to comply with international tax information exchange agreements (namely FATCA out of the United States) and each financial institution has registered under FATCA. In October 2015 the Cook Islands announced its commitment towards implementing the automatic exchange of information (AEOI) for tax purposes by 2018. The Cook Islands currently has 21 tax information exchange agreements in place. 2015/16 will see a follow up report to the Asia Pacific Group Mutual Evaluation Report on Anti-Money Laundering and Know Your Customer laws and practices ("MER"). The next MER is expected to be conducted with an on-site inspection in late 2017 and the report adopted and made public in July 2018.

6.11 Sensitivity Analysis

There are several risks surrounding the forecasts presented. Modelling alternate scenarios assists officials in planning for possible contingencies should the outlook change and these risks become realised. Four scenarios which are viewed as most likely to affect the forecasts have been modelled and are summarised below:

Scenario 1: Capital projects experience slippage similar to that experienced in the last two years – Capital projects contribute a substantial amount to the local economy and missed deadlines delay the economic benefit from wages, contractor fees, and the benefit of the completed infrastructure. In scenario 1, we assume six month delays in the two major projects currently underway: Te Mato Vai and the Southern Renewable Energy project.

Scenario 2: Limited capacity to deliver capital projects – There are concerns that there is not the local capacity to deliver the volume of capital projects scheduled for 2016/17. The capital plans for both 2016/17 and 2017/18 are higher than completed capital in previous years, and may present issues for local contractors to absorb or tender for the new projects. For scenario 2, we assume that there is a limit on what local construction companies can deliver, and model this by limiting future construction completion to the average of past construction. We have implicitly assumed that the local construction industry does not grow above the size/capability of its recent past.

Scenario 3: Continued tourism growth –The improvement in visitor arrivals towards the end of the 2015/16 year was remarkable by any measure. Current modeling takes the conservative view that the recent trend will moderate over the forwards estimates, benefiting from support of modest new arrivals via Jetstar and Virgin Australia’s Christchurch connection. In scenario 4, we assume that the last 6 months of tourism arrivals is an indication of the future trends out of the New Zealand and Australian markets.

Table 6.12 Sensitivity Analysis of economic forecasts

Scenario	Impact on nominal GDP in 2016/17 (percentage contribution)	Impact on total revenue in...	
		2016/17 (\$000)	2017/18 (\$000)
Scenario 1: Capital slippage	-0.9%	-813	- 432
Scenario 2: Capacity issues in construction capacity	-0.9%	-855	- 365
Scenario 3: Continued tourism growth	3.2%	3,480	5,435

7 Revenue

7.1 Total Revenue

Total Crown revenue (including ODA) is estimated to reach \$203.4 million in 2016/17, representing an increase of \$24.5 million on the \$178.9 million estimated to be received in 2015/16.

This revenue is comprised of:

- Taxation Revenue - \$109.6 million. This includes all major tax heads, but in the table below revenue from fishing and motor vehicle dealers, is captured under non-tax revenue (despite being described as indirect taxation later in this chapter).
- Domestically sourced Cook Islands Government (CIG) non-tax revenue - \$25.6 million
- Performance Based Budget Support from New Zealand - \$7.6 million (plus a \$1.0 million incentive payment, conditional on milestones being achieved)
- Official Development Assistance (ODA) - \$60.7 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 2015/16 to 2019/20 (\$000)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Estimate	Budget	Estimate	Projected	Projected
Taxes	111,817	109,634	111,663	114,933	117,592
Performance Based Budget Support ⁹	7,577	7,577	7,577	0	0
ODA Grants	32,461	60,660	30,983	16,373	4,751
Other Revenue ¹⁰	27,066	25,566	25,640	25,896	25,896
Total Crown Revenue	178,921	203,437	175,863	157,202	148,238

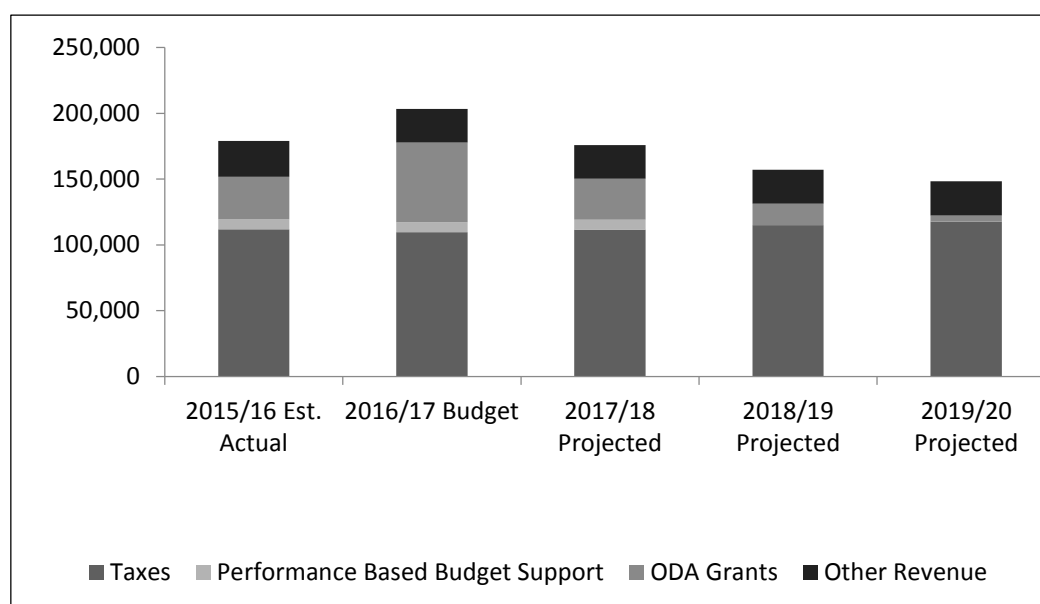
As illustrated in Chart 7.1, total Crown revenue in 2016/17 and the outer years consists mainly of general taxation, with a significant, but declining contribution from grants from other governments. One of the primary reasons for this is that most development partners do not commit development assistance budgets more than two years into the future – we make no forecasts around continuing development assistance in the estimates presented here.

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.

⁹ Does not include the \$1 million incentive payment

¹⁰ Includes Social contributions for employee liability

Chart 7.1 Total Crown Revenue 2016/17 – 2019/20 ('000)



For a more detailed breakdown of the non-tax revenue, see Schedule 7.

7.2 Revenue Initiatives for 2016/17

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 made the following policy decisions.

Sale of Circulating Currency Cook Islands Coins

Table 7.2 Total Revenue from Coins

	2015/16 Estimate	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Numismatics	500,000	350,000	350,000	400,000	400,000
Circulating Currency - Coins	0	100,000	100,000	100,000	100,000
Sale of Circulating Currency Cook Islands Coins	3,141,600	809,200	761,600	761,600	761,600
Total Revenue	3,641,600	1,259,200	1,211,600	1,261,600	1,261,600

In order to maintain the level of Cook Islands coins in circulation, more 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, though only some of this is an increase on previous estimates.

Fisheries catch

Table 7.3 Fisheries Revenue

	2015/16 Estimate	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Fisheries Revenue	8,087,000	10,200,000	10,200,000	10,200,000	10,200,000
Fishing Fines	500,000	0	0	0	0
Total Revenue	8,587,000	10,200,000	10,200,000	10,200,000	10,200,000

Despite being higher than total fishing revenue in 2015/16, the projected income from fishing revenues is slightly lower in 2016/17 than forecast at the time of HYEPU due to the number of fishing days sold being reducing, mostly offsetting additional revenues from a proposed deal with the European Union.

Border Management System Fees

Table 7.4 Border Management System: Import Entry Fees

	2015/16 Estimate	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Border Management Fees	0	120,000	120,000	120,000	120,000
Total Revenue	0	120,000	120,000	120,000	120,000

In order to recover some of the costs associated with the Border Management System maintenance, a new fee structure for imports is being implemented. \$20 will be charged for manually-cleared imports, and \$10 for electronically-cleared imports, to encourage greater registration with the automated system.

7.2.1 Previous revenue decisions

A number of other changes in the revenue estimates are part of decisions taken previously. These changes are included in the Parameter adjustments for this Budget. These decisions are outlined below:

Five per cent indexation of the levies on tobacco, alcohol, and sweetened drinks

Table 7.5 Indexation of Tobacco, Alcohol and Sweetened Drink Levies

	2015/16 Estimate	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Indexation of Tobacco, Alcohol and Sweetened drink levies ¹¹	188,000	386,000	595,000	814,000	814,000
Total Revenue	188,000	386,000	595,000	814,000	814,000

As announced at the time of the 2013 Tax Review, the annual indexation of all tobacco, alcohol, and sweetened drinks will increase at a rate of five per cent a year to reduce the affordability of these products over time. The rate of five per cent was selected so that the excise on these products will grow at rate higher than annual average inflation (which is around two to three per cent). After some delays to this indexation, it is expected to occur this year on all products. These increases are already contained within Excise and Equivalent revenue forecasts.

The annual indexation on these products will take effect from 1 July 2016.

¹¹ Indexation on alcohol and sweetened drinks was delayed in 2015, however the indexation of tobacco excise was implemented.

Personal Income tax cuts from 1 January 2017

Table 7.6 Personal Income Tax

	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Personal income tax cut	-450,000	-600,000	-600,000	-600,000
Total change in revenue	-450,000	-600,000	-600,000	-600,000

As part of the 2013 Tax Review, personal income tax rates were significantly reduced with the intention of reducing the share of income tax on the lower income bracket (incomes between \$11,000 and \$30,000). Consistent with this intention, the Government has further lowered the income tax rate in this income bracket from 18.5 per cent to 17.5 per cent from 1 January 2016, and 17.0 per cent from 1 January 2017.

Each half-percentage point reduction in income tax for this income bracket amounts to around \$300,000 in reduced revenue per calendar year, and an increase of up to \$95 a year in individual incomes (up to \$190 a year for dual income households). These estimates are already contained in the income tax forecasts.

Table 7.7 Changes to Revenue Estimates from 2015/16 Budget (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Projected	2018/19 Projected
Reconciliation of Operating Revenue				
Tax parameter adjustments	8,904	5,764	7,039	8,288
VAT	5,765	4,981	5,776	6,534
Income tax	808	1,046	1,099	967
Company tax	-1,554	-1,113	-333	881
Import levies	102	-788	-1,278	-1,938
Withholding tax	2,313	0	0	0
Departure tax	1,469	1,638	1,775	1,844
FSC Vested Assets	0	0	0	0
ROBOC adjustments	-2,758	-1,625	-1,378	820
Bank of the Cook Islands - dividend	-	-233	-73	133
Border Management Fees	-	120	120	120
Budget Support Adjustments	-1,583	-1,948	-1,943	-
Censorship Fees	-10	-2	-2	-2
Circulating Currency - Coins	-100	-	-	-
Drivers Licences	-100	-100	-100	-100
Employer Liabilities	-44	31	31	31
Financial Services Levy	78	31	31	31
Fishing Fines	500	-	-	-
Fishing Revenue (total)	-1,700	182	182	182
Foreign Investment Fees	8	-	-	-
FSC Return of Excess	225	160	160	160
FSC Vested Assets	28	-	-	-
Immigration Fees	-	3	3	3
IMO Subscription - Maritime Cook Islands	-	3	3	3
International Shipping Licence	5	5	5	5
Liquor Licensing	-2	-	-	-
Motor Vehicle Dealers	-2	-	-	-
Numismatics	-	-150	-150	-100
Permits	-8	-	-	-
Research Fee	0	-	-	-
Shipping Registration	-116	37	118	118
Tattslotto Grants	28	-	-	-
Upper Air Management Agreement	35	236	236	236
Trading Revenue Adjustments	0	441	429	429
Audit	0	-66	-66	-66

Reconciliation of Operating Revenue	2015/16 Est. Actual	2016/17 Budget	2017/18 Projected	2018/19 Projected
Marine Resources	0	3	3	3
Police	0	15	8	8
Health	0	-50	-50	-50
Parliament	0	-8	-8	-8
CIIC	0	555	555	555
Aitutaki	0	20	20	20
Manihiki	0	-22	-22	-22
Mauke	0	-5		
Penrhyn	0		-10	-10
Total Revenue Changes	6,145	4,580	6,090	9,537

7.3 Taxes

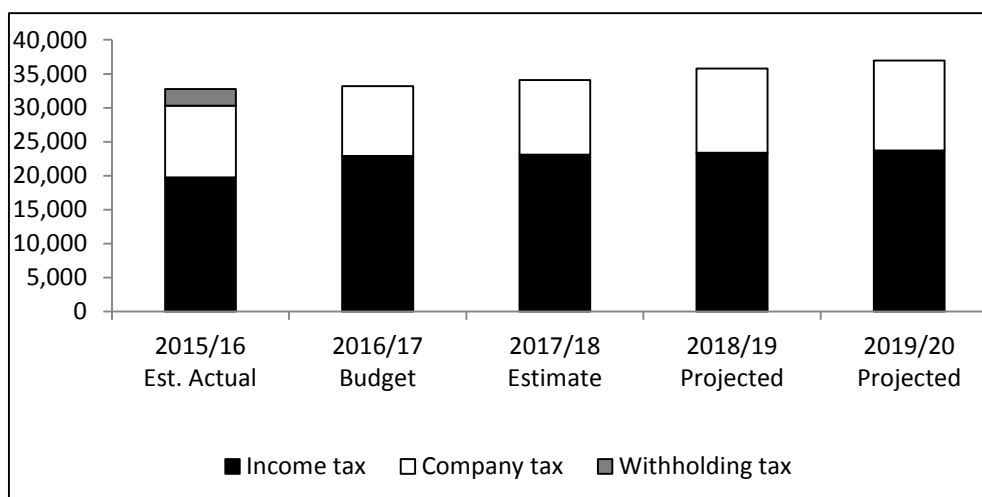
Taxes are classified either as direct or indirect taxation. Direct taxation reflects taxes which are imposed directly on the individual, household, property or business, for example, income taxation. Indirect taxes are normally imposed through an indirect method, usually through a transaction, for example,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

7.3.1 Direct Taxation

Table 7.8 Total Direct Taxation 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Income tax	23,009	22,942	22,981	23,259	23,583
Company tax	9,071	10,091	10,941	12,371	13,191
Withholding tax	2,313	0	0	0	0
Total Direct Taxation	34,393	33,032	33,922	35,630	36,775

Chart 7.2 Total Direct Taxation 2016/17 Budget



Direct taxation, which includes company tax, income tax and withholding tax, grew by 1.8 per cent in 2015/16. Growth in income tax was mainly due to higher activity in the economy, particularly the large increase in visitor arrivals in 2015/16, as well as improved arrears collections. Growth was partially offset by a reduction in company tax due to new entrants to the economy incurring

substantial set up costs which can be deducted from company tax. These effects are expected to diminish over time.

Going forward, direct taxation is expected to decrease by 4.0 per cent in 2016/17. The main driver of the decline in direct taxation from 2015/16 is withholding tax, which was stronger than expected in 2015/16, but is not estimated in the outer years due to the high volatility, (though it is expected that some amount will be collected) and as a consequence, presents as a decrease in direct tax revenue. However, if the effects of withholding tax are removed, direct taxation is expected to grow by 3.0 per cent in 2016/17, driven mainly by an 11.2 per cent rebound in company tax.

Income tax is expected to total \$22.9 million in 2016/17. After the current year, growth in income tax is expected to be relatively moderate as it closely mirrors the projected activity in the real economy, as well as planned income tax cuts.

Company tax is expected to start gradually returning toward 2014/15 levels in 2016/17 as the set up costs that resulted in lower 2015/16 collections dissipates.

7.3.2 Indirect taxation

Table 7.9 Total Indirect Taxation 2015/16 to 2019/20 (\$'000)

	2015/16	2016/17	2017/18	2018/19	2019/20
	Est. Actual	Budget	Estimate	Projected	Projected
VAT	56,081	55,582	56,631	58,132	59,599
Departure tax	9,285	9,653	10,026	10,370	10,702
Import levies	12,058	11,366	11,084	10,801	10,516
Motor Vehicle Registration	875	875	875	875	875
Motor Vehicle Dealers ¹²	3	5	5	5	5
Fisheries Revenue	8,087	10,200	10,200	10,200	10,200
Fisheries - US Treaties	4,280	1,200	1,200	1,200	1,200
Fisheries - Catch Revenue	-	-	-	-	-
Fishing Licenses	3,807	9,000	9,000	9,000	9,000
Total Indirect Taxation	86,389	87,681	88,821	90,383	91,892

Indirect taxation (which includes VAT, departure tax, import levies, motor vehicle registration, and motor vehicle dealers and fisheries revenue) is expected to stay largely unchanged in 2016/17 from the estimated 2015/16 result.

VAT is expected to reach \$55.6 million in 2016/17, a \$0.5 million decrease on the estimated outcome for 2015/16 due to a combination of one-off factors in 2015/16 (such as the 50th celebration), and a reduction in the amount of arrears collected compared to that in 2015/16.

Departure Tax is estimated to be \$9.7 million in 2016/17, representing an increase of \$0.4 million on the estimated \$9.3 million collection for 2015/16 due to higher estimated visitor arrivals.

Import and excise-equivalent duties are estimated to decrease by \$0.7 million in 2016/17. This reduction is due to forecast levels of imports falling slightly, predominately through reduced capital equipment.

Motor Vehicle Registration is estimated at a conservative \$0.9 million in 2016/17 representing no change on the estimated outcome for 2015/16.

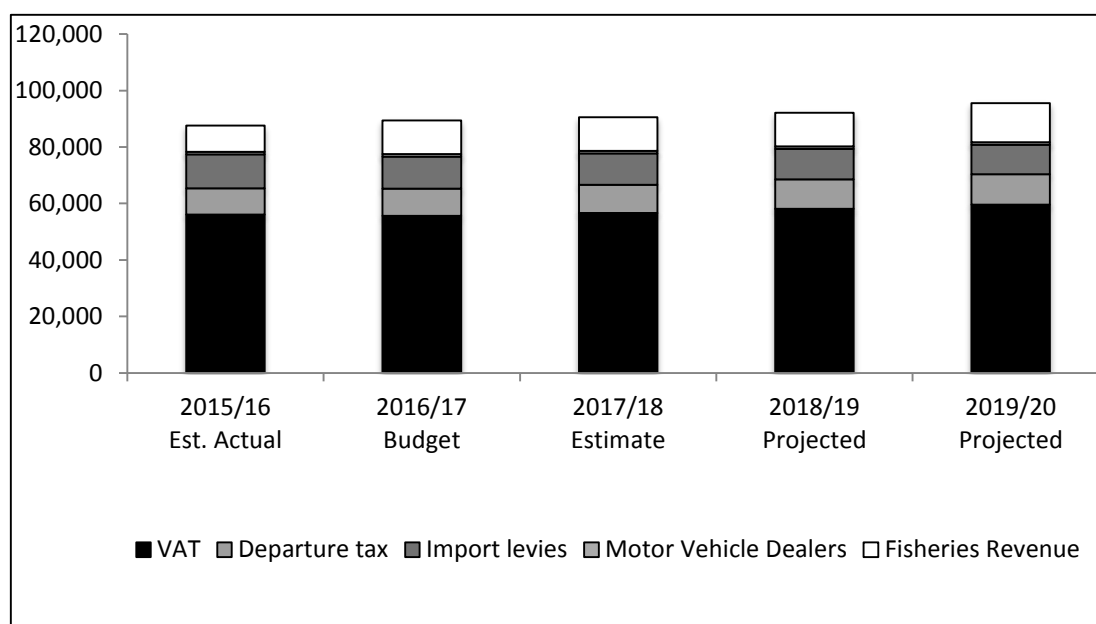
The revenue from Motor Vehicle Dealers is estimated to remain constant over the years

¹² These amounts, while listed here as indirect taxes, are not included in the 'Taxation' amount in the GFS Statement, nor in the front of this chapter, as those amounts only represent 'core' taxes.

representing no change from the amount estimated for 2016/17.

Fisheries Revenue is estimated to total \$10.2 million in 2016/17. Fisheries revenue is composed of the Fisheries US treaties, Fishing Licenses, Fishing Fines, and Catch Revenue, all of which are estimated to be constant after 2016/17 due to the difficulty in forecasting fishing revenue in outer years. Revenue Expectations have moderated due to the reduced number of Cook Island fishing days currently assigned to bilateral access agreements and the continued low price of landed tuna.

Chart 7.3 Total Indirect Taxation 2015/16 to 2019/20



7.3.3 Social Contributions

Table 7.10 Social Contributions 2015/16 to 2019/20 (\$'000)

	2015/16 Estimate	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Employer Liabilities	0	75	75	75	75
Total	0	75	75	75	75

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.

There were no employer's liabilities collected in the 2015/16 year.

Employer liability is estimated to be \$0.08 million in 2016/17, representing an increase on the nil estimated outcome for 2015/16, due to public service agencies paying their liability insurance from 2016/17 onwards.

7.3.4 Grants

Table 7.11 Grants 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Current grants from foreign governments ¹³	19,461	23,660	19,108	5,963	4,651
Capital grants from foreign governments	20,577	44,578	19,451	10,410	100
Total	40,038	68,237	38,560	16,373	4,751

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

7.3.5 Interest

Table 7.12 Total Interest 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Interest on Government Deposits	1,885	1,885	1,885	1,885	1,885
Interest on loans to subsidiaries	685	702	676	676	676
Total	2,570	2,587	2,561	2,561	2,561

Interest revenue is estimated to reach \$2.6 million in 2016/17, largely unchanged from the estimated outcome for 2015/16.

7.3.6 Dividends

Table 7.13 Total Dividends 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Bluesky	1,150	1,150	1,150	1,150	1,150
Banana Court	10	10	10	10	10
Bank of the Cook Islands	481	248	408	614	614
Te Aponga Uira	319	319	319	319	319
SOE Extraordinary Dividend	60	60	60	60	60
Total	2,020	1,787	1,947	2,153	2,153

Total dividends due to the Crown are estimated to reach \$1.8 million in 2016/17. This represents a decline on the estimated 2015/16 actuals, mainly due to a reduction in the dividend from the Bank of the Cook Islands. This is driven by temporary factors and expected to recover in the outer years.

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

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 decline in the immediate term, from \$0.48 million in 2015/16 to \$0.25 million in 2016/17. Thereafter, it is expected to move back toward a level of \$0.61 million in 2018/19.

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

¹³ Includes Performance Based Budget Support

7.3.7 Administrative Fees

Table 7.14 Administrative Fees 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Financial Services Levy	340	293	293	293	293
FSC Return of Excess	225	160	160	160	160
FSC Vested Asset	288	-	-	-	-
Immigration Fees	583	587	587	587	590
IMO Subscription - Maritime Cook Islands	63	66	66	66	69
Tattslotto Grants	148	120	120	120	120
Censorship Fees	2	10	10	10	10
Permits	16	24	24	24	24
Drivers Licences	80	80	80	80	80
Research Fee	1	1	1	1	1
Shipping Registration	115	268	268	268	268
International Shipping Licence	15	15	15	15	15
Liquor Licensing	28	30	30	30	30
Upper Air Management Agreement	545	746	746	746	746
Total Trading Revenue ¹⁴	5,720	6,161	6,149	6,149	6,149
Total	8,169	8,561	8,549	8,549	8,549

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 are retained by agencies. Total administrative fees are estimated to be \$8.6 million in 2016/17 and are made up of:

- Financial Services Levies are expected to total \$0.293 million in 2016/17, a slight decrease on the 2015/16 provisional actuals.
- The FSC return of excess revenues is due largely to differences in exchange rates, with the value of the New Zealand dollar depreciating significantly in 2015/16. The extra revenue from the excess is expected to decline as the NZD:USD improves in the forward years.
- Immigration fees – \$0.587 million in revenue is estimated to be received in 2016/17 being almost unchanged from provisional actual for 2015/16.
- Tattslotto Grants – \$0.120 million in revenue is estimated to be received in 2016/17, a slight fall from 2015/16. This is expected to remain constant over the outer years. \$0.120 million of the proceeds from the Tattslotto grants is channelled every year to CISNOC via a POBOC and any additional funds received will be returned back to the Crown. Noting here that previous debt owed by CISNOC was carried by the Crown.
- Censorship Fees were \$0.01 million lower than expected in the 2015/16 Budget. A downward revision in censorship fees to \$0.01 million is anticipated for 2016/17 and forward years due to a reduction in DVD outlets.
- Permits – \$0.024 million in revenue is estimated to be received in 2016/17 representing a small increase over the \$0.016 million estimated actual for 2015/16. Although revenue is expected to remain constant over the outer years, the importation of ammunitions and firearms have decreased due to new policies implemented in 2014 for all firearm users to go through a licensing course. Dog permits have also decreased, resulting from non-registry.
- Driver's License – \$0.08 million in revenue is estimated to be received in 2016/17 representing no change on 2015/16. In April 2014 the Transport Act was amended whereby visitors from overseas with valid driver's licences did not require obtaining a Cook Islands

¹⁴ This differs from Schedule 1, as transfers to and from Island Administration cash reserves are not included here

driver's license. Overseas licences could now be used for a period of 6 months here in the Cook Islands on classes they hold on their overseas driver's licence.

- Research Fee – This is estimated to remain constant for 2016/17 and outer years. Research fees are issued by the Office of the Prime Minister to individuals who wish to conduct any official research on the Cook Islands.
- Shipping Registration – \$0.27 million in revenue is estimated to be received in 2016/17. However, of the \$0.27 million Budget estimates for the 2015/16 year, only \$0.115 million in actuals for 2015/16 were collected. The agreement between Maritime Cook Islands (MCI) and the Government, under which MCI operates the Cook Islands Ship Registry, provides for a base fee and a turnover fee. The turnover fee becomes payable when the three year moving average of MCI's sales is positive. The growth factor for the forecast period is 5.5 per cent which is based on an approximately 35 per cent increase in the three year moving average of MCI's sales. The 5.5 per cent Growth Factor is applied to MCI's sales (estimated at \$4,500,000) to achieve the turnover fee payable by MCI. If this turnover fee is greater than the base fee then MCI has to pay the difference between the Turnover fee and the base fee (paid quarterly) in one lump sum in July of the following year. MCI Financial year runs from January to December.
- International Shipping License – \$0.015 million in revenue is estimated to be received in 2016/17 representing no change on the 2015/16 estimated actual.
- Liquor License – \$0.03 million in revenue is estimated to be received in 2016/17 representing an increase on the 2015/16 estimated actuals.
- Upper Air Space Management – \$0.746 million in revenue is estimated to be received in 2016/17, an estimated increase of \$0.201 million on 2015/16. The Cook Islands receives a portion of funds paid by airlines using the upper airspace of four Pacific nations (Samoa, Tonga, Cook Islands and Niue). Estimates for the outer years are expected to remain at a constant rate.
- Ministry Trading Revenue – \$6.161 million in revenue is estimated to be received in 2016/17 representing a slight increase on the \$5.720 million provisional actuals for 2015/16. Trading revenue provides a means of recovery for operational costs incurred in delivering services.

7.3.8 Incidental Sales by Nonmarket Establishments

Table 7.15 Incidental Sales by Nonmarket Establishments 2015/16 to 2019/20 (\$'000)

	2015/16 Estimate	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Numismatics	500,000	350,000	350,000	400,000	400,000
Circulating Currency - Coins	0	100,000	100,000	100,000	100,000
Sale of Circulating Currency Cook Islands Coins	3,141,600	809,200	761,600	761,600	761,600
Total Revenue	3,641,600	1,259,200	1,211,600	1,261,600	1,261,600

In order to maintain the level of Cook Islands coins in circulation, more 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, though only some of this is an increase on previous estimates.

7.3.9 Fines, Penalties and Forfeits

Table 7.16 Fines, Penalties and forfeits 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Court Services	50	50	50	50	50
Instant Fines	20	20	20	20	20
Fishing Fines	500	0	0	0	0
Total	570	70	70	70	70

Court services fines and instant fines are not expected to change in the outer years, at \$0.05 million and \$0.02 million respectively.

Fishing fines were \$0.5 million in 2015/16, with these funds being held aside for the seeding of the Sovereign Wealth Fund when it is established. Fishing fines are expected to return to zero for 2016/17 and the outer years due to compliance in fishing guidelines and procedures previously.

7.3.10 Miscellaneous and Unidentified Revenue

Table 7.17 Miscellaneous and Unidentified Revenue 2015/16 to 2019/20 (\$'000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Estimate	2018/19 Projected	2019/20 Projected
Foreign Investment -BTIB	33	26	26	26	26
Total	33	26	26	26	26

Foreign Investment Fees were higher than expected in the 2015/16 budget. Actual fees for foreign applications received and approved was \$7,000 higher than forecasted in 2015/16. The actual increase was due to foreign enterprises expanded into other activities or new ventures outside of their initial approval (which requires a new application). The application for Foreign Investment is a set fee of \$750 for any application.

Foreign Investment Fees is expected to decrease to \$0.026 million in 2016/17.

8 Expenditure

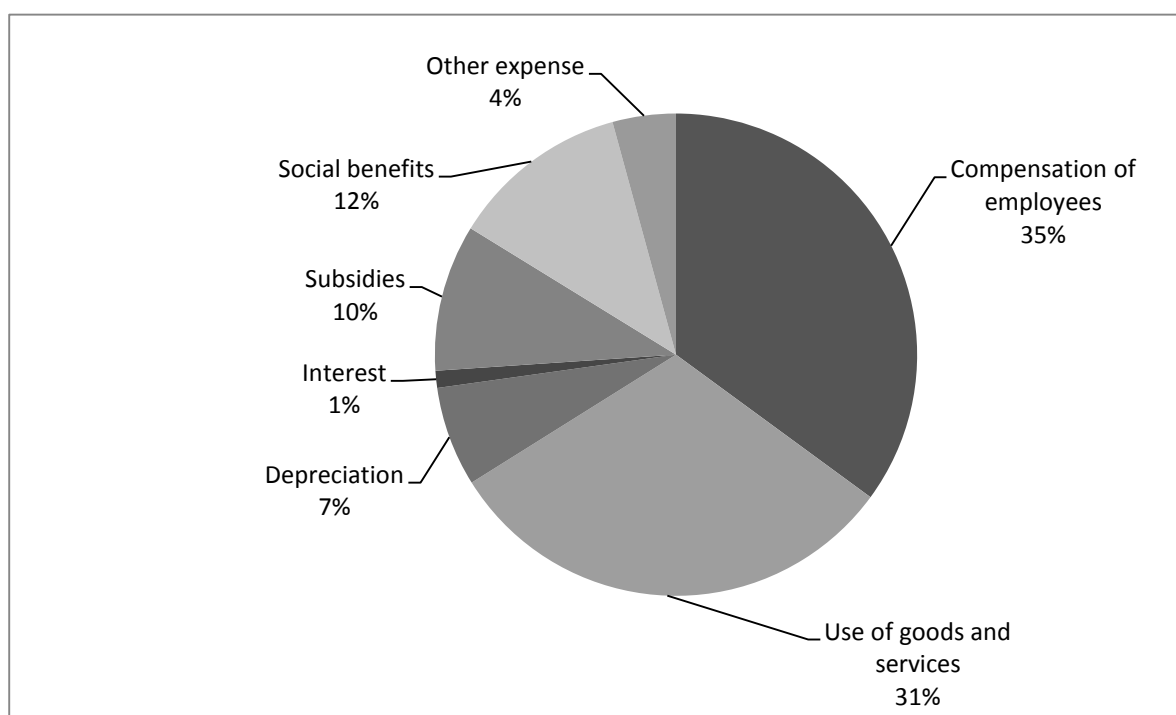
8.1 Total Expenditure

Crown operating expenditure is anticipated to be \$133.5 million in 2016/17, with an additional \$15.9 million in ODA grant funding. The Crown expenditure is expected to increase by \$3.6 million in 2017/18, before staying relatively stable over the forward years. However, there is significant variation in total operating due to large movements in current ODA funding, with multiple programs not scheduled beyond 2017/18.

Table 8.1 Total GFS Expenditure 2015/16 to 2019/20 (\$000)

	2015/16 Est. Actual	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Compensation of employees	51,595	52,406	52,241	50,873	50,864
Use of goods and services	41,869	46,377	42,522	31,696	30,248
Depreciation	9,177	10,006	11,627	11,733	11,733
Interest	2,246	1,710	1,696	1,688	1,688
Subsidies	11,258	14,708	16,458	15,708	15,708
Grants	-	-	-	-	-
Social benefits	17,408	17,903	18,231	17,763	17,927
Other expense	11,182	6,343	5,719	5,509	5,359
Gross Expenditure	144,735	149,453	148,494	134,970	133,527
Less Current ODA	14,157	15,938	11,395	5,826	4,514
Underlying Expenditure	130,579	133,515	137,100	129,144	129,013

Chart 8.1 Total GFS Expenditure 2016/17 (Transactions affecting Net worth)



Operating expenditure refers to expenditure on the delivery of government's core outputs by the public service. Operating expenditure is predominately made up of compensation of employees (35 per cent), use of goods and services (31 per cent), social benefits (12 per cent), subsidies (10 per cent), and depreciation (7 per cent). Total operating expenditure is estimated to come in at \$149.5 million for 2016/17.

Compensation to Employees

Expenditure on compensation of employees is estimated to be \$52.4 million in 2016/17, a \$0.9 million increase from the estimated 2015/16 level of \$51.6 million.

Use of Goods and Services

An estimated \$46.4 million is estimated to be spent on the use of goods and services in the 2016/17 year, which represents an increase of \$4.5 million from the estimated outcome for 2015/16. This is predominately driven through aid program spending.

Consumption of Fixed Capital

Total depreciation for 2016/17 is estimated to be \$10.0 million. The increase from the estimated level of \$9.2 million in 2015/16, driven by transfers of aid-funded assets onto Fixed Asset Registers (FARs), such as the renewable energy assets in the Northern Group.

Debt Servicing Payments

Debt interest contributions to the Loan Reserve Fund (LRF) are estimated to be \$1.7 million in 2016/17, with the decrease from the \$2.2 million in 2015/16 due to the smoothing function of the LRF. 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.

Whilst not considered an operating expense, repayments of principal are also made, using the Loan Reserve Fund (LRF) to smooth the cash impact of the repayments. In 2016/17, \$7.4 million will be transferred into the LRF to cover both interest and principal payment, while \$6.2 million is anticipated to be paid from the principal of outstanding debt.

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

Total expenditure as presented in previous budgets is shown in Table 8.2.

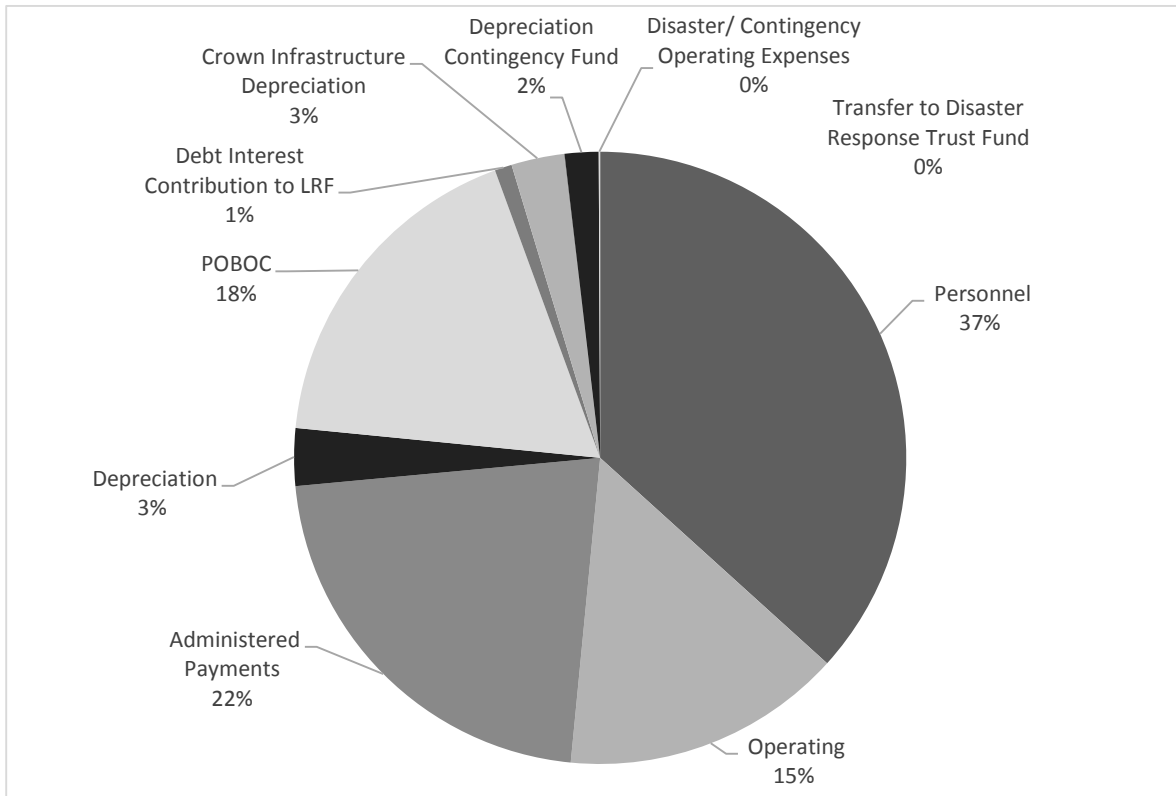
Table 8.2 Total Operating Expenditure 2015/16 to 2019/20 (\$000)

	2015/16 Est. Spend	2016/17 Budget	2017/18 Estimate	2018/19 Forecast	2019/20 Forecast
Operating Expenditure					
Ministry Outputs	95,972	101,409	104,558	97,091	96,796
<i>Personnel</i>	47,283	48,578	48,582	47,374	47,365
<i>Operating</i>	17,275	19,637	19,296	16,439	16,453
<i>Administered Payments</i>	27,925	29,173	32,641	29,241	28,942
<i>Depreciation</i>	3,489	4,020	4,039	4,036	4,036
POBOC	23,450	23,648	23,057	22,468	22,631
Airport Authority subsidy	0	0	0	0	0
Airport Authority Capital	0	0	0	0	0
Bank of the Cook Islands - social assistance subsidy	0	0	0	0	0
Concession Loan Fund - Top Ups	150	0	0	0	0
Cook Islands Primary Schools 50 year Saver	230	0	0	0	0
Public Sector Strengthening	672	0	0	0	0
Ports Authority - subsidy	0	0	0	0	0
Te Aponga Uira - social assistance subsidy	0	0	0	0	0
Debt Interest Contribution to LRF	2,246	1,710	1,696	1,688	1,688
Asset Management (CIIC)	1,798	0	0	0	0
Crown Infrastructure Depreciation	2,920	3,682	3,682	3,682	3,682
Transfer to Disaster Response Trust Fund	50	604	50	50	50
Depreciation Contingency Fund	2,490	2,362	3,957	4,066	4,066
Chinese Equipment	0	663	663	663	663
Rarotonga Water Network	0	299	694	803	803
Northern Pa Enea Renewable Energy System	0	400	400	400	400

	2015/16 Est. Spend	2016/17 Budget	2017/18 Estimate	2018/19 Forecast	2019/20 Forecast
Southern Pa Enea Renewable Energy System (excl. Aitutaki)	0	0	1,200	1,200	1,200
Other Assets	2,490	1,000	1,000	1,000	1,000
Disaster/ Contingency Operating Expenses	100	100	100	100	100
Contributions to CISWF	500	0	0	0	0
Total Operating Expenses	130,578	133,515	137,100	129,144	129,013

*Note: these figures are the amortised debt interest payment to the Loan Reserve Fund (LRF), and are not the actual debt interest. Debt interest payments are taken from the LRF when they fall due.

Chart 8.2 Total Operating Expenditure 2016/17



8.2 Changes to Expenditure from the 2015/16 Budget

Since the 2015/16 Budget, 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 and changes in parameters, especially related to the Air New Zealand underwrite. The technical changes in 2015/16 include projected under- and overspends for the year.

Table 8.3 Expenditure changes since the 2015/16 Budget

Expenditure Changes	2015/16	2016/17	2017/18	2018/19
Operating Expenditure as at 2015/16 Budget	138,721	136,718	135,423	125,719
Expenditure Decisions by Government	3,354	3,122	3,760	3,277
Technical adjustments	-4,967	-1,665	-1,670	301
Reclassifications of expenditure	0	-1,321	279	387
Parameter changes	-6,530	-3,339	-691	-539
Operating Expenditure as at 2016/17 Budget	130,578	133,515	137,100	129,144

8.3 New Expenditure Initiatives

The Government has approved new operating initiatives totaling \$3.1 million in 2016/17, \$3.8 million in 2017/18, \$3.3 million in 2018/19 and \$3.0 million in 2019/20. A summary of the new initiatives is provided in the table below, grouped with the Budget Policy Statement goal to which they relate.

Table 8.4 Summary of New Initiatives in Operating Expenditure 2016/17 to 2019/20 (\$000)

Summary of New Initiatives	2016/17	2017/18	2018/19	2019/20	Total
Improving Welfare	138	138	138	138	551
Expanding Economic Opportunities	1,164	550	150	0	1,864
Sustainable water management	100	1,400	1,400	1,400	4,300
Energy and Transport	84	14	14	14	127
Education	89	174	160	160	584
Management of marine resources	120	-30	120	-30	180
Sustainable Population	30	30	30	30	120
Governance	1,397	1,484	1,264	1,264	5,410
Total Expenditure from Decisions	3,122	3,760	3,277	2,977	13,136

8.3.1 Improve Welfare and Reduce Inequity and Economic Hardship

Table 8.5 Total Operating Expenditure 2016/17 to 2019/20 (excludes ODA) (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Destitute and Infirm payment increase	92	92	92	92	368
Family Law Bill – Carer Order Payment	10	10	10	10	40
Implementation of Family Law Bill responsibilities	28	28	28	28	112
Operating cost associated with the Family Law Bill	7	7	7	7	28
Improve Welfare and reduce Inequity and Economic Hardship	138	138	138	138	548

Internal Affairs – Destitute and Infirm payment increase

Similar to the Old Age Pension, the Destitute and Infirm payment (DIP) is intended to support an individual who cannot engage in full-time employment. Due to the similarities with the Old Age Pension, the aim is to increase the parity between these payment types over time. This years'

increase will bring the monthly income support payment to \$200 (or \$2,400 a year). Unlike the Old Age Pension the DIP is an example of a means-tested payment, and is highly targeted to those in need.

This is the first step in moving the DIP toward the level of the 60-69 year old pensions.

Measure	2016/17	2017/18	2018/19	2019/20
Destitute and infirmed – payment adjustment	92,400	92,400	92,400	92,400
Total cost	92,400	92,400	92,400	92,400

Internal Affairs – Family Law Bill - Carer Order Payment

Under the Family Law Bill, there is an obligation for the Crown to provide support payments (projected at \$100 per week) to assist with the care of a child, subject to a court issued care order, who cannot be placed within their family context. This funding estimate is based on four cases for a period of six months each.

Measure	2016/17	2017/18	2018/19	2019/20
FLB – Carer Order Payment	10,400	10,400	10,400	10,400
Total cost	10,400	10,400	10,400	10,400

Internal Affairs – Implementation of Family Law Bill responsibilities

This is to fund the salary of additional staff to undertake responsibilities related to the Implementation of the Family Law Bill. Under the Family Law Bill, the role of Internal Affairs will be to carry out the new and additional responsibilities relating to Care and Protection under the Family Law Bill by seeking an additional Child Protection Officer to support the existing two person team. The proposed cost will also cover superannuation contributions.

The Operational expenses are to enable payment towards the newly appointed Registered Family Group Conferences Chairperson, including an increase in Operations for Pa Enea travel and communications.

Measure	2016/17	2017/18	2018/19	2019/20
Personnel expenses	28,000	28,000	28,000	28,000
Operating expenses	7,000	7,000	7,000	7,000
Total cost	35,000	35,000	35,000	35,000

8.3.2 Expand economic opportunities, improve economic resilience and productive employment to ensure decent work for all

Table 8.6 Total Operating Expenditure 2016/17 to 2019/20 (excludes ODA) (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Tourism – Airline Joint Ventures	650	550	150	0	1,350
Use of Tourism Operating for purchase of Van	-40				-40
Increasing the ERF	554				554
Expand economic opportunities, improve economic resilience and productive employment	1,164	550	150	0	1,864

Tourism – Airline Joint Ventures

This increase to the Tourism Corporation’s Marketing Administered Payment is to finance Airline Joint Venture Marketing programmes with overseas airlines in expanding their operations into the Cook Islands. This funding will phase out over the next three years, but is front-loaded to increase

the effectiveness of the program.

Measure	2016/17	2017/18	2018/19	2019/20
Airline Joint Ventures	650,000	550,000	150,000	0
Total cost	650,000	550,000	150,000	0

Tourism – Purchase of Media Van

In order to reduce the operating costs of hiring vans each time a contingent of media or tourist industry operators visit Rarotonga, the Tourism Corporation is transferring \$39,900 to the Capital Distribution Fund to purchase a vehicle. As this is a capital expenditure, it has the impact of reducing operating expenditure, but is fiscally neutral.

Measure	2016/17	2017/18	2018/19	2019/20
Operating	-39,900	0	0	0
Capital Distribution Fund	39,900	0	0	0
Total cost	0	0	0	0

Increasing the Emergency Response Fund (ERF) to \$1.5 million

To better prepare the Cook Islands for the event of an unforeseen catastrophe, and in light of improved cash balances, the government is topping up the ERF to a level of \$1.5 million, earlier than scheduled. On top of the regular \$50,000 annual contribution, this represents an increase of \$553,858.

Measure	2016/17	2017/18	2018/19	2019/20
Increasing ERF to \$1.5 million	553,858	0	0	0
Total cost	553,858	0	0	0

Other spending under this NSDP Goal

The following capital projects also relate to expanding economic opportunities, improving economic resilience and productive employment to ensure decent work for all. For more details, see Budget Book Three.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
Justice	Online business registry	-	200,000	-	-
MFEM	Banking payments system	600,000	35,000	-	-

8.3.3 Sustainable Management of Water and Sanitation

Table 8.7 Total Operating Expenditure 2016/17 to 2019/20 (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Establishment of a Water utility	100	1,400	1,400	1,400	4,300
Improve Sustainable Management of Water and Sanitation	100	1,400	1,400	1,400	4,300

CIIC – Establishment of Water utility and provision of water to Rarotonga

To manage and maintain the water services on Rarotonga once the Te Mato Vai project is complete, requires qualified people with the technical expertise to do so. In appropriating for the establishment of a specialized water management utility, the Government is ensuring that Rarotonga's water supply is not neglected as it has been over the past decades. No provisioning for user fees has been factored into this estimate.

Measure	2016/17	2017/18	2018/19	2019/20
Water utility costs	100,000	1,400,000	1,400,000	1,400,000
Total cost	100,000	1,400,000	1,400,000	1,400,000

Other spending under this NSDP Goal

The following capital projects also relate to the sustainable management of water and sanitation. For more details, see Budget Book 3.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
Aitutaki IG	Establishing new water galleries	478,440	381,340	-	-
CIIC	Te Mato Vai - easement & land acquisition for water intakes	750,000	-	-	-
ICI	Central water project	125,000	-	-	-
ICI	Sanitation Upgrade Programme	1,780,000	2,420,000	1,740,000	-
ICI	TMV Titikaveka backroad ringmain pipeline	127,000	-	-	-
ICI	Water Network Maintenance	500,000	500,000	500,000	500,000
ICI	Water Upgrade	80,000	247,000	-	-
MFEM	Te Mato Vai - Rarotonga Water Upgrade	11,597,000	3,567,000	-	-
OPM	Atiu water distribution mains	280,000	-	-	-

8.3.4 Improve access to affordable, reliable and sustainable modern transport and energy for all

Table 8.8 Total Operating Expenditure 2016/17 to 2019/20 (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Aviation Safety Security Oversight Manager	14	14	14	14	56
Energy Commissioner operating costs	30				30
Extended monitoring of Northern Renewable Energy systems	40				40
Improve access to affordable, reliable and sustainable modern transport and energy for all	84	14	14	14	127

Transport – Aviation Safety Security Oversight Manager salary top-up

In order to recruit a qualified, experienced candidate for the Aviation Safety Security Oversight Manager position, an attractive salary is necessary. This measure increases the funding available to the Ministry of Transport to assist in filling this role. The higher salary will allow such a candidate to provide the technical expertise needed for aviation in the Cook Islands to remain compliant with international standards.

Measure	2016/17	2017/18	2018/19	2019/20
Aviation Safety Security Oversight Manager salary top-up	14,141	14,141	14,141	14,141
Total cost	14,141	14,141	14,141	14,141

OPM – Energy Commissioner Operating expenses

The work of the Office of the Energy Commissioner (OEC) was absorbed by the OPM Chief of Staff and OPM REDD, due to the fact that the role did not initially warrant a full time position. Much of the work was required to be done outside of OPM's working hours at no additional costs to cover for overtime or other expenses.

Given the tight fiscal environment that Government faces for 2016/17, the more affordable option will be to allow OPM to continue to maintain the legislated functions of the OEC, and for staff to be remunerated for time worked outside of their mandated positions.

Measure	2016/17	2017/18	2018/19	2019/20
Chief of Staff as OEC	15,000	0	0	0
REDD support to Commissioner	7,500	0	0	0

Administrative support	7,500	0	0	0
Total cost	30,000	0	0	0

OPM – Extended monitoring of Northern Group Renewable Energy systems

This is to provide for funding to continue monitoring of the Northern Group’s Renewable Energy systems that was previously implemented. This initiative covers a gap which arose at the end of the implementation project.

Measure	2016/17	2017/18	2018/19	2019/20
Monitoring of Northern Group Renewable Energy systems	40,000	0	0	0
Total cost	40,000	0	0	0

Other spending under this NSDP Goal

The following capital projects also relate to improving access to affordable, reliable and sustainable modern transport and energy. For more details, see Budget Book 3.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
APS	Streetlights for Aitutaki	63,000	-	-	-
CIIC	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	250,000	250,000	250,000	-
CIIC	Pa Enea Renewable Energy Projects-Land Acquisition	50,000	-	-	-
ICI	Atiu Airport Runway Stabilisation	762,160	-	-	-
ICI	Cargo barge repair program for Palmerston & Mangaia	100,000	-	-	-
ICI	HIAB (includes man cage & fork)	150,000	-	-	-
ICI	HV Transport Trailer	180,000	-	-	-
ICI	Large boat & outboard motor	100,000	-	-	-
ICI	Manihiki Island Airport Terminal - construction	60,000	-	-	-
ICI	Medium Genset (42kVA)	20,000	-	-	-
ICI	Outboard Motor replacement program	70,000	-	-	-
ICI	Rarotonga Road Sealing Programme	1,200,000	2,000,000	2,000,000	2,000,000
ICI	Upgrade of Airport terminal buildings	20,000	-	-	-
OPM	Atiu Power Distribution	395,000	-	-	-
OPM	Renewable Energy - Capital works	11,784,000	0	0	0
OPM	Renewable Management Project Management and Support	200,000	196,000	-	-

8.3.5 Ensure inclusive and equitable quality education and promote life-long learning opportunities

Table 8.9 Total Operating Expenditure 2016/17 to 2019/20 (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Pa Enea Equity Program	48	96	96	96	336
Teachers Training Program	7	44	44	44	139
Student Information System	20	20	20	25	85
Education – Rental of Pokoinu Hall	14	14	0	0	28
Ensure inclusive and equitable quality education and promote life-long learning opportunities	89	174	160	160	588

Education – Pa Enea Equity Program

Following the identification of issues impacting the quality of education on the smaller islands of the Pa Enea, the Ministry of Education will further implement dedicated support staff and improved communications for the online school (Te Kura Uira) and physical resourcing of TVET programmes.

Measure	2016/17	2017/18	2018/19	2019/20
Total Funding for the Pa Enea Programme	48,000	96,000	96,000	96,000
Total cost	48,000	96,000	96,000	96,000

Education – Teacher Training Program

This is to develop a pathway for new talent to be trained as teachers in the current ageing workforce. The initiative is to procure an “expert principal teacher” to lead the pathway under the concept developed as part of a Joint Working Group with New Zealand.

Measure	2016/17	2017/18	2018/19	2019/20
Teacher Training Programmes	7,185	44,370	44,370	44,370
Total cost	7,185	44,370	44,370	44,370

Education – Student Information System

The upgrade of the Student Information System is to allow for a more systemic approach to managing student information and data collection. The new system will help guide teachers in evaluating student progress across school years as well as assist schools and teachers to inform the next steps in student learning right through their schooling years.

Measure	2016/17	2017/18	2018/19	2019/20
Student Information System	20,000	20,000	20,000	25,000
Total cost	20,000	20,000	20,000	25,000

Education – Rental of Pokoinu Hall

While the construction of Apii Nikao is underway, Pokoinu Hall is being rented to provide classroom space.

Measure	2016/17	2017/18	2018/19	2019/20
Rental of Pokoinu Hall	13,800	13,800	0	0
Total cost	13,800	13,800	0	0

Other spending under this NSDP Goal

The following capital projects also relate to ensuring inclusive and equitable quality education and promote life-long learning opportunities. For more details, see Budget Book Three.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
CIIC	Apii Nikao	384,000	-	-	-
Education	Fund to be Prioritised by Education	360,000	360,000	110,000	110,000

8.3.6 Sustainably use the oceans, lagoons and marine resources for sustainable development

Table 8.10 Total Operating Expenditure 2016/17 to 2019/20 (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Bi-Annual slipping of Te Kukupa	150	0	150	0	300
NES – Environment Officer for Penrhyn Island	12	12	12	12	48

Description	2016/17	2017/18	2018/19	2019/20	Total
MMR – Increase in costs associated with Trading Revenue	3	3	3	3	12
CIIC – Joint Venture with Seabed Minerals Authority	-45	-45	-45	-45	-180
Sustainably use the oceans, lagoons and marine resources for sustainable development	120	-30	120	-30	180

Police – Bi-annual Slipping of Te Kukupa

The purpose of this funding is to provide for the bi-annual slipping of the Cook Islands Police Patrol Boat (CIPPB) Te Kukupa. This will involve a complete survey and examination and maintenance of the CIPPB Te Kukupa to ensure its seaworthiness. The appropriation will cover part of the overall cost of the bi-annual slipping, with the Australia Defense Force to complete the rest of the work that will be required.

Measure	2016/17	2017/18	2018/19	2019/20
Te Kukupa Refit	150,000	0	150,000	0
Total cost	150,000	0	150,000	0

NES – Environment officer for Penrhyn

Penrhyn has elected to come under the coverage of the National Environment Service Act. As a consequence an environment officer will be recruited by the NES, to be based on the island, who will be able to maintain important environmental activities and carry out the functions of the Environment Act.

Measure	2016/17	2017/18	2018/19	2019/20
Environment Officer for Penrhyn	12,000	12,000	12,000	12,000
Total cost	12,000	12,000	12,000	12,000

Marine Resources – Increase in Trading Revenue

The expected increase in Trading Revenue will be due to increased sales from ice sold to fishing boats. This will be offset against the increase in cost for the machine producing the ice.

Measure	2016/17	2017/18	2018/19	2019/20
Increase in Trading Revenue	3,000	3,000	3,000	3,000
Increase in Operating expenses	3,000	3,000	3,000	3,000
Net cost	0	0	0	0

CIIC –Joint Venture with the Seabed Minerals Authority

The reduction of \$45,000 is due to reduced travel costs associated with trips to attend International meetings relating to the Clarington Clipperton Zone and International Seabed Authority.

Measure	2016/17	2017/18	2018/19	2019/20
Joint venture with the Seabed Minerals Authority (savings)	-45,000	-45,000	-45,000	-45,000
Total cost	-45,000	-45,000	-45,000	-45,000

Other spending under this NSDP Goal

The following capital projects also relate to sustainably using the oceans, lagoons and marine resources for sustainable development. For further details, see Budget Book Three.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
MMR	Central Laboratory	500,000	-	-	-

8.3.7 Ensure a sustainable population promoting development by Cook Islanders for Cook Islanders

Table 8.11 Total Operating Expenditure 2016/17 to 2019/20 (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Cultural Development – Policy Officer	30	30	30	30	120
Ensure a sustainable population promoting development by Cook Islanders for Cook Islanders	30	30	30	30	120

Cultural Development – Policy Officer

Together with savings in retirements, extra funds are being made available for the Ministry of Cultural Development for policy development. These funds will contribute to the capacity of the Ministry to address language or cultural policy, as identified by the Ministry.

Measure	2016/17	2017/18	2018/19	2019/20
Personnel	30,000	30,000	30,000	30,000
Total cost	30,000	30,000	30,000	30,000

Other spending under this NSDP Goal

The following capital projects also relate to ensuring a sustainable population promoting development by Cook Islanders for Cook Islanders. For more details, see Budget Book 3.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
ICI	Manea Games Upgrade	100,000	-	-	100,000

8.3.8 Promote a peaceful and just society for all and Good Governance to promote transparency and accountability

Table 8.12 Total Operating Expenditure 2016/17 to 2019/20 (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Conduct of a Labour Force Survey		100			100
OPM – CPPO Policy Officer	42	42	42	42	168
OPM – ICT internship	25	25	25	25	100
P & D Technical Assistance	92	92	92	92	368
Audit –Software User License Fee increase	10	10	10	10	40
ICI – Pa Enea Machinery maintenance increase	100	100	100	100	400
Land Court backlog project	120	120			240
Reversal of previous reductions associated with retirement	452	452	452	452	1,808
Reversal of previous Centralisation of Finance model – Rarotongan Agencies	-9	-2	-2	-2	-15
Reversal of previous Centralisation of Finance model – Island Administrations ¹⁵	14	24	24	24	86
Government IT Network Maintenance	60	60	60	60	240
Production of new coins	370	350	350	350	1,420

¹⁵ This amount was from the pool of the Pa Enea Funding model, and has been returned to that pool for allocation. As such, this amount is not included in the totals of the table.

Description	2016/17	2017/18	2018/19	2019/20	Total
Centralisation of finance function – Head of State	0	0	0	0	0
Civil List POBOC Top Up	111	111	111	111	444
PLPG Increased Funding	17	17	17	17	68
MFEM – PAYE Tax Claim Obligations	26	26	26	26	104
Parliament – removal of trading revenue costs	-8	-8	-8	-8	-34
NES – Reduction in Rental costs	-10	-10	-10	-10	-40
Promote a peaceful and just society for all and Good Governance to promote transparency and accountability	1,397	1,484	1,264	1,264	5,410

MFEM –Funding to conduct a Labour Force Survey

The Labour Force survey examines the main activities of the population, in particular: the types of work people are employed in; the education and training provided to the employed population; as well as the number of individuals who are available and are actively seeking employment (the unemployment rate).

This will provide a clear overview of the Cook Islands economy through the economic activities of individuals and households. As the Household Income and Expenditure Survey is currently underway, and there is a Census at the end of 2016, this measure is to cover the personnel and operating cost in the 2017/18 financial year.

Measure	2016/17	2017/18	2018/19	2019/20
Labour Force Survey	0	100,000	0	0
Total cost	0	100,000	0	0

OPM – Policy Officer position

In order to strengthen the capacity in policy development in the whole of Government, funding has been provided to the Central Policy and Planning Office to recruit a Policy Officer to carry out these functions.

Measure	2016/17	2017/18	2018/19	2019/20
Personnel for a Policy Officer position	42,000	42,000	42,000	42,000
Total cost	42,000	42,000	42,000	42,000

OPM – ICT Internship

These two intern positions (or a single graduate position) within the ICT division of the Office of the Prime Minister (OPM) will provide increased support to agencies on the government IT network, while also providing opportunities for school leavers to gain experience in the field.

Measure	2016/17	2017/18	2018/19	2019/20
ICT Internship	25,000	25,000	25,000	25,000
Total cost	25,000	25,000	25,000	25,000

ICI – Planning & Design Technical Staff

This allows ICI to fund for two positions within the Planning & Design division to provide for technical, planning, and implementation support for ICI capital projects.

Measure	2016/17	2017/18	2018/19	2019/20
P&D Technical Staff	92,000	92,000	92,000	92,000
Total cost	92,000	92,000	92,000	92,000

Audit Office – Software User License fee

In order to deal with the demands of the Audit Office, additional software licenses have been purchased for the number of users currently working in the office. This purchase is for 10 additional software licenses to cover 10 extra staff (the commercial arrangement only allows for increments of 10), and assists the Audit Office in the completion of its mandate. Separate user licenses are required for support and tracing purposes.

Measure	2016/17	2017/18	2018/19	2019/20
Increase in Software User License fees	10,000	10,000	10,000	10,000
Total cost	10,000	10,000	10,000	10,000

Justice – Land Court Backlog Clearance

The purpose of this initiative is to address the ongoing issues surrounding the backlog of land records with additional staff to be employed to assist in clearing the backlog over a two year period. The additional staff members will consist of a registrar of land titles and land trusts, a surveyor and two land titles clerks with a budget allocation of \$120,000 for each year to assist in addressing this important issue.

Measure	2016/17	2017/18	2018/19	2019/20
Land Court Backlog Clearance	120,000	120,000	0	0
Total cost	120,000	120,000	0	0

Reversal of previous reductions associated with retirement scheme

In the 2015/16 Budget, an assumed level of savings were reduced from some agency baselines as part of the Voluntary Retirement Scheme. Some of these savings are not able to be realized, while other savings have far exceed the planned amount. The reversal of the previously proposed savings will allow ministries to restructure and deliver outputs more efficiently.

Measure	2016/17	2017/18	2018/19	2019/20
Ministry of Agriculture	30,000	30,000	30,000	30,000
Business Trade and Investment Board	6,000	6,000	6,000	6,000
Ministry of Education	91,000	91,000	91,000	91,000
Ministry of Health	66,000	66,000	66,000	66,000
Infrastructure Cook Islands	55,000	55,000	55,000	55,000
Ministry of Internal Affairs	41,000	41,000	41,000	41,000
Ministry of Justice	26,000	26,000	26,000	26,000
Ministry of Finance and Economic Management	33,000	33,000	33,000	33,000
Office of the Prime Minister	32,000	32,000	32,000	32,000
Parliamentary Services	17,000	17,000	17,000	17,000
Cook Islands Police	9,000	9,000	9,000	9,000
Office of the Public Service Commissioner	29,000	29,000	29,000	29,000
Ministry of Transport	17,000	17,000	17,000	17,000
Total cost	452,000	452,000	452,000	452,000

Reversal of Previous Centralisation of Finance Model

In the 2015/16 Budget, a model to centralize the finance officers was put forward, with small reductions taken from all ministries and island governments. In the 2016/17 Budget, a more strategic, targeted approach has been undertaken, which will be better able to deliver efficiencies to government.

Measure	2016/17	2017/18	2018/19	2019/20
Ministry of Agriculture	1,000	2,000	2,000	2,000
Cook Islands Audit Office	3,000	3,000	3,000	3,000
Business Trade and Investment Board	1,000	2,000	2,000	2,000

Measure	2016/17	2017/18	2018/19	2019/20
Ministry of Education	17,000	26,000	26,000	26,000
Ministry of Cultural Development	1,000	2,000	2,000	2,000
Cook Islands Investment Corporation	1,000	2,000	2,000	2,000
National Environment Service	2,000	3,000	3,000	3,000
Financial Services Development Authority	1,000	2,000	2,000	2,000
Head of State	1,000	2,000	2,000	2,000
Ministry of Foreign Affairs and Immigration	3,000	5,000	5,000	5,000
Crown Law	1,000	2,000	2,000	2,000
Infrastructure Cook Islands	3,000	5,000	5,000	5,000
Ministry of Internal Affairs	2,000	3,000	3,000	3,000
Ministry of Justice	3,000	5,000	5,000	5,000
Ministry of Finance and Economic Management	5,000	8,000	8,000	8,000
Ministry of Health	16,000	24,000	24,000	24,000
Office of the Ombudsman	1,000	2,000	2,000	2,000
Office of the Prime Minister	2,000	3,000	3,000	3,000
Office of the Public Service Commissioner	3,000	5,000	5,000	5,000
Parliamentary Services	1,000	2,000	2,000	2,000
Cook Islands Police	5,000	8,000	8,000	8,000
Cook Islands Pearl Authority	1,000	2,000	2,000	2,000
Tourism Corporation	7,000	11,000	11,000	11,000
Ministry of Transport	1,000	2,000	2,000	2,000
Ministry of Marine Resources	2,000	3,000	3,000	3,000
Seabed Minerals Authority	1,000	2,000	2,000	2,000
Prime Minister Support Office	1,000	2,000	2,000	2,000
Deputy PM Support Office	1,000	2,000	2,000	2,000
Leader of the Opposition Office	1,000	2,000	2,000	2,000
Minister Brown Support Office	1,000	2,000	2,000	2,000
Minister Turepu Support Office	1,000	2,000	2,000	2,000
Minister Nicholas Support Office	1,000	2,000	2,000	2,000
Minister Glassie Support Office	1,000	2,000	2,000	2,000
Pa Enea Funding	14,000	24,000	24,000	24,000
MFEM funding	-100,000	-150,000	-150,000	-150,000
Net cost¹⁶	-8,000	-24,000	-24,000	-24,000

OPM – Government IT Network Maintenance

To maintain the government network for the increasing number of ministries connected, funds to cover maintenance work and components are required to mitigate the risk of ICT malfunction.

Measure	2016/17	2017/18	2018/19	2019/20
Operating cost for ICT Maintenance	60,000	60,000	60,000	60,000
Total cost	60,000	60,000	60,000	60,000

MFEM – Production of coins

In order to maintain the level of Cook Islands coins in circulation, more need to be produced each year and distributed. This is overall budget neutral, as the production of coins results in some revenue to the Crown.

Measure	2016/17	2017/18	2018/19	2019/20
Production and transport of new coins	370,000	350,000	350,000	350,000
Total cost	370,000	350,000	350,000	350,000

MFEM – Transfer of Finance function from Head of State

¹⁶ Excluding Pa Enea, which has returned to the funding pool for the Pa Enea Funding Model.

This represents the movement of the Administrative Assistant position, which was responsible for the finance functions at the Head of State Ministry, amongst other functions, to be transferred to the Ministry of Finance and Economic Management as part of the revised Centralisation of Finance initiative.

Measure	2016/17	2017/18	2018/19	2019/20
Centralisation of Finance (MFEM)	19,000	19,000	19,000	19,000
Centralisation of Finance (HOS)	-19,000	-19,000	-19,000	-19,000
Total cost	0	0	0	0

Parliamentary Services – Top-up of Civil List POBOCs

In order to adequately fund the Civil List – Personnel POBOC and the QR and MP Travel and Allowances POBOC to cover entitlements a top up of both is required in the following amounts:

Measure	2016/17	2017/18	2018/19	2019/20
Civil List Personnel	54,130	54,130	54,130	54,130
QR and MP's Travel and Allowances	56,572	56,572	56,572	56,572
Total cost	110,702	110,702	110,702	110,702

To help improve the management of the Parliamentary entitlements, the decision was made to separate the different categories of expenses currently covered under the Civil List. The restructure of the Civil List POBOCs are expected to provide greater transparency to Members of Parliament and the public.

PLPG increased funding

In order to support the Pacific Legislatures for Governance and Population (PLPG) office, as well as comply with existing agreements and the work conducted for the Cook Islands Parliament, an additional \$17,000 is being funded to the office.

Measure	2016/17	2017/18	2018/19	2019/20
Pacific Legislatures for Population and Governance	17,000	17,000	17,000	17,000
Total cost	17,000	17,000	17,000	17,000

MFEM – PAYE tax claims (3 donor funded positions)

Under the agreement between donor agencies such as the Asian Development Bank (ADB) and the United National Development Program (UNDP), employees of the ADB and the UNDP are not obligated to pay tax on their income. To comply with the agreements with these organizations (and standard international practice) MFEM will pay the income tax obligations on their behalf. This measure is budget neutral, as the payment from MFEM increases PAYE revenue. Any other form of income earned by the staff covered from this arrangement is taxed as normal.

Measure	2016/17	2017/18	2018/19	2019/20
PAYE tax claim obligations	26,000	26,000	26,000	26,000
Net cost	0	0	0	0

Parliamentary Services – Removal of Trading Revenue

Parliamentary Services currently sell legislation to the public in the form of printed documents. As of the 1 July 2016, electronic access to these documents will be provided free of charge. This will result in a reduction in trading revenue, but also an associated reduction in printing costs. Printed copies will still be available on request and still incur an administrative charge.

Measure	2016/17	2017/18	2018/19	2019/20
Reduction in Trading Revenue	-8,419	-8,419	-8,419	-8,419
Reduction in Operational expenses	-8,419	-8,419	-8,419	-8,419

Total cost	0	0	0	0
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NES – Reduction in rental costs

The National Environment Service has recently re-located to a location with lower rental costs, saving approximately \$13,000 per year. This measure reduces the operating appropriation to the NES by \$10,000 to reflect the lower costs, and recoup the portion of the relocation cost which was borne by the Crown. The balance of the savings remains with NES to prioritise across outputs.

Measure	2016/17	2017/18	2018/19	2019/20
Reduction in NES Rental costs	-10,000	-10,000	-10,000	-10,000
Total cost	-10,000	-10,000	-10,000	-10,000

Other spending under this NSDP Goal

The following capital projects also relate to promoting a peaceful and just society for all and practicing good governance, promoting transparency and accountability. For further details, see Budget Book 3.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
CIIC	Provision for land rent reviews	642,000	642,000	642,000	-
CIIC	Vaikapuangi Government Building - construction	1,920,000	2,467,000	-	-
CIIC	Vaikapuangi Government Building - design	180,000	-	-	-
ICI	Government House	26,000	-	-	-
MFEM	AEOI IT System	-	500,000	-	-
MFEM	FMIS purchase and implementation	-	500,000	-	-
OPM	Government IT Network	40,000	40,000	40,000	40,000

8.3.9 Capital Projects relating to other NSDP Goals

The following capital projects relate to NSDP Goals not identified in the Budget Policy Statement. More detail can be found in Budget Book 3.

Agency	Capital project	2016/17	2017/18	2018/19	2019/20
ICI	National Incinerator Feasibility Study	120,000	-	-	-
Education	ICT upgrades (computers & laptops)	88,000	-	-	-
ICI	Atiu Road Sealing	-	235,000	-	-
ICI	Avatiu Valley Stream embankment	360,000	36,000	-	-
ICI	Bridges & Drainage	1,348,650	750,000	-	-
ICI	Mangaia Road Sealing	250,000	-	-	-
ICI	Omoka Harbour Upgrade	250,000	-	-	-
ICI	Project City Stage 3 - Retention fund	205,746	-	-	-
ICI	Road Network Maintenance	630,000	630,000	630,000	630,000
ICI	Slasher	4,000	-	-	-
ICI	Yato Cargo Shed Upgrade	8,000	-	-	-
Intaff	Vaka Maintenance Capital Projects	50,000	50,000	50,000	50,000
OPM	Computers and Printers	50,000	-	-	-
CIIC	Pukapuka Hospital Reconstruction	300,000	-	-	-
Health	Fund to be Prioritised by Health for Technical Equipment	275,000	275,000	275,000	275,000
Health	Medical Service Bed End Panels	309,500	309,500	-	-
Health	Ultrasound Machine	160,000	-	-	-
ICI	Rutaki Foreshore Rock Revetment	120,000	-	-	-

8.3.10 Technical Adjustments

Table 8.13 Total Expenditure 2016/17 to 2019/20 (excludes ODA) (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Depreciation Adjustments to Agency appropriations	121	131	131	131	513
Reduction in costs of power to the Ministry of Education building	-50	-50	-50	-50	-200
Performance Based Budget Support adjustments	-1,975	-1,970	0	0	-3,945
Other technical adjustments	239	219	220	-144	534
Technical Adjustments	-1,665	-1,670	301	-63	-3,097
CIIC – Provision of Land Rentals ¹⁷	142	142	642	0	926

Depreciation adjustments to Agency appropriations

Adjustments to the depreciation estimates are being made to account for corrections made to several agencies appropriations as well as to reflect the movement of assets onto fixed assets registers.

Agency	2016/17	2017/18	2018/19	2019/20
Ministry of Education	50,000	50,000	50,000	50,000
Ministry of Marine Resources	37,682	37,682	37,682	37,682
Ministry of Agriculture	17,147	17,147	17,147	17,147
DPM Support	5,875	5,875	5,875	5,875
OPSC (HRMIS system)	4,995	4,995	4,995	4,995
Seabed Minerals Authority	2,140	2,140	2,140	2,140
Pearl Authority	2,862	2,862	2,862	2,862
Penrhyn Island Administration		10,000	10,000	10,000
Total cost	120,701	130,701	130,701	130,701

Education –Reduction in the cost of Power to Ministry of Education building

After being appropriated to allow for costs related to electricity from the grid in the 2015/16 Budget, the solar system on top of the Ministry of Education Building in Nikao was not transferred to Te Aponga Uira (TAU). As a result, the Ministry of Education did not incur these costs. This measure removes this additional funding, with the intent that it is reinstated if the assets are transferred to TAU.

Measure	2016/17	2017/18	2018/19	2019/20
Reduction in Operating	-50,000	-50,000	-50,000	-50,000
Total cost	-50,000	-50,000	-50,000	-50,000

Performance Based Budget Support adjustments

Corrections in the reporting of funding from New Zealand under the Grant Funding Agreement (GFA, or commonly referred to as ‘Budget Support’) have caused the reported levels of expenditure to be adjusted downwards to better reflect the actual transfers occurring. In most cases, this is due to some functions remaining with New Zealand, rather than a reduction of services to the Cook Islands.

The Government Funded Scholarships POBOC is funded through the Grant Funding Agreement (GFA) with New Zealand, and at Budget the entire amount of funding for scholarships was included in the publication. The adjustment here reflects the need to ‘grandfather’ out the scholarships for those students who are already in New Zealand and receiving scholarship funding from administrative services in Wellington.

This adjustment does not represent any change to the amount of funding provided for scholarships,

¹⁷ As this is a capital item, it is not included in the total.

just a recognition of the amount spent directly by the New Zealand Government, instead of being transferred to the Cook Islands Government to administer

At previous updates, \$0.650 million in funding from the GFA was incorrectly apportioned to the Social Impact Fund (SIF) – Cook Islands Government Contribution POBOC, and this adjustment reflects the actual amount available under the POBOC. This adjustment does not reflect any changes to the SIF funding, but is a correction to the previously reported amounts.

Measure	2016/17	2017/18	2018/19	2019/20
Government Funded Scholarships	-304,200	-90,000	0	0
Social Impact Fund	-650,000	-650,000	0	0
Public Sector Strengthening – Processes and Systems (MFEM)	-1,020,800	-1,230,000	0	0
Total cost	-1,975,000	-1,970,000	0	0

Other Technical Adjustments

Between the 2015/16 Budget and this update, there have been a number of small adjustments made to estimates, which are reflected in this amount. These relate to things such as fluctuations in trading revenue and associated costs, and previous over-estimates.

Measure	2016/17	2017/18	2018/19	2019/20
Other technical adjustments	238,948	219,177	220,177	-143,823
Total cost	238,948	219,177	220,177	-143,823

CIIC – Provision for Land Rentals

After the rent reviews conducted in 2015, additional costs relating to leases held by the Crown have been incurred and need to be appropriated for. This cost has been spread across the next 3 years to limit the pressure on the national Budget. As this relates to the clearing of a liability, this measure impacts the capital, not operating expenditure (see Schedule 6).

Measure	2016/17	2017/18	2018/19	2019/20
Provision for Land Rentals	142,000	142,000	642,000	0
Total cost	142,000	142,000	642,000	0

8.3.11 Reclassification of Expenditure

Table 8.14 Total Expenditure 2016/17 to 2019/20 (excludes ODA) (\$000)

Description	2016/17	2017/18	2018/19	2019/20	Total
Transfer of CPA Subscriptions	0	0	0	0	0
Transfer of the National Heritage Trust Administered Payment	0	0	0	0	0
HOM's salaries – movement to Administered Payment	0	0	0	0	0
Restructure of Parliamentary appropriations	0	0	0	0	0
Change in reporting CIIC appropriation	555	555	555	555	2,220
Depreciation Contingency Fund movements	-1,878	-282	-174	-174	-2,509
Other minor adjustments	0	4	4	4	12
Reclassification of Expenditure	-1,323	277	385	385	-276

Parliamentary Services and MFAI– Transfer of CPA Subscriptions

The current membership fee for the Commonwealth Parliamentary Association (CPA) will be transferred to the International Subscriptions POBOC at MFAI, consistent with the central management of membership to International Organizations.

Measure	2016/17	2017/18	2018/19	2019/20
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Transfer of CPA Subscriptions (Parliament)	-45,000	-45,000	-45,000	-45,000
Transfer of CPA Subscriptions (MFAI)	45,000	45,000	45,000	45,000
Net cost	0	0	0	0

MFEM and NES – Transfer of the National Heritage Trust POBOC

In order to take advantage of the close relationship between the outputs of the National Heritage Trust and the National Environment Service (NES), the funding for the National Heritage Trust will now be managed as an Administered Payment under the NES. This which better reflects the nature of the work performed and the working relationship between NES and the National Heritage Trust.

Measure	2016/17	2017/18	2018/19	2019/20
National Heritage Trust (MFEM)	-82,241	-82,241	-82,241	-82,241
National Heritage Trust (NES)	82,241	82,241	82,241	82,241
Total cost	0	0	0	0

OPSC – Transfer of HOM’s salaries to an Administered Payment

In order to separate the personnel costs for the Heads of Ministries (HOM) from the core staffing costs of the OPSC, the salaries of the Public service HOM’s have been moved to an Administered Payment. This still keeps OPSC as the primary agency responsible for HOM leave, pay, and bonuses, but simplifies the financial management of HOM entitlements.

Measure	2016/17	2017/18	2018/19	2019/20
HOM’s salaries – reduction in Personnel	-1,228,716	-1,228,716	--1,228,716	-1,228,716
HOM’s salaries – Administered Payments	1,228,716	1,228,716	1,228,716	1,228,716
Total cost	0	0	0	0

Parliamentary Services – Restructure of Parliamentary POBOCs

The separation of the Civil List POBOC will accommodate for costing appropriated for Constituency Visits, Parliamentary Sittings and the Queens Representative and Members of Parliament Travel and Allowances. This restructure is budget-neutral, however additional funding to meet obligations is detailed below.

Measure	2016/17	2017/18	2018/19	2019/20	Measure
2015/16 Civil List Appropriation					
Civil List Personnel	1,819,630	0	0	0	0
Civil List Personnel Top Up through Executive Order	95,000	0	0	0	0
Civil List Operating	529,475	0	0	0	0
Total cost	2,444,105	0	0	0	0
2016/17 Civil List Appropriation					
Civil List Personnel	0	1,920,477	1,920,477	1,920,477	1,920,477
Parliamentary Sitting	0	120,000	120,000	120,000	120,000
Constituency Visits	0	170,200	170,200	170,200	170,200
QR and MP Travel and Allowance	0	93,428	93,428	93,428	93,428
Total cost	0	2,304,105	2,304,105	2,304,105	2,304,105
Previous baseline (Personnel + Operating, less CPA Subscription)		2,304,105	2,304,105	2,304,105	2,304,105
Net cost increase		0	0	0	0

The Parliamentary Sitting appropriation covers the professional services and other operational costs associated with two 10 day sitting periods of the Parliament of the Cook Islands. This includes boarding allowance and travel costs for MPs based in the Pa Enea.

Below is an outline of the cost estimate of Parliamentary Sitting days:

2016/17 Parliamentary Sitings appropriation	First sitting day costs (\$)	Subsequent day costs (\$)
Catering	350	350
Broadcasting	1,050	1,050
Interpreters (x2)	350	350
Translator (x1)	350	350
Stenographers (x3)	840	840
Audio Technicians (2x)	350	350
Printing	200	-
Fuel/Transport	80	-
Stationery & consumables	150	-
Boarding Allowance for 11 Pa Enea MPs	550	550
Airfares for 11 Pa Enea MPs	20,540	-
Cost of first sitting day	24,810	3,840
Miscellaneous (whole period)		1,260
Total cost for 2 x 10 day sitting periods		120,000

The funds appropriated for Constituency Visits cover MP's travel between Rarotonga and their Constituency four times a year including travel cost for spouses to accompany MP's travelling to their constituencies for two trips a year. Each MP and their spouses are also entitled to travel allowance costs whilst on constituency business.

The amounts in the table below are earmarked as individual allocations for each MP, but can be moved between MPs upon agreement by both parties. Top ups to MP personal budgets can also be requested from the QR and MP Travel and Allowances POBOC if needed.

2016/17 breakdown of Constituency Travel	Airfares	Allowances
Northern Group		
Manihiki Island MP and spouse	23,140	2,000
Pukapuka, Nassau Island MP and spouse	23,140	2,000
Penrhyn Island MP and spouse	23,140	2,000
Rakahanga Island MP and spouse	23,140	2,000
Southern Group		
Tengatangi, Areroa, Ngatiarua MP and spouse	5,240	1,000
Teenui, Mapumai MP and spouse	5,240	1,000
Oneroa MP and spouse	5,240	1,000
Ivirua MP and spouse	5,240	1,000
Tamarua MP and spouse	5,240	1,000
Amuri, Ureia MP and spouse	5,240	1,000
Arutanga, Reureu, Nikaupara MP and spouse	5,240	1,000
Vaipae, Tautu MP and spouse	5,240	1,000
Mitiaro MP and spouse	5,240	1,000
Mauke MP and spouse	5,240	1,000
Ruatonga, Avatiu, Panama, Palmerston, Atupa MP and spouse	5,240	2,000
Total cost	150,200	20,000

CIIC – Change in Reporting of appropriation

Previously, the Cook Islands Investment Corporation (CIIC) has been appropriated by a single line under "Asset Management". In order to streamline processes, this has now changed to be in line with other government bodies. As this requires the Gross Appropriation to be appropriated for, the amount formerly funded through trading revenue is now acknowledged more clearly. These

movements are budget neutral in aggregate.

Measure	2015/16	2016/17	2017/18	2018/19	2019/20
2015/16 Asset Management Appropriation					
Asset Management (CIIC)	1,798,000				
Total cost	1,798,000				
2016/17 Asset Management Appropriation					
CIIC – Personnel		630,150	630,150	630,150	630,150
CIIC – Operating		1,702,450	1,702,450	1,702,450	1,702,450
CIIC – Depreciation		22,400	22,400	22,400	22,400
Net cost		555,000	555,000	555,000	555,000
Trading Revenue		555,000	555,000	555,000	555,000
Budget impact		0	0	0	0

Depreciation Contingency Fund (DCF) movements

To increase transparency and improve reporting, the Depreciation Contingency Fund now is explicitly reporting the assets which it covers, which includes the Chinese equipment gifted by the People’s Republic of China, the Rarotonga Water Network (currently under re-construction), Pa Enea Renewable Energy Systems, as well as provision for other assets which are not currently listed on Fixed Asset Registers across government.

The changes reflected here are due to delayed project implementation and better identification of depreciation costs.

Measure	2016/17	2017/18	2018/19	2019/20
Depreciation Contingency Fund (DCF) 2015/16 Budget	-4,338,000	-4,338,000	-4,338,000	-4,338,000
DCF – Chinese Equipment	761,339	761,339	761,339	761,339
DCF – Rarotonga Water Network	298,900	694,220	802,500	802,500
DCF – Northern Pa Enea Renewable Energy System	400,000	400,000	400,000	400,000
DCF – Southern Pa Enea Renewable Energy System		1,200,000	1,200,000	1,200,000
DCF – Other Assets	1,000,000	1,000,000	1,000,000	1,000,000
Depreciation Contingency Fund (DCF) 2016/17 Budget	2,362,134	3,957,454	4,065,734	4,065,734
Net cost	-1,877,761	-282,441	-174,161	-174,161

For the Northern and Southern Renewable projects, the depreciation funds will accrue to a separate account which will contribute to the eventual replacement of batteries, panels and other major components in years to come.

Pa Enea Renewable Energy Replacement fund balance	2016/17	2017/18	2018/19	2019/20
Balance at financial year end	400,000	2,000,000	3,600,000	5,200,000

Other adjustments

Due to changes in the treatment of some depreciation amounts, there is a very small residual amount which must be recognized here.

Measure	2016/17	2017/18	2018/19	2019/20
Other adjustments to Depreciation	0	4,000	4,000	4,000
Total cost	0	4,000	4,000	4,000

8.4 Administered Payments

There has been a significant change in the structure of payments since the 2015/16 Budget, with a new category, Administered Payments, being introduced. Many payments which were previously categorized as POBOCs are now Administered Payments, with only core Payments on Behalf of Crown remaining in that category.

Administered Payments reflect a case where the Crown has provided funding to an agency for a specific purpose, and the remit comfortably falls under the outputs of the agency.

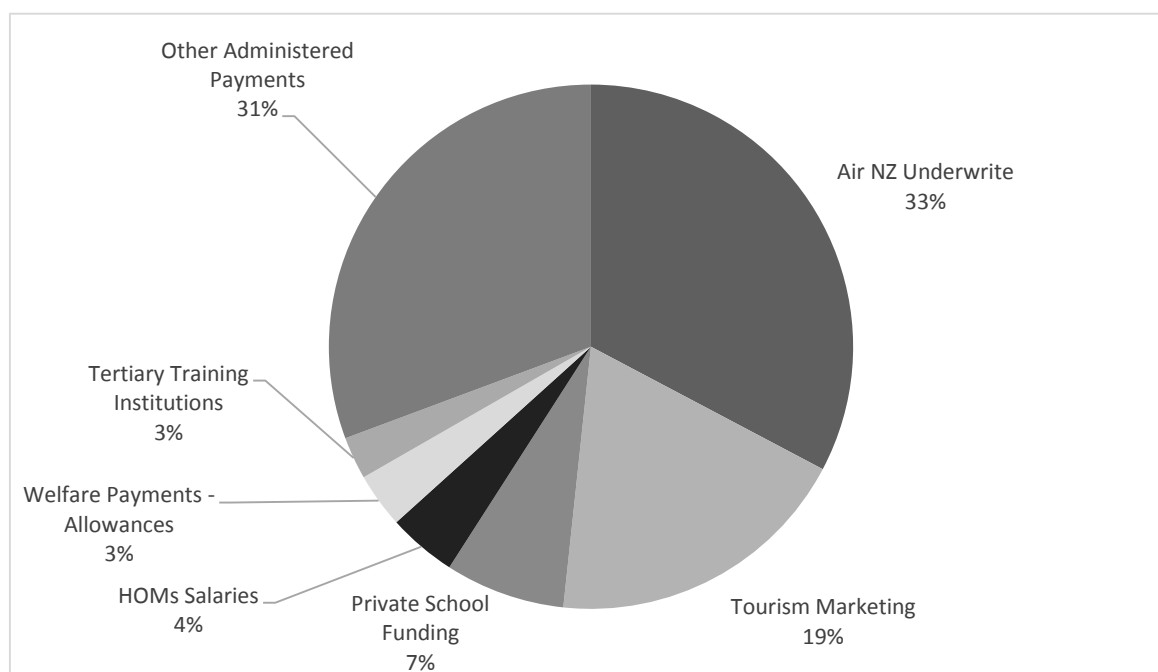
Administered Payments reflect a significant proportion of overall government spending. Some of the key Administered Payments can be seen in the table below.

Table 8.15 Administered Payment Summary 2015/16 – 2019/20 (\$000)

Administered Payments	2015/16	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Air NZ Underwrite	6,050	9,500	12,000	12,000	12,000
Tourism Marketing	5,100	5,500	5,400	3,100	2,950
Private School Funding	2,147	2,147	2,147	2,007	2,007
HOMs Salaries	-	1,229	1,229	1,229	1,229
Water Utility - Rarotonga	-	100	1,400	1,400	1,400
Welfare Payments - Allowances	927	982	983	983	984
Tertiary Training Institutions	760	760	760	760	760
Other Administered Payments	12,941	8,955	8,722	7,762	7,612
Total Administered Payments	27,925	29,173	32,641	29,241	28,942

For a detailed listing of Administered Payments refer to Schedule 8a.

Chart 8.3 Administered Summary for 2016/17



Based on the chart above, it is evident that the underwrite of long haul services and marketing funding equate to a large portion of the total Administered Payment appropriation for 2016/17. More detail on some of the key Administered Payments is provided below.

8.4.1 Subsidies

Table 8.16 Air New Zealand Underwrite of Los Angeles and Sydney Aircrafts

Administered Payment	2016/17	2017/18	2018/19	2019/20
Air New Zealand Underwrite	9,500,000	12,000,000	12,000,000	12,000,000
Total Cost	9,500,000	12,000,000	12,000,000	12,000,000

This supports two non-commercial long haul services operated by Air New Zealand from Los Angeles

to Rarotonga and from Sydney to Rarotonga. The 2016/17 Budget estimates that the underwrite will be \$9.5 million. This is significantly lower than the provision from the 2015/16 Budget, with the estimated outcome for 2015/16 also much lower than budgeted. This reduction is primarily a result of the lower fuel costs on the flights.

8.4.2 Use of Goods and Services

Table 8.17 Marketing – Tourism Growth Strategy

Administered Payment	2016/17	2017/18	2018/19	2019/20
Tourism Marketing	5,500,000	5,400,000	3,100,000	2,950,000
Total Cost	5,500,000	5,400,000	3,100,000	2,950,000

The purpose of the Tourism Growth Strategy is to focus marketing efforts on supporting the relationships the Cook Islands has with our airline partners, including for the underwritten flights. This funding supports the Cook Islands Tourism Corporation in their efforts to promote the Cook Islands on the international stage.

Table 8.18 Private School Funding

Administered Payment	2016/17	2017/18	2018/19	2019/20
Private School Funding	2,147,027	2,147,027	2,007,027	2,007,027
Total Cost	2,147,027	2,147,027	2,007,027	2,007,027

To support the education sector in the Cook Islands, the government provides subsidies to private education providers. This funding allows the high standards in Cook Islands education to be maintained or improved. Their presence relieves some pressure on the public education sector.

Table 8.19 Tertiary Training Institutions

Administered Payment	2016/17	2017/18	2018/19	2019/20
Tertiary Training Institutions	759,855	759,855	759,855	759,855
Total Cost	759,855	759,855	759,855	759,855

The Cook Islands Tertiary Training Institute (CITTI) maintains accreditation with both the New Zealand Qualifications Authority and London City and Guilds. This gives the institute access to a wide range of vocational qualifications relevant to the labour market and to the development of enterprise in the Cook Islands. Current programmes include food and beverage, culinary arts, hair and beauty, drain laying, automotive engineering, carpentry and electrical. The CITTI also provides an opportunity to develop personal interest and offers a range of non-accredited community courses that support livelihoods for example cooking for market, screen-printing.

CITTI also manages an apprenticeship programme which supports local employers to train young people across the trades and hospitality industries and provides access to formal qualifications through work release.

8.5 Payments on Behalf of the Crown

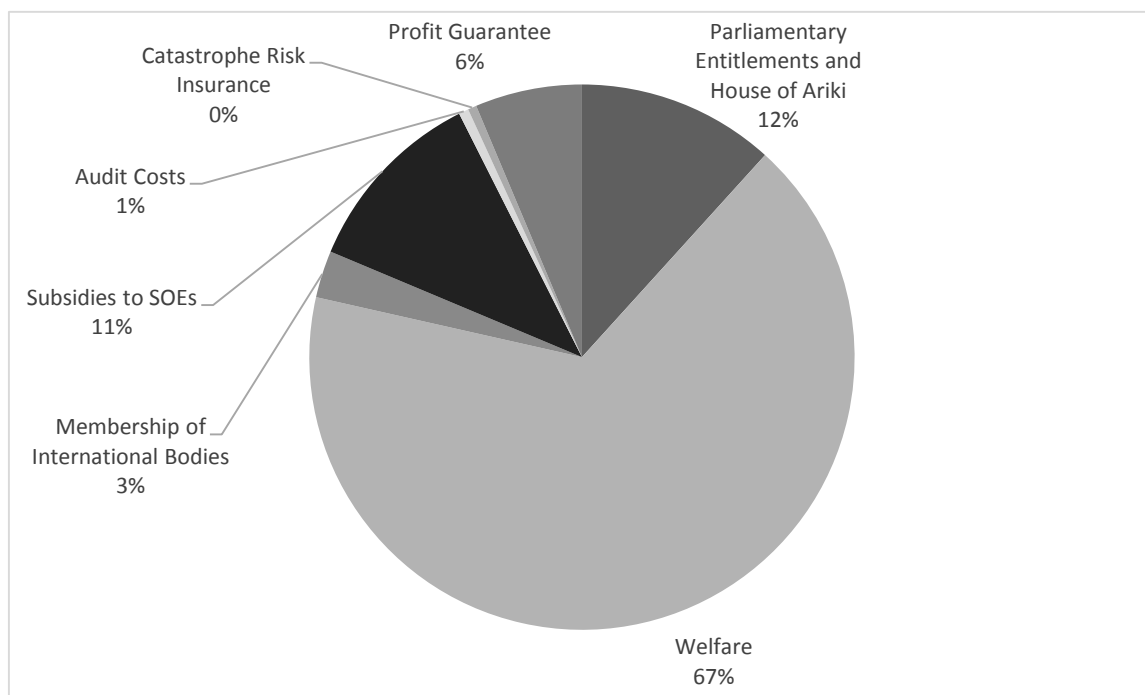
There has been a significant change in the structure of payments since the 2015/16 Budget, with a new category, Administered Payments, being introduced. Many payments which were previously categorized as POBOCs are now Administered Payments, with only core Payments on Behalf of Crown remaining in that category.

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

Table 8.20 POBOC Summary 2015/16 – 2019/20 (\$'000)

POBOCS	2015/16	2016/17 Budget	2017/18 Projected	2018/19 Projected	2019/20 Projected
Parliamentary Entitlements and House of Ariki	2,957	2,771	2,771	2,771	2,771
Welfare	15,461	15,800	15,958	16,119	16,283
Membership of International Bodies	615	660	660	660	660
Subsidies to SOEs	2,658	2,658	2,658	2,658	2,658
Audit costs	138	138	138	138	138
Catastrophe Risk Insurance	121	121	121	121	121
Profit Guarantee	1,500	1,500	750	0	0
Total POBOCS	23,450	23,648	23,057	22,468	22,631

Chart 8.4 POBOC Summary for 2016/17



Based on the chart above, it is evident Welfare is the dominant factor in the level of POBOCs. More detail on each of the POBOCs with significant value is provided below.

8.5.1 Parliamentary Entitlements and House of Ariki

Table 8.21 Civil List

POBOC	2016/17	2017/18	2018/19	2019/20
Civil List Personnel	1,974,607	1,974,607	1,974,607	1,974,607
Parliamentary Sitting	120,000	120,000	120,000	120,000
Constituency Visits	170,200	170,200	170,200	170,200
QR and MP Travel and Allowance	95,000	95,000	95,000	95,000
Total Cost	2,359,807	2,359,807	2,359,807	2,359,807

Note that the figures presented above are the Budget-neutral presentation of the Civil List appropriations, prior to any new initiatives topping up the payments to any individual POBOC.

Table 8.22 Parliamentary Superannuation

POBOC	2016/17	2017/18	2018/19	2019/20
Parliamentary Superannuation	180,000	180,000	180,000	180,000
Total Cost	180,000	180,000	180,000	180,000

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.

Table 8.23 House of Ariki

POBOC	2016/17	2017/18	2018/19	2019/20
House of Ariki	176,341	176,341	176,341	176,341
Total Cost	176,341	176,341	176,341	176,341

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 recognize the contribution to society made by the Ariki.

8.5.2 Subsidies to SOEs

Table 8.24 Subsidies to State-owned Enterprises (SOEs)

POBOC	2016/17	2017/18	2018/19	2019/20
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

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.

Table 8.25 Apex - Profit Guarantee

POBOC	2016/17	2017/18	2018/19	2019/20
Apex – Profit Guarantee	1,500,000	750,000	0	0
Total Cost	1,500,000	750,000	0	0

The Apex Profit Guarantee POBOC is a court ordered payment for a profit guarantee to Apex Agencies Limited in accordance with the terms of the TOA settlement agreement that requires Government amongst other things to guarantee making up the balance if TOA's profit falls below \$1.2 million per annum. The payment comes to an end in December 2017.

8.5.3 Social Assistance - Welfare POBOC

Table 8.26 Welfare POBOC

	2016/17	2017/18	2018/19	2019/20
Welfare Payments POBOC	15,799,966	15,958,317	16,119,362	16,283,141
Welfare Payments Administered Payments	982,418	982,893	983,393	983,918
Total	16,782,384	16,941,210	17,102,755	17,267,059

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. Without this support, there would be greater levels of poverty in the Cook Islands.

Table 8.27 Welfare Benefits Types

	2016-17	2017-18	2018-19	2019-20
	Budget	Estimate	Estimate	Estimate
1 Old Age Pension	12,109,659	12,281,286	12,455,538	12,779,459
2 Child Benefit	2,654,907	2,641,632	2,628,424	2,615,282
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	276,818	277,293	277,793	278,318
9 Funeral Allowance	170,000	170,000	170,000	170,000
10 Power Subsidy	79,200	79,200	79,200	79,200
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	16,782,384	16,941,210	17,102,755	17,267,059

Table 8.28 Details on Welfare Payments

Legislated Welfare Payments	Payment Rate	Beneficiaries 2015/16 Estimate	Beneficiaries 2016/17 Budget	Assumptions
Child Benefit (monthly)	66	3,369	3,352	The number of eligible children up to age 12 is expected to continue the long-term trend with a slight decrease.
New Born Allowance*	1,000	200	200	The number of births is expected to remain stable.
Old Age Pension - 60 to 69 years of age (monthly)	500	1,030	1,053	The number of pensioners in this age group is increase slightly based on actual trends.
Old Age Pension - 70 years of age and over (monthly)	660	727	731	The number of pensioners in this age group is expected to remain stable.
Destitute and Infirm Persons Payment (monthly)	200	212	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	114	180	The number of people that will qualify for caregiver's allowance is likely to increase due to aging population and incidence of NCDs.
Christmas Bonus*	50	5,475	5,536	A slight increase in the total number of beneficiaries expected to receive payment

				in December 2016.
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	330	300	Estimated number of old age beneficiaries expected to receive power subsidy is expected to fall with the shift to Renewable Energy in the Northern Group.
Other Payments				
Government-funded Paid Maternity Leave**	1,500	80	80	The number of births by working women in the private sector is expected to remain stable.

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.

**The Government Funded Paid Maternity Leave is for working mothers in the private sector and is set at the minimum rate of payment for six weeks based on a 40 hour work week. The payment is taxable and made to the Employer on application by the Employer who then is expected to make the payments to the employee.

8.6 Welfare Payments

8.6.1 Legislated Entitlements

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

- Child Benefit, including a lump sum payment at birth, known as the New Born Allowance;
- Old Age Pension; and
- Destitute and Infirm Persons 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 rate of the payment is \$66 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 born 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 will increase from \$650 a month to \$660 a month from 1 July 2016. Payments are paid in two monthly installments on the 1 and the 16 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, this rate is being lifted to \$200, effective 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 is currently set at \$250 each week for six weeks.

The payment is paid in one lump sum to employers of eligible women who are then expected to provide the payment to eligible women, 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 already provides six weeks maternity leave to women employed in the public service directly through agency appropriations.

8.6.2 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:

- caregiver's allowance
- Christmas bonus
- funeral allowance
- power subsidy, and
- 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 Islands pensioners or people with permanent disabilities who have high care needs and do not have capacity to access such 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 a bonus 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. 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 on the outer islands.

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 Tax Expenditure

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, the:

- Income Tax Act 1997
- Value Added Tax Act 1997
- Customs Revenue and Border Protection Act 2012; and
- Customs Tariff Act 2012.

9.1 Import Levies

1. Concession on fuel to the outer islands.

Fuel to all outer islands is free of levy 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 2015/16.

The rate for Rarotonga is 28 cents per litre on petrol and 22 cents per litre on diesel.

2. Exemptions from levies approved by Business Trade and Investment Board (BTIB).

The Business Trade and Investment Board may approve exemptions from levy on motor vehicles pursuant to the Business Trade and Investment Board Act 2003.

The estimated cost to revenue of the concessions provided by BTIB in 2015/16 is \$30,000.

3. Concessions for returning Cook Islanders.

All levies 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 2015/16 is estimated to be \$450,000.

4. Concessions for non-Cook Islanders.

All levies 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 2015/16 is estimated to be \$60,000.

5. Levy free jet fuel.

There is no levy payable on jet fuel and aviation kerosene supplied to jet propelled aircraft.

9.2 Income Tax

6. 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 estimated to be \$250,000 based on past rebate claims and deductions made.

7. Income of Queen's Representative.

The income of the Queen's Representative is exempt.

The cost of this exemption is estimated to be \$30,000 a year.

8. 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.

9. 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.

10. Income derived by charitable organisations.

All income derived by charitable organisations is exempt of tax. There are an estimated 30 and 40 charitable organizations in any given year.

11. Income derived by promoters of amateur sports.

All income derived in the promotion of amateur sport is exempt of tax.

12. Income derived under a government approved supplementary scheme.

13. 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.

14. Income derived by consular and diplomatic personnel.

Income derived by consular and diplomatic personnel as is 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.

15. 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.

16. 95 per cent of incomes derived upon retirement.

Where an individual retires from employment, only 5 per cent of the retirement payment shall be subject to tax.

9.3 Value Added Tax

17. Consistent with the VAT application globally, financial services provided by domestic trading banks are exempt of VAT.

18. Attendance dues paid to private schools are exempt of VAT.

19. 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 this year is estimated to be \$100,000 based on exemptions given in 2015/16.

20. Goods imported by the Queen Representative and New Zealand High Commission are exempt of VAT upon importation.

The estimated cost to revenue of the concession provided in 2015/16 is estimated to be \$20,000.

10 Crown Debt and Net Worth

10.1 The Loan Reserve Fund (LRF)

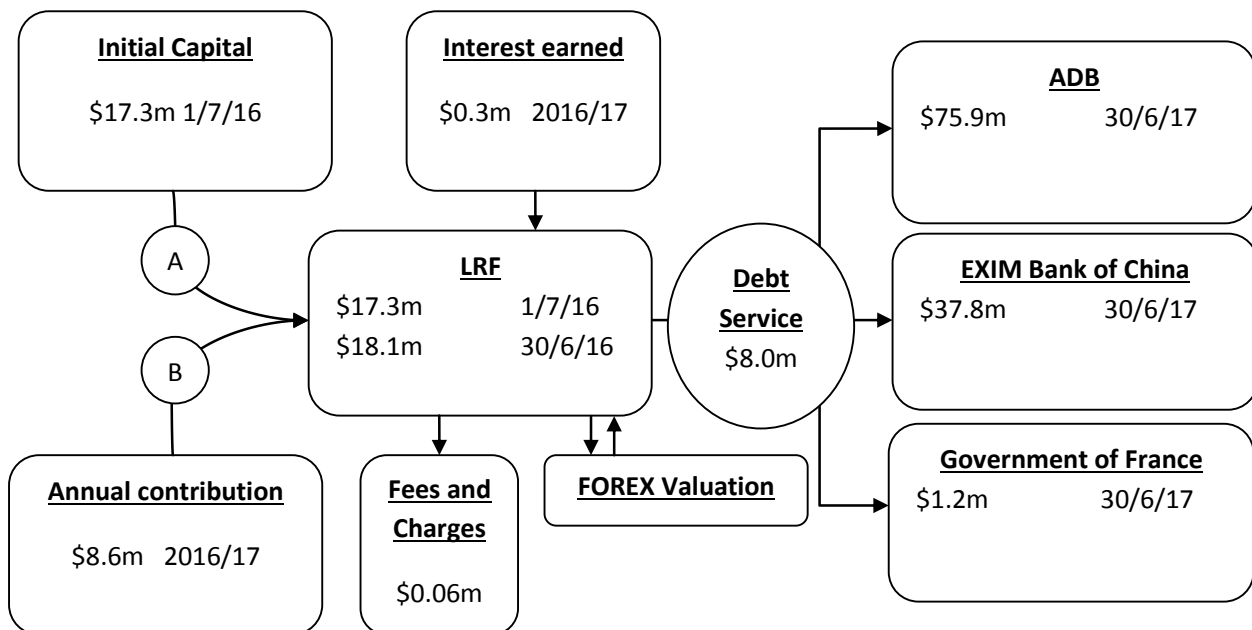
In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund Act (LRF Act) 2014 formally creating an LRF. The aim of the LRF is to quarantine funds previously accumulated for loan repayments and to prevent them from being utilised for anything outside of debt servicing requirements. The LRF Act also ensures a framework for the prudential management of all sovereign public debt and ensures 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 manages its debt portfolio.

From the 2016/17 Budget onwards, the appropriations shown in Schedule 4 represent the transfer of funds into the LRF, satisfying Section 32 of the MFEM Act (showing the appropriation for borrowing expenses and debt repayment). Under the LRF Act, these payments can only be used for debt servicing obligations, and hence, the funds held in the LRF can only be used to be settled debt obligations, as per Section 61 of the MFEM Act (they do not require a Budget appropriation, as they have already been appropriated for in previous periods).

The figure below explains these movements in a diagram form.

Figure 10.1 Loan Reserve Fund movements 2016/17



The LRF currently has sufficient funds to fully cover all debts owed by or on behalf of SOEs to official lenders. These SOEs include the Bank of the Cook Islands, Te Aponga Uira, and Telecom Cook Islands Limited (Bluesky).

The tender for the analytical services of the LRF was awarded to the New Zealand Company Bancorp, with transactional services and account management being awarded to ANZ in a competitive tender process. Bancorp's fees are outlined in the table below.

Table 10.1 Loan Reserve Fund Statement (NZD '000)

	2015/16	2016/17	2017/18	2018/19	2019/20
Opening LRF balance	16,641	17,255	18,117	18,059	16,337
Contribution to LRF principle	5,424	6,893	6,823	6,783	6,783
Contribution to LRF interest	2,246	1,710	1,696	1,688	1,688
Transfer in	7,670	8,603	8,519	8,471	8,471
Interest earned (avg 2%)	359	345	362	361	327
Total transfer in	8,029	8,948	8,882	8,832	8,798
Repayment of SOE debt	-	-	-	-	-
Principal	1,367	1,434	1,425	1,417	805
Interest	131	202	188	175	139
Total repayment from LRF	1,498	1,636	1,614	1,592	944
Repayment of other debt	-	-	-	-	-
Principal	3,733	3,869	4,821	6,603	6,642
Interest	2,123	2,521	2,445	2,300	2,139
Total repayment other debt	5,857	6,390	7,266	8,903	8,780
Other service fees *	60	60	60	60	60
LRF stock balance	17,255	18,117	18,059	16,337	15,351

The table above illustrates the movements in the LRF in the next five years. The transfers into the LRF have increased from \$8.029 million in 2015/16 to \$8.948 million in 2016/17 due largely to movements in exchange rates and the rescheduling of some payments. This transfer is divided into two components: a debt interest obligation (\$1.710 million) and a debt principle repayment (\$6.893 million); these are the estimated required payments into the LRF and are complimented by retained interest revenue of \$0.345 million.

The LRF payments are smoothed in order to reduce the volatility to Government cash reserves from new debt obligations and exchange rate shocks. Therefore, the payments made into the LRF will not match the debt servicing profile. For example, despite the debt servicing profile peaking at \$10.5 million in 2018/19, the cost to the Government only peaks at \$8.6 million in 2016/17 due to this effect.

The payments into the LRF then fall in a stepped manner as the current loan stock is repaid.

The transfers out of the LRF for principle and interest are the estimated debt servicing requirements at the time of the Budget and are subject to exchange and drawdown variations.

10.2 Gross Debt owed by the Crown

Total gross debt owed by the Crown as at 30 June 2016 is now estimated to be \$120.2 million, a variance of \$1.5 million from the 2015/16 HYEUFU. Table 10.2 shows the movement was due to unfavourable exchange rate movements, with all major trading currencies appreciating against the New Zealand dollar (NZD).

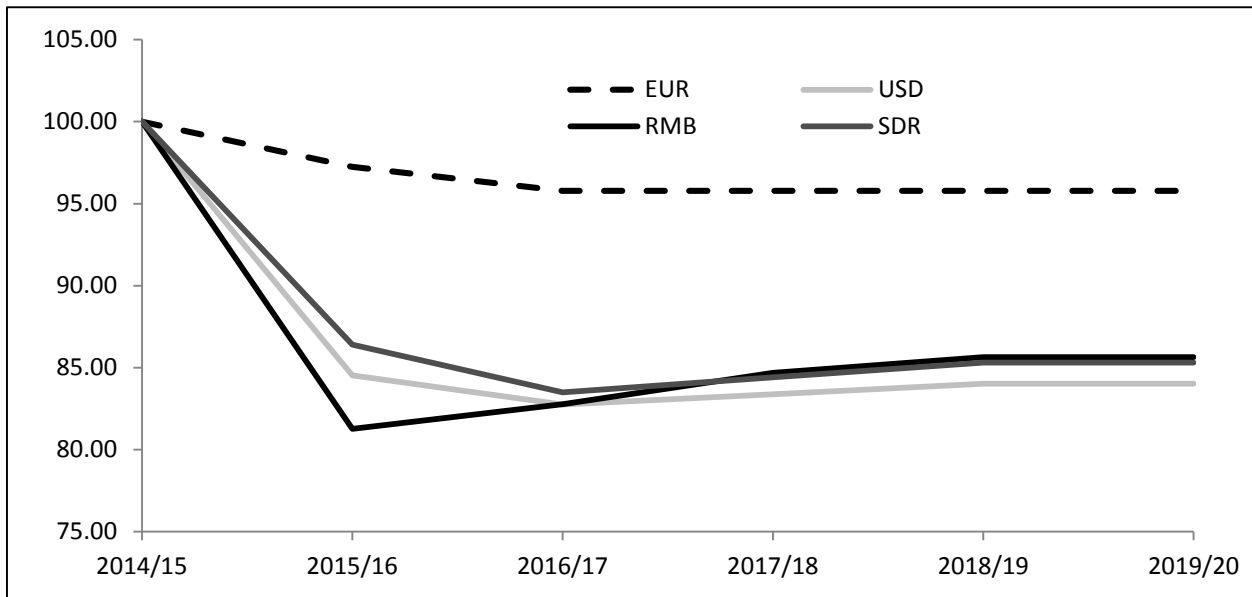
Table 10.2 Reconciliation on 2016/17 Loan Movement

Movement Reconciliation	\$ Million
Initial estimated gross debt for 30 June 2016 (2015/16 HYEUFU)	118.7
Movement during the period	
Unrealised exchange (gain)/loss	1.5
Estimated gross debt for year ending 30 June 2016	120.2

The exchange rates assumptions for the 2016/17 Budget have been recommended by Bancorp Treasury Services Ltd ("Bancorp").

Estimated changes in major exchange rates against the NZD are reflected in Chart 10.1.

Chart 10.1 Estimated Changes in Major Exchange Rates (indices – 2013/14 = 100)



The cause for this unfavourable movement in exchange rate (in terms of outstanding debt) in 2015/16 was a 15.5 per cent appreciation of the US dollar (USD) against the NZD, an 18.7 per cent appreciation of the Chinese Renminbi (RMB), a 13.6 per cent appreciation of the Special Drawing Right (SDR), and a 2.7 per cent appreciation of the Euro (EUR).

In the 2014/15 year, the Crown converted all USD loans held with the Asian Development Bank (ADB) to NZD. The movement in the exchange rate for the USD is still monitored as all SDR loans held with the ADB are repaid in a USD equivalent.

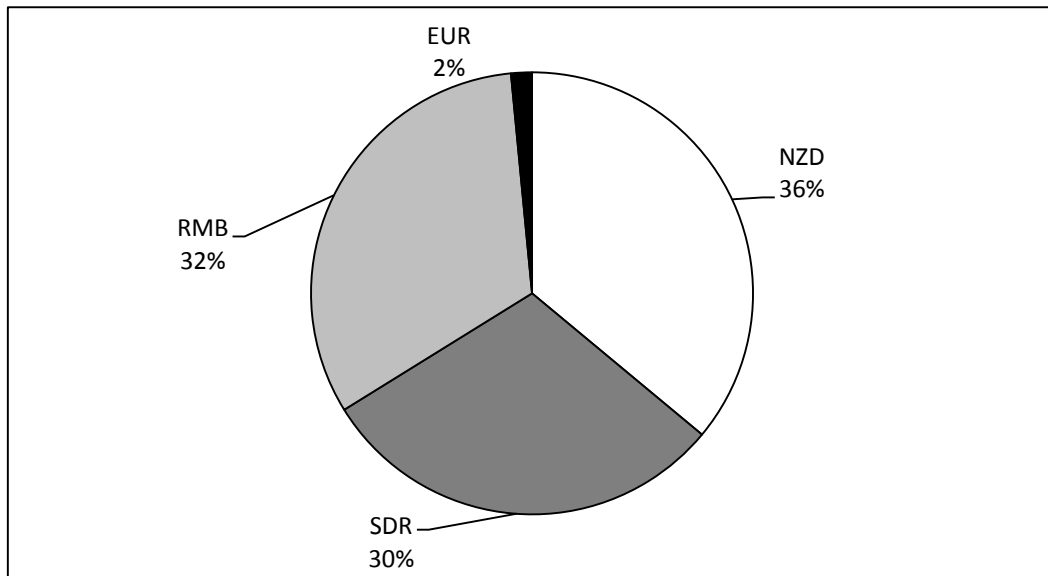
Table 10.3 shows the movement between exchange rates recommended by Bancorp at the time of the 2016/17 Budget, compared with those used in the 2015/16 HYEUFU.

Table 10.3 Exchange Rate Assumptions – 2015/16 and 2016/17

Currency	2015/16		2016/17	
	2015/16	2016/17	2015/16	2016/17
	HYEUFU	Budget	HYEUFU	Budget
EUR	0.6100	0.5990	0.5750	0.5900
USD	0.6580	0.6640	0.6300	0.6500
RMB	4.1500	4.2710	4.1200	4.3500
SDR	0.4680	0.4760	0.4500	0.4600

The NZD depreciated against all major currencies in which Government debt is denominated. Total Crown debt is mainly denominated in foreign currencies, with 36 per cent of debt in local currency. Of the remaining 64 per cent denominated in foreign currencies, RMB is at 32 per cent, followed closely by SDR at 30 per cent, and EUR at 2 per cent.

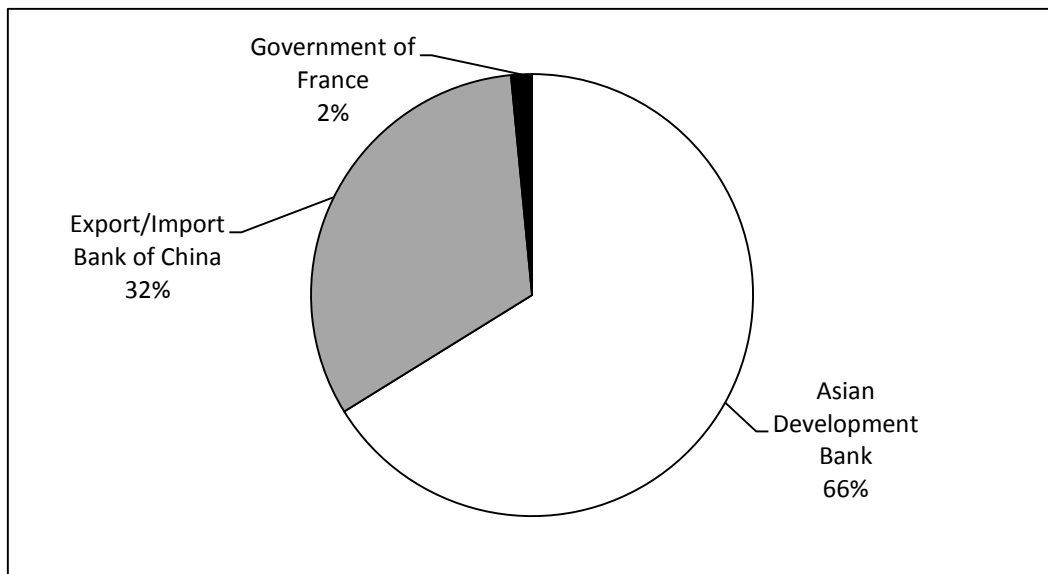
Chart 10.2 Projected Composition of Crown Debt as at 30 June 2016 by Currency



10.3 Gross Debt by Lenders

The gross debt by lender is estimated as:

Chart 10.3 Gross Debt Estimates by Lender

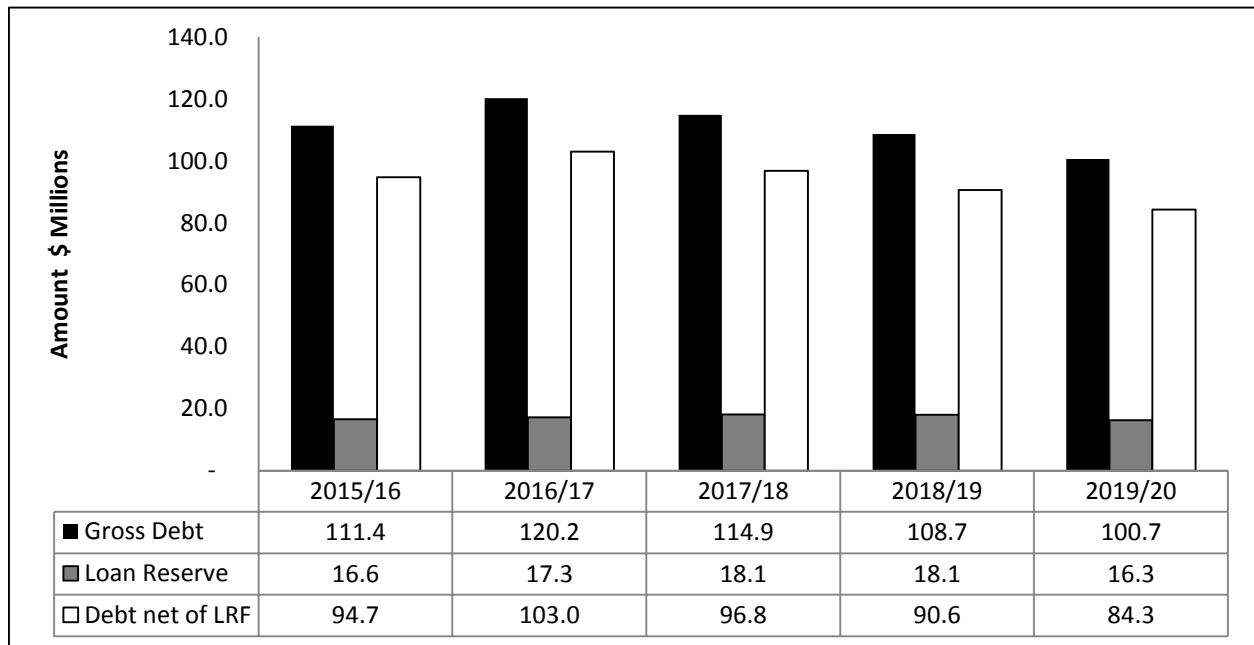


As illustrated in Chart 10.3, the Crown has borrowings from three major lenders: the ADB (66 per cent), the Export Import bank of China (EXIM Bank) (32 per cent) and the Government of France (2 per cent).

10.4 Crown Debt burden

Total gross Crown debt gradually reduces in the outer years as principal gets repaid, on the assumption that Government is not undertaking new loans. The Loan Reserve Fund (LRF) follows a similar path, as the grace periods on almost all loans has expired.

Chart 10.4 Cook Islands overall debt burden



10.5 Status of Government Loans

The chart below summarises the debt profile of existing loan agreements over the next 10 years, as divided between multilateral lenders (for the Cook Islands, this is only the ADB) and bilateral lenders (predominantly, China).

The impact of the ADB Southern Group Renewable Energy loan is clearly evident in the peak debt in 2016/17. After 2016/17, the current loan portfolio declines as current debts are repaid. The figures presented include estimated movements in exchange rates, as per the Bancorp forecasts.

Chart 10.5 Current Bilateral and Multilateral Estimate Loans Outstanding Next 10 Years

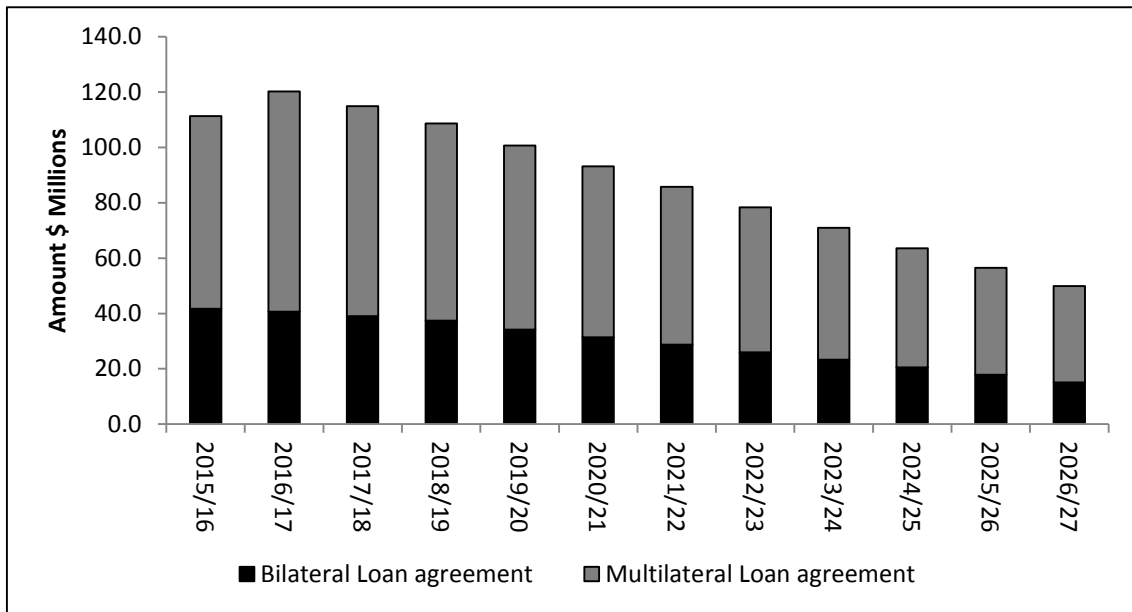


Table 10.4 shows the estimated balance of each loan as at 30 June 2016.

This table includes the full amount for the \$12.980 million loan from the ADB for Southern Group Renewable Energy Project, which is committed and signed, but yet to be fully drawn down. As with all loans in a similar situation, as this loan is not fully drawn down, the quarterly financial reporting may not match the Budget estimates, as all figures presented here are an estimate of the amount of the loan to be repaid in future periods.

Table 10.4 Status of Government loans, estimated at 30 June 2016

Loans drawn down	Date loan taken	Original loan amount (000)	Current balance (NZD,000)	Expected date of repayment
ADB 461 (SF) Multi Project	November, 1980	USD 1,000	503	August, 2020
ADB 567 (SF) CIDB Project	July, 1982	USD 1,500	573	April, 2022
ADB 849 (SF) 2nd Multi-Project	December, 1987	SDR 2,150	1,948	August, 2027
ADB 1031 (SF) Outer Islands Telecom Project	October, 1990	SDR 3,578	4,693	August, 2030
ADB 1155 (SF) 2nd CIDB Project	March, 1992	SDR 1,085	1,186	December, 2031
ADB 1171 (SF) Emerg. Telecom Rehab Project	August, 1992	SDR 349	409	June, 2032
ADB 1309 (SF) Pearl Industry Dev. Project	December, 1994	SDR 272	462	August, 2034
ADB 1317 (SF) Educ'n Dev Project	February, 1995	SDR 1,852	2,818	August, 2034
ADB 1380 (SF) 3rd CIDB Project	January, 1996	SDR 1,977	1,566	September, 2035
ADB 1466 (SF) Economic Restructure Program	September, 1996	SDR 3,430	5,371	September, 2036
ADB 1588 (SF) Cyclone Emergency Rehab Project	January, 1997	SDR 583	901	January, 2038
Restructured French Loans	January, 1999	Euro 5,413	1,835	September, 2018
ADB 1832 (SF) Waste Mgt Project	December, 2001	SDR 1,695	2,369	June, 2033
ADB 2174 (SF) Cyclone Emergency Assist Project	June, 2005	SDR 1,895	3,676	June, 2045
China - Multi-Functional Indoor Sports Stadium	August, 2008	RMB 74,100	12,700	August, 2028
ADB 2472 (OCR) Avatiu Port Development Project	September, 2009	NZD 10,309	9,598	November, 2033
ADB 2473 (SF) Avatiu Ports Development project	September, 2009	SDR 4,524	9,351	November, 2040
ADB 2565 (OCR) Economic Recovery Support Program 1	January, 2010	NZD 11,053	8,541	October, 2024
ADB 2739 (OCR) Amendment Avatiu Port project	December, 2011	NZD 5,290	5,170	November, 2035
China - Rarotonga Water Ring Main Upgrade	December, 2012	RMB 118,000	26,647	December, 2032
ADB 2946 (OCR) Economic Recovery Support Program 2	December, 2012	NZD 11,053	6,948	October, 2027
ADB 3913 (OCR) Renewable Energy Project	December, 2014	NZD 12,980	12,980	June, 2036
Total loans commitment			120,246	

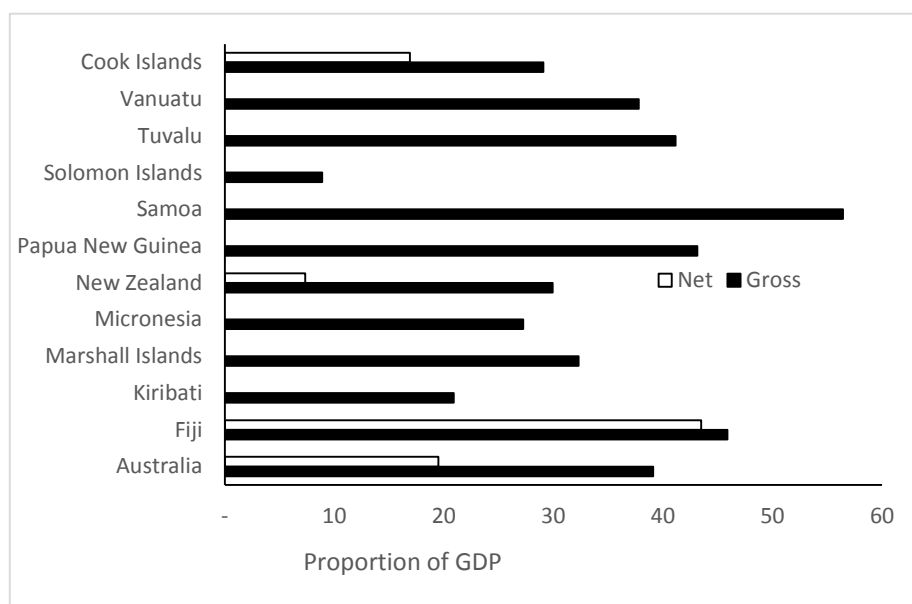
10.6 Net Debt

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 Cook Islands net debt position would be only \$72.2 million or 16.9 per cent of GDP in 2016/17.

Gross Debt + Currency on Issue =	(\$120.2 million) + (\$4.1 million) =	(\$124.3 million)
Less Financial Assets (Cash reserves and Loan Repayment Fund) =		(\$52.1 million)
Net Debt =		(\$72.2 million)

International comparisons of net debt are made on the basis of the international definition of net debt. On this basis the Cook Islands has one of the lower debt profiles in the Pacific including Australia and New Zealand.

Chart 10.6 Regional Comparison of public debt profiles¹⁸



However for the purpose of prudent fiscal management, the Cook Islands excludes cash reserves and currency issued from the net debt definition. For the purposes of this Chapter, 'Net Debt' in the Cook Islands is equivalent to total gross debt net of the LRF (the difference between the total gross debt and monies held in the LRF). This is closer to the internationally accepted definition of gross debt.

Net debt under this more conservative definition is estimated to be \$103.0 million (24.1 per cent of GDP) by the end of June 2016, an increase of \$1.5 million since the 2015/16 Budget, although GDP was revised upwards significantly, reducing the percentage of debt to GDP (previously 26.4 per cent).

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.

Table 10.5 Current Borrowing Statement (\$m)

Current Statement	2015/16	2016/17	2017/18	2018/19	2019/20
Gross Crown Debt, start of FY	111.4	120.2	114.9	108.7	100.7
... net of loan reserves, start of FY	94.7	103.0	96.8	90.6	84.3
... net of loan reserves, as percentage of GDP	22.6%	24.1%	22.3%	20.3%	18.5%
Loan Repayment Reserves Held, start of FY	16.6	17.3	18.1	18.1	16.3
Gross Debt Servicing	6.8	7.4	8.3	8.8	9.9
Net Debt Servicing	5.8	6.4	7.3	7.8	8.9
... as percentage of Total Revenue	4.7%	5.2%	5.7%	6.2%	6.9%

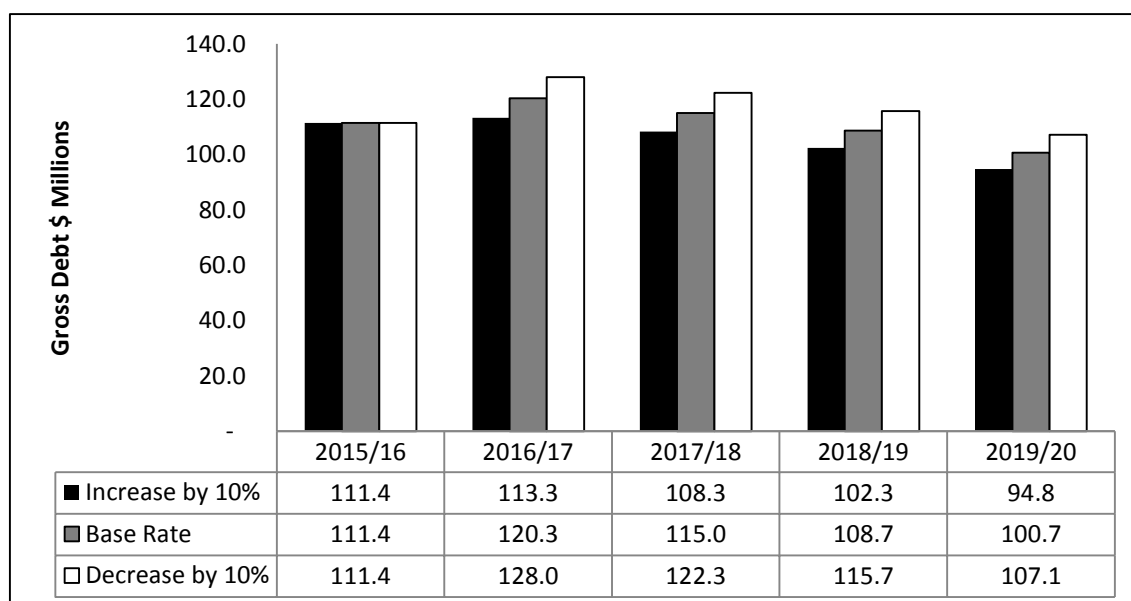
10.7 Crown Debt Sensitivity Analysis

Table 10.6 Base rate used in 2015/16 for budget assumption with +/- 10 per cent

Foreign Exchange Currency	-10%	Budget assumption rate	+10%
RMB	3.7350	4.1500	4.5650
USD	0.5918	0.6575	0.7233
SDR	0.4208	0.4675	0.5143
EUR	0.5490	0.6100	0.6710

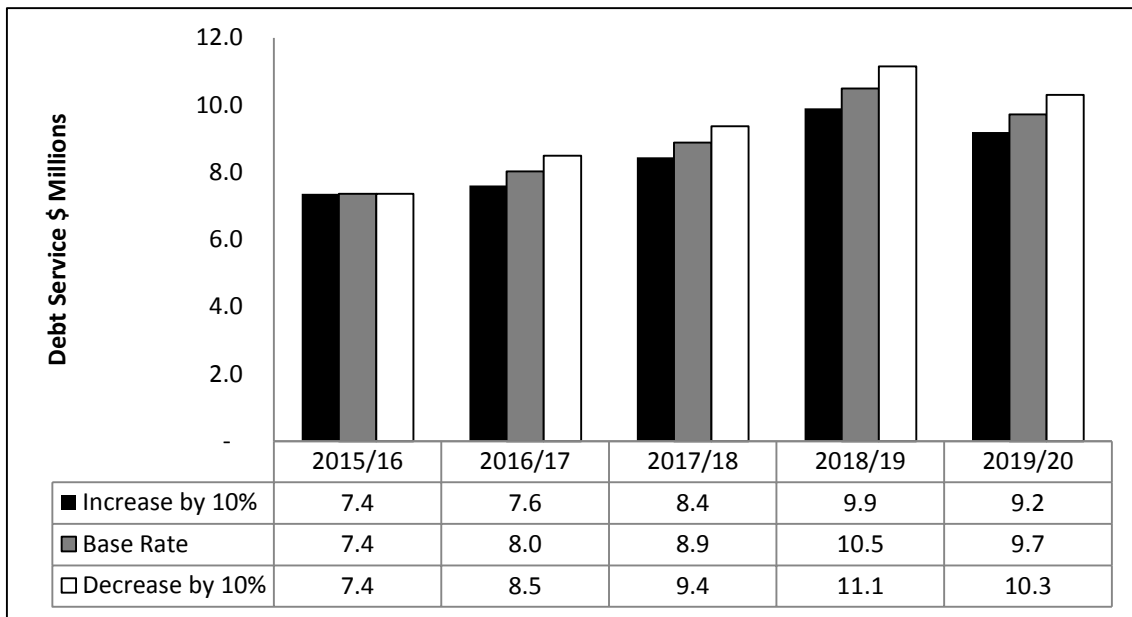
One of the ongoing risks to the Crown's debt liability is the level of the NZD against the currencies in which the Crown's loans are denominated. The sensitivity analysis demonstrates the impact of a 10 per cent appreciation or depreciation in the NZD to determine the impact on the gross borrowings and the debt servicing cost.

Chart 10.7 Sensitivity of Total Crown Gross Debt to NZD movements, start of FY



If the NZD exchange rate was to depreciate by 10 per cent against foreign currencies, gross Crown debt as at the end of the June 2017 year would increase by an estimated \$7.3 million.

Chart 10.8 Sensitivity of Gross Debt Servicing Costs to NZD movements, start of FY



A 10 per cent decrease in the value of the NZD would increase debt servicing costs to the LRF by \$0.5 million.

Over recent years, the accumulation of interest earnings held within the LRF has allowed for a small exchange rate buffer. At the 2015/16 HYEPU, this buffer was around \$3.9 million. With recent falls in the value of the NZD versus major currencies, and minor adjustments to payment schedules, this buffer has fallen to \$1.5 million.

10.8 Long term debt projections and fiscal risks

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 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 Government 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.

10.8.1 Debt projections

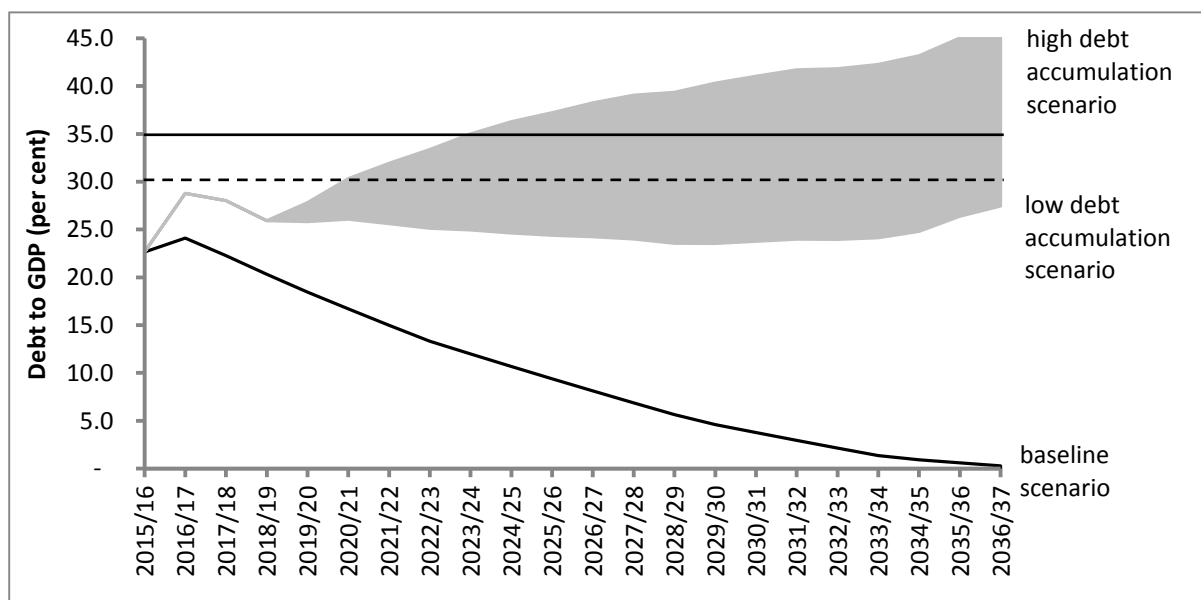
There are two major projects that are currently being planned that will have a significant impact on the Cook Islands debt profile:

- The Pacific Connectivity Project (an ICT submarine cable) – likely to commence in 2016/17
- Muri Sewage Reticulation – likely to commence in 2017/18

There is also a contingent loan program currently under negotiation with the ADB. The contingent loan facility will pre-approve a disaster assistance loan to assist reconstruction efforts in the aftermath of a catastrophic weather event. This is not a liability on the Crown until such an event occurs, but does represent a contingent liability once signed.

In addition to cataloging the known investment programs, it is also important to estimate what the likely evolution of the debt profile is over time. The chart below estimates three debt accumulation scenarios.¹⁹

Chart 10.9 Net debt projection – 20 years



The baseline scenario is the evolution of the current debt stock over time. The estimates are those

¹⁹ The two frameworks for fiscal forecasting were developed in conjunction with the Asian Development Bank (the ADB Fiscal Management Model) and the International Monetary Fund (Fiscal Analysis and Forecasting workshop, Fiji, March 2014).

outlined in the current debt agreements, with the repayment schedules already mapped out over the next 20 to 30 years.

For both the high and low debt accumulation scenarios, both The Pacific Connectivity Project and Muri Sewage Reticulation are included in the estimates. These costs are estimated at \$30 million and \$10 million respectively, with partial contributions from the New Zealand Aid program and Cook Islands Government cash reserves reducing this financing need to \$20 million and \$5 million respectively.

The high debt accumulation scenario assumes that operational spending continues to grow at recent trends and that economic growth follows its long-term average. Capital replacement is not allowed to fall below the amount of depreciation (current capital is fully replaced) and new capital needs are actioned. Under this set of assumptions, the debt envelope could comfortably absorb the two planned projects within the 30 per cent prudential debt limit prior to 2020/21. However cash reserves are depleted by operational deficits within a relatively short time frame and other capital needs become increasingly financed by debt financing thereafter. The 35 per cent debt:GDP ratio is breached around 2023/24.

The low debt accumulation scenario assumes that net operating surpluses are achieved over the medium term, with these surpluses being diverted into financing the capital budget in preference to debt financing. This becomes increasingly difficult over the long term however, with growth in expenditures outpacing revenue, and the need for capital replacement keeping the pressure on the cash reserve. Debt financing of the capital program again becomes a dominant feature of the Budget from around 2034/35 onwards.

In all modeled scenarios, it is assumed that replacement costs for the Northern and Southern Renewable Energy Projects are provisioned for through the tax base or by user charges. A similar assumption is made for the Rarotonga Water Network. The replacement costs for such systems are therefore neutral on the modeling presented here.

Conclusion

Both of these scenarios suggest that planned infrastructure projects of The Pacific Connectivity Project and Muri Sewage Reticulation can be easily accommodated within current debt limits, however, other capital projects will need to be adjusted and prioritized accordingly. Fundamentally, expectations of expanding operational budgets cannot coexist with the recent levels of capital spending. At some point in the future, either capital or operational spending will need to be scaled back to match revenue growth. Importantly, neither scenario assumes major capital works beyond those already scheduled. On the other hand, neither scenario includes major cost-saving initiatives in personnel nor operating, although both scenarios show that in the absence of strong revenue growth, such savings plans would eventually be necessary.

Notably, projects such as the Tereora College rebuild are not factored into these estimates: implicitly we have assumed that this project is financed largely by donors. Other, more aspirational, goals are also not factored into these estimates, such as the renewable energy project for Rarotonga. Loan financing either of these projects would significantly degrade the ability of the Cook Islands to stay within its debt limits.

10.9 Other State Owned Enterprise Debt

The Airport Authority reported in 2010/11 financial report that it had recently financed its loan with a new provider. The terms of the loan was for \$8.1 million taken over a five year term with an interest rate of 5.54 per cent, with a drawn amount of \$7.3million.

The loan is repayable by monthly installments of \$0.07 million which is inclusive of interest and is based on a 15 year amortization term with balloon payment at the end of term.

The loan is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority. A financial covenant will apply where the amount of EBITDA generated less dividend paid will at all times be greater than twice the annual debt servicing commitments. The Covenant will be measured annually in arrears. The Airport Authority is considering additional borrowings for further airport upgrades of Rarotonga International Airport.

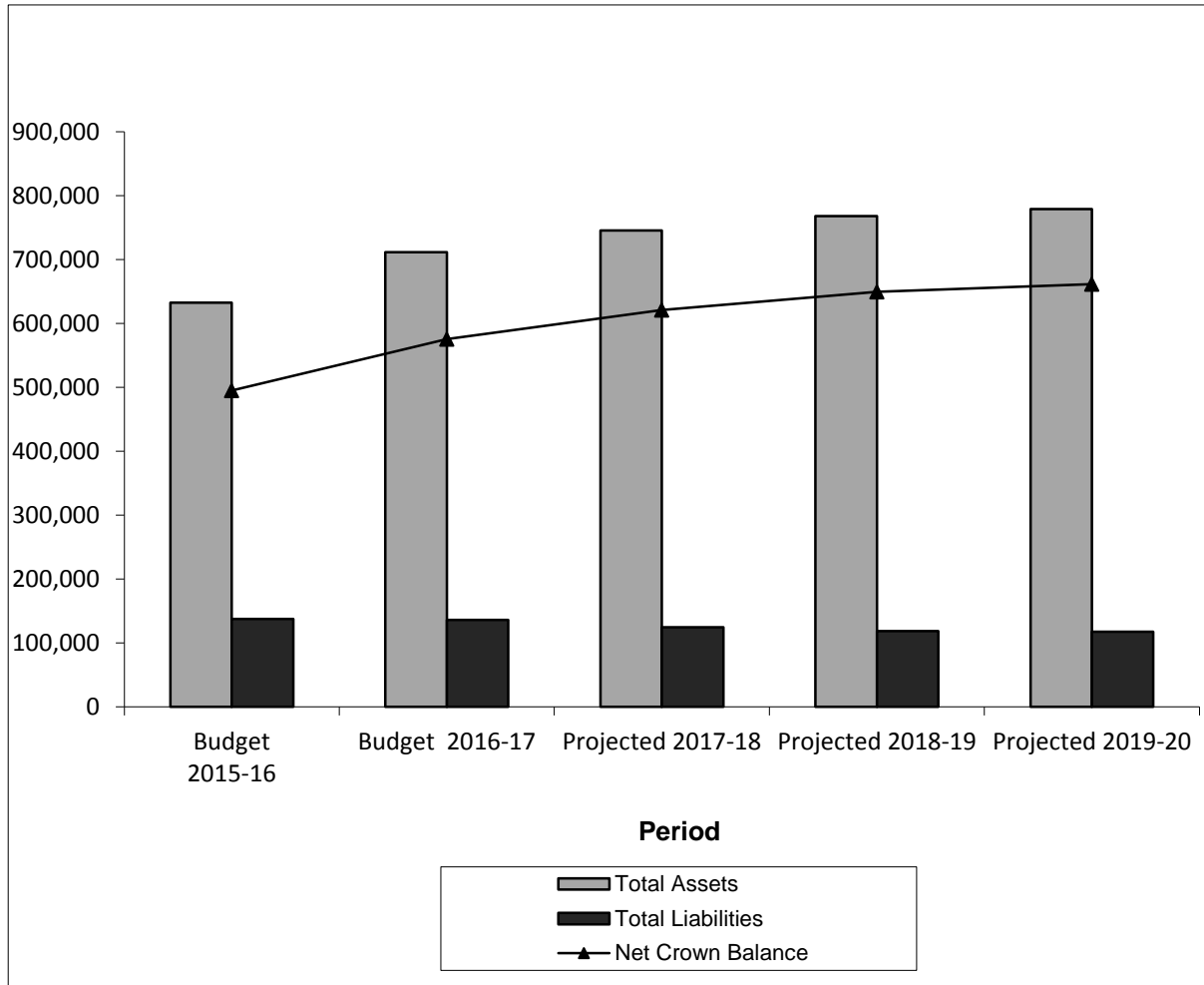
TAU has also indicated it is considering new borrowings to finance new investments in electricity generation and supply assets including infrastructure aimed at improving renewable energy distribution and supply.

Since the enactment of the 2014 LRF Act, all new 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.

10.10 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.

Chart 10.10 - Net Worth 2015/16 to 2019/12, (\$'000)



The estimated net worth of the Crown at June 2016 has increased from the 2015/16 HYEPU Estimate \$488.3 million to \$495.1 million. This is a net movement of \$6.8 million. This was a result of increases in cash reserves accumulated in 2015/16.

The Crown's net worth will increase from 2016/17, as long as there is an estimated operating surplus. Also, a major contributor to the forecast upward trend is the decrease in borrowings, and an injection to the Crown's asset from aid donor funding.

Higher than anticipated cash balances at the end of 2015/16, and further technical adjustments, have resulted in a significant improvement to the cash position of the government since the 2015/16 HYEPU as seen in the Statement of Financial Position.

11 CIIC and State Owned Enterprises

11.1 CIIC

The Cook Islands Investment Corporation is a statutory corporation wholly owned by the Government of the Cook Islands. Its functions are:

- to administer and manage Crown assets and shareholding interests;
- to control and manage the undertakings of statutory corporations; and
- to negotiate and facilitate the disposal of assets and any property or undertaking of a statutory corporation.

The principal objectives of the Corporation are:

- the efficient, profitable and professional management of assets and statutory corporations;
- to recognise Government's social responsibility in the performance of its functions; and
- not to compete or be engaged in trading activities unless private enterprise is unable or unwilling to do so.

CIIC manages the assets and liabilities of the Cook Islands Government Property Corporation (CIGPC) including land leases, Crown Land and government buildings including schools, hospitals, offices and houses. CIIC also has oversight of the performances of State Owned Enterprises (SOEs) including the four larger SOEs namely; Airport Authority, Bank of the Cook Islands (BCI), Ports Authority and Te Aponga Uira o Tumutevarovaro (TAU). CIIC is guided by its CIIC Act 1998 and the CIGPC Act 1969.

11.1.1 Developments and Investment

Strategic Plan

A three year Strategic Plan for CIIC was adopted in April 2016 by the CIIC Board to guide CIIC direction from 1st July 2016 to 30 June 2019. This is the first such plan for the Corporation.

New Zealand Defence Force Relocation

New Zealand Defence Force (NZDF) personnel supporting the operations of the Patrol Boat Te Kukupa were housed in premises originally built by the Australian Defence Force above Tereora College but have been relocated to Crown Land in Pokoinu. The Crown land has been leased to NZDF on which two houses were built and completed in March 2016, fully funded by NZDF.

Tereora College Reconstruction

The 50th Anniversary gift by the government of New Zealand which its Prime Minister, the Right Hon. John Key, pledged in August 2015: up to \$11.7 million for the Tereora College reconstruction. This gift will allow for the commencement of Stage 1 in December 2016 and commissioning in January 2018. Stage 1 includes a Technology Centre and a Research/Academic Library/Student Services/Administration Centre. The CIIC Special Projects Unit (SPU) team will be overseeing the construction and management of the project, with additional technical support from Calibre Consulting Ltd.

Oversight of the project is provided jointly by MFEM, CIIC, the Infrastructure Committee and the New Zealand Ministry of Foreign Affairs and Trade acting through the New Zealand High Commission in Rarotonga.

Vaikapuangi Project

The Vaikapuangi project incorporates the upgrading of the Ministry of Finance and Economic Management (MFEM) building, and the reconstruction of the former Ministry of Justice building, to house government agencies that are currently accommodated in rented premises. This project will be partially funded through CIIC reserves and is being managed by the CIIC Special Project Unit (SPU) team from design to completion.

Construction of Apii Nikao

The construction of a new Apii Nikao is expected to commence in 2016/17 with funding provided by the People's Republic of China, under contract to a Chinese company. This project will be managed by CIIC's SPU.

11.2 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.

11.2.1 Developments and investments

Developments for the 2016/17 financial year include further investigative work into strengthening the runway, testing designs for foreshore protection, upgrading buildings and equipment, and investing in cost saving and revenue generation projects.

Constructing of a runway end safety area and upgrading the passenger terminal at Rarotonga international airport are planned for implementation over the next five years.

11.2.2 Social contributions costs and Dividends

The Airport Authority considers the following as community service obligations and social contributions costs:

Table 11.1 Social contributions costs and Dividends

	Budget 2016/17
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 of government	115,569

Dividend

Due to limitations on the country's lending capacity, the Airport Authority has scaled back on its capital expenditure program. This also reduces the Authority's cost of business and improves its financial performance. Whilst the Authority does not project paying a dividend in this financial year, it expects to do so in two years' time.

Current policy calculates a dividend based on 35% of Net Profit After Tax (NPAT).

11.3 Bank of the Cook Islands (BCI)

The Bank of the Cook Islands Holding Corporation (the Corporation) was established in December

2003 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 2004.

The Crown’s investment in the Corporation as measured by its investment in BCI has steadily increased from \$13.3 million as at 30 June 2011, to \$15.6 million at 30 June 2014.

11.3.1 Developments and investments

The resources required to achieve the performance targets of BCI are internally generated. Allowance has been included for receipt from Crown of social obligation costs in relation to BCIs delivery of banking services to communities outside 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 programme includes maintenance and upgrading of core operating assets, and investment in new products and services, while ensuring a sustainable financial structure having regard to the risks from predicted short and medium term changes to the forecast operating environment including economic conditions, competition, changing customer behaviour and expectations, and technological developments.

Table 11.2 Social contributions costs and Dividends

	2014/15	2015/16	Budget 2016/17
Dividend	557,053	552,000	248,000
Social Obligation of providing banking services	181,000	120,000	120,000
Net contribution of government	376,053	432,000	128,000

11.4 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 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.

11.4.1 Social contributions costs and Dividends

The CIPA continues to accommodate Governments 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 11.3 Community Service Obligations

	2014/15	2015/16 Estimate	2016/17 Budget
Rarotonga			
Recurring	53,148	65,000	65,000
Approved Waived Port Charges	3,742	15,000	15,000
Aitutaki			
Approved waived Charges	18,896	5,000	5,000
Total Community Service Obligation Cost	75,786	85,000	85,000

Dividends

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.

It is to be noted that the Ports Authority has loan commitments to ADB with significant interest payments and principal repayments having commenced. Dividend payments to shareholders would seriously compromise the company's ability to meet its loan commitments as these already demand significant improvements over time in financial trading to be able to be sustained.

However, 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 11.4 Cook Islands Ports Authority operating summary

	2015/16	2016/17 Budget	2017/18
Revenue	3,736,828	3,478,962	3,569,977
Expenses	3,863,032	3,645,458	3,666,993
Operating loss before foreign exchange	(126,204)	(166,496)	(97,016)

No dividend is envisaged in the medium term.

11.5 Te Aponga Uira

Primary function 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 but with the announcement of the national renewable energy goals, plans have been incorporated into TAU's

investment plans to increase the contribution of renewable energy to reach those goals. There will be a transition from diesel based to a renewable based system and this may include a transformation of the business model of TAU.

11.5.1 Developments and investments

There will be investment in both conventional and renewable generation systems which include wind energy and storage systems. The augmentation of the power network is key to a successful integration of renewable systems that will be progressively implemented over the years. The projected investment over the next 10 years is significant with plans refined annually.

Subject to formal government approval process, it is likely that the monitoring and provision of technical support services for the Pa Enea electricity generation, including renewable energy installations will progressively become the responsibility of TAU. Budgetary provisions will be made if/when TAU assumes responsibility.

Table 11.5 Social contributions costs and Dividends

	2016/17	2017/18	2018/19
Dividend	\$319,190	\$319,190	\$319,190
Uneconomic Power Lines	\$150,000	\$150,000	\$150,000
Other social responsibility costs – street and amenity lighting	\$362,200	\$380,000	\$380,000
Other Social responsibility costs²⁰	\$831,390	\$849,190	\$849,190

²⁰ Streetlight provision, maintenance and operation.

12 Public Sector Staffing

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, 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.

Chart 12.1 Cook Islands Public Sector Structure

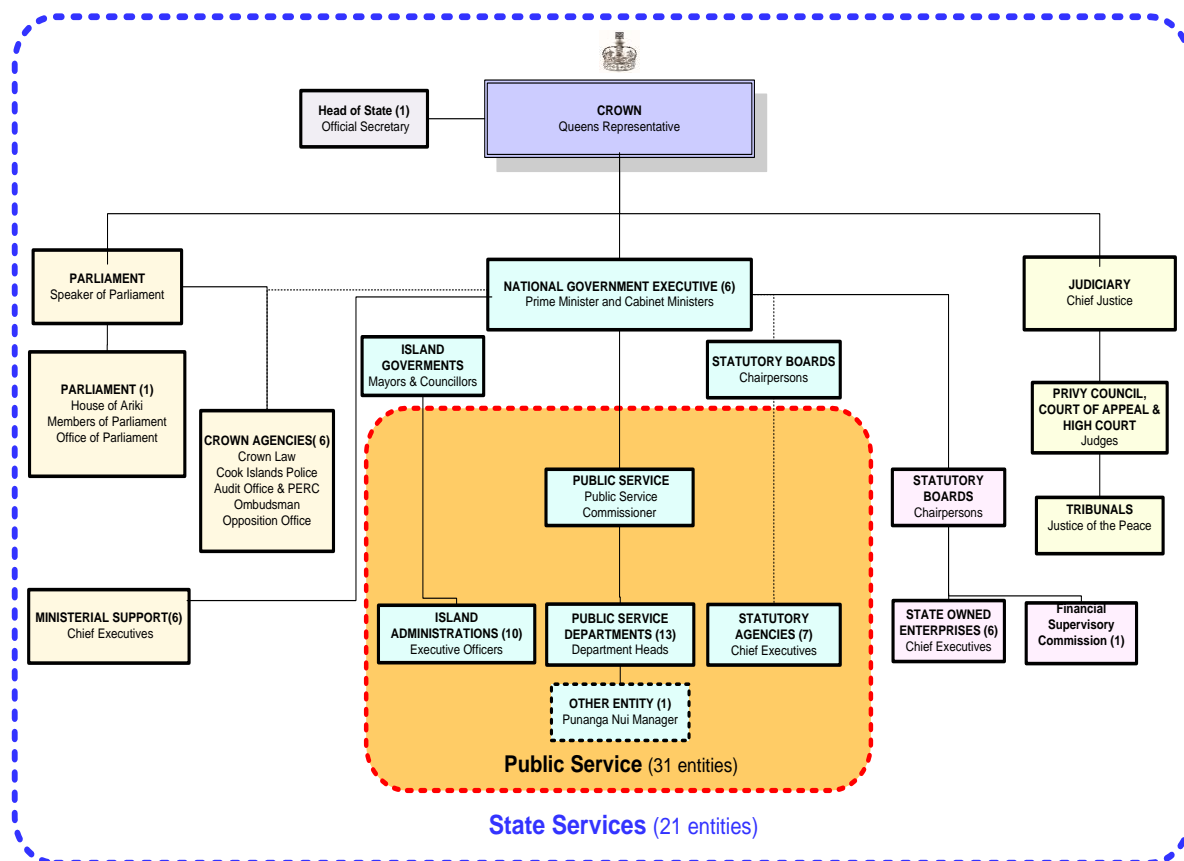


Table 12.1 Public Sector Agencies

Public Service	Island Governments	Crown Agencies
Ministry of Agriculture	Aitutaki	Head of State
Ministry of Cultural Development	Atiu	Office of the Ombudsman
Ministry of Education	Mangaia	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	Parliamentary Services
Ministry of Justice	Palmerston	Opposition Office
Ministry of Internal Affairs	Penrhyn	Ministerial Support Offices
Infrastructure Cook Islands	Pukapuka/Nassau	State Owned Enterprises
Ministry of Marine Resources	Rakahanga	Bank of the Cook Islands
Ministry of Transport	Statutory Agencies	Cook Islands Airport Authority
Office of the Prime Minister	Business Trade and Investment	Cook Islands Ports Authority
Office of the Public Service Commissioner	Cook Islands Pearl Authority	Te Aponga Uira o Tumutevarovaro
	Cook Islands Seabed Minerals Authority	Cook Islands Government Property Corporation
Other	Cook Islands Tourism Corporation	Cook Islands Investment Corporation
Punanga Nui	Financial Services Development Authority	Aitutaki Power Supply
	Natural Environment Service	Financial Supervisory Commission
	Natural Heritage	

12.1 Public Sector Employee Numbers

Table 12.2 Employee Summary by Groupings

By Agency and Gender	Female	Male	Total
Public Service	672	427	1099
Crown/Statutory Agencies	116	146	262
Island Administrations	69	298	367
Island Councils	7	49	56
Parliament	14	33	47
Ministerial & Opposition Support Offices	15	18	33
Others	2	3	5
State Owned Enterprises	161	140	301
Total	1056	1114	2170

Source: HRMIS (except FSC and SOEs – employee numbers are provided by these agencies), 29 April 2016

There has been relatively little change in the total number of employees from the time of the 2015/16 Budget, with an overall decline of three positions. However, there has been a shift in demographics, with an additional 62 females employed across the public sector, predominately in State Owned Enterprises (SOEs). The breakdown of employees across agencies is shown in the table below.

Table 12.3 Employees by Agency and Gender

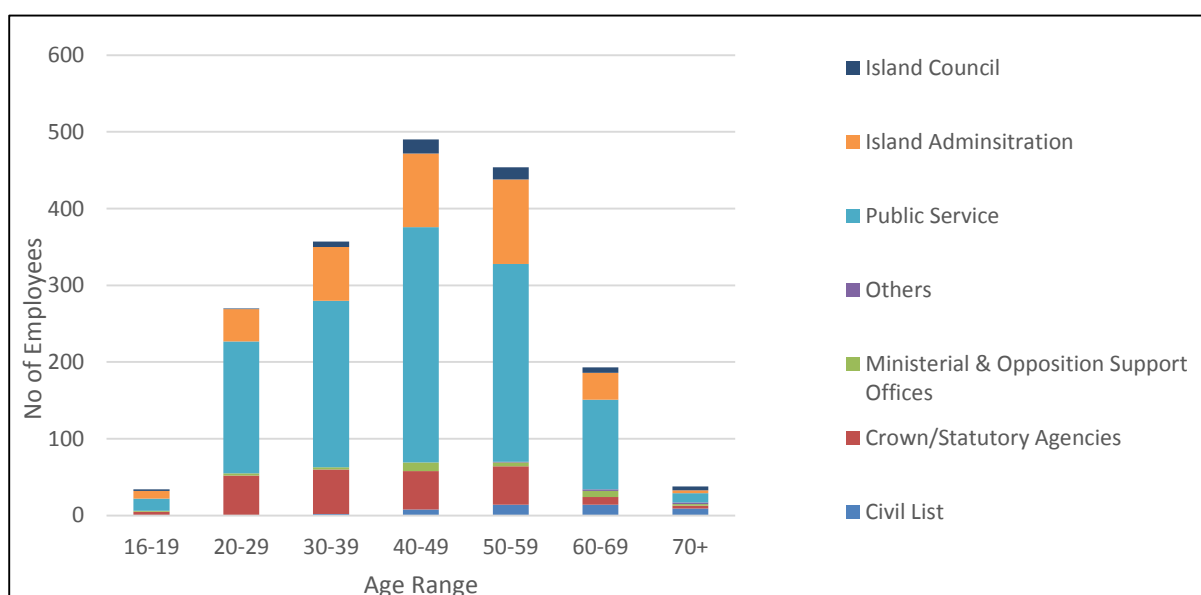
Agency names	Female	Male	Total
Public Service	672	427	1099
Infrastructure Cook Islands	6	50	56
Ministry of Agriculture	5	24	29
Ministry of Cultural Development	15	7	22
Ministry of Education	277	86	363
Ministry of Finance and Economic Management	59	44	103
Ministry of Foreign Affairs and Immigration	12	6	18
Ministry of Health	195	97	292
Ministry of Internal Affairs	23	14	37
Ministry of Justice	35	33	68

Agency names	Female	Male	Total
Ministry of Marine Resources	19	29	48
Ministry of Transport	5	12	17
Office of the Prime Minister	16	24	40
Office of the Public Service Commissioner	5	1	6
Island Administrations	69	298	367
Aitutaki Island Administration	6	45	51
Atiu Island Administration	8	34	42
Mangaia Island Administration	5	43	48
Manihiki Island Administration	8	34	42
Mauke Island Administration	5	30	35
Mitiaro Island Administration	14	36	50
Nassau Island Administration		7	7
Palmerston Island Administration	6	5	11
Penrhyn Island Administration	3	26	29
Pukapuka Island Administration	9	21	30
Rakahanga Island Administration	5	17	22
Island Councils	7	49	56
Aitutaki Island Government		6	6
Atiu Island Government		7	7
Mangaia Island Government		11	11
Manihiki Island Government	2	4	6
Mauke Island Government		4	4
Mitiaro Island government	2	2	4
Nassau Island Government		2	2
Palmerston Island Government	1	4	5
Penrhyn Island Government	2	2	4
Pukapuka Island Government		4	4
Rakahanga Island Government		3	3
Ministerial & Opposition Support Offices	15	18	33
Min Brown Support Office	3	2	5
Min Glassie Support Office	2	1	3
Min Heather Support Office	2	2	4
Min Nicholas Support Office	3	3	6
Min Turepu Support Office	1	3	4
Prime Minister Support Office	2	4	6
Leader of the Opposition Office	2	3	5
Parliament	14	33	47
Queens Representative		1	1
Speaker of Parliament	1		1
Members of Parliament	4	19	23
House of Ariki - Members and Clerk	6	10	16
Public Expenditure Review Committee		3	3
Support Staff	3		3
Crown/Statutory Agencies	116	146	262
Business Trade Investment	3	8	11
Cook Islands Audit Office	11	6	17
Cook Islands Investment Corporation	10	10	20
Cook Islands Parliamentary Services	7	6	13
Cook Islands Pearl Authority	2	1	3
Cook Islands Police Department	32	80	112
Cook Islands Seabed Mineral Authority	2	2	4
Cook Islands Tourism Corporation	16	7	23
Crown Law Office	6	1	7
Financial Service Development Authority	1	1	2
Financial Supervisory Commission	9	4	13
Head of State	1	4	5
National Environment Services	12	15	27
Office of the Ombudsman	4	1	5

Agency names	Female	Male	Total
Others	2	3	5
Natural Heritage		1	1
Punanga Nui Market	2	2	4
State Owned Enterprises	161	140	301
Aitutaki Power Supply	2	10	12
Bank of the Cook Islands	51	20	71
Te Aponga Uira	14	74	88
Cook Islands Airport Authority	78	29	107
Cook Islands Ports Authority	16	7	23
Grand Total	1056	1114	2170

12.2 Public Sector Age Profile

Chart 12.2 Public Sector Age Profile



Not stated includes: SOEs, CIIC, FSC, Aitutaki Power Supply, and Cook Islands Superannuation

As shown in the chart above, the majority of public sector employees are in the age range between 30 and 60, with Island Administrations generally having an older age profile than Public Service agencies. The remuneration data displayed below shows that around 68% of public sector employees have salaries between \$10,000 and \$40,000 per year, with the largest cohort of public service and crown agency employees receiving salaries in the \$20,000 to \$30,000 band, while for Island Administrations, where part-time work is more commonly used, the most prevalent salary range is the \$10-16,000 range.

12.3 Public Sector Remuneration Profile

Table 12.4 Salary Ranges

	Public Service	Crown Agencies	Island Govt.	Island Council	Ministerial Support Offices	Others	Parl	SOE	Total
<=9,999	4						15		19
10,000 - 15,999	211	41	262	8	6	2	6		536
16,000 - 19,999	135	26	34		4				199
20,000 - 29,999	345	67	32		5	1			450

30,000 - 39,999	232	49	5		3	1			290
40,000 - 49,999	68	19	6		5		1		99
50,000 - 59,999	29	5	1		5	1	16		57
60,000 - 69,999	12	4			2				18
70,000 - 79,999	6	6							12
80,000 - 89,999	6	1			1		6		14
90,000 - 99,999	6	2			1		2		11
100,000+	4	4					1		9
Not Stated	41	38	27	48	1			301	456
Grand Total	1099	262	367	56	33	5	47	301	2170

Source: HRMIS

12.4 Public Sector Strategy – The Journey to Excellence

The Cook Islands Government Public Sector Strategy 2016-2025 identifies three key areas of focus: people, structures and systems to achieve the government’s vision for a Public Service of Excellence.

The Strategy recognises the need for innovative transformation specific to the Cook Islands context to ensure the public service can deliver and support achievement of our national sustainable development plan goals. It will be implemented over three key phases:

Phase 1 – Preparing for change (anticipated to be delivered between 2016 and 2018)

Phase 2 – Implementing change (for the period 2018 to 2025)

Phase 3 – Sustaining change (from 2025 onwards).

STRATEGIC FRAMEWORK

Our Vision: Public Service of Excellence

Mission: To deliver quality public goods and services through effective leadership and governance

PRIORITY AREAS	OUR GOALS	OUR EXCELLENCE PRINCIPLES		
People Structures Systems	Progressive and high performing employees Relevant and fit for purpose public sector Responsive service delivery	Collaboration Accountability Respect Empathy	Grow people Raise standards Open innovation Whole of government	Leadership Excellence Action Development

IMPACT <i>Why we are we doing this?</i>	Achieve Our National Sustainable Development Plan Goals
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OUTCOMES <i>What success looks like?</i>	A Well Led and Trusted Public Sector	A Relevant and Responsive Public Sector
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OUTPUTS <i>What we will produce?</i>	An HRM Framework that supports rationalisation and better performance	Rationalised Public Sector	Better Performance
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INPUTS <i>What do we need?</i>	<ul style="list-style-type: none"> • Progressive leaders and champions of change, passionate and engaged employees, people with technical, systems and organisational performance improvement skills • Enabling information and communication technology infrastructure, systems, tools, equipment and materials • Office buildings, resources and funding required to support transformation activities
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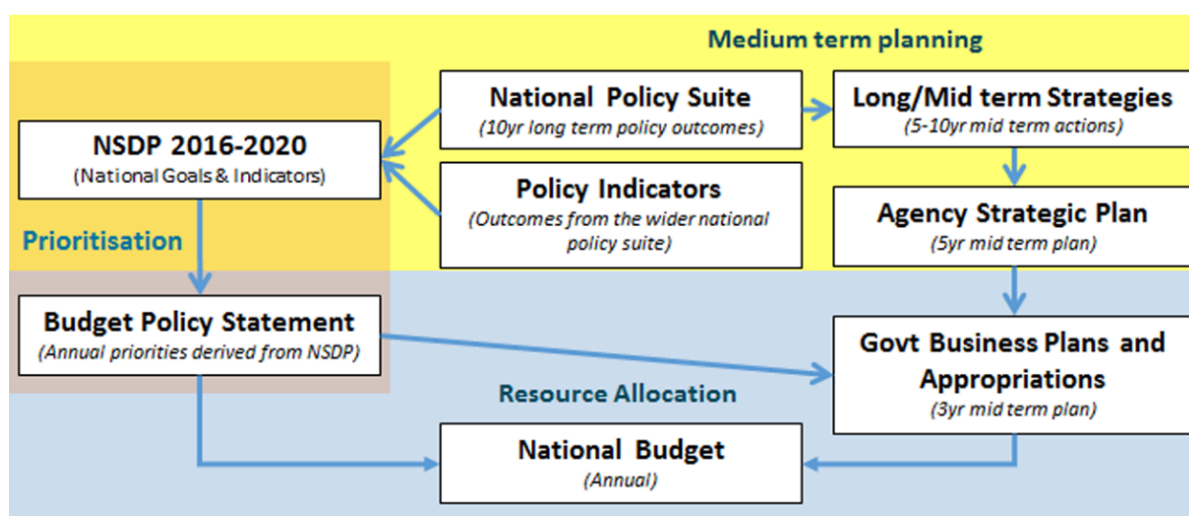
13 National Sustainable Development Plan 2016-2020 (NSDP)

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’

In 2007 the Cook Islands launched the 2020 visionary framework: Te Kaveinga Nui. The first NSDP 2007-2011 articulated the national vision, and development outcomes desired by Cook Islanders which would be realised through a three phase medium term (5 yearly) planning approach. The second NSDP 2011-2015 continued to build upon the success and lessons learned from the previous plan, providing a comprehensive framework of objectives, strategies, actions, and indicators that helped guide implementing agencies in achieving the National Development Goals (NDGs).

In 2016 The Office of the Prime Minister (OPM) published the third iteration of the NSDP, which placed greater focus on the indicators that focuses on measuring our development progress. The new NSDP, changes in the business plan template and the Policy Toolkit helps to strengthen the links between policy and planning, prioritization of resources, and resource allocation for a more coherent, coordinated policy, planning, and budgeting framework that will better enable agencies to achieve our NDGs in an efficient manner.



The diagram above illustrates the process of how the NSDP drives change through Government planning processes.

The NSDP is comprised of key indicators across the sixteen national goals. Each year the Budget Policy Statement selects which goals will be the priorities for new and additional expenditure for that respective financial year. Policy outcomes are implemented through strategies and business plans. Public Policies inform the goals and objectives of the strategies. National Strategies set out “how” we will achieve the various policy outcomes. Strategies include the different programmes and initiatives over a fixed, period, (either four, five or ten years) and their costs. National Strategies are reflected in the strategic plans of Government agencies which then filters down to their annual business plans and the annual budget.

13.1 Measuring our progress


The OPM have produced three reports²¹ measuring our progress in achieving our development goals. From these lessons, and through robust consultations with key stakeholders we have produced sixteen National Development Goals (NDGs) which are underpinned by a set of key indicators that will represent a holistic, objective scorecard for the development of our country.

The OPM will be responsible for monitoring these indicators, and the NSDP results will be reported to Parliament and the public on an annual basis, thus reinforcing accountability of all implementing agencies. This requires that we strengthen our national statistical system to allow agencies to collect reliable data in a timely manner, enabling policy makers to make more informed decisions about development priorities, issues, and progress. This is also addressed in the Cook Islands Strategy for the Development of Statistics (CSDS) 2015-2025.

The achievement of these NDGs are the responsibility of all people living in the Cook Islands. Our vision. Our goals. Our responsibility.

²¹ *Indicator Report 2013, Indicator Report 2014, NSDP Strategic Actions report 2015, and the NSDP 2016-2020* can be found on the OPM website: www.pmooffice.gov.ck

13.2 The 2016-2020 National sustainable development goals

	1	Improve welfare, reduce inequity and economic hardship
	2	Expand economic opportunities, improve economic resilience and productive employment to ensure decent work for all
	3	Promote sustainable practices and effectively manage solid and hazardous waste
	4	Sustainable management of water and sanitation
	5	Build resilient infrastructure and Information Communication Technologies to improve our standard of living
	6	Improve access to affordable, reliable, sustainable, modern energy and transport
	7	Improve health and promote healthy lifestyles
	8	Ensure inclusive and equitable quality education and promote life-long learning opportunities
	9	Accelerate gender equality, empower all women and girls, and advance the rights of youth, the elderly and disabled
	10	Achieve food security and improved nutrition, and increase sustainable agriculture
	11	Promote sustainable land use, management of terrestrial ecosystems, and protect biodiversity
	12	Sustainable management of oceans, lagoons and marine resources
	13	Strengthen resilience to combat the impacts of climate change and natural disasters
	14	Preserve our heritage and history, protect our traditional knowledge, and develop our language, creative and cultural endeavours
	15	Ensure a sustainable population promoting development by Cook Islanders for Cook Islanders
	16	Promote a peaceful and just society and practice good governance with transparency and accountability

14 Pa Enea

This chapter outlines central Government spending in the Pa Enea. This chapter 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.

Overall, the estimated \$58.1 million investment made by the Government and development partners in 2016/17 in the Pa Enea is significant by any measure, and represents the importance of the Pa Enea to the Cook Islands Government and Cook Islands people.

The key economic development in the Pa Enea in 2015/16 was the successful operation of the Northern Renewable Energy installations. The renewable energy project will remain a significant investment from the central government in 2016/17, with the project's focus shifting to the Southern Group.

14.1 The Pa Enea Funding Model

The Pa Enea Funding Model aims to determine the appropriate level of cash funding to each of the Outer Islands Governments.²² The system was first introduced in the 2012/13 Budget to ensure a fairer and more transparent allocation of financial resources across the Pa Enea and ensure broadly similar levels of basic service delivery. The remoteness and small populations in the Pa Enea challenges the capacity of Government to deliver public services, and it is important that each island is adequately funded to address their unique challenges.

The Funding Model determines the minimum level of funding required to provide a basic level of public services through the Island Government. Additional funds are also allocated to the Island Governments for local economic development efforts (such as agriculture or fisheries). 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 Government can use for local development. Other sources of public services and infrastructure on each island, such as capital projects or Agency spending, are handled through the regular Budget process.

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 (3%) 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'.

The table below 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).

²² 'funding' is defined here as the cash funding allocation in each island's appropriation. This is the amount of cash funding to each island, and therefore excludes depreciation (which is a non-cash item) and capital allocations, which will follow the regular Budget process.

Table 14.1 Cost factors of the 2016 Pa Enua 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	\$6500 per km of road
<i>Unsealed</i>	Kilometres of road	\$6500 per km of road
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	\$70,000 per km of runway
Waste Management	Population as per the Census	\$110 per person
Literage (unloading of boats)	Island Administrations to cost recover	nil
Beautification	Per km of road	\$1,300 per km of road
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 costs¹</u>	Varies by island	Operational costs for inter-motu ferries (\$3000 for Manihiki, \$6000 for Penrhyn)

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 were 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).

For full details of the parameters used to calculate the relevant island shares, please refer to the Pa Enea Funding Model section of Budget Book 2.

14.2 2016 Pa Enea Funding Model Results

In the 2016/17 formulation, \$5.3 million is estimated as basic service needs for the whole Pa Enea, with an additional \$1.8 million in local development funding to be utilised by Island Governments. These include a reversal of the expected savings from the centralisation of finance and government retirement packages – a total of \$77,000 put back into the total 2016/17 funding pool for the Pa Enea Funding Model.

These figures exclude the trading revenue generated by the Island Governments outside of estimated energy revenues.

Approximately 64 per cent of the total funding given to the Island Governments goes to the Southern Group (excluding Palmerston) and 36 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 giving to shipping costs to the more remote islands.

A summary of the Funding Model results are provided below:

Chart 14.1 Allocation of total funding across Island Governments

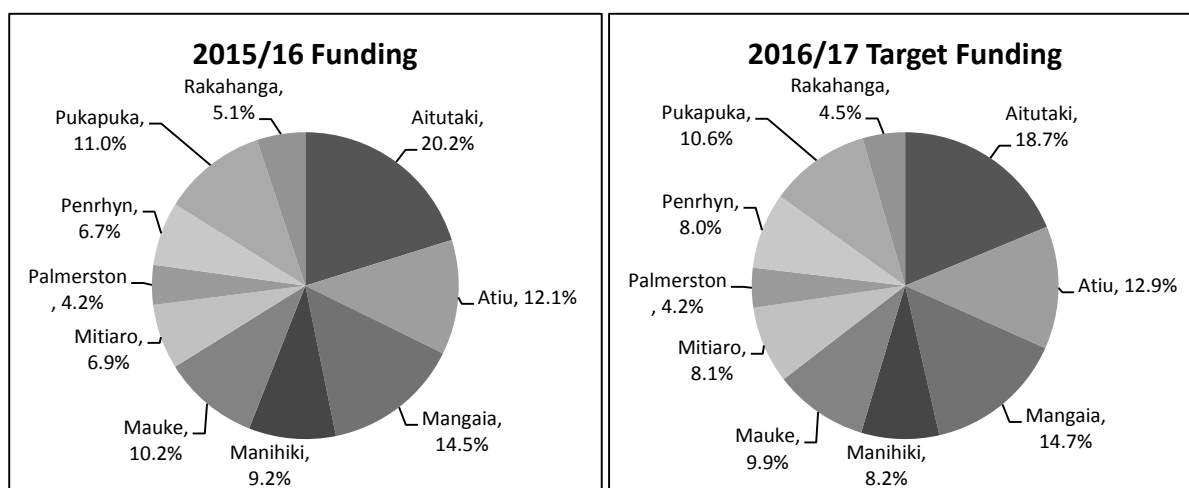


Table 14.2 Pa Enua Funding Model Results for 2016/17 (\$000)

	2014-15 Budget Cash Funding	Current percentage of total Cash Funding	Formula Results			2015-16 Cash Funding
			Minimum Cash Funding	Target percentage of total Cash Funding	Adjustment towards target	
Aitutaki	1,422,095	20.2%	985,995	18.7%	-14,221	1,407,874
Atiu	851,981	12.1%	680,589	12.9%	11,628	863,609
Mangaia	1,022,781	14.5%	775,426	14.7%	13,959	1,036,740
Manihiki	645,907	9.2%	432,087	8.2%	-6,459	639,447
Mauke	716,140	10.2%	522,034	9.9%	-7,161	708,979
Mitiaro	482,850	6.9%	427,644	8.1%	6,590	489,440
Palmerston	295,144	4.2%	220,824	4.2%	558	295,702
Penrhyn	472,835	6.7%	420,213	8.0%	6,453	479,289
Pukapuka	774,747	11.0%	559,468	10.6%	-7,747	766,999
Rakahanga	359,909	5.1%	236,316	4.5%	-3,599	356,310
Total	7,044,390		5,260,597		0	7,044,390

Aitutaki received a supplementary payment of \$50,000 in 2015/16, which will become part of the ongoing pool of funding for the Pa Enua over coming years – the start of this reallocation away from Aitutaki can be seen in this year’s allocations. Aitutaki also received a once-off \$100,000 in operating funds for the hiring of a back-up generator while the two current generators underwent required maintenance – this money was unexpended by the end of 2015/16, and returns to the general cash reserve in 2016/17.

For the complete appropriation of each Island Government, refer to Schedule 1 of the Appropriation Bill or the relevant section of Budget Book 2.

14.3 Other agency support targeting the Pa Enua

The funding provided for Pa Enua is not only limited to that calculated and dispersed according to the Pa Enua Funding Model. In addition to Island Government appropriations, Rarotongan-based agencies and development partners also mobilise significant resources to assist communities in the Pa Enua. Much of this assistance is crucial for the well-being of local communities as Island Governments would struggle to deliver a complete range of public services on their own. This is especially true in the case of major capital works and heavy machinery.

Assistance to the Pa Enua is not a mandated requirement for financial reporting, so survey methods are necessary to determine estimated levels of support. The table below summarises the estimated assistance given by each agency to the Pa Enua. As this is the third occasion that agencies have been asked for the information, some agencies were not able to respond in time to be included. It is likely the figures presented are underestimates, as only those resources wholly dedicated to the Pa Enua or delivered on-island were included. This year, significant efforts were made to include ODA spending by individual agencies as well as capture the capital spending that was approved in the final appropriation.

Table 14.3 Estimated Agency Expenditure in the Pa Enua (\$000)

	2016-17 Budget Estimate			
	Operational	Personnel	Trading Revenue	Capital
Aitutaki Island Administration	-	-	-	541
Ministry of Health	631	1,318	10	-
Ministry of Education	281	4,045	-	80
Infrastructure Cook Islands	-	-	-	3,101
Official Development Assistance ¹	-	-	-	926
Cook Island Police Service	53	349	-	-
Internal Affairs	-	180	-	-

2016-17 Budget Estimate				
	Operational	Personnel	Trading Revenue	Capital
Cook Island Investment Corporation	52	-	-	1,097
Ports Authority	125	120	473	55
Airport Authority	150	163	-	-
National Environment Service	91	156	2	-
Office of the Prime Minister	-	140	-	675
SRIC	-	-	-	2,118
Renewable Energy program	-	-	-	27,480
Ministry of Finance	500	60	-	-
Total	1,883	6,530	484	38,613

2016-17 Budget Estimate				
	Operational	Personnel	Trading Revenue	Capital
Social Welfare	5,417	-	-	-
Scholarships / Other Education	211	-	-	-
Island Government Capacity Building	68	-	-	-
Tekaaroa school - Aitutaki	-	213	-	3
Total	5,696	213	-	3

¹ Official Development Assistance (ODA) is delivered through numerous agencies, both local and foreign. Some ODA may be captured in agency efforts and visa-versa, this line indicates the ODA that was unaccounted for in agency spending.

Note: This table is not an exhaustive list of agency support, and should be taken as estimates only.

Aitutaki Island Government capital programmes

As Aitutaki is one of the larger Island Governments, with the largest private sector outside of Rarotonga, it has more capacity than most other islands to deliver its own capital projects. In 2016/17, one such project is the upgrade of local water galleries as part of a two year program to improve the supply of drinking water to local residents and accommodators.

Ministry of Health

The Ministry of Health estimates expenditure of \$0.631 million in operational costs and \$1.318 million for personnel in 2016/17. This funding goes towards funding the hospitals and clinics on each island in the Pa Enua, but does not include the Health Referral program for cases referred to Rarotonga and beyond. In 2015/16, the referrals program cost an estimated \$750,000, although this includes flights to New Zealand.

Ministry of Education

Outside of social welfare payments, the Ministry of Education is the single largest contributor to operational funding in the Pa Enua. For 2016/17, the Ministry anticipates personnel costs of \$4.045 million with an additional \$0.281 million for ongoing operational expenditure. These costs include text books, stationery, property, teacher salaries, corporate services and other expenses.

The Ministry is also responsible for scholarship and support payments for students from the Pa Enua studying in Rarotonga, and funding Tekaaroa School in Aitutaki (in addition to all schools except that on Palmerston).

The Ministry also anticipates spending approximately \$0.080 million on small capital items, in addition to its regular capital purchases.

Infrastructure Cook Islands (ICI)

ICI projects expenditure levels of around \$3.101 million in capital during 2016/17. This investment will mainly be dedicated towards infrastructure such as the Airport Runway Stabilisation in Atiu, road construction in Mangaia, cyclone shelters in the Northern Group, machinery purchases and barge repair programs.

The Ministry also anticipates spending approximately \$0.422 million on nationally based programs, including \$0.200 million on machinery maintenance.

Table 14.4 Estimated ICI capital projects in the Pa Enea

Island	PROJECT/PROGRAMME	2015/16	2016/17	2017/18
		Estimate	Budget Estimate	Projection
Atiu	Atiu Airport Runway Stabilisation	88	762	0
Atiu	Atiu Crusher	108	0	0
Atiu	Atiu Road Sealing	0	0	235
Atiu	Atiu Tipper Truck	128	0	0
Aitutaki, Atiu and Mangaia	Bitumen Truck	123	0	0
Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	0	100	0
Mangaia, Atiu, and Mauke	HV Transport Trailer	0	180	0
Mangaia	HIAB (includes man cage & fork)	0	150	0
Mangaia	Central water project	0	125	0
Mangaia	Mangaia Water and Roads	112	0	0
Manihiki	Manihiki Island Airport Terminal - construction	0	60	0
Palmerston, Rakahanga and Nassau	Cyclone Centre Program	0	400	800
Mangaia	Mangaia Road Sealing	0	250	0
Mauke	Medium Genset (42kVA)	0	20	0
Mitiaro	Manea Games Upgrade	0	100	0
Mitiaro	Water Upgrade	0	80	247
Penrhyn	Slasher	0	4	0
Penrhyn	Omoka Harbour Upgrade	0	250	0
Pukapuka	Upgrade of Airport terminal buildings	0	20	0
Pukapuka	Yato Cargo Shed Upgrade	0	8	0
Rakahanga	Large boat & outboard motor	0	100	0
Manihiki	Manihiki Harbours	100	0	0
Northern Group	Pa Enea Machinery Shelters	500	0	0
Various	Outboard Motor replacement program	0	70	0
CIG funded Infrastructure Cook Islands		1,158	2,679	1,282

Official Development Assistance (ODA)

ODA is an important element of Government spending. For 2016/17, efforts have been made to estimate the ODA component of agency spending under the banner of the executing agency. Total ODA is estimated at \$60.6 million for 2016/17, with a large portion of this spending directed through Government agencies in the Pa Enea. Chapter 15 has more detail on specific ODA projects, with Budget Book 3 outlining all capital spending.

One of these projects with major implications in the Pa Enea is the continued roll-out of the Southern Renewable Energy Program, costed at around \$27.5 million and made up of several different funding sources from development partners.

Cook Islands Police Service

Police estimates expenditure levels of \$0.53 million for operating expenditure in the Pa Enea during 2016/17, with \$0.349 million allocated to personnel. The main expense is the salaries for each of the officers stationed on each island in the Pa Enea.

Ministry of Internal Affairs

The Ministry of Internal Affairs has Welfare Officers located in the Pa Enea at an estimated cost of \$0.180 million during 2016/17 in personnel expenditure with no costing for an operational budget as the Welfare Officers are often housed in the Island Administration offices.

Total welfare payments to the Pa Enea in 2016/17 are estimated to be \$5.417 million. Full details of the breakdown between the various islands and categories can be found below. The amounts presented do not include the welfare benefits received by beneficiaries on Palmerston, as their welfare benefits are paid into accounts held in the Rarotonga branch of the Bank of the Cook Islands.

Table 14.5 Estimated Social Welfare Payments in the Pa Enea for 2015/16 (\$000)

	Aitutaki	Mangaia	Atiu	Mauke	Mitiaro	Pukapuka	Penrhyn	Manihiki	Rakahanga	Total
Old Age Pension 60+	714	324	252	150	120	102	36	90	54	1,842
Old Age Pension 70+	788	374	273	218	101	179	70	47	47	2,098
Child Benefit	337	78	76	29	36	110	53	43	19	780
Newborn Allowance	30	5	3	1	1	7	1	1	1	50
Destitute Benefit	10	-	10	7	-	2	2	2	-	34
Infirm Benefit	96	34	24	14	7	26	2	7	5	216
Maternity Leave	15	-	-	-	-	-	-	-	-	15
Caregivers	30	22	12	16	12	8	16	2	8	125
Christmas Bonus	35	11	10	5	4	10	5	4	2	86
Funeral Allowance	24	10	7	5	2	5	2	2	2	60
Power Subsidy	12	11	4	15	1	2	3	4	-	51
Special Assistance	-	-	-	-	-	60	-	-	-	60
	2,091	868	670	461	285	512	191	202	138	5,417

Cook Islands Investment Corporation (CIIC)

CIIC anticipates capital spending of around \$1.097 million in capital projects in the Pa Enea during 2016/17 and a further \$0.52 million in operating expenditure. This investment will comprise of land acquisitions for the Southern Renewable Energy project, some of the funding for national rent reviews and some construction on Pukapuka.

Table 14.6 Estimated CIIC capital projects in the Pa Enea

Island	PROJECT/PROGRAMME	2015/16 Estimate	2016/17 Budget Estimate	2017/18 Projection
National	Provision for land rent reviews	0	642	642
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	159	250	250
Pa Enea	Pa Enea Renewable Energy Projects-Land Acquisition	639	50	0
Pukapuka	Pukapuka Hospital Reconstruction	0	300	0
Pukapuka	Government House	0	26	0
CIIC funded Cook Islands Investment Corporation		798	1,268	892

The Ports and Airport Authorities

The Ports and Airport Authorities both manage assets on Aitutaki, to a value of \$0.275 million in operation expenses and \$0.283 million in personnel.

National Environment Service (NES)

NES estimates expenditure of \$0.156 million on environment officers in the Pa Enea during 2016/17, with an operational expenditure of \$0.91 million.

Office of the Prime Minister (OPM)

OPM has a number of resources dedicated solely to the Pa Enea for governance and capacity building, but is also responsible for the renewable energy projects in the Pa Enea. Reflecting this, OPM estimates it will spend \$0.140 million on personnel relating to the Pa Enea (delivered as general support to all islands).

Also delivered through OPM is the Strengthening Resilience in Island Communities (SRIC) program, which estimates an annual expenditure of \$2.118 million for 2016/17. Most of this funding has been directed towards community water tanks, a small grants program, and action to support coastal protection.

The Ministry of Finance and Economic Management (MFEM)

MFEM manages the small capital fund \$0.110 million for the Island Governments to apply to for 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 and is responsible for the planning of the \$0.500 million inter-island shipping subsidy (although this is likely to be transferred to the Ministry of Transport once the program is established).

Table 14.7 Estimated agency spending in the Pa Enea by island for 2016/17

Island	2016/17 Budget Estimate						Agency total ('000)
	Operational ('000)	Personnel ('000)	Trading Revenue ('000)	Capital ('000)	ODA ('000)	Social Welfare ('000)	
Aitutaki	489	2,731	484	846	-	2,091	5,673
Atiu	247	545	-	1,751	-	868	3,412
Mangaia	286	763	-	642	-	670	2,362
Manihiki	75	405	-	85	408	461	1,434
Mauke	51	475	-	143	-	285	953
Mitiaro	43	300	-	247	-	512	1,102
Palmerston	27	60	-	183	-	-	269
Penrhyn	69	421	-	259	-	191	940
Pukapuka/Nassau	71	823	-	424	-	202	1,521
Rakahanga	24	160	-	104	-	138	426
General support	779	60	-	1,323	29,598	-	31,759
Total Pa Enea	2,162	6,743	484	6,007	30,006	5,417	49,851

As shown in Table 14.7, a total of \$49.9 million is estimated to be spent in the Pa Enea during 2016/17 by central government agencies and development partners. Excluding social welfare payments, agencies have estimated that they will spend \$44.4 million.

The combination of the resources budgeted for Island Governments and other Government agencies is presented in Table 14.8 below.

Table 14.8 Total Central Government Spending in the Pa Enea

Island	Fiscal transfer from	Government	Welfare transfers	Total current public spending
	Central Government	Agency expenditure		
Aitutaki	1,817	3,582	2,091	7,490
Atiu	985	2,544	868	4,397
Mangaia	1,238	1,692	670	3,600
Manihiki	745	973	461	2,178
Mauke	804	669	285	1,758
Mitiaro	535	590	512	1,637
Palmerston	338	269	-	607
Penrhyn	522	750	191	1,462
Pukapuka/Nassau	910	1,318	202	2,431
Rakahanga	401	288	138	828
General support	-	31,759	-	31,759
Total Pa Enea	8,296	44,433	5,417	58,146

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.

Overall, Table 14.8 shows that direct funding to Island Governments makes up a relatively small proportion of the total \$58.1 million budget allocated to the Pa Enea, and that Government Agencies are actually the main vehicle for supporting Pa Enea communities (through a combination of operational, personnel, ODA, and capital spending).

Notably, the ODA figure presented above includes around \$27.5 million for renewable energy in the Southern Group. Once the renewable energy projects are completed in the Pa Enea, the depreciation costs and debt servicing costs, as well as those associated with capital replacement, will be borne by the central government. This represents a significant ongoing financial cost to the Crown.

The level of investment by the Government in the Pa Enea is significant by any measure, representing the importance of the Pa Enea to the Cook Islands Government.

14.4 The Economics of the Pa Enea

Enabling economic development in the Pa Enea remains a challenge, with extreme distance and isolation from Rarotonga, narrow economic bases and depopulation being key constraints. As such, economic integration of the Pa Enea with Rarotonga and global markets require novel solutions, substantial levels of subsidisation, or both.

This does not mean that economic development is impossible – but that the challenges faced in developing the Pa Enea need to be acknowledged, and are separate from those faced in Rarotonga. Indeed, there are examples of successful businesses and initiatives in the Pa Enea 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 or 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 Enea as a general issue.

14.4.1 Aitutaki

Aitutaki is probably the only Outer Island with a sizeable tourism sector outside of Rarotonga. Total arrivals from Rarotonga to Aitutaki increased 6.0 per cent in 2015 to a total of 28,824 visitor arrivals (not including the day flight). This increase compares to the 3.0 per cent growth in national tourist arrivals over the same period, suggesting that Aitutaki was able to capture more of the tourist market coming out of Rarotonga.

Unlike Rarotongan tourism, Aitutaki has a slightly more balanced source market: The largest single market is New Zealanders, at around 28.9 per cent of the total, but this is followed very closely by Australians at 26.4 per cent. The remainder of the tourist market for Aitutaki (44.7 per cent) is a combination of the long haul markets (the US, Canada, Europe and Asia).

Estimates by MFEM predict that the average Aitutaki tourist spends 5.5 days on Aitutaki and an additional 5 days in Rarotonga, although occupancy data from local accommodators would provide further information in this regard.

Water management remains a key issue for the island, and the Government is committed to a two year program of establishing further water galleries to provide water to those households without a regular supply. The development of additional galleries will enable the island administration to provide more secure water supply to water stressed areas. A budget of \$478,440 has been allocated for two water galleries in 2016/17 with further a further \$381,340 allocated in 2017/18 for two additional water galleries that need to have land issues resolved prior to construction.

Furthermore, funding has been provisioned for Aitutaki to receive materials for the islands streetlights which will increase safety and security for motorists and pedestrians alike. \$63,000 will be used from reserves of the Aitutaki Power Supply in 2016/17 for the purchase of materials and related freight costs.

14.4.2 Atiu

Tourism is a small but potentially transformative industry for Atiu, but Atiu is a distant second to Aitutaki in terms of total arrivals. In 2015, total arrivals were 2,453, a 6.7 per cent fall from the 2,628 experienced in 2014.

The deteriorated condition of the airport runway has been a longstanding issue, with the potential closure of the airport narrowly averted with emergency repairs in 2013/14. The 2016/17 funding allocated to the airport stabilization is a top up to the program that commenced in 2015/16, with the aim being to seal the runway with the assistance of donor funding in later years.

There are a number of infrastructure projects currently underway which will directly contribute to the quality of life for the people of Atiu.

The dominant industry remains local agriculture, comprising mainly of taro, although water supply issues and disease negatively affected crops in 2013/14. Onsite water tanks are currently the main source of water for the residents of Atiu. In 2015/16, Government sought to address this issue by initiating a water mains project, whereby water mains are to be installed alongside power distribution cables in village areas. The funds allocated in 2016/17 represents the final round of funding for the final phase of the project.

Atiu's current electricity distribution system is also in need of an upgrade. The power distribution project will improve the reliability of the electricity and increase the resilience of the system against adverse weather and climate change. This will complement the renewable energy project that will commence in 2016/17, and is a significant investment in local infrastructure.

The new heavy vehicle transport trailer and outboard motors will be put to good use in assisting with the literage and transport needs on-island, and ensure safe, efficient and reliable transportation

of goods and people.

14.4.3 Mangaia

Mangaia's recent economic development has been based around the production and sale of vegetables and taro, but was negatively affected by a long drought in 2015/16. Thanks in part to investments by the SRIC program, 2015/16 has seen large increases in the vegetable supply, with the Puna plantations growing enough vegetables for both local consumption and export to Rarotonga. There is still more potential for agriculture, with private growers now seeking to develop boutique fruits and vegetables, pineapple, Dragon fruit and vanilla. The barge repair program should ensure that such products can be ported safely to and from local shipping. Fishing catch has also increased, with the advent of new aluminium boats under the SRIC project making it easier for more consistent fishing taking place.

The island has also benefited from the new heavy machineries delivered in 2014/15 which has seen a big increase in private and government activity, with an emphasis on tar sealing the main roads in the 2016/17. There are also plans underway for upgrading the harbour shed for machinery and goods storage, plus an upgrade of the recycling centre for protecting the local environment.

Another area of emphasis is for providing alternative water supplies to homes, with Tamarua now completed, Ivirua underway, and Oneroa to follow.

The geographical uniqueness of Mangaia relative to the rest of the Pa Enua suggests that there is also potential to improve tourism development activities. Local government has started to concentrate on key areas like the Tanga'eo Kingfisher, fish feeding, cave and scenery lookouts. The total arrivals to Mangaia in 2015 were 1,946, a 369 person increase as compared to 2014.

Mangaia would benefit from a greater level of local investment and more constant reporting of economic data (such as tourism arrivals or agricultural output) to contribute to the effectiveness of the locally driven Mangaia Development Plan.

14.4.4 Manihiki

Pearl development continued to be the leading local economic development activity for the island, although fishing for local consumption is also a major pastime. There have been a number of government and development partner initiatives in the pearl industry leading up to the most recent investment in 2016/17, however, it is unclear how long these programs will take to give significant returns. The island has also benefitted from a boat repairing program funded by development partners. A summary of the pearl industry can be found in the economic chapter of the Budget.

Water security remains a challenge for Manihiki and water conservation is required to ensure supply, particularly given the El Nino predictions for less rainfall for the North in coming years. Contractors working on the local harbours provided assistance through using a well for concrete mixing and use by local households for washing and sanitation purposes. The Northern group water project to repair current damaged community water tanks will commence implementation in 2016/17, and will increase water security for residents.

Government has allocated funds for the construction of a multi-purpose airport terminal, which will handle both terminal services and aircraft fuel storage. Currently, no official terminal is available for use by air travellers. The new terminal will offer protection for passengers and work-crew from the elements and will help ensure air transport services are operated in an efficient and safe manner.

Like other islands in the Northern Group, the renewable energy project will add significantly to the financial sustainability of the Island Government in relation to energy production, although the Manihiki Island Government's move to lower tariffs as quickly, and as low, as possible may negate any benefits the Government may have received.

14.4.5 Mauke

The operational and fiscal position of the Mauke Island Government has improved since 2013/14 due to the adjustment of energy tariffs and the implementation of (long overdue) overhauls to two of the four power generation sets. At present, the power supply is operating without back-up capability while the island awaits the arrival parts, although the commencement of the renewable energy project may make such back-up generators redundant in the long term. A back-up generator has been budgeted for in the 2016/17 capital plan as a movable back-up for Mauke or any of the other southern islands.

Despite the availability of ground water supply for irrigation purposes, the 2013 drought affected the production of vegetables earmarked for Rarotonga's Prime Foods supermarket. In an effort to promote local economic development in the agriculture sector, the island is gearing to receive a cooler to store local vegetables for the Rarotonga market. This should take advantage of the available spaces on flights departing from the island. The draft agricultural plan for the island holds some promise for future development, but faces significant hurdles in terms of governance, labour, financing and local management expertise.

The recently constructed harbor at Taunganui is expected to provide improved cargo handling and shipping services on the island.

14.4.6 Mitiaro

The completion of the harbour upgrades at Omutu should assist local fishermen to safely launch their boats and offload their catch – ensuring full use of the two coastal fish aggregating devices (FADs) Mitiaro received in 2014/15.

As the next host of the Manea games, Mitiaro will receive a \$100,000 boost to bring the sporting facilities up to standard, as well as the upgrade of the local water gallery and reticulation system (which will be rolled out over the next 24 months) which will benefit guests and residents alike.

In terms of future infrastructure, the renewable energy system being planned for the island in 2016/17 will add reliable 24 hour electricity to the island; a significant improvement, as Mitiaro was the only island in the Southern Group (outside of Palmerston) that did not have reliable supply.

14.4.7 Palmerston

Reliable energy is critical for Palmerston's parrot fish export program, and the recently completed solar energy system will provide 24 hour power for the effective storage of catch. There have been concerns around the sustainability of the parrotfish and robust management is required to ensure its viability into the future. Current stocks are assessed as being vulnerable. Access to reliable freezing will enable fishermen to spread their catch over much longer time horizons, rather than a 'rush to fish' when there is news of upcoming transport – but energy efficient freezers will be essential to make best use of regular power.

Recognising the isolation of Palmerston, and its vulnerability to cyclones, the Government has allocated funds for the construction of a new cyclone centre, which will provide secure shelter for residents during adverse weather conditions. The allocated funds also contain a provision for a capital shelter, workshop, and administration building. The centre is planned for completion in 2016/17 as the first island to receive a new centre.

Funding has been approved for Palmerston Island to purchase a new outboard motor for the operation of the Island Government's aluminum boat. The new outboard motor will improve the ability of the island administration to deliver key services in an efficient and dependable manner, including having access to an outboard motor when required (rather than hiring from local

fishermen).

Funds have also provisioned for the refurbishing and repair of Palmerston's cargo barge. The Government recognizes the need for repair work to be done to ensure the longevity of capital items, as well as to ensure efficient operations and a safe operating environment for residents during boat days.

Yacht arrivals increased to 69 in 2015/16, as well as one research vessel, with 207 coming ashore (up from 37 yachts in 2014/15, with 127 people coming ashore). In addition to this, 3 cruise ships stopped at the island, but only 2 were able to offload passengers. Cruise ships added an additional 211 passenger arrivals, down from 397 passengers (from 4 cruises) in 2014. Palmerston charges for coming ashore at a rate of \$5 per person. The issue of safe moorings is been addressed via SRIC funding in an attempt to have more secure moorings that will also protect the coral reef from anchor damage. Other related development efforts are in the area of handicrafts, with the Social Impact Fund supporting workshops to generate interests in arts and crafts as potential income generation from visitors

The challenge for Palmerston Island Government is to ensure that it has the capacity and capabilities to carry out border and bio-security controls as a port of entry entity.

14.4.8 Penrhyn

Harvesting natural pearls (pipi) on Penrhyn has been a main source of income for Tongarevans over the years, often involving whole family units. There are currently, two overseas buyers involved in the industry and working directly with the community. A recent Marine Resource Assessment (2015) has confirmed the significant number of pipi oyster in the island lagoon. However climate change and sea temperature warming continues to challenge this resource.

It is estimated that handicraft production has also contributed significantly to home revenue, helping to cater for home improvements, community, and Sunday obligations.

In recent times the island has benefitted major infrastructure works in the renewable energy and fuel depot construction, as well as coastal protection efforts in Te Tautua. With the receipt of heavy machinery and equipment on the island after these projects, there is greater local capacity to maintain the major infrastructure assets on the island – particularly the Omoka wharf and airfield.

Limited storage capacity constrains fishing activities to the subsistence and community level, although the new renewable energy system will provide for 24 hour freezing capability (as well as providing other benefits to the local community). Generally, excess fish is stored for family, island, and church obligations. While shellfish like paua present opportunities for the islanders, the island leaders maintain a cautious balance in its harvesting quotas.

Difficulties in gaining regular access to Omoka harbour have been recognised as a significant issue. \$250,000 has been set aside to repair the pilings on the harbour. This work will support Island Government efforts to commence immediate dredging and wharf extension activities. This is a temporary measure until more extensive plans to improve harbour infrastructure and services and marine safety to the communities at both Omoka and Te Tautua.

The Northern community water tank repair program is anticipated to improve water security in the Northern Group, particularly with the drier weather predicted in coming years.

14.4.9 Pukapuka and Nassau

For the first time, Pukapuka and Nassau both have fully reticulated renewable energy to all homes. This will open significant economic opportunities to both islands. However, households will need to

expect to pay regular energy bills and monitor their usage, something they have never had to do before. There are significant risks around the financial management of the new systems. Pukapuka received donor funded solar systems in 1992, but user charges were not a feature, and as such, the necessary replacement costs were not met and the system fell into decay.

The main initiative on Pukapuka is the completion of construction at the hospital and a roofing project for the Yato cargo shed, the airport building, and the Government house. The materials will be purchased by ICI, but most of the construction activity will be carried out by local labour.

Small projects focused on adapting to climate change such as the taro drainage and fishing boat projects will improve food security and build community resilience. As with other Northern Group island, the Northern community water tank repair program is anticipated to improve water security, particularly with the drier weather predicted in coming years.

14.4.10 Rakahanga

With its history of poor financial management, particularly in the area of energy, the recently completed renewable energy system represents an important opportunity to the Island Government to get its finances on track – especially if the Island Government retains a sensible level of tariffs. At the very least, the new system will ensure that the power needs of the island are not dependent on infrequent and irregular shipping services.

The availability of regular power also opens the opportunity to make better use of Rakahanga's fishing resources through freezing or improved drying techniques.

Funding has been provisioned for the purchase of a new boat for Rakahanga, in the style of the two pontoon boats currently in Manihiki. This boat will assist the Island Administration in its delivery of services to the local community by providing a safe and reliable means of transportation between Rakahanga and Manihiki, greater capacity for stevedoring services, and improved marine resource management.

Like the other northern islands, Rakahanga will also benefit from the repair of its community water tanks in the years to come.

15 Official Development Assistance (ODA)

This present chapter should be read in conjunction with the capital plan (Budget Book 3) to provide a more complete picture of the projects being undertaken.

The following term “Recurrent amounts” refers to funds used for ongoing operations (e.g. salaries, office costs and maintenance). The term “Grants” refers to amounts paid to third party organisations or individuals through contestable processes. Where a previously appropriated activity has been delayed, forward estimates are revised to reflect the latest expenditure plans.

The Development Partners Policy 2015 defines total official support for development as encompassing all financial flows aligned with initiatives the CIG are party to that contribute to development including: domestic resource mobilisation, climate finance, South-South cooperation, as well as traditional Official Development Assistance (hereafter ODA) including grants, loans and technical assistance provided by OECD countries. The Implementation plan outlines activities to support capturing third party spend (i.e partner spend on behalf of Cook Islands), increasing the use of national systems, increased engagement with partners and alignment to the new NSDP.

The Cook Islands, as a country, recognizes its ability to graduate to high-income status in the medium term. Whilst such potential graduation remains a very important national milestone, it also implies that the Cook Islands may become ineligible to receive ODA funds. Development partners may be assured of the Cook Islands’ willingness to improving its domestic resource mobilization but faces the difficult challenges of a Small Island Developing State (hereafter SIDS). There are significant vulnerabilities that seriously impede the Cook Islands’ sustainable development such as scale, isolation, and the negative impacts of climate change and disasters. Unfortunately, such factors remain relevant obstacles at present and most surely in the future.

Therefore, the Cook Islands will continue working through appropriate diplomatic channels to remain an eligible and trustworthy recipient to ODA support as well as any other forms of official support for development. We believe that a change within our ODA eligibility status would, without doubt, increase our vulnerability and exposure to ongoing economic, social and climatic threats, and our ability to fund critical infrastructure, thus undermining our ability to recover from these threats and ensure our sustainable development.

Following such observation, Technical Assistance has been sought to define and assess the likely effects of graduating from ODA eligibility in 2017 on the economy of the country.

The assignment will also include an assessment of the growth prospects for the Cook Islands, as well as provide sustained information to advance the following outcomes:

- Long term: Enhanced economic self-sufficiency for the Cook Islands
- Medium term: Stable economic growth
- Short term: Improved public financial management

We note that such assessment will serve as basis for an informed decision-making process by the Cook Islands Government (CIG) and New Zealand within the development framework. A comprehensive review is expected to be completed by November 2016.

Closer partner cooperation:

The Governments of the Cook Islands and New Zealand signed a Joint Commitment for Development in March 2016 to establish a shared vision as partners to achieve long-term development outcomes for the people of the Cook Islands. This joint partnership agreement guides the bilateral development programme and outlines the shared responsibilities for improving prosperity for the Cook Islands and Cook Islanders through improving economic growth, strengthening human capacity and enhancing overall economic self-sufficiency.

The strong and trustworthy partnership is reflected in the following projects:

- Renewable Energy cooperation for 2016 and 2020 Roadmap goals of 50 per cent and 100 per cent Renewable between Cook Island Government, New Zealand, Asian Development Bank, European Union, Japan, and the United Nations.
- The Te Mato Vai partnership for the Rarotonga water upgrade between the Cook Islands, People's Republic of China and New Zealand.
- Deepening cooperative approaches between New Zealand/Australia and the European Union in the energy, water and sanitation sectors; and shift to budget support modality with the EU and New Zealand.
- Review of arrangements and development of a strategy to improve the effectiveness of grants pledged by the People's Republic of China. Establishing relations between MFEM and the China Development Bank.
- Partnerships developing between NZ, ADB and the private sector in establishing an ICT cable.
- UN Office established to better enable project implementation, reporting and coordination across UN portfolio.

Improved planning and tools:

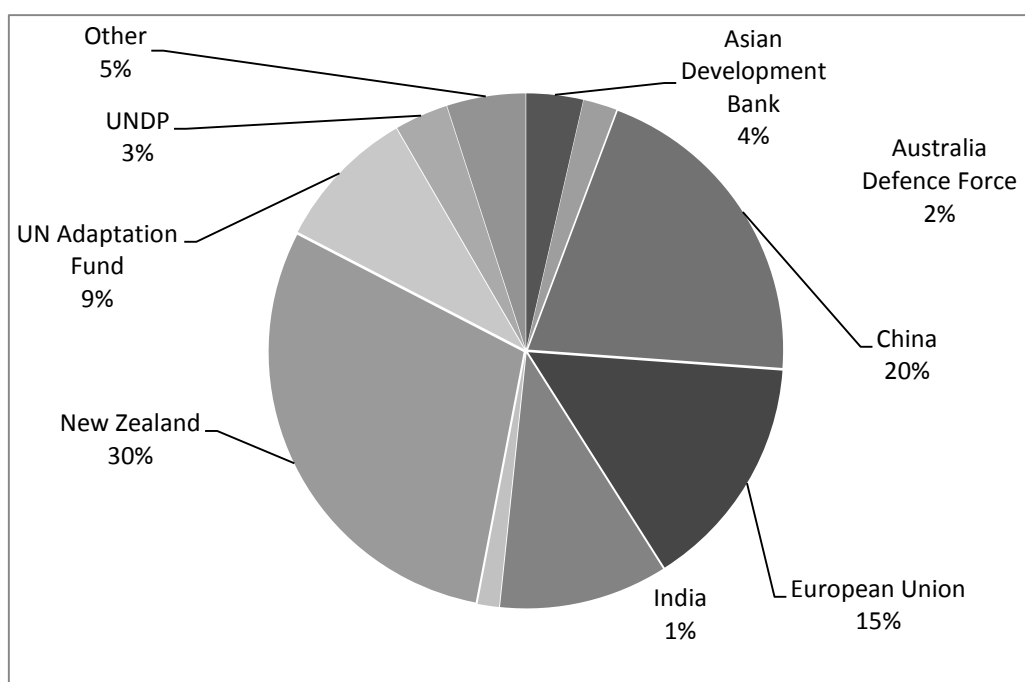
- New activity management system Te Tarai Vaka²³ continues to be rolled out to wider government, which will meet standards necessary to be accredited for direct access to global funds. Capacity building for government decision making bodies to better enable 'quality at entry' reviews of new initiatives and appropriate monitoring and evaluations of existing programs. Implementing the ten year capital plan (National Infrastructure Investment Plan) which highlights national programs for climate adaptation, renewable energy and ICT plans.
- Development Partners Meeting moves to biennial and a renewed focus on engagement strategies around building stronger and new relationships that orient partner funding towards Cook Islands programs rather than project level interventions that duplicate national systems; with an intended focus on Pa Enea access to development funding.
- Application to achieve National Implementing Entity status with the United Nations Adaptation/Green Climate Funds which will channel climate change funding direct to the national budget process.
- Green Climate Funded positions to establish the pipeline and better prepare Cook Islands to engage with climate change finance.

²³ Translated as 'crafting the canoe'. This metaphor attempts to capture the stages of developing an activity in an inclusive manner, valuing local knowledge and learning, advancing with the care and persistence needed to address complex problems underlying development issues.

Table 15.1 Cook Islands ODA Budget by Development Partner 2016-2020 (\$)

Development Partner	2015/16	2016/17	2017/18	2018/19	2019/20
Asian Development Bank	1,504,916	1,314,846	916,031	909,091	909,091
Australia	358,050	100,000	-	-	-
Australia Defence Force	295,000	1,100,000	100,000	1,100,000	100,000
China	6,481,200	4,965,000	8,765,000	9,310,000	-
Commonwealth Secretariat	73,000	73,000	-	-	-
EU-German Development Cooperation	-	210,000	420,000	-	-
European Investment Bank	513,000	513,000	-	-	-
European Union	11,681,893	12,402,409	3,164,753	593,220	593,220
FAO	661,232	444,454	-	-	-
Forum Fisheries Agency	368,704	267,692	229,008	227,273	227,273
Global Environment Facility	2,633,693	9,355,059	2,363,167	220,350	75,758
Green Climate Fund	-	300,769	150,000	50,000	-
India	463,051	615,385	305,344	303,030	303,030
Japan	6,232,000	558,922	-	-	-
Korea	403,317	307,692	-	-	-
Multilateral Fund	80,200	119,286	68,286	80,000	64,286
New Zealand	9,480,000	22,298,266	9,540,000	790,000	740,000
Secretariat of the Pacific Community	197,260	197,603	40,000	-	-
Secretariat of the Pacific Community/FAO	14,500	-	-	-	-
SSCSIP	-	11,025	-	-	-
Thailand	-	-	-	-	-
UN Adaptation Fund	1,370,000	3,656,444	3,500,497	1,515,152	1,515,152
UNDP	290,749	1,336,574	1,272,299	1,127,867	75,758
UNESCO	71,000	150,000	-	-	-
UNFPA	112,000	-	-	-	-
Western Pacific Council (US)	67,721	36,923	-	-	-
WHO	379,863	326,238	148,397	147,273	147,273
	43,732,350	60,660,588	30,982,781	16,373,255	4,750,840

Chart 15.1 Cook Islands ODA Budget by Development Partner 2016-20 (\$)



Below, further details on key activities are outlined, including the capital initiatives budget.

15.1 Airport Authority

Table 15.2 Improving Pacific Air Safety TA (European Investment Bank)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	735,570	222,570	513,000	0	0	0
Total	735,570	222,570	513,000	0	0	0

The objective is to provide the Cook Islands Airport Authority (CIAA) with feasible strategies and recommendations to enable informed decisions for upgrading the airports. The operation is structured into several components which are being closely coordinated with other development partners.

The components are: (i) Rarotonga Airport Runway and Nav aids Study; (ii) Rarotonga Airport Terminal Upgrade Stage 2 Study; (iii) Feasibility Study into the use of renewable energy for the electricity requirements of the Cook Islands Airport Authority; (iv) Cook Islands Airport Authority Strategic Plan and Rarotonga Airport Business Plan.

15.2 Chamber of Commerce

Table 15.3 Agribusiness and agricultural value chain investment support (FAO)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	315,500	240,500	75,000	0	0	0
Total	315,500	240,500	75,000	0	0	0

This project is being implemented by the Chamber of Commerce, with an oversight committee including the Chamber of Commerce, Bank of the Cook Islands, Ministry of Agriculture and MFEM (DCD). The project aims to strengthen the capacities of agribusinesses and farmer organizations, improve youth and women's groups' participation in agribusiness through the Youth Enterprise Scheme and establish an Agribusiness Small Grants Facility for enhancing agribusiness opportunities for existing businesses.

15.3 Ministry of Agriculture

Table 15.4 Bio-control of Invasive Weeds

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	225,000	25,000	50,000	50,000	50,000	50,000
Total	225,000	25,000	50,000	50,000	50,000	50,000

Funded under the “Landcare Research” allocation from MFAT, this project aims to release bio-control agents to control a range of economically and environmentally important weeds in the Cook Islands. In addition, the project will assist Landcare Research with monitoring the impact and environmental safety of the introduced bio-control agents.

Table 15.5 Improved Production, Processing, and Marketing of Agricultural Produce

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	430,000	200,000	230,000	0	0	0
Total	430,000	200,000	230,000	0	0	0

Under the FAO Pacific Multi-Country Programming Framework (CPF) 2013-2017, support is being provided and aimed at improving production, processing and marketing of agricultural produce. This project aims to improve the supply chain of agricultural produce, increase the number of households engaged in agriculture and increase the income derived from agriculture.

15.4 Ministry of Education

Table 15.6 United Nations Educational Scientific Cultural Organisation (UNESCO) - Participation Programme

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	220,000	70,000	150,000	0	0	0
Total	220,000	70,000	150,000	0	0	0

As the Secretariat for the National Commission for UNESCO, the Ministry of Education, undertakes facilitation, submission and monitoring of projects under the Participation Programme. The fund covers all islands throughout the Cook Islands and the scope covers culture, environment, science (natural and human) and education. The Cook Islands, through its bienniums, has approved three to four projects related to these categories. In addition, the Cook Islands is asked to act as lead member state in an initiative involving other small amounts of UNESCO funding at the Pacific sub-regional level.

15.5 Ministry of Finance and Economic Management

Table 15.7 Performance Based Budget Support- New Zealand

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	22,730,460	7,576,820	7,576,820	7,576,820	0	0
Total	22,730,460	7,576,820	7,576,820	7,576,820	0	0

The Government of the Cook Islands and New Zealand have negotiated a new higher support modality for the next forward aid programme. 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 overarching goal is to “enhance the Cook Islands’ self-sufficiency by enabling predictable, efficient and effective delivery of priority development objectives coupled with practical policy reform”. This 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.

Output 1 – \$6.876m for delivery of core services and economic growth activities

Output 2 – \$0.7m for Technical Assistance – paid over as required, on signing of contracts between CIG and TA providers.

Payment milestones for Output 1

- CIG’s 2016/17 draft Budget Bill recommends to Parliament that the health, education and tourism appropriations be equal to or greater than the funding appropriated in the previous financial year (this excludes the Air New Zealand underwrite).
- The completion of a tourism sector investment strategy
- The completion of a cost benefit analysis of the Air New Zealand underwrite
- The satisfactory completion of a Public Expenditure Review of the health sector 2016.
- The satisfactory completion of phase one of the Education Infrastructure Plan 2016.

Table 15.8 Performance Based Budget Support (Incentive payment) - New Zealand

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	3,000,000	0	1,000,000	1,000,000	1,000,000	0
Total	3,000,000	0	1,000,000	1,000,000	1,000,000	0

The new forward aid programme with New Zealand includes a performance payment of \$1 million annually, based on achievement of public service improvement targets. The additional funding of approximately \$1 million over three years will be administered by New Zealand.

The additional \$1 million will be paid if sufficient progress has been made against the performance milestones for public sector improvement agreed at the first High Level Policy Dialogue and in the Technical Working Group, scheduled to take place by June 2016. Decisions will be made by MFAT at its sole discretion.

Table 15.9 Climate Change Finance – UN Adaptation Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	6,060,606	0	1,515,152	1,515,152	1,515,152	1,515,152
Total	6,060,606	0	1,515,152	1,515,152	1,515,152	1,515,152

In December 2014, the Cook Islands Government submitted its application for accreditation to the UN Adaptation Fund to receive direct climate financing as a National Implementing Entity. The application process was rigorous and required extensive collaboration across key agencies.

MFEM has requested to be part of the Funds streamlined accreditation process which allows direct access, but limits the available funds and the amount of projects that can be carried out at once. It is anticipated that readiness work will continue through 2016/17, and that the Cook Islands will begin to receive funding of USD 1 million in the 2017/18 financial year and thereafter.

Table 15.10 China Grant Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	19,181,100	1,081,100	10,000,000	4,200,000	3,900,000	0
Total	19,181,100	1,081,100	10,000,000	4,200,000	3,900,000	0

To date, more than RMB 111 million (NZD 23 million) has been spent on or committed to projects funded by the People’s Republic of China. The current balance of remaining China grants is estimated to be NZD 19.2 million as at April 2015. This amount is yet to be verified and the Ministry is actively working with the China Development Bank to reconcile expenses paid and agree to the final balance remaining.

As of now, the remaining grant funds have been aligned to the Cook Islands Government’s National

Infrastructure Investment Plan.

Furthermore, the Cook Islands Government has formulated a revised three year China grant Strategy for the use of remaining and future grant funding, with the main priority focused on the reconstruction of Apii Nikao.

Table 15.11 Breakdown of China Grant funding

PRF Grand Fund	Executing Agency	FY expected	Estimated Cost (NZD)
Confirmed projects by the Cook Islands Government			
Agriculture equipment for Pa Enuu	MOA	2015/16	1,081,200
Apii Nikao rebuild	CIIC	2016/17	4,765,000
Apii Nikao rebuild	CIIC	2017/18	4,765,000
Apii Nikao rebuild	CIIC	2018/19	5,410,000
Chinese public building repairs	CIIC	2016/17	200,000
Chinese public building repairs	CIIC	2017/18	600,000
Outer Island heavy machinery stage 2	ICI	2017/18	3,400,000
Atiu Airport Upgrade	ICI	2018/19	3,900,000
Total proposed projects			24,121,200

A milestone was reached when in April 2016, when representatives from both the Cook Islands Government and the People's Republic of China (PRC) came to an agreement on the design and implementation arrangements for the Apii Nikao rebuild project. A team of eight engineers and architects from the China Urban Construction Design & Research Institute (CUCD) was assigned to the Cook Islands for 2 weeks to confirm the design scheme and implementation requirements together with Cook Islands officials.

The design scheme is based on the original designs submitted by the Cook Islands with some modifications to the exterior look and the inclusion of additional rooms. Director Yang informed the assembly present at the signing, that the recent reform of China's Aid delivery process has allowed them to work more effectively with recipient countries.

CUCD, one of the largest engineering firms in China, was selected by the PRC Government to undertake the design and supervision for the project. A Chinese construction firm will be selected to build the school once the drawings and approval procedures are completed. CUCD has visited the three buildings already constructed by Chinese contractors, in order to draw on lessons of quality and defects. Indeed, the team acknowledged the importance of selecting materials suited to the local specificities of the Cook Islands.

Following such agreement, construction will commence in early 2017. However, CIIC and CUCD will continue site and preliminary work in 2016 in preparation for the construction phase.

Table 15.12 General Budget Support- European Development Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	4,307,000	0	2,207,000	2,100,000	0	0
Total	4,307,000	0	2,207,000	2,100,000	0	0

The European Union (EU) provides its bilateral assistance via the European Development Fund (EDF) currently at the end of its tenth cycle (EDF 10). Cycle 11 (EDF 11) continues with an incentivized budget support approach, encouraging the Cook Islands to allocate funds using national systems over the years 2014 to 2020.

Whilst tranche one of the EDF 10 budget was received in 2013/14, an unfortunate delay in implementation of sanitation upgrades by one year resulted in the absence of funds in 2014/15. The final EDF 10 tranche will be allocated in 2015/16, and tranche one of EDF 11 in 2017/18.

Performance is measured using indicators such as macroeconomic benchmarks, public financial

management, transparency and democratic values. Variable payments are tagged to improved results such as lagoon water quality.

Table 15.13 Public Sector Reform TA Support

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	3,066,353	923,077	769,231	458,015	458,015	458,015
Total	3,066,353	923,077	769,231	458,015	458,015	458,015

The Asian Development Bank (ADB) Country Operations Business Plan provides USD300, 000 per year for technical assistance. The operational priorities of ADB's Interim Pacific Approach 2015, support the shared sector and thematic focus being on renewable energy and energy efficiency, information and communication technology (ICT), public sector management, private sector participation, and capacity development. 2015 did not see utilization of these funds.

Technical assistance (TA) for 2016 and beyond, agreed as part of ADB Country Operations Business plan 2017-2019 includes:

- escalating the efficiency of the ICT sector;
- progressing a Disaster Risk Management Policy Loan;
- supporting the government's commitment to renewable energy; and
- enabling the government to continue implementing its public sector strengthening, including strengthening public financial management and improving public service delivery.

Table 15.14 India Grant Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	1,526,789	0	615,385	305,344	303,030	303,030
Total	1,526,789	0	615,385	305,344	303,030	303,030

Since 2006, the Indian Government has granted the Cook Islands USD100,000 annually for sustainable socio-economic community development. In 2009, decision was made to increase the grant to USD125,000 annually. In November 2014, at the first Forum for India-Pacific Islands Cooperation, in Suva, Fiji, India announced that they would increase grant aid to Pacific countries to USD 200,000 annually, and such action went into effect for the 2015/2016 financial year.

For the 2013/2014 funding round, ten projects were approved although one project withdrew;

The remaining 9 projects were implemented as soon as disbursement from India commenced in March 2015. These 9 projects included;

- 4 addressing food security (all in the Pa Enea)
- 3 supporting community health and safety services (Rarotonga)
- 1 promoting traditional customs in fishing (Pa Enea)
- 1 supports community sports (Rarotonga)

Seven of the projects have since been completed successfully, whilst two remaining projects are still pending. Due to the late disbursement of funds in the 2013/2014 round, the next funding round was not launched until February 2016, promoting 3 funding rounds (2014/2015, 2015/2016 and the coming 2016/2017 FY) with approval received from the India High Commission to utilize the outstanding grant balance. In regards to the current 2016/2017 funding round, 28 submissions were received and have been reviewed by the NSDC Panel whilst a total of 17 proposals have been shortlisted to prepare their full application form. Such form, along with their corresponding concept notes will then be sent to India for approval. The implementation of the selected projects is estimated to begin in 2017.

Reports and updates on activities are available online on the MFEM website: <http://www.mfem.gov.ck/development/development-programmes?id=134>

Table 15.15 Korea Grant for Service Vehicles

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital expenses	303,000	0	303,030	0	0	0
Total	303,000	0	303,030	0	0	0

In March 2015, the Republic of Korea announced that it would be accepting proposals for the 2016 round of grant applications. The Cook Islands Government has submitted a request to Korea to use the USD 200,000 grant to provide 15 utility vehicles for the Pa Enua as well as three vans for use by the Ministry of Education, Cook Islands Tourism Corporation, and Ministry of Culture Development for ministry duties.

Unfortunately, this submission fell outside of the funding deadline and was thus resubmitted for the 2017 grant round. A final confirmation is yet to be received from the Korean Embassy.

Table 15.16 Aid Effectiveness

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent	700,00	100,000	160,000	160,000	140,000	140,000
Total	700,00	100,000	160,000	160,000	140,000	140,000

The Aid Effectiveness budget is drawn from the interest earned on development partner trust accounts and is used by the MFEM to support the implementation of the official development assistance policy.

The programme currently contributes to several projects including the following: annual meeting of development partners, development of Te Tarai Vaka, surge capacity to catch up and standardise Crown financial statements, training and set-up of project financial management software and fostering of South-South cooperation such as peer learning activities between Small Island Developing States.

Table 15.17 Online Registry

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent	161,000	0	161,000	0	0	0
Capital	200,000	0	0	200,000	0	0
Total	361,000	0	161,000	200,000	0	0

The New Zealand and the Asian Development Bank—Private Sector Development Initiative are supporting the Cook Islands Government to implement an Online Companies Registry in 2017.

The Government has prioritised legislative reform of the Companies Act and Personal Property Securities Act, with a consultation phase over 2016 in order to pass the legislation in early 2017. New Zealand contributes \$161,000 (this Financial Year) to this project and ADB PSDI is providing TA to draft legislation and provide implementation support.

Table 15.18 Sanitation Upgrade Programme – Manihiki Lagoon Clean Up

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent	390,000	74,734	315,266	0	0	0
Total	390,000	74,734	315,266	0	0	0

In April 2015, a variation was approved for the NZAID Pearl Production Revitalisation Project to transfer of output 4 - Manihiki Lagoon Cleanup with a budget of \$390,000 to this specific Sanitation Upgrade Programme. Since April 2016, a project manager has been engaged for oversight of the lagoon clean up, including the procurement of contractors for the cleanup within the 11 month time frame of the project. Finalization of the draft lagoon cleanup plan is in progress with the Manihiki Island Government along with terms of reference for the cleanup contract. The project deliverables

include awarding of a waste removal and disposal contract in August 2016. Project end date is planned for March 2017.

The Manihiki lagoon tidy-up will remove derelict underwater pearl farming infrastructure such as farmlines and buoys at active farm sites and clear farm sites that are no longer operational or abandoned. The objective is to improve the environmental conditions within the lagoon.

Table 15.19 National Implementing Entity Accreditation process – UNEP

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	79,154	33,000	46,154	0	0	0
Total	79,154	33,000	46,154	0	0	0

Funding from the United Nations Environment Program (UNEP) has been allocated to capacity building within the National Implementing Entity (NIE) program of work. This funding will be used to support the Cook Islands accreditation application to the United Nations Adaptation Fund.

Table 15.20 National Implementing Entity Accreditation process – Green Climate Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	350,000	0	150,000	150,000	50,000	0
Total	350,000	0	150,000	150,000	50,000	0

The Cook Islands Government intends to submit a second readiness proposal to assist in developing the country's national programme and conduct an assessment of the Cook Islands based on the GCF accreditation standards. Funding will be used for a consultant to complete a pre-assessment and provide capacity building training to MFEM and the NDA (OPM).

Table 15.21 United Nations Development Programme TRAC Funding

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	4,987,000	242,000	69,500	93,600	93,600	0
Total	4,987,000	242,000	69,500	93,600	93,600	0

The United Nations Development Programme has offered assistance from a fund called Targeted Resource Allocation from the Core (TRAC) to the Cook Islands Government. This can be allocated to support outcomes identified by the Cook Islands and formalized in the United National Development Assistance Framework, including establishing a Delivering as One position within MFEM.

The UN Coordination Officer for Cook Islands is also supported from TRAC funding.

Table 15.22 Pacific Parliamentary Development Project - UNDP

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	303,030	0	75,758	75,758	75,758	75,758
Total	303,030	0	75,758	75,758	75,758	75,758

The Pacific Parliamentary Development Project (PPDP) aims to increase women's political participation, increase Parliaments capacity to engage and respond to key development issues and mainstream gender across the project.

This initiative is being funded by UNDP, with an indicated funding of USD50,000 for 2015/2016 financial year as well as further support over a three to four year duration. This project would be a partnership between Cook Islands Parliamentary Services, Ministry of Internal Affairs and UNDP, Pacific Centre. At least three in-country capability building workshops, targeted at parliamentarians, were held in October 2015 and May 2016. Stakeholder consultation meetings targeted at women and children for the Family Law Bill were also conducted in Rarotonga and the Pa Enua in early 2016.

Table 15.23 Pacific Maritime Safety Programme

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	450,000	177,000	273,000	0	0	0
Total	450,000	177,000	273,000	0	0	0

The goal of the activity is to improve the safety of lives at sea through improved maritime safety and increased capability within the maritime sector. The activity's intended outcomes to be achieved are:

- Improved capability and capacity within Ministry of Transport to maintain maritime safety standards including regulatory compliance requirements and information for safe operations of all domestic and international shipping services.
- Increased access to safety equipment, safety information, safety advice and navigational aids and distress alerting equipment.

To achieve the intended outcomes above, the activity is split between 3 outputs:

Maritime Technical Assistance

- This output focuses on engaging a Maritime Technical Assistance consultant to support the Secretary Marine Resources and Director of the Ministry of Transport with the implementation of the Cook Islands National Maritime Transport Policy and strategic plan 2015 – 2020. The Maritime TA was engaged in February 2016 on a 12 month contract and is scheduled to complete all deliverables for the implementation of the CI National Maritime Transport Policy and Strategic Plan 2015-2020 below by March 2017.
- Lead International Maritime Organisation (IMO) audit findings implementation and responses including policy and legislative reviews and changes as necessary
- Providing professional advice to the Secretary for Transport and Director of Maritime concerning the efficient and effective routine operation and administration of the maritime sector
- Assist the Director of Maritime with maritime strategic plan implementation and management.
- Mentoring and capacity development for any existing or new Maritime Division staff to improve their operational capability including their knowledge and understanding of their roles with respect to new rules and regulations, effectiveness of planning and regulatory functions, and interaction with stakeholders in the maritime sector.

Installation of beacons in Aitutaki

- This output focuses on the restoration of beacons in Aitutaki. This output is aimed at ensuring that all licenses and certificates in compliance with the Cook Islands Law are obtained to allow for the installation and operation of the beacon in Aitutaki, in particular to restore the aid to navigation at the Maunga Pu on Aitutaki. The Beacon was successfully installed and tested in December 2015. A follow-up check on the beacon was carried out in January 2016 and the final inspection of the beacon will take place in July 2016 before closing off this output.

Safety Grab Bags

- The New Zealand Government has agreed to provide funding to the Cook Islands Government as part of the Pacific Maritime Safety Programme. One of the agreed outputs is the provision of emergency safety equipment, also known as “grab bags” to the Ministry of Marine Resources for onward distribution to Cook Islands fishermen and fisherwomen. A total of 10 grab bags have been purchased with 5 being distributed to Rakahanga, Manahiki and Pukapuka. The remaining 5 bags will be distributed to Te Rama, Penrhyn and Nassau. The Grab bag distribution was prioritised for fishing association and fisheries officers in the outer islands, particularly those furthest away in the Northern Group of the Cook Islands as they regularly commute back and forth between the northern islands to fish for the community.
- The disbursement of the sea safety gear also supports the Marine Resources (MMR) registry of recipients. The current registry identifies those who have workable boats and outboard engines to be enlisted as priority recipients. MMR registry, part of the MMR Artisanal Database, is still an ongoing program but the information collected will then be shared with the Ministry of Transport (MOT) Legitimate Register of all motorised fishing vessels in the Cook Islands (Maritime Transport-Small Motorised Vessel Regulation 2014).

Table 15.24 Household Income & Expenditure Survey – Secretariat of Pacific Communities

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	293,078	146,500	146,578	0	0	0
Total	293,078	146,500	146,578	0	0	0

The Cook Islands Statistics Office is conducting a Household Income and Expenditure Survey (HIES) during FY2015-16, 2016-17 with funding support from the Secretariat of the Pacific Community (SPC) and Government. The total cost of SPC’s support to the HIES project is estimated to be NZD293,078 and the Government is committing to NZD38,748. SPC’s funds are exclusively for the provision and purchases of goods and services associated with survey. The survey is planned for a duration of one year beginning November 2015, its scope covering the islands of Rarotonga, Aitutaki, Mangaia, Atiu, Manihiki and Pukapuka.

The objectives of the HIES are to:

- provide an overview of the distribution of household income and expenditure data across the Cook Islands
- rebase the Consumer Price Index
- review the household sector of the National Account
- provide input into the production of the Balance of Payments
- produce a detailed Poverty Report or Standard of Living Assessment
- produce a range of National Minimum Development Indicators (NMDIs)

First tranche of the funds was received in October 2015 to finance field training costs, printing of questionnaires, equipment and supplies. The second tranche of the funding was received in April 2016 with the final tranche in November 2016.

Table 15.25 Te Mato Vai

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital	11,188,000	3,438,000	7,500,000	250,000	0	0
Total	11,188,000	3,438,000	7,500,000	250,000	0	0

The Cook Islands Government embarked on a multimillion dollar upgrade of the water supply system on Rarotonga, with the goal of “delivering potable water, reliably, to all properties connected to the

existing water supply network, originally by 2015". In order to achieve its target, the Cook Islands Government formed "Te Mato Vai" – the Cook Islands Water Partnership with the Governments of the People's Republic of China and New Zealand. Funding for the Water Supply Upgrade has been provided through a combination of Cook Islands budget funding, a Chinese Government loan and grant assistance from New Zealand Government.

The project is divided into two stages – Stage 1 being the replacement of the ring main; Stage 2 being the refurbishment of intakes and provision of storage, filtration and trunk mains.

To date, the China Civil Engineering Construction Corporation (CCECC) has constructed 94% of the required ring main construction (Stage 1). Since the related land issues are expected to be resolved in May 2016, the ring main construction will therefore be resumed in June 2016.

For Stage 2, a preferred contractor has been identified to prepare detailed designs for intakes, pipelines, treatment works and reservoirs. A contract with the preferred contractor will be signed as soon as the land issues that affect Stage 1 have been resolved. This is expected to happen in June 2016.

In the meantime, the Government is in the process of establishing a Water Supply Utility (WSU) State-owned Enterprise (SOE), initially in Rarotonga, with a mandate to charge customers for the supply of services, and to manage the substantial water supply infrastructure and monitoring.

At this point, it is expected that the TMV project will be completed by September 2017, and the WSU SOE will be fully operational.

15.6 Cook Islands Investment Corporation

Table 15.26 Tereora Reconstruction Phase 1 –New Zealand

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital	11,700,000	200,000	5,750,000	5,750,000	0	0
Total	11,700,000	200,000	5,750,000	5,750,000	0	0

New Zealand pledged up to \$11.7 million to complete stage one of the building project and funding for the remaining three stages is being planned as part of the redevelopment plan.

Recent work includes the tender and construction documentation for stage 1 of the Tereora College Redevelopment Project is nearing completion. Requests for tenders will be issued from mid-June.

Stage 1 of the project comprises of the construction of two new buildings that will house Technologies, student support, student research centre, and administration. Stage 1 also includes a new access road along the western boundary line and improvements to water and drainage.

Contract works will commence in December 2016, with completion expected to be reached in December 2017.

15.7 Ministry of Health

Table 15.27 Strengthening Specialised Clinical Services in the Pacific (SSCSIP) -Australia

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	11,025	0	11,025	0	0	0
Total	11,025	0	11,025	0	0	0

SSCSIP is an Australian Aid initiative and funding is contestable with other Pacific Island countries toward objectives in:

- The improvement in planning, delivery, monitoring and evaluation of specialised clinical services and systems support at country levels

- Facilitation of skills and career development for health workers at country level Human Resources for Health planning and inter country coordination and by facilitating and maintaining linkages with academic and health institutions
- Promotion and coordination, alignment and quality of Specialist Clinical Services support for the Pacific

Historically, the Cook Islands have benefitted, and intend to benefit, from this fund through visiting specialists teams and individuals with services funded through a combination of national budget and other development partners' allocations.

Table 15.28 Small Grants Prevention and Control of Non Communicable Diseases-SPC

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	21,785	10,760	11,025	0	0	0
Total	21,785	10,760	11,025	0	0	0

The small grants scheme is a contestable fund managed by the Secretariat of the Pacific Community (SPC) to combat Non-Communicable Diseases (NCDs) which include Hypertension and Diabetes and associated risk factors in the Pacific region.

The purpose is to improve the health of their populations by focusing on NCD prevention and control at the community level. The small grants are funded with support from the Australian and the New Zealand Governments.

Table 15.29 World Health Organisation Technical Cooperation Biennium Budget

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	797,804	205,323	149,538	148,397	147,273	147,273
Total	797,804	205,323	149,538	148,397	147,273	147,273

The World Health Organisation technical cooperation operates from the country office in Apia, Samoa and focuses on human resources development (fellowships), non-communicable diseases, health promotion, nutrition and tobacco control.

This project is supported through the implementation of the strategic objectives of the National Cook Islands Health Strategy (2012 – 2016), Clinical Workforce Development Plan (2015-2020), and the Ngaki'anga Kapiti, Ora' Anga Meitaki: Cook Islands National Strategy and action plan for NCDs (2015-2019).

Table 15.30 Western Pacific Multi-country Integrated HIV/TB programme - UNDP

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	139,193	33,468	61,788	43,937	0	0
Total	139,193	33,468	61,788	43,937	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 include strengthening mobile HIV testing and counseling initiative, continuation of the Counseling and Testing program. The TB activities includes monitoring and evaluation of policies implemented in hospitals and centres, training of community volunteers, community awareness and training of health staff on contact tracing.

15.8 Ministry of Internal Affairs

Table 15.31 Disability Inclusive Development

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	212,050	112,050	100,000	0	0	0
Total	212,050	112,050	100,000	0	0	0

The Government of Australia funded Disability Inclusive Development project supports the Cook Islands to implement responsibilities under the Convention on the Rights of Persons with Disabilities (CRPD) and to monitor and report on progress to the Committee on the Rights of Persons with Disabilities.

The Disability Inclusive Development project commenced in May 2014 and funding was extending to end in August 2016. This supports the following activities:

- consultations for the new National Disability Action Plan and development of key policies, programs and legislative review;
- additional human resource (a Program, Research and Communications Officer) to work on the implementation of the Convention on the Rights of Persons with Disabilities;
- reconfigure the web-enabled disability database to facilitate access to stakeholders and to assist policy makers to develop policies and plans at the national level; and
- fund consultations and technical assistance toward establishment of an Early Identification and Intervention Model.

Table 15.32 Social Impact Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	3,445,000	925,000	720,000	600,000	600,000	600,000
Gender component	235,000	235,000	0	0	0	0
Total	3,680,000	1,160,000	720,000	600,000	600,000	600,000

Funded by the Governments of the Cook Islands, New Zealand and Australia, the Social Impact fund provides grants for community projects with income generating initiatives that focus on organisational strengthening, community development and awareness. The Ministry of Internal Affairs manages the fund using an approach that aims to foster coordination with wider government authorities and other development partner resources, to facilitate alignment of funding for non-governmental organisations and community services with national policy inclusive of gender issues.

The agreement was varied in August 2013 to include an additional \$0.925 million from Australia's Pacific Women Shaping Pacific Development Initiative. The funding is to focus on two key components of the Cook Islands National Policy on Gender Equality and Women's Empowerment 2011-2016. These are:

- to strengthen the capacity of government agencies, island councils and non government agencies to help women access and benefit from new economic opportunities, and
- protect victims of domestic violence by developing legal frameworks, law enforcement responses and services for victims, and by mobilising communities to intervene to protect victims.

The Social Impact Fund Grant Funding Arrangements will end 30 June 2016 with no clear commitment from the New Zealand Government on whether the program will continue until an evaluation of the program is completed. The evaluation is expected to be completed in June 2016. From July 2016, it is anticipated that support for SIF will continue, but it may become part of the direct Budget Support program (with an associated increase to the same). The estimates are based on the existing GFA arrangement continuing unchanged.

15.9 Infrastructure Cook Islands

The majority of assistance to ICI is provided through capital spending. Please refer to the Capital Initiatives Plan in Budget Book 3.

Table 15.33 Sanitation Upgrade Programme (SUP)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital	11,000,000	2,000,000	6,900,000	2,100,000	0	0
Total	11,000,000	2,000,000	6,900,000	2,100,000	0	0

The Sanitation Upgrade Programme (SUP), which commenced following completion of the WMI, was designed to install up to a further 1000 on-site systems on Rarotonga and Aitutaki. The SUP grant arrangement between the Governments of New Zealand and the Cook Islands was signed in June 2014, and the programme was expected to end on 30 June 2018. This \$18 million programme includes funding from New Zealand (\$10m), the European Union (\$4m), and the Cook Islands (\$4m).

In late 2015, an unusual and prolonged outbreak of seaweed and algae in the Muri lagoon highlighted the human impacts on lagoon water quality and the need for effluent disposal and treatment above and beyond on-site site secondary treatment systems that had been installed under the pilot WMI and continued under the SUP.

A reticulation system for Muri / Avana was envisaged to be built in order to connect to the existing (and future) on-site treatment systems. The estimated cost for this component was approximately \$14m, although considerable further design work and analysis is required to firm up the existing cost as well as assess the appropriateness of the design concept.

In March 2016, the Cook Islands Government agreed to the recommendations in the Calibre report and asked the New Zealand Government to consider supporting a reticulated wastewater disposal and treatment system for Rarotonga, with the immediate focus being on the Muri / Avana area. On-site treatment should continue, as long as risks and issues identified can be appropriately addressed. At present, Aitutaki is still included in the SUP.

Based on these recent events, New Zealand's MFAT is now using this assignment to engage a Technical Specialist to assist WATSAN to revise the SUP activity and deliver a new suite of wastewater components, including the design and construction of a reticulation system in Muri / Avana.

15.10 Ministry of Marine Resources

Table 15.34 Cook Islands Fisheries Field Office Operations-Forum Fisheries Agency

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	36,923	0	36,923	0	0	0
Total	36,923	0	36,923	0	0	0

The Cook Islands Fisheries Field Office based in American Samoa, Pago Pago is an operational base for Monitoring, Control and Surveillance (MCS) of the offshore fishery to ensure compliance with license and access agreement conditions. Activities undertaken at the office include observer placements, observer debriefings, port side inspections in Cook Islands licensed vessels, port sampling, unloading verification of Cook Islands vessels, and vessel log sheet data verification. The office operations are supported by grant funds provided by the Forum Fisheries Agency on behalf of the Te Vaka Moana fisheries arrangement.

The CIFFO has been identified as a location to undertake electronic monitoring trials for catch log sheets of the Cook Islands long liners based in Pago Pago under a funding arrangement by the SPC.

Table 15.35 Water Quality Monitoring Sanitation Upgrade Program - EU, NZaid/AusAid

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	277,800	92,600	92,600	92,600	0	0
Total	277,800	92,600	92,600	92,600	0	0

The MMR and ICI (WATSAN) have entered into a collaborative arrangement whereby the MMR laboratory will be service provider for monitoring lagoon water quality at baseline sites established on Rarotonga and Aitutaki. MMR will also monitor water quality at pilot sites identified by the Sanitation Upgrade Program (SUP) to measure and evaluate the impact of sanitation improvements.

It is expected that will the water quality regime will be robust and allow for improved monitoring and management decisions. The program is scheduled to end in January 2018.

Table 15.36 Ridge-to-Reef (Marine) Project – UNDP

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	2,993,259	95,668	973,255	965,826	958,509	0
Total	2,992,259	95,668	973,255	965,826	958,509	0

The Ridge to Reef Project is a biodiversity adaptation project and for this financial year in 2016/17, the MMR will focus on building the capacity of its Pa Enua staff and key areas to effectively participate in marine biodiversity surveys, management of marine ecosystems, and development of viable marine resources on those islands.

The project activities will focus on the following four outputs:

- Strengthen legal/regulatory and policy frameworks for protected areas
- Expand and strengthen management systems for protected areas
- Strengthen institutional coordination and capacities at the national and local levels for the participatory management of protected areas
- Marine biodiversity conservation mainstreaming into land-use, agriculture and the tourism sector

Table 15.37 Project Development Fund - US Fisheries Treaty

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	1,145,092	230,769	230,769	229,008	227,273	227,273
Total	1,145,092	230,769	230,769	229,008	227,273	227,273

The US Multilateral Treaty for Fisheries includes an annual allocation under the economic assistance package of USD150,000 dollars per 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.

Table 15.38 Multiyear (Fisheries) Policy Support - EU Partnership

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	2,372,880	0	593,220	593,220	593,220	593,220
Total	2,372,880	0	593,220	593,220	593,220	593,220

The Sustainable Fisheries Partnership Agreement with the European Union includes an annual contribution by the European Commission under the 4 year protocol for Multiyear Policy Support for the fisheries sector of €350,000 per year.

Table 15.39 Manihiki Pearl Biologist – SRICC-UNDP Adaptation Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	277,800	92,600	92,600	92,600	0	0

Total	277,800	92,600	92,600	92,600	0	0
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The MMR will provide technical assistance for a pearl biologist based in Manihiki responsible for environmental monitoring of the lagoon including impacts of the lagoon tidy-up during the removal of derelict farm materials. Funding is provided under the SRICC-UNDP Adaptation Project and ends in January 2017.

Table 15.40 Certification of the MMR Laboratory – SRICC-UNDP Adaptation Fund

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	125,016	62,508	62,508	0	0	0
Total	125,016	62,508	62,508	0	0	0

The MMR will implement an ISO certification program of its chemistry and microbiology laboratories to meet the health certification standards required to export seafood. One of the outcomes would be to achieve adequate accreditation for the EU market, enabling the Cook Islands processors and fishing vessels to export their tuna products. Funding is provided under the SRICC-UNDP Adaptation Project. The project ends December 2016.

15.11 National Environment Services

Table 15.41 Protecting biodiversity and enhancing ecosystem functions through “Ridge to Reef” approach in the Cook Islands

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	3,534,283	252,014	1,834,175	1,394,945	53,148	0
Total	3,534,283	252,014	1,834,175	1,394,945	53,148	0

The ridge to reef project funded by the Global Environment Fund, administered by the United Nations Development Programme (UNDP) Samoa office on behalf of the Cook Islands. The National Environment Services is the key implementing partner of the project in collaboration with Ministry of Marine Resources, Ministry of Agriculture and the Cook Islands Tourism Corporation.

The goals of this initiative include:

- Improving and developing biodiversity conservation and management
- Strengthening the resilience within the fisheries sector through capacity building
- Promoting agricultural livelihood programmes for Rarotonga and the Pa Enea
- Building local capacity within the Pa Enea through collaborative programmes with each partner
- Supporting and strengthening the GIS capacity of these partners to be better able to inform decision making processes
- Tourism initiatives for investment development to be supported through technical assistance

Table 15.42 Ozone Depleting Substances

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Institutional Strengthening	342,744	85,600	64,286	64,286	64,286	64,286
HPMP Stage 1 Tranche 2	35,000	0	19,286	0	15,714	0
Survey Of ODS Alternatives	35,714	0	35,714	0	0	0
Total	413,458	85,600	119,286	64,286	80,000	64,286

This project monitors the importation and use of Ozone Depleting Substances (ODS) in the country with the ultimate goal of eventually phasing out use of all ODS. Import information is collected and filed with United Nations Environment Program that oversees the overall usage and trans-boundary movement of ODS.

The project is divided among numerous projects:

Institutional Strengthening Phase V (ends July 2017) and VI (begins 2017-2019)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	342,744	85,600	64,286	64,286	64,286	64,286
Total	342,744	85,600	64,286	64,286	64,286	64,286

This project monitors the importation and use of Ozone Depleting Substances (ODS) in the country with the ultimate goal of eventually phasing out use of all ODS. Import information is collected and filed with United Nations Environment Program that oversees the overall usage and trans-boundary movement of ODS.

Expected results or outputs to be achieved include:

- Capacity of National Ozone Unit and other National Stakeholders will be strengthened to effectively implement the Montreal Protocol focusing on the HCFCs Phase Out Management Plan implementation and with demonstrable linkages to other National Developmental priorities such as Climate and Energy subjects

- Continuous enforcement of Ozone Depleting Substances regulation and licensing system to control and monitor import and export of Ozone Depleting Substance in order to meet sustain compliance to the Montreal Protocol
- Effective communication and awareness activities and Climate and Energy efficient longer term alternatives; and
- Submission of Ozone Depleting Substances data and other reports in a timely fashion.

HPMP Stage 1 Tranche 2 (2016-2021)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	35,000	0	19,286	0	15,714	0
Total	35,000	0	19,286	0	15,714	0

Project/Programme objectives to which the Agreement contributes:

- To provide technical assistance and guidance to the Government to implement the HPMP in line with the indicative outline and contents specified in Annexes VIII of the report of the Seventy-fourth Meeting of the Executive Committee (UNEP/OzL.Pro/ExCom/74/56);
- To assist in maximising national ownership and sustainability of the process and outcome of the HPMP implementation by the Government;
- To facilitate HPMP implementation process so that it reflects inputs of the National Ozone Unit (NOU) and other national HCFC stakeholders, both in the strategy and policy for the implementation of HPMP Project and to achieve the planned result to enable Cook Islands to maintain its compliance to the Montreal Protocol.
- Control HCFC Supply
- Control HCFC Demand
- Communications and creating an enabling environment
- Other initiatives to sustain HCFC phase-out with a linkage to Climate Change the Sustainable Development priorities as Small Islands Developing States
- Project coordination, monitoring, and reporting

Survey Of ODS Alternatives at the National Level In The Cook Islands (2016-2017)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	35,714	0	35,714	0	0	0
Total	35,714	0	35,714	0	0	0

Carry out a survey to help analyse the way forward in working with alternative refrigerants in the Cook islands through;

Developing a survey-technology mapping, needs assessment, skills and gaps and assessment of barriers

Establish current consumption of high-GWP HFCs and low-GWP alternatives by substance^[1]

Identify challenges and opportunities for transition to low-GWP alternatives for various applications

^[1] High-GWP HFCs include the commonly used HFCs such as R-134a, R-404a, R-407a, R-410a, etc. Low-GWP alternatives include natural refrigerants (ammonia, carbon dioxide, hydrocarbons), saturated HFCs (e.g., HFC-161 and HFC-152a) and unsaturated HFCs (e.g. HFC-1234yf, HFC-1234ze) that are also known as hydrofluoroolefins (HFOs).

Table 15.43 NBSAP Project GEF 0165

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	314,285	123,965	190,320	0	0	0
Total	314,285	123,965	190,320	0	0	0

The National Biodiversity planning to support the Implementation of the Convention on Biological Diversity 2011-2020 Strategic Plan in the Cook Islands(NBSAP Project).

The purpose of the program is to integrate Cook Islands obligations under the Convention on Biological Diversity into its National Development and Sectoral Planning Frameworks through renewed and participative “biological planning” and strategizing process, in a manner that is in line with the global guidance contained in the Convention on Biological Diversity Strategic Plan for 2011-2020.

Outcomes:

- A participative stocktaking exercise on Biodiversity Planning takes place and National Biodiversity Targets are developed in response to the global Aichi Targets.
- The NBSAP is revised and updated and it fully integrates new aspects of the CBD strategic plan, such as mainstreaming and anchoring the implementation of the Plan into National Development Frameworks, valuing ecosystem services and promoting ecosystem-based adaptation and resilience and;
- National frameworks for Resource Mobilization, Convention reporting and exchange mechanisms are strengthened.

The work is framed by the United National Convention for Biological Diversity and targets local communities and Island Councils and administrations as a key partner. It is expected to finish at the end of June 2017.

Table 15.44 Nagoya Protocol on Access to Genetic Resources

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	\$1,426,880	\$107,692	\$786,255	\$532,933	0	0
Total	\$1,426,880	\$107,692	\$786,255	\$532,933	0	0

“The Strengthening of the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands Project” will contribute significantly towards conservation and sustainable management of the Cook Islands’ genetic and biological diversity, as well as promote and lead to the conservation of the traditional knowledge of the uses of these resources. The conservation of knowledge and its promotion into modern medicinal practices will be directly linked to the conservation of the resources through the project. By developing the national Access and Benefit Sharing framework and capacity and piloting Nagoya Protocol compliant ABS agreements, the project will facilitate sustainable and most cost-effective use of biological resources and ensure that the benefits will accrue to the Nation and its people.

Funded by the Global Environment Facility through UNDP, the project has only now begun to progress project activities after significant delays in the recruitment of a Project Coordinator. This position being currently filled, the Project Inception Workshop has been launched allowing the project to now go ahead.

The Project has 3 outcomes:

- Develop and implement a National regulatory and institutional framework for Access and Benefit Sharing

- Build national capacities for the implementation of the National Access and Benefit Sharing Framework
- Facilitate the discovery of nature-based products – bio-discovery and benefit sharing based on traditional knowledge.

This project is also unique for NES as it is the first that was specifically developed to provide funding support directly to a private company CIMTECH/ Matheson Enterprises, a company supportive of and implementing Access and Benefit Sharing in the Cook Islands. They will also be responsible for implementing Outcome 3.

Table 15.45 Regional Ridge to Reef Project

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	304,774	0	76,923	76,336	75,758	75,758
Total	304,774	0	76,923	76,336	75,758	75,758

This regional programme 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 programme also aims to address the recent high-level recognition and calls for results based approaches to the management of development assistance programmes and projects, and 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 programmes to manage sewage and sanitation.

Testing the Integration of Water, Land, Forest & Coastal Management to Preserve Ecosystem Services, Store Carbon, Improve Climate Resilience and Sustain Livelihoods in Pacific Island Countries – Regional Ridge to Reef Project

15.12 Office of the Prime Minister (OPM)

Table 15.46 Green Climate Fund Readiness – NDA strengthening

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	230,769	80,000	150,769	0	0	0
Total	230,796	80,000	150,769	0	0	0

The Cook Islands readiness support aims to strengthen the capacity of the National Designated Authority (NDA) to engage with the Green Climate Fund (GCF). It also intends to enhance the capacity of the Ministry of Finance and Economic Planning (MFEM) as the delivery partner, to further access and manage climate finance.

The NDA, hosted by the Office of Prime Minister, and the Development and Coordination Division (DCD) within the MFEM will jointly implement this grant. The recruitment of a short-term consultant to work with the NDA and of a long term national consultant, considered as Development Programme Manager, who would be based in MFEM for 12 months is necessary for such implementation.

This program aims to strengthen the capacity of the National Designated Authority (NDA) - Climate

Change Cook Islands - to engage with the Green Climate Fund (GCF) and further access and manage climate finance. The main activities will include:

- Strengthening of the NDA or focal point consistent with the Fund's Initial best-practice guidelines;
- Strengthening NDA capacity to be able to recommend funding proposals (including through no-objection letters) to the Board that are in line with the countries priorities and with appropriate accredited entities as partners; facilitate communication of nominations from prospective entities seeking accreditation to the Fund; and facilitate necessary consultation processes to engage all relevant stakeholders (namely state-level representatives given the scattered nature of the Federation) civil society and private sector actors.
- Build the capacity of the team within the NDA that will be responsible for overall coordination and capacity building of Cook Islands' engagement with the Green Climate Fund;
- Enhance the capacity of the Cook Islands to access and manage climate finance.

Table 15.47 Strengthening the Resilience of our Islands and Communities to Climate Change (SRIC)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital expenses	4,726,332	634,571	2,117,982	1,973,779	0	0
Total	4,726,332	634,571	2,117,982	1,973,779	0	0

Strengthening the Resilience of our Islands and Communities to Climate Change is funded by the United Nation Adaptation Fund, which commenced in 2012. The objective of this programme is to strengthen the ability of the Pa Enea communities and the public service to enable them to make informed decisions and manage climate change driven pressures (including extreme events) in a proactive, integrated and strategic manner.

The programme supports the Cook Islands at the National Sector and Pa Enea levels through the implementation of the Cook Island's Joint National Action Plan for Disaster Risk Management and Climate Change Adaptation. Included is the coordination of the SRIC small grant programme as of 2016/2017, previously coordinated by Cook Islands Red Cross along with the GEF Small Grants Programme.

Table 15.48 Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	1,079,480	213,698	415,385	358,953	91,444	0
Total	1,079,480	213,698	415,385	358,953	91,444	0

This project is funded by the Global Environment Facility through the United Nations Environment Programme, Umbrella Programme for National Communication to the Climate Change Convention. It is a global programme to assist twelve countries, including the Cook Islands, to prepare the third National Communication Report.

The project will provide the Cook Islands with the resources to fulfill its commitments pursuant to Articles 4.1 and 12 of the Convention.

Table 15.49 Renewable Energy – European Union (via Asian Development Bank)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital expenses	9,983,051	1,000,000	8,983,051	0	0	0
Total	9,983,051	1,000,000	8,983,051	0	0	0

Table 15.50 Global Environment Facility (via Asian Development Bank)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital	5,517,000	0	5,517,000	0	0	0
Recurrent	5,700,000	183,000	5,517,000	0	0	0
Total	11,217,000	183,000	11,034,000	0	0	0

The goal of the Renewable Energy Programme Support is to establish a solid foundation for renewable energy sector development and operations in the Cook Islands.

New Zealand funding has been used for the construction of renewable energy infrastructure on Rarotonga and islands of the Northern Group. This part of the project is now completed.

The focus now moves to the Southern Group. As part of the Renewable Energy Roadmap, a grant of EUR 5.3 million (USD 7.26 million) has been pledged to the Cook Islands from the European Union. The Japan PEC Fund is contributing \$5.231 million of product to the Southern Energy project. The project, estimated at around \$29 million, has a loan component of NZD12.98million and will be administered by the Asian Development Bank (ADB) to complete the transformation of electricity generation from diesel to solar power for the Southern Cook Islands and selected projects on Rarotonga. GEF6 is contributing \$5.517 million to be spent in 2016/17 to implement the project of battery storage at the Rarotonga airport to facilitate grid stabilisation.

Table 15.51 Northern Water Project (Phase 2)

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital	630,000	0	210,000	420,000	0	0
Total	630,000	0	210,000	420,000	0	0

Northern Water Project (Phase 2) will improve Rain Water Harvesting and storage by repairing and restoring community water tanks on Pukapuka, Nassau, Penrhyn, Manihiki and Rakahanga. This will provide an additional 2.5 million litres of water to the communities and improve water security for the northern islands, enhancing their resilience to natural disasters and strengthen their disaster management capabilities.

The project is funded by the European Union (EU) and channeled through the "Adapting to Climate Change and Sustainable Energy" programme which is administered by the German Development Cooperation Agency, GIZ.

Table 15.52 Pacific Patrol Boat Project Te Kukupa

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital	8,760,000	6,760,000	1,000,000		1,000,000	
Recurrent expenses	500,000	100,000	100,000	100,000	100,000	100,000
Total	9,260,000	6,860,000	1,100,000	100,000	1,100,000	100,000

The Government of Australia, through the Australian Defence Force, provides this assistance to the Cook Islands by assuring a continued investment in a Pacific Patrol Boat Project. The vessel has undergone a full refit in 2014/15 and is expected to be maintained and reviewed biennially. Normal support for operations and project costs for infrastructure and equipment is ongoing.

15.13 Seabed Minerals Authority

Table 15.53 Minerals and Natural Resources Support – Commonwealth Secretariat

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	156,000	83,000	73,000	0	0	0
Total	156,000	83,000	73,000	0	0	0

This funding is provided by the Commonwealth Secretariat Technical Cooperation Facility to support

the Seabed Minerals Advisor’s position in the Ministry of Marine Resources and includes salary and operational services (estimated in kind) such as:

- advisory services provided in kind; and
- support for Cook Islands application for an extended continental shelf.

Table 15.54 Deep Sea Minerals Project – Secretariat of the Pacific Community

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Recurrent expenses	128,000	48,000	40,000	40,000	0	0
Total	128,000	48,000	40,000	40,000	0	0

This funding supports attendance at deep sea minerals workshops and conferences, advisory board administration, and additional other work.

15.14 Cook Islands Red Cross Society

Table 15.55 Global Environment Facility – Small Grants Programme

	Total cost	2015/16	2016/17	2017/18	2018/19	2019/20
Capital		0	0	0	0	0
Recurrent expenses	535,000	535,000	535,000	0	0	0
Total	535,000	300,000	535,000	0	0	0

The Global Environment Facility Small Grants Programme provides funds of up to USD 50,000 to support registered CSOs, NGOs and island communities to deliver services to vulnerable and at-risk groups in 5 areas: Biodiversity, Land Degradation, Climate Change, International Waters and Persistent Organic Pollutants.

16 Schedules

16.1 Statement of Fiscal Responsibility (Operating)

Operating Statement (\$'000)

	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Operating Revenue					
Taxation Revenue	111,817	109,634	111,663	114,933	117,592
Other Crown Revenue	16,757	15,031	14,983	15,033	15,033
Trading Revenue	5,720	6,161	6,149	6,149	6,149
Interest on Loans to Subsidiaries	684	702	676	676	676
Dividends	2,020	1,787	1,947	2,153	2,153
Interest on Balances	1,885	1,885	1,885	1,885	1,885
Performance Based Budget Support - Core Funding	7,577	7,577	7,577	0	0
Total Operating Revenue (excluding Bonus)	146,460	142,777	144,880	140,829	143,487
Performance Based Budget Support - Bonus Payment	1,000	1,000	1,000	0	0
Total Operating Revenue (including Bonus)	147,460	143,777	145,880	140,829	143,487
Operating Expenditure					
Ministry Outputs	95,972	101,403	104,553	97,089	96,794
<i>Personnel</i>	47,283	48,578	48,582	47,373	47,364
<i>Operating</i>	17,275	19,637	19,296	16,440	16,454
<i>Administered Payments</i>	27,925	29,173	32,641	29,241	28,942
<i>Depreciation</i>	3,489	4,020	4,039	4,036	4,036
POBOC	23,450	23,648	23,057	22,468	22,631
Airport Authority subsidy	0	0	0	0	0
Airport Authority Capital	0	0	0	0	0
Bank of the Cook Islands - social assistance subsidy	0	0	0	0	0
Concession Loan Fund - Top Ups	150	0	0	0	0
Cook Islands Primary Schools 50 year Saver	230	0	0	0	0
Public Sector Strengthening	672	0	0	0	0
Ports Authority - subsidy	0	0	0	0	0
Te Aponga Uira - social assistance subsidy	0	0	0	0	0
Debt Interest Contribution to LRF	2,246	1,710	1,696	1,688	1,688
Asset Management (CIIC)	1,798	0	0	0	0
Crown Infrastructure Depreciation	2,920	3,682	3,682	3,682	3,682
Transfer to Emergency Response Trust Fund	50	604	50	50	50
Depreciation Contingency Fund	2,490	2,362	3,957	4,066	4,066
<i>Chinese Equipment</i>	0	663	663	663	663
<i>Rarotonga Water Network</i>	0	299	694	803	803
<i>Northern Pa Enua Renewable Energy System</i>	0	400	400	400	400
<i>Southern Pa Enua Renewable Energy System (excl. Aitutaki)</i>	0	0	1,200	1,200	1,200
<i>Other Assets</i>	2,490	1,000	1,000	1,000	1,000
Contingency Funds - Operating	100	100	100	100	100
Contributions to CISWF	500	0	0	0	0
Total Operating Expenses	130,578	133,515	137,100	129,144	129,012
Operating Surplus/(Shortfall) (excluding Bonus)	15,882	9,262	7,780	11,685	14,474
Operating Surplus/(Shortfall) (including Bonus)	16,882	10,262	8,780	11,685	14,474

16.2 Statement of Fiscal Responsibility (Non-Operating)

Financing and Applications Statement (\$'000)

	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Reductions in Net Borrowings					
Loan Disbursements	800	11,784	196	0	0
Contribution to Loan Reserve Fund	7,670	8,603	8,519	8,471	8,471
	8,470	20,387	8,715	8,471	8,471
Capital Expenditures					
Ministries and Outer Islands (Including CIIC Capital)	15,080	36,663	34,433	8,450	5,918
Infrastructure Capital Investment in SOEs	0	0	0	0	0
Airport Authority	0	0	0	0	0
Te Aponga Uira	0	0	0	0	0
Contingency Funds - Capital Expenditure	50	0	0	0	0
	15,130	36,663	34,433	8,450	5,918
Foreign Aid					
Receipts	-32,461	-60,661	-30,983	-16,373	-4,751
Expenditure	32,461	60,661	30,983	16,373	4,751
	0	0	0	0	0
Other Committed Considerations					
Transfer to Reserve Trust Fund	559	548	558	575	588
ADB Share Capital	0	0	0	0	0
Disaster Response Fund	50	604	50	50	50
	609	598	608	625	638
Total Non-Operating balance	--24,209	-58,402	-43,757	-17,546	-15,028
To be Funded by					
Operating Surplus	15,882	9,262	7,780	11,685	14,474
Depreciation	8,899	10,065	11,442	11,436	11,436
<i>of which: R.E. Capital Replacement</i>	<i>0</i>	<i>400</i>	<i>1,600</i>	<i>1,600</i>	<i>1,600</i>
Unencumbered Cash Reserves	-974	29,663	15,965	-14,095	-19,403
Contribution to Loan Reserve Fund	7,670	8,603	8,519	8,471	8,471
Economic Recovery Support Program	1,802	206	0	0	0
Transfer to Emergency Response Trust Fund	50	604	50	50	50
Total Funding Items	33,329	58,402	43,757	17,546	15,028
Net Surplus/Shortfall	9,120	0	0	0	0

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16.3 Schedule 1 – Ministry Appropriations

Ministry	Personnel	Operating	Depreciation	Gross			Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
				Operating Appropriation	Trading Revenue ²⁴	Net Operating Appropriation					
Agriculture	868,653	84,643	22,182	975,477	90,535	884,942	0	0	0	975,477	884,942
Audit (PERCA)	895,440	110,180	26,678	1,032,298	112,700	919,598	0	138,100	0	1,170,398	1,057,698
Crown Law	493,054	144,100	5,983	643,137	0	643,137	0	0	0	643,137	643,137
Cultural Development	575,601	193,782	96,655	866,038	175,000	691,038	722,500	0	0	1,588,538	1,413,538
Business Trade and Investment Board	413,486	232,574	9,000	655,060	23,380	631,680	0	0	0	655,060	631,680
Education	11,015,475	3,497,101	412,364	14,924,940	0	14,924,940	3,932,682	0	448,000	19,305,622	19,305,622
Environment	802,683	148,724	30,381	981,788	35,000	946,788	82,241	0	0	1,064,029	1,029,029
Finance and Economic Management	2,849,359	575,939	128,530	3,553,828	503,500	3,050,328	11,454,650	1,800,694	6,907,728	23,716,900	23,213,400
Financial Services Development Authority	235,200	177,906	9,867	422,973	0	422,973	0	0	0	422,973	422,973
Foreign Affairs	1,182,596	542,151	77,726	1,802,473	20,000	1,782,473	10,000	660,166	0	2,472,639	2,452,639
Head Of State	165,168	34,080	15,057	214,305	0	214,305	15,000	0	0	229,305	229,305
Health	8,287,307	2,506,330	654,788	11,448,425	350,000	11,098,425	1,646,870	0	744,500	13,839,795	13,489,795
Infrastructure Cook Islands	1,707,670	303,351	241,596	2,252,617	295,626	1,956,991	745,000	0	9,870,556	12,868,173	12,572,547
Internal Affairs	968,109	120,085	17,264	1,105,457	6,000	1,099,457	1,985,418	15,799,966	50,000	18,940,841	18,934,841
<i>of which: Welfare Payments - Allowances</i>				<i>0</i>			<i>982,418</i>			<i>982,418</i>	<i>982,418</i>
Justice	1,442,361	399,371	118,047	1,959,779	500,000	1,459,779	337,000	0	0	2,296,779	1,796,779
Marine Resources	1,110,833	348,125	95,000	1,553,958	18,000	1,535,958	300,000	0	500,000	2,353,958	2,335,958
Ombudsman	211,382	62,840	5,822	280,044	0	280,044	0	0	0	280,044	280,044
Parliamentary Services	472,676	71,192	24,579	568,447	0	568,447	52,000	2,591,148	0	3,211,595	3,211,595
Pearl Authority	208,493	234,688	24,778	467,959	0	467,959	0	0	0	467,959	467,959
Police	2,924,739	445,663	218,622	3,589,024	84,360	3,504,664	405,000	0	0	3,994,024	3,909,664
Prime Minister's Office	1,087,638	306,849	36,069	1,430,556	0	1,430,556	295,000	0	12,749,000	14,474,556	14,474,556
Public Service Commission	389,992	52,447	86,742	529,181	0	529,181	1,228,716	0	0	1,757,897	1,757,897
Tourism Corporation	1,692,930	2,716,116	21,500	4,430,546	352,000	4,078,546	5,500,000	0	0	9,930,546	9,578,546
Transport	500,607	135,964	39,047	675,618	36,000	639,618	56,000	0	0	731,618	695,618
Cook Islands Investment Corporation	630,150	1,702,450	22,400	2,355,000	555,000	1,800,000	405,000	2,658,096	4,502,000	9,920,096	9,365,096

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²⁴ For Island Administrations, this includes transfers from cash reserves, less transfers to cash reserves

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Ministry	Personnel	Operating	Depreciation	Gross			Administered Payments	POBOC	Capital Expenditure	Total Gross Appropriation	Total Net Appropriation
				Operating Appropriation	Trading Revenue ²⁴	Net Operating Appropriation					
Cook Islands Seabed Minerals Authority	173,000	110,940	7,200	291,140	0	291,140	0	0	0	291,140	291,140
Capital Funds Committee-Administered by MFEM	0	0	45,000	45,000	0	45,000	0	0	239,900	284,900	284,900
Total Ministries	41,304,600	15,257,590	2,492,877	59,055,066	3,157,101	55,897,965	29,173,077	23,648,170	36,011,684	147,887,997	144,730,896
Ministerial Support											
Prime Minister	294,509	109,773	11,100	415,382	0	415,382	0	0	0	415,382	415,382
Deputy Prime Minister	131,000	85,372	11,503	227,875	0	227,875	0	0	0	227,875	227,875
Minister Mark Brown	196,455	81,613	6,802	284,870	0	284,870	0	0	0	284,870	284,870
Minister Kiriau Turepu	123,907	56,931	11,162	192,000	0	192,000	0	0	0	192,000	192,000
Minister Nandi Glassie	102,585	78,415	12,000	193,000	0	193,000	0	0	0	193,000	193,000
Minister Albert Nicholas	69,500	117,000	5,500	192,000	0	192,000	0	0	0	192,000	192,000
Leader Of Opposition	148,000	48,200	6,800	203,000	0	203,000	0	0	0	203,000	203,000
Total Ministerial Support	1,065,956	577,304	64,867	1,708,127	-	1,708,127	-	-	-	1,708,127	1,708,127
Offices											
Outer Islands											
Aitutaki	1,090,176	385,526	143,884	1,619,586	91,201	1,528,385	0	0	494,440	2,114,026	2,022,825
Aitutaki Power Supply	266,800	1,595,744	348,789	2,211,333	1,900,943	310,390	0	0	63,000	2,274,333	373,390
Atiu	702,620	385,306	138,561	1,226,488	224,318	1,002,170	0	0	12,000	1,238,488	1,014,170
Mangaia	792,064	545,677	204,700	1,542,441	301,000	1,241,441	0	0	12,000	1,554,441	1,253,441
Manihiki	598,798	155,149	92,199	846,146	114,500	731,646	0	0	10,000	856,146	741,646
Mauke	621,873	195,959	178,982	996,813	108,853	887,960	0	0	10,000	1,006,813	897,960
Mitiaro	480,943	67,396	55,200	603,539	58,899	544,640	0	0	8,000	611,539	552,640
Palmerston	250,571	65,730	42,000	358,301	20,599	337,702	0	0	10,000	368,301	347,702
Penrhyn	374,999	188,194	52,407	615,600	83,904	531,696	0	0	12,000	627,600	543,696
Pukapuka-Nassau	695,579	145,115	140,552	981,246	73,695	907,551	0	0	12,000	993,246	919,551
Rakahanga	345,533	60,113	37,829	443,475	49,336	394,139	0	0	8,000	451,475	402,139
Outer Islands Capital Fund-Administered by MFEM	0	0	27,500	27,500	0	27,500	0	0	0	27,500	27,500
Total Outer Islands	6,219,958	3,789,908	1,462,602	11,472,468	3,027,248	8,445,220	-	-	651,440	12,123,908	9,096,660
Gross Total	48,578,029	19,637,286	4,020,346	72,235,661	6,184,349	66,051,312	29,173,077	23,648,170	36,663,124	161,720,032	155,535,683

16.4 Schedule 2 – Benefits and Other Unrequited Expenses

Category of Benefit	2015/16 Budget	2016/17 Budget	Variance
	Estimate	Estimate	
Welfare Payments <i>including allowances</i>	16,967,788	16,782,384	- 185,404
Parliamentary Superannuation	180,000	180,000	0
Total Benefits and Other Unrequited Expenses	17,147,788	16,962,384	- 185,404

16.5 Schedule 3 – Borrowing Expenses and Debt Repayment

	2015/16 Budget	2016/17 Budget	Variance
	Estimate	Estimate	
Contribution to LRF Principal	4,676,468	6,893,059	2,216,591
Debt Interest Contribution to LRF	2,246,275	1,710,050	-536,225
Total Borrowing Expenses and Debt Repayment	6,922,743	8,603,108	1,680,365

16.6 Schedule 4 – Other Expenses

Category of Expense	2015/16 Budget	2016/17 Budget	Variance
	Estimate	Estimate	
Airport Authority	2,047,997	0	-2,047,997
Bank of the Cook Islands	120,000	0	-120,000
Te Aponga Uira	380,000	0	-380,000
Ports Authority	110,099	0	-110,099
Asset Management (CIIC)	1,798,000	0	-1,798,000
Contingency Funds - Capital Expenditure	50,000	0	-50,000
Contingency Funds - Operating	100,000	100,000	0
Crown Infrastructure Depreciation	2,920,397	3,682,397	762,000
Concessional Loan to Vanilla Farmers (BCI)	150,000	0	-150,000
Cook Islands Primary Schools 50 year Saver	230,000	0	-230,000
Public Sector Strengthening	672,000	0	-672,000
Official Development Assistance	49,115,200	60,660,588	11,545,388
ADB Renewable Energy Loan Expenditure	3,245,000	11,984,000	8,739,000
ADB Share Capital	0	0	0
Transfer to Emergency Response Trust Fund	50,000	603,858	553,858
Transfer to Reserve Trust Fund	514,570	548,172	33,602
Depreciation Contingency Fund	2,490,000	2,362,134	-127,866
Debt Interest Contribution to LRF	0	0	0
Total Other Expenses	63,993,263	79,941,149	15,947,886

16.7 Schedule 5 – Summary

Category of Expense	2015/16 Budget	2016/17 Budget	Variance
	Estimate	Estimate	
Schedule 1 - Ministry Outputs (Gross), POBOCs and Capital Expenditure (<i>less the POBOCs in Schedule 2</i>)	131,912,181	144,757,648	12,845,467
Schedule 2 - Benefits and Other Unrequited Expenses	17,147,788	16,962,384	-185,404
Schedule 3 - Borrowing Expenses and Debt repayment	6,922,743	8,603,108	1,680,365
Schedule 4 - Other Expenses (<i>less loan expenditure</i>)	60,748,263	67,957,149	7,208,886
TOTAL APPROPRIATION²⁵	216,730,975	238,280,290	21,549,315

²⁵ This amount differs from the 2015/16 Budget due to a technical adjustment to the accounting for loan drawdowns (previously double-counted)

16.8 Schedule 6 – Capital Schedule

Ministry/Island	PROJECT/PROGRAMME	2015/16 Committed	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection	4-Year 2016/17 - 2019/20
Aitutaki Island Government		997,000	478,440	381,340	0	0	859,780
Aitutaki	Aitutaki pickup truck replacement	40,000	0	0	0	0	0
Aitutaki	Aitutaki road sealing	915,000	0	0	0	0	0
Aitutaki	Aitutaki rock hammer	16,000	0	0	0	0	0
Aitutaki	Establishing new water galleries	0	478,440	381,340	0	0	859,780
Aitutaki	Aitutaki Water Pumps (Vaipeka, Tautu, Vaipae)	26,000	0	0	0	0	0
Aitutaki Power Supply		0	63,000	0	0	0	63,000
Aitutaki	Streetlights for Aitutaki	0	63,000	0	0	0	63,000
Cook Islands Investment Corporation		1,750,000	4,502,000	3,359,000	892,000	0	8,753,000
Rarotonga	Apii Nikao design, demolition, construction supervision and quality assurance	250,000	384,000	0	0	0	384,000
National	Provision for land rent reviews	0	642,000	642,000	642,000	0	1,926,000
Aitutaki	Orongo Development Master Plan and Centre reconstruction (Ports Authority)	300,000	250,000	250,000	250,000	0	750,000
Pa Enua	Pa Enua Renewable Energy Projects-Land Acquisition	1,000,000	50,000	0	0	0	50,000
Pukapuka	Pukapuka Hospital Reconstruction	200,000	300,000	0	0	0	300,000
Pukapuka	Government House	0	26,000	0	0	0	26,000
Rarotonga	Vaikapuangi Government Building - design	0	180,000	0	0	0	180,000
Rarotonga	Vaikapuangi Government Building - construction	0	1,920,000	2,467,000	0	0	4,387,000
Rarotonga	Te Mato Vai - Stage 1: road & pipeline easement & Stage 2 land acquisition for water intakes	0	750,000	0	0	0	750,000
Education		448,000	448,000	360,000	110,000	110,000	1,028,000
National	Fund to be Prioritised by Education	360,000	360,000	360,000	110,000	110,000	940,000
National	ICT upgrades (computers & laptops)	88,000	88,000	0	0	0	88,000
Health		613,447	744,500	584,500	275,000	275,000	1,879,000
National	Fund to be Prioritised by Health for Technical Equipment	275,000	275,000	275,000	275,000	275,000	1,100,000
Rarotonga	Haematology Instrument	110,035	0	0	0	0	0
Rarotonga	Ultrasound Machine	0	160,000	0	0	0	160,000
Rarotonga	Medical Service Bed End Panels	0	309,500	309,500	0	0	619,000

Ministry/Island	PROJECT/PROGRAMME	2015/16	2016/17	2017/18	2018/19	2019/20	4-Year
		Committed	Budget	Projection	Projection	Projection	2016/17 - 2019/20
Rarotonga	Theatre bed	228,412	0	0	0	0	0
Infrastructure Cook Islands		7,787,050	9,870,556	7,618,000	4,870,000	3,230,000	25,588,556
Atiu	Atiu Airport Runway Stabilisation	88,056	762,160	0	0	0	762,160
Atiu	Atiu Crusher	107,694	0	0	0	0	0
Atiu	Atiu Road Sealing	100,000	0	235,000	0	0	235,000
Atiu	Atiu Tipper Truck	127,774	0	0	0	0	0
National	Bitumen Truck	305,000	0	0	0	0	0
Rarotonga	Bridges & Drainage	50,436	1,348,650	750,000	0	0	2,098,650
Mangaia and Palmerston	Cargo barge repair program for Palmerston & Mangaia	0	100,000	0	0	0	100,000
Various	Outboard Motor replacement program	0	70,000	0	0	0	70,000
Various	Cyclone Centre Program	0	400,000	800,000	0	0	1,200,000
Rarotonga	Avatiu Valley Stream embankment	0	360,000	36,000	0	0	396,000
Rarotonga	Rarotonga Road Sealing Programme	0	2,000,000	2,000,000	2,000,000	2,000,000	8,000,000
Mangaia	Mangaia Road Sealing	0	250,000	0	0	0	250,000
Mangaia, Atiu, Mauke	HV Transport Trailer	0	180,000	0	0	0	180,000
Mangaia	HIAB (includes man cage & fork)	0	150,000	0	0	0	150,000
Mangaia	Central water project	0	125,000	0	0	0	125,000
Manihiki	Manihiki Island Airport Terminal - construction	0	60,000	0	0	0	60,000
Mauke	Medium Genset (42kVA)	0	20,000	0	0	0	20,000
Mitiaro	Manea Games Upgrade	0	100,000	0	0	100,000	200,000
Mitiaro	Water Upgrade	0	80,000	247,000	0	0	327,000
Penrhyn	Slasher	0	4,000	0	0	0	4,000
Penrhyn	Omoka Harbour Upgrade	0	250,000	0	0	0	250,000
Pukapuka	Upgrade of Airport terminal buildings	0	20,000	0	0	0	20,000
Pukapuka	Yato Cargo Shed Upgrade	0	8,000	0	0	0	8,000
Rakahanga	Large boat & outboard motor	0	100,000	0	0	0	100,000
Mangaia	Mangaia Water and Roads	111,516	0	0	0	0	0
Manihiki	Manihiki Harbours	100,000	0	0	0	0	0
Rarotonga	National Incinerator Feasibility Study	29,705	120,000	0	0	0	120,000
Pa Enuā	Pa Enuā Machinery Shelters	500,000	0	0	0	0	0
Rarotonga	Project City Project Management Unit	95,333	0	0	0	0	0
Rarotonga	Project City Stage 3 - ADB ERSP	3,288,395	0	0	0	0	0
Rarotonga	Project City Stage 3 - Retention fund	0	205,746	0	0	0	205,746
Rarotonga	Road Network Maintenance	428,691	630,000	630,000	630,000	630,000	2,520,000
Rarotonga	RSA Cemetery Rock Wall	142,000	0	0	0	0	0
Rarotonga	Rutaki Foreshore Rock Revetment	80,000	120,000	0	0	0	120,000

Ministry/Island	PROJECT/PROGRAMME	2015/16	2016/17	2017/18	2018/19	2019/20	4-Year
		Committed	Budget	Projection	Projection	Projection	2016/17 - 2019/20
	<i>Mauke</i>	10,000	10,000	10,000	10,000	10,000	40,000
	<i>Mitiaro</i>	8,000	8,000	8,000	8,000	8,000	32,000
	<i>Palmerston</i>	10,000	10,000	10,000	10,000	10,000	40,000
	<i>Penrhyn</i>	12,000	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>	8,000	8,000	8,000	8,000	8,000	32,000
GRAND TOTAL		15,080,140	36,663,124	34,433,030	8,450,335	5,918,335	84,964,824

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

	2015/16 Est. Actual	2016/17 Budget Estimate	2017/18 Projection	2018/19 Projection	2019/20 Projection
Taxation Revenue					
Value Added Tax (VAT)	56,080,942	55,582,222	56,630,681	58,131,860	59,599,024
Income tax	23,008,885	22,942,216	22,980,899	23,258,827	23,582,946
Company tax	9,071,612	10,091,336	10,941,499	12,371,086	13,191,616
Import levies	12,057,715	11,365,592	11,083,868	10,800,861	10,515,513
Withholding tax	2,313,000	0	0	0	0
Departure tax	9,285,254	9,653,028	10,026,456	10,370,441	10,702,470
Total	111,817,408	109,634,394	111,663,402	114,933,075	117,591,569
Other Crown Revenue					
Financial Services Levy	340,000	293,425	293,425	293,425	293,425
FSC Return of Excess	225,000	160,000	160,000	160,000	160,000
FSC Vested Assets	288,455	0	0	0	0
Immigration Fees	583,512	587,000	587,000	587,000	587,000
IMO Subscription - Maritime Cook Islands	63,461	66,000	66,000	66,000	66,000
Court Services	50,000	50,000	50,000	50,000	50,000
Instant Fines	20,000	20,000	20,000	20,000	20,000
Fishing Licences	3,807,000	9,000,000	9,000,000	9,000,000	9,000,000
Fisheries Catch Revenue	0	0	0	0	0
Fisheries - US Treaties (purse seing)	4,280,000	1,200,000	1,200,000	1,200,000	1,200,000
Fishing Fines	500,000	0	0	0	0
Research Fee	1,054	1,000	1,000	1,000	1,000
Permits	16,000	24,000	24,000	24,000	24,000
Dividends	2,020,190	1,787,190	1,947,190	2,153,190	2,153,190
<i>Banana Court - dividend</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>	<i>10,000</i>
<i>Bank of the Cook Islands - dividend</i>	<i>481,000</i>	<i>248,000</i>	<i>408,000</i>	<i>614,000</i>	<i>614,000</i>
<i>Ports Authority - dividend</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Punganga Nui Market - dividend</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Te Aponga Uira - dividend</i>	<i>319,190</i>	<i>319,190</i>	<i>319,190</i>	<i>319,190</i>	<i>319,190</i>
<i>Extraordinary SOE Dividend</i>	<i>60,000</i>	<i>60,000</i>	<i>60,000</i>	<i>60,000</i>	<i>60,000</i>
<i>Telecom Cook Islands (Bluesky) - dividend</i>	<i>1,150,000</i>	<i>1,150,000</i>	<i>1,150,000</i>	<i>1,150,000</i>	<i>1,150,000</i>
Numismatics	500,000	350,000	350,000	400,000	400,000
Border Management Fees	0	120,000	120,000	120,000	120,000
Drivers Licences	80,000	80,000	80,000	80,000	80,000
Motor Vehicle Registration	875,000	875,000	875,000	875,000	875,000
Interest on balances	1,885,000	1,885,000	1,885,000	1,885,000	1,885,000

	2015/16 Est. Actual	2016/17 Budget Estimate	2017/18 Projection	2018/19 Projection	2019/20 Projection
Interest on loans to subsidiaries	684,357	702,211	675,595	675,595	675,595
Foreign Investment Fees	33,413	25,725	25,725	25,725	25,725
Upper Air Management Agreement	545,021	746,000	746,000	746,000	746,000
Shipping Registration	115,174	268,259	268,259	268,259	268,259
International Shipping Licence	15,000	15,000	15,000	15,000	15,000
Liquor Licencing	28,152	30,000	30,000	30,000	30,000
Tattslotto Grants	148,000	120,000	120,000	120,000	120,000
Censorship Fees	2,071	10,000	10,000	10,000	10,000
Circulating Currency - Coins	0	100,000	100,000	100,000	100,000
Sale of NZ coins	961,000	0	0	0	0
Sale of Circulating Currency Cook Islands Coins	3,141,600	809,200	761,600	761,600	761,600
Smelting of Old Coins	135,000	0	0	0	0
Employer Liabilities	0	75,000	75,000	75,000	75,000
Motor Vehicle Dealers	2,783	5,000	5,000	5,000	5,000
Justice Unclaimed Rental Monies	0	0	0	0	0
Performance Based Budget Support - Core Funding	7,576,820	7,576,820	7,576,820	0	0
Public Sector Strengthening-processes and systems MFEM	0	0	0	0	0
Total Other	28,923,063	26,981,830	27,067,614	19,746,794	19,746,794
Total Crown Receipts - excluding Bonus Payment	140,740,471	136,616,224	138,731,016	134,679,869	137,338,363
Performance Based Budget Support - Bonus Payment	1,000,000	1,000,000	1,000,000	0	0
Total Crown Receipts - including Bonus Payment	141,740,471	137,616,224	139,731,016	134,679,869	137,338,363

16.10 Schedule 8a – Administered Payments

Administering Ministry	Administered Payment	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 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	175,000	130,000	130,000	130,000	130,000
National Environment Service	National Heritage Trust	82,241	82,241	82,241	82,241	82,241
Finance and Economic Management	Public Sector Strengthening-processes and systems MFEM	548,000	329,200	160,000	0	0
Internal Affairs	Price Tribunal	30,000	30,000	30,000	30,000	30,000
Justice	Project to bring land records up to date	0	120,000	120,000	0	0
Justice	Judges Allowances	177,000	177,000	177,000	177,000	177,000
Public Service Commission	HOM's Salaries	0	1,228,716	1,228,716	1,228,716	1,228,716
Cook Islands Investment Corporation	School Security	250,000	100,000	100,000	100,000	100,000
Transport	Director of Civil Aviation	56,000	56,000	56,000	56,000	56,000
	Compensation of Employees Administered Payments	1,393,241	2,328,157	2,158,957	1,878,957	1,878,957
Use of Goods and Services						
Aitutaki Power Supply	Genset Maintenance	0	0	0	0	0
Cultural Development	Te Maeva Nui Constitution Celebrations	350,500	722,500	722,500	722,500	722,500
Cook Islands Investment Corporation	Hosting Te Maeva Nui participants at schools	35,000	0	0	0	0
Cultural Development	Te Maeva Nui temp structure	0	0	0	0	0
Cook Islands Investment Corporation	Apii Nikao Support	0	0	0	0	0
Education	Tertiary Training Institutions	759,855	759,855	759,855	759,855	759,855
Finance and Economic Management	Audit of Crown Accounts	30,000	30,000	30,000	30,000	30,000
Finance and Economic Management	Border Management System Maintenance	0	135,000	135,000	135,000	135,000
Finance and Economic Management	National Superannuation Fund	268,896	255,450	242,678	242,678	242,678
Finance and Economic Management	Standard and Poors Subscription	40,000	40,000	40,000	40,000	40,000
Foreign Affairs	Cook Islands Student Association Support	5,000	5,000	5,000	5,000	5,000
Head Of State	Domestic Hosting Entertainment	15,000	15,000	15,000	15,000	15,000
Head Of State	Queens Representative Travel to Samoa	0	0	0	0	0
Health	Hosting of the 2017 Pacific Health Ministers' Meeting	0	0	0	0	0
Health	Pharmaceuticals	817,800	667,800	667,800	667,800	667,800
Infrastructure Cook Islands	Outer Islands Equipment Repairs of Unanticipated Breakdowns	100,000	200,000	200,000	200,000	200,000
Infrastructure Cook Islands	Waste Management	545,000	545,000	545,000	545,000	545,000
Internal Affairs	Lease extension	72,000	72,000	72,000	72,000	72,000
Internal Affairs	Vaka Maintenance	400,000	400,000	400,000	400,000	400,000
Parliamentary Services	Pacific Legislatures for Population and Governance (PLPG)	68,635	52,000	52,000	52,000	52,000
Prime Minister's Office	Social Responsibility Fund	315,000	195,000	195,000	195,000	195,000
Prime Minister's Office	Self Government Golden Anniversary	1,222,000	0	0	0	0
Police	Search and Rescue	20,000	20,000	20,000	20,000	20,000

Administering Ministry	Administered Payment	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Police	Serious Crime Investigations	50,000	50,000	50,000	50,000	50,000
Police	Te Kukupa - Biannual Slipping	0	150,000	0	150,000	0
Police	Te Kukupa - Fuel Contribution	140,000	140,000	140,000	140,000	140,000
Police	Te Kukupa Refit	0	0	0	0	0
Police	Youth Program	45,000	45,000	45,000	45,000	45,000
Tourism Corporation	Marketing Resources - Tourism Growth Strategy	5,100,000	5,500,000	5,400,000	3,100,000	2,950,000
Foreign Affairs	Returned Services Association	5,000	5,000	5,000	5,000	5,000
Prime Minister's Office	Cook Islands Marine Park	0	0	0	0	0
Prime Minister's Office	Community Development Fund	100,000	100,000	100,000	100,000	100,000
Prime Minister's Office	Te Maeva Nui transport (OPM)	638,000	0	0	0	0
Environment	E - Waste & Whitewear Collection	50,000	0	100,000	0	0
	Use of Goods and Services Administered Payments	11,192,686	10,104,605	9,941,833	7,691,833	7,391,833
Subsidies						
Education	University of the South Pacific Contribution	285,000	285,000	285,000	285,000	285,000
Finance and Economic Management	Air New Zealand - Subsidies	6,050,000	9,500,000	12,000,000	12,000,000	12,000,000
Finance and Economic Management	Provision for Inter Island Shipping	500,000	500,000	500,000	500,000	500,000
Finance and Economic Management	Subsidy of audio/visual broadcasting in Pa Enea	45,000	45,000	45,000	45,000	45,000
	Subsidies Administered Payments	6,880,000	10,330,000	12,830,000	12,830,000	12,830,000
Social Assistance						
Education	Government Funded Scholarships	520,000	740,800	910,000	280,000	280,000
Health	Patient Referrals	750,000	550,000	550,000	550,000	550,000
Health	Nursing School	234,070	234,070	234,070	234,070	234,070
Health	NCD Fund	195,000	195,000	195,000	195,000	195,000
Health	Oxygen Plant	0	0	0	0	0
Internal Affairs	Welfare Payments - Allowances	926,960	982,418	982,893	983,393	983,918
Justice	Legal Aid	40,000	40,000	40,000	40,000	40,000
	Social Assistance Administered Payments	2,666,030	2,742,288	2,911,963	2,282,463	2,282,988
Other Expense						
Cook Islands Investment Corporation	Establishment and implementation of a water utility for Rarotonga	0	100,000	1,400,000	1,400,000	1,400,000
Cultural Development	National Library Society	0	0	0	0	0
Education	Private School Funding	2,147,027	2,147,027	2,147,027	2,007,027	2,007,027
Marine Resources	Fisheries Development Facility	200,000	200,000	200,000	200,000	200,000
Marine Resources	Fisheries Development Facility in the Pa Enea	100,000	100,000	100,000	100,000	100,000
Internal Affairs	CISNOC Grant	220,000	220,000	220,000	220,000	220,000
Internal Affairs	SIF - Cook Islands Government Contribution	281,000	281,000	281,000	281,000	281,000
Internal Affairs	Assistance for Attendance to the Pacific Games	0	0	0	0	0
Finance and Economic Management	2017 Baseline Funding for Conduct of the National Census	0	250,000	0	0	0

Administering Ministry	Administered Payment	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Finance and Economic Management	Conduct of a Labour Force Survey	0	0	100,000	0	0
Finance and Economic Management	Production of new currency, transportation and sale of old coins	2,845,000	370,000	350,000	350,000	350,000
Prime Minister's Office	Provision for Renewable Energy Capital Replacement (Southern Group excl. Aitutaki and Rarotonga)	0	0	0	0	0
Prime Minister's Office	Provision for Renewable Energy Capital Replacement (Northern Group)	0	0	0	0	0
	Other Expenses Administered Payments	5,793,027	3,668,027	4,798,027	4,558,027	4,558,027
Grand Total		27,924,984	29,173,077	32,640,780	29,241,280	28,941,805

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

Administering Ministry	POBOC	2015/16 Estimate	2016/17 Budget Estimate	2017/18 Projection	2018/19 Projection	2019/20 Projection
Compensation of Employees						
Finance and Economic Management	Parliamentary Superannuation	180,000	180,000	180,000	180,000	180,000
Audit (PERCA)	Transfer of PERC Salaries and Administration Costs	42,500	42,500	42,500	42,500	42,500
Parliamentary Services	Civil List - Personnel	1,914,630	1,974,607	1,974,607	1,974,607	1,974,607
Parliamentary Services	House of Ariki	296,341	176,341	176,341	176,341	176,341
Compensation of Employees POBOCs		2,433,471	2,373,448	2,373,448	2,373,448	2,373,448
Use of Goods and Services						
Audit (PERCA)	Audit Fees	95,600	95,600	95,600	95,600	95,600
Justice	General Elections, Petitions and By-Elections	0	0	0	0	0
Parliamentary Services	Civil List - Operating Expenses	565,975	0	0	0	0
Parliamentary Services	Civil List - Constituency Visits	0	170,200	170,200	170,200	170,200
Parliamentary Services	Parliamentary Sitting Expenses	0	120,000	120,000	120,000	120,000
Parliamentary Services	QR & MP Travel and Allowances (local and overseas)	0	150,000	150,000	150,000	150,000
Prime Minister's Office	Local Government Election	0	0	0	0	0
Foreign Affairs	International Maritime Organisation - Maritime Cook Islands	63,461	63,461	63,461	63,461	63,461
Use of Goods and Services POBOCs		725,036	599,261	599,261	599,261	599,261
Subsidies						
Finance and Economic Management	Apex - Profit Guarantee	1,500,000	1,500,000	750,000	0	0
Finance and Economic Management	FSC - subsidy to meet depreciation expenses	0	0	0	0	0
Cook Islands Investment Corporation	Bank of the Cook Islands - social assistance subsidy	120,000	120,000	120,000	120,000	120,000
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	110,099	110,099	110,099	110,099	110,099
Cook Islands Investment Corporation	Te Aponga Uira - social assistance subsidy	380,000	380,000	380,000	380,000	380,000
Subsidies POBOCs		4,158,096	4,158,096	3,408,096	2,658,096	2,658,096
Social Assistance						
Internal Affairs	Welfare Payments	15,460,847	15,799,966	15,958,317	16,119,362	16,283,141
Social Assistance POBOCs		15,460,847	15,799,966	15,958,317	16,119,362	16,283,141
Other Expense						
Finance and Economic Management	Pacific Catastrophe Risk Insurance	120,694	120,694	120,694	120,694	120,694
Foreign Affairs	International Subscriptions	551,705	596,705	596,705	596,705	596,705
Other Expenses POBOCs		672,399	717,399	717,399	717,399	717,399
Grand Total		23,449,850	23,648,170	23,056,521	22,467,566	22,631,345

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

Creditor	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Asian Development Bank (ADB)					
Principal	2,967	3,694	4,660	4,695	4,734
Interest	1,386	1,902	1,849	1,727	1,608
Total Debt Servicing to ADB	4,354	5,596	6,509	6,423	6,343
People's Republic of China (China)					
Principal	1,016	998	975	2,712	2,712
Interest	832	797	759	723	669
Total Debt Servicing to China	1,848	1,794	1,735	3,435	3,381
France					
Principal	602	612	612	612	-
Interest	24	25	25	25	-
Total Debt Servicing to France	626	636	636	636	-
Gross Debt Servicing	6,828	8,026	8,880	10,494	9,724
Interest revenue on Loan Reserve Fund	359	345	362	361	327
Net Debt Servicing	6,469	7,681	8,518	10,133	9,397

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

Transaction	2015/16 Estimate	2016/17 Budget	2017/18 Projection	2018/19 Projection	2019/20 Projection
Opening Balance in LRF	16,641	17,255	18,117	18,059	16,337
Transfer into LRF by Government	7,670	8,603	8,519	8,471	8,471
Contribution to LRF - Principal	5,424	6,893	6,823	6,783	6,783
Contribution to LRF - Interest	2,246	1,710	1,696	1,688	1,688
Interest earned by LRF	359	345	362	361	327
Total inflows	8,029	8,948	8,882	8,832	8,798
Total Principal Paid out of LRF	5,101	5,303	6,247	8,019	7,447
Total Interest Paid out of LRF	2,254	2,723	2,633	2,475	2,277
Service Fees	60	60	60	60	60
Total outflows	7,415	8,086	8,940	10,554	9,784
Closing balance of LRF	17,255	18,117	18,059	16,337	15,351

16.14 Schedule 10 – Official Development Assistance Schedule

Agency	Programs/Projects by Agency	Development Partner	2015/16 Est. Actual	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	4-Year 2016/17 - 2019/20
Projects funded directly in New Zealand dollars								
Airport	Improving Pacific Air Safety TA	European Investment Bank	0	513,000	0	0	0	513,000
ICI	Sanitation Upgrade Programme	New Zealand	616,000	6,900,000	2,100,000	0	0	9,000,000
INTAFF	Disability Inclusive Development	Australia	72,050	100,000	0	0	0	100,000
INTAFF	SIF Gender Component	Australia	235,000	0	0	0	0	0
MFAI	Pacific Integration Technical Assistance Programme (PITAP)	European Union	96,725	88,300	0	0	0	88,300
MFEM	Online Registry	Asian Development Bank	0	161,000	0	0	0	161,000
MFEM	General Budget Support	European Union	2,207,000	2,207,000	2,100,000	0	0	4,307,000
MFEM	Trade Facilitation in Customs Cooperation	European Union	20,230	0	0	0	0	0
MFEM	Non-Project Grant Aid	Japan	1,000,000	0	0	0	0	0
MFEM	Aid Effectiveness	New Zealand	166,977	160,000	160,000	140,000	140,000	600,000
MFEM	Automated Border Management System	New Zealand	84,400	0	0	0	0	0
MFEM	Pacific Maritime Safety project	New Zealand	315,616	273,000	0	0	0	273,000
MFEM	Pearl Industry Revitalisation	New Zealand	249,098	0	0	0	0	0
MFEM	Public Service Strengthening	New Zealand	0	630,000	630,000	0	0	1,260,000
MFEM	Sanitation Upgrade Program-Manihiki Lagoon	New Zealand	84,277	315,266	0	0	0	315,266
MFEM	Te Mato Vai	New Zealand	3,000,000	7,500,000	250,000	0	0	7,750,000
MFEM	TRAC Funds	UNDP	0	69,500	93,600	93,600	0	256,700
MFEM	Strengthening Reproductive Health	UNFPA	112,000	0	0	0	0	0
MFEM	National Implementing Entity Accreditation process – Green Climate Fund	Green Climate Fund	0	150,000	150,000	50,000	0	350,000
MMR	Water Quality Monitoring Sanitation Upgrade Program	European Union	92,600	92,600	92,600	0	0	185,200
MMR	Manihiki Pearl Biologist	UNDP	0	92,600	92,600	0	0	185,200
MMR	Certification of the MMR Laboratory	UNDP	0	62,508	0	0	0	62,508
MOA	Increasing agricultural commodity trade (IACT)	European Union	24,000	0	0	0	0	0
MOA	Crop Enhancement Technical Cooperation	FAO	138,300	138,300	0	0	0	138,300
MOA	Improved production, processing and marketing of agricultural produce	FAO	69,000	230,000	0	0	0	230,000
MOA	Biocontrol of Invasive Weeds	New Zealand	0	50,000	50,000	50,000	0	150,000
MOA	Plant Genetic Resources Benefit Sharing	SPC/FAO	0	0	0	0	0	0
MOE	Tertiary Scholarships NZ	New Zealand	0	0	0	0	0	0

Agency	Programs/Projects by Agency	Development Partner						4-Year
			2015/16 Est.	2016/17 Actual	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget
MOE	Tertiary Scholarships Pacific Regional	New Zealand	0	0	0	0	0	0
OPSC	TPD: Training and Professional Development	New Zealand	0	0	0	0	0	0
MOE	Commonwealth Scholarships	New Zealand	0	0	0	0	0	0
MOE	Participation Program	UNESCO	95,878	150,000			0	150,000
MOH	Trauma Training	Australia	7,438	0	0	0	0	0
MOH	Human Resources Development (Fellowships)	WHO	0	176,700	0	0	0	176,700
NES	Pacific Hazardous Waste Management	European Union	74,944	97,084	83,933	0	0	181,017
NES	National Biodiversity Planning to Support the Implementation of the CBD 2011-2020 Strategic Plan (NBSAP)	Global Environment Facility	49,612	190,320	0	0	0	190,320
NES	Monitoring of Ozone Depletion Substance	Multilateral Fund	80,192	119,286	68,286	80,000	64,286	331,858
OPM	SPC EU GCCA PSIS Projects	European Union	232,000	0	0	0	0	0
OPM	ACP-EU Building Resilience and Safety in the Pacific	European Union	102,741	295,000	295,000	0	0	590,000
OPM	Renewable Energy Project Support(Southern Group)	Global Environment Facility	183,000	5,517,000	0	0	0	5,517,000
OPM	Green Climate Fund Readiness	Green Climate Fund	38,470	150,769	0	0	0	150,769
OPM	PV Mini Grids	Japan	4,408,150	0	0	0	0	0
OPM	National Disaster Trust Fund	New Zealand	0	0	0	0	0	0
OPM	Strengthening Resilience of Island Communities	UN Adaptation Fund	1,411,022	2,117,982	1,973,779	0	0	4,091,761
OPM	Northern Water Project Phase 2	EU-German Development Cooperation	0	210,000	420,000	0	0	630,000
POLICE	Te Kukupa TA, operations	Australia Defence Force	295,000	1,100,000	100,000	1,100,000	100,000	2,400,000
POLICE	Partnership for Pacific Policing	New Zealand	53,581	0	0	0	0	0
REDCROSS	GEF Small Grants Programme	Global Environment Facility	60,000	535,000	0	0	0	535,000
SBMA	Minerals and Natural Resources TA	Commonwealth Secretariat	73,000	73,000	0	0	0	73,000
SBMA	Deep Sea Minerals Project	SPC	0	40,000	40,000	0	0	80,000
MOE	Thailand Small Grant	Thailand	14,800	0	0	0	0	0
MFEM	Water Tank Subsidy Programme	Asian Development	201,734	0	0	0	0	0

Agency	Programs/Projects by Agency	Development Partner	2015/16 Est. Actual	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	4-Year 2016/17 - 2019/20
		Bank						
INTAFF	Social Impact Fund (NGO and community initiatives scheme)	New Zealand	1,045,040	720,000	600,000	600,000	600,000	2,520,000
MOA	Agriculture Revitalisation Project (Equipment and Supplies)	China	1,243,842	0	0	0	0	0
CIIC	Chinese Building Repairs	China	0	200,000	600,000	0	0	800,000
MFEM	Household Income Expenditure Survey	Secretariat of the Pacific Community	146,500	146,578	0	0	0	146,578
MFEM	Te Tarai Vaka	European Union	14,898	0	0	0	0	0
ICI	Outer Island Heavy Machinery Stage 2	China	0	0	3,400,000	0	0	3,400,000
ICI	Atiu Airport Upgrade	China	0	0	0	3,900,000	0	3,900,000
CIIC	Apii Nikao Construction	China	0	4,765,000	4,765,000	5,410,000	0	14,940,000
CIIC	Tereora Reconstruction Phase One	New Zealand	200,000	5,750,000	5,750,000	0	0	11,500,000
Total NZD Funding			18,615,115	42,086,794	23,814,798	11,423,600	904,286	78,229,478
NZD equivalent of Projects funded in foreign currency								
COC	Agribusiness and agricultural value chain investment support	FAO	361,931.89	76,153.85	-	-	-	76,154
MFEM	Public Sector Reform TA Support	Asian Development Bank	752,457	769,231	458,015	454,545	454,545	2,136,337
MFEM	ICT TA Support	Asian Development Bank	752,459	384,615	458,015	454,545	454,545	1,751,722
MFEM	NIE Accreditation Process	European Union	150,491	46,154	-	-	-	46,154
MFEM	India Grant Fund	India	300,983	615,385	305,344	303,030	303,030	1,526,789
MFEM	Korean Grant for Service Vehicles	Korea	403,317	307,692	-	-	-	307,692
MFEM	Climate Change Finance	UN Adaptation Fund	-	1,538,462	1,526,718	1,515,152	1,515,152	6,095,482
MFEM	Pacific Parliamentary Development Project	UNDP	88,790	76,923	76,336	75,758	75,758	304,774
MMR	Ridge to Reef MMR	UNDP	94,662	973,255	965,826	958,509	-	2,897,590
MMR	Fisheries Policy Support	European Union	1,001,071	593,220	593,220	593,220	593,220	2,372,881
MMR	Project Development Fund - US Fisheries Treaty	Forum Fisheries Agency	300,983	230,769	229,008	227,273	227,273	914,322
MMR	Pago Pago CIFFO Operations	Forum Fisheries Agency	67,721	36,923	-	-	-	36,923
MMR	Pago Pago CIFFO Operations	Western Pacific Council (US)	67,721	36,923	-	-	-	36,923
MOH	SPC Small Grants	SPC	10,760	11,025	-	-	-	11,025

Agency	Programs/Projects by Agency	Development Partner						4-Year
			2015/16 Est. Actual	2016/17 Budget	2017/18 Budget	2018/19 Budget	2019/20 Budget	2016/17 - 2019/20
MOH	Strengthening Specialised Clinical Services in the Pacific (SSCSIP)	SSCSIP	-	11,025	-	-	-	11,025
MOH	WHO Biennium Budget Support	WHO	203,163	149,538	148,397	147,273	147,273	592,481
MOH	Western Pacific Multi-country Integrated HIV/TB programme - UNDP	UNDP	37,797	61,788	43,937	-	-	105,725
NES	Ridge to Reef	Global Environment Facility	249,364	1,834,175	1,394,945	53,149	-	3,282,269
NES	Regional Ridge to Reef Project - Ridge to Reef - Testing the Integration of Water, Land, Forest & Coastal Management	Global Environment Facility	-	76,923	76,336	75,758	75,758	304,774
NES	Strengthening the Implementation of the Nagoya Protocol on Access to Genetic Resources and Benefit Sharing in the Cook Islands	Global Environment Facility	1,280,532	786,255	532,933	-	-	1,319,188
OPM	PV Mini Grids	Japan	-	558,922	-	-	-	558,922
OPM	Renewable Energy Grant (Southern Group)	European Union	7,508,031	8,983,051	-	-	-	8,983,051
OPM	Preparation of the Third National Communication under UN Framework Convention on Climate Change (UNFCCC)	Global Environment Facility	213,698	415,385	358,953	91,444	-	865,782
Total NZD Equivalent of Forex Funding			13,845,932	18,573,794	7,167,983	4,949,655	3,846,554	34,537,986
Total NZD Equivalent ODA Funding			32,461,047	60,660,588	30,982,781	16,373,255	4,750,840	112,767,464

16.15 Schedule 11 – Comparative Analysis of Ministry Appropriations

Ministry	2015/16 Budget Estimate			2016/17 Budget Estimate			Gross Variance
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	
Agriculture	998,331	90,535	907,796	975,477	90,535	884,942	-22,854
Audit (PERCA)	1,022,298	178,700	843,598	1,032,298	112,700	919,598	10,000
Crown Law	713,137	0	713,137	643,137	0	643,137	-70,000
Cultural Development	836,038	175,000	661,038	866,038	175,000	691,038	30,000
Business Trade and Investment Board	656,060	23,380	632,680	655,060	23,380	631,680	-1,000
Education	14,720,355	0	14,720,355	14,924,940	0	14,924,940	204,585
Environment	979,788	35,000	944,788	981,788	35,000	946,788	2,000
Finance and Economic Management	3,621,328	503,500	3,117,828	3,553,828	503,500	3,050,328	-67,500
Financial Services Development Authority	422,973	0	422,973	422,973	0	422,973	-0
Foreign Affairs	1,802,473	20,000	1,782,473	1,802,473	20,000	1,782,473	-0
Head Of State	234,305	0	234,305	214,305	0	214,305	-20,000
Health	11,498,425	400,000	11,098,425	11,448,425	350,000	11,098,425	-50,000
Infrastructure Cook Islands	2,160,617	295,626	1,864,991	2,252,617	295,626	1,956,991	92,000
Internal Affairs	1,070,458	6,000	1,064,458	1,105,457	6,000	1,099,457	34,999
Justice	1,959,779	500,000	1,459,779	1,959,779	500,000	1,459,779	-0
Marine Resources	1,538,276	15,000	1,523,276	1,553,958	18,000	1,535,958	15,682
Ombudsman	280,044	0	280,044	280,044	0	280,044	0
Parliamentary Services	576,866	8,419	568,447	568,447	0	568,447	-8,419
Pearl Authority	465,097	0	465,097	467,959	0	467,959	2,862
Police	3,639,024	69,360	3,569,664	3,589,024	84,360	3,504,664	-50,000
Prime Minister's Office	1,233,556	0	1,233,556	1,430,556	0	1,430,556	197,000
Public Service Commission	1,752,902	0	1,752,902	529,181	0	529,181	-1,223,722
Tourism Corporation	4,470,446	352,000	4,118,446	4,430,546	352,000	4,078,546	-39,900
Transport	661,476	36,000	625,476	675,618	36,000	639,618	14,142
Cook Islands Investment Corporation	0	0	0	2,355,000	555,000	1,800,000	2,355,000
Cook Islands Seabed Minerals Authority	314,000	0	314,000	291,140	0	291,140	-22,860
Capital Funds Committee- Administered by MFEM	45,000	0	45,000	45,000	0	45,000	0
Total Ministries	57,673,052	2,708,520	54,964,532	59,055,066	3,157,101	55,897,965	1,382,014
Ministerial Support							
Prime Minister	414,382	0	414,382	415,382	0	415,382	1,000
Deputy Prime Minister	221,000	0	221,000	227,875	0	227,875	6,875
Minister Mark Brown	284,870	0	284,870	284,870	0	284,870	0
Minister Kiriau Turepu	191,000	0	191,000	192,000	0	192,000	1,000
Minister Nandi Glassie	192,000	0	192,000	193,000	0	193,000	1,000

Ministry	2015/16 Budget Estimate			2016/17 Budget Estimate			Gross Variance
	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	Gross Operating Appropriation	Trading Revenue	Net Operating Appropriation	
Minister Albert Nicholas	190,000	0	190,000	192,000	0	192,000	2,000
Leader Of Opposition	202,000	0	202,000	203,000	0	203,000	1,000
Total Ministerial Support Offices	1,695,252	0	1,695,252	1,708,127	0	1,708,127	12,875
Outer Islands							
Aitutaki	1,714,229	48,250	1,665,979	1,619,586	91,201	1,528,385	-94,643
Aitutaki Power Supply	2,211,333	1,900,943	310,390	2,211,333	1,900,943	310,390	0
Atiu	1,214,860	224,318	990,542	1,226,488	224,318	1,002,170	11,628
Mangaia	1,528,481	301,000	1,227,481	1,542,441	301,000	1,241,441	13,960
Manihiki	874,405	136,300	738,105	846,146	114,500	731,646	-28,259
Mauke	910,870	113,853	797,017	996,813	108,853	887,960	85,943
Mitiaro	596,949	58,899	538,050	603,539	58,899	544,640	6,590
Palmerston	357,744	20,599	337,145	358,301	20,599	337,702	557
Penrhyn	609,147	83,904	525,243	615,600	83,904	531,696	6,453
Pukapuka-Nassau	988,994	73,695	915,299	981,246	73,695	907,551	-7,748
Rakahanga	447,074	49,336	397,738	443,475	49,336	394,139	-3,599
Outer Islands Capital Fund-Administered by MFEM	27,500	0	27,500	27,500	0	27,500	0
Total Outer Islands	11,481,586	3,011,097	8,470,489	11,472,468	3,027,248	8,445,220	-9,118
Gross Total	70,849,890	5,719,617	65,130,273	72,235,661	6,184,349	66,051,312	1,385,771

16.16 Schedule 12 – Output Analysis

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Agriculture	1,098,389	975,479	925,479	925,479	925,479
Crop Research & Development	359,140	375,287	325,287	325,287	325,287
Bio-Security Management	369,175	324,175	324,175	324,175	324,175
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	208,519	114,462	114,462	114,462	114,462
Audit (PERCA)	1,160,398	1,170,398	1,170,398	1,170,398	1,170,398
Consolidated Financial Statements of Government	162,052	162,052	162,052	162,052	162,052
Ministries, Outer Island Administration, SOEs and Other Crown Agencies	596,812	606,812	606,812	606,812	606,812
Special Reviews and Investigation and Performance Audits	368,969	368,969	368,969	368,969	368,969
Corporate Services	32,565	32,565	32,565	32,565	32,565
Cook Islands Investment Corporation	3,158,096	5,418,096	6,718,096	6,718,096	6,718,096
Effective Asset Management	500,000	2,120,000	2,120,000	2,120,000	2,120,000
Effective Management of public assets by SOEs	2,658,096	3,028,096	4,328,096	4,328,096	4,328,096
Corporate Services	-	270,000	270,000	270,000	270,000
Crown Law	713,138	643,137	643,137	643,137	643,137
Legal Advisory	313,781	282,541	281,541	281,541	281,541
Litigation	235,335	211,905	211,905	211,905	211,905
Legislative Drafting	164,022	148,691	149,691	149,691	149,691
Cultural Development	1,221,537	1,588,538	1,588,538	1,587,538	1,587,538
Cultural Identity	737,747	1,073,747	1,072,747	1,071,747	1,071,747
Cultural Heritage	252,920	282,920	282,920	282,920	282,920
Cultural Governancy	230,870	231,871	232,871	232,871	232,871
Business Trade and Investment Board	673,247	655,060	656,060	656,060	656,060
Business Support	148,514	152,502	153,017	153,017	153,017
Maximising Trade Opportunities	103,515	102,018	102,018	102,018	102,018
Foreign Direct Investment (FDI) Participation	112,515	111,018	111,018	111,018	111,018
Regulation & Compliance	80,301	78,804	78,804	78,804	78,804
Finance & Administration Support	228,402	210,718	211,203	211,203	211,203

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Education	18,849,051	18,857,622	18,832,007	14,760,607	14,765,607
Taku Ipukarea Kia Rangatira	1,080,556	1,080,556	1,080,556	385,556	385,556
Learning and Teaching	2,476,315	2,704,300	2,910,685	1,585,705	1,585,705
Learning and the Community	1,113,864	1,113,864	1,113,864	418,864	418,864
Infrastructure and Support	12,841,299	13,958,902	13,726,902	12,370,482	12,375,482
Corporate Services	1,337,017	-	-	-	-
Environment	1,112,029	1,064,029	1,164,029	1,064,029	1,064,029
Advisory & Compliance	402,024	338,923	438,923	338,923	338,923
Island Futures	352,591	387,036	387,036	387,036	387,036
Corporate Services	357,414	338,070	338,070	338,070	338,070
Finance and Economic Management	21,657,085	16,809,172	18,127,200	17,117,200	17,117,200
Fiscal Advice	15,437,810	12,603,564	14,171,592	13,261,592	13,261,592
Fiscal and Economic Management	3,807,617	1,341,617	1,318,617	1,318,617	1,318,617
Taxation	1,697,637	1,765,137	1,685,137	1,685,137	1,685,137
Statistics	283,583	533,583	383,583	283,583	283,583
Development Coordination	134,952	298,865	298,865	298,865	298,865
Corporate Services	295,486	266,406	269,406	269,406	269,406
Foreign Affairs	2,611,608	2,472,640	2,474,640	2,474,640	2,474,640
Pacific and Regional Affairs	102,321	154,515	154,515	154,515	154,515
International Affairs Including Protocol and Diplomatic services	162,202	343,640	343,640	343,640	343,640
Trade	51,517	104,030	104,030	104,030	104,030
United Nations and International Treaties	135,566	188,078	188,078	188,078	188,078
Immigration Services	411,645	284,062	284,062	284,062	284,062
Corporate Services	1,748,358	1,398,314	1,400,314	1,400,314	1,400,314
Head Of State	249,305	229,305	229,305	229,305	229,305
Administrative Support	249,305	229,305	229,305	229,305	229,305
Health	12,535,295	13,095,295	13,095,295	12,335,295	12,335,295
Community Health Services	1,953,762	2,331,823	2,331,823	2,331,823	2,331,823
Hospital Health Services	9,855,729	10,021,107	10,021,107	9,261,107	9,261,107
Funding & Planning	725,804	742,365	742,365	742,365	742,365

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Infrastructure Cook Islands	2,805,617	2,997,617	2,997,617	2,997,617	2,997,617
Corporate Services	387,538	409,161	409,161	409,161	409,161
Regulatory Services	173,583	201,110	201,110	201,110	201,110
Planning & Design	430,508	440,057	440,057	440,057	440,057
Civil Works	593,315	704,052	704,052	704,052	704,052
WATSAN	1,220,673	1,243,237	1,243,237	1,243,237	1,243,237
Internal Affairs	18,474,150	18,890,842	19,049,668	19,211,213	19,375,517
Welfare Division	16,674,098	17,076,539	17,235,365	17,396,910	17,561,214
Social Policy Division	539,855	574,159	574,159	574,159	574,159
Labour & Consumer Division	217,286	236,464	236,464	236,464	236,464
Civil Division	123,742	124,667	124,667	124,667	124,667
Corporate Services Division	919,169	879,013	879,013	879,013	879,013
Justice	2,176,779	2,296,779	2,312,679	2,190,178	2,190,178
Court & Tribunal Services	724,108	787,608	789,258	723,842	723,842
Land Administration	307,108	362,108	364,758	309,342	309,342
Registry Services	214,410	214,410	217,060	216,643	216,643
Prison Services	509,108	507,608	509,258	508,841	508,841
Probation Services	213,410	213,411	216,061	215,643	215,643
Corporate & ICT Services	208,635	211,635	216,285	215,868	215,868
Marine Resources	1,901,549	1,853,958	1,853,958	1,853,958	1,853,958
Offshore Fisheries	333,182	303,177	303,177	303,177	303,177
Pearl Industry Support	266,183	309,504	309,504	309,504	309,504
Inshore Fisheries and Aquaculture	758,262	763,588	763,588	763,588	763,588
Policy and Legal Services	122,004	115,514	115,514	115,514	115,514
Corporate Services	421,918	362,175	362,175	362,175	362,175
Ombudsman	282,149	280,044	280,044	280,043	280,043
Investigations	80,032	83,131	82,131	82,131	82,131
Special Reviews	66,821	69,470	69,470	69,470	69,470
Corporate Services	53,731	43,148	44,148	44,148	44,148
Education and Advocacy	40,397	42,148	42,148	42,148	42,148
Regional and International Relations	41,168	42,148	42,148	42,147	42,147

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Parliamentary Services	3,422,447	3,211,595	3,211,595	3,211,596	3,211,596
Services to Parliament (Civil list, Legislative Service PLPG & HOA & Koutu Nui	3,144,816	2,936,418	2,936,418	2,936,418	2,936,418
Finance and Corporate Services	277,631	275,177	275,177	275,178	275,178
Services to House of Ariki	-	-	-	-	-
Pearl Authority	465,097	467,959	467,959	467,959	467,959
Marketing	105,000	177,235	177,235	177,235	177,235
Industry Development	135,790	63,822	63,822	63,822	63,822
Management & Support Services	224,307	226,902	226,902	226,902	226,902
Police	3,894,023	3,994,023	3,844,023	3,994,023	3,844,023
Crime Prevention & Policing operations	2,953,438	2,914,438	2,914,438	2,914,438	2,914,438
Maritime Policing	649,463	792,463	642,463	792,463	642,463
Enabling & Support Services	291,122	287,122	287,122	287,122	287,122
Prime Minister's Office	1,793,372	1,725,557	1,655,555	1,655,555	1,655,555
Cabinet Services & Government Representative	540,708	420,708	420,708	420,708	420,708
Central Policy & Planning Office	160,123	202,123	202,123	202,123	202,123
Island Governance	222,646	222,644	222,644	222,644	222,644
National Information, Communications & Technology Office	174,853	259,853	259,853	259,853	259,853
Renewable Energy Development Division	213,199	179,544	109,543	109,543	109,543
Emergency Management Cook Islands	131,176	103,646	103,646	103,646	103,646
Climate Change Cook Islands	151,712	138,082	138,082	138,082	138,082
Corporate Services	198,955	198,956	198,955	198,955	198,955
Public Service Commission	1,751,206	1,750,448	1,750,448	1,750,448	1,750,448
Policy and Planning	195,576	249,701	249,701	249,701	249,701
Human Resource Management	1,555,630	1,500,747	1,500,747	1,500,747	1,500,747
Tourism Corporation	9,524,226	9,930,546	9,874,446	7,574,446	7,424,446
Destination Sales & Marketing	7,874,554	8,252,107	8,192,007	5,892,007	5,742,007
Destination Development	895,329	884,711	884,711	884,711	884,711
Corporate Services	754,343	793,728	797,728	797,728	797,728
Transport	717,476	731,618	731,618	731,618	731,618

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Civil Aviation	140,052	150,194	150,194	150,194	150,194
Maritime Transport	114,926	109,926	109,926	109,926	109,926
Meteorological Service	323,019	337,019	337,019	337,019	337,019
Finance & Administration	139,479	134,479	134,479	134,479	134,479
Financial Services Development Authority	422,973	422,973	423,973	423,973	423,973
Develop Cook islands financial Service Industry	422,973	422,973	423,973	423,973	423,973
Cook Islands Seabed Minerals Authority	314,000	291,140	291,140	291,140	291,140
Effective Seabed Minerals sector	253,896	229,429	229,429	229,429	229,429
Stakeholder Engagement	20,000	20,000	20,000	20,000	20,000
Corporate Services	40,104	41,711	41,711	41,711	41,711
OUTER ISLANDS					
Aitutaki	1,714,232	1,619,586	1,605,506	1,591,568	1,577,771
Island Council	89,263	83,297	83,297	83,297	83,297
Finance & Administration	243,476	228,911	228,911	228,911	228,911
Infrastructure	1,094,104	1,032,121	1,018,042	1,004,104	993,692
Agriculture	104,852	93,549	93,549	93,549	93,549
Women, Youth, Sport, Culture	54,889	55,154	55,154	55,154	55,154
Waste Facility	127,648	126,554	126,554	126,554	123,168
Aitutaki Power Supply	2,211,333	2,211,333	2,211,333	2,211,333	2,211,333
Electricity Supply	2,211,333	2,211,333	2,211,333	2,211,333	2,211,333
Atiu	1,214,857	1,226,488	1,244,009	1,260,143	1,272,453
Agriculture	130,250	123,276	131,036	131,036	131,036
Infrastructure	460,702	439,261	448,123	464,256	476,566
Energy	399,881	372,355	372,355	372,355	372,355
Corporate	159,835	198,418	199,317	199,317	199,317
Island Council	64,189	93,178	93,178	93,179	93,179
Mangaia	1,528,481	1,542,442	1,544,062	1,544,062	1,544,062
Agriculture	149,740	152,532	152,724	152,724	152,724
Tourism & Community Development	47,001	49,793	50,646	50,646	50,646
Infrastructure Amenities	458,401	461,193	461,385	461,385	461,385

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Public Utilities	613,357	616,150	616,341	616,341	616,341
Finance & Administration	186,288	189,081	189,272	189,272	189,272
Island Council	73,694	73,694	73,694	73,694	73,694
Manihiki	739,660	846,145	839,752	833,420	827,156
Gender, Youth & Sports	14,018	11,906	11,906	11,906	11,906
Infrastructure	273,342	348,064	344,867	341,702	338,569
Energy	297,638	209,268	206,071	202,906	199,773
Finance and Administration	92,567	157,994	157,994	157,993	157,994
Island Council	33,586	78,501	78,501	78,501	78,502
Agriculture	28,509	40,413	40,413	40,413	40,413
Mauke	885,982	996,818	994,724	991,884	991,884
Infrastructure	294,980	383,262	393,677	393,677	393,677
Energy	247,882	248,949	248,227	245,387	245,387
Water	77,050	77,307	81,050	81,050	81,050
Finance & Administration	129,360	133,478	126,764	126,764	126,764
Corporate Services	66,025	74,736	74,321	74,321	74,321
Gender & Development	13,555	13,555	13,555	13,555	13,555
Island Council	57,130	65,530	57,130	57,130	57,130
Mitiaro	596,034	603,539	613,470	622,614	629,590
Island Administration	125,068	127,473	131,081	133,737	136,796
Island Council	48,794	48,897	49,174	49,623	49,623
Social & Economic Growth	12,686	12,677	12,749	12,865	12,865
Infrastructure	271,486	275,133	280,053	284,604	288,092
Energy	96,112	96,975	97,875	98,923	99,352
Agriculture	41,888	42,384	42,539	42,862	42,862
Palmerston	357,741	358,301	358,301	358,301	358,301
Island Administration	93,156	101,598	97,598	97,598	97,598
Agriculture	13,203	13,203	13,203	13,203	13,203
Education	109,132	111,932	113,932	113,932	113,932
Energy	52,060	39,951	20,611	20,611	20,611
Infrastructure	51,390	52,865	74,205	74,205	74,205
Island Council	38,800	38,752	38,752	38,752	38,752

Ministry	Total Expenditure on Output				
	2015/16	2016/17	2017/18	2018/19	2019/20
Penrhyn	609,147	615,600	635,324	644,277	651,109
Island Support Services/Council	123,500	123,500	133,500	144,500	144,500
Community & Protocol	62,000	62,000	62,000	62,000	62,000
Infrastructure & Climate Change	423,647	430,100	389,824	387,777	394,609
Economic Development	-	0	50,000	50,000	50,000
Pukapuka and Nassau	988,994	981,246	973,577	965,984	963,427
Administration	155,302	155,302	155,302	155,302	155,303
Agriculture	50,386	50,978	50,978	50,978	50,978
Energy	113,393	112,429	111,339	109,993	109,772
Infrastructure	530,405	523,029	516,449	510,203	507,865
Island Council	107,233	107,233	107,233	107,233	107,234
Women, Culture, Youth & Sport	32,275	32,275	32,275	32,275	32,275
Rakahanga	313,593	443,475	439,912	436,384	432,892
Agriculture	28,046	28,457	28,215	27,975	27,738
Marine	58,159	84,355	83,639	82,931	82,230
Beautification	61,824	58,680	58,142	57,609	57,081
Infrastructure	34,709	88,712	88,095	87,485	86,881
Energy	-12,750	41,137	40,895	40,656	40,419
Island Administration	88,732	86,227	85,472	84,725	83,985
Island Council	54,872	55,907	55,453	55,004	54,559
MINISTERIAL SUPPORT	1,575,029	1,708,127	1,713,127	1,710,127	1,710,127
Prime Minister	397,170	415,382	416,382	416,382	416,382
Deputy Prime Minister	189,847	227,875	228,875	228,875	228,875
Minister Mark Brown	267,268	284,870	283,870	281,870	281,870
Minister Kiriau Turepu	165,240	192,000	193,000	193,000	193,000
Minister Nandi Glassie	185,427	193,000	194,000	194,000	194,000
Minister Albert Nicholas	173,327	192,000	193,000	192,000	192,000
Leader of the Opposition	196,750	203,000	204,000	204,000	204,000
TOTAL APPROPRIATIONS	125,719,326	124,976,971	127,542,004	119,485,648	119,354,960

17 Financial Statements

17.1 Statement of Financial Performance

	For the year ending 30 June				
	Budget 2015-16 ('000)	Budget 2016-17 ('000)	Projected 2017-18 ('000)	Projected 2018-19 ('000)	Projected 2019-20 ('000)
Revenue					
Taxation revenues	111,817	109,634	111,663	114,933	117,592
<u>Other revenue</u>					
Revenue on behalf of the Crown	24,334	22,608	22,558	15,032	15,031
Sale of goods and services	5,720	6,161	6,149	6,149	6,149
Interest	2,569	2,587	2,561	2,561	2,561
Dividends	2,020	1,787	1,947	2,154	2,153
Total Revenue	146,460	142,777	144,879	140,829	143,486
Expenditure					
Appropriations to agencies	95,972	101,409	104,558	97,090	96,795
Payments on behalf of Crown	23,450	23,648	23,057	22,468	22,631
Debt-servicing interest	2,246	1,710	1,696	1,688	1,688
Building maintenance	1,798	0	0	0	0
Infrastructure depreciation	2,920	3,682	3,682	3,682	3,682
Depreciation contingency fund – renewable energy	0	400	1,600	1,600	1,600
Other expenditure	4,192	2,666	2,508	2,617	2,617
Total Expenditure	130,578	133,515	137,100	129,144	129,013
NET OPERATING SURPLUS / (DEFICIT)*	15,882	9,262	7,780	11,685	14,474

* Net Operating Surplus/(Deficit) balance vary to Operating Revenue and Expenditure Statement for the year ended 30 June 2016 due to the difference in treatment of Debt -servicing interest.

17.2 Statement of Financial Position

	As at 30 June				
	Budget	Budget	Projected	Projected	Projected
	2015-16	2016-17	2017-18	2018-19	2019-20
	('000)	('000)	('000)	('000)	('000)
Assets					
Cash and equivalents	45,746	34,856	13,467	22,357	33,491
Loan reserves	17,255	18,117	18,059	16,337	15,101
Renewable Energy reserves	0	400	2,000	3,600	5,200
Trust accounts	7,303	8,455	9,063	9,688	10,326
Inventory	4,395	4,395	4,395	4,395	4,395
Tax receivables	16,713	16,713	16,237	16,237	16,237
Debtors and other receivables	10,699	10,699	10,699	10,699	10,699
Advances to SOEs	26,206	26,206	26,206	26,206	26,206
Investment in SOEs	146,733	146,733	146,733	146,733	146,733
Plant, property, and equipment	357,612	444,871	498,608	511,648	510,534
Total Assets	632,662	711,445	745,467	767,900	778,922
Liabilities					
Creditors and other payables	30,954	26,283	21,936	20,830	20,780
Trust liabilities	7,653	8,251	9,027	13,057	19,600
Borrowings	98,913	101,611	93,752	84,458	77,011
Total Liabilities	137,520	136,145	124,715	118,345	117,391
Net Crown Balance	495,142	575,300	620,752	649,555	661,531

17.3 Statement of Cashflows

	For the year ending 30 June				
	Budget 2015-16	Budget 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20
	('000)	('000)	('000)	('000)	('000)
Cashflows from Operating Activities					
<u>Cash provided from:</u>					
Taxation and levies	111,817	109,634	111,663	114,933	117,592
Collection of tax arrears	0	0	476	0	0
Sale of goods and services	5,720	6,161	6,149	6,149	6,149
Interest	2,569	2,587	2,561	2,561	2,561
Dividends	2,020	1,787	1,947	2,154	2,153
Other income	24,334	22,608	22,559	15,032	15,032
	<u>146,460</u>	<u>142,777</u>	<u>145,356</u>	<u>140,829</u>	<u>143,487</u>
Cash applied to:					
Appropriations to agencies (less depn)	92,483	97,388	100,518	93,053	92,759
Payments on behalf of Crown	23,450	23,648	23,057	22,468	22,631
Debt-servicing interest	2,246	1,710	1,696	1,688	1,688
Building maintenance	1,798	0	0	0	0
Other expenditure	8,863	7,337	6,855	3,723	2,667
	<u>128,840</u>	<u>130,084</u>	<u>132,126</u>	<u>120,932</u>	<u>119,745</u>
Net Operating Activity Cashflows	17,620	12,699	13,234	19,899	23,744
Cashflows from Investing Activities					
<u>Cash provided from:</u>					
Subsidiary loan repayments	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash applied to:					
Capital expenditure	15,130	36,663	34,433	8,450	5,918
Advances to Subsidiaries	0	0	0	0	0
	<u>15,130</u>	<u>36,663</u>	<u>34,433</u>	<u>8,450</u>	<u>5,918</u>
Net Investing Activity Cashflows	-15,130	-36,663	-34,433	-8,450	-5,918
Cashflows from Financing Activities					
<u>Cash provided from:</u>					
Loans drawn down	800	11,984	196	0	0
Cash drawn from loan reserves	7,670	8,603	8,519	8,471	8,471
	<u>8,470</u>	<u>20,587</u>	<u>8,715</u>	<u>8,471</u>	<u>8,471</u>
Cash applied to:					
Loan repayments	4,586	5,303	6,247	8,019	7,447
Loan reserves	492	653	45	-1,216	1,875
Other reserves	919	1,552	2,608	4,225	5,838
	<u>5,997</u>	<u>7,508</u>	<u>8,900</u>	<u>11,028</u>	<u>15,160</u>
Net Financing Activity Cashflows	2,473	13,079	-185	-2,556	-6,689
Net cash movements	4,963	-10,891	-21,389	8,891	11,135
Add: Opening Cash and Equivalents	40,783	45,746	34,856	13,467	22,357
Closing Cash and Equivalents	45,746	34,856	13,467	22,358	33,492

17.4 Statement of Borrowings

For the year ending 30 June

	Budget 2015-16 ('000)	Budget 2016-17 ('000)	Projected 2017-18 ('000)	Projected 2018-19 ('000)	Projected 2019-20 ('000)
<i>Total Gross Borrowings</i>	98,913	101,611	93,752	84,458	77,011
Assets Held Against Borrowings:					
Advances to subsidiaries	26,206	26,206	26,206	26,206	26,206
Loan reserves	17,255	18,117	18,059	16,337	15,101
Total Assets Held Against Borrowings	43,461	44,323	44,265	42,543	41,307
<i>Net Borrowings of the Government</i>	55,452	57,288	49,486	41,914	35,704

17.5 Revenue Levied on Behalf of the Crown

	Budget 2015-16 ('000)	Budget 2016-17 ('000)	Projected 2017-18 ('000)	Projected 2018-19 ('000)	Projected 2019-20 ('000)
Taxation					
Income tax	23,009	22,942	22,981	23,259	23,583
Company tax	9,072	10,091	10,941	12,371	13,192
Import levies	12,058	11,366	11,084	10,801	10,516
Departure tax	9,285	9,653	10,026	10,370	10,702
VAT	56,081	55,582	56,631	58,132	59,599
Withholding tax	2,313	0	0	0	0
Total Taxation	111,817	109,634	111,663	114,933	117,592
Other Crown Revenue					
Financial Services Levy	340	293	293	293	293
FSC Return of Excess	225	160	160	160	160
FSC Vested Assets	288	0	0	0	0
Immigration Fees	584	587	587	587	587
IMO Subscription - Maritime Cook Islands	63	66	66	66	66
Court Services	50	50	50	50	50
Instant Fines	20	20	20	20	20
Fishing Licences	3,807	9,000	9,000	9,000	9,000
Fisheries Catch Revenue	0	0	0	0	0
Fisheries - US Treaties (purse seing)	4,280	1,200	1,200	1,200	1,200
Fishing Fines	500	0	0	0	0
Research Fee	1	1	1	1	1
Permits	16	24	24	24	24
Dividends	2,020	1,787	1,947	2,153	2,153
<i>Banana Court - dividend</i>	10	10	10	10	10
<i>Bank of the Cook Islands - dividend</i>	481	248	408	614	614
<i>Ports Authority - dividend</i>	0	0	0	0	0
<i>Punganga Nui Market - dividend</i>	0	0	0	0	0
<i>Te Aponga Uira - dividend</i>	319	319	319	319	319
<i>Extraordinary SOE Dividend</i>	60	60	60	60	60
<i>Telecom Cook Islands (Bluesky) - dividend</i>	1,150	1,150	1,150	1,150	1,150
Numismatics	500	350	350	400	400
Border Management Fees	0	120	120	120	120
Drivers Licences	80	80	80	80	80
Motor Vehicle Registration	875	875	875	875	875
Interest on balances	1,885	1,885	1,885	1,885	1,885
Interest on loans to subsidiaries	684	702	676	676	676
Foreign Investment Fees	33	26	26	26	26
Upper Air Management Agreement	545	746	746	746	746
Shipping Registration	115	268	268	268	268
International Shipping Licence	15	15	15	15	15
Liquor Licencing	28	30	30	30	30
Tattslotto Grants	148	120	120	120	120
Censorship Fees	2	10	10	10	10
Circulating Currency - Coins	0	100	100	100	100
Sale of NZ coins	961	0	0	0	0
Sale of Circulating Currency Cook Islands Coins	3,142	809	762	762	762
Smelting of Old Coins	135	0	0	0	0
Employer Liabilities	0	75	75	75	75
Motor Vehicle Dealers	3	5	5	5	5
Justice Unclaimed Rental Monies	0	0	0	0	0
Performance Based Budget Support - Core Funding	7,577	7,577	7,577	0	0
Total Other	28,923	26,982	27,068	19,747	19,747
Total Revenue Levied on Behalf of Crown	140,740	136,616	138,731	134,680	137,338
<i>Performance Based Budget Support - Bonus Payment</i>	<i>1,000</i>	<i>1,000</i>	<i>1,000</i>		
Total Revenue Levied on Behalf of Crown - including Bonus Payment	141,740	137,616	139,731	134,680	134,338

17.6 Statement of Fiscal Risks

As at 30 June 2017

Quantifiable Contingent Liabilities	('000)
Guarantees and indemnities	500
Uncalled capital	1,789
Legal proceedings and disputes	4,356
Total Quantifiable Contingent Liabilities	6,645

The total quantifiable contingent liabilities are estimated at \$7.5 million in 2014/15. This is made up of the guarantees and indemnities outlined below. Possible liabilities stemming from the Outer Island Governments are also discussed.

Guarantees and indemnities relate to the following:

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

Uncalled capital relates to shares in the Asian Development Bank - Cook Islands Government Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each.

Uncalled Capital

The Government also holds \$1.6 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

Total quantifiable risk to the Crown under legal proceedings and disputes is \$4.4 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.

18 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.

18.1 Basis of Preparation

18.1.1 Reporting Entity

These financial statements are for the Government of the Cook Islands. These consist of:

- Ministers of the Crown
- Ministries
- Island Administrations
- Offices of Parliament
- Public Enterprises and Other Authorities

A schedule of the entities included in these financial statements is detailed on page 64.

18.1.2 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).

18.1.3 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.

18.2 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.

18.2.1 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.

18.2.2 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.

18.2.3 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.

18.2.4 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.

18.2.5 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

18.2.6 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.

18.2.7 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.

18.2.8 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.

18.2.9 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.

18.2.10 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.

18.2.11 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.